1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp (the Company).**
3 A. My name is Paul M. Wrigley. My business address is 825 NE Multnomah St.,
4 Suite 800, Portland, OR 97232. My present position is Manager of Revenue
5 Requirement in the Regulation Department.
6 **Q. Qualifications**
7 **Q. Please briefly describe your education and business experience.**
8 A. I graduated from Westfield College, London University in 1974 with a B.S. in
9 Mathematics. In addition, I received a M.S. in Probability & Statistics from
10 Sheffield University in 1975. From 1975 to 1977, I undertook post-graduate
11 research at Sheffield University. From 1977 to 1980 I was employed as a
12 Statistician in local government. I joined the Company in the Load Forecasting
13 section in 1981 and progressed through various positions in the area of
14 forecasting. I joined the Regulation Department in 1995 and assumed my present
15 position in December of 2004.
16 **Q. What are your responsibilities?**
17 A. My primary responsibilities include the calculation and reporting of the
18 Company's regulated earnings or revenue requirement and the explanation of
19 those calculations to regulators in the six jurisdictions in which PacifiCorp
20 operates.
21 **Purpose of Testimony**
22 **Q. What is the purpose of your testimony in this proceeding?**
23 A. The purpose of my testimony is to present the Company's Washington Results of

1 Operations Report (Report) for the test period (the twelve months ended
2 September 30, 2004); with limited known and measurable adjustments through
3 the end of the rate effective period (the twelve months ended March 31, 2007). In
4 presenting this Report, I indicate the sources of the base data, and describe certain
5 normalizing, annualizing and pro forma adjustments to the base data. My
6 testimony presents evidence that based on its results of operations for this test
7 period, PacifiCorp is earning an overall return on equity (ROE) in Washington of
8 3.49% percent. This return is less than the ROE currently authorized by the
9 Washington Utilities and Transportation Commission (Commission) and is less
10 than the return recommended in Dr. Hadaway's testimony to provide a fair and
11 equitable return for the Company's shareholders. An overall price increase of
12 $39.2 million is required to produce the 11.125 percent ROE requested by the
13 Company in this proceeding.

14 **Q. Please describe the parameters you have used in making known and**
15 **measurable adjustments.**

16 A. As described in the testimony, and consistent with recent Commission decisions,
17 the Net Power Costs have been calculated for the rate effective period, that is, the
18 twelve months ended March 31, 2007. To match up the resources used in making
19 this calculation with the resources in the Company's Rate Base, the Company has
20 included all major plant additions over $5 million placed into service prior to
21 March 31, 2006 as an adjustment to the historic test period in the Report.
22 In addition, as described in the testimony of Mr. Rosborough, the
23 Company is experiencing upward pressure on the areas of Pensions and Benefits.

1 I have therefore included the Wages and Benefits that the Company will
2 experience in the twelve months ended March 31, 2006 as an adjustment to the
3 historic test period in the Report.
4 Other known and measurable changes have been limited to the twelve
5 months ended September 30, 2005.

6 **Results of Operations**

7 **Q. Please explain the exhibits accompanying your testimony.**

8 A. Exhibit No.___(PMW-2) is a page that summarizes the Company's Washington
9 Results of Operations Report. Exhibit No.___(PMW-3) consists of the
10 Company's Washington Results of Operations Report for the test period (the
11 twelve-month period ending September 30, 2004), with limited known and
12 measurable adjustments through the end of the rate effective period (the twelve
13 months ended March 31, 2007). Exhibit No.___(PMW-4) lists the common
14 corporate services that ScottishPower provides to PacifiCorp.

15 **Q. What allocation methodology has the Company used to develop its revenue**
16 **requirement calculations in this proceeding?**

17 A. The Company used the Revised Protocol allocation methodology, as described in
18 the testimony of Mr. Duvall and Mr. Taylor, to develop its revenue requirement
19 calculation.

