Witness OCS – 2D

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority to Increase Its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations	)))))))	**Docket No. 09-035-23** **Direct Revenue Requirement Testimony of Donna Ramas For the Office of Consumer Services**

Redacted

REDACTED CONFIDENTIAL & HIGHLY SENSITIVE CONFIDENTIAL

INFORMATION HIGHLIGHTED IN GRAY

October 8, 2009

Table of Contents

INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory analyst at Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous electric, water and wastewater, gas and telephone utility cases.

Q. HAVE YOU PREPARED AN EXHIBIT SUMMARIZING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates, PLLC, was retained by the Utah Office of Consumer Services (OCS) to review Rocky Mountain Power's (the Company or RMP) application for an increase in rates in the State of Utah and to make recommendations in the areas of rate base and operating income (expense and revenue). Accordingly, I am appearing on behalf of the OCS.

Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?

A. Yes. I have prepared Exhibits OCS 2.1 through 2.22, which are attached to this testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I present the overall revenue requirement recommended by the OCS and sponsor specific adjustments to the Company's filing for the future test period ending June 30, 2010. The overall revenue requirement presented in the summary schedules, specifically Exhibit OCS 2.1, includes the impact of recommendations of other witnesses testifying on behalf of the OCS. It includes the recommended return on equity and capital structure presented by OCS witness Daniel Lawton, as well as specific adjustments recommended by OCS witnesses Randall Falkenberg and Philip Hayet.

Q. PLEASE DISCUSS HOW YOUR EXHIBITS ARE ORGANIZED.

A. Exhibit OCS 2.1 presents the overall revenue requirement and summary schedules reflecting the impact of the Multi State Process (MSP) stipulation, which caps RMP's Utah revenue requirement at 101.00 percent of the Utah revenue requirement calculated under the rolled-in allocation method. Each of the pages in Exhibit OCS 2.1 is based on the rolled-in allocation method. Since the rates are capped at 101.00 percent of the rolled-in allocation methodology, I am not presenting an exhibit based on the MSP revised protocol jurisdictional allocation methodology (revised protocol method) with this testimony.

In preparing Exhibit OCS 2.1, I used the Company's Jurisdictional Allocation Model, flowing each of the OCS recommended adjustments through the model.

Q. DO YOUR SUMMARY SCHEDULES INCLUDE THE EMBEDDED COST DIFFERENTIAL CALCULATION?

A. I have not included the Embedded Cost Differential calculation in my revenue requirement schedules presented with this testimony. The Embedded Cost Differential calculation does not impact the rolled-in allocation method and is only utilized in the revised protocol method. Since the rates are capped at 101.00% of the rolled-in allocation method, the Embedded Cost Differential calculation does not, at this time, impact the rates of Utah customers. Therefore, I did not perform the calculation in this rate case.

Q. PLEASE DESCRIBE THE ORGANIZATION OF THE REST OF YOUR EXHIBITS.

A. Exhibit OCS 2.2 includes a summary schedule that lists all of the OCS recommended adjustments in one schedule on a Utah basis. The amounts presented on this schedule were calculated based on the revised protocol jurisdictional allocation method. The full revenue requirement impact will not tie directly into the summary schedule on Exhibit OCS 2.1 as the amounts on this schedule are based on the revised protocol method and do not include the cash working capital impact and interest synchronization impact of each of the adjustments. These impacts flow automatically through the jurisdictional allocation model.

The remaining exhibits attached to my testimony, Exhibits OCS 2.3 through 2.22, consist of the supporting calculations for the specific adjustments that I recommend the Commission adopt. These supporting exhibits are presented using the top-sheet approach, showing the specific adjustments on a total Company and Utah allocated basis with brief descriptions of the adjustments at the bottom of each exhibit.

In determining the Utah allocated impact of each adjustment in Exhibits OCS 2.2 through 2.22, the revised protocol jurisdictional allocations factors contained in Company Exhibit RMP__(SRM-2) are used, consistent with how RMP's filing in Exhibit RMP__(SRM-2) was presented. In discussing each of the adjustments in this testimony, the Utah amounts are based on PacifiCorp's allocation factors associated with the revised protocol method so that the adjustments are comparable to the basis presented by the Company in its exhibits.

Q. BASED ON THE OCS' ANALYSIS OF ROCKY MOUNTAIN POWER'S FILING, WHAT IS THE OCS' RECOMMENDED CHANGE TO THE CURRENT LEVEL OF UTAH REVENUE REQUIREMENT?

A. Rocky Mountain Power's filing shows a requested increase in revenue requirement of $79.36 million based on the revised protocol method, reduced to $66.88 million based on the 101.00% rate mitigation cap. This amount is being increased by $2 million as a result of a stipulation entered into on July 31, 2009, in Docket No. 09-035-T08. Under that stipulation, which was approved by the Commission on August 25, 2009, the Parties agreed that the revenue requirement requested in this docket should be increased by $2.0 million. This brings the Company's requested increase in rates to $68.88 million.

Based on the OCS' analysis, the Company's request is significantly overstated by an amount of $74,779,334. As shown on Exhibit OCS 2.1, page 2.0, the Office of Consumer Services recommends a decrease in the current level of Utah revenue requirement of $5,895,669. As shown at the bottom of the exhibit, this includes the $2.0 million increase agreed to as part of the above-referenced stipulation in Docket No. 09-035-T08.

Q. DO THE REVENUE REQUIREMENT AMOUNTS PRESENTED ABOVE INCLUDE THE IMPACT OF THE ISSUES RELATING TO TAX NORMALIZATION AND A CHANGE IN ACCOUNTING FOR INCOME TAX PURPOSES?

A. No, they do not. The parties have discussed a stipulation and have an agreement in principle, but it has not been submitted or approved by the Commission. Thus, the above revenue requirement amounts will need to be updated for the impacts of the Stipulation.

Q. IN WHAT ORDER WILL YOU PRESENT YOUR RECOMMENDED ADJUSTMENTS TO ROCKY MOUNTAIN POWER'S REQUEST?

A. I first present my recommended rate base adjustments, followed by recommended adjustments to net operating income.

RATE BASE ADJUSTMENTS

Q. WHAT ADJUSTMENTS TO RATE BASE DO YOU SPONSOR?

A. I am sponsoring adjustments to RMP's projected pro forma plant additions, along with the associated impact on accumulated depreciation, and adjustments to Plant Held for Future Use. I will discuss each of the adjustments below.

Pro Forma Plant Additions

Q. COULD YOU PLEASE BRIEFLY DESCRIBE RMP'S ADJUSTMENT FOR PRO FORMA PLANT ADDITIONS?

A. Yes. In determining the average test year plant in service, the Company began with the actual December 31, 2008 plant balances. It then forecasted additions for the period January 1, 2009 through the end of the test period, or through June 30, 2010. The plant additions were projected on a month-by-month basis so that the 13-month average test year plant in service balance could be derived. In Exhibit RMP__(SRM-2), Pages 8.10 and 8.10.1 through 8.10.29 presented RMP's projected additions. Based on the exhibit, RMP's pro forma plant additions adjustment incorporates $2.146 billion of plant additions for the period January 1, 2009 through June 30, 2010. The projected $2.146 billion of capital additions results in a $1.471 billion increase in the average test year plant in service balance on a total Company basis and $615.6 million on a Utah jurisdictional basis.

Q. DOES THE $2.146 BILLION OF PROJECTED CAPITAL ADDITIONS INCLUDE ALL OF THE COMPANY'S PROJECTED PLANT ADDITIONS THROUGH THE END OF THE TEST PERIOD?

A. No, it does not. Two large projects were excluded by the Company from its projected plant additions. Company witness Richard Walje indicated in his direct testimony that the Company intends to request single item rate recovery for two capital projects that fall within the test period under Utah Code Section 57-7-13.4, which was approved in Senate Bill 75. These two projects, each of which exceed a threshold investment level of $100 million, include the addition of scrubbers at the Dave Johnston Power Station that is projected to be completed by May 2010 and the Ben Lomond to Terminal Transmission Line segment anticipated to be completed by June 2010. The capital costs for these two large projects were excluded from the pro forma plant additions in this case.

Q. HOW DO THE ACTUAL PLANT ADDITIONS FOR YEAR-TO-DATE 2009 COMPARE TO THE PROJECTED ADDITIONS CONTAINED IN THE FILING FOR THAT SAME PERIOD?

A. In its Second Supplemental Response to DPU Data Request 5.3(b), RMP provided the actual monthly capital additions for the period January 1, 2009 through August 30, 2009 in a similar format as the workpapers that support its filing. Exhibit OCS 2.3, page 2.3.1, presents the actual plant additions for each month, January through August 2009, as compared to the projected capital additions contained in the Company's filing for each of the respective months. As shown on the exhibit, for the eight-months ended August 2009, the actual capital additions are $914,956,514, which is $56,001,944 -- or 5.77% -- less than the $970,958,457 contained in the filing for that same period. Thus, by the point-in-time two months into the test period, RMP's capital additions were $56 million below the budgeted amount.

Q. HOW DO THE ACTUAL PLANT ADDITIONS AS OF THE BEGINNING OF THE TEST PERIOD COMPARE TO THE PROJECTED AMOUNT CONTAINED IN THE FILING?

A. Through June 30, 2009, the Company projected cumulative plant additions of $850,855,977. The actual cumulative plant additions through that date were $770,044,773. Thus, the plant additions incorporated in the filing as of the starting date of the test period, or July 1, 2009, was $80.8 million – 9.5% -- higher than the actual additions at that date. As indicated above, that variance declined to $56 million or 5.77% as of August 30, 2009, which is two months into the test period. Based on a review of the Company's response to DPU Data Requests 5.3 and 18.5, the cause of the lower level of actual plant additions is a combination of delays in the completion dates for projects and many projects being completed for less than the projected amount incorporated in the filing.

Q. CONSIDERING THE ACTUAL LEVEL OF PLANT ADDITIONS FOR 2009 YEAR-TO-DATE, DO YOU RECOMMEND THE PLANT ADDITIONS INCORPORATED IN THE COMPANY'S FILING BE REDUCED?

A. Yes. I recommend that the projected increase in the average test year plant in service balance of $1.471 billion be reduced by 5.77% or $84,855,683. As previously indicted, the projected capital additions were $80.8 million or 9.50% lower than projected as of the start of the test period. However, since the amount and the percentage under-budget has declined to 5.77% as of August 2009, I recommend that the 5.77% factor be applied to the Company's plant addition adjustment.

Q. HAVE YOU PREPARED AN EXHIBIT REFLECTING YOUR RECOMMENDATION?

A. Yes, my recommended adjustment is presented on Exhibit OCS 2.3 and results in an $84,855,683 reduction to average test year plant in service on a total Company basis and $35,517,219 on a Utah jurisdictional basis.

Q. HAVE YOU CALCULATED THE IMPACT OF YOUR RECOMMENDED REDUCTION TO PLANT IN SERVICE ON TEST YEAR DEPRECIATION AND AMORTIZATION?

A. Yes. My recommended reductions to test year depreciation and amortization expense and the depreciation reserve are reflected on Exhibits OCS 2.4 and OCS 2.5, respectively. In determining the adjustments, I utilized the depreciation rates incorporated in the Company’s depreciation expense adjustment in Section 6 of Exhibit RMP__(SRM-2). As shown on Exhibits OCS 2.4, depreciation and amortization expense should be reduced by $2,668,689 on a total Company basis and $1,098,346 on a Utah jurisdictional basis. In estimating the impact on the depreciation reserve, I applied a 50% factor to the recommended reduction to depreciation expense to reflect the average test period rate base impact, reducing the depreciation reserve by $1,334,345 on a total Company basis and $549,173 on a Utah jurisdictional basis.

