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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PacifiCorp for Approval of its Proposed Electric Rate Schedules and Electric Service Regulations	)	REQUEST FOR RECONSIDERATION Docket No. 99-035-10

Pursuant to § 63-46b-13, *Utah Code Annotated*, and R746-100-11, *Rules of the Public Service Commission,* the Committee of Consumer Services (the "Committee") requests that the Utah Public Service Commission (the "Commission") reconsider its Report and Order in the above-entitled matter issued May 24, 2000. More particularly, the Committee requests that the Commission reconsider its findings, conclusions and order on five issues: (1) Supplemental Executive Retirement Program (SERP) expenses; (2) Noell Kempf Climate Action Project expenses; (3) Re-engineering expenses; (4) Systems Applications and Product Software (SAP) expenses; and (5) Glenrock Closure Reclamation Costs. The reasons for the Committee's Request for Reconsideration on these issues are set forth below.

I. SERP

It is undisputed that SERP is a non-qualified retirement plan for a select group of executives. With respect to this issue, the Report and Order states:

> Although it has been argued that the SERP plan is extra compensation to executives who did not perform well during the test year, it is our opinion that a SERP plan is an essential part of executive compensation in recruiting and retaining qualified executives, and we therefore reject the Committee's adjustment and accept the

Company's.

Report and Order, p. 57. The Committee is concerned about the precedent this may set. In this test year we have the clear and strong testimony of management that the same management covered by this SERP failed to adequately control costs, failed to pay attention to its core electric operations, was pre-occupied by a global expansion misadventure, and caused the need for a merger where one of the key benefits would be new management. To have ratepayers pay these expenses based on the Company's claim that they are necessary to attract and retain qualified executives in the face of this admitted failure of those same executives is not fair to ratepayers and borders on being offensive. If not corrected, this may set the precedent that no matter how poorly management performs, its remuneration, including supplemental, non-qualified retirement plans, will be fully funded by ratepayers. The Committee requests that the Commission reconsider its order on this issue.

II. Noell Kempf Climate Action Project

The Company booked and sought recovery of $763,500 for the Noell Kempf Climate Action Project. This is approximately 44 percent of the projected total of the project. The total projected cost, including future expenses not yet incurred, is $1.75 million. PacifiCorp sought recovery of $763,500 in the test year. It appears, however, that the Report and Order brings in future expenses for the project and then amortizes the costs. The Report and Order states: "We will allow recovery of Utah's share of the $1.75 million total project expenditure, but will spread it over five years in order to better match benefits to costs." The Report and Order allows recovery of all of the project costs including future costs, amortized over five years. That is not consistent with test year rules. Not even PacifiCorp requested recovery of all of the costs – the Company only asked for recovery of those costs actually booked in the test year. Granting recovery now, even through an amortization of future costs, is improper. If any amount is to be recovered through an amortization, it should only be the amount booked in the test year and requested by the Company. The Commission should reconsider and correct this portion of the Report and Order.

III. Re-Engineering Costs

The Committee requests that the Commission reconsider its decision to include a five-year amortization of re-engineering and training expenses in rates. As the Company's own witnesses admit, these re-engineering expenses are tied directly to the implementation of Systems Applications and Products (SAP) program. Productivity gains from the implementation of any computer product or software system cannot be obtained by partially loading that system on a computer or implementing it at one location, the Naughton Generation Plant. Moreover, there is no hard evidence on the record that the re-engineering program served to enhance productivity at the Naughton Generation Plant. The SAP program depends on implementation across the entire Company before productivity gains can be realized.

Page 61 of the *Report and Order*, states with respect to the BSIP project "This led to a new integration of software systems, and to reduction in inventories and staff." If this were the case, then the Company would be able to show a direct relationship between the re-engineering costs and reduction in employees. However, the evidence including the Company's Board of Director's meeting minutes and their authorization of employee reductions through the early retirement programs indicate that the Company's failure to control costs were the driving factors for these programs, not any re-engineering program.

