Q. Are you the same Jeffrey K. Larsen who previously testified in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. I will respond to a number of assertions made in the direct testimony of Kevin Higgins, representing the Utah Association of Energy Users Intervention Group ("UAE"), who has been critical of PacifiCorp's (the "Company") proposed forecast test year in this proceeding. Specifically, I will address allegations that the Company's forecast of capital additions does not reflect proper ratemaking principles. I will also respond to some of Mr. Higgins comments on "forecasting errors" in the Company's last general rate case.

Prepayments

Q. Please describe the test years being supported by PacifiCorp and by Mr. Higgins in this case.

A. The Company's filing in this proceeding supports the twelve months ended September 30, 2007 as the appropriate test year. Mr. Higgins has proposed a calendar year 2006 test period. Regardless of the test year chosen, the new rates resulting from this proceeding will become effective in December 2006.

Q. What issue has Mr. Higgins raised with respect to "prepayments" of costs included in the Company's test period?

A. Because PacifiCorp's forecast test year extends beyond the rate effective date, Mr. Higgins alleges that under the Company's proposal, customers will pay for capital investment that has not yet occurred or been placed in service. Mr. Higgins claims that this constitutes a "prepayment". He extends this argument to not only plant in service, but also to inflation that has not yet arrived, labor cost increases that have not been received, and the cost of equity infusions before they are provided.

Q. Does the manner in which the Company has calculated its forecast capital additions constitute a "prepayment" as Mr. Higgins has testified?

A. No. The Company has used the 13-month average method of calculating rate base in this case. Under this approach, asset additions are not included in rate base until the month in which they are actually placed in service. For example, the Lake Side Plant will be completed in May 2007. Therefore, for the forecast test year October 1, 2006 through September 30, 2007, there will be no Lake Side costs in rate base during the months of October 2006 through April 2007. The full investment will be added in May 2007 and continue through September 2007. Since the new rates will be based on the Company's 13-month average rate base, rates only reflect a partial recovery of the new plant investment. In other words, customers will pay nothing for Lake Side from December 2006 through April 2007 and will bear the full cost of the new plant that will be serving them from May through September 2007. The situation described by Mr. Higgins would only exist if a year-end rate base level at September 2007 were used rather than the proper method utilized by the company in averaging rate base levels.

Q. Do you believe that the approach used by the PacifiCorp to forecast test year rate base is conservative and beneficial to customers?

A. Yes. During the first year the new rates are in effect, customers will bear the cost of new assets only for the period of time they are actually in service during that period. After the first year, these assets will be fully in service, but cost recovery will continue to be based on their partial inclusion in the test year. Customers will continue to pay less than a full annual return on this investment until the Company files a new rate case.

Q. Based on the preceding discussion is it your conclusion that PacifiCorp's forecast capital additions are consistent with proper ratemaking principles?

A. Yes. Under the Company's forecasting approach, customers bear only the cost of new plant that is actually providing service to them.

Q. Is Mr. Higgins' concern about "prepaying" for inflation, labor cost increases and capital infusions a legitimate regulatory issue?

A. No. The same averaging principle that applies to capital additions is applicable to these other costs as well. Inflation is applied using monthly indices, labor increases are effective on contractually determined dates, and cost of capital takes into account the dates of equity infusions. Thus, customers do not begin to pay for these costs until they are incurred; and as with capital additions, after the first year they continue to pay a partial year amount until rates are reset in the next general rate case. I believe that this entire discussion is little more than an effort to distract the Commission from the central test year issue which is to provide PacifiCorp with an opportunity to fully recover its reasonable and prudent cost of service during the rate effective period.

Q. Is the timing of the rate change in relation to the test year a legitimate basis for favoring one test year over another?

A. No. The Commission must choose the test period that will best reflect the conditions expected during the rate-effective period. In making this selection, the Commission may choose from statutory options that include a forecast test period that extends up to 20 months from the date of filing.