20 **Q. Please describe the content of the Report.**

21 A. The Report, which was prepared under my direction, details revenues, expenses
22 and rate base assigned to the Company's Washington jurisdiction using the
23 Revised Protocol allocation methodology. The Report provides twelve-month

1 totals for revenues and expenses and shows rate base as a thirteen-month average
2 except for deferred tax balances which are shown at year-end. The operating
3 results for the period are presented in terms of both a return on rate base and a
4 return on equity.
5 Page 1.1 is a summary starting in the left-hand column (1) with
6 Washington Unadjusted Results. Annualization, normalization and pro forma
7 adjustments are then summarized in columns (2), (4) and (6) respectively to sum
8 to the Total Normalized Results in Column (7). The Unadjusted Results are a
9 product of Total Company cost multiplied by Revised Protocol allocation factors
10 derived from weather-normalized loads. Column (2) summarizes the normalizing
11 adjustments which include normalization for Commission-ordered adjustments
12 from prior dockets and unusual items that occur during the test period.
13 Column (4) summarizes the adjustments associated with the annualization of
14 changes that occurred during the test period. Column (6) summarizes pro forma
15 adjustments for identified known and measurable items that will occur before the
16 end of the rate effective period. For comparison purposes, page 1.1 reflects
17 returns on rate base and equity for both the unadjusted and normalized results
18 Page 1.0, Column (1) repeats the information from Page 1.1, Column (7).
19 Page 1.0, Column (2) shows the increase in Washington revenues that would be
20 required for the Company to earn an 11.125 % return on equity from its
21 Washington operations. Page 1.0, Column (3) reflects the Washington
22 normalized results with this revenue increase included.
23 The Unadjusted Results in the first three columns on page 2.2 correspond

1 to the actual data recorded in the Company's accounting records during the test
2 period. Supporting documentation for this data is provided under Tabs B1
3 through B20. Supporting documentation for the normalizing adjustments
4 summarized in the fourth column on page 2.2 is contained in Tabs 3 through 8.
5 The Unadjusted Results, Adjustments and Total Normalized Results are detailed
6 by FERC account in the pages following page 2.2 in Tab 2. A calculation of the
7 Washington Normalized Results utilizing the Modified Accord inter-jurisdictional
8 cost allocation methodology is shown behind Tab 9. The calculation of the
9 Revised Protocol allocation factors is shown under Tab 10.

10 **Q. What conclusions do you draw from the Results of Operations summary**
11 **presented on page 1.0?**

12 A. I observe that, as detailed in Column 4 of page 1.0, an overall price increase of
13 $39.2 million is required to produce the 11.125 percent ROE supported by Dr.
14 Hadaway's testimony.

15 **Q. What conclusions do you draw from the Results of Operations summaries**
16 **presented on pages 1.0 and 9.0?**

17 A. I observe that comparing the Results of Operations utilizing the Revised Protocol
18 methodology (page 1.0) as compared to the Modified Accord methodology
19 (page 9.0) reduces the requested increase by approximately $2.7 million.

20 **Development of Base Data (Unadjusted Results)**

21 **Q. Please explain the process for compiling the base data used in the Report.**

22 A. The revenue, expense and rate base data which comprise the unadjusted Results
23 of Operations is extracted directly from the Company's accounting system and

1 has been summarized under Tabs B1 through B20. The extraction process is
2 largely a matter of downloading information from the Company's accounting
3 database.

4 **Q. Do the Company's unadjusted Results of Operations for the twelve months**
5 **ended September 2004 provide a reasonable basis for setting Company**
6 **prices?**

7 A. Although these results provide a good starting point for the ratemaking process,
8 the test year data reflects the operating environment and the unique set of
9 circumstances that occurred during that particular twelve-month period. It is a
10 fair depiction of actual results for the period, but is not appropriate as a predictor
11 of on-going Company performance, which should be the basis of Company
12 prices. To adequately reflect results on a going-forward basis, it is necessary to
13 make certain normalizing, annualizing and pro forma adjustments to reflect
14 normal conditions.

15 **Description of Adjustment Types**

16 **Q. Please describe what you mean by normalizing adjustments.**

17 A. In reporting the Results of Operations, it is the Company's goal to develop a
18 "typical" test period, free from effects of unusual events. To accomplish this
19 goal, normalization adjusts for out-of-period events and the impact of unusual,
20 non-recurring events, such as one-time write-offs. These normalizing adjustments
21 are also referred to as "restating actual adjustments" in the Commission's rules
22 (WAC 480-07-510(3)(b)(i)), as their purpose is to "adjust the booked operating
23 results for any defects or infirmities in actual recorded results that can distort test

1 period earnings." Adjustment 3.4, Little Mountain Steam Revenues, is an
2 example of the normalization of a nonrecurring event. Normalization also
3 includes Commission-ordered adjustments from prior dockets. Adjustment 5.4,
4 the removal of all investment and costs associated with Colstrip Unit 3 from the
5 Results of Operations, is an example of a Commission-ordered adjustment. Such
6 adjustments conform to the Commission basis reports described in WAC 480-
7 100-208 (2)(a)(i) – (iii).

