

1 Q. Please state your name and business address.

2 A. My name is Jeffrey K. Larsen. My business address is One Utah Center, Suite  
3 2300, 201 South Main Street, Salt Lake City, Utah, 84140-2300.

4 **Qualifications**

5 Q. Briefly describe your education and business experience.

6 A. I received a Master of Business Administration Degree from Utah State  
7 University in 1994 and a Bachelor of Science Degree in Accounting from  
8 Brigham Young University in 1985. I joined PacifiCorp (the Company) in 1985  
9 and have held various accounting regulatory related positions prior to my current  
10 position. I am currently employed as Director of Revenue Requirement. My  
11 primary responsibilities include the calculation, justification and reporting of  
12 regulated earnings, interjurisdictional cost allocations and communications with  
13 regulators on jurisdictional embedded cost-related issues in the six jurisdictions in  
14 which the Company provides retail electric services. In addition to my formal  
15 education, I have also attended various educational, professional and electric  
16 industry related seminars during my career at the Company.

17 **Purpose of Testimony**

18 Q. Are you familiar with the pre-filed direct testimony of the witnesses for the Utah  
19 Division of Public Utilities (“DPU” or “Division”) and the Committee of  
20 Consumer Services (“CCS” or Committee)?

21 A. Yes, I am.

22 Q. What is the purpose of your testimony?

1 A. The purpose of my testimony is to provide rebuttal to certain contentions,  
2 proposals and statements made by Division Witness Ronald L. Burrup and  
3 Committee Witness Donna DeRonne. Specifically, I will address Mr. Burrup's  
4 proposed adjustment to reduce fuel costs at the Dave Johnston Plant and Ms.  
5 DeRonne's proposed adjustment to reduce test period rate base to reflect amounts  
6 received for environmental clean-up projects that remain unexpended. I will  
7 show that Mr. Burrup's adjustment is inconsistent with the treatment accorded  
8 similar costs and should be modified. I will also demonstrate that Ms. DeRonne's  
9 adjustment is inappropriate and should be rejected.

10 **Dave Johnston Coal Costs**

11 Q. What issue has been raised by Mr. Burrup with respect to Dave Johnston Plant  
12 coal costs?

13 A. Mr. Burrup argues that October 1999 coal costs were excessive because of true-up  
14 expense accruals related to the final closure of the Glenrock Mine. He proposes  
15 to reduce Dave Johnston fuel costs to remove these non-recurring costs from the  
16 test period.

17 Q. What is your response to Mr. Burrup's proposed adjustment?

18 A. The Company acknowledges that certain accrual adjustments were necessary at  
19 the time of final closure of the Glenrock Mine and that these represent one-time  
20 expenses. However, the Company would also argue that these expense true-ups  
21 were unavoidable and should be treated in the same manner as other mine closure  
22 costs. Therefore, PacifiCorp proposes that the excess costs identified by Mr.  
23 Burrup be treated in the same manner prescribed for other Glenrock Mine closure

1 costs by the Stipulation in this proceeding. That treatment would call for a ten-  
2 year amortization of these one-time costs, with the first year's amortization  
3 reflected in current test year expense, and the unamortized balance reflected in  
4 rate base. I have prepared Rebuttal Exhibit UPL \_\_\_\_1R (JKL-1R) to show the  
5 impact of the Company's proposed treatment. Rebuttal Exhibit UPL \_\_\_\_1R  
6 (JKL-1R) shows that test period expense would decrease by \$238,548 and rate  
7 base would increase by \$119,274.

8 **Environmental Settlements**

9 Q. Please describe how environmental clean-up costs have been accounted for in the  
10 Company's filing in this proceeding.