Q. RMP MADE AN ADJUSTMENT TO REDUCE THE GENERATION PLANT ADDITIONS INCORPORATED IN ITS PRO FORMA PLANT ADDITION ADJUSTMENT. DOES THIS IMPACT YOUR RECOMMENDATION?

A. No, it does not. According to Exhibit RMP__(SRM-2), pages 8.12 and 8.12.1, after the Company prepared its pro forma plant additions adjustment on page 8.10, it reduced its projected steam generation plant capital additions for 2010. As an alternative to re-doing the pro forma plant additions adjustment on page 8.10, the Company instead prepared a separate adjustment in the filing, reducing the average plant in service by $8.1 on a total Company basis and $3.3 million on a Utah jurisdictional basis. Thus, the Company's filing includes an incremental adjustment to reflect the projected reduction to the 2010 steam generation capital additions. My recommended 5.77% reduction factor is based on the amount the Company is under budget for its capital additions for the period through August 2009. As indicated previously, the Company was 9.50% below its projected addition level as of the start of the test period, yet I am only recommending a 5.77% reduction to the average test year projected plant additions.

<u>Plant Held for Future Use</u>

Q. RMP'S FILING INCLUDES AN ADJUSTMENT TO TRANSFER COSTS FROM FERC ACCOUNT 183 - PRELIMINARY SURVEY AND INVESTIGATION TO ACCOUNT 105 - PLANT HELD FOR FUTURE USE. DO YOU AGREE THAT THIS COMPANY ADJUSTMENT IS APPROPRIATE?

A. No. In response to DPU Data Request 6.12, RMP indicated that it had no investment in plant held for future use other than land and land rights. However, in its filing, the Company is proposing to move $1,091,392 from Account 183 - Preliminary Survey and Investigation Costs, to Account 105 - Plant Held for Future Use ("PHFFU"). The costs the Company proposes to move to PHFFU are for the preliminary survey and investigation costs associated with anticipated future construction of a transmission line to a 12.5 KV substation in the Herriman, Utah area. The costs incurred (i.e., the $1,091,392) consists of items such as internal labor and internal engineering costs; external contracting costs in areas such as advertising services, contractors/consultants and contract line construction and maintenance; along with various miscellaneous contracts and services, including surveying services. Also included are AFUDC and a capital surcharge.

RMP indicated in response to DPU Data Request 6.12 that the construction of the new 138 KV to 12.5 KV substation has been approved internally by the Company, and it estimates the construction will begin in 2014 or 2015. Thus, the Company is requesting in this case to move the preliminary survey and investigation charges from FERC Account 183 to Plant Held for Future Use so that the costs can be included in rate base. This is not the appropriate accounting for this item. Typically the cost would remain in the preliminary survey and investigation charges until such time as the Company actually begins construction of the project. At that point, the preliminary costs would be transferred to construction work in progress. I do not agree that it is appropriate to move the costs to FERC Account 105 - Plant Held for Future Use at this time. The Company does not anticipate beginning this project until sometime in the 2014 to 2015 timeframe. There is the chance that the Company's plans and needs may change in this timeframe or different projects may be selected in its stead. I recommend that the Company continue with the normal FERC accounting treatment and that these costs remain in Account 183 at this time and not be included in rate base. Thus, I recommend that the $1,091,392 the Company proposes to include in rate base for this project be denied.

Q. ARE THERE ADDITIONAL PROJECTS IN PLANT HELD FOR FUTURE USE IN THE TEST YEAR THAT YOU RECOMMEND TO BE ADJUSTED?

A. Yes. In Adjustment 8.10 of the Company's filing, RMP is adding its projected plant additions through June 2010 to Plant in Service in the case. Included in those plant additions are projects for which the associated land is included in the Company's December 31, 2008 Plant Held for Future Use balance. The test year PHFFU balance in rate base is based on the actual December 31, 2008 base year-end balance. The amount included in PHFFU for the two projects should be removed so that there is not a double recovery of these amounts in rate base when the project is added to plant in service.

Q. COULD YOU PLEASE, SPECIFICALLY, DISCUSS THE TWO ITEMS YOU RECOMMEND BE REMOVED FROM PHFFU?

A. Yes. In Exhibit RMP__(SRM-2), at page 8.10.10, the Company is adding approximately $26.9 million to transmission plant associated with the new Oquirrh 345-138 KV substation. The cost of the land for the Oquirrh substation ($2,245,898) is also included in Plant Held for Future Use. The Company projects an in service date for the substation of June 2009, thus it is in the rate case for the entire test period. Consequently, the amount included in PHFFU in the filing for the land should be removed to prevent a double counting.

In response to OCS Data Request 19.5, the Company indicated that the White Rock Substation Land that is included in Plant Held for Future Use has a projected in service date of September 2009. I recommend that 75% of the cost associated with this PHFFU item, which is $378,768, be removed from Plant Held for Future Use. The purpose of the 75% factor is because the plant is projected to go into service three months into the test period. Thus, the land would be included as part of the plant additions for nine months of the test period in the filing.

Q. WHAT IS YOUR OVERALL RECOMMENDED ADJUSTMENT TO PHFFU?

A. As shown on Exhibit OCS 2.6, PHFFU should be reduced by $3,716,058 on a total Company basis and $1,751,395 on a Utah jurisdictional basis.

NET OPERATING INCOME

Green Tag/REC Revenues

Q. PLEASE DISCUSS THE GREEN TAG REVENUE ADJUSTMENT CONTAINED IN THE COMPANY'S FILING.

A. The green traits of qualifying power production facilities can be detached and sold separately from the sale of the power generated from the facilities. These are typically called Green Tags or Renewable Energy Credits ("REC"). In this testimony I will use the terms Green Tag or REC interchangeably. Of the Company owned facilities, the wind, geo-thermal and some of the small hydro facilities owned by the Company qualify as renewable resources, thus, Green Tags or RECs are generated as a result of the production of energy from the units. The REC market is a developing and growing market.

Due to renewable portfolio standards required in the States of California and Oregon, the Company is currently banking RECs for future compliance for the amount of RECs that would be allocated to those two states under the SG Allocation Factor. As a result, the amount of the Company's generated RECs that are available for sale is limited to 71.15% during the test year, which is the SG Allocation Factor amounts that are applicable to PacifiCorp service territories, excluding California and Oregon.

In Exhibit RMP__(SRM-2), page 3.5, the Company made an adjustment to increase the amount of revenues from the actual base year level to the projected test year level associated with the sale of Green Tags or RECs. There are many separate components to the Company's adjustment incorporated in the filing.

Q. COULD YOU PLEASE DESCRIBE THE DIFFERENT COMPONENTS OF THE COMPANY'S ADJUSTMENT AND DISCUSS HOW THE AMOUNTS WERE DERIVED BY RMP?

A. From the midpoint of the base year in this case through October of 2009, the Company has added and plans to add a significant amount of capacity associated with the addition of various Company owned wind facilities. The plant additions in the filing include adjustments associated with seven separate wind projects. These include the annualization of those projects added during the base year and the addition of more projects subsequent to the base year. As part of its Green Tag revenue adjustment, the Company projected a test year level of wind-related REC revenues. The starting point of the projection was the amount of wind generation including both owned wind generation resources and those from qualified facilities and purchase power contracts that are incorporated in the GRID model used for projecting power costs in this case. The Company's adjustment, at page 3.5.2, shows total projected renewable energy credits in MWh from wind resources for the test year of 3,406,220 MWh. In its adjustment the Company then applied the 71.15% factor, which is the SG factor excluding the amounts that would be allocated to California and Oregon as the Company banks the amount of renewable energy credits that would be allocated to those states. This resulted in a projected MWhs available for sale of 2,423,653 MWh. RMP then applied a reduction factored titled “percent of available MWH sold” of 75% to derive a projected amount of MWh RECs to be sold of 1,817,739. To this amount, the Company applied a projected sales price per MWh sold of $3.50. This resulted in the Company's projected Green Tag revenues from wind resources for the test year of $6,362,088. This is $3,650,388 greater than the actual Green Tag wind-related revenues realized by the Company during the base year ended December 31, 2008, thus the Company increased the base year level by this amount. While the Company did make an adjustment to the wind related REC sales given the large increase in wind production the Company projects to realize during the test year as compared to the base year, a further adjustment is necessary.

In distributing the amounts to the various jurisdictions in the Company's filing, the projected test year revenues from the sale of RECs related to wind production are distributed to all states excluding California and Oregon. This is because the RECs that would be allocated to those states are banked by the Company and not sold, thus the revenues associated with the amount of RECs sold would not go to the states for which the RECs are banked.

In addition to incorporating a projected increase in wind related REC revenues in the test year, along with the revision of the allocation of the revenues to only those states for which the applicable RECs are sold instead of banked, the Company made two additional adjustments to the base year level of Green Tag revenues.

Q. WHAT ARE THOSE TWO ADDITIONAL ADJUSTMENTS?

A. The Company's operation of the Blundell geo-thermal units also result in renewable energy credits which can be sold by the Company. During the base year, the Company received $1,353,776 in revenues associated with the sale of Blundell Green Tags. The contract that existed during the base year for the sale of the Blundell Green Tags expired December 2008; thus, RMP removed these revenues from its filing. As a result, the Company reflected $0 revenues in the test year associated with the selling of the Green Tags that are generated from the operation of the Blundell units.

During the base year the Company also generated $2,086,200 in revenues associated with the sale of RECs that the Company has identified as associated with a “Salt River Project.” The contract associated with the test year sales under the Salt River Project expires in December 2009, or the midpoint of the test year. Due to the contract expiration, the Company reduced the base year revenues by 1,037,163.

Q. WHAT IS THE TOTAL AMOUNT OF REC OR GREEN TAG REVENUES INCORPORATED IN THE TEST YEAR IN THE COMPANY'S FILING, AND HOW DOES THAT COMPARE TO BASE YEAR REVENUES AND THE REVENUES FOR 2009 YEAR-TO-DATE?

A. In the base year ended December 31, 2008, the Company recorded $6,151,676 on its books for Green Tag revenues. This is inclusive of wind-related Green Tag revenues and other sources of Green Tag revenues, such as small hydro and geothermal. In its filing, despite the significant increase in the amount of wind generation the Company will realize as well as the large increase in wind-related RECs that will be available for sale, the Company only minimally increased the overall Green Tag revenues. Incorporated in the filing are projected test year ending June 30, 2010 Green Tag revenues of $7,411,125, an increase of $1,259,449 from the base year level. As of the time of my on-site visit the week of August 31, 2009, the actual year-to-date Green Tag revenues recorded by the Company for 2009 were $7,831,307. These would be the revenues for the first eight months of 2009. Clearly, the revenues have increased significantly since the base year in this case given the large increase for the first eight months of 2009 that has been experienced by the Company. In fact, the actual revenues for the first eight months of 2009 exceed the amount the Company has projected for the entire 12 month test year ending June 30, 2010. This level of revenue is also prior to several of the wind plants projected in the Company's filing coming online, such as the McFadden Ridge I wind project and the High Plains wind project.

Q. IN YOUR OPINION, IS THE LEVEL OF PROJECTED GREEN TAG REVENUES INCORPORATED IN THE COMPANY'S FILING ASSOCIATED WITH THE SALE OF WIND-RELATED RENEWABLE ENERGY CREDITS REASONABLE?

A. No. It is my opinion that the Company's projected Green Tag revenues associated with the sale of wind RECs of $6,362,088 is significantly understated and not reflective of conditions that will exist during the test year.

