Exhibit No.___(CCP-1T)
Docket UE-13____
Witness: C. Craig Paice

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PACIFICORP dba Pacific Power & Light Company Respondent.	)	Docket UE-13____

PACIFICORP

DIRECT TESTIMONY OF C. CRAIG PAICE

January 2013

Q. Please state your name, business address, and present position with PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company).

A. My name is C. Craig Paice. My business address is 825 NE Multnomah Street, Suite 2000, Portland, Oregon 97232. My present position is Regulatory Specialist in the Regulation Department.

Qualifications

Q. Briefly describe your education and professional experience.

A. I received a Bachelor of Science degree in Business Management from Brigham Young University in 1976. I have also attended various educational, professional, and electric industry seminars during my career with the Company. I have been employed by PacifiCorp since the merger with Utah Power & Light Company in 1989. Before that time, I was employed by Utah Power & Light Company beginning in 1978, holding various positions in the accounting, customer service, and regulatory areas.

Q. What are your responsibilities?

A. My primary responsibilities are to prepare, present, and explain the results of the Company's cost of service studies to regulators and interested parties in jurisdictions where PacifiCorp provides retail electric service.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. I will present the Company's functionalized Washington class cost of service study based on the historical 12-month period ended June 30, 2012.

Class Cost of Service Summary

Q. Please identify Exhibit No.___(CCP-2) and explain what it shows.

A. Exhibit No.___(CCP-2) is the summary table from the Company's class cost of service study for Washington. The cost of service study is based on the Company's annual results of operations for Washington presented in the direct testimony of Mr. Steven R. McDougal. The study summarizes, both by customer group and by function, the results of the cost of service study. Page 1 presents results at the Company's June 2012 earned rate of return. Page 2 presents the results using the rate of return provided by the $42.8 million increase requested in this filing.

Q. Please identify Exhibit No.___(CCP-3) and explain what it shows.

A. Exhibit No.___(CCP-3) shows the cost of service results in more detail by class and by function. Page 1 summarizes the total cost of service by class and pages 2 through 6 contain summaries by class for each major function.

Cost of Service Methodology

Q. Does the cost of service study filed in this case follow the methodology used in the Company's 2011 Washington general rate case, docket UE-111190?

A. Yes, the cost of service study continues to employ the West Control Area inter-jurisdictional allocation methodology (WCA) initially approved in docket UE-061546 and discussed in the direct testimonies of Mr. Steven R. McDougal and Mr. R. Bryce Dalley in this case. The Company proposes one methodological change related to calculation of the peak credit method, which I explain later in my testimony.

Description of Procedures

Q. Please explain how the cost of service study was developed.

A. Using the annual results of operations for Washington presented by Mr. McDougal, the study employs a three-step functionalization, classification, and allocation process. A detailed description of cost of service procedures is contained in Exhibit No.___(CCP-5), Tab 1.

Q. Please describe functionalization and how it is employed in the cost of service study?

A. Functionalization is the process of separating expenses and rate base items according to five utility functions—production, transmission, distribution, retail, and miscellaneous.

- The production function consists of the costs associated with power generation, including coal mining and wholesale purchases.
- The transmission function includes the costs associated with the high voltage system utilized for the bulk transmission of power from the generation source and interconnected utilities to the load centers.
- The distribution function includes the costs associated with all the facilities that are necessary to connect individual customers to the transmission system. This includes distribution substations, poles and wires, line transformers, service drops, and meters.
- The retail services function includes the costs of meter reading, billing, collections, and customer service.

- The miscellaneous function includes costs associated with demand-side management, regulatory expenses, and other miscellaneous expenses.

Q. Describe how the classification process is used in the cost of service study.

A. Classification identifies the component of utility service being provided. The Company provides and customers purchase service that includes at least three different cost components: demand-related, energy-related, and customer-related. Demand-related costs are incurred by the Company to meet the maximum demand imposed on generating units, transmission lines, and distribution facilities. Energy-related costs vary with the output of a kilowatt hour (kWh) of electricity. Customer-related costs are driven by the number of customers served.

Q. Please describe how the Company determines cost responsibility among customer classes.

A. After costs have been functionalized and classified, the next step is to allocate them among the customer classes. This is achieved by the use of allocation factors that specify each class's share of a particular cost driver, such as west control area peak demand, energy consumed, or number of customers. The appropriate allocation factor is then applied to the respective cost element to determine each class's share of cost. A detailed description of the Company's functionalization, classification, and allocation procedures and the supporting calculations for allocation factors are contained in my work papers.