8 **Q. Please describe what you mean by annualizing adjustments.**

9 A. Annualization adjustments are those required to reflect the effect of changes that
10 occur partway through the test period. For example, Adjustments 4.7 and 4.8,
11 Wage and Employee Benefits, annualize changes in wages and benefits that took
12 place during the year to reflect a full twelve-month impact.

13 **Q. Please describe what you mean by pro forma adjustments.**

14 Adjustments need not be restricted to events that occurred within the test period.
15 In order to match prices with anticipated conditions in the rate-effective period, it
16 is necessary to reflect significant known and measurable out-of-period pro forma
17 adjustments in the ratemaking process. These pro forma adjustments are in
18 accordance with WAC 480-07-510(3)(b)(ii). For example, Adjustment 3.2,
19 Effective Price Change, reflects the effect of the November 16, 2004 price change
20 that occurred after the end of the base test period.

21 **Adjustments**

22 **Q. How are the adjustments arranged in the Report?**

1 A. A brief description and the underlying reason for each adjustment are first
2 contained in my testimony. Supporting detail for each normalizing adjustment is
3 provided in the Report under Tabs 3-8. Additional information is provided in the
4 descriptions for each of the adjustments included within the exhibit where all
5 adjustments are presented in pre-tax dollars, when applicable. The income tax
6 effect of each adjustment is calculated and reflected on the summary page
7 following each Tab.

8 **Q. Please explain the Revenue adjustments contained in Tab 3.**

9 A. **Weather Normalization** (Adjustment 3.1) – The weather normalization
10 adjustment removes from test period revenue the effects of weather or
11 temperature patterns that were measurably different than normal, as defined by
12 30-year historical studies performed by the National Oceanic & Atmospheric
13 Administration. Only residential and commercial sales are considered weather-
14 sensitive. Industrial sales are more sensitive to specific economic factors than to
15 weather. Test period State and Total Company peak and energy load data used in
16 the calculation of jurisdictional allocation factors and Net Power Costs have also
17 been temperature normalized using the same methodology.

18 **Effective Price Change** (Adjustment 3.2) – This pro forma adjustment annualizes
19 the price increase effective November 16, 2004 to reflect a full year of revenues
20 based on the new rates. This was accomplished by applying the new tariff rates to
21 the actual historical energy usage.

22 **Revenue Normalizing** (Adjustment 3.3 – This adjustment removes the impact of
23 Schedules 97 (Centralia gain), 98 (BPA), 99 (ScottishPower merger credit), 191

1 (System Benefit Charge), the Blue Sky program and out-of-period adjustments
2 from general business revenues.
3 **Little Mountain Steam Revenues** (Adjustment 3.4) – The contract with Little
4 Mountain requires that the price be updated monthly to reflect current market
5 prices. In March 2004, the Company booked revenue from prior periods based
6 upon the then current market prices. This adjustment removes these out-of-period
7 revenues from the historic test period.
8 **Special Revenue Reclassification** (Adjustment 3.5) – Under the Revised
9 Protocol Allocation methodology, all retail contracts are situs assigned. This
10 adjustment reverses system-allocated special contract revenues from the test
11 period and directly assigns those revenues to the appropriate states.
12 **SO2 Emission Allowances** (Adjustment 3.6) – Over the years, PacifiCorp's
13 annual revenues from the sale of emission allowances have been very uneven.
14 Thus, the level of emission allowance sales in any particular year is likely not to
15 reflect the normalized, ongoing level of revenue from such sales. In addition,
16 recognizing SO2 revenues in the year of the sale provides all the benefits to
17 current customers at the expense of customers in the future. Therefore, the
18 Company's approach is to amortize these allowance sales over a fifteen-year
19 period. This is the same treatment used by the Company and first accepted by the
20 Commission in Docket No. UE-940947.
21 **Centralia Gain** (Adjustment 3.7) – In May 2000, the joint-owners of the
22 Centralia plant finalized the sale the plant to TransAlta. When the transaction was
23 completed and the gain from the sale was known, a regulatory liability was set up

1 to recognize customers' share of the gain. This liability is interest bearing and is
2 being returned to customers, in Schedule 97, as a credit on customers' bills over
3 approximately a five year period, as ordered by the Commission in Docket
4 No. UE-991832. (Under this amortization schedule, customers' share of the gain
5 will be fully returned to them by June 2005). As customers receive the credit on
6 their bill, the liability is amortized and an offsetting entry is recorded to account
7 456. Adjustment 3.3 removes the Schedule 97 customer credit and this
8 adjustment removes the liability amortization.

