Witness CCS - 2
Exhibit CCS-2

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

	)	**Docket No. 99-035-10**
In the Matter of the Application of	)	
PacifiCorp for Approval of its	)	**PRE-FILED DIRECT TESTIMONY OF**
Proposed Electric Rate Schedules	)	**HELMUTH W. SCHULTZ, III**
and Electric Service Regulations	)	**FOR THE COMMITTEE OF**
	)	**CONSUMER SERVICES**

February 4, 2000

REDACTED VERSION

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INTRODUCTION

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

A. My name is Helmuth W. Schultz, III. I am a Certified Public Accountant licensed in the State of Michigan and a Senior Regulatory Analyst in the firm of Larkin & Associates PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES.

A. Larkin & Associates PLLC is a Certified Public Accounting and Regulatory Consulting 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 400 regulatory proceedings including numerous water and sewer, gas, electric and telephone utility cases.

Q. HAVE YOU PREPARED AN APPENDIX WHICH DESCRIBES YOUR QUALIFICATIONS AND EXPERIENCE?

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

Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Larkin & Associates PLLC was retained by the Committee of Consumer Services (CCS or Committee) to analyze PacifiCorp dba Utah Power & Light Company's (UP&L or Company) request for an

increase in general rates based on the twelve months ended December 31, 1998, and to make recommendations to the Utah Public Service Commission (Utah Commission) based on that analysis.

I will be presenting specific adjustments to the 1998 test year. The impact of my recommendations is included in the revenue requirement calculations presented in Exhibit 1.1 of CCS Witness Hugh Larkin, Jr.'s prefiled testimony.

EARLY RETIREMENT COST SAVINGS

Q. WHY ARE YOU ADJUSTING THE COMPANY'S 1998 REALIZED SAVINGS?

A. The Company's calculation reduces the test year early retirement cost savings by the cost associated with filling some of the positions vacated through the early retirement programs. The Company's reduction was based on the hiring of 304 employees. According to PacifiCorp's response to CCS 9.11, 146 electric positions and 76 mining positions were filled. The remaining 82 positions were authorized but not filled. When asked in CCS 24.32 whether any of the 82 positions were subsequently filled, the Company stated that "These positions were canceled and never filled." Therefore, the net cost savings of $13,173,066, as determined by the Company, was understated by a minimum of $3,553,261 ($1,249,070 on a Utah basis).

Q. HOW DID YOU DETERMINE THE MINIMUM UNDERSTATEMENT?

A. As shown on CCS Exhibit 2.1, page 3, the Company's normalization adjustment for 1998 backfill is $13,173,066. This Company adjustment is based on 304 positions being filled at an average additional salary of $43,332. Since 82 positions were not filled, the normalization adjustment is overstated by $3,553,261 (82 x $43,332).

Q. WHY DID YOU REFER TO THE ADJUSTMENT AS A "MINIMUM" ADJUSTMENT?

A. There are other problems with the Company's calculation of cost savings and the backfill adjustment. Consequently, additional adjustments are necessary.

Q. WHAT OTHER ADJUSTMENT DO YOU RECOMMEND BE MADE TO THE 1998 REALIZED SAVINGS?

A. The Company utilized an overhead loading rate of 35% to reflect the impact on pensions, insurance and payroll taxes associated with the payroll cost savings. In testing the reasonableness of the overhead rate, I determined that a rate of 39.8% is more representative of the test year. However, this rate is conservative.

Q. WHY IS THE 39.8% RATE CONSERVATIVE?

A. The calculation of the 39.8% rate, as shown on CCS Exhibit 2.1, page 4 of 6, only includes Social Security and Medicare taxes. It does not include state and federal unemployment taxes. The calculation also does not include SERP, ESOP contributions, non-qualified pensions, various awards, other employee benefits and workers compensation insurance.

Q. WHY WERE THOSE COSTS EXCLUDED?

A. The unemployment tax and workers compensation information was not readily available. The employee benefits excluded were presumed to be impacted to a lesser degree than the benefits that were included. By excluding the benefits identified above, the 39.8% loading rate is understated. However, it is still more reasonable than the rate used by the Company.