Q. WHY IS IT YOUR OPINION THAT THE AMOUNT OF WIND-RELATED GREEN TAG REVENUES ARE UNDERSTATED?

A. The Company's projection of the actual percentage of available MWh that will be sold during the test year is understated and the sales price per MWh sold is understated. These two factors result in a significant under-projection of the Green Tag revenues in the test period. As indicated previously, the Company determined the amount of MWh wind production incorporated in its power cost projections and used that amount to determine the amount of MWh available for sale in the test period. The Company then applied a 75% factor to this on its Adjustment 3.5, page 3.5.2, which it identified as a "percent of available MWH sold". OCS Data Request 5.6 asked the Company to explain how the percent of available MWh sold of 75% was derived and why the factor was used. In response, the Company indicated that it considers the information to be of utmost commercial sensitivity and highly confidential. During my onsite review at the Company's offices, this 75% factor was discussed with the Company. However, the Company did not provide any evidence, calculations or assumptions that would be supportive of the 75% factor incorporated in its filing.

Q. WHAT PERCENTAGE OF WIND-RELATED RECS AVAILABLE FOR SALE HAS THE COMPANY BEEN ABLE TO SELL IN RECENT HISTORY?

A According to a response to OCS Onsite Audit Data Request 4, PacifiCorp sold 85% of its actual marketable wind RECs in 2008. The Company also sold 83% of its actual marketable wind RECs during the period January 1, 2009 through May 31, 2009. The Company did not provide more recent percentages beyond May 2009. These are the percentage of sales of the actual marketable wind-related RECs after removing the compliance retention amount banked by the Company. At this time, I recommend that the percent of available MWh sold incorporated in the Company's adjustment be increased from 75% to 85%.

Q. ARE YOU RECOMMENDING THAT THE PROJECTED SALES PRICE PER WIND-RELATED MWH REC SOLD BE INCREASED?

A. Yes. As indicated previously, the Company assumed a test year sales price per wind related MWh REC sold of $3.50.

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[redacted]

*****END HIGHLY SENSITIVE CONFIDENTIAL*****

****BEGIN CONFIDENTIAL****

Q

A [redacted]

*****END CONFIDENTIAL*****

Q. WHAT AMOUNT DO YOU RECOMMEND FOR THE TEST YEAR FOR WIND-RELATED GREEN TAG REVENUES?

A. I recommend test year wind-related Green Tag revenues of $13,534,890. This recommendation factors in the revisions to the Company's calculation that I discussed above. The Company's filing included only $6,362,088 of test year Green Tag revenues from wind resources; thus I am recommending an increase in this amount of $7,172,802. This increase would then be spread only to the states for which the RECs are not banked. In other words, the revenues should not be allocated to Oregon or California. This is consistent with the Company's allocation methodology used in this case. My recommended allocation of the $7,172,802 increase in the test year Green Tag wind-related revenues is shown on Exhibit OCS 2.7, page 2.7.1. The impact on a Utah allocated basis is an increase of $4,146,197.

Q. DO YOU RECOMMEND ADDITIONAL ADJUSTMENTS TO THE COMPANY'S PROJECTED TEST YEAR GREEN TAG REVENUES?

A. Yes. As indicated previously, the Company reduced the amount included in the test year from the actual base year level associated with the sales of RECs from the Salt River Project and the Blundell unit. On its adjustment included in the filing, at page 3.5.2, the Company indicated that the Salt River Project contract expires December 31, 2009. The Company also indicated that the Blundell related Green Tag sales that are sold under contract expired in December of 2008. I recommend adjustments to each of these types of revenues.

Q. PLEASE DISCUSS THE SALT RIVER PROJECT RELATED GREEN TAG SALES.

*****BEGIN CONFIDENTIAL*****

A. [redacted]

[redacted]

Q [redacted]

A. [redacted]

Q [redacted]

A [redacted]

[redacted]

END CONFIDENTIAL

Q. WHAT ADJUSTMENT DO YOU RECOMMEND ASSOCIATED WITH THE BLUNDELL GREEN TAG REVENUES?

A. I recommend that the projected test year include $2,340,000 associated with the sale of Green Tags generated from production output from the geothermal facilities - Blundell Units 1 and 2. The Company's assumption in its filing that it will have $0 sales after the contract expired in December 2008 is not realistic and is not reflective of what has transpired since the end of that contract.

Q. WHAT HAVE BEEN THE ACTUAL REVENUES RECEIVED FROM THE SALE OF BLUNDELL UNIT-RELATED GREEN TAG SALES FOR THE PERIOD SUBSEQUENT TO THE CONTRACT EXPIRATION?

A. In response to an on-site discovery request, RMP indicated that the year-to-date sales for Blundell Units 1 and 2 were $1,560,000. The annualization of these sales would result in an annualized level of $2,340,000. I recommend that this amount be used in projecting the test year revenues. Clearly, the Company has continued to sell the Green Tags resulting from production from the Blundell units after the expiration of the contract. The Company has also indicated in response to OCS Data Request 5.6 that it will continue to seek to monetize the value of the Green Tags associated with the Blundell geothermal output. The Company's assumption of $0 sales in the test year is unrealistic and unsupported.

Q. WHAT IS YOUR OVERALL RECOMMENDED ADJUSTMENT FOR GREEN TAG/REC REVENUES?

A. As shown on Exhibit OCS 2.7, I recommend an increase in Green Tag and REC revenues of $11,163,691 on a total Company basis and $5,787,680 on a Utah jurisdictional basis. This incorporates the impact of each of my adjustments addressed above and also reflects the reallocation of the wind-related REC sales to ensure they are only allocated to the states for which the REC allotments are actually sold.

<u>Target Adjustment</u>

Q. THE COMPANY'S FILING INCLUDES AN ADJUSTMENT TITLED "ADJUST O&M TO 2009/2010 TARGET." WOULD YOU PLEASE BRIEFLY DESCRIBE THE COMPANY'S PROPOSED ADJUSTMENT?

A. Yes. The Company's various non-power cost expense adjustments are presented in Section 4 of Exhibit RMP__(SRM-2), sponsored by RMP Witness Steven R. McDougal. The adjustments contained in Section 4 are the non-power cost adjustments to Operation and Maintenance and

Administrative and General ("OMAG") expenses. In determining the proposed test year non-power OMAG costs, the Company began with the actual amounts recorded on its books for the base year ended December 31, 2008. RMP then made numerous adjustments to the base year actual amounts to bring those amounts to a test year ended June 30, 2010 level. These include normalization adjustments and forecasts adjustments that, for the most part, are similar to adjustments made by the Company in prior rate case proceedings. This includes adjustments such as removal of non-recurring costs, adjustments to wage and employee benefit costs, overhaul costs, incremental generation O&M, escalation adjustments and numerous other adjustments to the base year in going to the test period cost levels. After making its various proposed adjustments to the base year non-power OMAG expenses, the Company then compared the results to the average of its 2009 and 2010 budgeted non-power OMAG expenses. These would be the 2009 and 2010 Target amounts incorporated in the Company's 10-Year Strategic Plan. After determining its adjusted non-power OMAG expenses incorporating all of the adjustments contained in the filing, the Company compared the resulting amount to its average of 2009 and 2010 Targets in Adjustment 4.19. In Adjustment 4.19, the Company reduced its adjusted test period non-power O&M costs by $8.8 million on a total Company basis, or $3.8 million on a Utah allocated basis, to get to the 2009/2010 Target level.

In other words, the Company made all the typical adjustments that it would make in going from a base year to a forecasted test period and then compared the resulting amount to the average of its 2009 and 2010 Targets within its 10-Year Strategic Plan. It then made the $8.8 million downward adjustment to non-power OMAG expenses to put its adjusted amounts in line with the non-power O&M cost it projects to incur in the test period under its strategic plan.

Q. DO YOU ACCEPT THE COMPANY'S TARGET ADJUSTMENT?

A. No. I recommend the target adjustment be reversed. I do agree that it is appropriate to compare the adjusted test year OMAG costs to the level the Company has budgeted for the same twelve-month period to ensure that the amounts incorporated in rates do not exceed the amounts the Company actually projects to incur. This serves as a type of reasonableness test to see if the adjustments made in the filing do, in fact, take into consideration the overall cost changes the Company projects for the test period. However, after each of my recommended adjustments impacting OMAG expenses are taken into consideration, the resulting recommended test year OMAG expense is lower than the target amount incorporated in the Company's Target Adjustment. In this testimony, I am presenting several recommended adjustments that impact the projected test year OMAG expense. Since I am recommending that RMP's Target Adjustment be reversed, each of my recommended adjustments will be to the Company's adjusted test year cost level, without the Target Adjustment made by the Company.

Q. DO YOU HAVE ANY SPECIFIC CONCERNS WITH USING THE COMPANY'S 10-YEAR STRATEGIC PLAN AS THE BASIS FOR DETERMINING THE LEVEL OF OMAG EXPENSES TO USE IN DERIVING THE COMPANY'S REVENUE REQUIREMENT?

A. Yes. First, as indicated above, I do believe it is a useful exercise to compare the adjusted test year OMAG expenses to the projected amounts in the 10-year strategic plan for overall reasonableness purposes and to ensure that the adjustments reflected by the Company in its filing are consistent with the Company's operating plans. However, the level of detail incorporated in the strategic plan is not of a similar level of that which would be evaluated in determining rates.

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Additionally, when requested, the Company was unable to break down the target OMAG amounts in a similar level of detail as the adjustments made to its filing. For example, the Company is unable to provide the amounts contained in the target OMAG for the employee wage and benefits at a similar level to the amounts contained in the employee wage and benefit adjustment contained in its case.

Additionally, the 2010 amount contained in the 10-year strategic plan will change. The Company is currently undergoing its budgeting process. As a result, the projected non-power OMAG costs contained in the 10-year strategic plan will soon be revised and updated as part of the normal, annual budgeting process.

Utah Distribution Expense

Q. THE COMPANY'S FILING INCLUDES AN ADJUSTMENT TO INCREASE UTAH DISTRIBUTION EXPENSE BY $3,452,889. WHAT REASONING HAS THE COMPANY PROVIDED IN ITS FILING FOR THIS ADJUSTMENT?

A. Company witness Steven R. McDougal describes this adjustment as ". . . necessary to normalize Utah distribution corrective and preventative maintenance expense for the year ended December 31, 2008." In his direct testimony, Mr. McDougal states that for the months of September 2008 through December of 2008, the Company ". . . temporarily decreased spending for Utah distribution corrective and preventative maintenance to keep Utah's costs in line with the amount the Company was allowed to recover by rates set in Docket No. 07-035-93." Apparently, this adjustment is a fallout of the Company's dissatisfaction with the Commission's Decision in Docket No. 07-035-93.

In September 2008, Rocky Mountain Power issued a press release detailing its opinion that the Commission did not provide sufficient revenues to support the electric service levels needed to meet Utah's growing demand for electricity and citing specific measures the Company was considering to reduce expenditures in Utah. Apparently, in the adjustment being made in this case, the Company is proposing to increase the 2008 amount of expenditures associated with Utah distribution corrective and preventative maintenance to reverse the impact of cost reductions it implemented.

Q. HOW DID THE COMPANY DERIVE ITS ADJUSTMENT?

A. In determining the amount of adjustment, the Company first determined the actual amount recorded on its books for the period September 2008 through December 2008 associated with Utah distribution corrective and preventative maintenance expenses, which is a subset of Utah distribution maintenance cost and a subset of FERC Accounts 592-Maintenance of Steam Equipment, 593-Maintenance of Overhead Lines and 594-Maintenance of Underground Lines. The total amount of expenditures during that four-month time frame for Utah distribution corrective and preventative maintenance expense was $2,758,109. The Company's response to OCS Data Request 11.2(g) indicated that $1,871,660 of this amount was for labor costs and $886,448 was for non-labor related costs. Thus, approximately 68% of the cost expended in this area during that four-month period pertained to labor costs. The Company then compared these amounts to what it had previously budgeted for that four-month period in these same cost areas. The budgeted amount, which the

Company is indicating is the “normal expense level,” was $6,210,998. It is the difference between the actual amount spent and the amount the Company included in its budget for that period that it is proposing to add to the base year expenses in this case, or $3,452,889.