The factual findings in the *Report and Order* seem to agree when it states:

> Though the Committee does not dispute implementation of SAP at the Naughton Plant, it argues that the potential benefits of re-engineering cannot be realized until SAP is fully implemented throughout the Company. It also asserts that no party has shown that SAP produced any benefit in the form of improvements in productivity during the test year. This Committee statement is correct insofar as the benefits claimed by the Company depend on assertions about actions not taken. We are more interested in measurable and sustainable gains in productivity. <u>No evidence of this sort exists on the record.</u>

Report and Order, pp. 62-63 (emphasis added). The Report and Order, however, also states:

> We adopt the recommendation of LCG, which is independently recommended by the Committee, to require a performance audit of the entire project. One aspect of this audit should inform us how an allocation of these expenditures should be performed. We await receipt of the imminent semi-annual report on operations for 1999 and the ScottishPower merger transition plan before stating more clearly the audit requirements. Suffice it to say here, we expect such an audit to be limited, focused, and directly on the points raised herein by its proponents. We believe the record in this Docket is sufficient to begin an amortization in this test year because SAP was installed in one generation station and we give some weight to the Company's claim that benefits were realized. Should the audit indicate otherwise, appropriate adjustments can be made. We therefore accept the proposal of the Company and the Division to amortize re-engineering and training expenditures over five years.

Id. at 63. This contemplates an audit to determine if the expenses are prudent and to determine the allocation of the expenses. It is improper to include the expenses in rates before such an audit is completed. The Committee does not see how "appropriate adjustments" can be made should the audit reveal that no expenses should have been included in rates at this time. If these rates were interim and subject to refund, then adjustments could be made. Without such a remedy, however, it would appear that any overcharges in current rates would not be able to be “adjusted.”

The Committee respectfully requests that the Commission reconsider its decision and exclude re-engineering costs from test-year expense.

IV. Systems Applications and Product Software (SAP)

The Committee requests that the Commission reconsider its interpretation of purported SAP benefits. The Company booked the $80 million of SAP-related costs in December 1998, not because these costs provided any benefit, but merely to make an accounting entry. The Company’s witnesses have not furnished any credible evidence demonstrating that any productivity gains were realized from SAP. In fact, when questions were asked on discovery related to productivity gains, the Company failed to provide any documentation that could be verified by audit or examination. It waited until the rebuttal phase of the case to put forth a nebulous calculation. The Company witness on this issue, Mr. Meier, also admitted that the Company’s business plan showed that there would not be any productivity gains in the first year of implementation of SAP, that productivity gains would not occur until the midpoint of the second year when SAP would have been fully implemented. [TR 387:14 - 389:4]. He agreed that under that plan no benefits would occur until late 1999 at the earliest. *Id*.

It is inappropriate to recognize costs in any test year where the product or service associated with the cost outlay did not become used and useful. That is the case with the implementation of SAP. The fact that the Company made a journal entry in December 1998 to move these costs from construction work in progress (CWIP) to plant in-service does not change the fact that SAP was not used and useful in 1998. To include the costs would violate the Utah Commission’s test year principle of recognizing costs only when they provide a matching benefit to ratepayers. The Committee respectfully submits that the Commission should stand by its long-standing test year policy, reverse its decision related to SAP, thereby excluding all SAP-related costs from the 1998 test year.

V. Glenrock Closure Reclamation Costs

The Committee requests that the Commission reconsider its decision related to the reclamation costs of the

Glenrock mine. PacifiCorp asserts that the Commission must allow reclamation costs in the current rates because "...that final reclamation work began at the mine during the test year," Exhibit CCS-1.11R and 1.12R show that reclamation costs have been ongoing at the mine and that no particular date is associated with the start of final mine reclamation. Company Witness Getzelman even admitted this when he stated:

> That reclamation is an ongoing process and that would be included as part of the ongoing process of mining the additional 53 million tons so that, when the point..in essence, you've got a moving pit and when you get to the end of the mine, that's the pit that needs to be reclaimed. You are doing ongoing reclamation work on a constant basis, depending on what your production needs and availability of equipment and all part of the mine planning process.

[TR 2174:17 - 2175:1]. The Company's own witness refutes the conclusion that the final reclamation process started in 1998. Reclamation is an ongoing process and final reclamation can only be completed after the mine has stopped production. This did not occur in the test year and, therefore, the reasoning the Commission used for allowing final reclamation costs in the test year is unsupported by the facts in the case.

The Committee respectfully requests that the Commission reconsider its decision on this issue.

Conclusion

Based on the foregoing, the Committee respectfully requests that the Commission reconsider its decision with respect to SERP, the Noell Kempf Climate Action Project, Re-engineering, SAP expenses, and Glenrock Reclamation expenses.

Dated this 13th day of June, 2000.

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Committee of Consumer Services

CERTIFICATE OF SERVICE

I hereby certify that I caused a copy of the foregoing Request for Reconsideration, in Docket No. 99-035-10, to be mailed, postage prepaid on this 13th day of June, 2000, to the following:

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