1 **Q. Are you the same J. Ted Weston who previously filed direct testimony in this**
2 **proceeding?**
3 A. Yes.
4 **Q. What is the purpose of your rebuttal testimony?**
5 A. I will rebut certain adjustments proposed by Committee of Consumer Services
6 (CCS) witnesses Donna DeRonne, Kimberly Dismukes, Michael Arndt, Helmuth
7 Schultz, and Randall Falkenberg, Division of Public Utilities (DPU) witnesses
8 Mary Cleveland, David Thomson and Bruce Moio, and AARP witness Ron Binz.
9 Specifically, I will respond to:

10 • Ms. DeRonne's proposal to reduce test period amortization expense to reflect
11 changes in the estimated useful lives of the CSS and SAP software;
12 • Ms. DeRonne's proposal to add vendor rebates;
13 • Ms. DeRonne's proposal to remove selected new process support costs from
14 test year expense;
15 • Ms. DeRonne's proposal to remove certain capital additions related to
16 information technology (IT) from test year rate base;
17 • Mr. Moio's proposal to reduce rate base;
18 • Ms. DeRonne's proposed adjustment to increase the customer service deposit
19 offset to test year rate base;
20 • Ms. DeRonne's proposal to increase test year revenues related to the sale of
21 SO_2 emissions allowances;
22 • Ms. DeRonne's proposed increase to test year revenues to reflect a historical
23 level of scrap sales;

1 • Ms. DeRonne's proposal to revise the escalation factors used by the Company
2 to forecast test year non-labor operation and maintenance (O&M) expense and
3 test year non-labor administrative and general (A&G) expense;
4 • Ms. DeRonne's proposal to decrease test year expenses for Grid West
5 Regional Transmission Organization;
6 • Ms. DeRonne's questioning of the Colorado-Ute acquisition adjustment;
7 • Mr. Moio's proposed correction of an alleged error in the Company's filing
8 relating to regulatory asset amortization;
9 • Ms. Cleveland and Ms. DeRonne's adjustment to remove escalation of
10 property insurance;
11 • A proposal by Mr. Moio and Mr. Falkenberg to impute a reduction in the
12 Company's test year rate base related to the Gadsby combustion turbines;
13 • Mr. Thomson's proposed reduction to test year expense for the storm outage;
14 • Mr. Thomson's proposed reduction in test year bad debt expense;
15 • Mr. Thomson's calculation of the reduction in test year property taxes
16 associated with rate base reductions proposed by other DPU witnesses; and
17 • Proposed adjustments by Mr. Moio, Mr. Binz, Mr. Arndt, Mr. Schultz and Ms.
18 DeRonne to reduce the Company's test year cash working capital
19 requirement.
20 **Q. Before you address these issues, do you have any corrections to your direct**
21 **testimony?**
22 A. Yes.

1 **Q. Would you explain the corrections to your direct testimony and describe the**
2 **contents of rebuttal Exhibit UP&L___ (JTW-1R)?**
3 A. Yes. Exhibit UP&L___ (JTW-1R) is a summary of the Company's rebuttal
4 position that contains numerical presentation of the corrections for all the
5 Company's witnesses. This includes Company witnesses; Mr. Jeff Larsen (JL),
6 Mr. Mark Widmer (MW), Mr. Larry Martin (LM), and Mr. Bruce Williams (BW).
7 The adjustments have been numbered starting with the initials of the witness that
8 will explain the issue. I will now describe the corrections to my testimony. I
9 have included adjustment references from my direct testimony Exhibit UP&L___
10 (JTW-1) in the title of the adjustments discussed below for ease of reference..
11 **Retail Contract Revisions Adjustment 3.9**
12 Since filing this application, the Company has re-negotiated three special
13 contracts: U.S. Magnesium, Kennecott, and Praxair. In November, the Company
14 negotiated a new contract with U.S. Magnesium which increases retail revenues
15 by $2,983,853. In addition to changing the price, the new U.S. Magnesium
16 contract also increases the time period the Company can interrupt them from four
17 to six months, which impacts the load served by PacifiCorp. Both jurisdictional
18 allocation factors and net power costs were also updated to reflect this change.
19 There were also expected contract revisions to Kennecott and Praxair that will
20 become effective prior to the test year. Kennecott's contract revision reduces
21 retail revenues by $388,748. The changes to Praxair's contract increases revenues
22 $90,253. These changes also reduce other miscellaneous revenues $655. These
23 contract revisions (summarized in Exhibit UP&L___ (JTW-1R), page 6) increase

1 Utah Revenues $2,684,703 and are included in the Company's rebuttal position.

2 **Q. You mentioned that the revised contract had an impact to retail load. Have**
3 **you isolated that impact?**

4 A. I have isolated the impact this retail load reduction had to the Company's
5 allocated costs. Mr. Widmer explains in his testimony the related impact on net
6 power costs. The revenue requirement impact due to load reduction (summarized
7 in Exhibit UP&L___ (JTW-1R), pages 10-11) is a reduction to Utah's revenue
8 requirement of $1,297,980.

9 **Worker's Compensation Adjustment 4.9**

10 Company adjustments 4.9 and 4.17 unknowingly duplicated the removal of the
11 worker's compensation write-off. This understated the revenue requirement by
12 $2,517,917. To correct this error, the Company's Worker's Compensation
13 adjustment 4.9 should be removed from results. As noted in my direct testimony
14 ,the Company received notice that the insurance carrier providing employee
15 workers compensation coverage was in bankruptcy. In June, the Company
16 recognized this liability, crediting the reserve and debiting expense, recording the
17 expense accrual to post employment benefits, general ledger account 501160.
18 Included as adjustment on page 15 of my rebuttal Exhibit UP&L___ (JTW-1R) is
19 a screen print of the general ledger account 501160, Post Employee Benefit FAS
20 112, detailing annual transactions of $8,383,043 for FY04, which ties to page
21 4.17.12 of direct Exhibit UP&L___ (JTW-1). As can be seen from the transaction
22 detail on page 16, in June, the Company accrued the worker's compensation
23 liability of $11,513,000. Then, in March, the Company adjusted this accrual as

1 detailed on page 17 and 18 of this adjustment and on page 4.9.1 of direct Exhibit
2 UP&L___ (JTW-1).
3 The labor normalization adjustment 4.17, detailed on page 4.17.12 of
4 direct Exhibit UP&L___ (JTW-1), compared the base year FAS 112 expense to
5 the test period level and adjusted to that level, which normalized the workers
6 compensation accrual out of the test period, thereby duplicating adjustment 4.9.
7 This correction adds $5,602,577 to the base year expenses which should then be
8 escalated by the appropriate escalation indices. This makes the total amount
9 $6,019,218 as shown in Exhibit UP&L___ (JTW-1R), page 12, increasing Utah's
10 revenue requirement $2,517,917.
11 **Regulatory Asset Adjustment 4.10**
12 The Company adjusted regulatory asset amortization to remove items whose
13 amortization would be completed by fiscal year 2006 and to reverse any one time
14 write-offs. One of these items was the write-off of the California FAS 109 contra
15 account. In September 2003, this contra account was written off by debiting
16 account 1823109 and crediting account 930 for $19 million. During the same
17 month, another entry was made to reverse a second quarter adjustment for $4.2
18 million, which was later reversed the same month. In November, an additional
19 true-up of $0.3 million was recorded. Then, in December, an attempt was made
20 to remove any impact of this entry from results by debiting account 930 to
21 transfer the write-off below the line to account 426. However, only $15 million
22 was transferred to account 426 which ignored the reversal of the second quarter
23 adjustment for $4.2 million and the entry in November for $0.3 million. This

1 caused the base period expense to be understated by the $4.6 million. All parties
2 were notified of this issue in data response CCS 3.110. The original write-off was
3 $4,626,555 which, after escalation, is $4,970,491, increasing Utah operating
4 expense by $2,079,170 as summarized in Exhibit UP&L___ (JTW-1R), pages 19-
5 20.

