Q. Please state your name, business address and position with PacifiCorp (the Company).

A. My name is Royal Drager. My business address is 825 N. E. Multnomah, Suite 800, Portland, Oregon, where I am employed as a Senior Tariff Policy Analyst in the Regulation Department.

Q. Please briefly describe your education and business experience.

A. I received a Bachelor of Science in Business Administration-Management and Personnel from the University of Montana in 1966. I have been employed by PacifiCorp since 1970. I began my career in meter reading after which time I spent five years as an Analyst in the Property Records Department. For the next 21 years I was an Estimator in Montana and Idaho. I assumed my present position in 1998.

Q. What is the purpose of your testimony?

A. I will present the proposed changes to Electric Service Regulation No. 12 - Line Extensions, and related changes to Electric Regulation No. 2 - General Definitions, and Electric Service Schedule No. 300.

Q. Why has the Company proposed changes to its line extension policy?

A. The Company's main objective in making the present proposal is to associate the cost of line extensions with customers that cause the expenditures. This will reduce the subsidization of new construction by existing customers. The proposed changes will also simplify the application of the policy for both customers and employees. The proposed Utah line extension policy would be consistent with the Company line extension policy in other jurisdictions.

Line Extension Allowance

Q. What is the specific change the Company is proposing with regard to residential line extension allowances?

A. The Company is proposing a line extension allowance for residential customers of $700 per extension.

Q. How does this compare with the existing allowance?

A. For residential customers the current policy includes the cost of up to 300 feet of distribution facilities in addition to the transformer, meter and service. Under the current policy, the Company's portion of the average residential extension cost is approximately $1,400 for customers in a subdivision and $1,900 for others.

Q. What allowance does the Company propose for developers of residential subdivisions?

A. For residential subdivisions the Company will provide the developer a maximum extension allowance of $450 per lot. Each residential applicant in a planned development will also receive a maximum allowance of $250. The total matches the allowance for individual residential customers. Developers may use the $450 allowance towards their responsibility to provide the primary and secondary backbone system necessary to make secondary voltage service available to each lot. Customers may use the $250 towards the cost of their meter and service.

Q. What change is the Company proposing with regard to non-residential line extension policy?

A. For non-residential customers the Company is proposing an allowance of one times estimated annual revenue.

Q. How does this compare with the existing non-residential line extension policy?

A. For non-residential customers, the Company's current policy allows the greater of three times estimated annual revenue, or transformer, meter, service plus up to 300 feet of distribution facilities.

Q. Are you proposing any other changes to the extension allowance for non-residential customers?

A. Yes. The current non-residential line extension policy applies to customers of all voltage levels. The proposed policy applies to distribution level service only. Customers receiving service at transmission voltage, Schedule No. 9, will not be eligible for any line extension allowance. They will be provided metering only.

Q. What is the basis for this change?

A. Customers are placed on Schedule No. 9 because they own and operate their own substation and distribution facilities. Their price is based on taking service directly from the transmission grid where they pay essentially the same price for transmission service as do residential and distribution voltage general service customers. Rates for Schedule No. 9 do not include any cost recovery for distribution facilities other than metering equipment. Any radial facilities required to interconnect an individual customer to the existing transmission grid are, by function, high voltage distribution facilities, regardless of voltage and FERC account designation. As such, the cost responsibility for those facilities should be borne by the customer.

Q. How will the proposed line extension policy help reduce existing customers subsidizing new construction?

A. The proposed line extension allowance limits the Company's capital expenditures for line extensions by bringing it to a level more closely supported by new customers'

revenue associated with the line extension. All costs above that level would be paid for by the new customer and would be paid in advance of construction.

Q. What is the amount of line extension investment that can be supported by revenue received from customers?

A. For residential customers the investment supported by revenue associated with line extension approximates $490. For non-residential customers the amount approximates one times annual revenue.

Q. How does the proposed line extension policy compare to the current investment in line extension for existing customers?

A. The proposed line extension allowance for new customers approximates the average distribution facilities investment for existing customers. The line extension expenditures related to distribution investment for existing residential customers is $730, and for non-residential customers $18,348.

Q. Is the present line extension policy economically justified?

A. No. The present policy provides for expenditures well above the level supported by revenue. Maintaining this level of expenditure without revenue justification creates additions to the rate base that are not supported by revenue from new customers, and continues general subsidies for new construction.

