1 Q. Please state your name and business address.

2 A. My name is Robert R. Dalley, and my business address is 700 NE Multnomah Street,
3 Suite 1600, Portland, Oregon, 97232.

4 Q. What is your position with PacifiCorp?

5 A. I am Controller and Chief Accounting Officer of PacifiCorp. My responsibilities
6 include oversight of all accounting and financial reporting functions. I joined Utah
7 Power & Light Company in 1978 and have held various accounting, regulatory, and
8 managerial positions at Utah Power & Light and PacifiCorp since. I also have had
9 extensive re-engineering and business development experience. I graduated from
10 Brigham Young University in 1978 with a Bachelor of Science Degree in Accounting.
11 I am a licensed CPA in the states of Utah and Montana. I am a member of the
12 American Institute of CPA's. I have testified before this Commission previously.

13 Q. What is the purpose of your testimony?

14 A. I will address the accounting and ratemaking treatment for the following costs: 1)
15 Glenrock closure costs; 2) software obsolescence costs; 3) hardware obsolescence
16 costs; 4) process re-engineering costs; 5) Condit Dam removal costs; 6) 1998 early
17 retirement costs and savings; and 7) SAP software costs.

18 **Glenrock Closure Costs**

19 Q. Please describe the Glenrock closure costs.

20 A. In late 1997, the Company decided to close the Dave Johnston Coal Mine, which had
21 been operated by Glenrock Coal Company, and utilize outside coal purchases for the
22 Dave Johnston Plant. This was done to achieve substantial reductions in Company
23 fuel costs. The closure was also consistent with recommendations made by the Utah

1 Division of Public Utilities (Division) and its consultant Energy Ventures Associates
2 (EVA). Originally the mine's life was estimated to extend through 2009. To properly
3 reflect the mine's shortened life, the Company recorded an expense for the majority of
4 the undepreciated plant balance in 1997. The writedown was designed to bring the
5 net book value of the mine to the appropriate level at December 31, 1997.

6 Early closure also resulted in mine reclamation costs being underaccrued.
7 Thus the Company also recorded an expense for reclamation costs, as well as
8 employee severance costs, incident to the mine closure. On a total Company basis,
9 $64 million was charged to expense consisting of $28 million in net book value of the
10 mine, $33 million in reclamation expense, and $3 million in employee severance
11 expense.

12 Q. What ratemaking treatment was sought in the prior Utah rate case (Docket No. 97-
13 035-01) and what was allowed?

14 A. In Docket No. 97-035-01, the Company requested a 3-year amortization of all three
15 components and rate base treatment of the unamortized portion of the mine asset.
16 The Commission did not adopt this treatment. The Commission adopted the
17 treatment proposed by the Division and the Committee of Consumer Services
18 (Committee) to remove the writeoffs from test year expense and to retain the mine
19 asset in rate base. The Commission stated that:

20 "The basis of the Division and Committee proposal to postpone the beginning
21 of amortization to the future is that benefits only begin in 1999, once the mine is
22 closed, new contracts with coal suppliers are in place, and market-based coal is
23 transported by rail from the Powder River Basin. These are all events occurring
24 outside the test year. " (Docket No. 97-035-01, Report and Order, March 4, 1999, p
25 39)
26

1 Q. What treatment is being sought in this case?

2 A. The Company is seeking a 3-year amortization of these costs beginning with calendar
3 year 1998. We are also requesting rate base treatment for the unamortized portion of
4 the mine asset. The three year amortization strikes a reasonable balance between rate
5 recovery of the costs and mitigation of rate impacts.

6 Q. How have the Commission's concerns from Docket No. 97-035-01 been addressed?

7 A. As noted above, the Commission accepted the Division and Committee argument that
8 the benefits of the closure would not begin until 1999 and, as a result, the
9 amortization should not begin until 1999. However, although the Dave Johnston
10 mine continued to operate in 1998, significant savings were achieved resulting from
11 the decision to close the mine. In 1998 employees began to be transferred to other
12 locations and some final reclamation activities were begun. Since significant savings
13 were achieved in the test year, the amortization should also begin in 1998.