6 **Property Insurance Adjustment 4.13**

7 CCS and DPU witnesses propose two adjustments to the property insurance
8 expense. First, when developing the forecast, the Company inadvertently applied
9 the DRI indices to the property insurance and liability accounts which overstated
10 the ending balance. The Company accepts this adjustment as detailed below.

11 **Q. What was the second adjustment proposed to the property insurance expense**
12 **by Ms. Deronne and Ms. Cleveland?**

13 A. The amounts listed by Risk Management as the March 31, 2004 property
14 insurance expenses were not finalized and contained an estimate. This estimate of
15 the FY04 expense and should be corrected. Ms. Cleveland's adjustment attempts
16 to update the filed number to the 2004 expense. However, in doing so, she
17 identified only Risk Management's costs and ignored other cost center charges to
18 these accounts. By excluding these items, Ms. Cleveland's adjustment is
19 overstated by $1,283,073. Ms. DeRonne accurately corrected the base data in her
20 proposed adjustment. The net of these two corrections decreases property
21 insurance expense by $2,239,338 million or $936,715 to Utah as shown in Exhibit
22 UP&L___ (JTW-1R), page 21.
23

1 **Q. Did Ms. DeRonne propose additional adjustments to property insurance?**

2 A. Yes. Ms. DeRonne proposes using fiscal year 2005 actual property insurance
3 premiums rather than fiscal year 2006 premiums and therefore, reduces property
4 insurance expense an additional $3,545,000, total Company. Company witness
5 Gareth Walker addresses why Ms. DeRonne's proposed adjustment to the FY06
6 premiums is not appropriate in his testimony.

7 **Capital Lease Adjustment 4.14.**

8 Capital Leases were being recorded as interest expense as explained in my direct
9 testimony. However, in December 2003 this treatment was changed making
10 adjustment 4.14 no longer necessary. Reversing this adjustment decreases Utah
11 operating expense by $1,357,819 as summarized in Exhibit UP&L___ (JTW-1R),
12 page 23.

13 **Currant Creek Non-Labor O&M Adjustment 4.16**

14 Adjustment 4.16 should have added Currant Creek non-labor O&M costs into the
15 test period instead of reclassifying them as stated in the adjustment. Because
16 Currant Creek will not begin operation until June 2005, these costs were not
17 included in the FY04 base data. To accurately match all components of these
18 facilities, it is necessary to correct this adjustment. The correction, as
19 summarized in Exhibit UP&L___ (JTW-1R), page 24, increases Utah operating
20 expenses $342,883. Mr. Woolley and Mr. Widmer address other matching
21 adjustments for Currant Creek plant.

22

1 **Q. After reviewing the testimony of the intervening parties, are there any of their**
2 **proposed adjustments that the Company is adopting?**
3 A. Yes, there are some adjustments that the Company agrees to in principle but
4 believes that there are errors with the intervening party's calculation or
5 demonstration of the adjustment. As noted below, the Commission's treatment of
6 other issues affects the Company's acceptance of a number of these adjustments.
7 **Taxes on SPUK Cross Charge**
8 The Company's filing included a schedule M-1 adjustment for the ScottishPower
9 cross charge which should not have been included in results. Both Ms. Cleveland
10 and Mr. Arndt have proposed adjustments to remove this item. However, both
11 parties have understated their adjustments. Ms. Cleveland removes the total
12 permanent additions of $14,116,629 from page 7.2 which includes Non-
13 Deductible Expenses and SPI 404(k) Contribution that should not be removed.
14 Mr. Arndt nets the SP Management Fee and SPI 404(k) Contribution and
15 proposes an adjustment of $12,469,068. The correct adjustment is simply to
16 remove the ScottishPower Management Fee as detailed on page 7.2.9 of my direct
17 Exhibit UP&L___ (JTW-1). This adjustment reduces the Utah allocated schedule
18 M-1 addition by $8,191,707 as shown in Exhibit UP&L___ (JTW-1R), page 25-
19 26, which reduces Utah revenue requirement by $5,081,428.
20 **West Valley Property Taxes**
21 **Q. Are you familiar with the West Valley property tax issue address by CCS**
22 **witness Kimberly Dismukes?**
23 A. Yes. On CCS Exhibit 3.12 Ms. Dismukes proposes an adjustment for the

1 difference between West Valley Leasing Company actual property tax expense
2 and the property tax amount charged to PacifiCorp. PacifiCorp is billed $2
3 million for property taxes by the West Valley Leasing Company under the terms
4 of the contract. However, West Valley Leasing Company receives a $1 million
5 credit from the Redevelopment Agency of West Valley so their property tax
6 expense is only $1 million. PacifiCorp believes the benefits of the reimbursement
7 should be passed onto customers. The Company proposes that the net property
8 tax amount shown on West Valley Leasing Company's income statement of
9 $994,306 be the amount included in PacifiCorp's Results of Operations. An
10 adjustment to remove $1,032,735 from O&M expense is included in the
11 Company's rebuttal position as shown in Exhibit UP&L___ (JTW-1R), page 26-
12 27.

13 **Q. Did Ms. Dismukes propose another adjustment related to the West Valley**
14 **lease?**

15 A. Yes. Ms. Dismukes noted that the West Valley contract was a fixed contract and
16 that the Company had escalated all costs in the Other Generation FERC accounts.
17 Those accounts included the West Valley contract. Escalating this fixed contract
18 had the effect of overstating Company expenses by $592,212. The Company
19 agrees that this contract should not have been escalated and has removed the
20 escalation. These corrections reduce Utah's operating expenses $743,512 as
21 shown in Exhibit UP&L___ (JTW-1R), page 26-27.

22 **American Workers Production Activities Tax**

23 Mr. Dave Thomson proposed an adjustment to recognize the American Workers

1 Production Activities Tax credit. Mr. Larry Martin has addressed this issue in his
2 testimony. As indicated in Mr. Martin's testimony, acceptance of this adjustment
3 is dependent on the Commission rejecting parties' proposed consolidated tax
4 adjustments. Based on the Company's analysis, tax expense would be reduced
5 $395,065. I have included this adjustment in the Company's rebuttal position in
6 Exhibit UP&L___ (JTW-1R), page 45.

