

1 **Q. Please state your name, business address and present position with Rocky**
2 **Mountain Power (the Company), a division of PacifiCorp.**

3 A. My name is C. Craig Paice. My business address is 825 NE Multnomah, Suite
4 2000, Portland, Oregon 97232, and I am currently employed as a Regulatory
5 Consultant in the Regulation Department.

6 **Qualifications**

7 **Q. Please briefly describe your education and business experience.**

8 A. I received a Bachelor of Science Degree in Business Management from Brigham
9 Young University in 1976. I have also attended various educational, professional
10 and electric industry seminars during my career with the Company. I have been
11 employed by PacifiCorp since the merger in 1989. Prior to that time, I was
12 employed with Utah Power & Light Company beginning in 1978 holding various
13 positions in the accounting, customer service, and regulatory areas.

14 **Q. Please describe your present duties.**

15 A. My primary responsibilities are to prepare, present, and explain the results of the
16 Company's cost of service studies to regulators and interested parties in
17 jurisdictions where PacifiCorp provides retail electric service.

18 **Q. Have you been a witness in other regulatory proceedings?**

19 A. I have previously provided cost of service testimony in the states of Utah and
20 California.

21 **Purpose of Testimony**

22 **Q. What is the purpose of your testimony?**

23 A. I will present PacifiCorp's functionalized Class Cost of Service Study based on

24 the twelve month forecasted test period ending June 30, 2009.

25 **Summary of Results**

26 **Q. Please identify Exhibit RMP___(CCP-1) and explain what it shows.**

27 A. Exhibit RMP___(CCP-1) is the summary table from PacifiCorp's Twelve Months
28 Ending June 2009 Class Cost of Service Study for the State of Utah. It is based on
29 PacifiCorp's annual results of operations for the State of Utah as presented in the
30 testimony of Mr. Steven R. McDougal. It summarizes, both by customer group
31 and by function, the results of the cost study for the twelve months ending June
32 2009. Page 1 presents the results at the Company's June 2009 Rate of Return
33 assuming current rate levels. Page 2 shows the results using the return provided
34 by the \$160.6 million revised protocol mitigation cap price increase.

35 **Q. Please identify Exhibit RMP___(CCP-2) and explain what it shows.**

36 A. Exhibit RMP___(CCP-2) shows the cost of service results in more detail by class
37 and by function. Page 1 summarizes the total cost of service summary by class
38 and pages 2 through 6 contain a summary by class for each major function.

39 **Changes in Cost of Service Study**

40 **Q. Are there any methodology differences between this cost study and the study**
41 **previously filed with the Utah Commission in Docket No. 07-035-93?**

42 A. No. This cost of service study employs the same methodologies filed in the
43 previous docket. The allocation of generation/transmission costs and net power
44 costs, first introduced in Docket No. 06-035-21, reflect the impact of seasonal
45 cost and load differences and have been retained in the current study. These
46 modifications are based on the Utah Cost of Service and Rate Design Taskforce

47 Report, Proposal #9, submitted to the Utah Public Service Commission on
48 December 15, 2005.

49 **Q. How were the class loads developed for the forecasted test period?**

50 A. The forecasted number of customers and class energy usage, as well as the
51 monthly day and hour of system peak, for the twelve month test period ending
52 June 2009 are based on the Company's load forecast as described in Dr. Peter
53 Eelkema's direct testimony. Customer class contributions to monthly system
54 peaks are based on historical hourly load research data which was matched
55 against the forecasted hour of monthly system peaks and then extrapolated to the
56 forecasted class energy usage for the test period.

57 **Description of Procedures**

58 **Q. Please explain how the Cost of Service Study was developed.**

59 A. Using the results from Mr. McDougal's Exhibit RMP____(SRM-2), the study
60 employs a three-step process referred to as functionalization, classification, and
61 allocation. These three steps recognize the way a utility provides electrical service
62 and assigns cost responsibility to the groups of customers for whom those costs
63 were incurred.

64 **Q. Please describe functionalization and how it is employed in the Cost of
65 Service Study.**

66 A. Functionalization is the process of separating expenses and rate base items
67 according to five utility functions - production, transmission, distribution, retail
68 and miscellaneous.

69 • The production function consists of the costs associated with power

- 70 generation, including coal mining, and wholesale purchases.
- 71 • The transmission function includes the costs associated with the high voltage
72 system utilized for the bulk transmission of power from the generation source
73 and interconnected utilities to the load centers.
- 74 • The distribution function includes the costs associated with all the facilities
75 that are necessary to connect individual customers to the transmission system.
76 This includes distribution substations, poles and wires, line transformers,
77 service drops and meters.
- 78 • The retail services function includes the costs of meter reading, billing,
79 collections and customer service.
- 80 • The miscellaneous function includes costs associated with Demand Side
81 Management, franchise taxes, regulatory expenses, and other miscellaneous
82 expenses.

83 **Q. Describe classification and explain how it is used by PacifiCorp in the cost of**
84 **service study.**

85 A. Classification identifies the component of utility service being provided. The
86 Company provides and customers purchase service that includes at least three
87 different components: demand-related, energy-related, and customer-related.
88 Demand-related costs are incurred by the Company to meet the maximum
89 demand imposed on generating units, transmission lines, and distribution
90 facilities. Energy-related costs vary with the output of a kWh of electricity.
91 Customer-related costs are driven by the number of customers served.