9 **Q. Please explain the O&M adjustments summarized under Tab 4, page 4.0.**

10 A. **Capital Stock Expense Amortization** (Adjustment 4.1) – Capital stock expense
11 in FERC Account 214 represents the cost of acquiring equity capital. It is a cost
12 incurred for the benefit of customers that PacifiCorp is proposing to recover over
13 a twenty year amortization.

14 **Blue Sky Program** (Adjustment 4.2) – The Blue Sky Program is designed to
15 encourage voluntary customer participation in the acquisition and development of
16 renewable resources. To protect non-participants from subsidizing this program,
17 this adjustment removes expenses (administrative costs and green tag purchase
18 costs) associated with this program from the test period. Adjustment 4.2 removes
19 these expenses and the revenues associated with the Blue Sky Program are
20 removed in Adjustment 3.3.

21 **Miscellaneous General Expense** (Adjustment 4.3) – This adjustment removes
22 from results of operations certain miscellaneous expenses that should have been
23 charged below the line to non-regulated expenses.

1 **Regulatory Asset** (Adjustment 4.4) – A number of expenses relating to
2 regulatory assets originally booked to Account 930 in periods prior to the historic
3 test year were reclassed to below the line accounts during the test period,
4 artificially reducing expenses. This adjustment removes the effect of the
5 reclassification from the test period and increases Washington operating expense.
6 The Transition Plan regulatory Asset is being amortized over five years.
7 A reduction in the value of the asset during the test year resulted in the annual
8 amortization being overstated. This adjustment corrects the amortization to the
9 correct annual amount.
10 **California Sale Termination Settlement** (Adjustment 4.5) – In September 2003
11 the Company accrued a $2.0 million liability reserve regarding the Settlement
12 Termination on the Sale of the California Service Territory. In November 2003,
13 the reserve was reduced by $0.35 million to a $1.65 million level. In December
14 2003 and April 2004, the liability was paid out in two equal payments of
15 $825,000 each. These reserve transactions have left a negative $350,000 of
16 expense in FERC account 930 during the current test period. This adjustment
17 removes the $350,000 of negative expense from results of operations since the
18 transaction was a one time non-recurring event.
19 **Interest Expense on Customer Service Deposits** (Adjustment 4.6) – Customer
20 service deposits are included as a rate base deduction. The Company pays interest
21 on these amounts which should be recognized as an offset to the rate base
22 deduction. This adjustment recognizes the interest amount as a miscellaneous

1 expense since the interest true-up for the income tax calculation precludes its

2 inclusion as an interest expense.

1 **Wage and Employee Benefits** (Adjustments 4.7 & 4.8) – PacifiCorp has several labor
2 groups, each with different effective contract renewal dates. Adjustments 4.7 and 4.8
3 annualize the effective wage increases received during the test period for labor charged to
4 operation and maintenance accounts and restates expense as though the wage increase
5 was effective for the entire test year. This annualization was calculated by identifying
6 actual wages for each labor group by month, and applying the negotiated wage increase
7 to the wages for the months prior to the effective contract date. These adjustments also
8 remove wages paid to employees who left during the year.

9 **Pro Forma General Wage Increase** (Adjustments 4.9 & 4.10) – These
10 adjustments shift labor expenses forward to Fiscal 2006 to better match labor cost
11 during the period the proposed rates will be in effect. It uses the annualized labor
12 from Adjustments 4.7 and 4.8 as the base and adds the scheduled wage increases
13 for the period October 1, 2004 through March 31, 2006 into the test period as of
14 the date they become effective. In addition pension, employee benefits and
15 incentives reflect the levels the Company will incur during the rate effective
16 period of Fiscal 2006.

17 The adjustment also includes two normalizing adjustments. The first is
18 the reversal of a write-off of a prior period accrual of a severance reserve created
19 as part of the ScottishPower merger. The credit was released in the quarter
20 ending September 30, 2004.

21 The second is related to workers compensation insurance. The Company
22 received notice that the insurance carrier used by the Company to provide
23 employee Workers' Compensation insurance was in bankruptcy. Therefore, the

