

00475

1 WASHINGTON UTILITIES AND TRANSPORTATION
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24 Kathryn T. Wilson, CCR
25 Court Reporter

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1 P R O C E E D I N G S

2 JUDGE MOSS: Good morning, everyone. We are
3 convened in the matter styled Washington Utilities and
4 Transportation Commission against PacifiCorp, doing
5 business as Pacific Power and Light. Our docket number
6 is UE-991832. Our purpose today is to go forward with
7 the examination of the Company witnesses, and we
8 already have Mr. Larsen on the stand, and he seems to
9 be arranged with his volume of paper there.

10 We have four witnesses in this session, and
11 once we take appearances, and let me ask now, are there
12 any preliminary matters we need to take up before we
13 get to the witnesses? Apparently not. Let me remind
14 everybody to pull the microphones forward and speak
15 into them. There is a tendency to shove them to the
16 back of the table because you have all your papers
17 arrayed in front of you there, but it's very important
18 so that everyone can hear and that the reporter can get
19 every word that we do pull the microphones up and try
20 to speak into them.

21 Let's go ahead and have our appearances, and
22 again, I think everybody here has entered appearances
23 before so all we need is your name and who you
24 represent, unless we have any new appearances, and that
25 will require a fuller set of information. Let's start

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1 with the Company.

2 MR. VAN NOSTRAND: On behalf of PacifiCorp,
3 James M. Van Nostrand and Stephen Hall.

4 MS. DAVISON: Melinda Davison on behalf of
5 the Industrial Customers of Northwest Utilities.

6 MR. CROMWELL: Robert Cromwell on behalf of
7 Public Counsel.

8 MS. RENDAHL: Ann Rendahl, assistant attorney
9 general for Commission staff.

10 JUDGE MOSS: Do we have anyone participating
11 on the conference bridge line this morning? Hearing no
12 indication, then everybody who is going to be
13 participating today appears to be in the room.

14 The order of witnesses as I have it will be
15 Mr. Larsen, Mr. Peterson, Taylor, and Griffith. I
16 understand there are a few, I'll call them stray
17 cross-examination exhibits that did not make it to our
18 exchange last Thursday. Because our materials are
19 voluminous, I'm going to take those up as they come in.
20 I understand there aren't many. Ms. Rendahl is going
21 to remind me that there are numbers that Staff can give
22 up so we don't mess up our numbering sequence.

23 MR. CROMWELL: Your Honor, I should also
24 mention Ms. Dixon did leave me a voice mail and said
25 she had previously planned some cross-examination for

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1 Mr. Griffith. She was going to forego that, but she
2 may be on the bridge line at this point.

3 JUDGE MOSS: She had previously entered an
4 appearance on behalf of the Northwest Energy Coalition.
5 With that, I think we can launch into our witness, and
6 Mr. Larsen is on the stand already, and I'll swear you
7 in.

8 (Witness sworn.)

9

10 DIRECT EXAMINATION

11 BY MR. VAN NOSTRAND:

12 Q. Good morning, Mr. Larsen. Could you state
13 your name and spell it for the record?

14 A. My name is Jeffrey K. Larsen, J-e-f-f-r-e-y
15 K. L-a-r-s-e-n.

16 Q. You are employed by PacifiCorp?

17 A. Yes.

18 Q. What is your title?

19 A. Director of revenue requirement in the
20 regulation department.

21 Q. Do you have before you what's been marked for
22 identification as Exhibit 70-T, your revised direct
23 testimony?

24 A. Yes, I do.

25 Q. Do you have any additions or corrections to

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1 make to Exhibit 70-T at this time?

2 A. I have one correction to it. On Page 16,
3 Lines 20 and 21 should be omitted. That was a
4 statement included in the legislative format, but it
5 doesn't lend to the corrected version.

6 CHAIRWOMAN SHOWALTER: What is the sentence
7 that should be eliminated?

8 THE WITNESS: In the legislative version,
9 it's Page 17, Lines 10 and 11: "No agreement was
10 reached by PITA members; therefore, the second
11 component was removed." It's just explaining why the
12 paragraphs in that section were removed.

13 Q. (By Mr. Van Nostrand) Do you have any other
14 revisions or corrections to make to your testimony?

15 A. No.

16 Q. If I asked you the questions set forth
17 therein, would your answers be the same today?

18 A. Yes, they would.

19 Q. Do you also have before you what's been
20 marked for identification as Exhibits 71 and 72?

21 A. Yes, I do.

22 Q. Do you recognize those as your revised
23 exhibits accompanying your direct testimony?

24 A. Yes.

25 Q. Were they prepared under your direction or

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1 supervision?

2 A. Yes.

3 Q. Are they true and correct to the best of your
4 knowledge?

5 A. Yes, they are.

6 MR. VAN NOSTRAND: I'd move the admission of
7 Exhibit 70-T, Exhibits 71 and 72.

8 JUDGE MOSS: There being no objection, those
9 will be admitted as marked.

10 MR. VAN NOSTRAND: Mr. Larsen is available
11 for cross-examination.

12 JUDGE MOSS: I believe the convention we
13 followed in the previous round was Staff going first,
14 and Staff also has the lengthiest estimate for
15 cross-examination of this witness, so unless there is
16 some difficulty with that, I would prefer to follow
17 that same convention.

18 MS. RENDAHL: That is fine, and I will try to
19 reduce my time allotted.

20 JUDGE MOSS: We will be taking a break at
21 about 10:45, so you might just time your questions. If
22 you find a convenient breaking point right around then,
23 go ahead and let me know.

24 MS. RENDAHL: I'll do so.

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CROSS-EXAMINATION

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BY MS. RENDAHL:

Q. My name is Ann Rendahl. I'm the assistant attorney general who represents Staff in this case. Just an initial clarifying question, if you would turn to your testimony, 70-T, Page 2, on Line 17, I just wanted to clarify that the Company used a test year of the 12 months ended December 1998; is that correct?

A. What page was that?

Q. It's on Page 2 of Exhibit 70-T at Line 17.

A. We used a test period with base data 12 months into December 31, 1998, with no measurable changes through June 2001.

Q. Thank you. As I go through my questions, my intent is to go through them adjustment by adjustment so we are not flipping around and just going in a progression, and I would like to start with the weather normalizing adjustments. Do you have what's been marked as Exhibit 78 in front of you?

A. That would be WUTC 2-B?

Q. Correct. Can you identify this as the Company's response to Staff Data Request 2?

A. Yes, I can.

Q. With Attachment 2-B or portions thereof?

A. Yes.

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1 MS. RENDAHL: Your Honor, I'd like to offer
2 what's been marked as Exhibit 78.

3 JUDGE MOSS: Being no objection, it will be
4 admitted as marked.

5 Q. (By Ms. Rendahl) Why did the Company use
6 only five years of data from 1987 to '91 to estimate
7 the relationship between electricity usage per
8 customers and temperature?

9 A. Are you referring to this exhibit?

10 Q. Yes. There is an attachment. If you look at
11 the bottom of Page A-12, and the very last two lines,
12 it says, "Completion of this algorithm is a member of
13 an SAS data set entitled --" a bunch of numbers, and
14 then at the end it says, '87/'91, close parens. My
15 understanding is that that data set includes five years
16 of data from '87 to '91. My question is, why did the
17 Company use only those five years of data?

18 A. I'm not familiar with that calculation. I'd
19 have to provide that answer in a record requisition.

20 MS. RENDAHL: Your Honor, I believe we're at
21 Record Requisition No. 8, so my question is why the
22 Company only used those five years of data to estimate
23 the relationship between electricity usage per
24 customers and temperature.

25 JUDGE MOSS: Mr. Van Nostrand, is that going

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1 to be difficult?

2 MR. VAN NOSTRAND: No. My suggestion would
3 be that we break that into two since I don't think it's
4 been established, other than through Ms. Rendahl's
5 question, that five years were used and clarify how
6 many were used, and if five, why, but all we have is
7 Ms. Rendahl's interpretation of the last line of Page 2
8 of Exhibit 78.

9 JUDGE MOSS: There is some reference on Page
10 A-13 to the process beginning by extracting five years
11 of actual temperature, maximum, minimum, so forth. I
12 think there is some clarification needed here, and I
13 think that's what Ms. Rendahl is seeking.

14 MS. RENDAHL: Correct.

15 MR. VAN NOSTRAND: I think that would be no
16 problem.

17 JUDGE MOSS: Is the question clear enough to
18 you?

19 MR. VAN NOSTRAND: The question is fine.

20 JUDGE MOSS: That will be Record Requisition
21 No. 8, which may be more in the nature of an
22 interrogatory than an actual data request.

23 Q. (By Ms. Rendahl) If you'd look at Page 18 of
24 that same attachment to the data request, and my
25 understanding is the National Oceanographic and

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1 Atmospheric Administration produces and provides to the
2 National Weather Service heating degree days and
3 cooling degree days every 10 years for sites with
4 meteorological stations. Assuming that that is
5 correct, so if you will assume that that information is
6 correct, what monthly normal weather variables did the
7 Company use for Washington? On this page, there is
8 information about 1951 to 1985 data or 1960 to 1990
9 data. Those two paragraphs, monthly normal weather
10 variables. The first paragraph refers to '51 to '80,
11 and the second paragraph refers to '61 to '90.

12 A. Can you give me a moment to read that?

13 Q. Sure. Again, I'd be happy to make that
14 question another record requisition.

15 A. I think we are going to have to clarify that
16 to make sure the record is appropriate. It's confusing
17 whether 1951 through '80 was used or 1961 through '90
18 was used.

19 Q. So if you'd like me to state for the
20 record --

21 JUDGE MOSS: Why don't we wait until we have
22 Mr. Van Nostrand's full attention so he can get that
23 down. I think you can go ahead now.

24 MS. RENDAHL: For Records Requisition No. 9,
25 would you please identify, referring to Page 18 of

00489

1 Exhibit 78, what monthly normal weather variables the
2 Company used for Washington 1951 to 1985 data, or 1961
3 to 1990 data.

4 I think given the witness's apparent
5 unfamiliarity with these questions, I think we will be
6 forgoing these and asking data requests on these
7 instead of belaboring the point here.

8 Q. (By Ms. Rendahl) Mr. Larsen, I'm going to go
9 on to a different normalizing adjustment at this point.
10 If you turn to Adjustment 3.3 of your Exhibit 72 --

11 A. Okay.

12 Q. -- that's Page 3.3, and in that adjustment,
13 you describe at the bottom of the page that this
14 adjustment adjusts customers to optimal schedules and
15 removes prior period items; correct?

16 A. That's correct.

17 Q. Keeping this page in mind, if you will turn
18 to what's been marked as Exhibit 80 for identification.
19 Do you have that in front of you?

20 A. Yes, I do.

21 Q. Can you identify that document as the
22 Company's response to Staff Data Request No. 289?

23 A. Yes, I can.

24 MS. RENDAHL: Your Honor, I'd like to offer
25 that.

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1 JUDGE MOSS: Hearing no objection, 80 will be
2 admitted.

3 Q. (By Ms. Rendahl) In this question and
4 response, do you see that the Staff requested the basis
5 of the adjustment to optimal schedules as well as the
6 details of prior period adjustments?

7 A. Yes, I do.

8 Q. Looking at the Company's response to 289, Sub
9 1, isn't it true that when a customer is notified of an
10 option to move from one schedule to another, which,
11 according to the response, you plan to do after the
12 conclusion of the case, isn't it true that no one knows
13 whether customers will exercise the option or not?

14 A. I believe on that question, I'd prefer to
15 defer that to Mr. Bill Griffith who actually did the
16 optional schedule calculations and development of that
17 answer.

18 Q. We'll defer that question to Mr. Griffith.
19 Can you identify whether the effect of the normalizing
20 adjustment is to move customers from Schedule 24 to
21 Schedule 36, or is that again a question for
22 Mr. Griffith?

23 A. Our answer is dated in Subpart 1. Optional
24 schedule normalization moves any customer on Schedule
25 24 to Optional Schedule 36 if they would bill cheaper

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1 on Schedule 36, and it moves any customer on Optional
2 Schedule 36 to Schedule 24 if they would bill cheaper
3 on Schedule 24.

4 Q. The question about that is, is the effect of
5 that adjustment which moves customers from Schedule 24
6 to Schedule 36, would that result in a revenue decrease
7 adjustment of approximately \$444,000?

8 A. I believe it would probably be best for
9 Mr. Griffith to respond to those calculations.

10 Q. If you will refer to what's been marked as
11 Exhibit 81.

12 A. Staff Data Request 293?

13 Q. Yes. Can you identify that as the Company's
14 response to Staff Data Request 293?

15 A. Yes, I can.

16 MS. RENDAHL: I'd offer that, Your Honor.

17 MR. VAN NOSTRAND: No objection.

18 JUDGE MOSS: It will be admitted as marked.

19 Q. (By Ms. Rendahl) This response refers to
20 your Adjustment 3.5 of Exhibit 72, and the Company's
21 response states, "The benefits of water rights from the
22 USBR contract are included in the Company's net and
23 power cost study in the form of hydrogeneration which
24 lowers the Company's overall net power costs"; correct?

25 A. That's correct.

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1 Q. Can you identify what USBR and UKRB mean?

2 A. USBR is United States Bureau of Reclamation,
3 and UKRB is the Upper Klamath River Basin.

4 Q. Thank you. The reason for the lower overall
5 net power costs is hydro is cheaper than other
6 resources; correct?

7 A. That's correct.

8 Q. In inclusion of the discount, this cost would
9 increase the hydro costs from the generation
10 facilities; correct?

11 A. That's correct. You are paying for the water
12 rights.

13 Q. If you will turn to what's been marked as
14 Exhibit 82, again on the same topic, can you identify
15 the Company's response to Staff Data Request 362?

16 A. Yes, I can.

17 MS. RENDAHL: I'd offer that, Your Honor.

18 MR. VAN NOSTRAND: No objection.

19 JUDGE MOSS: It will be admitted as marked.

20 Q. (By Ms. Rendahl) This is the Company's
21 follow-up response to Staff's follow-up question
22 regarding this adjustment; correct?