Q. ARE ANY OTHER ADJUSTMENTS TO THE 1998 REALIZED SAVINGS NECESSARY?

A. Yes. The backfill adjustment was normalized by the Company to account for wages paid in 1998 to the replacement employees. The Company does not have a specific listing of the backfill employees and their respective salaries, so it estimated the total annualized backfill compensation and adjusted the annualized compensation for the estimated period over which the backfill salaries were paid during the test year. Therefore, the estimate of compensation paid during the test year is understated.

Q. HOW WAS THE COMPANY'S ESTIMATE DETERMINED?

A. The Company assumed hiring the backfill positions began after June 1998, hence, a hiring start factor of .5 was used to represent a half year. This factor was then adjusted by a .75 hiring lag for the time lag between recruiting and starting. The resulting .375 factor (4 ½ months) is the Company's estimated period over which backfill personnel were on the job.

Q. WHAT PROBLEM DO YOU HAVE WITH THIS ESTIMATE?

A. The Company uses a best guess as to what the replacement employees were paid in 1998. The assumption that hiring took place in the latter half of the year is not supported in the filing. In fact, the Company's response to CCS 4.15 and supplemental response to CCS 4.15 shows that most of the hiring took place in April, May, and June of 1998. The Company compounded its problem with its best guess by factoring in a hiring lag. Based on the response to CCS 4.15, the Company's estimate of 37.5%, or 4.5 months, of wages being paid to backfill employees in 1998 is understated.

Q. HOW DID YOU DETERMINE THE PERIOD OF TIME IN 1998 THE BACKFILL EMPLOYEES WERE PAID?

A. On Exhibit 2.1, page 6, is a calculation of the portion of backfill wages paid in 1998. Based on the number of employees actually hired each month, I calculated the weighted full months paid in 1998,

beginning with the month subsequent to being hired. In other words, the employees hired in March 1998 were considered to have worked 9 full months. The resulting factor of 46.25% is conservative, as it includes 10 employees hired in 1999. The 46.25% factor should be utilized in determining the normalization adjustment of backfill wages offsetting the cost savings realized by the early out.

Q. WHAT IS THE REALIZED SAVINGS FROM THE 1998 EARLY RETIREMENT?

A. As shown on CCS Exhibit 2.1, page 2, the realized savings is $52,418,374 ($18,426,631 on a Utah basis) compared to the Company's purported amount of $45,618,140. This savings reflects the fact that 82 positions were not filled. It also corrects the overhead rate and the backfill rate, as discussed above.

Q. WHY DID YOU ADJUST THE POST 1998 REALIZED SAVINGS?

A. The Company's Phase II retirement program began in 1998. The Phase II adjustment, according to Company testimony, is to ensure Utah customers receive the full benefit of the early retirement program while spreading recovery of the associated costs over a reasonable period. While the costs for Phase II that are being spread over a period of time are identifiable, the savings reflected by PacifiCorp are understated. My adjustment corrects this understatement.

Q. WHAT PHASE II COSTS ARE INCLUDED FOR RECOVERY CURRENTLY AND OVER FUTURE PERIODS?

A. PacifiCorp's response to CCS 24.35 identifies Phase II costs included in the $120,240,251 of costs on page 4.3.1 of the Company's filing. The costs identified consist of $4,060,000 of pension for the 27 electric Phase II early retirees and $5,467,125 of severance for the other 151 electric Phase II employees. In addition, the post 1998 realized savings amortizes $600,598 of additional severance

and $1,150,000 of non-qualified lump sums over 5 years. It is not clear if any other Phase II costs are included in the $120,240,251.

Q. ARE THERE OTHER PHASE II COSTS THAT ARE INCLUDED BUT NOT IDENTIFIED?

A. It is possible. For example, in response to CCS 9.7, PacifiCorp stated “Both early retirement programs are included in Adjustment 4.3.” The response also indicates that the costs of the additional early retirement program is the Phase II accrual of $4,060,000. However, the response to CCS 24.35 states that in addition to the $4,060,000 there is $5,467,125 of Phase II costs included. Further inquiry may or may not identify additional Phase II costs included in the $120.2 million.