1 Company set up a contingency reserve of $11.5 million in June 2003. The reserve
2 is not picked up in the Results of Operation. In March 2004, based on actuarial
3 studies, the reserve was reduced by $6 million on the Company books. This
4 write-down is removed from base year expenses.
5 **International Assignees** (Adjustment 4.11) – This adjustment removes from the
6 base year expense all costs associated with international assignees who have
7 returned to the United Kingdom. Non-salary costs for those international
8 assignees that have "localized" (transferred to the U.S. compensation package) are
9 also removed in this adjustment.
10 **Customer Guarantee Reversal** (Adjustment 4.12) – As part of the
11 ScottishPower merger, a number of customer guarantees were made. A review of
12 these payments identified some customer guarantee payments that were
13 incorrectly booked above the line. Adjustment 4.12 removes those payments
14 from the base year expense.
15 **Scottish Power Cross Charge** (Adjustment 4.13) – PacifiCorp and Scottish
16 Power UK (SPUK) executed a cross charge agreement governing the allocation of
17 costs incurred by each entity on behalf of the other. This cross-charge agreement
18 was filed with the Commission in Docket No. UE-031628. Although SPUK has
19 provided corporate services to PacifiCorp since the merger, cross charges began
20 to be invoiced only as of April 2004. Adjustment 4.13 reflects the annual
21 expected cross charges.

1 The cross charge is attributed to the following categories:

2	Corporate secretarial & shareholder services	$9.2 million
3	Group human resources	$1.5 million
4	Corporate finance	$3.0 million
5	Strategic planning	$0.5 million
6	IT services	$0.5 million
7	Corporate office space	$1.0 million
8	Total	$15.7 million

9

10 The cross charge agreement provides that corporate costs are (1) directly
11 charged, (2) directly allocated, or (3) apportioned on a four-factor formula. Costs
12 directly attributable to an affiliate will be directly charged. For example, external
13 audit fees attributable to PacifiCorp, yet charged to SPUK, will be directly
14 assigned. When direct charging is not applicable, the cost is evaluated for direct
15 allocation. Direct allocation applies when a cost is based on a specific factor. For
16 example, a cost based on personnel headcount would be directly allocated based
17 on the headcount at each affiliate. The employee newsletter costs are directly
18 allocated based on the number of employees at an affiliate. Common corporate
19 costs that cannot be directly assigned or directly allocated are apportioned based
20 on a four-factor formula. The four factors are sales, operating profit, net assets,
21 and employee headcount. PacifiCorp believes the volume of sales, amount of
22 assets, number of employees, and profitability indicate the magnitude of common
23 corporate resources required by the US and UK entities. These four factors are
24 essentially the same as the traditional three factors PacifiCorp has used for a
25 number of years, with the addition of a profitability measure. By including
26 profitability as a factor in the allocation methodology, a business unit that is asset-
27 light yet profitable will be allocated a larger share of corporate costs compared to

1 the three-factor formula. About 46 percent of common corporate costs, such as
2 corporate secretarial, group human resources, and group finance costs are
3 allocated to PacifiCorp on the four-factor formula.

4 **Q. Which regulatory commissions have reviewed the SPUK cross charge and**
5 **issued orders?**

6 A. Although the Washington commission did not issue an order relative to the 2003
7 filing, two state commissions have issued orders relative to the cross charge. The
8 Oregon Public Utility Commission reviewed and approved the methodology for
9 the cross charge of common corporate costs in Docket UI 221. In Utah, the
10 Public Service Commission adopted the Division of Public Utilities
11 recommendations, which were supportive of the cross charge. In addition to these
12 state commission approvals, the Securities and Exchange Commission reviewed
13 and approved the SPUK cross charge in spring 2004.

14 **Q. How long has SPUK provided corporate services to Pacificorp?**

15 A. SPUK has provided corporate services since the merger in 1999. However, prior
16 to March 2004, SPUK did not charge PacifiCorp its share of common corporate
17 services. Test period expense is based on corporate cost center budgets for fiscal
18 year 2005

19 **Q. What common corporate services does ScottishPower provide to PacifiCorp?**

20 A. Exhibit No.___(PMW-4) lists the common corporate services that ScottishPower
21 provides to PacifiCorp.

1 **Q. Is Pacificorp seeking to recover all of the common Corporate Services**
2 **described in Exhibit No. ___ (PMW-4)?**
3 A. No. PacifiCorp is not seeking recovery of costs associated with the services
4 provided by the Strategy department and costs for the Long Term Incentive Plan.
5 **Q. Are all ScottishPower corporate costs considered common Corporate Costs?**
6 A. No. For example, PacifiCorp has its own internal audit department. Group
7 internal audit does not audit PacifiCorp, so the costs for this ScottishPower
8 corporate department are allocated solely to the divisions based in the UK.
9 Additionally, costs considered to be costs of the holding company Scottish Power
10 Plc are excluded from common corporate costs. Of the total corporate cost base
11 in the UK in FY 2005, PacifiCorp was cross charged 21%.
12 **Q. How is the PacifiCorp share of common Corporate Costs calculated?**
13 A. A direct allocation method is used where possible. About 51% of corporate costs
14 are allocated based upon the direct allocation approach. Costs for the senior
15 management development and reward department are allocated based on
16 membership of the Senior Management Group (SMG). Where there is not a clear
17 direct allocation method, common corporate costs are allocated using a four-
18 factor formula which uses net assets, revenue, operating profit, and employee
19 count as the four factors.
20 **Q. Why is it appropriate to allocate SPUK indirect common corporate costs**?
21 A. To the extent that a direct cause and effect relationship exists, costs are directly
22 charged on that relationship. However, indirect overhead costs do not lend
23 themselves to direct assignment. Consequently, an equitable method of allocating