7 **Bonus Depreciation**

8 Ms. DeRonne's testimony proposed an adjustment for Bonus Depreciation
9 pending a response to data request CCS 24.14. This response has been provided
10 to the CCS and the Company has adjusted the accumulated depreciation reserve
11 accordingly. This adjustment increases the accumulated deferred income tax
12 reserve by $64 million or $31,331,152 to Utah as shown in Exhibit UP&L___
13 (JTW-1R), page 46. However, as explained in Mr. Martin's testimony, this
14 adjustment is based on the plant in service as forecasted in the Company's case.
15 If the Commission adopts any adjustments to the projected plant in service, this
16 adjustment will need to be recalculated.

17 **Embedded Cost Differential and Allocation for Seasonal Resources**

18 **Q. Do the revisions to the Company's rebuttal case have an impact on the**
19 **Embedded Cost Differential (ECD) calculation?**

20 A. Yes. The ECD is based on normalized results. Any revisions to generation costs
21 or net power costs will impact the ECD calculation and the allocation of seasonal
22 resources.

1 **Q. Has the Company's rebuttal case corrected the allocation of seasonal**
2 **resources?**
3 A. Yes. The dispatch of the Simple Cycle Combustion Turbine (SCCT) units has
4 been updated to eliminate modeling deficiencies included in our original filing.
5 This will result in a higher portion of the SCCT MWH's dispatched during the
6 summer months and, therefore, a heavier summer seasonal weighting in the
7 allocation than was used in our direct case. This issue is covered in Mr.
8 Widmer's testimony. This dispatching correction increases Utah's revenue
9 requirement $1,431,883 as summarized in Exhibit UP&L___ (JTW-1R), page 4,
10 column MW-1.
11 **Q. Does the Company's rebuttal case include any other corrections to the ECD**
12 **calculation?**
13 A. Yes. There are two other corrections. First, the ECD calculation for the Mid-
14 Columbia Contracts included in the Company's direct case filing was based on
15 existing contracts only. It did not capture the three new Grant County
16 replacement contracts that start in fiscal year 2006. The Company's rebuttal case
17 includes the replacement contracts in the ECD calculation in Exhibit UP&L___
18 (JTW-1R).
19 Second, the Existing QF Contract with U.S. Magnesium has been removed from
20 the ECD Calculation because a new QF contract has been entered into and
21 approved by this Commission. Under the Revised Protocol, only existing QF
22 Contracts are included in the ECD calculation and are removed as they expire.
23 For new QF Contracts, only costs which exceed the costs PacifiCorp would have

1 otherwise incurred acquiring comparable resources are assigned on a situs basis.
2 There are no such costs associated with the new U.S. Magnesium QF contract.
3 Therefore, no costs associated with this new QF contract are assigned on a situs
4 basis. I have updated the ECD to reflect these changes which would reduce
5 Utah's revenue requirement by $865,962.

6 **Rate Mitigation**

7 **Q. Do these changes to the seasonal factors and the ECD calculation have any**
8 **impact on the Company's requested price change?**

9 A. No. The seasonally-weighted allocation of certain resources and the ECD
10 adjustments impact the revenue requirement as calculated under the Revised
11 Protocol. Because Utah's revenue requirement is capped at 101.5 percent of the
12 revenue requirement based on the Rolled-In allocation methodology (per
13 Commission Order in Docket No. 02-035-04 approved December 14, 2004), these
14 specific changes have no impact on the ultimate rate increase request.

15 **Q. Have you prepared an exhibit that shows the impact of the Rate Mitigation**
16 **Cap on the Company's rebuttal case?**

17 A. Yes. Page 1 in my rebuttal Exhibit UP&L___ (JTW-1R), shows that the Utah
18 FY06 revenue requirement is capped at $1,254,822,618 or 101.5 percent of the
19 Utah Revenue Requirement as calculated under the Rolled-in Allocation Method.
20 The Rate Mitigation Cap limits PacifiCorp's requested rate increase to
21 $96,334,834, which is $12,646,709 less than the non-mitigated rate increase
22 calculated using the Revised Protocol.

23

1 **Q. Are there any other corrections to factors?**

2 A. Yes, in the original filing, the Company did not update the customer count used to
3 develop the CN factor. FY04 actual customer levels were used rather than those
4 used to develop the load forecast. The DPU pointed this oversight out early in
5 their audit and I have included the detail of this correction in Exhibit UP&L___
6 (JTW-1R), page 31. If the Commission adopts Ms. Coon's proposed load
7 forecast adjustment, this will need to be updated.

8 **Black Lung Insurance**

9 **Q. Do you agree with Mr. Moio's recommendation to adjust the black lung**
10 **insurance premium expenses?**

11 **A.** Yes. I agree in concept, but not with the amount. Mr. Moio is correct that self-
12 insuring for black lung disease saved the Company insurance premiums for
13 Energy West Mining. However, he fails to recognize the Company's obligations
14 under Financial Accounting Standards ("FAS") statement 112 and the associated
15 expense.

16 **Q. Under FAS 112, what is the Company's expected obligation associated with**
17 **black lung disease?**

18 **A.** Under FAS 112 requirements, the Company is required to record estimated black
19 lung losses for claims below the deductible level each fiscal year based on
20 actuarial analysis. The actuarial report for FY05 recommended $144,221 for
21 FAS 112 black lung losses. Therefore, the appropriate amount of an adjustment is
22 the premiums of $320,000 originally included in the case less the ongoing FAS
23 112 costs of $144,221, or a decrease to expense of $175,779 on a total Company

1 basis as shown in Exhibit UP&L___ (JTW-1R), page 34.

2 **Q. Does this conclude your corrections to the Company's original filing?**

3 A. Yes. After making the corrections summarized in rebuttal Exhibit UP&L___

4 (JTW-1R), the Company's rebuttal position is $96,334,834.

5 **Response to Intervenor Proposed Adjustments**

6 **Q. Would you present your response to the intervening party's positions which**

7 **you have listed above?**

8 A. Yes.

9 **CSS and SAP Software Amortization**

10 **Q. Do you agree with Ms. DeRonne's adjustment to amortization expense for**

11 **the extension to the amortization lives of the CSS and SAP software?**

12 A. No. Ms. Deronne's adjustment is based on a false assumption. Ms. DeRonne

13 assumed that the Company had not reflected the revision to the lives of these

14 systems. However, the Company had already reflected this extension in its direct

15 case filing. Both CSS and SAP were originally being amortized over ten years. It

16 was then determined that their useful lives would exceed ten years and therefore,

17 the amortization was extended to fifteen years. This extension was included in

18 the Company's original filing. As explained on page 6.0 of Exhibit UP&L___

19 (JTW-1), the composite rates used were calculated by dividing fiscal year 2004

20 depreciation and amortization expense by gross plant balances. To reflect the

21 change in amortization expense, the Company subtracted the net impact of the life

22 extension from fiscal year 2004 amortization expense before dividing it by the

23 gross plant balance. Exhibit UP&L___ (JTW-2R) demonstrates how the

1 composite rate was calculated.