Q. WHY DO YOU CONTEND THE POST 1998 REALIZED SAVINGS ARE UNDERSTATED?

A. According to the response to CCS 9.11 and PacifiCorp’s 1998 Annual Report to shareholders, 167 employees will be leaving. The Company has reflected a 1998 cost savings realized for loaded payroll of $3,177,893 for 27 employees. The post 1998 cost savings realized for loaded payroll is $1,170,851 for an unidentified number of employees.

Q. WHY DO YOU REFER TO THE NUMBER OF EMPLOYEES AS BEING “UNIDENTIFIED”?

A. The filing does not associate an employee count with the $1,170,851. During the discovery process, a number of inconsistencies were found to exist in the various responses received from PacifiCorp. For example, the response to CCS 9.11 indicated that Phase II had 132 retirees and 35 displaced employees for a total of 167. The response to CCS 24.34 indicates that 35 are retirees and 132 are displaced employees for a total of 167. CCS 24.35 indicated there were 27 retirees and 151 other electric employees which totals 178. Finally, the response to CCS 24.19 indicated a reduction of 178 in addition to the earlier 1998 retirement program. As a result of these inconsistencies and others, it is

not clear whether the $1,170,851 of post 1998 savings is attributable to the 27 employees already included in the 1998 savings calculation or the other 132 or more employees scheduled to leave in 1999. The calculation of the $1,170,851, although flawed, suggests it pertains to employees other than the 27 included in the 1998 savings calculation. If that is the case, the average salary, including overheads, is significantly understated. This is shown on Exhibit CCS 2.1, page 5, line 5 as compared to line 8.

Q. WHAT OTHER INCONSISTENCIES ARE YOU REFERRING TO?

A. The response to CCS 9.7 states that both early retirement programs are included in Adjustment 4.3. In response to CCS 9.12, the Company states that the early out portion of the $30 million 1999 cost reduction is included in the filing on page 4.3.1. The response goes on to say it (Phase II) is included as a component of the total costs and is also a component of the net future savings. However, the response to CCS 24.34 states the 132 displacements occurred outside the test period and the savings were not reflected in the filing. This response actually indicates another inconsistency exists, since CCS 24.35 states that retirement costs associated with the displacements are included in the filing (i.e., costs are in and savings are not). Finally, the response to CCS 24.19 indicates that of the $30 million cost reduction discussed above, $13.4 is attributable to salaries. The $13.4 million could not be located in the savings reported by the Company on page 4.3.1 of the filing.

Q. PLEASE DISCUSS YOUR POSITION THAT THE POST 1998 RETIREMENT SAVINGS CALCULATION IS FLAWED.

A. The post-1998 retirement savings were determined by PacifiCorp based on a ratio of post-1998 early retirement costs to total early retirement costs, multiplied by the total loaded labor savings. The calculation was provided in response to CCS 4.25. The first problem with the calculation is that at least

$5 million included in the 1998 retirement costs are really associated with 1998 "post" retirements. If the calculation was even somewhat reasonable, that would, in itself, increase the allocator shown on CCS 4.25 from 1.45% to 5.97%. That increases the estimated post-1998 savings from $1,170,851 to $4,827,423. Neither the $1,170,851 nor the $4,827,423 is representative of the cost savings that would be realized as the result of 132 employees leaving the Company.

Q. WHAT ARE YOU RECOMMENDING FOR POST-1998 RETIREMENT SAVINGS?

A. As shown on CCS Exhibit 2.1, page 5, I determined that an adjustment of $9,060,337 is required to be added to the Company's $1,170,851, for a total savings of $10,231,188. This was determined by using the Company's 1998 average loaded salary per employee of $77,509 multiplied by the 132 post-1998 retirees. This calculation is conservative, since it utilizes the Company's understated loading rate of 35%.

Q. WHY DID YOU UTILIZE THE COMPANY'S 35% LOADING RATE?

A. For comparative purposes, I felt it more appropriate to utilize the Company's lower loading rate. However, I am not endorsing the Company's 35% rate.

