

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

2 A. My name is Matthew R. Wright. My business address is 825 N.E. Multnomah Street,
3 Suite 800, Portland, Oregon 97232. I am employed as the Vice President of Regulation.

4 Q. Please briefly describe your education, business experience and current responsibilities.

5 A. I graduated from Portsmouth University in 1986 with a first class honors degree in
6 Geography and subsequently obtained a Chartered Institute of Marketing Diploma in
7 1989 and a distinction level M.B.A. from the University of Hull in 1996. I participated in
8 ScottishPower's Business Leadership Program in 1997, facilitated by Wharton Business
9 School, and attended external courses at Harvard Business School.

10 I joined Manweb in 1987 as a Commercial Graduate and worked for a number of
11 years in the area of pricing and economics. I became Commercial Manager, Distribution
12 in 1994 and joined the ScottishPower group in 1995 following the acquisition of
13 Manweb. Since that time I have worked in many of ScottishPower's business units
14 including Southern Water, as part of the Transition Team following its acquisition in
15 1996, and Corporate Strategy. I became involved in ScottishPower's international project
16 in January 1998 and was a key member of the PacifiCorp merger team. I was appointed
17 Vice President, Regulation following merger closure in November 1999. My current
18 responsibilities include direction of the financial regulation, pricing and regulatory policy
19 activities of the Company.

20 Q. Have you previously testified in regulatory proceedings?

21 A. Yes. I have previously testified before this Commission and the Utah Public Service

1 Commission regarding the recently-completed merger between ScottishPower and
2 PacifiCorp.

3 Q. Will you be sponsoring other testimony in this proceeding?

4 A. Yes. I will also be adopting the direct testimony of Anne E. Eakin, who has undertaken a
5 different set of responsibilities within ScottishPower.

6 Q. What is the purpose of your rebuttal testimony?

7 A. The purpose of my rebuttal testimony is to respond to concerns expressed in the direct
8 testimony of Mr. Elgin and Mr. Martin (on behalf of the WUTC Staff), Mr. Lazar (on
9 behalf of Public Counsel) and Mr. Wolverton (on behalf of the Industrial Customers of
10 Northwest Utilities) with respect to PacifiCorp's proposed use of the "depreciation
11 reserve method" for allocating the gain from the Centralia Plant and Mine sale between
12 customers and shareholders. My rebuttal testimony also responds to parties' suggestion
13 that a decision regarding the ratemaking treatment of the gain be deferred and provides
14 some additional explanation of the Company's proposed method of accounting for the
15 portion of the gain to be allocated to customers.

16 Q. Do you believe that the proposed sale of Centralia will benefit customers?

17 A. Yes. The Company has demonstrated that the combination of the financial benefits from
18 the proposed sale to TransAlta and the qualitative risks associated with keeping Centralia
19 support a decision that the sale of the Centralia Plant to TransAlta will benefit customers
20 in the short and long run. Mr. Weaver's analysis demonstrates financial benefits to
21 customers, based on the Company's proposal to allocate the gain between customers and
22 shareholders consistent with the depreciation reserve method. In addition, Mr. Miller

1 details the significant uncertainties associated with a decision to reject the proposed sale
2 to TransAlta and require PacifiCorp to retain the assets.

3 **Support for Depreciation Reserve Proposal**

4 Q. Staff witness Martin cites two past Commission decisions in support of Staff's position
5 that under no circumstances should a portion of the gain from a sale of utility property
6 accrue to shareholders. Is this position consistent with current Commission decisions?

7 A. I don't believe it is. In fact, the Commission's recent decision in Docket UE-990267
8 affirmed a no harm review standard and recognized that a sharing between customers and
9 shareholder may be appropriate in some instances. The Commission stated,

10 "If the gain from the Colstrip sale clearly accrued benefits beyond the break-even
11 point, then the Commission would need to determine whether or how to share
12 those benefits between ratepayers and shareholders....The public interest is
13 broader than a mathematical calculation of costs and benefits. In each transaction
14 brought before the Commission we will need to study the principles which will
15 define consistency with the public interest, and apply those principles to the facts
16 before us." (page 22, Third Supplemental Order, Docket UE-990267)

17 Q. Is the concept of the depreciation reserve method proposed by PacifiCorp without policy
18 rationale or justification?