1 indirect common costs is required. For that reason, a blend of four factors – revenue, operating profit, assets, and employee count – are relied upon to produce a fair and equitable allocation of indirect group common costs to the organizations that benefit from the cost activity. Since indirect costs cannot be directly assigned, we allocate them based on factors that reflect the relative magnitude of benefits received with the objective of producing an equitable outcome.

Q. Does PacifiCorp provide corporate services to ScottishPower?

A. Yes. The cross charge policy is reciprocal and provides that PacifiCorp charges ScottishPower for certain group corporate services. For example, two PacifiCorp officers have group responsibilities: Michael Pittman, Group Director of Human Resources, and Robert Klein, Group Energy Risk Director. Like the ScottishPower group personnel, executive costs of these two officers are allocated across the ScottishPower family of companies. As a result, PacifiCorp bears only a percentage of the cost of these officers.

Q. Please continue to describe the O&M adjustments behind Tab 4.

A. **Cholla Transaction Costs** (Adjustment 4.14) – In September 2003, the Company set up contra regulatory assets for the disallowed portion of the Cholla Transaction Costs. The contra regulatory assets are allocated situs to their specific states. However, the amortization expense associated with these contra assets was allocated on a system basis. This adjustment corrects the allocation of amortization expense from system to situs, thus removing all Cholla Transaction Costs from the test period.

1 **DSM Amortization Removal** (Adjustment 4.15) – This adjustment removes all
2 expenses relating to DSM that are recovered through separate tariff riders. The
3 related regulatory assets are not included in rate base and therefore the expenses
4 should not be included in regulatory results.
5 **Hydro Relicensing Settlement Obligations** (Adjustment 4.16) – This adjustment
6 removes the asset, amortization, and accumulated amortization related to the Bear
7 River and North Umpqua Hydro settlement obligations. The liabilities associated
8 with these assets have already been removed from the unadjusted data. The
9 accretion related to the liabilities is normalized out in the interest synchronization,
10 requiring no additional adjustment. The adjustment adds the cash payments that
11 occurred during the test period to expense.
12 **Property Insurance** (Adjustment 4.17) – This adjustment adjusts expenses in
13 Account 924, Property Insurance and Account 925, Injuries and Damages, to
14 reflect the change in premiums and uninsured losses for property and liability
15 insurance that the Company expects to experience during FY 2006.
16 **Q. How was the Net Power Cost adjustment calculated?**
17 A. The Net Power Cost adjustment normalizes revenues and expenses in a manner
18 consistent with normalized operation of production facilities, as described in
19 Mr. Widmer's testimony. The normalized Net Power Cost developed and
20 explained in Mr. Widmer's testimony is reflected in Tab 5. I will explain how the
21 Net Power Cost is reflected in results and also describe several other adjustments
22 that affect power costs.

1 **Q. Please explain the Net Power Cost adjustments summarized under Tab 5,**
2 **page 5.0.**
3 A. **Net Power Cost Study** (Adjustment 5.1) – The Net Power Cost adjustment
4 normalizes steam and hydro power generation, fuel, purchased power, wheeling
5 expense, and sales for resale in a manner consistent with the contractual terms of
6 sales and purchase agreements. It also normalizes hydro and weather conditions
7 for the adjusted test period as described in Mr. Widmer's testimony. This study
8 removes the Black Hills special sales and the fuel expense associated with
9 Colstrip 3 as directed by the Commission in Cause No. U-86-02. Page 5.1.1 of
10 the Report compares the normalized Net Power Costs developed by Mr. Widmer
11 to the actual test period amounts to determine the amount of the adjustment.
12 **System Balancing Activity** (Adjustment 5.2) – The Company models the
13 normalized wholesale sales and purchase activities in the net power cost
14 calculations. Adjustment 5.2 removes system balancing activities from the base
15 year that were recorded to account 456 to avoid a double count of these sales.
16 **BPA Regional Exchange** (Adjustment 5.3) – This adjustment reverses the BPA
17 credit from purchased power costs. Adjustment 3.3 removed the credit from
18 revenues. Since this credit is a pass-through to PacifiCorp customers from BPA,
19 it should not be included in determining PacifiCorp's revenue requirement.
20 **Removal of Colstrip** (Adjustment 5.4) – As directed by the Commission in
21 Cause No. U-86-02, this adjustment removes all costs (except fuel expense
22 previously removed in Adjustment 5.1) of the Colstrip 3 plant from the results.