Q. DID THE COMPANY HAVE AN ESTIMATE OF PHASE II SAVINGS ATTRIBUTABLE TO SALARIES?

A. Yes. The Company's Annual Report to shareholders, at page 21, refers to a $30 million cost reduction program implemented in December 1998. In response to CCS 24.19, the Company estimated the portion attributable to salaries is $13.4 million. The Company's 1998 Phase II cost savings of $3,177,893 is added to my estimate for post-1998 Phase II cost savings of $10,231,188. The result is $13,409,081. This suggests that the $10,231,188 savings I am recommending is a more accurate

representation of the post-1998 Phase II cost savings.

Q. WHAT IS YOUR COMBINED RECOMMENDED ADJUSTMENT FOR REALIZED SAVINGS?

A. The adjustment for cost savings realized from Phase I and Phase II is $48,327,140 on a Utah basis. As shown on CCS Exhibit 2.1, page 1, this is $5,575,318 greater than the Company's proposed adjustment of $42,752,092.

Q. WHY HAVE YOU INCLUDED THE DEFERRED INCOME TAX EXPENSE AMOUNTS AT THE BOTTOM OF CCS EXHIBIT 2.1?

A. The deferred income tax expense amounts were provided to show that while adjustments were made to the cost savings, my adjustments do not impact deferred income tax expense.

PENSION

Q. ARE YOU ADDRESSING THE COMPANY'S REQUESTED PENSION EXPENSE?

A. Yes. The Company's proposed pension expense should be reduced by $6,398,103 and by $6,083,646 for a combined reduction of $12,481,749 on a Utah basis.

Q. PLEASE EXPLAIN THE FIRST ADJUSTMENT OF $6,398,103.

A. The Company inappropriately included an amortization of a prior year write-off in the current proceeding. In 1997, the Company elected to write-off $87 million of deferred pension regulatory asset on a total Company basis. The election was made in 1997 when the Company determined that since it did not intend to request recovery, the regulatory asset was most likely unrecoverable. The Company subsequently decided that the costs should be recoverable. It has requested that the 1997 write-off be allowed in the current case because the Company wants to change its method of accounting for

regulatory purposes to be consistent with book accounting. The request is not timely, and no justification has been provided for the costs requested.

Q. SHOULD THE TIMING OF THE REQUEST BE CONSIDERED?

A. Yes. The Company made a decision in 1997 to write-off the deferred pension regulatory asset. It should be bound by that decision. The Company had an opportunity in the last rate case, which used a 1997 test year, to make this request when it adopted FAS 87/88 for financial reporting purposes. It chose not to. The Commission, in its Order in Docket 97-035-01, recognized the Company's failure to act on the timely recognition of its FAS 112 obligation. To be consistent the Commission should similarly recognize the Company's failure in this case to request timely recognition in its pension accounting change.

Q. PLEASE EXPAND ON YOUR PREVIOUS STATEMENT THAT THE COMPANY HAS PROVIDED NO JUSTIFICATION FOR ITS REQUEST.

A. The filing briefly states that the Company has decided to change its method of accounting for pensions, and because of this change, it should be allowed to recover costs previously written-off. The filing failed to mention that $42 million of the 1997 write-off was for a deferred compensation plan. The filing did not provide justification for including pension costs associated with a deferred compensation plan. The filing did not provide justification regarding why 1987 and 1990 Early Out programs which are included in the 1997 write-off should be included in a 1998 test year. A change in thinking is not justification for Utah ratepayers to be burdened with $6.4 million of expense for each of the next five years.

Q. PLEASE DISCUSS YOUR SECOND ADJUSTMENT TO PENSION EXPENSE.

A. The pension expense requested by the Company in this case is made up of three components. The first component is the amortization of the 1998 early out offer. The second component is the amortization of the 1997 write-off of the pension regulatory asset, as discussed above. Finally, the Company has included the 1998 accrued pension expense. The request for the accrued pension expense is based on the Company's financial accounting for pensions and represents a change in accounting methods for regulatory purposes. This change, whether allowed or not, has an impact on the 1998 costs being amortized.