2 **New Process Support Costs and Vendor Rebates**

3 **Q. What is the basis for Ms. DeRonne's adjustment to remove vendor rebates?**

4 A. Ms. DeRonne concludes that since the information technology vendor costs are in
5 account 923 and the Company has made no adjustment to reduce these costs for a
6 reduction in services, that the Company's claim to be reducing dependence on
7 outside vendors is incorrect. She therefore concludes that the Company should
8 not have removed a vendor rebate which she assumes was available.

9 **Q. Is this an accurate conclusion?**

10 A. No. The vendor rebate will not be available in the test period. Ms. Deronne
11 confuses the fact that the costs in 923 will be used to support both contract and
12 employee labor. While dependence on outside vendors has decreased, Corporate
13 Business Services added twenty-two employees to the FY06 budget for which we
14 have not specifically included salary costs but which replace the vendor costs.
15 This can be verified by looking at page 4.17.6 of my direct Exhibit UP&L___
16 (JTW-1). Ms. DeRonne's assumption that there is no reduction to contract
17 services is wrong since these costs are replaced by Company employees.

18 **Q. Do you agree with Ms. Deronne's adjustment for the CIO contingency?**

19 A. No. For the Chief Information Officer (CIO) contingency, she quotes the
20 Company's response to Data Request CCS 3.33 that explains the decision to
21 consolidate the budget for IT initiatives into one location for FY06. She then
22 draws the erroneous conclusion that these amounts are already in the future test
23 year at an escalated amount and therefore, the Company has double counted this

1 amount and the adjustment should be removed.

2 **Q. Why is Ms. DeRonne's conclusion wrong?**

3 A. The CIO contingency costs are to support new software packages that did not

4 exist in FY04. The consolidation of the IT budget into one location has no impact

5 on the FY06 results in this case. Because they are new expenses that did not exist

6 in FY04, there can not be a double count as claimed by Ms. DeRonne.

7 **IT Capital Additions**

8 **Q. Is an adjustment to reduce capital additions appropriate as claimed by both**

9 **Ms. DeRonne and Mr. Moio?**

10 A. No. Company witnesses Messrs. Gerrard and Woolley sponsor detailed testimony

11 on the accuracy of the Company's performance against capital additions budgets.

12 Ms. Deronne has not provided any compelling evidence to support her assertion

13 that the Company will under spend its forecasted IT capital additions budget in

14 total. Based on the Company's track record as detailed in the response to Data

15 Request CCS 6.31 which summarized the Company's capital budget and actual

16 expenditures, her adjustment has no merit.

17 **Q. Do you have any additional information that supports your contention that**

18 **the adjustment is without merit?**

19 A. Yes. The DPU requested that the Company supplement CCS Data Request 6.31

20 with actual results through October 2004. We provided this supplement in

21 response to DPU 18.2. This response showed that for the first seven months of

22 FY05 (April through October 2004), $374 million had been transferred to plant in

23 service. This is comparable to the $365 million that the Company forecasted in

1 its filing. Through December 2004, actual capital expenditures were $446 million
2 compared to our forecast of $451 million. Any suggestion that there has been a
3 slowdown in capital spending is clearly erroneous.
4 **Q. Did Mr. Moio also propose an adjustment to plant additions?**
5 A. Yes. Mr. Moio proposed reducing the Company's forecasted plant additions by
6 thirteen percent. Mr. Moio proposed to reduce the plant forecast by thirteen
7 percent while reducing phase I of Currant Creek by nineteen percent as shown on
8 page 4 of 7 DPU Exhibit No. BSM 4.3. His assumptions are flawed because he
9 relies on an outdated report. His adjustment also contains an error. In discussions
10 with Mr. Moio, he has expressed his intent to correct this error.
11 **Q. What was his adjustment based on?**
12 A. Mr. Moio's proposed adjustment was based on an initial internal audit report on
13 the Quantum leap project. However, because he did not review the final report
14 before filing his direct testimony, he reached an incorrect conclusion that capital
15 project estimates were not on target. The testimony of Company witness Mr.
16 Gerrard explains in greater detail the high accuracy of the Company's capital
17 budget projections, as verified by actual expenditures.
18 **Q. What specific criticisms do you have with Mr. Moio's approach?**
19 A. First, it is wrong to draw a conclusion of capital spending patterns from a single
20 project. Second, the actual Company performance shows that the Company has
21 slightly overspent its capital budget. This means that it would be wrong to adopt
22 a disallowance on the premise that the Company will significantly under spend its
23 capital budget due to estimating errors.
24

1 **Customer Service Deposits**

2 **Q. Do you agree with the proposal by Ms. DeRonne to increase the customer**
3 **service deposits by $4,229, 510 and the subsequent increase in interest**
4 **expense of $212,534?**

5 A. While I agree that the customer service deposits should be increased, I think Ms.
6 DeRonne has substantially overstated the amounts that the Company will collect
7 in customer service deposits.

8 **Q. Why do you believe Ms. DeRonne's estimate is overstated?**

9 A. Ms. DeRonne escalated a March 2004 amount of $7,817,274 to $14,034,873 at
10 March 2006. She developed the March 2006 estimate by taking the October 2004
11 balance and escalating it at a rate of 2.56 percent a month, an annual compounded
12 rate of over 35 percent. This increase is overstated. The actual December 2004
13 customer service balance is $9,178,983, as compared to Ms. DeRonne's forecast
14 for December of $9,612,146. Within two months, her forecast is already
15 overstated by $433,163 or almost 5 percent.

16 **Q. Ms. DeRonne claims her adjustment is in-line with historical information.**
17 **Does this historical information best reflect the test period?**

18 A. No. This is a prime example where a bias for historical data is inappropriate and
19 produces a result that does not best reflect the test period. While it is true that the
20 level of customer service deposits has increased almost 50 percent from March
21 2003 through December 2004, this growth will not continue because the increase
22 was premised on an initiative to secure deposits on at-risk accounts, which
23 initiative is substantially complete. Failure to recognize this fact creates an

1 adjustment that is too high.

2 **Q. What adjustment do you feel would more accurately reflect growth in**
3 **customer service deposits?**

4 A. As I stated, the Company has completed its review of customer accounts and I
5 expect the balance to level off as demonstrated by the August through December
6 balances on page 33 of Exhibit UP&L___ (JTW-1R). Absent any more recent
7 information, which is not available, I propose adjusting to the December 2004
8 balance. The tariff for customer service deposits requires that the Company pay a
9 6% annual interest rate on any customer deposits. In my adjustment, I have trued-
10 up the interest expense based on this balance. On page 32 in my rebuttal Exhibit
11 UP&L___ (JTW-1R), I adjust the customer service deposit balance from the filed
12 amount of $7.8 million to the December balance of $9,178,983 million and
13 interest expense from $344,617 to $550,739.