14 Q. Please quantify the savings in the test year attributable to Glenrock coal costs.

15 A. Please see Exhibit UP&L__.1 (RRD-1). It is a comparison of the cost per ton of coal
16 from the Dave Johnston mine for the past 5 years. As can be seen, the cost per ton of
17 coal in 1998 was the lowest of any of the 5-year period. The difference in costs
18 between 1998 and 1997 represents cost reductions realized in the test year attributable
19 to the decision to close the mine.

20 Q. Is accrual of reclamation expense in advance of the actual reclamation work common
21 practice?

22 A. Yes. It is common practice with or without early closure of a mine. Reclamation
23 expense should be fully accrued by the time a mine closes. Thus, reclamation

1 expense has historically been recognized on an accrual basis for accounting and
2 recovered on an accrual basis for ratemaking in the jurisdictions in which PacifiCorp
3 serves. To do otherwise potentially exposes the Company and customers to a
4 disproportionately large portion of a mine's reclamation costs at the time reclamation
5 begins.

6 Q. What are the statutory requirements for accruing reclamation expense?

7 A. Mines are required to perform reclamation under the Surface Mining Control and
8 Reclamation Act of 1977 (SMCRA). SMCRA also requires a showing of financial
9 ability to perform required reclamation.

10 Q. For ratemaking, has this Commission ever recognized reclamation expense on a cash
11 rather than an accrual basis?

12 A. No. To my knowledge this has never happened. Accrual is the clear standard for
13 recognition of reclamation cost for accounting and ratemaking.

14 Q. Are you requesting acceleration of the accrual?

15 A. No. The 3-year amortization of reclamation costs we are requesting merely reflects the
16 fact that the mine will close in 1999.

17 Q. Please describe the revenue requirement impact of this adjustment on Utah.

18 A. This adjustment increases Utah allocated fuel costs by $7.4 million, increases rate
19 base by $17.5 million, and reflects corresponding income tax effects.

20 **Software Obsolescence Costs**

21 Q. Please describe the obsolete software costs included in this test year.

22 A. In 1997 the Company was in the process of installing SAP software. SAP is the
23 software selected by the Company to integrate the majority of its core business

1 functions in one seamless application. In 1997 it was recognized that with the
2 installation of SAP, certain software systems would become obsolete. Thus in 1997,
3 the Company expensed $6.9 million in software costs in anticipation of
4 implementation of SAP.

5 Q. Was $6.9 million the remaining net book value of the prior systems?

6 A. No. The writedown brought the net book value of the software to the appropriate
7 level at December 31, 1997, assuming remaining useful life extending through 1999.

8 Q. Which software systems account for the majority of these costs?

9 A. The Management Accounting Responsibility System (MARS) and the Management
10 Resource Planning System (MRPS) account for the majority of the $6.9 million
11 writedown.

12 Q. What treatment was sought in the last Utah rate case?

13 A. In Docket No. 97-035-01, the Company sought a 3-year amortization of these costs.
14 The Commission did not adopt this treatment, stating that:

15 "Since the old software was in use throughout the test year and the new
16 software was not yet in service, we conclude that the Division, the Committee, and
17 the Large Customer Group have accurately characterized the Company's proposal as a
18 post-test-year adjustment." (Docket No. 97-035-01 Report and Order, March 4, 1999,
19 p 34)
20
21 Q. What treatment is being sought in this case?

22 A. The Company is seeking a 3-year amortization of these costs beginning with calendar
23 year 1998. We are also requesting rate base treatment for the unamortized portion of
24 the costs. The three-year amortization strikes a reasonable balance between rate
25 recovery of the costs and mitigation of rate impacts.