Q. WHAT LEVEL OF DETAIL HAS THE COMPANY PROVIDED IN SUPPORT OF WHAT IT CLAIMS IS THE “NORMAL EXPENSE LEVEL?”

A. OCS Data Request 5.10(c) asked the Company to "Please provide a detailed itemization and explanation showing how each and every of the 'normal expense level' amounts listed were derived." The question also asked the Company to include ". . . all workpapers, analysis or assumptions used in deriving the amounts." In response, RMP provided a five page listing, providing a high level break out of its purported normal expense level separated between corrective maintenance and preventative maintenance. While the listing provides dollar amounts and titles of costs, it did not provide any indication of how these budgeted costs were derived or any support for the budgets. Additionally, it did not break out the costs between labor and non-labor costs. The breakdown between the labor and non-labor portion of the costs can not be determined from the Company’s response. However, as indicated above, of the actual recorded expenditures, approximately 68% were for labor costs.

Q. DID YOU INQUIRE FURTHER REGARDING HOW THE "NORMAL EXPENSE LEVEL" AMOUNTS WERE DERIVED?

A. Yes. OCS Data Request 11.2(e) stated as follows:

> Subpart (c) requested a detailed itemization and explanation showing how "normal expense level" amounts were derived. The response provided lists some items by dollar amount, but included no description or discussion of how the "normal" amounts were derived. Please provide any further detail the Company has regarding how it determined the "normal expense levels."

In response to this follow-up data request, the Company merely indicated: "The 'normal expense level' is equivalent to the budget for these activities for the period described." No further information or detail, nor a breakout of the labor versus non-labor components, was provided.

Q. DO YOU HAVE ANY CONCERNS WITH THE COMPANY'S PROPOSED UTAH DISTRIBUTION EXPENSE ADJUSTMENT?

A. Yes. In my opinion, the Company has not provided a reasonable level of support for this requested increase in cost of $3,452,889. The Company apparently used a simplified budget to actual comparison and then grossed the cost up to the budgeted amounts. The Company did not identify specific cutbacks that it had made to the preventative maintenance program or the corrective maintenance program in the state of Utah during that four-month period, nor did it identify specific items that were cut or were not done. Additionally, if the Company's adjustment is adopted as proposed, there could be a double-recovery of labor costs as a result.

Q. PLEASE EXPLAIN YOUR CONCERNS REGARDING THE POTENTIAL DOUBLE-RECOVERY OF LABOR COSTS.

A. As indicated above, of the actual amount spent that was utilized as part of the Company's adjustment, 68% of those costs, or $1,871,660, are for labor. According to the Company's response to OCS Data Request 11.2, no distribution related employees were terminated or let go as a result of the reduction in spending for Utah Distribution Corrective and Preventative Maintenance. Additionally, no distribution related employees were laid off as a result of the reduction in spending in this area. In response to OCS Data Request 11.2, the Company provided its total number of employees within Rocky Mountain Power's transmission and distribution group for the period January 2007 through June 2009. According to the response, the information provides the full-time and part-time Rocky Mountain Power transmission and distribution employees working in the State of Utah. Based on that response, there was a slight decline in the number of full-time transmission and distribution employees working in the State of Utah during that period; however, in the time subsequent to that period, the number of employees has remained somewhat consistent and even declined. The response to OCS Data Request 11.1 indicates that the Company began returning to normal activity levels in Utah in April of 2009 and indicated that the remainder of 2009 will have moderately higher than normal activity to catch up from the reduced level of spending in the January through March time frame. However, based on the employee counts, as of June 2009, the number of transmission and distribution employees working in Utah is actually slightly lower at 870 employees than the December 31, 2008 amount of 871 employees.

Q. PLEASE EXPLAIN WHY THE AMOUNT OF EMPLOYEES AND LABOR COSTS NEED TO BE CONSIDERED IN DETERMINING IF AN ADJUSTMENT SHOULD BE MADE TO THE UTAH DISTRIBUTION MAINTENANCE COSTS.

A. As identified above, no employees were terminated or laid off as a part of the Company's apparent decision to reduce Utah distribution corrective and preventative maintenance expenditures. Thus, while there is a possibility that the labor-related costs charged to the Utah distribution expense accounts declined during the four-month period, those labor costs would still appear elsewhere on the Company’s books during the test year as those employees were still with the Company during that time period. As previously indicated, of the actual amount the Company has classified as the Utah distribution corrective and preventative maintenance expenses for the period September 2008 through December 2008, $1,871,660 or 68% of those total costs pertain to labor. If the labor cost actually recorded on the Company's books during that period within those accounts is lower, other accounts must have been higher during the same period as the labor costs associated with those employees would be charged somewhere on the Company's books. The labor costs do not simply disappear. The Company's wage and employee benefit adjustment includes a wage annualization for the wage increases granted during 2008. That adjustment is based on the actual test year level of labor costs, thus those labor costs associated with the Utah distribution related employees is still in the filing. To merely take the total expense amount booked to certain accounts and sub-accounts within the test year and gross those up to an amount the Company had budgeted for those same accounts would not take into consideration the fact that those labor costs would still appear elsewhere on the Company's books.

Q. WHAT IS YOUR RECOMMENDATION?

A. At this point, I recommend that the Company's entire adjustment be disallowed. The Company has not provided a reasonable level of support for the $3,452,889 adjustment and it has not factored into its adjustment the fact that labor costs associated with employees that would normally be working on the corrective and preventative items were charged elsewhere during the test year. While the OCS does agree that a reasonable level of distribution corrective and preventative maintenance should be done by the Company in order to maintain reliable service to the Company's customers, the proposed adjustment brought forward by the Company is not supportive of its request. If the Company were able to demonstrate that it did not incur specific non-labor costs as a result of decreasing efforts in corrective and preventative maintenance expense during the September 2008 to December 2008 time period, an adjustment may be reasonable. However, the Company has not been able to identify specifically what was not done that otherwise would have been done, or provide a reasonable level of support for its proposed adjustment.

OCS Data Request 11.2(a), asks the Company to provide a copy of all written documents, directives, or instructions it gave to its Utah distribution employees pertaining to the reduction of expenditures, or reductions of work levels or work efforts specific to Utah distribution corrective and preventative maintenance. In response, the Company stated "There were no written documents provided to Utah distribution employees giving direction or instructions pertaining to the reduction in Utah distribution corrective and preventative maintenance expenditures." Thus, it is not clear from the responses and the information provided by the Company, or from any documentation providing guidance to the Company's Utah distribution employees, what specific non-labor costs were foregone during that period that would have otherwise been incurred by the Company. On Exhibit OCS 2.18, I have reversed the Company's proposed adjustment, reducing expenses by $3,452,889.

<u>Blue Sky Costs</u>

Q. DOES THE COMPANY'S FILING INCLUDE AN ADJUSTMENT TO REMOVE THE COST ASSOCIATED WITH THE BLUE SKY PROGRAM?

A. No, it does not. In past rate case filings, the Company made adjustments to base year costs to specifically remove the cost associated with the Blue Sky Program. The Blue Sky Program encourages voluntary participation, acquisition and development of renewable resources. As it is a voluntary program, the revenues associated with the program and the associated expenses are excluded from regulated results. Beginning January 1, 2008, the Company changed how it accounts for the Blue Sky related expenses. Due to the accounting change, the costs associated with the Blue Sky Program are now supposed to be booked to below-the-line expense accounts which should not appear in the regulated operating results. As the base year in this case is calendar year 2008, all costs associated with the Blue Sky Program should have been recorded below-the-line during that period.

Q. ARE THERE ANY COSTS THAT WERE CHARGED TO ABOVE-THE-LINE ACCOUNTS DURING THE BASE YEAR?

A. Yes. The response to OCS Data Request No.12.9 provided a list of costs recorded in FERC Account 923 - Outside Services during the base year. The question sought additional information on the charges, such as a description of the services and copies of the related invoices. The Company provided the requested invoices and identified them as confidential.

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Q. WHAT ADJUSTMENT IS NECESSARY TO REMOVE THE BLUE SKY COSTS THAT WERE RECORDED IN ABOVE-THE-LINE ACCOUNTS DURING THE BASE YEAR?

A. As shown on Exhibits OCS 2.9, test year expenses should be reduced by $1,115,489 on a total Company basis and $460,864 on a Utah basis to remove the Blue Sky costs from the test year. This adjustment includes the escalation of the base year cost that would have been included in the Company's filing. Each of the individual items being removed is identified on Exhibit OCS 2.9, Confidential page 2.9.1.

<u>Wage and Employee Benefits</u>

Q. ARE YOU RECOMMENDING ANY REVISIONS TO THE COMPANY'S WAGE AND EMPLOYEE BENEFITS ADJUSTMENT?

A. Yes. Subsequent to the time the Company finalized its wage and employee benefit adjustment, under Adjustment 4.2, the Company reduced its projected wage increase that would become effective at the end of December 2009 for its non-union employees. The wage and benefit adjustment contained in the filing assumed a 3% non-union wage increase would go into effect December 25, 2009. Based on the response to OCS Data Request 19.1, the Company revised its projected wage and benefits adjustment and incorporated a non-union wage increase of 0.94% as of that date. In its filing as part of its 2009/2010 target adjustment, Adjustment 4.19, the Company reflected a reduction in its 2009/2010 non-power O&M expense projections to reflect the estimated impact of the reduction in the non-union wage increase. As I have recommended that the Company's target adjustment be reversed, I have removed the impact of the Company's estimated reduction associated with that reduction in the non-union wage increase. As a result, I am recommending a reduction to the wage and benefit adjustment contained in the Company's filing to reflect the Company's revised estimates based on the reduction of the non-union wage increase.

Q. HAVE YOU PREPARED AN EXHIBIT SHOWING THE IMPACT ON THE COMPANY'S FILING RESULTING FROM REFLECTING THE REDUCTION IN THE PROJECTED NON-UNION WAGE INCREASE THAT WILL GO INTO EFFECT AT THE END OF 2009?

A. Yes. My recommended adjustment is shown on Exhibit OCS 2.10 resulting in a $1,470,908 reduction to salaries and wages on a total Company basis and a reduction of $599,838 on a Utah allocated basis. In deriving this adjustment, I utilized the information provided by the Company in response to OCS Data Request 5.11, Attachment OCS 5.11b, pages 2 and 3. The Company's response shows the revised wage and employee benefit adjustment that resulted from flowing the lower 0.94% non-union wage increase through its wage and employee benefit model. The change in the wage increase impacted three different components of the Company's wage and employee benefit adjustment; specifically, it impacted the bare labor dollars, the payroll taxes, and the amount included for bonuses. The amount included for bonuses was impacted as the Company utilized the base year bonuses paid of $1,535,130 and escalated that by the projected non-union wage increases. Therefore, the reduction in the projected non-union wage increase going into effect at the end of 2009 will also impact the bonus expense contained in the filing.

Medical Insurance Expense

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE COMPANY'S PROJECTED MEDICAL INSURANCE COSTS CONTAINED IN THE FILING?