Q. Please describe the calculations you rely upon to determine the appropriate level of line extension allowance.

A. The calculations supporting the proposed line extension allowance are shown in Exhibit UP&L __.1 (RD-1). Calculations are shown for Residential Schedule No. 1, General Service Schedule No. 6 and Small General Service No. 23. Most of the

information comes from the Class Cost of Service Study. Line 1 shows the average price per kWh. Lines 4 through 8 show the per kWh cost of service for generation and transmission service plus substation, customer accounting, and customer service costs. Line 9 represents the total costs not associated with line extensions. Line 10 is the remaining revenue, or margin, available to fund line extension investment. Line 11 converts the per kWh margin to annual margin per customer (based on the average annual usage per customer for the class). This amount is divided by the annual carrying charge on Line 12 to identify the investment, Line 13, current revenues will support. Line 14 shows that investment as a ratio of current annual revenue.

Q. Has the Company modified its line extension allowance in other states similar to what is being proposed in your testimony?

A. Yes. The Company's Oregon and California line extension allowance is $750 for residential customers. and one times annual revenue for non-residential customers. The Company's Washington residential extension allowance is $1,050 and the non-residential allowance is one times annual revenue. In Wyoming, the Company is currently proposing an $800 residential allowance and one times annual revenue for non-residential.

Q. Is the proposed allowance consistent with what other utilities in Utah offer their customers?

A. Yes. A few examples are:

- Kaysville City requires that new customers pay 100% of all costs and an impact fee. The impact fee is based on the demand the new load will add to their electrical system.

- Provo City provides only a transformer and requires the customer to pay 100% of all other costs. In addition, the customer is required to pay an impact fee based on the demand the new load will add to the system and a hookup fee to cover the cost of the labor for connecting the service to the system.
- Questar Gas Company provides a footage allowance for gas appliances with 100% customer advance in excess of the allowance for residential customers. The maximum main extension footage for a home with all gas appliances and a swimming pool is 145 feet. This is much less than the Company's existing policy of 300 feet, transformer and service for all homes regardless of the source of energy for appliances. Commercial customers have a footage allowance based on a formula with the customer paying 100% of the advance in excess of the allowance.
- Salt Lake City water extensions are paid by the customer and service fees for each lot are collected in advance of construction.

Q. What conclusions can be drawn from your review of the line extension practices of other utilities in Utah?

A. Our review of utilities indicates that other utilities in the state require that the customers who cause the costs to be incurred are responsible for a significant portion of those costs. The subsidy from existing customers is thereby minimized. In addition, some communities charge impact fees and hookup fees.

Contract Minimum Billing

Q. Why is the Company proposing a change in Contract Minimum Billing?

A. Existing Contract Minimum Billing calculations are based on estimated revenue, not on the total investment in the facilities. The proposed calculation is based on cost of the installation. The minimum will insure that the new extension stands on its own, paying for the on-going costs associated with the investment. These costs include state and federal taxes, operation and maintenance, return on capital, administrative and general costs, customer accounts and services. This proposed change will reduce the possible subsidy by other customers.

Q. Please describe the Contract Minimum Billing the Company is requesting.

A. The Contract Minimum Billing is a method of ensuring that the revenues from the new customer at least cover the fixed costs of the new line extension. In order to explain Contract Minimum Billing, I first need to explain two terms:

Facility Charges: These are the fixed costs of an extension calculated as percentages of the cost of the line extension. These percentages are shown in Electric Service Schedule No. 300.

Customer's Monthly Bill: This is the billing as calculated from the Electric Service Schedule that the customer is on.

The Contract Minimum Billing equals the Facility Charges plus 80% of the Customer's monthly bill, or the Customer's monthly bill, whichever is greater. The Facility Charges plus 80% of the monthly bill will only be larger than the monthly bill if the fixed costs exceed 20% of the monthly bill. In other words 20% of the monthly bill serves as a credit offsetting the fixed costs.

Q. How does the proposed Contract Minimum Billing calculation method compare with the current method?

A. Under the current method, the minimum is set up to cover the expected revenue associated with the new facility. The proposed method sets the minimum based on

expenditures by the Company and the Customer times the facilities charges given in Schedule 300.

Q. Does the Company have similar policies in other jurisdictions?

A. Yes. The proposed Contract Minimum Billing, as well as other aspects of the proposed line extension policy, is the same or similar to the Company's line extension regulation currently in effect, or proposed, throughout the Company's service territory with the exception of Utah.