26 Q. How have the Commission's concerns from Docket No. 97-035-01 been addressed?

1 A. In its order, the Commission found that the Division and Committee had accurately
2 characterized the Company's proposal as a post test year adjustment because the old
3 software was in use in 1997, and the new software was not yet in service. Since the
4 first phase of the SAP rollout with its attendant benefits occurred in 1998, and use of
5 pre-SAP systems began phasing out in 1998, there should be no question that this is
6 an appropriate adjustment in this test year.

7 Q. What are the principal benefits of SAP?

8 A. In short, the primary benefit of SAP is the superior functionality it brings compared to
9 the Company's previous suite of non-uniform, sometimes incompatible Information
10 Technology systems. I further discuss benefits of SAP later in my testimony.

11 Q. Please describe the revenue requirement impact of this adjustment on Utah.

12 A. The adjustment increases Utah allocated software amortization expense by $814,000,
13 increases rate base by $2.03 million, and reflects corresponding income tax effects.

14 **Hardware Obsolescence Costs**

15 Q. Please describe the obsolete computer hardware costs included in this test year.

16 A. The Company's mainframe computer was being depreciated over a ten-year period.
17 In 1997 it became apparent the equipment's useful life was five years, not ten. The
18 existing mainframe faced constraints in running the Company's existing applications,
19 including the Customer Service System (CSS). As a result, the Company acquired a
20 new mainframe computer and wrote off the remaining net book value of the
21 equipment, $12.1 million, in December 1997.

22 Q. Was this hardware written off in anticipation of SAP?

1 A. In part, yes. The hardware was written off because of the acquisition of a new
2 mainframe with adequate capacity to run the Company's existing applications through
3 to the end of the SAP implementation period, as well as to run CSS indefinitely. The
4 new mainframe went into service in January 1998 and was in use throughout the test
5 year.

6 Q. What treatment was sought in the last Utah rate case and what was allowed?

7 A. In Docket No. 97-035-01, the Company sought a 3-year amortization of the obsolete
8 hardware costs with a rate base addition for the unamortized portion. The
9 Commission did not adopt this treatment, stating:

10 "Since the existing mainframe computer was in use throughout the test year
11 and the new mainframe was not yet in service, we conclude that the Division and the
12 Committee have accurately characterized the Company's proposal as a post-test-year
13 adjustment." (Docket No. 97-035-01 Report and Order, March 4, 1999, p 35)
14

15 Q. What treatment is being sought in this case?

16 A. The Company is seeking a 3-year amortization of these costs beginning in 1998. We
17 are also requesting rate base treatment for the unamortized portion of the costs. The
18 3-year amortization strikes a reasonable balance between rate recovery of the costs
19 and mitigation of rate impacts.

20 Q. Have the Commission's concerns in the last case been addressed?

21 A. The old mainframe has been retired and the new mainframe was in service in the 1998
22 test period. As a result, the primary benefits of the new mainframe, including increased
23 capacity to run current systems temporarily and CSS indefinitely, began flowing with
24 operation of the new mainframe in January 1998.

25 Q. Please describe the revenue requirement impact of this adjustment on Utah.

1 A. The adjustment increases Utah allocated depreciation expense by $1,424,000, increases

2 rate base by $3.56 million, and reflects corresponding income tax effects.

3 **Process Re-Engineering Costs**

4 Q. Please describe the Company's process re-engineering costs.

5 A. These costs were incurred in part in 1997 in the preliminary stage of the Business

6 Systems Integration Project (BSIP) which lead to implementation of SAP. Additional

7 costs were incurred in 1998 for SAP training.

8 Q. How were these costs treated in the order in Docket No. 97-035-01?

9 A. No recovery was allowed. PacifiCorp first requested immediate recognition of the re-

10 engineering costs. After the DPU recommended, in its rebuttal testimony, that the

11 Commission provide PacifiCorp with the type of recovery allowed US West re-

12 engineering, the Company revised its request to a 5-year amortization. However, the

13 Commission distinguished PacifiCorp's re-engineering costs from US West's in certain

14 areas and did not find it appropriate to allow recovery in that test year.