23 A. Yes, it is, follow-up to WUTC 293.

24 Q. I think that's all I wanted to clarify on
25 that point. If we could move to your Adjustment 4.3,

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1 which would be Tab 4.3 of Exhibit 72. Do you have that
2 in front of you now?

3 A. Yes, I do.

4 Q. If you look specifically at Page 4.3.5 of
5 that tab, and this is in regards to early retirement
6 costs. In the total cost section, there is an amount
7 for severance accrual. Do you see that on the
8 left-hand side four items down?

9 A. Yes, I do.

10 Q. That amount, the \$8,682,300, does that amount
11 include the amounts paid or to be paid to the former
12 CEO of the Company, Fred Buckman?

13 A. It includes a portion of Buckman's severance.
14 There is some in 1999 that was not included in '98, so
15 there is a portion in there related to Mr. Buckman.

16 Q. If you'll look at what's been marked as
17 Confidential Exhibits 85 and 86.

18 JUDGE MOSS: Are we going to have any
19 handling problems with these being confidential?

20 MS. RENDAHL: I don't plan on asking for any
21 specific numbers from this.

22 Q. (By Ms. Rendahl) Do you have copies?

23 A. I just need to thumb through my book to get
24 to it. I have those.

25 Q. Can you identify these as documents either

00494

1 provided in response to data requests or during the
2 field audit of the Company?

3 A. Yes, I can.

4 MS. RENDAHL: Your Honor, I'd offer these two
5 into evidence.

6 MR. VAN NOSTRAND: No objection.

7 JUDGE MOSS: That's 85-C and 86-C. They will
8 be admitted.

9 Q. (By Ms. Rendahl) Mr. Larsen, does the amount
10 totaled accurately reflect -- does the amount totaled
11 for severance adjustment at the top of Exhibit 85
12 accurately reflect the amount paid or to be paid to
13 Mr. Buckman for his severance pay?

14 A. Which exhibit are you referring to?

15 Q. On Confidential Exhibit 85, there is a number
16 at the top of the page, and at the bottom I believe
17 there is an adjustment to that. My question is, do
18 these amounts accurately reflect the amounts paid or to
19 be paid to Mr. Buckman for his severance?

20 A. These amounts represent the treatment of
21 Mr. Buckman's severance in the 1998 test period.

22 Q. So continuing to look at Exhibit 85 on the
23 bottom portion, the reconciliation numbers,
24 Mr. Buckman's entire severance payment here was not
25 allocated using the three-factor formula; correct?

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1 A. Can you restate that?

2 Q. Was Mr. Buckman's severance payment for 1998,
3 the 1998 test period, was his payment for that period
4 allocated using the three-factor formula? There is a
5 three-factor formula referred to in the document;
6 right?

7 A. I believe we responded to that question in
8 WUTC 469.

9 Q. Can you give me an answer, yes or no?

10 A. The data request reads: "All payments except
11 one were made through the severance responsibilities
12 center, which is not allocated via the three-factor
13 formula."

14 Q. Thank you.

15 JUDGE MOSS: Let me ask about the
16 confidential designation of these particular exhibits,
17 Mr. Van Nostrand. Doesn't the FCC require all of this
18 information to be published? These are executive
19 salaries, aren't they, 1998? Doesn't a 10-K require
20 that amount to be published? Doesn't it appear in
21 annual reports?

22 MR. VAN NOSTRAND: I know the salary
23 information is. This is a particular severance
24 package. I'm not sure it is or not. I know the annual
25 salaries are.

00496

1 JUDGE MOSS: Let's just be sensitive as we go
2 through. We don't have a great volume of confidential
3 material in this case relative to some others I've
4 seen, but to the extent we can discover that since
5 perhaps the answer was given, the information was
6 disclosed publicly or whatnot, let's try to do that.
7 It simplifies management of the record ultimately, and
8 we can take that up at the end. Go ahead with your
9 questions.

10 Q. (By Ms. Rendahl) Mr. Larsen, if you would
11 now look at this bottom portion of Exhibit 85 for
12 Mr. Hoffman and Mr. Lockhart -- I'm assuming they are
13 misters.

14 A. They are.

15 Q. -- do the amounts adjacent to the words "paid
16 in 1998," do those amounts reflect expenses that were
17 not reversed and were not amortized in Adjustment 4.3?

18 A. Can you give me just a moment to verify
19 whether that was included or not?

20 Q. Is this something you need to provide in a
21 record requisition response?

22 A. No, I don't believe so. I believe the amount
23 included in Adjustment 4.3 is the total shown there as
24 identified as being in that adjustment, 1998 accrual.

25 Q. So these amounts were not reversed and were

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1 not amortized in that Adjustment 4.3?

2 A. What was included in and amortized was the
3 total accrued in 1998.

4 Q. Now if you will turn to Exhibit 86, and I'm
5 looking at the sixth page in from the top page.

6 A. Exhibit 86.

7 Q. On the sixth page in from the cover page.

8 A. Can you read the title on that document?

9 Q. It says, "Attachment WUTC 344-G." The cover
10 is the Company's response to Data Request 344, and the
11 sixth page in is a sideways page, and at the bottom,
12 there is a heading "severance" and underneath that
13 "Fred Buckman." Do you see that?

14 A. Yes, I see that.

15 Q. Thank you. The first line indicates the
16 portion of Mr. Buckman's severance pay that was
17 allocated using the three-factor formula; correct?

18 A. Yes. There was one component that went
19 through the three-factor formula.

20 Q. Did Mr. Buckman work full time for electric
21 operations in 1998?

22 A. I think his duties were split between
23 electric and other responsibilities.

24 Q. Thank you. Because of the nature of how we
25 marked these exhibits, I need you to flip back to

00498

1 Exhibit 73 now.

2 MS. RENDAHL: Your Honor, this is one of
3 those where I have to supplement some additional
4 copies.

5 JUDGE MOSS: Why don't you hand that up.

6 MS. RENDAHL: I have circulated a copy to all
7 counsel.

8 JUDGE MOSS: And this being an envelope, so I
9 gather it's confidential.

10 MS. RENDAHL: It is confidential.

11 Q. (By Ms. Rendahl) Mr. Larsen, I believe I
12 gave a copy to Mr. Van Nostrand. Did he give you a
13 copy of it?

14 A. (Witness indicating.)

15 Q. Great. Mr. Larsen, would you identify the
16 document that's marked as Exhibit 73, including the
17 attachment that I just circulated?

18 A. It appears to be excerpts from a PacifiCorp
19 meeting of the board of directors dated August 26,
20 1998.

21 Q. Can you identify this as the Company's
22 response to Staff Data Request 508?

23 A. Yes.

24 MS. RENDAHL: Your Honor, I would offer this
25 document into evidence.

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1 JUDGE MOSS: All of 73?

2 MS. RENDAHL: All of 73.

3 JUDGE MOSS: I guess we will need to remark
4 that as 73-C. Hearing no objection, it will be
5 admitted as remarked.

6 Q. (By Ms. Rendahl) Mr. Larsen, would you agree
7 this exhibit, including the portions of the meeting
8 minutes that we just circulated, that these correctly
9 reflect the circumstances surrounding why Mr. Buckman
10 is no longer with the Company?

11 A. I don't know if I can opine on the
12 circumstances which led to Mr. Buckman leaving. I
13 think the document speaks for itself on that regard. I
14 wasn't present or involved in these discussions.

15 Q. But these are an accurate depiction of the
16 Company's description of his departure?

17 MR. VAN NOSTRAND: Objection, Your Honor. I
18 believe that was just asked and answered, and the
19 witness does not feel competent on whether it's
20 accurate. It speaks for itself.

21 JUDGE MOSS: The document will have to speak
22 for itself since the witness was not present for the
23 meeting and probably doesn't have any additional
24 information to confirm what went on there.

25 MS. RENDAHL: I'll withdraw the question.

00500

1 Q. (By Ms. Rendahl) Mr. Larsen, if you would
2 turn to Adjustment 4.5 in your Exhibit 72, if you look
3 at the narrative at the bottom of Page 4.5, the Company
4 states that labor overheads of 30 percent were added to
5 the difference between estimated June 2001 wages and
6 the 1998 basis, and then that 1998 incentive pay was
7 compared to 2001 incentive pay and 10 percent overheads
8 added; correct?

9 A. That's correct.

10 Q. If you will now turn forward in the exhibits
11 back to where we are, Exhibit 88, and can you identify
12 that as the Company's response to Staff Data Request
13 400?

14 A. Yes, I can.

15 MS. RENDAHL: Your Honor, I would offer that
16 exhibit.

17 MR. VAN NOSTRAND: No objection.

18 JUDGE MOSS: 88 will be admitted as marked.

19 Q. (By Ms. Rendahl) Looking at this exhibit,
20 the rate that applies to incentive pay and shown in
21 this exhibit consists only of taxes; correct?

22 A. You are referring to attachment WUTC 400?

23 Q. Correct.

24 A. It includes both a tax calculation as well as
25 a benefit calculation.

00501

1 Q. If you look at incentive pay, one is
2 incentive pay and the other is other related costs. At
3 the top of the page refers to payroll tax and an amount
4 of 8.1 percent; correct?

5 A. That's correct.

6 Q. Is that taxes or taxes and benefits?

7 A. That is a calculation of taxes.

8 Q. And then below where you've got when it's
9 both taxes and benefits, the total amounts to 32.5
10 percent?

11 A. That's correct.

12 Q. If you look at the cover page, the Company's
13 response, is it correct that the rate that applies to
14 incentive pay is only taxes?

15 A. That's correct.

16 Q. I just wanted to clarify your response. Turn
17 now to what's been marked as Exhibit 89. Will you
18 identify this as the Company's 1998 Form 10-K and
19 certain pages attached?

20 A. I believe this exhibit is the Form 10-K
21 Amendment No. 1; is that correct?

22 Q. That's what I have.

23 A. Form 10-K is a lot bigger than this document.

24 Q. But this is an excerpt of the document.

25 There is only a few pages attached.

00502

1 A. That's correct.

2 MS. RENDAHL: Your Honor, I would offer this
3 into evidence.

4 MR. VAN NOSTRAND: No objection.

5 JUDGE MOSS: No. 89 will be admitted as
6 marked.

7 Q. (By Ms. Rendahl) If you look to Page 99 of
8 the document, there is a description under the section
9 titled "compensation philosophy." Do you see that?

10 A. Yes, I do.

11 Q. Does that first statement under the title,
12 "The PacifiCorp believes that compensation should be
13 linked closely to corporate performance and increases
14 in shareholder value," does that statement accurately
15 reflect the Company's philosophy in 1998?

16 A. Again, I believe the document speaks for
17 itself.

18 Q. If you turn now to Page 100 under "annual
19 incentives," that section describes how the Company
20 made awards, correct, related to Company earnings per
21 share and business unit performance?

22 A. Can you repeat your question now that I've
23 read the paragraph?

24 Q. Sure. I'm just verifying that this is the
25 section that the Company identifies how it makes awards

00503

1 and bases them on factors such as Company earnings per
2 share and business unit performance.

3 A. I believe what this paragraph is stating is
4 that employees participate in incentive programs in
5 1998. There was no earnings per share target reached,
6 and therefore, only certain incentive compensation
7 amounts were paid out as a result of business unit
8 performance or line-of-sight goal achievement.

9 Q. If you turn to Page 101 of that document, at
10 the very top, second line down, it says, "Total
11 shareholder return accounts for 75 percent of the
12 formula and the remaining 25 percent will be
13 subjectively determined"; correct?

14 A. Let me see in what context that's.... This is
15 referring to the restricted stock program.

16 Q. The long-term incentives, I believe, and yes,
17 the restricted stock program.

18 A. I believe in relation to the long-term
19 incentive program, the restricted stock grants, that
20 statement would be correct.

21 Q. Has the Company's compensation philosophy
22 changed; did it change in 1999?

23 A. In what regard? I'm not sure specifically
24 what you are asking.

25 Q. Was the formula for officer incentive pay

00504

1 changed in 1999?

2 A. I believe we would have to verify that with
3 our compensation people by record requisition.

4 MS. RENDAHL: Record requisition is whether
5 officer incentive pay was based in 1999 entirely on
6 corporate earnings per share, if you could verify that.

7 JUDGE MOSS: Do you have that,
8 Mr. Van Nostrand?

9 MR. VAN NOSTRAND: Yes, I do, Your Honor.

10 Q. (By Ms. Rendahl) If you would now turn back
11 to Confidential Exhibit 74, and I apologize for
12 flipping back and forth. It's just how we marked them.

13 JUDGE MOSS: While we are flipping around,
14 I'll return to an earlier comment about the
15 confidential designation of certain documents and data.
16 I note that as we looked at Exhibit 89, which is the
17 Form 10-K Amendment No. 1, there is a reference to
18 compensation there and in particular to Buckman's
19 severance, and it all indicates the details of these
20 arrangements are provided in compensation tables to
21 follow the report, which I thought was my recollection
22 of how these things are structured in accordance with
23 FCC requirements. Let's do check on that and see if we
24 have some things designated as confidential that don't
25 need to be. Thank you. Go ahead, Ms. Rendahl.

00505

1 Q. (By Ms. Rendahl) Mr. Larsen, can you
2 identify what's marked as Exhibit 74 as a response to
3 Staff Data Request No. 522? There is no cover attached
4 to it, but I believe this is a late-submitted data
5 request.

6 A. Yeah. I do have a data request with a
7 request and an answer with attachments.

8 Q. So you can verify this response to Staff
9 Question No. 522?

10 A. Yes, I can.

11 MS. RENDAHL: Your Honor, I would offer it.

12 MR. VAN NOSTRAND: No objection.

13 JUDGE MOSS: 74-C will be admitted as marked.

14 Q. (By Ms. Rendahl) Mr. Larsen, if you look at
15 the final award column -- this is a three-page document
16 titled, "1997 executive incentive awards." The next is
17 for 1998; the next is for 1999. If you could look at
18 the final award column on each of these and verify that
19 the amounts in these final columns are accurate.

