BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF PACIFICORP'S APPLICATION FOR APPROVAL OF ITS PROPOSED ELECTRIC SERVICE SCHEDULES AND REGULATIONS	DOCKET NO. 04-035-42 DPU EXHIBIT 2.0S

Supplement to Direct Testimony

Artie Powell

Division of Public Utilities

December 17, 2004

Direct Testimony, Supplement

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Division of Public Utilities

December 17, 2003

Q: Please state your name, title, and employer for the record.

A: My name is Artie Powell; I am a technical consultant and acting manager with the Division of Public Utilities ("Division").

Q: Did you previously file testimony in this proceeding?

A: Yes, I filed direct testimony for the Division, DPU Exhibit 2.0, with several attachments. The testimony herein is provided as a supplement to my direct testimony.

Q: Would you please explain the purpose of filing this supplement to your original testimony?

A: In direct testimony, I indicated that the Division was unable to make an overall recommendation as regards to PacifiCorp's revenue requirement because of the uncertainty regarding the net effect of several adjustments. Subsequent to its initial filing, the Division has received responses to data requests from PacifiCorp and is now in a position to make a recommendation regarding PacifiCorp's revenue requirement. The purpose of my testimony is to explain that recommendation. Additionally, I would like to make a correction to my original testimony.

Q: What is the Division's recommendation?

A: The Division recommends an increase of $29.454 million on an uncapped MSP basis, and a $17.571 million increase on a capped MSP basis. A summary of the details for various adjustments are found in Revised DPU Exhibit 1.1, which is attached to my testimony. This exhibit should be used to replace DPU Exhibit 1.1 attached to DPU witness Mr. Barrow's direct testimony.

Q: What correction are you making to your direct testimony?

A: On pages 24-26 of my direct testimony, I discussed PacifiCorp's capital structure and TIER in regards to S&P bond rating criteria. I indicated that S&P listed PacifiCorp with a Business Profile of 2. (Standard & Poor's Business Profile ranking is a measure of overall risk with 1 being the least risky and 10 the greatest risk). My statement however was incorrect – S&P actually ranks PacifiCorp with a Business Profile of 5.

Q: Does this correction have an affect on the Division's recommended ROE?

A: No, I am not changing my ROE recommendation. However, the Division is withdrawing its capital structure recommendation.

According to a report from Standard & Poor's (S&P), dated June 2, 2004, S&P has revised its financial guidelines for utilities.[1] The report indicates that, "while business profile scoring continues to provide analytical benefits, the complete range of the 10-point scale was not being utilized to the fullest extent." As a result, S&P has assigned new business profile scores to U.S. utilities. Simultaneously, to avoid undue rating changes, S&P also revised its financial criteria. In particular, S&P's guidelines for the principle financial ratios "have

[1] "New Business Profile Scores Assigned for U.S. Utility and Power Companies: Financial Guidelines Revised," Standard & Poor's, June 2, 2004. (Reprinted from Ratings Direct).

been broadened so as to be more flexible." Additionally, S&P has eliminated the TIER as a key credit ratio.

According to the revised guidelines, for a utility with a business profile of 5 and an A bond rating, the total debt ratio should be between 42 and 50 percent. In direct testimony, the Division proposed using the capital structure reported in PacifiCorp witness Mr. Williams' testimony for FY05, which consisted of 45.95% equity and 52.78% debt. Clearly, this debt ratio is outside the range specified by S&P's revised criteria. The capital structure proposed by PacifiCorp in this case, which consists of 47.8% equity and 51% debt, moves PacifiCorp's capital structure closer to S&P's revised debt range. Currently, S&P rates PacifiCorp's debt as an A- (with a stable outlook). Allowing PacifiCorp to decrease its debt ratio should enhance PacifiCorp's ability to maintain an A rating.

The average business profile for the group of comparable companies I used in the DCF analysis to set the recommended ROE is approximately equal to 5.[2] Given that PacifiCorp's business profile is similar to the group's average and that S&P has eliminated the use of the TIER as a key ratio, the Division does not have a basis for further adjustments at this time to its ROE recommendation of 10%.

Q: You indicated that the Division received a response to a data request. Could explain the nature of this data request and its importance?

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[2] S&P does not report the business profile for two companies in the comparable list: CH Energy and MGE Energy. S&P does report business profiles for subsidiaries of these two companies; however, I have not included these in the average.

A: As I indicated in direct testimony, Division witness Ms. Coon recommends a change in the load forecast used to develop PacifiCorp's net power costs. However, changing the load forecast also changes revenues, expenses, and allocation factors. In response to DPU data request 19.1, changing the load forecast decreases revenues and expenses by about $35 million and $28 million respectively. These changes, as well as the affect of changing allocation factors, are reflected in Revised DPU Exhibit 1.1.

The Division's auditors, based on more recent information provided through discovery and work sessions, are also modifying several adjustments proposed in direct testimony. These changes are reflected in Revised DPU Exhibit 1.1 as well. The nature of the modifications will be explained by the Division's auditors in rebuttal testimony.

Q: Does that conclude your testimony?

A: Yes it does.