Recreational Dwellings

Q. What changes are being requested on recreational dwellings?

A. The Company is requesting two changes to the current policy. First is a change from the current extension allowance of three times revenue to the same allowance as all other residential customers. Second is to change the contract minimum billing period from the current maximum of five years to as long as service is taken, with a minimum of five years.

Q. What are the reasons for changing the line extension allowance and the contract minimum billing period for recreational dwellings?

A. The extension allowance will be consistent with other residential allowances throughout the state and easily administered. Contract minimum billing for as long as service is taken will ensure that these types of dwellings will provide sufficient revenues to pay for and maintain this service. Due to the location and limited or intermittent use of this type of dwelling, it is important to make sure the revenue supports the ongoing costs associated with the facilities installed to serve them. This will help reduce subsidies by other customers for maintaining the facilities.

Refund Policy

Q. What changes are you proposing to the refund policy?

A. We are proposing a simplification to the refund policy for residential extensions and for extensions to non-residential customers smaller than 1,000 kW. Under the proposed approach, within the first five years from the time the Company is ready to provide service each of the next three customers utilizing any portion of the initial extension will pay the Company 25% of the cost of the shared facilities. The Company will refund such payments to the initial customer.

Q. What is the current approach on refunds when additional customers attach to a line extension?

A. Currently refunds are based on the cost of the shared portion of the line and the relative loads of the customers sharing the line. The current approach will continue to be used for non-residential customers with loads over 1,000 kW.

Q. Why is the Company proposing the refund policy change?

A. The proposed refund policy is easy to explain and calculate, and simple to administer. The refund method is consistent with other states where it has been in place for over 10 years. Where it is currently being used it is well accepted by customers. The current policy on refunds is based on attached load as a percentage of total load served by the extension, which is not only confusing from the customer's standpoint, but is also more difficult and costly to administer.

Contract Administration Credit

Q. Please explain the proposed Contract Administration Credit.

A. The Company proposes to provide the customer a choice of two options when paying an extension advance.

Under the first option the refund policy will be administered as just described above. In this case the Company will set up a refundable account, track the extension for the contract term, and provide for refunds if additional customers attach to the extension.

Alternatively, the customer may elect to receive a Contract Administration Credit of up to $250. In this case the Customer pays the advance as non-refundable. There will be no follow-up or further administration by the Company and there will be no refunds.

Q. What is the purpose of the Contract Administration Credit?

A. The credit is intended to pass on to the customer the cost savings of not administering contracts. If the customer deems it unlikely that there will be additional customers who will provide refunds, or for any other reason, the customer may elect this option and the Company will avoid the expense of following the account.

Transition to New Policy

Q. Have you considered how to transition from the old to the new line extension policy?

A. Yes. To ease the transition to the Company's new extension policy the Company will implement a 30-day grace period beginning with the effective date of the order in this case. This grace period will allow the Company to notify applicants, builders and developers of the change. During this transition period the applicant will decide whether utilize the old or new policy. They will then have an additional 60 days to sign a contract and pay any applicable advances. Applicants who do not meet these

deadlines will fall under the policy in force when they make their application.

Electric Service Regulations and Schedule

Q. Please explain Exhibit UP&L__.2 (RD-2).

A. Exhibit UP&L__.2 (RD-2) is a copy of the Company's proposed Electric Service Regulation No. 12 on Line Extensions.

Q. Have you prepared a comparison of the current and proposed Line Extension Policies?

A. Yes. Exhibit UP&L __.3 (RD-3) is a side by side comparison of the current line extension policy and Utah Power's proposed line extension policy.

Q. Please explain Exhibit UP&L _-.4 (RD-4).

A. Exhibit UP&L __.4 (RD-4) proposes changes to the definitions in Rule 2, General Definitions, to be consistent with proposed changes to Rule 12.

Q. Are you proposing to change any other rules?

A. Yes. Exhibit UP&L __.5 (RD-5) includes proposed changes to Schedule 300 to be consistent with proposed changes to Rule 12, Line Extension and Rule 2, General Definitions. It also reflects the change in facilities charges on customer and Company expenses.

Conclusion

Q. What is your overall view of the proposed line extension policy?

A. I believe the proposed policy is a reasonable approach to line extensions. It is cost justified and fair to customers. The policy extends an appropriate allowance to new customers while protecting existing customers and the Company against the financial consequences of non-economic line extensions.

Q. Does this conclude your testimony?

A. Yes it does.