92 **Q. How does PacifiCorp determine cost responsibility between customer**
93 **groups?**

94 A. After the costs have been functionalized and classified, the next step is to allocate
95 them among the customer classes. This is achieved by the use of allocation factors
96 that specify each class' share of a particular cost driver such as system peak
97 demand, energy consumed, or number of customers. The appropriate allocation
98 factor is then applied to the respective cost element to determine each class' share
99 of cost. A detailed description of PacifiCorp's functionalization, classification and
100 allocation procedures and the supporting calculations for the allocation factors are
101 contained in my workpapers.

102 **Q. How are generation and transmission fixed costs apportioned among**
103 **customer classes?**

104 A. The seasonally weighted demand allocation factor, first introduced by Company
105 witness David L. Taylor in Docket 06-035-21, is employed in the current analysis.
106 Production and transmission fixed costs are classified 75 percent demand and 25
107 percent energy with the demand component of Factor 10 developed using twelve
108 monthly weighted coincident peak demands. In lieu of all twelve monthly load
109 values receiving an equal weight, each monthly value is assigned a different
110 weighting factor. Monthly weighting factors are calculated by dividing each
111 month's system coincident retail peak by the annual system retail peak. For the
112 twelve months ending June 2009, the system retail peak is forecasted to be 9,464
113 MW during July 2008. So the month of July receives a weighting of 1.00
114 (9,464/9,464). The forecasted system retail peak in January 2009 is forecasted to

115 be 8,583 MW, therefore it receives a weighting of 0.907 (8,583/9,464). The
116 twelve monthly class coincident peaks are multiplied by the monthly weighting
117 factors and summed to calculate the weighted allocation factor.

118 **Q. Are the factors used to allocate Net Power Costs (NPC) calculated the same**
119 **as those used in Docket 07-035-93?**

120 A. Yes. Since monthly class coincident peak and energy loads are included in the
121 cost of service study and net power costs are calculated and summarized by
122 month in the NPC study, PacifiCorp recommends that fuel and other NPC
123 components be allocated on a monthly basis. Factors F85 through F96 are used in
124 the cost of service study to allocate monthly net power costs. A detailed
125 description of factor development is contained in Exhibit RMP____(CCP-3).

126 **Q. How are distribution costs allocated?**

127 A. Distribution costs are classified as either demand related or customer related. In
128 this study only meters and services are considered as customer related with all
129 other costs considered demand related. Distribution substations and primary lines
130 are allocated using the weighted monthly coincident distribution peaks.
131 Distribution line transformers and secondary lines are allocated using the
132 weighted non-coincidental peak method. Services costs are allocated to secondary
133 voltage delivery customers only. The allocation factor is developed using the
134 installed cost of new services for different types of customers. Meter costs are
135 allocated to all customers. The meter allocation factor is developed using the
136 installed costs of new metering equipment for different types of customers.

137

138 **Q. Please explain how customer accounting, customer service, and sales**
139 **expenses are allocated.**

140 A. Customer accounting expenses are allocated to classes using weighted customer
141 factors. The weightings reflect the resources required to perform such activities as
142 meter reading, billing, and collections for different types of customers. Customer
143 service expenses are allocated on the number of customers in each class.

144 **Q. How are administrative & general expenses, general plant and intangible**
145 **plant allocated by PacifiCorp?**

146 A. Most general plant, intangible plant, and administrative and general expenses are
147 functionalized and allocated to classes based on generation, transmission, and
148 distribution plant. Employee pensions and benefits have been assigned to
149 functions and classes on the same basis as labor costs. Costs that have been
150 identified as supporting customer systems are considered part of the retail services
151 function and have been allocated using customer factors. Coal mine plant costs
152 are allocated using the energy factor.

153 **Q. How are costs and revenues associated with wholesale contracts and other**
154 **electric revenues treated in the cost of service study?**

155 A. No costs are assigned to wholesale contracts and other electric revenues. The
156 revenues from these transactions are treated as revenue credits and are allocated to
157 customer groups using the appropriate allocation factors. Revenue credits reduce
158 the revenue requirement that is to be collected from firm retail customers. This is
159 consistent with the treatment of these revenues in the interjurisdictional results of
160 operations.

161 **Special Contracts**

162 **Q. Have you included cost of service results for the Utah special contracts?**

163 A. Yes. Consistent with both the treatment in the last case and the Revised Protocol,
164 the loads and revenues associated with service to special contract customers are
165 included as part of the jurisdictional allocation and included in the revenue
166 requirement. The loads and revenues for special contract customers are also
167 included in the Cost of Service Study.

168 **Partial Requirements/Back-up/Electric Furnace Service**

169 **Q. Does the Cost of Service Study include results for partial requirements, back-**
170 **up service and electric furnace customers?**

171 A. No. Cost of service results were not calculated for these categories of customers,
172 which includes one special contract customer and those customers taking service
173 on Schedule 21 and Schedule 31.

174 **Q. Why are these customers removed from the cost of service study?**

175 A. Partial requirements, back-up service and electric furnace customers are not
176 included in the embedded cost of service study because they do not lend
177 themselves well to this type of analysis. These customers usually have very
178 sporadic loads from year-to-year producing volatile cost of service results
179 depending on whether or not service is required during the hour of monthly
180 system peak. It is the Company's practice to derive prices for partial requirements
181 and back-up service from the prices and costs for full requirements service.

182

183 **Workpapers**

184 **Q. Have you included your workpapers?**

185 A. Yes. Workpapers showing the complete functionalized results of operations and
186 class cost of service detail are included as Exhibit RMP___(CCP-3). Also
187 included in the workpapers is a detailed narrative describing the Company's
188 functionalization, classification and allocation procedures.

189 **Q. Does this conclude your direct testimony?**

190 A. Yes, it does.