20 A. Yes. I can verify that the answers that are
21 shown here are what we responded to in our data
22 request.

23 Q. Looking at these three pages, would you agree
24 that the financial component percentage of the awards
25 changed in 1999 to the amount reflected in the column

00506

1 titled "financial component"?

2 A. Can you restate that? Which area are you
3 looking at?

4 Q. If you look at 1999, there is a column
5 labeled "financial component," and it appears in 1998,
6 there is a column labeled "finance factor." Are those
7 two related?

8 A. I'm not sure how those relate to -- it looks
9 like there is a slightly different formula in 1998.
10 There is a column "EPS factor," which is zero, which
11 would show that the Company didn't meet its EPS
12 targets; therefore, there wasn't a payout component
13 associated with meeting EPS goals. I'm not sure how
14 the finance factor, the EPS column would correspond
15 with 1999 calculations showing the financial component.

16 Q. But you agree in 1997 and 1998 there is no
17 column labeled "financial component"?

18 A. There is no column on those two sheets
19 labeled as such.

20 Q. And it appears that that's a new component
21 that was introduced in 1999?

22 A. I'm not sure if it's a new component or if it
23 captures existing components that were in 1997 and
24 1998. Those columns have disappeared and there is a
25 new column there. I'm not sure if the titles are

00507

1 trying to represent the same thing or not.

2 Q. Thank you. Looking back at your Exhibit 72,
3 and I think we were looking at Page 4.5, if you will
4 turn to Page 4.5.5.

5 JUDGE MOSS: Did you say 4.5.5?

6 MS. RENDAHL: Yes, but it appears that there
7 is not one, so let's skip that question for the moment.
8 I think this may have referred back to your original
9 exhibit. This may be a good time for a break. Should
10 we just take a break at this point?

11 JUDGE MOSS: We are going to take a recess
12 for 15 minutes.

13 (Recess.)

14 JUDGE MOSS: Mr. Larsen remains on the stand.
15 Ms. Rendahl, I believe you have a few more questions?

16 MS. RENDAHL: I do.

17 Q. (By Ms. Rendahl) Mr. Larsen, before we go
18 back to your Adjustment 4.5 -- I realize we've been
19 skipping around a lot in exhibits -- what I'd like to
20 have you do is identify what's been marked as Exhibits
21 75, 76, 77, and 79. Let's start with 75. Can you
22 identify this as the Company's response to Staff Data
23 Request No. 128?

24 A. Yes.

25 Q. What's been marked as Exhibit 76, can you

00508

1 identify that as the Company's response to Data Request
2 311?

3 A. Let me make one comment on 128. I believe
4 the information that is contained in there has been
5 revised based on our revised filing, so some of the
6 information would need to be updated.

7 Q. Thank you. So looking at 76, can you
8 identify that as the response to Staff Data Request
9 311, specifically, Attachment Response 311-B?

10 A. Yes.

11 Q. And Exhibit 77, can you identify that as the
12 response to Staff Data Request No. 139, specifically,
13 just the Oregon PUC Staff Data Request Attachment
14 Response 114? I believe the Company's response to 139
15 filled up several file folders, and this was just one
16 of the Oregon Staff responses.

17 A. That was OPUC Staff Request 84?

18 Q. It should be 114.

19 JUDGE MOSS: I'm a little lost. What exhibit
20 number are we on on the basis of our numbers?

21 MS. RENDAHL: What's been marked as Exhibit
22 77, it should have attached to it the Oregon Staff Data
23 Request 114.

24 JUDGE MOSS: Mine does not.

25 MS. RENDAHL: I believe at the last hearing

00509

1 before this hearing was continued, I circulated some
2 documents to the Bench and to other parties to include
3 in Exhibit 77, and because the hearing was continued, I
4 don't believe that those were -- what I can do is at
5 the next break, I'll make sure I have copies available
6 if people don't have them.

7 JUDGE MOSS: Okay. Let's do that.

8 MS. RENDAHL: I'll make a note for myself.

9 Q. (By Ms. Rendahl) Then turning to what's been
10 marked as Exhibit 79 --

11 A. Before we move on, let me make sure I have
12 the right one for 77.

13 Q. 77 should include an OPUC Staff Data Request
14 114 in the Company's response, and it's possible you
15 don't have that because it was not included when the
16 cross exhibits were initially identified, so don't
17 worry about that right now. I will clarify that later.

18 If you would turn to Exhibit 79 for right
19 now, and I'm just wondering if you can verify if that's
20 the Company's response to UTC Staff Request No. 279?

21 A. Yes, I can.

22 MS. RENDAHL: Your Honor, I'd like to offer
23 at this time 75, 76, and 79 into the record.

24 MR. VAN NOSTRAND: No objection.

25 JUDGE MOSS: No objection. Those will be

00510

1 admitted, 75, 76 and 79.

2 MS. RENDAHL: And 77, I'll correct that and
3 get back later.

4 Q. (By Ms. Rendahl) Mr. Larsen, looking at
5 Exhibit 79, which refers to the weather normalization
6 adjustment, are you prepared today to testify to how
7 the Company's whether normalization adjustment has been
8 calculated?

9 A. Not on the calculation itself in terms of
10 regressions and the actual methodology. I can testify
11 as to how the output or the results of weather
12 normalization has been factored into the revenue
13 requirement in terms of the impact on allocations and
14 revenues and so forth.

15 Q. But not as to the actual calculations
16 themselves?

17 A. No. That's done by a different individual in
18 the Company.

19 Q. If you would turn now to where we left off,
20 and that was the nonexistent Page 4.5.5. If you could
21 look at 4.5.4, that will probably get us to where we
22 need to go. Exhibit 72, Tab 4, Page 4.5.4. It's a
23 horizontal page. Do you have that page in front of you
24 now?

25 A. Yes, I do.

00511

1 Q. If you look at Line 5 of this page, Column A,
2 under "other labor payments," labeled "3500 CE's
3 excluding incentive pay," the amount \$20,658,141 is
4 correct?

5 A. Yes.

6 Q. If you'll look at what's been marked as
7 Exhibit 83 and 87, and hopefully, we will now begin to
8 go sequentially after we get these in. Can you
9 identify what's been marked as Exhibit 83 as the
10 Company's response to Staff Data Request 458?

11 A. Yes.

12 Q. Can you identify what's been marked as
13 Exhibit 87 as the Company's response to Staff Data
14 Request 505?

15 A. Yes.

16 MS. RENDAHL: Your Honor, I would offer those
17 into evidence.

18 MR. VAN NOSTRAND: No objection.

19 JUDGE MOSS: They will be admitted as marked.

20 Q. (By Ms. Rendahl) Looking at Exhibit 83, the
21 Company's response indicates that other labor payments
22 are not based on the financial performance of the
23 Company and that they are not based on financial
24 measures but performance and other criteria, and that's
25 on the attachment; is that correct?

00512

1 A. Can you repeat that question now?

2 Q. If you look at the attachment entitled
3 "Attachment WUTC 458," the top right hand. It's the
4 last page of the exhibit.

5 A. Attachment WUTC 458.

6 Q. Right, and the Company's response indicates
7 that other labor payments are not based on financial
8 measures but performance or other criteria, and I'm
9 just asking you to verify that.

10 A. Yes. In '98, I don't believe any EPS goals
11 were included or financial performance goals were
12 included.

13 Q. Does this response indicate that executive
14 stock incentive payments amounted to approximately 2.25
15 million dollars?

16 A. Yes, it does.

17 Q. Does the total amount at the bottom of this
18 attachment of Exhibit 83, does it equal the amount
19 reported in Line 5, Column A of 4.5.4 that we were just
20 looking at?

21 A. Yes, it does.

22 Q. If you will look at Exhibit 87, in the
23 Company's answer to the data request -- specifically,
24 the response to 505-C -- the Company indicates that the
25 cost associated with the executive long-term incentive

00513

1 program has also been included in this category. This
2 amounted to approximately 1.4 million dollars charged
3 to electric operations in '98. These were driven by
4 financial performances. This was not made clear in UTC
5 458; is that correct?

6 A. Yes, that's correct.

7 Q. Let's look back at Page 4.5.4. Some of the
8 labor payments included a cost-of-living escalation;
9 correct?

10 A. They include union-negotiated increases or
11 Company's best estimate on cost-of-living increases for
12 nonunion or for professional grade employees.

13 Q. Were the amounts on Line 5, Column A, were
14 those amounts escalated?

15 A. Yes.

16 Q. And that appears in Line 5, Column M?

17 A. Column G and Column K and Column M, moving
18 the costs out through the Company's requested test
19 period.

20 Q. Thank you. If you will turn now to what's
21 been marked as Exhibit 84. I'm sorry. I'm getting
22 confused with my own number. If you will keep at 87.
23 Give me just a moment. I need to make sure I've got
24 the right information here.

25 I'm sorry. If you will turn to Exhibit 84,

00514

1 please, can you identify this as the Company's response
2 to Staff Data Request 255, and that includes some data
3 request responses by the Company to the Utah Committee
4 for Consumer Services?

5 A. Yes, that's the Request 255.

6 MS. RENDAHL: Your Honor, I would offer that
7 exhibit, 84.

8 MR. VAN NOSTRAND: No objection.

9 JUDGE MOSS: 84 will be admitted as marked.

10 Q. If you will look at the response to CCS Data
11 Request 2436 and attachment and also 2.16.

12 JUDGE MOSS: This all part of Exhibit 84?

13 MS. RENDAHL: Yes.

14 Q. (By Ms. Rendahl) Under the account
15 description for Account 920.1, salary of officers --
16 let's see if I can find a page for you here.

17 A. We are looking at CCS 24.36?

18 Q. That's one of them. Give me just a moment
19 here. I will find you a page. I'm going to defer this
20 for a moment.

21 If you look now at what's been marked as
22 Exhibits 106 and 136 -- again, given the way we marked
23 these, they kind of jump around a bit -- can you
24 verify, Mr. Larsen, what's been marked as Exhibit 106
25 as the Company's response to Data Request 455,

00515

1 particularly Attachment Response 455-F?

2 A. Yes.

3 Q. And if you will look at 136, is this the
4 Company's response to Staff Data Request 539? The
5 document attached, I believe, was provided during a
6 Staff audit. Are you finding that, or should I provide
7 the copy?

8 A. The question for 539, I didn't notice if we
9 had an answer to that yet.

10 Q. I believe there was information provided at
11 Staff audit that this question was --

12 A. Yes. That information was provided by the
13 Company, and I believe it's consistent with Exhibit
14 106. Request 539 asks if there was any update.

15 Q. And there is a document attached to that
16 labeled, "general increases."

17 A. Right.

18 Q. And the Company provided that?

19 A. Yes.

20 MS. RENDAHL: Your Honor, I would offer these
21 two, 106 and 136, into the record.

22 MR. VAN NOSTRAND: No objection.

23 JUDGE MOSS: They will be admitted as marked.

24 Q. (By Ms. Rendahl) If you will look at Page
25 454 of your Exhibit 72.

00516

1 JUDGE MOSS: That's 4.5.4?

2 Q. 4.5.4, flipping back here. The escalation
3 rates we discussed in Columns G, K and M, those were
4 revised downward in the Company's revised filing;
5 correct?

6 A. Yes.

7 Q. Now, in Exhibit 106, is it accurate to say
8 that the 3.2558 percent in the 1999 column reflects
9 percentages that have actually occurred?

10 A. Subject to check, I would believe that's
11 accurate that these were updated for actual experience
12 in 1999 labor contracts and increases.

13 Q. In the year 2000 column, does the three
14 percent reflect percentages that have been put into
15 effect or will be put into effect by the end of July?

16 A. I'm not sure on the timing of it. They are
17 based on our known information out of union contracts
18 or the best information out of human resources in terms
19 of what would happen for nonunion employees.
20 Throughout the year, we have contracts that are
21 changing or different contract anniversary dates, so in
22 terms of July, I would have to check that.

23 Q. But in part, that's an estimated number,
24 three percent?

25 A. Again, I would have to check if those rates

00517

1 have actually occurred now at this point in 2000 or if
2 they are based on contracts or best estimates.
3 Typically, the nonunion employees receive their
4 increase in March time frame, so that would be the
5 largest component that would be an estimate, and that
6 already would have occurred.

7 Q. Looking at Exhibit 136 and the attachment
8 entitled "general increases," what percentage -- it
9 has an asterisk or a star. That indicates that the
10 general increases have not been negotiated. Would that
11 be correct to say?

12 A. Yes. In 2001, it appears there are two
13 contracts identified with a star, which means that
14 those contracts for that period in the future have not
15 yet been renewed or negotiated.

16 Q. You may have already answered this question,
17 but the union contracts that have not yet been
18 negotiated on Exhibit 106, can you verify that those
19 are Contracts No. 5 with 30 employees and Contract No.
20 11 with over 2,000 employees?

21 A. Can you repeat that?

22 Q. If you look back at Exhibit 106, and on the
23 left-hand side there is a contract number, and I'm just
24 seeking to verify that the union contracts that have
25 not been negotiated are Contracts No. 5 and No. 11, and

00518

1 those would correspond to those we just identified in
2 Exhibit 136.

3 A. Yes, they do.

4 Q. So would it be reasonable to state that 71
5 percent of the labor increases in 2001 are not yet
6 known?

7 A. I don't think it's fair to assume that that
8 71 percent is based on union employees in that one
9 category. I think your question referred to overall
10 increases. 71 percent would be not known or
11 measurable, and I don't agree with that. Can you
12 rephrase it?

13 Q. First, it's reasonable to state that not all
14 of the labor increases in 2001 are known yet; correct?

15 A. It's our best estimate of the increases at
16 that time, yes.

17 Q. But not all of these have been completely
18 negotiated, all these contracts.

19 A. That's correct.

20 Q. So could you verify or would it be reasonable
21 to state that 71 percent of the union labor increases
22 for 2001 are not known yet?