15 Q. What concerns did the Commission express in Docket No. 97-035-01 with regard to

16 PacifiCorp's re-engineering costs?

17 A. The Commission pointed out five differences between U.S. West's and PacifiCorp's

18 re-engineering costs that resulted in the treatment of U.S. West's re-engineering costs

19 not being applied to PacifiCorp in that case.

20 Q. Do these differences still exist?

21 A. They have been eliminated or substantially reduced.

22 Q. Please discuss the first difference between the U.S. West and PacifiCorp re-

23 engineering costs discussed in the Commission's order.

1 A. The first difference was that the benefits of U.S. West's re-engineering costs began in
2 U.S. West's test year, but the benefits of PacifiCorp re-engineering had not occurred
3 in PacifiCorp's 1997 test year. Benefits of re-engineering are now present in this test
4 period and justify amortization of re-engineering costs in this case. The principal
5 benefits are the operation of SAP, which began in 1998. Benefits of SAP are
6 discussed later in my testimony.
7 Q. Please discuss the second difference discussed in the Commission's order.
8 A. The Commission stated that no review or analysis of the projected benefits of
9 PacifiCorp's re-engineering program was presented in the last case. In response I
10 wish to point out that the benefits of PacifiCorp's re-engineering program are now
11 being realized through SAP, described later in my testimony.
12 Q. Please discuss the third difference discussed in the Commission's order.
13 A. The Commission stated that no indication was provided in the last case that additional
14 expenditures would be incurred. PacifiCorp has incurred these expenses in 1997,
15 1998 and 1999. In this case, we are seeking to recover amortization of re-engineering
16 costs incurred during 1997 and 1998.
17 Q. Please discuss the fourth difference discussed in the Commission's order.
18 A. The Commission stated that whereas U.S. West was facing a change from rate-of-
19 return regulation to a price freeze, PacifiCorp was not. We respectfully submit that
20 since the re-engineering costs were prudently incurred they should be recoverable
21 regardless of the form of regulation.
22 Q. Please discuss the fifth difference discussed in the Commission's order.

1 A. The Commission stated it did not allow a return on U.S. West's re-engineering costs
2 because re-engineering played a role in U.S. West's declining service quality and
3 there was not sufficient evidence in Docket No. 97-035-01 to allow the Commission
4 to decide whether this was the case for PacifiCorp. In response I would point out
5 PacifiCorp has not experienced similar service quality problems. Moreover,
6 PacifiCorp's re-engineering costs consist of scoping and planning costs for SAP and
7 are unrelated to service quality.

8 Q. What treatment is the Company requesting for re-engineering costs in this case?

9 A. The Company is seeking a 5-year amortization commencing in this test year, and a rate
10 base addition for the unamortized portion of the costs.

11 Q. Please describe the revenue requirement impact of this adjustment on Utah.

12 A. The adjustment decreases Utah allocated A&G expense by $1.1 million, increases Utah
13 allocated rate base by $4.05 million, and reflects corresponding income tax effects.

14 **Condit Dam Removal Costs**

15 Q. What treatment is proposed for Condit Dam removal cost?

16 A. Approximately $2 million depreciation expense has been recorded on a total
17 Company basis in the test year in anticipation of removal of Condit Dam.

18 Q. What ratemaking treatment was sought in the prior Utah rate case (Docket No. 97-
19 035-01) and what was allowed?

20 A. The Company sought recovery of $2 million, on a total Company basis, in additional
21 depreciation expense for removal of Condit Dam. The Commission rejected this on
22 grounds that removal of the dam was too uncertain at that time to warrant recovery in
23 that test period.

1 Q. What is the current status of an agreement on removal of the dam?

2 A. We are continuing meaningful negotiations which we believe are moving toward
3 agreement with parties relative to removal of the dam.

4 Q. What are total expected removal costs?

5 A. Dam removal costs are expected to be $16 million. Decommissioning is expected to
6 begin in 2003. The Company began recording an additional $2 million annual
7 depreciation expense in 1997 so removal costs will be fully provided for by the time
8 the plant is expected to be removed from service. To do otherwise potentially
9 exposes the Company and customers to a disproportionately large portion of the
10 removal costs at the time removal begins.