14 **SO2 Emission Allowances**

15 **Q. Do you agree with Ms. DeRonne that it is appropriate to continue using a**
16 **four-year amortization for the revenue credit related to S02 allowance**
17 **credits?**

18 A. No. The use of a method to amortize SO2 allowance credits over 4 years for such
19 a small revenue item is not needed. This method was established when the
20 Company had large fluctuations in sales volumes and amounts. For example,
21 revenues were $6.1 million in 1995, $6.4 million in 1996. Then, in 1997, when
22 this approach was adopted, S02 sales were $20.6 million. They dropped to $11.5
23 million in 1998, $0.5 million in 1999 and back up to $15.6 million in fiscal year

1 2001. In 2002, the Company made the decision that it would only sell the
2 minimum amount of allowances required by the EPA. Due to the recognition of a
3 default of payment, the S02 revenues were negative $1.4 million in 2002. Since
4 then, revenues were $0.6 million in fiscal year 2003 and 2004. In fiscal year
5 2005, the revenues were $0.9 million due to an increase in market price not
6 volume. In my direct testimony, I proposed departing from prior practice because
7 the current level of sales is immaterial and represents a tiny portion of the total
8 revenue in this state. It seems inappropriate to be tracking S02 revenues that are
9 less than a million dollars annually. If in the future the Company makes
10 significant sales other than the annual EPA auction sales, the Company agrees to
11 track and amortize those credits over four years.

12 **Scrap Sales**

13 **Q. What is your response to Ms. DeRonne's CCS adjustment 1.13 to scrap**
14 **sales?**

15 A. Ms. DeRonne's adjustment for scrap sales is not appropriate because the
16 anticipated benefit of scrap sales is netted from total Company budget.
17 Ms. DeRonne points out that during FY04 the Company realized $1,856,649 from
18 scrap sales and proposes to reduce the Company's maintenance expense because
19 she states she was unable to identify any scrap sales in Power Delivery's FY06
20 budget plan. What Ms. DeRonne may not have been aware of was that scrap
21 sales are typically treated as an offset to the capital projects where the work was
22 performed, not OMAG. Power Delivery received $1,168,166 in FY04 from scrap
23 sales that was originally credited to O&M of which $1,139,515 was then settled

1 out to capital projects. The majority of scrap sales are a reduction to plant in-
2 service not OMAG. Accepting Ms. DeRonne's adjustment is inappropriate and
3 would double count scrap sales for the test period.

4 **Revised Escalation Factors**

5 **Q. Ms. Deronne asserts that the Blue Chip Gross Domestic Product (GDP) price**
6 **index is the best index to forecast the impact of inflation in this case. Do you**
7 **agree?**

8 A. No. I find it ironic that while Ms. DeRonne admits in her testimony that the
9 Global Insight's DRI indexes used by the Company are specifically developed for
10 investor owned utilities, she proposes that a general Gross Domestic Product
11 index is more appropriate to use in PacifiCorp's case. In addition, here reasoning
12 for supporting the GDP Index is flawed.

13 **Q. What reasons does she provide for advocating this approach?**

14 A. She states that since PacifiCorp treats employee benefits, payroll taxes and
15 vehicle depreciation as labor overheads, the Company's filing is not in
16 compliance with the FERC Uniform System of Accounts (USOA). Based on this
17 statement, Ms. DeRonne concludes that PacifiCorp should not use indices
18 specifically developed for investor owned utilities.

19 **Q. Do you agree with Ms. DeRonne's claim that the Company's filing is not in**
20 **compliance with the FERC Uniform System of Accounts?**

21 A. No. There is no basis for this claim and in fact the only reasoning she gives is the
22 Company's treatment of these labor overheads. The Company used this exact
23 same method prior to the implementation of SAP and feels that the application of

this allocation is in the best interest of the company's customers. Prior to the implementation of SAP, the Company had allocated pension, taxes other than income taxes and vehicle expenses to the appropriate functional classification. With the implementation of SAP, the practice of allocating taxes other than income taxes and vehicle depreciation expense was discontinued although the allocation of pension expense continued. As part of the review of accounting and jurisdictional issues raised by various parties, it was determined that the Company should re-institute the allocation of these costs to the appropriate functional classification. The Company contacted FERC prior to re-implementing the allocation of these costs. The Company explained to FERC that because of the Company's multi-jurisdictional and multi-functional structure, it made sense for these costs to follow the associated labor. The advantage of doing this was that these costs would then flow more appropriately to the functional classification and jurisdiction incurring the costs. FERC states for account 408, "taxes of the kind includible in these accounts shall be assigned directly to the utility department the operation of which gave rise to the tax in so far as practicable" and for account 403, "Note B: Depreciation expenses applicable to transportation equipment, shop equipment, tools, work equipment, power operated equipment and other general equipment may be charged to clearing accounts as necessary in order to obtain a proper distribution of expenses between construction and operation." Documents explaining the Company's treatment were given to FERC as part of a FERC 2002 Form 1 follow up by the FERC staff. Audit staff did not challenge this treatment. It was also reported in the FERC 2003 Form 1 as a

1 change in accounting practice.

2 **Q. Why does the Company follow this practice?**

3 A. The Company believes that the allocation of these costs in this manner produces
4 the most accurate assignment to the multiple functional and jurisdictional
5 classifications. It should be noted, that this does not change the amount of the
6 costs incurred in these areas, but just where they are assigned. As noted in the
7 FERC 2003 Form 1, the dollars can and were quantified.

8 **Q. What conclusion has Ms. DeRonne drawn in her analysis?**

9 A. Ms. DeRonne states in her testimony that "Under the Company's new
10 methodology of mapping employee benefits, payroll tax and vehicle depreciation
11 costs to numerous FERC accounts it is not possible to identify specific cost items
12 for these types of costs absent significant input from the Company." This
13 statement is false. The summary on page 4.1 of Exhibit UP&L___ (JTW-1)
14 clearly identifies the labor and non-labor costs and all of the labor costs are
15 separately identified in Tab 4.17. Employee benefits, payroll taxes and vehicle
16 depreciation are included in the labor adjustment, which is totally separate and
17 individually identified from the non-labor items that are escalated using Global
18 Insights DRI index.

19 **Q. Has the Company used Global Insights DRI indices in other jurisdictions?**

20 A. Yes. PacifiCorp has filed forecasted test periods in Oregon for more than a
21 decade and in California based on these inflation indices.