23 A. Can you tell me where you are calculating 71
24 percent?

25 Q. How about if we ask subject to check, and we

00519

1 can discuss this later if we need to off the record.

2 A. As long as I have a basis to make the
3 calculation or the check. Are you just looking at the
4 information here of 6,400 employees, 2,000 were in
5 Local 57, so that doesn't appear to be 71 percent of
6 the employees, so....

7 Q. Let's move on. If we could go back to
8 Exhibit 84, look at CCS Data Request Attachment
9 Response 24.36, and that's the third page into the
10 response. On the right-hand side about four columns
11 in, less account, and under that account numbers, under
12 Account No. 920.1, salary of officers, there is three
13 lines of information. Can you verify that the three
14 amounts reflected in the Company amount were reflected
15 in the books?

16 A. Yes. You are referring to \$17,000, \$12,000,
17 and \$2,000,000?

18 Q. Correct. And those are reflected in the
19 Company's books.

20 A. Yes.

21 Q. Thank you. Let's move on now to a new
22 adjustment, and that would be Adjustment 4.11 in Tab 4
23 of Exhibit 72. This concerns the uncollectible
24 adjustment. You described this adjustment as reversing
25 an allocated expense and making a direct assignment to

00520

1 Washington; correct?

2 A. Yes.

3 Q. If you look at Tab 2 of that same exhibit,
4 Page 2.13, on Line 721, which is almost all the way at
5 the bottom, in the far right-hand column, is it true
6 that after the correction, the restated level of
7 uncollectible amounts for Washington is \$2,628,845?

8 A. Yes.

9 Q. If you will now turn to what's been marked as
10 Exhibit 90, can you verify this as the Company's
11 response to Staff Data Request 297?

12 A. Yes.

13 Q. The Company's response shows a significant
14 increase in net write-offs since 1994, doesn't it?

15 A. There has been an increase, yes.

16 Q. What would you consider significant?

17 A. That's a relative term. Write-offs have gone
18 up. So have bankruptcies and other issues. Revenues
19 have also increased, so in terms of the increase,
20 significant related to what?

21 Q. If you will turn to what's been marked as
22 Confidential Exhibit 91, can you identify this as the
23 Company's response to Staff Data Request 363?

24 A. Yes, I can.

25 MS. RENDAHL: Your Honor, if I haven't

00521

1 already offered 90, I'd like to offer 90 and 91 at this
2 time.

3 MR. VAN NOSTRAND: No objection.

4 JUDGE MOSS: They will be admitted as marked.

5 Q. (By Ms. Rendahl) Staff asked the Company to
6 explain how it dealt with the rise in uncollectibles;
7 correct? This is Staff Data Request 363.

8 A. In Subpart B, it asks the Company how it's
9 dealing with the rising uncollectibles.

10 Q. In Part A of the Company's response, the
11 Company indicates there was significant improvement in
12 the amount of actual net write-offs for the first three
13 months of 2000 compared to the same period in '99;
14 correct?

15 A. Yes. On a total Company basis, I believe
16 that's correct.

17 Q. So does the Company expect these downward
18 trends to continue?

19 A. As stated, the Company is anticipating that
20 it will continue to get those trends down.

21 Q. Generally speaking, is it true that the
22 confidential portion of this Exhibit 91 includes
23 internal audit reports that identified, among other
24 items, the problem with increased uncollectibles and
25 management action plans to remedy the situation?

00522

1 A. The two audit reports cover the Wasatch and
2 Portland Business Center processing activities and also
3 the collection and write-off processing. I think the
4 documents speak for themselves in terms of as the
5 conclusions and recommendations.

6 Q. Thank you. Looking at Exhibit 72, Tab 4,
7 Page 4.12, this indicates it was one of the pages the
8 Company revised; correct?

9 A. On 4.12?

10 Q. Correct.

11 A. Yes.

12 Q. This addresses the modified accord
13 allocations. Could you explain what the modified
14 accord allocations are?

15 A. Modified accord allocation methodology is a
16 method that has been developed by the PacifiCorp
17 Interjurisdictional Task Force on Allocations, a group
18 of all the states in which we serve that has been
19 addressing allocation issues since, I believe, 1987,
20 prior to the PacifiCorp and Utah Power merger,
21 somewhere in that time, 1987 or 1988, when all this was
22 initially put together.

23 The modified accord methodology is the base
24 issues to functionalize, clarify, and allocate costs to
25 its various components for doing interjurisdictional

00523

1 allocations for each state. The primary drivers in the
2 methodology are based on a demand in energy usage,
3 which decide a cause by jurisdiction. Key components
4 of this methodology, which is different than what we
5 term a pure rolled-in methodology or taking all the
6 costs and allocating them back to the states on a
7 uniform basis, is the assignment of premerger plant to
8 the division of origin at 1989 at the time of the
9 merger, so the plant that was brought to the Pacific
10 Power merger continues to be paid for by the customers
11 for which that plant was established. Any post-merger
12 investments are serving all the customers that the
13 post-merger company is providing service to, so those
14 costs are allocated on a uniform basis based on demand
15 in energy.

16 The second component is an endowment
17 adjustment or an adjustment that we make for the hydro
18 benefits brought to the merger by the Pacific division
19 states, which the way it's calculated is an adjustment
20 to fuel expense lowering the fuel costs to the Pacific
21 states recognizing that the hydro resources are
22 basically a no-fuel-cost resource, and therefore, a
23 benefit.

24 Q. But in order for the allocations to apply in
25 an individual state, the group, PITA, which is the

00524

1 PacifiCorp Interjurisdictional -- I can never remember
2 this whole title -- P-I-T-A. In order for the
3 allocation to apply in a particular state, the members
4 of PITA have to agree that a certain allocation should
5 be made; correct?

6 A. The members of PITA, their recommendations
7 are not binding on any state commission. We try to
8 resolve issues amongst the states so we can take a
9 uniform recommendation back to all the states so that
10 ultimately, the Company can be treated fairly and
11 receive full cost recovery for all its expenses.

12 Q. If you look at the lower part of Page 4.12,
13 prior to the Company's refiling, there were two
14 components of this adjustment; correct?

15 A. That's correct.

16 Q. The first one was to project to 2001 revenue
17 requirement decline and the difference between
18 divisional and system allocation of premerger plant;
19 correct?

20 A. I don't believe it would be a revenue
21 requirement decline. As we move forward with the
22 change in allocations, the revenue requirement
23 increases.

24 Q. But at the time -- let's move on. The second
25 component of the adjustment was to accelerate the

00525

1 natural decline to limit the divergence sooner than was
2 expected?

3 A. Yes. As a result of some actions taken by
4 the Utah Commission and the Company not receiving
5 100-percent cost recovery, we made a recommendation to
6 PITA to begin phasing in the premerger component of the
7 cost to a rolled-in basis, doing that over a specific
8 period of time, and when we filed this case, we made
9 that component subject to an agreement by all of the
10 states.

11 We recently had a PITA meeting where we
12 didn't receive approval for that by all the states or
13 support of it, and therefore, we've removed that
14 component of this adjustment from the case.

15 Q. If you will turn now to Adjustment 4.14, this
16 refers to the tree-trimming expense.

17 A. Yes.

18 Q. In your revised adjustment, you proposed to
19 increase the tree-trimming expense in Washington state
20 to 2.5 million, of which 1.8 million is distribution;
21 is that correct?

22 A. I don't believe that's the proper
23 characterization. In the revised adjustment, we have
24 distribution tree-trimming, which we are recommending
25 on a going-forward basis of 1.8 million, of which

00526

1 actual experience in 1998 was 1.5, so on distribution
2 plant, we have a \$270,000 increase which we are
3 recommending.

4 Then we also have transmission related
5 tree-trimming, and transmission costs are allocated on
6 a system-wide basis. Our estimated ongoing total
7 system tree-trimming would be 3.2 million dollars, and
8 then the allocated portion of that to Washington is the
9 \$177,000. I believe of that total, for the total
10 system, approximately \$700,000 is actual tree-trimming
11 expense for transmission in Washington, so 1.8 million
12 of distribution, \$700,000 transmission related
13 tree-trimming in Washington is our 2.5 million
14 estimate. Tree-trimming costs that would be incurred
15 in Washington, but not all of those costs are assigned
16 to the state of Washington.

17 Q. If you will now look at what's been marked as
18 Exhibits 92, 93, and 94, can you identify what's been
19 marked as Exhibit 92 as the Company's response to Staff
20 Data Request 299?

21 A. Yes.

22 Q. And likewise, what's been marked as Exhibit
23 93, can you identify that as the Company's response to
24 Staff Data Request 300?

25 A. Yes.

00527

1 Q. And what's been marked for identification as
2 Exhibit 94, can you identify that as the Company's
3 response to Staff Data Request 364?

4 A. Yes, I can.

5 MS. RENDAHL: Your Honor, I'd offer those.

6 MR. VAN NOSTRAND: No objection.

7 JUDGE MOSS: 92, 93, and 94 will be admitted.

8 Q. (By Ms. Rendahl) Looking back at Exhibit 92,
9 this exhibit contains the actual tree-trimming expenses
10 by year from 1990 through 1998; correct?

11 A. Yes, I believe that's correct, including both
12 transmission and distribution.

13 Q. Thank you. Now I'm going to have you
14 fast-forward to Exhibits 137 and 138, please. Can you
15 identify what's been marked as 137 as the Company's
16 response to Staff Data Request 513?

17 A. Yes, I can.

18 Q. And likewise, for what's been marked as
19 Exhibit 138, can you identify that as the Company's
20 response to Staff Data Request 515?

21 A. Yes, I can.

22 MS. RENDAHL: Your Honor, I would offer those
23 two into evidence.

24 MR. VAN NOSTRAND: No objection.

25 JUDGE MOSS: 137 and 138 will be made

00528

1 exhibits.

2 Q. (By Ms. Rendahl) Now, looking back at your
3 Exhibit 72 and Adjustment 4.15, Page 4.15, this refers
4 to the renewable resource two-percent adder; correct?

5 A. Yes.

6 Q. And on 4.15 -- hold on just a minute here.
7 First, can you identify the facilities for which you
8 requested a two-percent adder?

9 A. Yes. Blundell Geothermal Plant, Little
10 Mountain Plant, Hermiston Cogen Plant, James River
11 Cogeneration Plant, Wyoming Wind Projects at Foot
12 Creek, and the Solar II Project.

13 Q. In your initial filing, you had a Page
14 4.15.1, which listed these plants. Should that page be
15 included in your May 9 refiling?

16 A. Yes. It should if it's not included.

17 MS. RENDAHL: I'm not sure the appropriate
18 way to do this, but I would request, Your Honor, that
19 the Company include that page in its Exhibit 72.

20 JUDGE MOSS: I gather from the witness's
21 response that the fact that it's not in there is just
22 an oversight, so we will just ask for it in the form of
23 an updated revision.

24 THE WITNESS: It should be included if it
25 wasn't printed and included.

00529

1 Q. (By Ms. Rendahl) Do you have a copy of that
2 Page 4.15.1?

3 A. Yes.

4 Q. Looking at that page, describe each facility
5 with respect to -- and there is four different items:
6 capacity, fuel, process, and estimated fuel lives, so
7 let's go through the first one. Blundell Geothermal
8 Plant, can you describe the capacity of the plant?

9 A. I think in order to respond to that level of
10 detail for those items, I would have to do another
11 record requisition.

12 MS. RENDAHL: I believe this is Record
13 Requisition No. 10: Please describe each facility
14 listed in Page 4.15.1 of Exhibit 72 the capacity, fuel,
15 process, and estimated useful life for each facility.

16 JUDGE MOSS: I think that's going to be No.
17 11. We have officer incentive pay as the subject
18 matter of No. 10.

19 MS. RENDAHL: Your Honor, I would ask that
20 given that the Commission's rule states that records
21 requisitions are due, I believe, within seven days or
22 10 days of the date that the transcript is released is
23 provided in this case that we treat these either as
24 being provided seven days from the hearing today or as
25 data requests today.

00530

1 JUDGE MOSS: Which would normally call for a
2 10-day response?

3 MS. RENDAHL: Except I think we've reduced
4 that to seven.

5 JUDGE MOSS: Can do you that?

6 MR. VAN NOSTRAND: That will be fine.

7 JUDGE MOSS: That will be the response
8 period.

9 Q. (By Ms. Rendahl) So is that information...

10 A. Yes, we can provide that.

11 MS. RENDAHL: Your Honor, would this be a
12 good time to take the lunch break?

13 JUDGE MOSS: Why don't we go ahead and take
14 our lunch recess, and let's target one o'clock as our
15 return time.

16 (Lunch recess at 12:00 noon)

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1 A. Yes, I believe so. This has a calculation
2 date of 26 August '99, which I believe was prior to the
3 completion of a tax return. When that's done, the
4 estimates are updated and so forth, so what we have
5 provided I believe is the more correct information.

6 MS. RENDAHL: Your Honor, I would still
7 request that this be put in for purposes of tracking
8 the calculation.

9 JUDGE MOSS: Any objection?

10 MR. VAN NOSTRAND: No objection.

11 JUDGE MOSS: It will be made an exhibit.
12 I'll note too that Mr. Hall passed to the Bench the
13 missing page to Exhibit 72, which is 4.15.1.

14 Q. (By Ms. Rendahl) Mr. Larsen, before we went
15 to lunch, I was asking you some questions about
16 tree-trimming expense, and that was your Adjustment
17 4.14 in Exhibit 72. Can you turn back to that Page
18 4.14, please? I'd also like you to have Exhibits 92,
19 93 and 94 at your fingertips.

20 A. Okay.

21 Q. You were explaining that the totals in
22 Exhibit 92 were for both transmission and distribution
23 expenses; correct?

24 A. Yes. That's supported by the information, at
25 least looking at 1998 data with Exhibit 93, which is

00533

1 Response 364. It shows in total \$1,000,629, which ties
2 to the 1998 amount, and that's broken down to
3 \$1,000,529 for distribution, \$46,000 for transmission.