Q. How are generation and transmission costs classified between demand energy?

A. In prior Washington proceedings, generation and transmission costs were

classified as demand- or energy-related by employing a peak credit method based on capacity cost data from the Firm Capacity Sales Agreement between Bonneville Power Administration (BPA) and the Company. Capacity cost data from the BPA Firm Capacity Sales Agreement was used to determine the demand-related classification component with all remaining costs considered as energy-related. Since the BPA Firm Capacity Sales Agreement expired in 2011, the Company is proposing a revised peak credit method calculation that uses the west control area system diversified load factor (SDLF) to determine the portion of generation and transmission costs that are demand-related. In this proceeding, the revised peak credit ratio calculation results in 38 percent of generation and transmission costs classified as demand-related and the remaining 62 percent of costs classified as energy-related. By comparison, the BPA Firm Capacity Sales Agreement used in docket UE-111190 resulted in generation and transmission costs classified as 35 percent demand-related and 65 percent energy-related.

Q. Are there benefits realized by using the SDLF to calculate the peak credit ratio?

A. Yes, there are several benefits from this approach. First, results are based on actual west control area data. Next, this calculation is straightforward and uncomplicated, with the demand and energy relationships expected to be relatively consistent between test periods. Finally, this revised approach produces reasonable demand- and energy-related classifications for generation and transmission costs.

Q. Please identify Exhibit No.___(CCP-4) and explain what it shows.

A. Exhibit No.___(CCP-4) illustrates the peak credit calculation that determined the demand and energy percentages applied to generation and transmission costs in the cost of service study.

Q. How are generation and transmission costs allocated?

The demand-related portion continues to be allocated using class loads coincident with the Company's highest 100 summer (April-October) and highest 100 winter (November-March) hourly retail west control area peak loads, consistent with the Company's past practice in Washington. The energy-related portion is allocated using class annual megawatt hours adjusted for losses.

Q. How are the distribution costs classified and allocated?

A. Distribution costs are classified as either demand-related or customer-related. In this study, only meters and services are considered customer-related, with all other costs considered demand-related. Distribution substations and primary lines are allocated using the maximum rate schedule peaks (also identified as class non-coincident peaks). Distribution line transformers are allocated using the weighted non-coincident peak (NCP) method. The costs of secondary lines are also allocated using the weighted NCP method, but are only allocated to residential and small general service customers where line transformers are jointly used by more than one customer. Services costs are allocated to secondary voltage delivery customers only. The allocation factor is developed using the installed cost of new services for different types of customers. Meter costs are allocated to

all customers. The meter allocation factor is developed using the installed costs of new metering equipment for different types of customers.

Q. Please explain how customer accounting and customer service expenses are allocated.

A. Customer accounting expenses are allocated to classes using weighted customer factors. The weightings reflect the resources required to perform activities such as meter reading, billing, and collections for different types of customers. Demand-side management (DSM) expenditures are allocated on the same basis as generation costs. Other customer service expenses are allocated on the number of customers in each class.

Q. How does the Company allocate administrative and general expenses, general plant, and intangible plant?

A. Most general plant, intangible plant, and administrative and general expenses are functionalized and allocated to classes based on generation, transmission, and distribution plant. Costs identified as supporting customer systems are considered part of the retail services function and have been allocated using customer factors. Coal mine plant is allocated consistent with generation and transmission resources.

Q. Are costs and revenues associated with wholesale contracts included in the cost of service study?

A. No, costs are assigned to wholesale contracts. The revenues from these transactions are treated as revenue credits and are allocated to customer groups using appropriate allocation factors. Other electric revenues are also treated as

revenue credits. Revenue credits reduce the revenue requirement that is to be collected from firm retail customers.

Partial Requirements Service

Q. Does the cost of service study include results for partial requirements service?

A. No. Partial requirement service customers served by the Company in Washington are not included in the embedded cost of service study because these type of customers usually have very sporadic loads that vary from day to day and from year to year, producing volatile cost of service results depending on whether or not service has been required during actual west control area peak hours. The Company's practice is to derive prices for this type of service from prices and costs for full requirements service. Revenue from partial requirement service is allocated back to other classes as a revenue credit.

Workpapers

Q. Have you included your workpapers?

A. Yes. My work papers are included as Exhibit No.___(CCP-5). Tab 1 of this exhibit is a detailed narrative describing the Company's functionalization, classification, and allocation procedures. Tab 2 is the complete functionalized results of operations. Tab 3 shows the functionalization factors used in this case. Tabs 4 through 5 show the class cost of service detail.

Q. Does this conclude your direct testimony?

A. Yes.