Q. PLEASE EXPLAIN HOW THE CHANGE IN ACCOUNTING IMPACTS THIS PROCEEDING.

A. The Company has been on a pay-as-you-go basis for calculating pension expense. Remaining under the pay-as-you-go method, the expense would be different than the amount included in the filing. By electing a change in accounting method, the Company provides itself with an opportunity to arbitrarily assign any amount of the 1998 funding to the costs being amortized. The Company's request to change its accounting for pension costs also provides a convenient attempt to justify its change of heart regarding the 1997 write-off of the pension regulatory asset. If the Company is allowed to change its accounting methodology for pensions, this change should not be an excuse for allowing the prior period write-off.

Q. WHAT WOULD THE IMPACT ON ADJUSTED TEST-YEAR EXPENSES BE IF THE COMPANY REMAINED ON A PAY-AS-YOU-GO BASIS?

A. The impact would be dependent on how the funding was allocated. If the funding in the test year is first assigned to the 1998 early out and the remainder to expense, as shown on CCS Exhibit 2.3, the requested rate base would increase by $24,527,879 on a Utah basis, and expense would decrease by $6,083,646 on a Utah basis.

Q. SHOULD THE COMMISSION KEEP THE COMPANY ON A PAY-AS-YOU-GO BASIS?

A. Yes. The Company essentially tried to “sneak through” this change in accounting method through without any detailed explanation of costs or justification. The Company should remain on a pay-as-you-go basis at this time. If, in a future proceeding, PacifiCorp wishes to change its accounting method, it can file for the change in an appropriate manner, providing a reasonable level of explanation and justification.

INCENTIVE COMPENSATION

Q. WHAT ADJUSTMENT ARE YOU PROPOSING FOR INCENTIVE COMPENSATION?

A. Incentive compensation expense should be reduced $3,735,964 on a Utah basis. This adjustment removes 62.5% of the amount being requested by the Company.

Q. WHAT IS INCENTIVE COMPENSATION?

A. Incentive compensation is payment over and above the base salary or wage that is earned by an employee. Webster defines incentive as stimulating one to take action, work harder; encourage and motivating.

Q. WHY DO YOU FIND IT NECESSARY TO ADJUST FOR INCENTIVE COMPENSATION?

A. The Company’s payment of incentive compensation is not a payment for extra effort. Instead, the so called incentive compensation is a form of extra pay for the ordinary day-to-day duties of employees. In fact, the Company suggests that the incentive compensation is not extra compensation, but part of a total cash remuneration comparable to market average total compensation for analogous positions.

Q. ON WHAT BASIS DOES THE COMPANY MAKE SUCH A CLAIM?

A. In response to CCS 24.38, the Company stated the following:

> The Company's target is to pay employees total cash compensation (base salary plus incentives) comparable to market average total compensation for comparable positions. The company reduces total compensation levels by the target incentive level for each job to derive base salary levels. Given that many employees did not reach their incentive performance goals, total compensation in 1998 was on average about 96% of targeted compensation levels.

In Docket No. 97-035-01, the Company hired a consultant to explain and justify PacifiCorp's compensation practices.

Q. DID THE COMMISSION ACCEPT THIS EXPLANATION IN THE LAST RATE CASE?

A. Yes. The Commission stated in its Decision in the last case that "The Committee has produced no evidence to the contrary," regarding the Company's target compensation practice. The Commission then concluded that the plan expenses were associated only with non-financial goals and the plan benefitted ratepayers.

Q. DO YOU AGREE WITH THAT CONCLUSION?

A. No. I would like to clarify PacifiCorp's compensation practice for the Commission. The market that the utility is comparing itself to is generally other utilities. Rarely will you find a utility that does not have incentive compensation of some form. Just because utilities pays incentive compensation does not mean that ratepayers should be required to pay for it. Some jurisdictions have excluded all incentive compensation, some have excluded a portion of it (generally a 50/50 split), and some allow it in its entirety. The question is not as much whether or not it is extra compensation in a comparable market; instead, the concern is whether the cost associated with the extra payment is really a reward for outstanding performance that provides a matching benefit to customers. However, sometimes the

extra compensation is looked at as excessive when combined with other compensation received.