22

1 **Q. Do you agree with Ms. DeRonne's assertion that the inflation factors based**
2 **on study results from the first quarter of 2004 should be considered stale?**
3 A. No. This is an example of the Committee's selective approach to updating; they
4 appear to favor it only when it reduces the revenue requirement request. The
5 indices used were the most current available based on the preparation and the
6 filing time line of the Company. Global Insights first quarter DRI indices were
7 not available until May 2004. The second quarter study was not available until
8 August 31, and the Company filed the case August 4, 2004. The third quarter
9 study became available in November.
10 **Q. If the Company used the third quarter study, what would be the impact on**
11 **the filed request?**
12 A. If the Company updated to this inflation index, it would increase the Company's
13 OMAG costs by $4,517,860 million total Company and $1,645,756 million to
14 Utah. Therefore, using more up-to-date escalation factors would increase not
15 decrease the Company's revenue requirement.
16 **Q. Do you agree with Ms. DeRonne that it is not necessary to escalate fiscal year**
17 **2005 costs?**
18 A. Absolutely not. Again Ms. DeRonne has drawn inappropriate conclusions from
19 her flawed analysis. She speaks of efforts that the Company has undertaken in
20 FY05 to control its spending and comes to the conclusion that for this reason it is
21 not necessary or appropriate to escalate FY05. However, Company witnesses
22 Gerrard and Furman testify that these items are cost control measures to keep the
23 Company within its authorized spending levels and offset unexpected and

1 uncontrollable costs. The escalation methods used by the Company to escalate
2 FY04 non-labor costs to FY05 and then to FY06 is appropriate and consistent
3 with FY06 spend levels. An adjustment to remove FY05 escalation is
4 inappropriate and fails to recognize the actual conditions that the Company will
5 experience in the test period.

6 **RTO West**

7 **Q. Do you agree with Ms. DeRonne's adjustment to remove non-labor costs**
8 **associated with RTO West formation efforts from test year expense?**

9 A. No. The Grid West formation efforts are not expected to slow down in the
10 coming years, and the work requirements to deal with the transmission problems
11 and opportunities will continue for years to come. Ms. Deronne may not be aware
12 that the RTO project has now moved through its first formal phase. The costs in
13 the test year are therefore expected to be representative of the necessary work that
14 will continue in the future. The Company is currently aware of no reasons why
15 RTO costs would decrease in 2006 and therefore, there is no reason to remove
16 these costs from the test year.

17 **Colorado-Ute Acquisition Adjustment**

18 **Q. Ms. DeRonne asked to have the Company address the Colorado-Ute**
19 **acquisition adjustment, would you summarize this history?**

20 A. Yes. On October 15, 1991, the Company filed an application for approval
21 regarding valuations and accounting in connection with its proposed acquisition
22 of generating resources from Colorado-Ute Electric Association in Docket No.
23 91-035-17. On November 26, 1991, the Company, the DPU, and the CCS filed a

1 joint motion in that docket. On December 3, 1991, the Commission heard
2 argument on the joint motion. After considering the joint motion of the parties,
3 the Commission issued a bench order on December 3, 1991, approving the joint
4 motion application to record the amount over net book value in account 114 with
5 amortization to be recorded to account 406. The order required the Company to
6 file its semi-annual reports utilizing this accounting treatment and specified that
7 any determination concerning the amount of PacifiCorp's investment in
8 Colorado-Ute assets to be included in rate base would be made in a subsequent
9 rate proceeding or other appropriate proceeding.
10 **Q. Was additional analysis performed and provided to the Utah Commission?**
11 A. Yes. In conjunction with staff from the Oregon and the Wyoming commissions,
12 the DPU hired Resource Management International, Inc. (RMI) to perform an
13 independent analysis on both the Cholla and the Colorado-Ute acquisitions. RMI
14 completed its analysis and filed its report on February 25, 1993. RMI compared
15 the total Colorado-Ute acquisition costs on a $/MWH basis with other resources
16 from the Company's RAMPP-1 report. That analysis concluded that Colorado-
17 Ute's purchase price including the acquisition adjustment was significantly less
18 than the next best alternative. The acquisition is included in rates in every
19 jurisdiction that PacifiCorp serves and none have proposed a disallowance of this
20 prudently acquired resource. No adjustment is needed to this investment in this
21 proceeding.
22

1 **Regulatory Asset Amortization**

2 **Q. Do you agree with Mr. Moio's adjustment to remove regulatory asset**
3 **amortization costs as shown in DPU Exhibit 4.5?**

4 A. No. Mr. Moio's adjustment was based on Company Exhibit JTW-2 which is not
5 the basis of the Company's rate request. This item was accurately reflected in
6 Exhibit JTW-1. Mr. Moio has indicated to the Company his intent to withdraw
7 this adjustment.

8 **Gadsby Combustion Turbines**

9 **Q. Mr. Falkenberg proposes that the investment in the combustion turbines**
10 **(CTs) at Gadsby should be reduced by $7.5 million. Do you agree with this**
11 **treatment?**

12 A. Absolutely not. Mr. Falkenberg's proposal is based on the assumption that an
13 avoided cost from one transaction should become an offset to a totally separate
14 transaction. During the Hunter outage and the Western power crisis, the
15 Company leased mobile combustion turbine peaking units and installed them at
16 Gadsby Plant to help mitigate production costs. Even when Hunter returned to
17 full production, the Company knew additional capacity was required to serve
18 retail load and offered to extend the lease of this equipment through September
19 2002. The Company signed a contract with General Electric (GE) to lease the
20 mobile peakers for $9.5 million. During this time a variety of other peaking
21 resources were being considered, including alternative technologies, sites,
22 equipment suppliers, and purchases. Initially, Pratt & Whitney was selected
23 because it could meet the Company's installation schedule. However, in August

1 2001, GE Aero Energy Products was able to locate available equipment and
2 provide PacifiCorp a turn-key offer that had a cost which, on a $/kW basis, is
3 equivalent to the Pratt & Whitney installation. The GE LM6000 is significantly
4 larger and more efficient to operate than the Pratt & Whitney FT-8 Twin Pacs,
5 therefore, providing a cost benefit to customers. In addition, GE offered to
6 terminate the lease on the mobile peakers if the GE LM6000 were purchased.
7 When the Gadsby Peaker presentation was made to the Board of Directors, it was
8 noted that the GE LM6000 was the better alternative even excluding GE's offer to
9 waive the $7.5 million lease obligation. It should be noted that the turn-key offer
10 was for $80.4 million, with the final costs being closer to $70 million. Mr.
11 Falkenberg's proposal to reduce investment by an avoided cost is definitely not
12 GAAP-based, or appropriate, and should be rejected by the Commission.
13 **Q. Mr. Falkenberg claims that PacifiCorp had a conflict of interest in its**
14 **negotiations with GE because it was more interested in obtaining a waiver of**
15 **the rental charges than in getting a reduction in the purchase cost of the**
16 **equipment. Does this claim have any merit?**
17 A. No. The Company's interest was in getting the best deal for customers. That is
18 hardly a conflict of interest. Mr. Falkenberg seems to be implying that the
19 Company was given a choice of the form in which to take the $7.5 million savings
20 offered by GE. However, this argument erroneously assumes that GE would be
21 indifferent about offering the savings in the form of a reduction to the purchase
22 price of the equipment rather than through early termination of the rental
23 agreement. In fact, GE would obviously wish to offer the savings through

termination of the rental agreement. Under this approach, the temporary CTs removed from Gadsby could be re-leased to other customers, reducing or eliminating any lost revenue to GE. On the other hand, a reduction in the purchase price of the peaking units would produce an immediate $7.5 million revenue reduction to GE. Therefore, the purchase was structured in a way that would provide the maximum benefit to PacifiCorp and its customers while minimizing the loss of revenue for GE, a "win-win" situation. Mr. Falkenberg's proposed adjustment ignores economic reality and implies that the Company is able to impose its will on equipment manufacturers.