A. Yes. The Company announced to its employees that it will increase the non-union employees' share of the cost of medical insurance beginning in 2010. As a result, this will reduce the amount of projected medical costs for 2010 included in the Company's filing as the employees will be paying a higher portion of those costs. In response to OCS Data Request 5.12, Attachment OCS 5.12, the Company provided the assumptions, calculations and work papers showing the projected impact of the changes on the Company's 2010 medical costs. The response shows that the Company now projects 2010 non-union medical insurance costs of $18,950,742. This is $726,815 lower than the projected non-union medical costs incorporated in the filing for 2010 of $19,677,557. In the Company's target adjustment in the filing which was previously discussed in this testimony, the Company included a $1 million rounded adjustment to reduce 2010 medical costs due to this change. Since I have reversed the Company's proposed target adjustment, an adjustment to the medical insurance costs contained in the Company's wage and employee benefits adjustment needs to be made.

Q. HAVE YOU CALCULATED THE NECESSARY ADJUSTMENT?

A. Yes. The adjustment is reflected on Exhibit OCS 2.11. The amount of reduction to total Company projected test year medical insurance costs is $726,815 in 2010. I reduced this amount by 3.27% to remove the amount that would pertain to joint venture. I then applied the 50% factor to the resulting amount as the test year ends at the mid point of 2010, thus, only 50% of the impact would be reflected in the test year in this case. The resulting total medical cost reduction in the test year would be $351,524, or $249,154 on an expense basis. The reduction is $101,605 on a Utah jurisdictional basis.

<u>Post Employment Benefits - FAS 112 Costs</u>

Q. HOW DID THE COMPANY DETERMINE THE COSTS INCLUDED IN ITS FILING ASSOCIATED WITH POST EMPLOYMENT BENEFITS COVERED UNDER FINANCIAL ACCOUNTING STANDARD (FAS) 112?

A. The Company provided information regarding how it projected the test year post employment benefits that are covered under FAS 112 in response to OCS Data Request 14.1, Attachment OCS 14.1(a). In determining the projected amount, the Company began by utilizing its estimated calendar year 2008 costs. It then escalated the estimated amount by 2.56% to determine a projected 2009 cost and by 3.08% to determine a projected calendar 2010 cost. The Company then averaged the projected 2009 and 2010 cost amounts to determine a projected test year balance of $6.6 million on a total electric operations basis. RMP then applied a 97.0602% factor in order to remove the amount associated with joint ventures. The resulting projection was a test year FAS 112 cost of $6,405,974 which the Company incorporated in this case.

Q. SHOULD ANY REVISIONS BE MADE TO THE AMOUNT INCLUDED BY THE COMPANY IN ITS FILING FOR THESE POST EMPLOYMENT BENEFITS?

A. Yes. Several revisions need to be made to the Company's estimate. As indicated above, the Company's estimate began with its budgeted calendar year 2008 cost of $6,337,997. The actual costs for 2008 were considerably lower at $5,226,886. Both of these amounts are on a gross basis prior to removing the joint venture portion. As is evident from these numbers, the starting point used in the Company's analysis was overstated by more than $1 million. The Company then projected its test year cost by further escalating these overstated amounts.

Q. HAS THE COMPANY PROVIDED UPDATED INFORMATION REGARDING ITS PROJECTED 2009 POST EMPLOYMENT BENEFITS COSTS?

A. Yes. In response to OCS Data Request 14.3, the Company provided revised projections of the 2009 costs based on information from its actuary – Hewitt Associates. This would be based on more recent information than that incorporated in the Company's filing. Based on the information provided from the actuarial firm, the Company now projects a 2009 post employment benefit cost (or FAS 112 cost), inclusive of joint venture costs, of $5,689,444. This is considerably lower than the $6.5 million dollars the Company had projected for calendar year 2009 in its filing.

Q. DID THE COMPANY PROVIDE AN UPDATED ESTIMATE OF ITS 2010 POST EMPLOYMENT BENEFIT COSTS?

A. No, it did not provide an updated estimate for the 2010 portion of the costs. In the response to OCS Data Request 14.3, the Company provided an updated projection of test year post employment benefit costs, but limited the updated to the 2009 portion of the costs. While the Company did update its projected 2009 cost level to incorporate the impact of the more recent actuarial information it received, it continued to project the 2010 costs using the same methodology as in the initial filing. That is, the Company continued to use the overstated budgeted calendar 2008 costs and escalated that for a two-year period in projecting the 2010 costs in its updated estimate. This is not a reasonable methodology for projecting the 2010 costs as it continues to begin with a number that has been proven to be inaccurate.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?

A. My recommended adjustment is shown on Exhibit OCS 2.12. As shown on this exhibit, I began my calculation with the Company's revised 2009 projected post employment benefit costs of $5,689,444. I then applied the 3.08% escalation factor used by the Company in its filing in escalating these costs for 2010, resulting in a projected 2010 post employment benefit costs of $5,864,679. The average of this amount in the Company's revised estimate for 2009 results in a recommended test year FAS 112 cost of $5,777,061. After application of the factor to remove the joint venture costs, the result is a recommended post employment benefit cost of $5,607,227. This is $798,747 less than what was incorporated by the Company in its filing. After application of the expense factor, I am recommending a reduction to employee benefit costs associated with these post employment benefits of $566,138 on a total Company basis and $230,872 on a Utah basis. This adjustment would incorporate the Company's more recent forecast of FAS 112 costs based on information provided to the Company from its actuarial firm.

<u>Pension and Other Post-Retirement Benefits</u>

Q. HAS THE COMPANY RECEIVED UPDATED ESTIMATED COSTS FROM ITS ACTUARIAL FIRM FOR OTHER ITEMS INCLUDED IN ITS WAGE AND EMPLOYEE BENEFITS ADJUSTMENT?

A. Yes. In response to OCS Data Request 14.2, the Company provided updated projections of its pension plan costs and its costs associated with other post-retirement benefits based on 2009 actuarial valuations. Based on the information provided in the response, the 2009 costs for the pension plan and for other post-retirement benefits are considerably lower than the estimates included by the Company in its filing.

Q. WOULD YOU PLEASE DISCUSS THE PENSION COSTS AND COMPARE THE UPDATED 2009 PROJECTED PENSION COSTS TO THE PROJECTION INCLUDED IN THE COMPANY'S FILING?

A. The pension costs included in the Company's filing consist of two components, (1) the PacifiCorp retirement plan costs and (2) the pension costs associated with Local 57 union. The Company's original filing incorporated projected pension costs for 2009 of $25.7 million for the retirement plan and $7.9 million for Local 57 union. The projected 2010 costs incorporated in the filing were $28.4 million for the retirement plan and $8.1 million for Local 57 costs. The Company used the average of the 2009 and 2010 projections in deriving its projected test year pension costs of $35,050,000 on a gross basis and $33,911,917 on a net of joint venture basis.

In response to OCS Data Request 14.2, the Company provided the updated projection for pension costs based on a 2009 actuarial report. While the referenced actuarial report was not provided by the Company with its response, the Company did provide the revised amount of projected 2009 retirement plan costs. The result was a revised projected 2009 retirement plan cost of $22,567,000, which is $3,133,000 less than the $25.7 million for 2009 incorporated in the Company's filing. The cost associated with Local 57 union retirement plan remains the same.

Q. DID THE COMPANY REVISE ITS 2010 PENSION PLAN COST PROJECTIONS?

A. No. In the update provided in the response to OCS Data Request 14.2, the Company did not update the 2010 projections despite the significant decrease in the 2009 projected costs. There was no indication in the Company's response regarding why it did not also revise the projected 2010 pension costs.

Q. GIVEN THE SIGNIFICANT PROJECTED REDUCTION IN 2009 PENSION COSTS AS COMPARED TO THE AMOUNTS INCORPORATED IN THE COMPANY'S FILING, ARE YOU RECOMMENDING AN ADJUSTMENT TO PENSION EXPENSE?

A. Yes. I recommend that the test year pension expense incorporated in the filing be reduced to the most recent 2009 cost provided by the Company's actuary. I recommend that this revised 2009 actuarially determined expense be utilized for the test year in this case.

Q. PLEASE EXPLAIN WHY YOU ARE NOT RECOMMENDING AN INCREASE TO THE 2009 COSTS IN DERIVING THE COST FOR THE TEST YEAR ENDING JUNE 30, 2010?

A. It is not known at this point what the 2010 pension costs will be for the Company. It is dependent on numerous factors, such as the actuarial assumptions that will be selected by the Company at the end of 2009 and the actual plan experience, along with the actual rate of return earned on the pension plan assets during 2009. Given the Company's projected 2009 pension costs have decreased significantly from the amount incorporated in the filing, it is not realistic or reasonable to leave the 2010 pension costs at the level the Company originally projected in preparing its filing.

With the significant changes in the Company's pension plans that have occurred over the past several years, such as the election by numerous non-union employees to switch to the enhanced 401(k) retirement plan, the actual pension expense incurred by the Company has declined. This decline has been offset by increases in the 401(k) plan costs as a result of the 401(k) plan enhancement which will be discussed later in this testimony. The Company's pension costs for the year ended December 31, 2007, based on Exhibit RMP__(SRM-2), page 4.11.8, filed by the Company in Docket No. 08-035-38, was $49,127,344 on a gross basis. The current filing, on page 4.2.7 of Exhibit RMP__(SRM-2), indicates that the gross pension costs for the year ended December 31, 2008 was $34,122,946. This is a decline of $15 million from the prior year cost level. The Company's updated projected 2009 pension costs, based on the more recent actuarial reports are now $30,467,000, which is approximately $3.66 million less than the 2008 cost level. Based on the decline over the last several years, combined with the significant reduction in the Company's projected 2009 pension plan costs, it is not reasonable to assume that there will be a significant increase going into 2010 in these costs or to assume that the 2010 projections included in the Company's filing in this case are reflective of current conditions and projections. Thus, I recommend that the cost for the test year in this case be based on the Company's most recently provided projections for 2009. There has been no demonstration or information provided by the Company supportive of an assumption that the pension plan costs will increase into 2010.

Q. WHAT ADJUSTMENT IS NECESSARY TO REFLECT YOUR RECOMMENDATION REGARDING PENSION COSTS?

A. My recommended adjustment is shown on Exhibit OCS 2.13. Incorporating the Company's 2009 projected pension plan cost, as provided by the Company's actuarial firm, along with the Company's originally projected Local 57 pension costs that were incorporated in the filing results in a recommended test year pension cost of $30,567,000. After application of the joint venture portion, the OCS recommended test year pension costs are $29,574,490, which is $4,337,427 less than the amount incorporated in the Company's filing. After application of the expense factor, the OCS recommended reduction to employee benefit costs to reflect the recommended reduction in pension expense is

$3,074,294 on a total Company basis and $1,253,701 on a Utah jurisdictional basis.

Q. COULD YOU PLEASE DISCUSS THE OTHER POST-RETIREMENT BENEFIT COSTS INCORPORATED IN THE FILING ALONG WITH ANY REVISIONS TO THE COMPANY'S PROJECTIONS?

A. Similar to the pension plan costs, the Company's costs associated with other post-retirement benefits have also been declining in recent years. In the Company's prior rate case, Docket No, 08-035-38, in Exhibit RMP__(SRM-2), at page 4.11.8, the Company indicated that the other post-retirement benefit costs for the year ended December 31, 2007 were $26,690,919. Based on Exhibit RMP__(SRM-2), page 4.2.7, provided in the current case, the amount of other post-retirement benefit costs incurred by the Company for the year ended December 31, 2008 was $22,220,567, which is approximately $4.5 million less than the amount incurred in the prior year. In the Company's filing in this case it originally projected that the 2009 other post-retirement benefit costs it would incur would be $17,400,000. Based on new actuarial information provided by the Company in response to OCS Data Request 14.2, the Company is now projecting a 2009 other post-retirement benefit cost of $16,833,000, which is $567,000 less than the amount incorporated in the filing for 2009 and $5.4 million less than the amount incurred during 2008.