4 Q. Are you looking at Exhibit 93 or 94? The
5 response to Exhibit 364 is Exhibit 94.

6 A. Yes. The information on 94, 1998 shows
7 \$1,000,629, and that's the total shown on Exhibit 92
8 for 1998 shows \$1,000,629.

9 Q. Thank you. If you look back to Exhibit 93,
10 and this document shows the basis for the Company's
11 2.5-million-dollar expected tree-trimming expense;
12 correct?

13 A. This would show the breakdown of 2.5 million
14 in the State of Washington.

15 Q. Looking back at 94, the Company's response
16 states that in the recent past, a significant portion
17 of the work has been ticket work and hot-spotting and
18 identifies some percentages for '96 through '99 and
19 that this reactive work has put us behind schedule on
20 our cycle trimming. Could you please explain what
21 "ticket work" and "hot-spotting" mean?

22 A. That's responded to in Staff Data Request
23 474.

24 Q. Does that data request response also break
25 down the percentages for ticket work and hot-spotting

00534

1 by year?

2 A. Yes.

3 Q. Thank you. I apologize; we've had a bit of a
4 staffing problem lately.

5 A. No problem.

6 JUDGE MOSS: Is that data response going to
7 be made an exhibit?

8 MS. RENDAHL: No, not at this time.

9 MR. VAN NOSTRAND: For purposes of the
10 record, Your Honor, would you like the witness to read
11 the definitions of those terms for the record?

12 JUDGE MOSS: I suppose it would be worthwhile
13 for us to know what ticket work and hot-spotting are.

14 THE WITNESS: This is the response given in
15 WUTC 474: "Ticket work is defined as unscheduled work.
16 Tickets or work requests are generated through customer
17 service requests, company employees reporting problems
18 in the field, or governmental agencies requesting work.
19 Hot-spotting is systematic tree-trimming work
20 limited to trees causing problems or potential problems
21 before the next scheduled cycle trimming. Shown below
22 are the separate percentages by year for ticket work
23 and hot-spotting."

24 JUDGE MOSS: Thank you.

25 Q. (By Ms. Rendahl) So looking at Exhibit 94,

00535

1 can you identify what years constitute a cycle in
2 tree-trimming?

3 A. Again, I believe WUTC 475 requests
4 information on cycles.

5 Q. Thank you. I don't believe we need those.
6 If we need them, we will use them later. I don't think
7 this is subject to a data request, but it's possible.
8 Under the "distribution" column in Exhibit 94, the
9 increased number of trees to trim in 2000 and 2001
10 exceeds the expected \$27,000 the Company believes it
11 needs to trim on a cycle basis. Does this indicate
12 that the catching up in cycle trimming due to ticket
13 work and hot-spotting that put the Company behind
14 schedule?

15 A. Can you point me to where you got the
16 \$27,000?

17 JUDGE MOSS: I think it's right there in
18 Exhibit 94 in the narrative response.

19 THE WITNESS: \$27,995 in '99?

20 Q. (By Ms. Rendahl) In the third line down of
21 the Company's response.

22 A. Yes. The increase in those years is to catch
23 up because of the reactive work in the ticket and
24 hot-spotting that put us behind.

25 Q. Generally, is it correct that the main reason

00536

1 from a customer standpoint for trimming trees is to
2 provide more reliable service, particularly in winter
3 months?

4 A. I'm not the Company forester so I could not
5 speculate on that. I think as a general rule, we do it
6 for reliability. We also do it for safety and service
7 issues.

8 Q. When the Company experiences tree outages or
9 outages due to trees falling, what's the impact on
10 Company revenues?

11 A. I guess that depends on the magnitude of the
12 outages. It could be a tree limb falling on a line and
13 it automatically switches breakers and provides service
14 to a different feeder, and in that case, there wouldn't
15 be an impact.

16 Q. I guess I'm assuming a winter storm type of
17 outage.

18 A. Clearly, if the lines are down, we are not
19 selling product, and revenues would be down.

20 Q. So when the Company experiences outages due
21 to trees, does the Company also have extra costs to
22 bring customers back on line?

23 A. I guess it would depend on if you have
24 additional incremental costs. We do have crews in
25 place for maintenance type work. To the extent you

00537

1 have a large outage and you incur additional
2 incremental costs over your typical maintenance costs,
3 yes.

4 Q. What's the impact on the number of calls that
5 are handled by customer service when storms and other
6 tree outages occur?

7 A. Do we have a higher volume of calls based on
8 an outage; is that the question?

9 Q. Yes.

10 A. I believe we have more calls. I don't have
11 any data in front of me to talk specifically as to that
12 impact, but generally speaking, you would anticipate
13 you would have customers calling.

14 Q. Can you explain why PacifiCorp waited until
15 the year 2000 to increase its transmission
16 tree-trimming program?

17 A. I believe I'd have to get a response from the
18 experts in the Company on that area, a record
19 requisition.

20 MS. RENDAHL: So this will be Record
21 Requisition No. 12 then. The record requisition is
22 please explain why PacifiCorp has waited until year
23 2000 to increase its transmission tree-trimming program
24 expenses.

25 Q. (By Ms. Rendahl) Looking now to a different

00538

1 adjustment, your Adjustment 5.2, which is regarding the
2 removal of the cost of service at Colstrip 3 in the
3 Black Hills. That would be Page 5.2 of your Exhibit
4 72. In your description at the bottom of that page, it
5 indicates that this adjustment is intended to comply
6 with the Commission's prior order in Docket U-8602; is
7 that correct?

8 A. Yes.

9 Q. Could you turn now to what's been marked as
10 Exhibit 95, and also if you'd look at 96. We'll handle
11 both at the same time. If you can identify both of
12 those as Company responses to Staff Data Requests 302
13 and 361?

14 A. Yes, I can, with one note. The last sentence
15 of Exhibit 95 says, "As previously explained, the
16 Company no longer keeps steam plant records on a unit
17 basis. It is not possible to determine current 1998
18 balances for Colstrip Unit 3," and in our revised
19 filing, we've made an estimate based on a split between
20 Colstrip 3 and 4 on common plant to arrive at a 1998
21 Colstrip 3 balance.

22 Q. We may have some questions about that later,
23 but these appear to be the responses to them?

24 A. Yes.

25 MS. RENDAHL: Your Honor I would move the

00539

1 admission of 95 and 96.

2 MR. VAN NOSTRAND: No objection.

3 JUDGE MOSS: They will be admitted as marked.

4 Q. (By Ms. Rendahl) Looking at Exhibit 95, the
5 Company explains that the amount of rate base for
6 Colstrip is being removed. This is relating to your
7 originally filed exhibit, not the original exhibit.
8 The Company explains that the amount of rate base for
9 Colstrip being removed does not include additions since
10 '98 because you explained that the Company did not
11 maintain those records; correct? You just talked about
12 that.

13 A. Yes. By specific unit they weren't.

14 Q. In your adjustment that you revised on May
15 9th, did you remove an allocation and additions made
16 from 1989 through 1998?

17 A. Yes.

18 Q. And to follow this revision -- let's start on
19 Page 5.2 -- you have a bolded plant amount of 3.1
20 million. The major heading is "adjustment to rate
21 base." The account number is 310 Type 1; do you see
22 that?

23 A. Yes.

24 Q. You have a bolded plant amount of
25 approximately 3.1 million.

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1 A. That's correct.

2 Q. That additional amount can be found by going
3 to Page 5.26 of your exhibit -- 5.2.6, I'm sorry -- if
4 you compare the 1998 average on the first line of 113.4
5 million to the 110.3 million average for 1998 in the
6 schedule; is that correct?

7 A. Yes. The average \$113,415,000 less the
8 premerger piece of \$110,283,000.

9 Q. Continuing on Page 5.2.6, you show yearly
10 balances for the plant, and those balances through 1988
11 are the actual balances allocated to Colstrip 3 and
12 related common; is that correct?

13 A. I believe that's correct.

14 Q. So starting with 1989, the Company calculated
15 balances for the purpose of this proceeding to respond
16 to Staff concerns; correct?

17 A. Yes.

18 Q. If you will now look at Exhibit 96, the
19 Company's response in this data request response
20 contains information concerning Colstrip on a combined
21 plant basis since 1989 as well as information on common
22 plant; is that correct?

23 A. Yes.

24 Q. Referring to the Attachment 361-A, there is a
25 table like three pages in. This table shows the joint

00541

1 Colstrip plant additions and retirements since 1989
2 that are allocated to Colstrip 3 common and Colstrip 4
3 based on their balances in 1983; correct?

4 A. What this table shows is that using the 1983
5 estimate of the split of Colstrip 3, Colstrip 4, and
6 the common comes up with a percentage, and then that is
7 applied to the Colstrip combined net additions for the
8 1989 through 1998 and uses that as a basis to determine
9 what the net additions would be for Colstrip 3.

10 Q. Thank you. Are these gross plant amounts
11 meaning they are undepreciated?

12 A. Yes. This, I believe, is the electric plant
13 balances.

14 Q. So looking at both Attachment 361-A in
15 Exhibit 96 and Page 5.2.6, to calculate the changes in
16 plant balances from year to year on Page 5.2.6, is it
17 correct that the amounts that are shown in the
18 attachment were used by first taking the Colstrip 3
19 amount and then adding an allocated share of the common
20 amount for each year?

21 A. You would be starting with your 1988 balance
22 and then adding the net change for Colstrip 3 to that
23 balance, I believe. So in 1988, you have on Page
24 5.2.6, \$110,283,000, and then that is adjusted in 1989
25 downward slightly because you have a decline in plant

00542

1 of 114 for Colstrip 3 from the attachment to WUTC 361-A
2 as well as the adjustment for common plant. I believe
3 those numbers will reconcile.

4 Q. The share of the common was approximately
5 42.4 percent; is that correct?

6 A. Yes.

7 Q. Looking at Attachment 361-A, is it correct
8 that the allocation to Colstrip 3 for each year was --
9 strike that last question. I'm sorry. Does the
10 Company have the same percentage of each of these
11 plant's total output?

12 A. Can you rephrase that?

13 Q. Does the Company have the same amount of
14 power output for Colstrip 3 and Colstrip 4? Is it the
15 same percentage of output for each plant?

16 A. In terms of do we receive all the output from
17 the plant or the plant is at the same rating? Is there
18 joint ownership involved?

19 Q. Are the Colstrip 3 and Colstrip 4 plants the
20 same size?

21 A. I don't have that information. I believe it
22 would be identified in the FERC Form 1. We could do a
23 record requisition to supply that, if you like.

24 Q. I don't think we need that. Is PacifiCorp's
25 share of the ownership of the plants the same?

00543

1 A. Again, I'd have to verify that.

2 Q. Why don't we have that as Records Requisition
3 No. 13. So other than the explanation provided on the
4 first page of 96, does the Company have any
5 documentation for how these additions and retirements
6 were actually incurred with respect to Colstrip,
7 Colstrip 4 and the common plant?

8 A. Exhibit 96 explains how the costs have been
9 allocated between Colstrip 3 and Colstrip 4. If you
10 are looking for a justification on the additions that
11 were incurred, I don't believe that that's provided as
12 part of this. I'm not sure if I answered your
13 question.

14 Q. Has the Company provided any other
15 information to explain why the costs should be split up
16 in the fashion they are documented on 361-A?

17 A. No. This is our calculation of how we
18 propose that would be split in accordance with the
19 Commission adjustment from the prior case.

20 Q. Let's now look at your Tab 6 of Exhibit 72,
21 Page 6.1. It concerns depreciation expenses. This
22 adjustment is intended to analyze depreciation expense
23 based on the currently authorized rates; correct?

24 A. We're looking at 6.1 first?

25 Q. Correct.

00544

1 A. That's correct.

2 Q. Can you describe how the Company calculates
3 depreciation for booking purposes? Specifically, does
4 it calculate monthly on month-end plant balances or
5 annually?

6 A. I believe the questions on depreciation are
7 probably best referred to Mr. Peterson who is prepared
8 today to respond to the depreciation.

9 Q. That concerns depreciation expense as well as
10 the rates?

11 A. Yes.

12 Q. And that includes the calculation of this
13 adjustment?

14 A. Yes.

15 Q. Would that also include the calculation of
16 Adjustment 6.4 and 6.2?

17 A. Yes.

18 Q. Thank you. I'm assuming for 6.5 you would
19 have the same response.

20 A. Yes, that's correct.

21 Q. Then let's turn to Page 7.4 under Tab 7 of
22 your Exhibit 72. So in your description in the box at
23 the bottom, your description of the adjustment
24 indicates that this adjustment reflects revenue-related
25 taxes on revenues at present prices, and what do you

00545

1 mean by revenues at present prices?

2 A. That's revenues based on currently approved
3 tariffs with a true-up to what we are reflecting in our
4 filing here as normalized revenues, I believe.

5 Q. Looking at each tax calculation, the revenues
6 used in the calculation, whether the 197.6 million or
7 the 208.8 million, are taken from Page 7.4.1. If you
8 turn to that page, looking at 7.4.1, could you explain
9 the 12.9-million-dollar adjustment for interruptible
10 revenues related to franchise fees, and that would be
11 the bottom section, second line down?

12 A. The line less interruptible revenues base
13 \$12,908,000?

14 Q. Correct. Can you explain that adjustment?

15 A. Yes. That's been removed from the
16 calculation to come up with a base for which franchise
17 taxes would apply to.

18 Q. What do those 12.9-million-dollar revenues
19 represent?

20 A. Revenues based on interruptible contracts or
21 customers.

22 Q. So it's all of those interruptible contract
23 revenues?

24 A. That would be included in Washington, I
25 believe. It's certainly not the interruptible revenues

00546

1 for the total company.

2 Q. What is the franchise fee? Is that the same
3 revenues that we were just talking about?

4 A. I'm not sure of your question.

5 Q. If you look down, there is a base for
6 franchise tax and franchise tax line. Second from the
7 third up from the bottom of that last section on Page
8 7.4.1 talks about base for franchise tax and franchise
9 tax. What are these franchise taxes? Are they cities,
10 counties? What's the basis for those tax?