1 **Q. Please explain the tax adjustments summarized under Tab 7, page 7.0.**

2 A. **Interest True-Up** (Adjustment 7.1) – The amount of interest expense included in
3 the test period is a cost of financing rate base through debt securities. It is
4 therefore appropriate to synchronize, or true up, the amount of interest expense
5 with the amount of rate base. This true up was accomplished by multiplying the
6 jurisdiction-specific adjusted rate base by the weighted cost of debt. The interest
7 determined in this manner was then compared to the actual interest recorded
8 during the base test period to determine the necessary adjustment. Interest
9 expense is a deduction to taxable income, and therefore the revenue requirement
10 impact of the interest true up is reflected as a change in income tax expense.

11 **Property Tax Adjustment** (Adjustment 7.2) – This adjustment normalizes the
12 difference between actual accrued property tax and forecasted property tax
13 expense resulting from estimated capital additions. FY 2005 Property Taxes were
14 calculated based on earnings, investment and property valuations for the FY 2005
15 test period.

16 **Renewable Energy Tax Credit** (Adjustment 7.3) – This adjustment normalizes a
17 federal renewable energy income tax credit the Company is entitled to take as a
18 result of placing the Foote Creek, Wyoming wind generating plant into service.
19 The tax credit is based on the generation of the plant, and the credit can be taken
20 for ten years on qualifying property.

21 **IRS Settlement** (Adjustment 7.4) – PacifiCorp previously made settlement
22 payments to the IRS which totaled $64,217,849. In the Company's last general
23 rate case, Docket No. UE-032065, the Company proposed to rate base this

1 amount and amortize it over a five-year period. Consistent with the treatment that
2 was adopted for purposes of the settlement agreement approved by the
3 Commission in that Docket (Order No. 06, Appendix A, Attachment A), this
4 adjustment adds half of the Washington-allocated portion of the annual
5 amortization to expense and half of the unamortized balance of payments to rate
6 base.

7 **Malin-Midpoint Adjustment** (Adjustment 7.5) – In 1981 PacifiCorp placed a
8 transmission line known as the Malin-Midpoint into service. The Company was
9 eligible for investment tax credits and accelerated depreciation. PacifiCorp
10 entered into a Safe Harbor lease to transfer the tax benefits to an unrelated third
11 party. The amount of the lease was $43,869,000. In Cause Nos. U-82-12/35 and
12 U-83-33, the Commission ordered the gain to be amortized over a thirty-year
13 period with associated rate base treatment.

14 **Flow-Through Deferred Tax** (Adjustment 7.6) – In Cause Nos. U-86-02 and U-
15 84-65, the Commission ordered that deferred taxes be included in rate base at the
16 year-end level rather than the thirteen-month average balance used for other rate
17 base items. The base data for deferred taxes reflect this treatment. This
18 adjustment removes the deferred tax expenses and related year-end accumulated
19 deferred tax balances for all items that are not related to the life and method
20 differences between book and tax depreciation. This in effect flows through to
21 income the current tax impacts on these items. This is the treatment allowed
22 under the settlement in the Company's last general rate case, Docket No. UE-
23 032065.

1 **Domestic Manufacturing Deduction** (Adjustment 7.7) – The American Jobs
2 Creation Act brought about a permanent deduction for activities related to
3 manufacturing or, in the case of a utility, a generation-related deduction. This
4 permanent deduction is available for tax return years that begin after December
5 2004. The first year that this deduction applies to PacifiCorp will be FY 2006.
6 The adjustment brings in a preliminary estimate of the impact of the
7 manufacturing deduction as a credit to the federal tax expense related to the
8 generation activity taxable income. It is assumed that this deduction applies to
9 federal income tax only, as no state served by the Company has specifically
10 adopted this part of the federal tax code. The Company proposes to update this
11 Adjustment in the event the IRS approves the methodology proposed by the
12 Edison Electric Institute.
13 **Update Schedule M Differences** (Adjustment 7.8) – Accruals for costs that are
14 not to be paid out within 2.5 months after the end of the fiscal year are not
15 deductible for income tax purposes. This adjustment aligns the schedule M items
16 related to pension costs and other miscellaneous costs with those costs as they are
17 updated in this case, and also removes any schedule M items related to costs that
18 are not ongoing.
19 **Q. Please explain the miscellaneous rate base adjustments summarized under**
20 **Tab 8, page 8.0.**
21 A. **Update Cash Working Capital** (Adjustment 8.1) – This adjustment is necessary
22 to true up the cash working capital for the normalizing adjustments made in this
23 filing. Cash working capital is calculated by taking total operation and