Q. GIVEN THE PROJECTED REDUCTION IN THE COMPANY'S 2009 OTHER POST-RETIREMENT BENEFIT COSTS, DID THE COMPANY ALSO PROJECT A REDUCTION IN THE 2010 COSTS INCORPORATED IN THE FILING?

A. No. In the response to OCS Data Request 14.2, the Company provided the projected reduction to the other post-retirement plan costs for 2009 based on the more recent actuarial information; however, it did not update or revise its projected 2010 costs. There is no information or description provided stating the reasoning for not also updating the 2010 projections.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING TO THE OTHER POST-RETIREMENT BENEFIT COSTS INCLUDED IN THE COMPANY'S FILING?

A. My recommended adjustment is provided on Exhibit OCS 2.14. As shown on this exhibit, I recommend that the Company's updated 2009 projected other post-retirement benefit costs of $16,883,000 be used for the test year. Similar to my discussion above on pension costs, the Company has not supported its projected increase in 2010 that is contained in its filing. Thus, I am recommending that the most recent actual information provided by the Company actuarial regarding the projected 2009 costs be used for the test year. As shown on the exhibit, after application of the joint venture percentage, I recommend that the other post-retirement benefit costs included in the Company's filing be reduced by $1,279,102.

This is a reduction in expense, after application of the expense factor, of $906,606 on a total Company basis and $369,715 on a Utah jurisdictional basis.

<u>401(k) Expense</u>

Q. IN THE COMPANY'S FILING, ON EXHIBIT RMP__(SRM-2), AT PAGE 4.2.2, IT SHOWS THE COMPANY IS PROJECTING A SIGNIFICANT INCREASE IN ITS 401(K) EXPENSE IN THE FILING. HAVE YOU REVIEWED THE PROJECTED INCREASE IN 401(K) EXPENSE?

A. Yes. The Company is projecting that 401(k) expense will increase from $23,751,629 recorded in the base year to $34,487,345 in the test year ending June 30, 2010. This is an increase in projected 401(k) costs of $10,735,717. The large increase is a result of the retirement plan changes that were implemented by the Company in 2008 and 2009. As addressed in Company Witness Erich Wilson's direct testimony, beginning at page 4, in early 2008, the pension plan benefits were frozen for all members of Union IBEW Local 659, with their future retirement benefits being derived from an enhanced 401(k) plan. This same change went into effect on October 1, 2008 for IBEW Local 125 members who were not yet age 53. During 2008, non-union employees were able to elect this option, shifting from the pension plan to an enhanced 401(k) plan with the election effective January 1, 2009. As a result, this has served to mitigate the projected pension costs in the filing; however, it also causes an increase in 401(k) plan costs as a result of the enhancements to the plan. In reviewing the Company's projected costs, the OCS issued several data requests.

Q. BASED ON YOUR REVIEW OF THE 401(k) COSTS INCLUDED IN THE COMPANY'S FILING AND THE RESPONSES TO DISCOVERY ON THIS ISSUE, DO YOU RECOMMEND REVISIONS TO THE PROJECTED 401(k) COSTS?

A. Yes. The projected cost in the Company's filing is overstated due to the methodology it used in projecting the test year cost level. I am recommending that the methodology used by the Company in projecting the test year costs be revised.

Q. COULD YOU PLEASE DESCRIBE HOW THE COMPANY PROJECTED THE 401(k) COST LEVEL INTO THE TEST YEAR?

A. OCS Data Request 14.1 asked the Company to provide a copy of all workpapers, calculations and assumptions in the most detailed format available that was used to determine the projected test year employee benefit costs contained on Exhibit RMP__(SRM-2), page 4.2.7. This would include the support and calculations, along with the assumptions, used in deriving the projected 401(k) costs included in the filing. In response, the Company provided two pages associated with its derivation of the projected 401(k) costs. In Attachment OCS 14.1a, page 18 of 22, the Company provided its estimates. The beginning point used by the Company in projecting the cost was its 2007 budgeted base 401(k) costs. The response identified this amount as $19,772,170. The Company then escalated this amount by 4.7% for each year, 2008, 2009 and 2010. This escalation of the purported base 401(k) costs resulted in projected base 401(k) costs of $21,675,941 for 2009 and $22,695,500 for 2010. The Company then used the average of these two amounts for the base portion of its projected test year 401(k) costs. RMP then added to the resulting base amount the average of its budgeted 401(k) enhanced contributions for 2009 and 2010 of $13.6 million and $12.9 million, respectively. The projected amount of enhanced 401(k) contributions was provided to the Company by its actuarial firm, Hewitt Associates. A page of the study from Hewitt Associates providing the projected 2008 through 2018 enhanced 401(k) contributions was provided as page 19 of Attachment OCS 14.1a. The projections, which were dated October 16, 2008, identify additional enhanced 401(k) contributions of $4.2 million in 2008, $13.6 million in 2009, and $12.9 million in 2010. This methodology used by the Company overstates the projected 401(k) cost and is not a reasonable methodology for estimating the amount.

Q. WHY IS THE METHODOLOGY UNREASONABLE?

A. The main problem with the Company's calculation is that it begins with 2007 budgeted 401(k) costs. The budgeted 401(k) costs for 2007 that was the starting point of the Company's analysis was $19,772,170. According to Company Exhibit RMP__(SRM-2), page 4.11.2, filed by RMP in Docket No. 08-035-38, the actual 401(k) costs recorded by the Company in its books for the 12-months ended December 31, 2007 was $18,206,798. Thus, the starting point in the Company's projection of the 401(k) costs in this case of $19,772,170 for 2007 is overstated by $1,565,372. In other words, the starting number that the Company escalated is already overstated by approximately $1.57 million. The Company has provided no reason or justification for beginning its projections with 2007 budgeted amounts, particularly as the 2007 budgeted numbers are higher then the actual costs incurred in that period.

Q. ARE YOU RECOMMENDING A REVISED METHODOLOGY FOR PROJECTING THE TEST YEAR 401(k) COSTS?

A. Yes. My recommended calculation is presented on Exhibit OCS 2.15, page 2.15.1. I recommend that the projection begin with the actual 401(k) costs recorded on the Company's books in 2008, which was $23,751,629. It is then necessary to remove the enhanced contributions from that amount as the Company's actuarial firm, Hewitt Associates, has provided the projected enhanced contributions that will be paid by the Company in 2009 and 2010. Based on the response to OCS Data Request 14.1a, Attachment OCS 14.1a, it was projected that the 2008 costs would include $4.2 million of enhanced contributions. Thus, in determining the adjustment, I removed the 2008 enhanced contribution based on the amounts provided by the actuarial firm to derive the 2008 base 401(k) costs prior to the enhanced contribution of $19,551,629 ($23,751,629 - $4,200,000). This would be the amount recorded on the Company's books excluding the enhanced contribution which will be adjusted separately.

In addition, according to the Company's response to OCS Data Request 12.7, base year 401(k) costs include $1,637,972 associated with a 1% discretionary profit sharing match. As shown on line 4 of Exhibit OCS 2.15, I recommend that the 1% discretionary 401(k) match be removed. This results in a revised 2008 base 401(k) cost, excluding the enhancement and discretionary contributions of $17,913,657. This amount should then be escalated by 3.03% to determine the test year base 401(k) costs before enhancement.

Q. HOW IS YOUR RECOMMENDED 3.03% ESCALATION AMOUNT DERIVED?

A. The 3.03% is the percentage increase in the Company's projected salary and wage cost for the test year as compared to the base year. The percentage is derived from the Company's revised salary and wage projections that incorporate the lower non-union wage increase for the end of 2009. The amounts used in deriving the escalation percentage include regular ordinary wages, overtime and premium pay. A percentage increase in salaries and wages, including overtime and premium pay, will have a similar percentage increase impact on 401(k) costs as the 401(k) contributions are directly related to salaries and wages. Application of the escalation factor results in my recommended test year base 401(k) costs, before enhancement, of $18,456,242. I then add the projected test year enhanced contributions that were provided to the Company by its actuarial firm. This is the same amount included by the Company in its adjustment for the projected enhanced contributions of $13,250,000 during the test year. The result is my recommended test year 401(k) costs of $31,706,242 ($18,456,242 + $13,250,000). This is $2,781,103 less than the amounts projected by the Company.

Q. CAN YOU PLEASE SUMMARIZE THE MAIN DIFFERENCES BETWEEN YOUR RECOMMENDED 401(k) COSTS AND THOSE PROPOSED BY THE COMPANY?

A. Yes. First, I recommend that the projection of the test year 401(k) costs begin with the actual 2008 costs booked by the Company, whereas the Company's analysis began with its budgeted 2007 401(k) costs. As previously indicated, the budgeted 2007 401(k) costs were significantly higher than the actual amounts recorded by the Company on its books in 2007. The other primary difference is that I have removed the additional

1% discretionary 401(k) contribution from the 2008 401(k) costs recorded on the Company's books.

Q. COULD YOU PLEASE DISCUSS WHAT THE 1% DISCRETIONARY 401(k) MATCH IS FOR AND WHY YOU ARE RECOMMENDING THAT THE COSTS BE REMOVED?

A. In addition to the matching contributions required under the Company's 401(k) plans, the Company also sometimes makes a discretionary 1% profit sharing match under the 401(k) plan. This additional 1% discretionary profit sharing match is not required under the plan and is based on Mid American Energy Holding Company's annual net results along with other corporate goals of Mid American Energy Holding Company (MEHC). As this is a discretionary payment that is based on profit sharing, and is based largely on the annual net results for MEHC, I recommend that the cost be excluded from the adjusted test year.

Q. DID THE COMPANY PROVIDE THE PROFIT TARGET OR GOALS THAT MUST BE MET BY MEHC IN DETERMINING IF THE DISCRETIONARY PROFIT MATCH WILL BE MADE?

A. No, it did not. The Company was asked in OCS Data Request 12.7 to explain in detail how it determined if the 1% discretionary profit match would be granted and to include all profit targets or goals that must be met in determining if the discretionary profit sharing match will be made. In response, the Company merely indicated that "This is based on Mid American Energy Holding Company's annual net results and other corporate goals including safety." The Company did not provide the specific goals and targets that were requested.

Q. DOES THE COMPANY PAY THIS 1% DISCRETIONARY PROFIT MATCH UNDER THE 401(k) PLAN EVERY YEAR?

A. In response to OCS Data Request 12.7(c), the Company provided the actual discretionary profit sharing match for the period 2006 through 2008. Based on this response, there was no match paid in 2006, $905,375 in 2007 and $1,637,972 in 2008. The Company was asked in OCS Data Requests 12.7(e) to provide the amount included in its total budgeted 2009 and 2010 non-power operating costs. In response, the Company indicated that the 1% discretionary profit sharing match that is included in its budgeted 2009 and 2010 non-power O&M cost is not separately stated from the rest of the 401(k) expense. Consequently, the Company was not able to identify the amount that it is projecting to spend on the 1% discretionary profit sharing match in 2009 or 2010. As these amounts are discretionary and based on profits and operations of the parent company, MEHC, I recommend that the amounts be excluded from costs passed on to ratepayers.

Q. WHAT ADJUSTMENT IS NEEDED TO REFLECT YOUR RECOMMENDED REDUCTION TO PROJECTED 401(k) COSTS?

A. As shown on Exhibit OCS 2.15, test year expenses should be reduced by $1,971,198 on a total Company basis and by $803,857 on a Utah basis.