11 A. It would be the franchise taxes imposed on
12 the Company by government agencies, whether it's city
13 or state franchise tax.

14 Q. How are those taxes allocated?

15 A. Franchise taxes are allocated state specific.

16 Q. Looking at the actual general business
17 revenues on the first line of this Page 7.4.1, and the
18 208 million used as the base for revenue tax and WUTC
19 tax, 208 million, is it correct that you made the three
20 adjustments from Tab 3 reducing the revenue by
21 approximately 1.7 million net adjustments, and the
22 adjustments from Tab 3 are referred to as plus
23 temperature adjustment plus effective price change plus
24 revenue normalizing adjustment?

25 A. Yes.

00547

1 Q. The 210 million comes from Line 2 on Page
2 7.4.2, Column 7; is that correct?

3 A. Yes. That's the total general business
4 revenue including the requested increase, so it's the
5 tariff revenues that we are currently collecting plus
6 normalizing adjustments and what we've asked for in the
7 case.

8 Q. So the Column 7 amounts represent the net
9 adjusted level after adjustments in Column 2, which you
10 just said are the normalizing adjustments, which are
11 proforma adjustments, and 6 which are price changes?

12 A. Yes.

13 Q. Could you describe what the adjustment of
14 25.8 million is shown in Column 6, Page 7.4.2, Line 2?

15 A. Can you give that reference again?

16 Q. On Page 7.4.2 of Exhibit 72, Column 6, Line
17 2, would you describe what the adjustment 25.8 million
18 represents?

19 A. 25.8 million is the requested increase in
20 order to get the Company to an authorized level of
21 earning 11-and-a-quarter percent. It's the requested
22 increase in this case.

23 Q. I'm going to start asking a few other
24 tax-related questions. If you could turn to what's
25 been marked as Exhibit 99.

00548

1 JUDGE MOSS: Before we move on to that, I
2 wanted to ask a question here to be sure I'm clear.
3 Looking at Page 7.4.2 that we were just looking at, and
4 then we compare that back to Page 1.0, are all the
5 differences in terms of the corresponding numbers there
6 attributable to the revision that took place between
7 the 11/5 date on 7.4.2 and the May 9th date on Page
8 1.0? That's for you, Mr. Larsen.

9 THE WITNESS: The information included on
10 7.4.2 was from the original filing, and we continued to
11 support the 25.8 million, even though the revised
12 exhibit shows a 27.3 million increase. We've used this
13 calculation for adjusting the revenue taxes because
14 that is our ongoing request.

15 JUDGE MOSS: Thank you. Sorry for the
16 interruption. Go ahead.

17 Q. (By Ms. Rendahl) Do you have Exhibit 99 in
18 front of you, what's been marked as Exhibit 99?

19 A. Yes.

20 Q. In this request, the Staff asked the Company
21 to identify the specific tax issues with the IRS that
22 might result in a higher tax. The actual tax as filed
23 were used for rate-making purposes, and the Company's
24 response says, basically, that the Company doesn't
25 know; is that correct?

00549

1 A. From year to year, there is different tax
2 issues that will come up. The Internal Revenue Service
3 will make different adjustments through our tax return,
4 so from year to year, those will vary. Overall, as
5 we've done our tax returns, we filed those
6 aggressively, meaning that we try to file the returns
7 such that customers are benefited and that we keep our
8 tax payment to the Internal Revenue Service as low as
9 possible.

10 On audit, the IRS typically will come back
11 and challenge certain adjustments that the Company has
12 taken, and when they complete an audit cycle, it
13 typically is ended with increases to the Company's
14 expense for income taxes. That can be noted in our
15 1998 annual report where it states that we've just
16 completed an audit cycle for the years 1991, '92, and
17 '93, in which the IRS has proposed adjustments of 97
18 million dollars.

19 We completed an '89 and '90 cycle, which
20 resulted in an additional 10 million dollars, so as
21 we've gone through audit cycles, they have come up with
22 adjustments they recommended and increased the amount
23 payable to them ultimately.

24 Q. So by having a year-end accrual that's less
25 aggressive than the tax return, your intent is sort of

00550

1 to offset by filing an aggressive tax return?

2 A. There is two ways you can do it. If you use
3 the tax return amount as the basis for setting rates,
4 then as the IRS completes an audit and you have a
5 true-up to those years, then you would have to go back
6 and capture those expenses and build those into rates,
7 which builds in considerable lag to the process.

8 The alternative is that you file on an
9 accrual basis for rate-making purposes, which you
10 attempt to normalize your tax expense and take into
11 consideration what you think your tax expense is on an
12 ongoing basis.

13 Q. So if the IRS made an unfavorable ruling with
14 a significant impact to the Company, isn't it true that
15 the Company is not precluded from seeking a leave from
16 regulators?

17 A. I don't know that we are precluded, but it
18 certainly has a long lag period in between filing a
19 case and when you would actually know what the IRS
20 position is. As I mentioned, we just have completed
21 and trued-up the 1989 and 1990 audit with an additional
22 10 million increase, and here we are 10 years later.
23 They just completed their audit on '91 through '93 with
24 a 97 million increase. That will continue to be
25 disputed and worked on and resolved, I think, for a

00551

1 couple more years, so that process builds in
2 considerable lag to the process.

3 Q. If you would now turn to your Exhibit 70,
4 which is your prefiled testimony, and turn to Page 31,
5 and I believe I'm looking at the legislative version.
6 On Page 31 of the legislative version, you state
7 beginning on Line 16 that the normalization of deferred
8 income taxes is a departure from the follow-up approach
9 approved by the Commission in the Company's last
10 general rate case. The flow-through, excuse me. Do
11 you see that statement with my correction?

12 A. What line were you referring to?

13 Q. Starting at Line 16 on Page 31, the
14 normalization of deferred income taxes.

15 A. Yes, I see that.

16 Q. Has the Company provided to the Commission in
17 this case those tax items that you've changed according
18 to your testimony that departs from the approved
19 Commission accounting of federal income taxes?

20 A. If you can give me a moment to find the right
21 document here.

22 Q. Sure.

23 A. I believe we've provided to the Staff in WUTC
24 387 a calculation of the impact of the difference
25 between moving to flow-through on the Company's assets

00552

1 versus following a normalization. In this instance in
2 this case, maintaining a flow-through level of expense
3 results in an additional increase to Oregon customers
4 for deferred income tax of 7.5 million dollars.

5 Q. I don't believe that's really responsive to
6 my question. My question was, have you provided the
7 tax items that you've changed, not whether you
8 explained the difference and why you've gone from
9 flow-through. Have you provided to the Commission the
10 tax items you've changed that depart from the approved
11 Commission accounting of federal income taxes?

12 A. Not individually. In aggregate, I believe
13 we've provided information to the Staff on that.

14 Q. In aggregate, you've provided it to the
15 Staff?

16 A. Well, referring to 387, the impact of moving
17 from flow-through to normalization.

18 Q. But not the individual tax items?

19 A. No.

20 Q. Is that different from how the Commission
21 ordered the Company to present it in the last rate
22 case?

23 A. I believe in the last case, it was on a
24 flow-through basis.

25 Q. Were all items flowed through or were some of

00553

1 them flowed through in the last rate case?

2 A. In the last case -- well, there are certain
3 items that are required to be normalized, and timing
4 differences are required to be normalized, and I
5 believe I'd have to go back and check on the last case,
6 the timing and the implementation of FAS-109.

7 MS. RENDAHL: As Record Requisition No. 14,
8 could you please identify as provided in the last rate
9 case the tax items that must be flowed through
10 according to the Commission's -- and normalized --
11 according to the last order?

12 THE WITNESS: We can provide that.

13 Q. (By Ms. Rendahl) Is it true that the
14 normalization of deferred income taxes is calculated
15 when you record revenues or expenses differently for
16 book purposes than you do for tax purposes?

17 A. Yes, generally.

18 Q. These differences are reported as Schedule M
19 on the federal income tax calculation to determine
20 current federal income taxes paid; is that correct?

21 A. Yes.

22 Q. Is it true that the normalizing of deferred
23 income taxes can increase or decrease the current
24 federal income taxes and the deferred federal income
25 taxes?

00554

1 A. Well, if you are fully normalized, there are
2 offsetting impacts. You are making Schedule M
3 adjustments which will impact your current, either up
4 or down, and the offset is into your deferred.

5 Q. Would you accept, subject to your check, that
6 you've provided the Staff with the following revised
7 calculations of current and deferred federal income
8 taxes? That would be in your Exhibit 72, and your
9 response to UTC Requests No. 306 to 310 and Staff Data
10 Request Attachment Response 517, and I'm going to be
11 seeking to introduce those data request responses.
12 Those are currently marked as Exhibits 140 and 141, so
13 if you want to refer to those, that's probably a good
14 place to go to.

15 A. 140 refers to the supplemental, 306 to 310?

16 Q. Correct. 141, can you identify whether
17 that's the response to Staff Request 517?

18 A. Yes.

19 MS. RENDAHL: Your Honor, I'd move the
20 admission of 140 and 141.

21 MR. VAN NOSTRAND: No objection.

22 JUDGE MOSS: And 99, I'm not sure if you
23 moved it.

24 MS. RENDAHL: I don't believe I offered it.
25 I'll offer it now.

00555

1 MR. VAN NOSTRAND: No objection.

2 JUDGE MOSS: Those three will be made
3 exhibits as marked.

4 Q. (By Ms. Rendahl) So would you accept subject
5 to your check that you've provided Staff with revised
6 calculations of current and deferred federal income
7 taxes in Exhibits 72, 140 and 141?

8 A. Can you repeat that so I make sure I know
9 what you are asking?

10 Q. In Exhibit 72, which is your large exhibit,
11 and Exhibits 140 and 141, which are the responses to
12 Requests No. 306 to 310 and 517, will you accept
13 subject to your check that you provided the Staff with
14 revised calculations of current and deferred federal
15 income taxes in those exhibits?

16 A. In 140 and 141, we have provided a request
17 from the Staff to show the impact truing-up to the 1998
18 tax return. This is not a recalculation of what we
19 would recommended as the tax expense be in the case,
20 but it shows what the impact is if you were to adjust
21 to the 1998 actual tax return as filed, I believe.

22 Q. So subject to that qualification, can you
23 accept subject to check that you provided the
24 calculations on --

25 A. Yes, we provided this document. I can accept

00556

1 that.

2 Q. Looking at your Exhibit 72 on Page 1.01, so
3 back to the beginning, which is entitled "income taxes,
4 federal" are these the current taxes or the deferred
5 federal taxes?

6 A. Line 23 is the current.

7 Q. The deferred taxes are on Line 25; is that
8 correct?

9 A. Yes.

10 Q. Would you agree then on Line 24 are the
11 income taxes, state for \$1,923,937 on Column 4?

12 A. Column 4 shows a \$1,932,000, but that
13 wouldn't be the final amount in the case. It would be
14 in Column 10, I believe, \$1,891,788.

15 Q. Would you accept subject to your check that
16 the operating revenue for this Column 4 is \$53,943,275?

17 A. For which column?

18 Q. On Column 4.

19 A. Where would I find that revenue?

20 Q. It's not on here. I'm asking if you will
21 accept it subject to check given that operating
22 revenues are your operating -- hold on just a minute.
23 Would you accept, subject to your check -- if you look
24 in Exhibit 141 on the first page under "calculation of
25 taxable income," you have a line "operating revenues,"

00557

1 and that amount for Washington is \$432,332,322?

2 A. Let me get to where you are at.

3 MS. RENDAHL: Can we take a five-minute
4 break, Your Honor?

5 JUDGE MOSS: This would be a good time.

6 THE WITNESS: I think I know what calculation
7 you are making.

8 MS. RENDAHL: Why don't we take a five-minute
9 break and then we will confer with you when we get
10 back.

11 (Recess.)

12 JUDGE MOSS: Let's get ourselves back on the
13 record here.

14 MS. RENDAHL: Your Honor, on these tax
15 issues, since we've gotten the exhibits into the
16 record, I think we will take up the remainder of the
17 conversations with the Company, so I'm going to move on
18 to a different topic area.

19 Q. (By Ms. Rendahl) Mr. Larsen, if you will
20 turn to what's been marked as Exhibits 100 and 101, and
21 if you can identify these as the responses to Staff
22 Data Requests 261 and 331?

23 A. Yes.

24 Q. So have you found those two?

25 A. Yes. I can identify those as responses to

00558

1 WUTC 261 and 331.

2 MS. RENDAHL: And I'd offer those, Your
3 Honor.

4 MR. VAN NOSTRAND: No objection.

5 JUDGE MOSS: They will be admitted as marked.

6 Q. (By Ms. Rendahl) If you look at Exhibit 101,
7 the exhibit contains the response to Staff's request
8 for a copy of the plan of use for certain plant listed
9 in Exhibit 100; is that correct?

10 A. Yes.

11 Q. If you could now look at what has been marked
12 as Exhibit 102, can you identify that as Company's
13 response to Staff Data Request 383?

14 A. This is referring to Adjustment 8.10?

15 Q. Yes, and the SAP project.

16 A. This is the Company's response to WUTC 383.

17 MS. RENDAHL: Your Honor, I would offer that
18 also into evidence.

19 MR. VAN NOSTRAND: No objection.

20 JUDGE MOSS: And you will tell us what SAP
21 stands for, please.

22 MS. RENDAHL: I'm going there right now.

23 Q. (By Ms. Rendahl) Could you first explain
24 what SAP stands for and then explain what the SAP
25 project is?

00559

1 A. SAP stands for "Systems Applications and
2 Products." It's an architectural-wide software package
3 that the Company implemented. It's a German product
4 under that name SAP.

5 Q. Do you recognize Exhibit 102 as the Company's
6 response to Staff's inquiry regarding the qualitative
7 and quantitative benefits of the SAP project?

8 A. Yes. The Staff asked for qualitative and
9 quantitative benefits achieved during the test period.

10 Q. If you'd look at Page 8.10.1, your Exhibit
11 72, the footnote at the bottom of the page indicates
12 that the hardware depreciation for the SAP project is
13 adjusted in 6.1; is that correct?