Q. Mr. Moio proposes an adjustment similar to Mr. Falkenberg's, arguing that since PacifiCorp never filed a rate case using a 2002 test year, customers would not receive a benefit unless the $7.5 million were treated as a reduction in the purchase cost of the Gadsby CTs. What is your response to Mr. Moio's proposal?

A. The notion that the capital cost of the Gadsby CTs should be reduced by some amount of lease payments not made is irresponsible by any standard. As I've previously explained, the purchase of the CTs from GE resulted from an arms-length negotiation that did not include the option of taking the $7.5 million as a credit against the purchase price of the equipment. From any standard of reasonableness, including any accounting standpoint, there is no basis for reducing the cost of an asset to reflect a transaction that never occurred, i.e., lease payments that were never made. Finally, Mr. Moio's proposed adjustment would violate basic ratemaking principles. He is essentially proposing retroactive

1 ratemaking by seeking to create a regulatory liability to customers to recognize
2 costs that were not incurred in the past. Ratemaking principles do not allow for
3 missteps in the ratemaking process or cost recovery in the past. If this logic were
4 taken to the extreme, the Company might be required to capitalize expense
5 reductions incurred during any year that was not the basis for a general rate case,
6 so that the cost savings could be passed through in future cases. To be consistent,
7 Mr. Moio's proposal would also require that expense increases incurred by the
8 Company during 2002 be capitalized and passed through to customers.
9 PacifiCorp negotiated the best available price for the Gadsby CTs, and there is no
10 financial, regulatory or equitable basis for further offsetting that cost by the value
11 of foregone lease payments for unrelated equipment. It appears that no good deed
12 goes unpunished.

13 **December 2003 Storm Outage Overtime Pay and Contract Services**

14 **Q. Is it necessary to adjust OMAG costs in the test period for the December**
15 **2003 storm outage as proposed by Ms. Cleveland and Mr. Thomson?**

16 A. No. These costs have already been removed from results. The storm costs were
17 initially charged to OMAG as the work was performed then they were later offset
18 by debiting the Property insurance reserve and crediting OMAG. This
19 information was provided in data responses DPU 3.23 and CCS 3.82. I believe
20 that since filing direct testimony, Ms. Cleveland has withdrawn her adjustment as
21 noted in response to PacifiCorp Discovery Request 2.4. Mr. Thomson has
22 indicated his intent to withdraw his adjustment, although we have not received
23 any written notification of a withdrawal.

1 **Bad Debt Expense**

2 **Q. What concerns has Mr. Thomson raised in regard to bad debt expenses?**

3 A. Mr. Thomson has assumed that the Company's filing has adjusted bad debt
4 expense to a level that is consistent with costs prior to the implementation of a
5 new methodology of determining the bad debt provision and associated expense.
6 The assumption is that the implementation of the new study would decrease the
7 level of expense in future periods.

8 **Q. Do you agree with his adjustment to reduce bad debt expense by $1,033,318?**

9 A. No. The Company did not make an adjustment to reflect bad debt expense at a
10 level prior to the implementation of the new bad debt methodology. Rather, the
11 cost in the FY06 test period is based on current bad debt risk percentages using
12 the new methodology as was identified in the Company's responses to CCS Data
13 Requests 24.15 and 30.5. Bad debt expense in the filing is only 0.32 percent of
14 FY06 retail revenues which is consistent with 1996 percentages and reflects the
15 Company's efforts to reduce bad debts.

16 **Q. Are there other problems with Mr. Thomson's adjustment?**

17 A. Yes. The Company has filed a forecasted test period in this proceeding with the
18 intent of matching costs and revenues in the rate effective period. In the
19 calculation of his adjustment, Mr. Thomson has relied on an average of bad debt
20 expense levels from mid-year and year-end 2001 to 2003 grossed up to a revenue
21 level then applies the new bad debt study percentage to it arriving at a level of
22 expense he believes is appropriate. This approach is wrong for a number of
23 reasons. First, this approach is fundamentally flawed in that it assumes that

1 revenue levels in FY06 would be comparable on average to a September 2002
2 timeframe (mid-point in his average). The average of historical amounts does not
3 reflect accurately the FY06 rate effective period. Second, his analysis included
4 bad debt expense levels for partial year periods (September '01, '02, '03) which
5 may not reflect the actual level of bad debt expense for an entire year due to
6 timing of entries, accounting adjustments, etc. In his analysis, September '02 bad
7 debt expense is at a level that is more than $2 million lower than any of the other
8 periods. If this is used as the basis to determine a revenue level (bad debt expense
9 divided by the bad debt reserve ratio), then revenues for the period would be
10 understated when he applies the new study ratio. Third, his analysis does not take
11 into consideration the levels of retail revenues or accounts receivable for the test
12 period. While the Company has made significant efforts to reduce the level of
13 bad debts that it is experiencing, the overall level of the expense is increasing as
14 the number of customers continues to increase in Utah as well as the impact of
15 rising prices. The adjustment proposed by Mr. Thomson is without merit and
16 should be rejected by the Commission.

17 **Property Taxes**

18 **Q. What adjustment has Mr. Thomson proposed relative to property tax**
19 **expense?**

20 **A.** Mr. Thomson proposes to adjust property tax expense so that it reflects a proper
21 amount after the DPU's recommended reduction to rate base by Mr. Moio. His
22 analysis is flawed for a number of reasons.

23

1 **Q. Please explain.**

2 A. The primary reason Mr. Thomson's analysis is flawed is in assuming that
3 property tax expense in the FY06 test period would exactly correlate with
4 property investment in that same time frame. Property tax expense is assessed on
5 the Company's property typically on January 1st of each year and paid in
6 November. The property tax expense that the Company has included in the FY06
7 test year is the expected amount of tax we will pay November '05 for plant that is
8 on the books as of January 1, 2005 (part of FY05 rate base). The rate base
9 additions that Mr. Moio has taken issue with (questioning whether they will
10 actually be in service in FY06) would not impact property taxes until FY07, well
11 outside the test period. Additionally, Mr. Thomson has overlooked a number of
12 issues. He has assumed that the dollar amount of electric plant in-service is the
13 only factor influencing the Company's property tax expense. Property taxes are
14 influenced by numerous factors including earnings, capital investment, and the
15 specific property valuation methodologies employed by state assessment staffs.
16 Finally, he incorrectly assumes that property taxes in the filing were $75.0
17 million. Mr. Thomson has used the "408GPS" line item total (Exhibit UP&L___
18 (JTW-1), page 7.3) as the amount of property tax in the test year. The amount of
19 $75 million in that category in Taxes Other than Income includes Utah gross
20 receipts taxes of approximately $3 million. The Company is requesting recovery
21 of property tax expense in the amount of $71.7 million. This is comparable to the
22 level of property tax expense incurred by the Company in 1998 and 1999. It is
23 astonishing that the DPU would propose an adjustment to reduce property taxes

1 when the Company has entered into a significant period of growth and regulator-
2 encouraged capital investment.