Q. Is Mr. Higgins attempting to create a presumption against a forecast test year that extends 20 months from the date of filing?

A. Yes, apparently so. As Mr. Higgins correctly points out, the statute makes no presumption for or against an historical or future test period. However, his testimony would create such a presumption if the Commission were to give credence to his argument. Under Utah law, the Commission must issue an order within eight months of the filing of a general rate case. Therefore, if a utility uses the 20 month forecast test year allowed by statute, the effective date of the rate change would occur at the beginning of the forecast test year and would, according to Mr. Higgins, violate ratemaking principles. While I have previously explained that Mr. Higgin's criticism is without merit, his position would preclude the use of a test year that extends 20 months from the date of filing, even though that test year is explicitly available under statute. In effect, he seeks to deny the Company the use of its proposed test period regardless of whether or not it best reflects the rate effective period. Such an outcome is contrary to the clear intent of the statute.

Forecasting Variances

Q. Does PacifiCorp continue to believe that the test year consisting of the 12 months ending September 30, 2007 best reflects the conditions in the rate effective period?

A. Yes, as Mr. Walje discusses at some length in his rebuttal testimony, PacifiCorp is currently in the midst of a major construction effort that is necessary to provide the resources to serve Utah's growing load. The resulting assets are not paper projections that can be scaled back because the calendar year 2006 test year proposed by Mr. Higgins does not allow for their recovery. These construction projects reflect concrete and steel that is already in the ground, and only the forecast test period proposed by the Company can provide an opportunity to fully align cost recovery of these investments with the onset of service to customers.

Q. Does Mr. Higgins offer any evidence that PacifiCorp's proposed test year does not best reflect the rate-effective period or that his proposed test year best reflects the rate-effective period?

A. No. Mr. Higgins offers only a "broad brush" effort to discredit the Company's proposed test year. This effort consists of two basic arguments. The first argument is the “prepayments” issue that I have just addressed. The second argument might be paraphrased as follows: "Since it is easier to do a shorter-term forecast than a longer-term forecast, the Commission should adopt the UAE proposed test year because it is shorter-term and therefore might be more accurate." In support of this contention he points to several alleged "forecasting errors" in the Company's last general rate case, which also used a 20-month forecast.

Q. What forecasting errors does Mr. Higgins point to?

A. Mr. Higgins claims that PacifiCorp over-estimated Distribution capital additions by $20 million and used load forecasts that over-stated Utah allocation factors. He indicates that these "errors" created additional costs for Utah customers.

Q. What is your response to Mr. Higgins' criticism of the Company's previous test year forecast?

A. His criticism is unfounded. First, I think it is more accurate to refer to the difference between forecast and actual costs as a "variance" rather than an "error". This may be a matter of semantics since the effect is the same, but "error" is an emotionally-charged term, and all forecasts will inevitably produce variances when compared to actual results. With respect to capital additions, the real issue is whether the $20 million dollar variance in Distribution investment had a material effect on the total forecast rate base. Forecast variances go in both directions, and it is the net impact that is relevant. For example, the 13 month average rate base used in the last case, understates the actual net investment in both generation and transmission plant for that time period. Overall, the variance in the Company's forecast of rate base in the previous case compared to actual was less than 1 percent on a Utah basis, with actual net plant investment greater than the forecast.

Q. What about the overstatement of allocation factors? Should that be an area of significant concern?

A. The accuracy of allocation factors is always a concern. However, Mr. Higgins offers a very one-sided analysis of their impact in determining overall revenue requirement. He suggests that overstated Utah allocation factors would have resulted in a significant amount of excess plant and expense being allocated to Utah. However, he conveniently ignores the fact that the same forecast of Utah load growth that drove the calculation of allocation factors is also used to project kilowatt hour sales and other billing determinants that determine the Utah retail revenue forecast. If the allocation factors are overstated then retail revenues would have been proportionately high as well. Mr. Higgins offers no evidence that the net effect of the cost and revenue differences produced a disadvantage for Utah customers. Certainly PacifiCorp has no incentive to set future rates based on revenue projections that will never materialize.