11 **1998 Workforce Reductions**

12 Q. Please describe these costs and savings.

13 A. In 1998 the Company instituted Workforce Reduction Initiatives designed to produce
14 net labor savings of $60 million annually. Early retirements account for the majority of
15 the savings and costs. To achieve the workforce reductions, the Company incurred one-
16 time costs of $120 million. Exhibit UP&L __.1 (JKL-1) details the savings and costs
17 associated with the 1998 Workforce Reduction Initiatives. As can be seen, the principal
18 cost associated with the workforce reductions is additional pension expense.

19 Q. Please summarize the number of employees that departed and the number subsequently
20 hired to fill vacancies created by the departures.

21 A. Nine hundred sixty-one employees departed and 304 new employees were hired for a
22 net reduction of 656 employees. In addition to this were displacements of 56 resulting
23 in a total workforce reduction of 712 employees.

1 Q. What ratemaking treatment is the Company seeking for the costs and benefits of the
2 workforce reductions?
3 A. We have given full recognition to the savings in this test year. To do this, we have
4 imputed savings in addition to those achieved in the test year to give full effect to the
5 $60 million annual labor savings. We are also seeking a 5-year amortization of the
6 $120 million one-time costs with rate base treatment of the unamortized portion, as well
7 as a 5-year amortization of $1.8 million additional costs charged in 1999 for employees
8 who qualified for the early retirement program but did not separate from the Company
9 until 1999.
10 Q. What is the basis for the 5-year amortization?
11 A. The 5-year amortization allows the Company to recover these costs over a period which
12 mitigates rate impacts.
13 Q. Please describe the revenue requirement impact of the workforce reductions on the Utah
14 jurisdiction.
15 A. The adjustment decreases Utah operating expenses by $50.1 million, increases rate base
16 by $13.7 million, and reflects corresponding income tax effects.
17 **SAP Software**
18 Q. What aspect of SAP are you testifying about?
19 A. I am testifying about the level of SAP costs included in this test year and the
20 corresponding impact on revenue requirement. I also describe some of the benefits of
21 SAP.
22 Q. What level of SAP costs are included in this test year?

1 A. On a total Company basis, approximately $80 million of SAP costs were transferred
2 to Electric Plant in Service in December 1998.
3 Q. Please briefly describe benefits the Company has realized from SAP.
4 A. The primary benefits the Company has realized from SAP implementation include 1)
5 standardization of best business practices; 2) standardized training for system users;
6 3) simplified information gathering; 4) work management improvements such as
7 better reporting, project scheduling, equipment tracking, maintenance record keeping,
8 and analysis of equipment failure; 5) material management improvements such as
9 enterprise-wide supplier relationships and process improvements; 6) achievement of
10 Y2K compliance through replacement of non-compliant legacy systems; 7)
11 standardization of personal computer work stations and applications; and 8) a smaller
12 number of internal and external systems to upgrade, interface, and maintain.
13 Q. Is SAP part of a broader effort within the Company?
14 A. Yes. The SAP system is part of a broader package of business change initiatives
15 which included the workforce reduction savings. SAP costs should be viewed as
16 upfront costs associated with achieving the workforce reductions. Workforce
17 reductions could not have been achieved as early or as extensively without the
18 benefits provided by SAP. Fairness dictates that customers receiving the benefit of
19 workforce reduction savings should pay the associated costs of making those benefits
20 possible.
21 Q. What is the purpose of this adjustment?
22 A. The purpose of this adjustment is to annualize SAP costs included in the test period.

1 Q. Please describe the revenue requirement impact of this adjustment on the Utah
2 jurisdiction.
3 A. The adjustment increases Utah allocated depreciation and amortization expense by $2.3
4 million, increases rate base by $12.5 million, and reflects corresponding income tax
5 effects.
6 Q. Does this conclude your testimony?
7 A. Yes.