3 **Cash Working Capital**

4 **Q. Please explain the nature of cash working capital.**

5 A. Cash working capital is a rate base item that measures the amount of cash
6 required to fund operations. PacifiCorp calculates cash working capital through a
7 lead-lag study. A "lag", which creates a need for working capital, results from the
8 fact that cash payments are generally received from customers after service has
9 been provided. A "lead", which is a source of working capital, results when there
10 is a delay between the recording of an expense and the actual cash payment of the
11 expense. Cash working capital can be either positive or negative, depending upon
12 whether the revenue lag exceeds the expense lead. The current filing reflects a
13 net revenue lag of 8.1 days resulting in a cash working capital requirement of
14 $25.4 million on a Utah-allocated basis.

15 **Q. Are you familiar with the adjustment to cash working capital being proposed**
16 **by CCS witness Michael Arndt and AARP witness Ron Binz?**

17 A. Yes. Mr. Arndt and Mr. Binz both recommend the recognition of a cash "lead"
18 associated with the payment of interest on long term debt and Mr. Binz would
19 also recognize a comparable "cash lead" on the payment of preferred stock
20 dividends. These adjustments are based on the assumption that cash working
21 capital generated by the interval between the time interest and dividends are
22 earned and the time they are actually paid should be attributed to utility
23 customers.

1 **Q. Do you agree that the cash "lead" associated with the payment of interest on**
2 **long-term debt and preferred stock dividends should have been included in**
3 **the Company's lead/lag study?**
4 A. No. The idea of recognizing a cash "lead" for interest and preferred stock
5 dividends is a worn-out notion that has never been adopted by any PacifiCorp
6 jurisdiction.
7 **Q. How do you respond to the assertions made by Mr. Arndt and Mr. Binz that**
8 **the payment lag associated with interest and preferred dividends creates**
9 **working capital funded by ratepayers?**
10 A. With respect to preferred dividends, I would agree with the position taken by the
11 Federal Energy Regulatory Commission (FERC) in its 1984 Notice of Proposed
12 Rulemaking (NOPR) on "Calculation of Cash Working Capital Allowance for
13 Electric Utilities." In that NOPR, FERC states "Further the Commission has
14 taken the position that, <u>since both common and preferred equity return belong to</u>
15 <u>the utility</u> (emphasis added) it cannot be expected to use the related revenue
16 subsequently received as cash working capital without remuneration." As far as
17 interest is concerned, in the same NOPR, FERC declines to recognize a lag for
18 return on investment (i.e., operating income) because its proposed rule does not
19 require a utility to "utilize the interest component of return as working cash, even
20 though the interest may not be paid to the bondholders until after the related
21 revenue is received by the utility."
22

1 **Q. How would you recommend that the Commission respond to the cash**
2 **working capital adjustments proposed by Mr. Arndt and Mr. Binz?**
3 A. I recommend that the Commission reject these adjustments. It is entirely
4 consistent with FERC pronouncements on cash working capital and follows the
5 treatment afforded by other commissions. I conclude that the adjustments
6 proposed by Mr. Arndt and Mr. Binz are unnecessary and inappropriate.
7 **Q. What are your concerns with Mr. Schultz's recommendation to adjust other**
8 **working capital by excluding cash, working funds, other accounts receivable,**
9 **and certain accounts payable?**
10 A. Mr. Schultz's recommendations are based on incorrect assumptions that depart
11 from the standard, accepted, other working capital calculation method, which the
12 CCS and the Commission have accepted for many years. Further, elements of his
13 recommendation are wrong.
14 Cash has routinely been included in other working capital for more than a
15 decade with support from the DPU and CCS for the inclusion of cash in working
16 capital. Now the CCS wants to reverse its position and exclude cash. I am not
17 theoretically opposed to excluding cash, provided this is done consistently, but it
18 seems the only reason the CCS has reversed its opinion is that, at present, the
19 exclusion of cash reduces rate base.
20 Working capital is defined by accountants as the difference between
21 current assets and current liabilities.[1] Current assets are composed of cash,
22 working funds and accounts receivable.

[1] Intermediate Accounting, Skousen, Stice, & Stice, page 104.
2 Accounting for Public Utilities Hahne & Aliff, page 5-23.

1 The purpose of a working capital adjustment for regulated purposes is to
2 calculate the cash working capital required to cover the time between payment for
3 services and receipt of revenue. Robert Hahne points out in *Accounting for*
4 *Public Utilities* "After having determined the cash working capital required for
5 operating expenses, a need for cash balances … must be recognized."[2] The
6 Company properly included all of these additions and deductions, along with the
7 cash working capital balance, in its rate base.
8 Working funds in account 135 represent funds PacifiCorp has advanced to
9 other parties. For example, the working fund balance includes the Cholla
10 operating trust account and the Colstrip operating trust account. Mr. Schultz
11 provides no explanation why exclusion of working funds from other working
12 capital is appropriate.
13 The Code of Federal Regulations says that FERC Account 143, Other
14 Accounts Receivable, "shall include amounts due the utility upon open accounts
15 … for utility services, merchandising, jobbing and contract work." Primary
16 components of this account are receivables from power plant joint owners and
17 damage claims for repairs to lines and poles when cars damage utility lines. The
18 representations by Mr. Schultz misstate the composition of Account 143 and do
19 not merit acceptance by the Commission.
20 Mr. Schultz also proposes to exclude Accounts Payable, as he assumes
21 they are not utility related. His assumption is wrong and his proposal should be
22 denied. The payables represent obligations related to employee benefits and are
23 appropriately included in utility working capital. In summary, the proposed

1 adjustment in CCS Exhibit 2.6 should be rejected.

2 **Q. Has Mr. Moio adequately explained why the DPU is changing its**
3 **longstanding position regarding the calculation of other working capital?**

4 A. No. Like Mr. Schultz, Mr. Moio also proposes to adjust working capital by
5 excluding cash. The stated reason for the change is that since the cash balance
6 has turned from negative in prior years to a positive balance in recent periods the
7 DPU position is changed. Using this same reasoning, the DPU and CCS could
8 change their position in the next rate case, if the cash balance turned negative.
9 Regulatory policy should be consistent. Justification to change policy should be
10 based on something more than the notion that the balance changed. Mr. Binz
11 explains on page 12 of his direct testimony that cash required to fund operations
12 should be included in rate base and permitted a return. The adjustment in DPU
13 Exhibit 4.2 lacks justification and should be rejected.

14 **Q. Do you agree with Ms. DeRonne's proposal to adjust net lag days in the cash**
15 **working capital study?**

16 A. No. Her proposed adjustment is based on the unfounded consolidated income tax
17 expense adjustment of Mr. Arndt. Mr. Martin addresses this in his testimony.
18 The Company pays income taxes, which it has reflected that in its Lead / Lag
19 study. Consequently, the income tax expense lag sponsored by PacifiCorp is
20 reasonable. Adjustment in CCS Exhibit 1.9 should be rejected.

21 **Q. Does this conclude your rebuttal testimony?**

22 Yes.