14 A. Yes.

15 Q. And looking at Page 8.10, which is the one
16 just before that, would you explain why you also make a
17 depreciation adjustment on the third line, depreciation
18 general plant, when the adjustment is to be made in
19 Adjustment 6.1?

20 A. I can spend the time now reconciling that or
21 provide it as a record requisition. It appears that
22 \$983,000 is the depreciation expense associated with
23 the hardware as calculated on 8.10.2.

24 Q. And then 8.10.2, did you remove that amount
25 from the other adjustment on --

00560

1 A. That's what I have to verify is if 6.1 has
2 properly excluded that or not.

3 Q. Can you accept subject to check that it was
4 not adjusted for 6.1?

5 JUDGE MOSS: That has the same effect as
6 making a records requisition, so we will get the
7 information either way.

8 MS. RENDAHL: I'd prefer the subject to
9 check.

10 MR. VAN NOSTRAND: If it turns out it's okay,
11 then there is no further response required. If he
12 could check it if it doesn't turn out to be as he
13 accepted a response is required.

14 JUDGE MOSS: That's going to affect the
15 timing. Subject to check, he's going to have 10 days
16 after the transcript, something like that?

17 MS. RENDAHL: That's fine.

18 Q. (By Ms. Rendahl) Have you got that?

19 A. Okay.

20 Q. If you would look at what's been marked as
21 Exhibit 142, please. Do you have a copy of that in
22 front of you?

23 A. Yes. It's Staff Data Request 483.

24 MS. RENDAHL: Your Honor, I'd move to admit
25 this.

00561

1 MR. VAN NOSTRAND: No objection.

2 JUDGE MOSS: 142 will be admitted as marked.

3 Q. (By Ms. Rendahl) Mr. Larsen, if you would
4 turn to your Adjustment 8.12 on Exhibit 72 concerning
5 the Centralia gain treatment. Referring to your
6 adjustment on Page 8.12, are you aware that on April
7 21st, the Commission issued its Fourth Supplemental
8 Order in Docket UE-991262 that denied, among other
9 things, the gain allocation using the depreciation
10 method?

11 A. Yes, I believe that's correct.

12 Q. And the depreciation reserve method is the
13 method you employed to identify the customer portion of
14 the gain you used in your Adjustment 8.12; correct?

15 A. Yes. What we've used is the Company's
16 proposal -- as I understand our position on Centralia,
17 there was still some clarification needed, and the
18 issue wasn't completely resolved. Certainly when we
19 filed our rebuttal testimony, this would be updated if
20 the Centralia gain is resolved.

21 Q. On your Page 8.12, you refer to a Yampa
22 acquisition. Can you describe the Yampa acquisition,
23 please?

24 A. Yampa is the Colorado ute acquisition
25 adjustment.

00562

1 Q. Has this commission filed the establishment
2 of a regulatory asset for the overbooked costs of the
3 Yampa acquisition?

4 A. I believe the Company did file with the
5 Washington Commission for Colorado ute treatment.

6 Q. Do you have a docket number for that?

7 A. Just check real quick and see if they have
8 documentation on that. We'll provide that.

9 MS. RENDAHL: Let's make that Record
10 Requisition No. 15. So we are seeking the docket
11 number in which the Company filed, and docket number
12 order that the Company filed with the Commission for
13 treatment as a regulatory asset where the overbooked
14 costs of the Yampa acquisition.

15 THE WITNESS: I'm not sure if it was a docket
16 or we filed an accounting letter.

17 Q. (By Ms. Rendahl) In light of orders that the
18 Company has received from all concerned jurisdictions
19 concerning the Centralia sale, has the Company decided
20 to proceed with the sale?

21 A. Yes.

22 Q. Are you aware of the Commission's order on
23 Centralia, the provision that excludes environmental
24 contingent liabilities from the calculation of the gain
25 on sale?

00563

1 A. I'm not familiar with that.

2 Q. I'm going to shift gears a little bit. If
3 you could now flip to what's been marked as Exhibit
4 104. Do you have that in front of you? It should have
5 Attachment Response 130-B, supplemental.

6 A. Yes.

7 Q. You can identify that as the Company's
8 supplemental response to WUTC Staff Data Request 130-B?

9 A. You are only identifying the attachment, not
10 the full data request?

11 Q. Correct. Just attachment to Response 130-B.

12 MS. RENDAHL: Your Honor, I would move the
13 admission of Exhibit 104.

14 MR. VAN NOSTRAND: No objection.

15 JUDGE MOSS: Is that just two pages?

16 MS. RENDAHL: No. It's a multipage document.
17 103 is a two-page document, but 104 is a multipage
18 document.

19 JUDGE MOSS: I seem to have the two -- I'm
20 confused because I'm not following your questions on
21 this point. I have as 103, WUTC Staff Data Request No.
22 130, supplemental response; and then I have as 104,
23 WUTC Staff Data Request No. 130, and it just says
24 response to that, so I want to be sure we get them
25 correct if we've got them reversed.

00564

1 MS. RENDAHL: The exhibit list has 103 as --
2 you are right. If you bear with me just one moment
3 here.

4 JUDGE MOSS: It's all part and parcel. If we
5 can just go with the numbers 103 and 104 and move them
6 both, and then you will have what you need for the
7 record.

8 MS. RENDAHL: That's fine.

9 JUDGE MOSS: Let's do that, but then let's
10 be sure the transcript is straight.

11 MS. RENDAHL: For the record, 103 should
12 read, Company's response to Data Request 130, and 104
13 should be, Company's supplemental response to 130-B,
14 and that might take care of the whole issue.

15 JUDGE MOSS: That's another way to do it. If
16 you just want to reverse the numbers, we can do that.

17 MS. RENDAHL: But I'll move admission of both
18 if Mr. Larsen can identify them as the Company's
19 responses to Staff Data Request 130 and supplemental
20 response to Staff Data Request 130-B, and these are
21 excerpts.

22 THE WITNESS: Yes, I can identify these.

23 MS. RENDAHL: Your Honor, I would move
24 admission.

25 MR. VAN NOSTRAND: No objection.

00565

1 JUDGE MOSS: They will be admitted.

2 Q. (By Ms. Rendahl) If you look at Exhibit 104,
3 specifically looking at Tab A of the attachment
4 response, if you look down at the lower left-hand
5 corner, it should say Tab A, and then the pages. On
6 the first page labeled Tab A, it shows on Line 5,
7 California transmission of December 31, 1998; do you
8 see that?

9 A. Yes.

10 Q. The amount of approximately 22.5 million is
11 part of the basis in physical assets sold. That's what
12 is reflected for California transmission?

13 A. Yes.

14 Q. The source details for this are on Page 3 of
15 4; correct?

16 A. Pages --

17 Q. Page 3 of 4 in Tab A.

18 A. Yes, the net book.

19 Q. So are these transmission assets part of the
20 California sale?

21 A. That's kind of hard for me to put this
22 document in context. It looks like it's excerpted out
23 of something, but I would assume that these are the
24 assets included within California that would be part of
25 the sale.

00566

1 Q. So would you accept subject to check that
2 these are, in fact, the assets that are part of the
3 California sale?

4 A. Yes.

5 Q. The transmission assets that are being sold
6 were supported in rate base by other jurisdictions
7 because transmission assets are allocated not on a
8 situs basis but either on a system-wide or
9 division-wide basis; is that correct?

10 A. Yes.

11 Q. If you will turn to what's been marked as
12 Exhibit 143, can you identify this as the response to
13 Staff Data Request 487?

14 A. Yes. You are not identifying the attachment
15 spread sheet?

16 Q. No.

17 MS. RENDAHL: Your Honor, I'd move admission
18 of this, which does exclude the spreadsheet attachment,
19 just the Company's response.

20 MR. VAN NOSTRAND: No objection.

21 JUDGE MOSS: 143 will be admitted as marked.

22 Q. (By Ms. Rendahl) This refers to the
23 Company's response to Staff Data Request 130. Could
24 you identify any information in the sales agreement or
25 elsewhere that identifies which portions of the

00567

1 California property are being sold that might support
2 the statement in this response that transmission was
3 sold at book?

4 A. I don't have those sales documents or am not
5 familiar with those specific documents, so we would
6 have to provide that to you.

7 MS. RENDAHL: This will be Record Requisition
8 No. 16.

9 THE WITNESS: And the question would be...

10 MS. RENDAHL: Is to identify any information
11 in the sales agreement or elsewhere that identifies
12 which portions of the California property are being
13 sold that might support the statement and the response
14 to Data Request 487 that transmission was sold at book.

15 Q. (By Ms. Rendahl) Now I'm going to move on to
16 a number of questions on the Company's rate base
17 presentation, which is likely to flip around a fair
18 amount, just given how that presentation is in your
19 exhibits.

20 For the most part, isn't it correct to say
21 that the Company has calculated rate base by using an
22 average of beginning- and end-of-year balances?

23 A. Yes, for the most part.

24 Q. And in the calculation of per books rate base
25 that's shown in the B Tabs of your exhibit -- and those

00568

1 are B-8, plants and service, through B-20, customer
2 advances -- the Company amended it's modified accord
3 removing California and Montana data from the
4 allocators; correct?

5 A. Can you repeat that? I'm not sure that's
6 correct.

7 Q. In calculating the per books rate base that's
8 shown in your B Tabs, and that would be B-8 through
9 B-20, the Company amended the modified accord removing
10 California and Montana data from the determination of
11 the allocators; correct?

12 A. That's correct. So that what we have are
13 totals that tie to the books of the Company with no
14 allocation to California or Montana.

15 Q. Doesn't removing California and Montana data
16 result in a reassignment of the amounts that would have
17 been assigned to California and Montana to the other
18 jurisdictions like Washington?

19 A. Yes. When we move that plant from the
20 results in Tab 9.

21 Q. Does that apply to reassignment of common
22 plant?

23 A. Common plant....

24 Q. Such as the coal plants?

25 A. The coal plants at Centralia?

00569

1 Q. For example.

2 A. The coal plants at Centralia would be removed
3 with the sale.

4 Q. So would you have reassigned Colstrip 4, for
5 example, the portions that would have been allocated to
6 Washington? Strike that last question. Are the
7 portions, for example, of Colstrip 3 or 4 that would
8 have been assigned to California and Montana, have
9 those been reassigned to Washington and other
10 jurisdictions?

11 A. The remaining assets of the Company after we
12 have removed California, Montana, and Centralia, have
13 been reallocated to the remaining customers that we
14 continue to serve.

15 Q. So if you will refer back to Page 1 of your
16 Exhibit 72, just the first page and the summary, and
17 look at Column 1.

18 A. Page 1.0 of Exhibit 72?

19 Q. Yes. And I'm referring to -- the Company
20 filed a letter on May 18th advising that some
21 individuals are missing Page 1.0 of Exhibit 72. This
22 is another inadvertent admission. Do you have a page
23 1.0?

24 A. Yes, and it was missed when it was printed
25 and collated.

00570

1 Q. So referring to Page 1.0 in Column 1, this
2 depicts the Washington jurisdiction rate base per-books
3 results of operation with the total rate base of
4 \$629,735,762; correct? It's on Line 57, Column 1.

5 A. Can you repeat that number?

6 Q. It's \$620,735,762.

7 A. That's the right number.

8 Q. Now referring to Page 2.2 of your exhibit, in
9 addition to showing the Washington jurisdiction rate
10 base, this page also shows total Company rate base
11 after removal of Centralia, California, and Montana of
12 \$6,941,797,875; correct?

13 A. Yes.

14 Q. And also on Page 2.2, there is a column
15 titled "Ref" for reference, and, for example, on the
16 plant in service line, which is Line 37, electric plant
17 in service, there is a number 2.31. That 2.31 is the
18 page on which the preadjustment amounts for plant in
19 service are supported; is that correct?

20 A. Yes. That would be the B Tab results that
21 have all of the plant, so that reference wouldn't be
22 accurate at this point because these numbers exclude
23 California, Montana, and Centralia.

24 Q. The numbers on the revised Page 2.2?

25 A. The reference column amounts would be before

00571

1 the removal of Centralia, California, Montana supported
2 in Tab 9.

3 Q. And I'd asked you if those were the
4 preadjustment amounts, and I think we are saying the
5 same thing.

6 A. When you say "preadjustment," these exclude
7 California, Montana, and Centralia on Page 2.2.

8 Q. I think this is referring to before other
9 adjustments, not the California, Montana, and
10 Centralia. If you will look at Page 2.31, there is a
11 column "results excluding California, Montana and
12 Centralia," and then to the right, it says an
13 adjustment total so is it correct that the
14 preadjustment is excluding the California, Montana, and
15 Centralia before you have made other adjustments?

16 A. The total electric plant in service of
17 \$11,000,086, I believe, does exclude California,
18 Montana, and Centralia.

19 Q. So the adjustment for California, Montana and
20 Centralia is displayed under Tab 9; is that correct?

21 A. Yes.

22 Q. So to get to the amounts shown in Tab 2, you
23 started with the amounts in the B Tabs and subtracted
24 the Tab 9 amounts; is that correct?

25 A. Yes. There is a reconciliation in Tab 9,

00572

1 which walks through each of the columns tying the B
2 Tabs together, and when we revised this, there were
3 several items that were pointed out to us by Staff that
4 have been missed. We did a further review of that.
5 Pages 1 through 8 identify in bold additional
6 information that we picked up and included, so to Pages
7 9 through 45, you would also have to include the
8 additional items in Pages 1 through 8, and that would
9 tie you to the 2.1.

10 As an example, Page 1 of 45 in Tab 9, Page 5
11 shows Transmission Plant Accounts 350 through 360,
12 through 359, and that's where we picked up the
13 California transmission plants and removed that. Where
14 in our original filing, we hadn't removed that piece.

15 Q. Thank you. So since we are now in Tab 9, I'm
16 looking at these account numbers, so on Pages 9 to 45,
17 are each of the accounts then further broken down by
18 the PITA allocation factor?