<u>Chehalis Due Diligence Bonuses</u>

Q. DID YOU REVIEW THE AMOUNT OF BONUSES INCLUDED BY THE COMPANY IN TEST YEAR EXPENSES?

A. Yes. Exhibit RMP__(SRM-2), page 4.2.6 shows base year bonus costs of $1,535,130 and base year annual incentive costs of $31,142,229. On the referenced page, the Company escalated the bonus costs to factor in the non-union wage increases reflected in its filing. In my recommended adjustment to wage and employee benefits I reduced the bonus cost to factor in the lower non-union wage increase that is now projected for December 26, 2009. OCS Data Request 16.2(a) asked the Company to provide an itemization of all costs recorded during the base year in SAP Account 500400 - Bonuses totaling the $1,535,130. In response, RMP provided a detailed listing of all amounts included within the bonuses that are contained in its filing.

Q. BASED ON YOUR REVIEW, ARE YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS TO THE BONUS EXPENSE CONTAINED IN THE FILING?

A. Yes. Based on a review of the response, the Company recorded $193,500 to bonus expenses for Chehalis Due Diligence Bonuses in September of 2008. The amounts were originally recorded by the Company to be booked to FERC Account 920 - Administrative and General Salaries, but was subsequently reversed and charged to Account 548 - Generation Expenses. As shown on Exhibit OCS 2.16, I recommend that the amount included in the test year associated with the Chehalis Due Diligence Bonuses be removed. These bonuses would have been specific to the Chehalis acquisition and will not be repeated in the test year. As shown on the exhibit, test year expenses should be reduced by $201,214 on a total Company basis and $82,760 on a Utah jurisdictional basis. This amount takes into consideration the actual bonuses recorded in the base year of $193,500 as escalated for the non-union wage increases in deriving the test year amount. As my adjustment to wages and benefits impacted the bonuses in the test year to reflect the lower non-union percentage wage increase that will go into effect at the end of 2009, that lower percentage is factored into my adjustment.

SERP Expense

Q. WHAT AMOUNT IS THE COMPANY REQUESTING FOR ITS SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN?

A. The Company is requesting recovery of projected Supplemental Executive Retirement Plan (SERP) costs of $2,400,000 on a total Company basis. This amount consists of a simple average of the Company's projected

2009 SERP costs of $3,287,000 and the projected 2010 costs of $3,236,000, with a regulated percentage of 73% applied to the interest costs and the amortization of prior service cost components of the SERP costs. After the percentage of labor costs charged to expense of 70.88% is applied, the SERP expense included in the test year on a total Company basis is $1,701,079 and $693,702 on a Utah jurisdictional basis.

Q. DO YOU RECOMMEND THAT THE FULL AMOUNT THE COMPANY HAS REQUESTED FOR SERP COSTS BE RECOVERED FROM CUSTOMERS?

A. No, I do not. In fact, I recommend that 100% of the SERP plan expense be removed, reducing expenses allocated to the Utah jurisdiction by $693,719. This adjustment is shown on Exhibit OCS 2.17.

Q. WHY DO YOU RECOMMEND THAT THESE COSTS BE REMOVED?

A. Given the current economic climate being faced by the Company's customers, the customers should not be forced to pay for an excessive retirement plan in which only a select few, key executives are permitted to participate. The SERP plan consists of benefits above and beyond the other retirement plans that the individuals in the SERP plan would participate in. Such excessive benefits, particularly in the current economic climate, should be disallowed.

Q. ARE THERE ANY ADDITIONAL COMPELLING REASONS THAT THESE COSTS SHOULD BE DISALLOWED BEYOND THE FACT THAT THESE ARE EXCESSIVE BENEFITS PROVIDED TO A SELECT FEW INDIVIDUALS?

A. Yes. RMP provided a copy of its SERP actuarial report, which was prepared by Hewitt Consulting, in response to OCS Data Request 12.8(e) Based on the report, there is only one active employee participant in the SERP plan.[1] All the remaining individuals for which there is a cost included in the filing for the SERP plan are no longer with the Company. Costs are included in the filing associated with only one active employee, 10 inactive employees with deferred benefits, and 53 inactive employees, or their beneficiaries, that are currently receiving payments under the plan. Many of the inactive employees who receive benefits under the SERP plan left the Company's employ as part of the acquisition by MEHC, the majority of which would have received severance payments as a result of that restructuring. The actuarial report indicates that out of the $3,367,000 of SERP costs for 2008, only $190,000 was for the active employee with the remaining $3,177,000 for vested terminations, retirees and beneficiaries.

[1] The only active participant is Richard Walje, the President of the Rocky Mountain Power division of PacifiCorp.

Current ratepayers are receiving absolutely no benefit whatsoever from these employees as they are no longer with the Company and no longer providing service to the customers of the Company. During the years those employees were providing service to customers, an expense for the SERP plan was accrued. Thus, during the years the service was actually provided to employees, customers would have paid amounts associated with the SERP plan through accrual of the costs. Clearly, ratepayers should not have to continue to fund these generous benefits in current rates for past employees which provide absolutely no service to them.

Additionally, according to the response to OCS Data Request 12.8(c), the plan was closed to new participants after March 20, 2006, thus, no new individuals will be added to the SERP plan.

Q. ARE THERE ANY OTHER JURISDICTIONS WHICH HAVE DISALLOWED THE RECOVERY OF PACIFICORP SERP COSTS IN RATES?

A. Yes. In Order No. 01-787 from the Oregon Public Utility Commission in Docket No. UE-116, the OPUC specifically disallowed recovery of SERP expense for PacifiCorp.

<u>Generation Overhaul Expense</u>

Q. PLEASE DISCUSS RMP'S ADJUSTMENT TO NORMALIZE GENERATION OVERHAUL EXPENSE.

A. In its filing, the Company made an adjustment to base generation overhaul expense on a four-year average escalated cost level. In deriving its adjustment, RMP used the actual overhaul costs for the past four years on a plant by plant basis for the plants that were owned during that entire period, which it then escalated to 2008 dollars. RMP then added a combination of escalated actual and projected annual costs to derive a four-year average overhaul cost for new plants that were not in service over the entire four-year historic period. The new plants included Currant Creek, Lakeside and Chehalis.

The inclusion of overhaul costs in rates at an average, normalized level is consistent with past Commission decisions and recognizes that the costs can fluctuate significantly from year to year. In fact, in the Report and Order in Docket No. 07-035-93, issued August 11, 2008, the Commission included overhaul costs in rates based on a four-year average historic cost level for existing plants, excluding escalation, and a projected four-year average cost level for new generation plants.

Q. DO YOU RECOMMEND ANY REVISIONS TO THE COMPANY'S PROPOSED ADJUSTMENT?

A. Yes. I recommend that (1) the escalation of historic costs be removed, and (2) the projected 2009 overhaul costs for Currant Creek and Chehalis used in the four-year average be revised to reflect actual costs for 2009 year to date and revised estimates for the remainder of 2009.

Q. WHY DO YOU RECOMMEND THE ESCALATION OF THE HISTORIC COSTS BE REMOVED IN DERIVING THE AVERAGE?

A. Including the costs based on a four-year average level acknowledges the fact that the costs fluctuate from year to year, some years being higher and some years being lower than the prior years. The Company has not demonstrated that these costs should also be escalated. Additionally, the Commission recently addressed this issue in the August 11, 2008 Order in Docket No. 07-035-93 involving RMP. The Commission's Order, at pages 81 – 82, specifically stated as follows:

> First, in our recollection, this is the first time escalation within averaging has been proposed. We are not persuaded this is an appropriate approach and are concerned, if accepted here, such a practice would be extended to other cost items, by both PacifiCorp and Questar Gas Company. The basis for using averages of actual costs is because book amounts vary from year to year, and the costs in one year are not considered normal. In the next case, following the precedent established here, the Company will assert this year's actual expense, considered in this case to be abnormal, can be escalated to obtain a reasonable level of expense for the next year. This seems to defeat the purpose of constructing an average, which is to smooth out the year-to-year abnormalities. Escalation in the Company's approach serves merely to inflate the average, and the average is already higher than the budget.

Q. WHY DO YOU RECOMMEND THAT THE PROJECTED 2009 OVERHAUL COSTS FOR THE CURRANT CREEK PLANT BE REVISED?

A. In determining the average overhaul costs for the Currant Creek plant, RMP used actual 2007 costs (which it escalated), actual 2008 costs and projected costs for 2009 and 2010. In response to OCS Data Request 11.4, the Company provided actual overhaul costs for the Currant Creek plant through June 2009 of $2,776,000. The responses also indicated that the Currant Creek hot gas path overhaul on Unit A was delayed from June 2009 to October 2009. According to the response to DPU Data Request 8.7, the projected remaining cost for Currant Creek overhaul work is $2,040,000. The response also indicated that previously forecasted parts refurbishment of $3.0 million will not be spent in 2009. As shown on Exhibit OCS 2.19, page 2.19.2, the combination of the actual costs through June 2009 and remaining budgeted costs for the Currant Creek overhauls is $4,816,000, which is $3,535,742 lower than the $8,351,742 projected in the filing.

Q. WHY DO YOU RECOMMEND THAT THE PROJECTED 2009 OVERHAUL COSTS FOR THE CHEHALIS PLANT BE REVISED?

A. RMP purchased this plant late in 2008. Consequently, in determining the average overhaul costs for the Chehalis plant, RMP used projected costs for the period 2009 through 2012. In response to OCS data requests 5.3

and 11.4, the Company provided actual overhaul costs for the Chehalis plant through June of 2009 of $1,561,000 and projected costs for the remainder of the year ($0). The overhaul was completed by the end of June 2009. As shown on Exhibit OCS 2.19, page 2.19.2, the actual costs incurred for the overhaul were $434,751 less than the $1,995,751 projected by the Company.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDED REVISIONS TO THE GENERATION OVERHAUL EXPENSE ADJUSTMENT?

A. Exhibit OCS 2.19 presents the adjustment that is necessary to (1) remove the escalation of the historic costs in deriving the average; (2) to reflect the actual and revised estimated costs for the 2009 Currant Creek overhauls in deriving the projected average costs; and to (3) reflect the actual 2009 Chehalis overhaul expense in deriving the projected average cost. The adjustment reduces the generation overhaul expenses included in RMP's filing by $3,556,047 on a total Company basis and $1,462,602 on a Utah basis.

Incremental Generation O&M (Non-Overhaul)

Q. WOULD YOU PLEASE BRIEFLY DESCRIBE THE COMPANY'S ADJUSTMENT FOR INCREMENTAL GENERATION OPERATION AND MAINTENANCE EXPENSE?

A. RMP placed five (5) wind facilities and the Chehalis gas plant into service during the base year ended December 31, 2008. RMP projects to place four (4) additional wind facilities into service before the end of the test period. Two of these were placed into service in January 2009 with the remaining two projected as being added in the filing in October 2009. RMP's filing contains an adjustment to increase operation and maintenance (O&M) expense by $16.2 million for the incremental routine (non-overhaul) generation costs projected to be incurred for the new generation facilities during the test year. Of the $16.2 million projected incremental increase in costs, $11.85 million is for the wind facilities and $4.25 million is for the Chehalis facility. These amounts are incremental to the costs already contained in the filing for the months in the base period in which the new facilities were operating and owned by PacifiCorp.

Q. DO YOU RECOMMEND ANY ADJUSTMENTS TO THE PROJECTED INCREMENTAL GENERATION O&M EXPENSE?

A. Yes. I recommend that the non-wind related incremental generation O&M expense included by RMP be removed. As shown on Exhibit OCS 2.20, this recommendation results in a $4,248,153 reduction to test year generation O&M expense on a total Company basis and $1,747,265 on a Utah jurisdictional basis.