11 A. In 1996 PacifiCorp received an insurance settlement of \$33 million for  
12 environmental clean-up projects and in 1998 received an additional \$5 million.  
13 These amounts were paid by the Company's insurance carriers in settlement of  
14 current and future environmental clean-up liabilities. The insurance proceeds  
15 were transferred to a Company subsidiary called PacifiCorp Environmental  
16 Remediation Company (PERCO), which is actually responsible for performing  
17 the clean-up activities. Since the premiums on the insurance policies that gave  
18 rise to the settlements were borne by regulated customers, the \$38 million of  
19 insurance proceeds represents a zero-cost source of working capital for  
20 PacifiCorp. To give ratepayers full credit for providing this working capital, the  
21 insurance proceeds have been reflected as a rate base reduction. As PERCO  
22 makes expenditures on clean-up projects, these amounts are offset against the  
23 balance of the insurance proceeds. The net effect is that environmental clean-up

1 costs are not reflected in test period expense but result in a declining rate base  
2 deduction as the costs are offset against the insurance proceeds.

3 Q. What issue has been raised by Ms. DeRonne with respect to amounts received in  
4 settlement of liabilities associated with environmental clean-up projects?

5 A. Ms. DeRonne refers to the Company's response to CCS Data Request 13.8 which  
6 mentions an additional settlement payment of \$10 million that was received in  
7 February 1999. She proposes an adjustment to claim this additional \$10 million  
8 payment as a rate base reduction, representing additional customer-supplied  
9 working capital.

10 Q. Is it appropriate to include the \$10 million received in 1999 as a reduction to  
11 regulated rate base?

12 A. No. This payment has nothing to do with costs incurred by the Company's  
13 regulated business. Ms. DeRonne jumps to the conclusion that this payment was  
14 "an additional insurance settlement payment", although Company Response 13.8  
15 makes no reference to insurance. In fact, the \$10 million received in 1999 does  
16 not represent working capital supplied by regulated customers. Rather, the \$10  
17 million payment in 1999 was received from an independent third party having no  
18 affiliation with PacifiCorp. Both PacifiCorp and the third party are successor  
19 corporations to companies that allegedly owned and/or operated former  
20 manufactured gas plants at various sites. The \$10 million payment from the third  
21 party to PacifiCorp was made in settlement of all potential past, present, and  
22 future claims which might arise out of and/or relate to environmental  
23 contamination at the sites. In other words the payment to PacifiCorp was in

1 settlement of all alleged obligations by the third party at all sites where the two  
2 companies may have been jointly liable. The third party had \$10 million in cash  
3 and a corresponding alleged environmental clean-up liability. Pursuant to a  
4 confidential settlement, both the cash and the liability were transferred to  
5 PacifiCorp. This payment was not an insurance settlement and is not related to  
6 any costs that were ever borne by regulated customers. The \$10 million was paid  
7 directly to PacifiCorp Financial Services (PFS) and immediately transferred to  
8 PERCO's account. At no time was this amount ever reflected in regulated  
9 accounts.

10 Q. Did the receipt of the \$10 million payment to PacifiCorp mark a change in the  
11 scope of environmental clean-up work being done by PERCO?

12 A. Yes. Previously, PERCO, which is partly owned by CH2MHill, was involved  
13 primarily in environmental clean-up work arising from PacifiCorp's business as a  
14 regulated utility. After the receipt of the \$10 million payment, PERCO increased  
15 the amount of clean-up work related to unaffiliated, unregulated businesses. It is  
16 PERCO's intention to continue to market its unique expertise to other third-party  
17 customers as future opportunities may arise.

18 Q. What do you conclude about Ms. DeRonne's proposal to include the \$10 million  
19 payment to PacifiCorp as a rate base reduction in this proceeding?

20 A. As explained above, Ms. DeRonne's adjustment is completely inappropriate. The  
21 payment is a non-utility transaction that results in PacifiCorp shareholders  
22 assuming an additional environmental clean-up liability in return for \$10 million

1           in cash. This transaction has no relation to past or future regulatory issues and  
2           should be excluded from this proceeding.

3    Q.     Does this conclude your rebuttal testimony?

4    A.     Yes.