Q. DO YOU HAVE ANY REASON TO BELIEVE THAT THE INCENTIVE PAYMENTS ARE INTENDED FOR OUTSTANDING PERFORMANCE?

A. Yes. In response to CCS 2.16, the purpose of various plans was provided as follows:

> The purpose of the Electric Operations Performance Share Program is to motivate and reward employees for: (1) contributions to operational effectiveness and outstanding customer service provided by the group in which they work; and (2) achieving high levels of performance for PacifiCorp stakeholders.
>
> The purpose of the PacifiCorp Corporate Staff Annual Incentive Program is to motivate and reward eligible employees for their contributions to the financial success and operational effectiveness of the company.
>
> The purpose of the Executive Incentive Program is to provide a means for rewarding officers for their success in increasing shareholders' value.

The reference to motivation and financial success suggests that payment is for extra effort.

Q. IS THE COMPANY'S INCENTIVE COMPENSATION AN EXTRA FORM OF COMPENSATION?

A. Yes. It is extra compensation that is typical in a comparable market, but it is also compensation that is typically under scrutiny for reasonableness and appropriateness.

Q. WERE THERE OTHER REASONS FOR THE COMMISSION ALLOWING THE INCENTIVE COMPENSATION EXPENSE IN THE LAST CASE?

A. Yes. The Company claimed that no incentive payments were made based on financial goals, so no expense associated with financial goals was included in the 1997 test year. The Decision also stated that although the Division of Public Utilities did not evaluate the plan, they apparently agreed the plan contained appropriate goals, and the Commission accepted the Company's position on that basis.

Q. DO YOU AGREE WITH THAT CONCLUSION?

A. No. In the last case the Committee questioned the reasonableness of the non-financial goals set by the Company. The Company should have been required to provide evidence that the so-called goals did provide a benefit. The burden of proof should rest with the Company.

Q. ARE THERE ANY SIGNIFICANT DIFFERENCES IN THE 1997 AND 1998 INCENTIVE PLANS?

A. No. The Company, in response to CCS 24.38, stated the 1998 incentive plans were very similar to 1997.

Q. DO YOU HAVE THE SAME CONCERNS AS YOU DID IN DOCKET NO. 97-035-01?

A. Yes. There are goals that are not designed to be measurable, there are goals that are ordinary tasks and/or responsibilities of employees, and the Company has not provided evidence that the goals were attained.

Q. DID YOU REQUEST SUPPORT THAT THE GOALS HAD BEEN ACHIEVED?

A. Yes. The Company was requested in CCS 4.90 to provide the plan, a summary of goals for 1998 and comparison of the actual achievements. Attached as CCS Exhibit 2.5 is the response. The comparison provided is simply performance percentages and payout percentages. No detail is provided that compares the goals identified by the plan to the actual results.

Q. DID YOU ATTEMPT TO OBTAIN THE DESIRED INFORMATION?

A. Yes. The Company was requested in CCS 24.37 to provide the numerator and denominator that resulted in each of the performance percentages. The response was as follows:

> For most work groups the performance percentages are the result of weighting numerous goals. Further, most work groups have a performance scale for determining performance rather than a formula which involves a numerator and denominator. For instance, employees at the Carbon Plant have a goal related to equivalent availability. For the goal, the employees receive a 100 percent performance factor for 94.63% availability, an 80% performance factor for 92.51% availability and a 112% performance factor for 95.16% availability. The performance factor is not the actual performance divided by 94.63%. Performance scales relating levels of achievement and associated performance factors are provided in PacifiCorp's response to CCS Data Request 24.42.

The response avoids providing sufficient detail to evaluate the goals and the actual results.

Q. WERE THERE OTHER ATTEMPTS TO EVALUATE THE GOALS?

A. Yes. The Company, in CCS 24.42, was asked to identify the goals listed that were set at a level that required performance above levels previously achieved. The response was as follows:

> The Company has not completed such an analysis. The company does not require that goals always be an increase over the prior year. It is a requirement they provide for stretch performance but this stretch may consist of achieving the same performance as in the prior year with a reduced workforce or with increased fuel costs. Provided in Attachment CCS 24.42(a) are examples from two Company workgroups.

The attachment consisted of the goals for two years, the performance percentages and the payout percentages. The response also raises a concern regarding whether goals are changed to encourage or motivate employees.

CCS 24.42 also requested the goals and results for the years 1997 and 1998. The response provided the goals for some, but not all, of the work groups. The Company stated that the actual result was not "readily available."