Q. WHY ARE YOU RECOMMENDING THIS REDUCTION?

A. The amount of non-overhaul related generation O&M expense contained in RMP's filing for the test year is considerably higher than what it projects to actually incur for the test period. Based on the response to DPU 5.1, the actual 2008 base year non-overhaul generation O&M expenses were $343.3 million. Based on the same response, the budgeted test year non-overhaul generation O&M expenses are $335.3 million, which is $8 million less than the base year amount. Despite the projected decline in non-overhaul generation O&M costs, the Company increases the base year costs by $16.2 million in its filing in the adjustment for incremental generation O&M expenses.

On Exhibit OCS 2.20, page 2.20.1, I present a comparison of the base year actual non-overhaul related generation O&M costs, by facility, to the amount included in the Company's budget for the test year. I excluded the wind and hydro production facilities in the comparison. As shown on the exhibit, after the removal of the wind and hydro production facilities, the budgeted non-overhaul related generation O&M costs for the test year ending June 30, 2010 are $11.4 million lower than the amount incurred during the base year. The exhibit shows a projected increase in the Chehalis facility Generation O&M costs of $4.22 million from the base year to the test year budgeted level. However, it also shows that the Company projects significant reductions in generation O&M costs at other facilities, such as the Hunter and Jim Bridger facilities.

Q. DID YOU INQUIRE WHY THE COMPANY IS MAKING THE INCREMENTAL GENERATION O&M EXPENSE ADJUSTMENT IN ITS FILING GIVEN THE PROJECTED DECLINE IN COSTS?

A. Yes. OCS Data Request 18.5 asked the Company why it was making the incremental generation O&M expense adjustment when the budgeted test year ending June 2010 non-overhaul generation O&M expenses are approximately $8 million less than the actual base year amount. RMP responded as follows:

> The Company made the Incremental Generation O&M adjustment in the filing to demonstrate the real impact on O&M expense resulting from the addition of new generating facilities. However, the Company also made a subsequent adjustment to the total non power cost O&M expense included in the test year in the case, reducing O&M to the budgeted level referenced above and demonstrating the Company's efforts to control these types of costs even while adding resources to the system. Adjustment 4.19 (Adjust O&M to 2009/2010 Target) reduces the non-power cost O&M expense amount in the case to the Business Unit Target for the 12 months Ending June 2010.

Q. SINCE YOU HAVE RECOMMENDED THE COMPANY'S TARGET ADJUSTMENT BE REVERSED, DOES YOUR RECOMMENDATION RESULT IN THE TEST YEAR INCLUDING A HIGHER LEVEL OF GENERATION O&M EXPENSES THAN THE COMPANY PROJECTS TO INCUR?

A. Yes. While my recommended adjustment reduces the amount of non-overhaul related generation O&M costs included in the filing by $4.25 million, it still results in a higher level of those costs than the Company has budgeted for the test year.

<u>MEHC Management Fees</u>

Q. WHAT AMOUNT DID RMP INCLUDE IN ITS FILING FOR THE MANAGEMENT FEES CHARGED FROM MEHC?

A. According to Exhibit RMP__(SRM-2), at page 4.8.1, the management fees included in above-the-line expenses in the Company's filing are $8,577,111. This page in the Company's filing identifies the limit under the MEHC Transition Commitment U-38 of $9 million and identifies $320,390 of MEHC charges being capitalized by PacifiCorp during the base year. The Company than reduced the resulting amount to reflect $8,325,117 that it contends should be booked to above-the-line accounts during the base period. The Company than escalated this amount by 3% to derive the adjusted test year MEHC management fees of $8,577,111. These would be the amounts that would be charged to expense accounts and exclude the capitalized portion and the cost that would be booked to below-the-line accounts by the Company.

Q. PLEASE DISCUSS THE MEHC TRANSITION COMMITMENT IDENTIFIED IN THE COMPANY'S SCHEDULE.

A. The MEHC Acquisition Commitment No. 38 states: "MEHC commits that the corporate charges to PacifiCorp from MEHC and MEC will not exceed $9 million annually for a period of five years after the closing on the proposed transaction." Thus, it was agreed to as part of MEHC's acquisition of PacifiCorp that MEHC and MEC would not charge more than $9 million annually for corporate charges to PacifiCorp. This would include amounts that would be booked to expense and to capital costs by PacifiCorp on its books.

Q. SINCE THE AMOUNT INCLUDED IN THE COMPANY'S FILING IS LESS THAN THE MAXIMUM ALLOWED FOR AS PART OF THE MERGER ACQUISITION, ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE MEHC MANAGEMENT FEES INCLUDED IN THIS CASE?

A. Yes, I am. In response to OCS Data Request 12.3, the Company provided a breakdown of the management fees billed by MEHC to PacifiCorp in the base year along with a breakdown of the expenses associated with those billings that are included in the Company's filing. I have provided this breakdown in Exhibit OCS 2.21, page 2.21.1. As shown in the breakdown, a total of $12,846,357 was billed by MEHC to PacifiCorp in the base year. The amount of billings actually paid by PacifiCorp is limited to the $9 million commitment amount. Of the total $12.8 million in billings, $4,081,250 is associated with the allocation of long-term incentive plan ("LTIP") costs and $439,989 was billed for legislative costs. These two items were excluded from expenses contained in the Company's filing.

The response identified the $8,325,118 the Company booked to expense during the base year, which is the net amount after removal of the LTIP and legislative costs. Again, this would exclude the amounts that were allocated to capital on PacifiCorp's books. The remaining expenses that are included in the base year charges from MEHC to PacifiCorp for management fees were broken down in the response as follows: (1) $354,771 for SERP costs; (2) $1,844,484 for MEHC bonus costs; (3) $129,805 for MEC[2] bonus costs; and (4) $5,996,058 identified as "other."

I recommend that the costs charged to PacifiCorp from MEHC associated with MEHC SERP charges, MEHC bonuses, and MEC bonuses be excluded from costs that are passed onto ratepayers. As shown on Exhibit OCS 2.21, I am recommending a $2,398,932 reduction to the MEHC management charges included in the filing to remove these amounts, inclusive of the 3% escalation to these amounts applied by the Company in its filing. This results in a reduction to expenses of $991,119 on a Utah jurisdictional basis.

Q. WHY DO YOU RECOMMEND EACH OF THESE SPECIFIC CHARGES BILLED TO PACIFICORP BY MEHC AS PART OF ITS MANAGEMENT FEES BE REMOVED?

A. Previously in this testimony, I discussed the SERP costs for PacifiCorp and recommended that those costs not be passed onto customers in this case. Consistent with that recommendation, I also recommend that the

[2] MEC is MidAmerican Energy Company, a regulated electric utility that serves consumers in Iowa.

MEHC SERP costs that are allocated to PacifiCorp also be removed from costs charged to ratepayers.

In response to OCS Data Request 12.3, the Company indicated that the MEHC bonus plan is the same as PacifiCorp's annual incentive plan. OCS Data Request 12.3(c) asked the Company to provide all targets under the MEHC bonus plan or other criteria under which payouts are determined for 2008 and 2009. In the response, the Company merely provided copies of PacifiCorp's annual incentive plans for 2008 and 2009. The Company did not provide the targets under the MEHC bonus plan for the base year or the following year in its response.

Q. WERE YOU ABLE TO OBTAIN A COPY OF THE MEHC GOALS FROM THE COMPANY?

A. Yes. In response to OCS Data Request 15.5, the Company provided a copy of the MEHC 2009 goals. The Company has not provided a copy of the MEHC goals for 2008, even though the targets under the bonus plan were requested in OCS Data Request 12.3.

Q. BASED ON A REVIEW OF THE MEHC GOALS FOR 2009, DO YOU RECOMMEND THAT THE MEHC BONUSES CHARGED TO PACIFICORP AND INCLUDED IN BASE YEAR COSTS BE ALLOWED IN EXPENSES TO BE RECOVERED FROM RATEPAYERS?

A. No, I do not. The goals that were provided by the Company, while filed as confidential in its response, were still partially redacted. The Company's response to OCS Data Request 15.5 indicated that the goals were redacted to leave in place only the goals that are applicable or relevant to PacifiCorp. Thus, I was unable to review all of the goals incorporated in the Mid-American Energy Holdings Company plan.

*****BEGIN CONFIDENTIAL*****

[redacted]

[redacted]

*****END CONFIDENTIAL****

I am not aware of what the MEC goals are that would drive the MEC bonus amounts allocated from MEHC to PacifiCorp as the Company did not provide that information in response to OCS Data Requests 12.3 or 15.5. I recommend that the amounts allocated to PacifiCorp from MEHC for the MEHC bonuses and MEC bonuses be removed from costs that are passed onto customers.

<u>Removal of Settlement Fees</u>

Q. ARE THERE ANY LEGAL OR SETTLEMENT COSTS INCLUDED IN THE TEST YEAR THAT YOU RECOMMEND BE REMOVED?

A. Yes. The amount booked by PacifiCorp during the base year associated with the settlement of claims at the Colstrip Plant, of which PacifiCorp is 10% owner, should be removed. Additionally, I recommend the restitution portion of a settlement payment made by PacifiCorp for an avian matter with the U.S. Fish and Wildlife Service be removed. Ratepayers should not bear the cost of the Colstrip settlement, nor should they have to be responsible for the restitution that PacifiCorp agreed to pay as part of the avian settlement.

Q. PLEASE DISCUSS THE COLSTRIP SETTLEMENT.

A. During the test year, PacifiCorp booked $1.2 million in FERC Account 506-Miscellaneous Steam Power Expenses for its share of a settlement made by the Colstrip owners.

*****BEGIN CONFIDENTIAL*****

[redacted]

*****END CONFIDENTIAL*****

Q. PLEASE DISCUSS THE AVIAN MATTER.

A. PacifiCorp agreed to certain payments after it pleaded guilty in the Federal Court in Wyoming to 34 violations of the Migratory Bird Treaty Act. During the base year, the Company recorded $500,000 in above-the-line expenses prior to the settlement recognizing that the case would result in some liability for restitution. The full restitution amount ended up being $900,000, with $250,000 of that amount recorded to below-the-line accounts. However, only $500,000 was recorded during the base year based on an estimate that was recorded in above-the-line expenses. As part of the settlement with the U.S. Fish and Wildlife Service, the Company agreed to expend a total of $10.5 million consisting of $900,000 in restitution, $1,700 in special assessments (which it recorded below-the-line), $510,000 in fines (also recorded below-the-line) and $9.1 million in future capital expenditures for compliance with the Company's Avian Projection Plan. The capital related costs will be recorded on the Company's books in the future as it expends those capital items. I recommend that the amount charged to expense in the base year of $500,000 associated with restitution be removed and not passed onto the Company's ratepayers.

Q. WHAT IS YOUR OVERALL RECOMMENDED ADJUSTMENT?

A. As shown on Exhibit OCS 2.22, I recommend that expenses be reduced by $1.7 million on a total Company basis and by $700,135 on a Utah jurisdictional basis.

Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?

A. Yes. However, the parties have an agreement in principle in this case with regards to income tax normalization and the treatment for regulatory purposes of a change in tax accounting for repair deductions made by the Company. As of the date this testimony is filed, a stipulation has not been filed nor adopted by the Commission. The impact of the agreement in principle is not yet reflected in the OCS' recommended revenue requirement presented in this testimony. If approved by the Commission, the impact of the stipulation should be flowed-through the revenue requirement calculations in this case. In the event a final stipulation is not filed or the Commission does not approve it, then I wish to reserve the right to supplement this testimony to address these important tax issues and to present the OCS' recommendation.