19 A. Absolutely not. Many decisions of regulatory commissions recognize that some sharing
20 of gain on sale between customers and shareholders is appropriate. Indeed, this
21 Commission articulated a review standard recognizing that, "the transaction, with
22 conditions for its approval, should strike a balance between the interests of ratepayers,

1 shareholders, and the broader public that is fair...” The depreciation reserve method
2 provides an objective and quantifiable means of providing for such a balance. As
3 explained in direct testimony, the method acknowledges that, over time, customers have
4 repaid shareholders for a portion of the up-front capital through their electric prices and
5 that shareholders continue to bear the risk of recovering the un-depreciated portion. In the
6 present case, because Centralia is a relatively old facility, the method results in a
7 substantial majority of the gain going to customers.

8 Q. Please explain the risks that shareholders have borne and continue to bear with respect to
9 the Centralia Plant and Mine.

10 A. Shareholders bear the responsibility for providing up-front capital for initial and ongoing
11 investments in plant. During the time between when the initial capital investment is
12 incurred and when the investment is used and useful and recognized in rate base,
13 shareholders are not compensated for their cost of money. Likewise, shareholders bear
14 the up-front risk associated with ongoing capital such as the installation of the emission-
15 control equipment required to keep the Plant operational. Because cost of service
16 regulation requires shareholders to shoulder risks such as those associated with carrying
17 and recovering capital expenditures, associated with weather variations and associated
18 with hydro conditions, shareholders should also share in the benefits created by this sale.

19
20 Q. Is it in customers’ interests for there to be a sharing of the gain?

21 A. Yes. A sharing provides appropriate incentives for the Company to do what it did here --
22 structure the transaction and the sale process in a way that maximizes the sale price.

1 Providing the incentive for the Company to look for opportunities to maximize value for
2 its customers and shareholders benefits both customers and shareholders in the long run.

3 Q. Staff witness Elgin suggests that allocating any of the proceeds from the sale of the Plant
4 will permit PacifiCorp to increase its return above that which has been authorized. Do
5 you agree?

6 A. No. The concept of authorized rate of return applies to test period revenues and
7 expenses and earnings on test period rate base. Treatment of gains or losses from the sale
8 of property should be considered outside of this formula. Mr. Elgin appears to suggest
9 that there are no circumstances under which a utility can actually earn more than its
10 allowed rate of return. We do not understand that to be the case, just as we do not
11 understand that there should never be circumstances when a utility earns below its
12 allowed rate of return.

13 Q. Public Counsel witness Lazar and Mr. Elgin suggest that the Commission must consider
14 prior rate treatment of the property when deciding whether to allocate to shareholders any
15 of the proceeds from the sale of the Plant. Do you agree?

16 A. No. It appears that they are suggesting that an evaluation of whether to sell or retain the
17 plant - whether the no harm standard is satisfied - should consider the Plant's historic
18 costs as well as the Plant's future costs. Basing decisions on "sunk costs" is contrary to
19 generally-accepted principles of economic analysis. I would think that appropriate
20 resource planning should only consider expected future circumstances. In its Third
21 Supplemental Order in Docket UE-990267, the Commission recognized this principle
22 when stating, "the appropriate comparison to be made in this analysis compares what is

1 expected after the transaction to what one would expect in absence of the transaction.”

2 Analyses performed by the Company in this case demonstrate that, when the depreciation
3 reserve method for allocating gain is used, Washington customers will have a lower
4 future revenue requirement than they will have if the Plant is retained. This would seem
5 to be the essence of appropriate resource planning.

6 Q. ICNU witness Wolverton suggests that a sharing of the gain with shareholders will
7 deprive customers of benefits they would have realized if the Plant and Mine were not
8 sold. Do you agree?

9 Q. No. Mr. Weaver’s analysis demonstrates that there is additional value above the break-
10 even point for customers. Therefore, there is no value being transferred from customers
11 to shareholders. Rather, under the Company’s proposal, new value is being created by the
12 sale which is being shared between customers and shareholders, with the substantial
13 majority going to customers. If the Commission disapproves the Company’s application,
14 this new value will be forfeited for both customers and shareholders.

15 Q. Ms. Hirsch has included a chart in her testimony that purports to show that the
16 depreciation reserve method allows a utility to “rob its customers of the value they have
17 paid to receive.” What is your response?

18 A. First, it should be noted that the chart reflects a hypothetical plant investment. As such, it
19 ignores a real world fact related to Centralia - - the need to expend many millions of
20 additional dollars on capital improvements during the life of the facility on emission
21 control equipment. Secondly, Mr. Jenks’ conclusions - now sponsored by Ms. Hirsch -
22 from the chart again seem to inappropriately confuse historic sunk costs with a decision

1 on a future course of action. The issue before the Commission is whether the sale of
2 Centralia, on the basis proposed by PacifiCorp, is in the public interest. The economic
3 analyses performed by the Company demonstrate that customers will be materially better
4 off if the sale is consummated and the gain is allocated as proposed. It would seem
5 irrational to deny customers this benefit based upon a consideration of what hypothetical
6 return the Company may have earned on the Plant in the past or a desire to make sure that
7 shareholders not earn one penny more than they are supposed to.