Q. Has the Company done any analysis to determine the sensitivity of load variances on revenue requirement?

A. Yes. Using data from the current case, the Company reduced Utah's loads at input levels by 2 percent and made corresponding adjustments to reduce revenues by 2 percent and re-forecast net power costs. As shown in the following table the load reduction actually increases the amount of the rate increase supported in the case.

	Results As Filed	**2% Load Reduction**	**Difference**
Revenue Requirement	1,416,518,430	1,393,793,317	(22,725,112)
Present Revenues	1,222,388,737	1,197,940,962	(24,447,775)
Capped Price Change	194,129,693	195,852,355	1,722,663
Revenue Requirement	1,416,518,430	1,393,793,317	(22,725,112)
Retail kWh	21,538,272,000	21,107,506,560	(430,765,440)
Average Price per kWh	6.577 ¢	6.603 ¢	0.027 ¢

(excludes impact of deferred tax balance reallocation)

While the revenue requirement does go down by $22.7 million as a result of the reduction in the load forecast, projected present revenues go down by $24.4 million. The net result is a $1.7 million increase to the rate increase in the current case and an increase to the average price per kWh.

Q. How would you characterize Mr. Higgins concerns about forecast variances?

A. Mr. Higgins is obviously concerned that forecasts may be inaccurate to the detriment of customers. His solution to this problem is to shorten the forecast period in the hope of improving accuracy. Implicit in this approach is the idea that if a forecast test year must be used, the first criterion in selecting the appropriate period is the degree of forecast accuracy.

Q. Do you share Mr. Higgins' concern about forecast accuracy?

A. Yes. I agree that every effort should be made to prepare the most accurate test year forecast possible, and PacifiCorp has done that in this case. However, I disagree with the idea that ease of forecast preparation should be a primary driver in the selection of a test year. It is necessary to select the test year that best reflects the conditions in the rate-effective period. The period that "best reflects" the rate-effective period may not be the period that is easiest to forecast, but it is the period that should be used for setting rates. There is little benefit in being able to forecast a test period with great precision if it does not properly reflect the conditions that will be experienced when the new rates become effective. The calendar year 2006 test year proposed by Mr. Higgins may require a shorter term forecast, but 2006 simply does not fairly reflect the rate-effective period. It fails to capture major capital additions that are already under construction and which will be serving customers in 2007.

Q. What basis does the Commission have for determining that PacifiCorp's forecast for the test year ending September 2007 provides a reasonable representation of the rate effective period?

A. The Commission need not rely solely on my assurances that the Company has prepared an accurate forecast. The ratemaking process provides opportunity for thorough review of the Company projected costs and capital investments. PacifiCorp has not proposed a "take it or leave it" forecast. The Company is prepared to document and explain its forecasting assumptions and recognizes that some of these assumptions may be questioned by other parties in this case. We acknowledge that the Commission will weigh the evidence and will undoubtedly make some changes in the forecast. What PacifiCorp cannot accept is the notion that a calendar year 2006 test period would be likely to better reflect the conditions in the rate effective period and would provide the Company with a reasonable opportunity to fully recover its cost of service and earn a fair return on shareholder investment.

Conclusion

Q. Please summarize your rebuttal testimony.

A. I have explained that test year proposed by PacifiCorp does not require customers to "prepay" for capital additions and expense. I explained that the manner in which the Company prepared its forecast ensures that customers bear only the cost of assets that are actually in service and expenses that have actually been incurred. I also addressed the variances identified by Mr. Higgins and put them in proper context within the overall revenue requirement calculation. Finally, I examined the calendar year 2006 test year proposed by Mr. Higgins. I discussed why 2006 does not fairly represent the conditions expected in the rate-effective period and explained that ease of forecast preparation is not the appropriate criterion for test year selection.

Q. Does this conclude your rebuttal testimony?

A. Yes.