1 maintenance expense allocated to Washington (excluding depreciation and
2 amortization) and adding Washington’s share of allocated taxes, including state
3 and federal income taxes and taxes other than income. This total is divided by the
4 number of days in the year to determine the Company's adjusted daily cost of
5 service. The daily cost of service is multiplied by net lag days to produce the
6 adjusted cash working capital balance.
7 **Trapper Mine** (Adjustment 8.2) – PacifiCorp owns a 21.40 percent interest in the
8 Trapper Mine, which provides coal to the Craig generating plant. The normalized
9 coal cost of Trapper includes all operating and maintenance costs but does not
10 include a return on investment. This adjustment adds the Company's portion of
11 the Trapper Mine plant investment to rate base. This investment is accounted for
12 on the Company's books in Account 123.1 - Investment in Subsidiary Company.
13 However, Account 123 is not normally a rate base account. This adjustment
14 reflects net plant rather than the actual balance in Account 123 to recognize the
15 depreciation of the investment over time.
16 **Jim Bridger Mine** (Adjustment 8.3) – PacifiCorp owns a two-thirds interest in
17 the Bridger Coal Company, which supplies coal to the Jim Bridger Generating
18 Plant. The Company’s investment in Bridger Coal Company is recorded on the
19 books of Pacific Minerals, Inc. (PMI). Because of this ownership arrangement,
20 the coal mine investment is not included in electric plant in service. The
21 normalized coal costs for Bridger Coal Company include the operating and
22 maintenance costs of mining, but provide no return on investment. This
23 adjustment is therefore necessary to properly reflect the Bridger Coal Company

1 investment in test period rate base.

2 **Pro Forma Major Plant Additions** (Adjustment 8.4) – To match up the
3 resources used in making the calculation of Net Power Costs with the resources in
4 the Company's Rate Base, the Company has included all major plant additions
5 over $5 million placed into service prior to March 31, 2006 as an adjustment to
6 the historic test period in the Report.

7 **Environmental Settlement** (Adjustment 8.5) – In 1996 PacifiCorp received an
8 insurance settlement of $33 million for environmental clean-up projects. These
9 funds were transferred to a subsidiary called PacifiCorp Environmental
10 Remediation Company (PERCO). This fund balance is amortized or reduced as
11 PERCO expends dollars on clean-up costs. PERCO received an additional $5
12 million of insurance proceeds plus associated liabilities from PacifiCorp in 1998.
13 This adjustment includes the insurance proceeds in Electric Operations as a
14 reduction to rate base.

15 **Customer Advances for Construction** (Adjustment 8.6) – This adjustment
16 corrects the balance in account 252 - Customer Advances to reflect the correct
17 allocation of this account.

18 **Dave Johnston (Glenrock) Mine Closure** (Adjustment 8.7 – A decision was
19 made in 1997 to close the Dave Johnston mine, which is operated by Glenrock
20 Coal Company. An additional accrual of $33 million was recorded for
21 unrecovered reclamation costs. Since Washington customers were never charged
22 for this accrual, it is not appropriate for them to receive the offsetting reduction to
23 rate base.

1 **Colstrip No. 4 AFUDC** (Adjustment 8.8) – As authorized in Cause No. U-81-17,
2 this adjustment removes AFUDC from plant in service for the period that Colstrip
3 Construction Work in Progress (CWIP) was allowed in rate base.
4 **Trojan Removal** (Adjustment 8.9) – This adjustment removes all costs
5 associated with Trojan, as ordered in Docket No. UE-991832.
6 **Q. What conclusions do you draw from your testimony?**
7 A. To the best of my knowledge, the normalized results are a fair and accurate
8 reflection of on-going operations of the Company. Based on these results,
9 PacifiCorp should receive a price increase of $39.2 million.
10 **Q. Does this conclude your testimony?**
11 A. Yes.