8 Q. What about Mr. Wolverton's suggestion that PacifiCorp is effectively proposing a "heads
9 the utility wins, tails the ratepayer loses approach?"

10 A. This is not the case. Were the Commission to adopt the depreciation reserve method in
11 this proceeding, we would have every expectation that in a future proceeding involving
12 the sale of a plant at a book loss, the results of this case would not go without notice.
13 Furthermore, Mr. Wolverton seems to believe that it is appropriate to throw the
14 Company's generating plants in the same bucket as its regulatory assets and Qualifying
15 Facility (QF) contracts. We are not persuaded that this is appropriate. Generating plants
16 represent the product of utility investment decisions. If those decisions are imprudent,
17 shareholders are and should be at risk. If those decisions are good ones, shareholders may
18 have an opportunity to benefit. In contrast, regulatory assets and QF contracts are the
19 product of regulatory decisions and policies over which the Company had no control.
20 They should not result in either losses or gains to shareholders.

1 **Timing of Decision**

2 Q. Mr. Elgin recommends that the Commission reserve to a general rate case proceeding the
3 decision on the precise method of returning the gain to customers. Does PacifiCorp
4 support such an approach?

5 A. No. PacifiCorp recognizes that it will not be possible to establish the precise ratemaking
6 adjustments associated with the Centralia sale until its conclusion. Among other reasons,
7 the precise amount of the gain will not be known until the sale closes. The Company is
8 comfortable with Mr. Martin's proposal that the precise gain calculation be reviewed by
9 this Commission when the data is available. However, the Company requests that the
10 precise methodology be considered and approved by the Commission in this proceeding
11 to ensure a smooth process and eliminate controversy that could arise after closure of the
12 sale.

13 PacifiCorp believes that it is not reasonable to expect the Company to decide
14 whether or not to proceed with the sale of the Plant and Mine without knowing what
15 policy this Commission and its other five state commissions will apply in respect to the
16 allocation and ratemaking treatment of gain. I know of no way in which customers would
17 be harmed by a decision on these issues in this case. However, shareholders would be
18 provided some certainty and gain comfort with proceeding toward closure on the sale of
19 this asset. Without a decision in this proceeding, the Company, on behalf of its
20 shareholders, cannot be certain whether the sale is in its best interest.

21 Q. Please comment on Mr. Elgin's assertion that not all impacted parties are represented in
22 this proceeding.

1 A. I disagree. When PacifiCorp filed its testimony and exhibits in early August of this year,
2 it specifically requested an order “for the determination of the amount of and the proper
3 ratemaking treatment of the gain associated with the sale”. In addition, the number and
4 breadth of the parties who have been granted intervention in this case is more extensive
5 than that of the Company’s last general rate case or other Company applications before
6 the Commission.

7 Q. What rate making treatment is the Company requesting?

8 A. The Company is requesting that, in this proceeding, the Commission:
9 approve the methodology for the calculation of the net gain,
10 approve the use of the depreciation reserve method for determining the sharing of the net
11 gain between customers and shareholders, and
12 authorize the Company to write off generation-related regulatory assets in the amount of
13 the customers’ portion of the net gain, thereby immediately reducing the Company’s
14 rate base.

15 Does the Company have a proposal regarding which regulatory asset to write off?

16 Yes. The Company proposes the write-off of the “Yampa” acquisition premium associated with
17 the acquisition of the Colorado-Ute generation plants. This proposal matches the gain
18 from a sale of steam generation against a premium paid for steam generation assets,
19 matches the undepreciated life of the Yampa assets against the estimated remaining life of
20 Centralia, and provides accounting ease with respect to inter-jurisdictional allocation
21 issues.

22 When would the Company’s proposal be reflected in rates?

1 A. Customers will benefit through lower prices at the conclusion of the Company's pending
2 rate case. The Company has already included the estimated economic impacts of its gain
3 sharing and ratemaking proposal in the results supporting its general rate case. Prices
4 adopted in that proceeding will include the rate base reduction proposed by the Company
5 to the extent that the proposed sale has been successfully completed.

6 Q. Does this conclude your rebuttal testimony?

7 A. Yes.