Q. DID YOU REVIEW THE GOALS THAT WERE PROVIDED?

A. Yes. Attached as Confidential CCS Exhibit 2.4, page 2, is a listing of some of the work groups. The exhibit identifies the weighting for respective goals and the ultimate pay out for the respective work group.

Q. WHAT DID YOU DETERMINE FROM YOUR REVIEW OF THE GOALS?

- Begin Confidential -

A.

Q.

A.

- End Confidential -

Q. HOW DID YOU DETERMINE YOUR ADJUSTMENT?

A. First, I had to decide what data response with the amount of expensed incentive compensation I would use. Then, I had to decide whether the expense amounts provided should be adjusted for the incentive adjustments included in the filing.

Q. WHY DID YOU HAVE TO DETERMINE WHAT RESPONSE TO USE?

A. The Company was requested in CCS 24.36 to provide the unadjusted expense and adjusted expense by type of incentive plan. In CCS 24.22, the Company was requested to provide the expense by account. The responses did not match. The response to CCS 24.36 showed a total Company expense of $17,472,402 and a Utah expense of $6,116,982. The response to CCS 24.22 showed a total Company expense of $16,879,848 and a Utah expense of $5,997,542. The Company did indicate in response to CCS 18.8 that CCS 24.36 was overstated by $70,759. However, a difference still remains. Because of that error, an apparent inconsistency in the response CCS 24.36, and the fact that CCS 24.36 amounts were higher, I selected CCS 24.22 as the basis for my calculation.

Q. WHAT INCONSISTENCY DID YOU FIND?

A. The Company, in CCS 24.36, was requested to provide the amount of each type of incentive compensation expense in the test year, the adjustment to each reflected in the filing, and the balance as adjusted in the filing. The response was as follows:

> The requested information for the unadjusted incentive compensation O&M expense in the test year was provided in the company's response to CCS Data Request 2.16. A copy is provided herein as Attachment CCS 24.36. Regarding adjustments to incentive compensation expense, Adjustment 4.4 in Exhibit 1 of Jeffrey K. Larsen removes from the test period the cost of the Long-Term Incentive Plan (LTIP), an executive stock compensation program. Adjustment 4.8 in Exhibit 1 of Jeffrey K. Larsen removes the catch-up of 1997 underaccrual of incentive compensation expense which was booked in 1998. There are no other adjustments in the filing to incentive compensation expense. (Emphasis added)

According to Company adjustment 4.4, the amount of Long-Term Incentive Plan charges to 920.3 in 1998 was $1,760,734. The attachment to CCS 24.36 showed a so called "unadjusted" expense of $1,402.92. It appears this unadjusted expense was really an adjusted amount. This was further substantiated by comparing the different amounts for Account 920.3 to the response to CCS 8.11, which showed an unadjusted Account 920.3 balance of $2,528,786.

Q. DID YOU TAKE INTO CONSIDERATION THE COMPANY'S TWO INCENTIVE COMPENSATION ADJUSTMENTS?

A. No. As I indicated, the larger expense amounts that were provided in response to CCS 24.36 were apparently already adjusted, at least for Company adjustment 4.4. Therefore, I am assuming the provided amounts were also adjusted for Company adjustment 4.8. As indicated earlier, I did ask PacifiCorp to provide the information in a format that showed unadjusted, the adjustments and the adjusted amount in the filing, and they elected otherwise. Finally, since I utilized the more conservative amounts in CCS 24.22, I assumed that those amounts were also adjusted.

Q. WHAT AMOUNT ARE YOU RECOMMENDING BE ALLOWED?

A. As shown on CCS Exhibit 2.4, page 1, I am recommending 37.5% of incentive compensation expense be allowed. By using the averages on CCS Exhibit 2.4, page 2, I eliminated the goals that were already compensated for elsewhere and then generously recommended half of the remaining 75% be allowed. Test year expense should be reduced $3,735,964 on a Utah basis.

Q. WHY DID YOU ALLOW HALF OF THE 75%?

A. The goals, as discussed, remain questionable. To the extent there may be some benefit to ratepayers, I decided that if the benefits are shared, then the costs should be shared.

SERP

Q.