19 A. Yes.

20 Q. And that's the state reference, the factor
21 reference?

22 A. Yeah, the interjurisdictional allocation
23 factor.

24 Q. The column titled, "PITA factor," identifies
25 the allocation factor from the modified accord, and a

00573

1 test year factor is shown in the rate column after
2 removing the California, Montana statistics; is that
3 correct?

4 A. Can you say that again? I don't see a test
5 year factor column.

6 Q. For example, if you will look at Page 38 of
7 Tab 9, 38 of 45?

8 A. 38?

9 Q. Correct; for example, and the column that's
10 three from the right labeled "PPL-401, B-section rate."
11 It's not labeled test year factor, but I guess I'm
12 asking you if that's in effect what it is. In your
13 exhibit, you identify the modified accord, the
14 allocation factor, and then you have this rate column
15 which identifies the effect in that test year; is that
16 correct, after removing California and Montana
17 statistics? In Tab 9 on my version, I have 45 pages.
18 If you look at Page 38 of 45, and on the bottom it's
19 labeled Page 2.32.

20 A. At the top it has the first account is 105,
21 "held for future use" is the description, and the next
22 column is PITA factor. The next column is PPL-401 Tab
23 2 total, without.

24 Q. Correct, and California, Montana, Centralia
25 total then "rate." Do you see the rate column?

00574

1 A. That would be the allocation factor for the
2 State of Washington applied to that line.

3 Q. After removing California and Montana.

4 A. Yes.

5 Q. Sorry for the confusion.

6 A. No problem.

7 Q. Can you verify that plant in service is
8 displayed in several subaccounts on Pages 2.23 through
9 2.31 in Tab 9? That number shows on the bottom.

10 A. Can you repeat the question now?

11 Q. Sure. Pages 2.23 through 2.31, on those
12 pages, plant in service is displayed in several
13 subaccounts along with amounts from Account 106,
14 unclassified plant; is that correct?

15 A. Are you referring just to the unclassified
16 plant, because most of the rate base accounts are shown
17 at their primarily FERC level account without
18 subaccounts.

19 Q. This includes adjustments for unclassified
20 plant; is that correct?

21 A. Yes. Our filing includes unclassified plant
22 that hasn't been moved into a specific plant in service
23 account designation.

24 Q. So each of the rate base amounts shown here,
25 for example, represent an average beginning- and

00575

1 end-of-year; is that correct?

2 A. Yes.

3 Q. And other rate base items begin on Page 2.32;
4 is that correct, still in Tab 9?

5 A. Yes.

6 Q. Docket U-8602 was the last general rate case
7 for PacifiCorp in the state of Washington; is that
8 correct?

9 A. I believe so, yes.

10 Q. At the break I handed you a list of accounts
11 that I was going to be referring to. Subject to your
12 check, I'm going to read a list of accounts which you
13 now propose to include directly in rate base, and
14 subject to your check, these were not directly included
15 in the rate base in the last general rate case; is that
16 correct, and this is the list: Account 114, electric
17 plant acquisition adjustment; Account 151, fuel stock;
18 Account 253.16, DG and T working capital deposit;
19 253.17, DG and T working capital deposits; 145,
20 materials and supplies; 163, stores expense
21 undistributed; 253.18, Provo working capital deposit;
22 165, prepayments; 182, miscellaneous regulatory assets,
23 not DSM; 186, miscellaneous deferred debits, not DSM;
24 143, other accounts receivable; 135, working funds;
25 232, accounts payable, some; 255, deferred hedging;

00576

1 253.3, other deferred credits, miscellaneous; 282.22,
2 unrecovered plant, Trojan; 141, impact housing; 228.1,
3 provision for property insurance; 228.2, provision for
4 injuries and damage; 228.41, accumulated miscellaneous
5 operating provision, Black --; 228.42, accumulated
6 miscellaneous operating provisions, Trojan; and
7 finally, 253.99, other deferred credits, and subject to
8 your check, could you identify that these were not
9 directly included in rate base in the last general rate
10 case?

11 A. Yes, subject to check, and I think there is
12 also two additional items that we would have to add to
13 your list: 228.2, which is a pension reserve, and a
14 SERP reserve that been included in our filing, 8.11
15 adjustment, 8.13.

16 Q. Thank you. Each of these accounts is
17 supported in the B Tabs. For example, Page 2.33,
18 Account 182 is supported as referenced there in Tab
19 B-11; is that correct?

20 A. Yes.

21 Q. So referring to Page 1 and 2 of Tab B-11, the
22 two account pages, you can see that Account 182 is
23 comprised of four subaccounts with each of several
24 secondary accounts; is that correct?

25 A. Yes.

00577

1 Q. Going back to Tab 9, Page 9 of 45 through 45,
2 these pages reconcile the B Tabs to the Tab 2 amounts
3 which are shown in the first column titled "PPL-401,
4 Tab 2 total (without)." Let's go through this slowly.
5 Let's look at Tab 9, Page 9 through 45. These pages
6 reconcile the B Tabs to the Tab 2 amounts, and those
7 are shown in the first column that's labeled "PPL-401,
8 Tab 2 total (without)"; is that correct?
9 A. What page are we in?
10 Q. Page 9.
11 A. Page 9 isn't going to be rate base.
12 Q. Just for example, because I think the
13 headings are the same. I'm going to rephrase my
14 question. Still looking at Page 9 of 45 in Tab 9,
15 these pages reconcile the B Tabs to the Tab 2 amounts,
16 and they are shown in Column 5, which is "PPL-401, B
17 Section total (with)"; is that correct?
18 A. Can you restate that? I'm not tracking here.
19 Q. Your brain is probably fuzzy like mine. Page
20 9 of 45, on Page 9 of 45 in Tab 9?
21 A. Okay.
22 Q. Columns on the top, these pages reconcile the
23 B Tabs to the Tab 2 amounts, which are shown in the
24 Column 5 labeled "PPL-401, B Section total (with)";
25 correct?

00578

1 A. What Tab 9 shows is in Column 6 -- the B Tabs
2 that include all of the plant and then has columns for
3 California, Montana, and Centralia, which was based on
4 our original filing to those three columns, you would
5 pick up information from Pages 1 to 9. When that is
6 adjusted into those columns, you get to Column 1, which
7 would tie to your Tab 2.

8 Q. Thank you.

9 JUDGE MOSS: Would this be a convenient point
10 to take a break?

11 MS. RENDAHL: Yes.

12 JUDGE MOSS: Let's take a 15-minute break and
13 stretch our legs and so forth.

14 (Recess.)

15 JUDGE MOSS: Let's pick up with our
16 cross-examination of Mr. Larsen.

17 Q. (By Ms. Rendahl) Just before we broke, you
18 and you I were trying to go through a calculation or
19 explanation of how the B Tabs and Tab 9 all flow
20 through together, and you've offered to take one
21 account and follow it through and give us a
22 walk-through, and I think that would be very helpful,
23 and I also understand you plan to file a revised Tab 9
24 that will clarify some of this as well; is that
25 correct?

00579

1 A. Yes, and I can explain that. I went through
2 that, but I could tell that people weren't quite
3 understanding what I was mentioning. If I could, if we
4 could start with Exhibit 72, Tab B-13, and if we just
5 start on Page 1 of that tab, there is fuel stock at the
6 top of that page, and fuel stock would be the
7 combination of those two accounts, 151 and 15140, which
8 would give you a total of \$49,815,000, so with that
9 number in mind, if you go to Tab 9, Page 38, it's Line
10 1931, you go across there, you can find the \$49,815,000
11 in the column for the B section totals, so that column
12 ties back to the B Tabs, which are average rate base,
13 which reconcile back to the Company's records for 12/97
14 and 12/98 account balances.

15 Then there is an adjustment that we make for
16 Centralia removing fuel stock. Moving over to the left
17 then, we come up with a total \$42,571,000, that amount
18 then flows through to Tab 2 on my Exhibit 72. That
19 would be on Page 2.32, Line 2002. So that shows an
20 example of just one account how we go from the actuals
21 taking into account adjustment for Centralia to get to
22 the amount that is reflected in Tab 2 where we add in
23 the remaining normalizing adjustments.

24 The one item, as I mentioned previously,
25 Pages 1 through 8 of Tab 9 have additional adjustments

00580

1 for California and Montana in them, and they have not
2 been reflected in the remaining Pages 9 through 45,
3 but they are reflected in the Tab 2 results, so to make
4 things perfectly clear, we will update Pages 9 through
5 45 of Tab 9 so you don't have to do that math step
6 picking up the first eight pages to go to Tab 2, and we
7 will provide those.

8 Q. Thank you.

9 A. Would that be a record requisition?

10 Q. It would probably be a good idea. Although,
11 it's a revision to your exhibit, so should the Company
12 just refile it?

13 MR. VAN NOSTRAND: We don't want to go down
14 that path.

15 MS. RENDAHL: How about a Bench request?

16 JUDGE MOSS: Do you want to file it as a
17 revised exhibit? Would that be the appropriate thing
18 to do, or we can have it as a supplemental piece of
19 information. I don't want to confuse the record. If
20 it would be best to substitute for what's in there,
21 let's just have it as a revised exhibit.

22 MR. VAN NOSTRAND: Okay.

23 JUDGE MOSS: I just want to avoid a confused
24 record.

25 THE WITNESS: Pages 9 through 45.

00581

1 JUDGE MOSS: So 9 through 45 will be revised,
2 and have we considered a time frame for that? I don't
3 have any sense of how big a deal that is.

4 THE WITNESS: I think seven days.

5 JUDGE MOSS: Then we'll be looking for that
6 in about a week.

7 Q. (By Ms. Rendahl) Let's look at your
8 Adjustment 8.2, which would be in Tab 8 of your Exhibit
9 72, and to be more specific, Page 8.2.1. Mr. Larsen,
10 on Page 8.2.1 of Exhibit 72, your Adjustment 8.2 moves
11 the test year average plant in service for the projects
12 listed there to the year-end balances; is that correct?

13 A. I wouldn't characterize that in that manner.
14 What it attempts to do, these plants came in to plant
15 in service during the test period, and what we have
16 done is reflected that in the beginning balance. We've
17 been taking a year's worth of analyzed depreciation for
18 it as well as the accumulated reserve for that, so what
19 we have in the case is an annualized plant balance for
20 these items.

21 Q. So on Page 8.2 in the description of the
22 adjustment, you indicate that the reserve balances are
23 adjusted in Adjustment 6.2 and 6.1; do you see that?

24 A. Yes.

25 Q. And Adjustment 6.2 deals with the reserve

00582

1 balance; is that correct?

2 A. Yes.

3 Q. Let's look now at your Adjustment 8.7, and
4 that would be on Page 8.7 of your exhibit, referring to
5 QF contract buy-outs. Is it correct that these two
6 buy-outs have been included in rate base average
7 balances for the year ended June 30th, 2001?

8 A. They are reflected at an average balance for
9 that test period that would end June 2001, so the
10 balance would actually relate or be comparable to like
11 a December 2000 balance.

12 Q. And now referring to Adjustment 8.8 on Page
13 8.8, concerning Colstrip 4 AFUDC, do you propose to
14 remove this restated adjustment for AFUDC costs, and
15 I'm going to go through a few questions on how you made
16 the calculation. Is that something you are prepared to
17 do?

18 A. Let's give it a try.

19 Q. First, is it correct that this adjustment
20 reduces a crude AFUDC related to the Colstrip 4
21 project?

22 A. This adjustment, as it states there, removes
23 AFUDC from plant in service for the period Colstrip
24 construction work in progress was allowed in rate base,
25 so there was AFUDC that was accrued for a period of

00583

1 time while we were also getting C-whip (phonetic), and
2 so not to get a double recovery, there is an adjustment
3 approved by the Commission recommended by Staff that
4 removed the AFUDC.

5 Q. That was going to be my next question. So
6 the Company continued to accrue AFUDC on the project in
7 the time it was on rate base; is that correct?

8 A. Can you rephrase that? We weren't accruing
9 AFUDC when it went into plant in service --

10 Q. During construction?

11 A. During construction.

12 Q. So your calculation on Page 8.8.1, if we turn
13 to that page, this calculates an average reduction to
14 the plant for the year ended June 30th, 2001; is that
15 correct?

16 A. It shows what the remaining Washington
17 balance would be on an average basis at June 2001.

18 Q. Before the merger, the Company allocated
19 Colstrip 4 balances to the Pacific division only; is
20 that correct, premerger?

21 A. Premerger plants would have been allocated to
22 the Pacific division.

23 Q. Only.

24 A. That's correct.

25 Q. And AFUDC that was accumulated in 1982 was a

00584

1 composite of interest and equity returns; is that
2 correct?

3 A. Can you rephrase that and let me think it
4 through?

5 Q. Did the AFUDC rate at that time in 1982
6 include both a debt and equity component?

7 A. I'm not familiar with that, what was
8 occurring in 1982.

9 MS. RENDAHL: Let's make this record
10 Requisition 16.

11 JUDGE MOSS: 17.

12 MS. RENDAHL: Identify whether the AFUDC that
13 was accumulated in 1982 included a debt and an equity
14 component.

15 Q. (By Ms. Rendahl) Did the tax basis for the
16 Colstrip 4 project expenditures include any interest
17 during construction in the 1981 through 1984 time
18 period when this AFUDC was accumulated?

19 A. Again, I wouldn't be familiar with that.

20 Q. Do you have with you the response to Staff
21 Data Request 490? It's not an exhibit.

22 A. Yes, I do.

23 Q. Does that assist you?

24 A. The response says, "The Staff's assumption
25 that PacifiCorp was not required to capitalize interest

00585

1 during construction for tax purposes on Colstrip
2 construction work in progress during the period 1981
3 through 1984 is correct.

4 Q. Let's turn to Adjustment 810 on Page 810,
5 please. This addresses the Systems Application
6 Product, or SAP, that we talked about earlier, and this
7 adjustment is intended to bring into rate base the
8 Company's year-end investment in the SAP project as if
9 the investment had been in the rate base from the
10 beginning of the 1998 period; is that correct?

11 A. Yes. With associated amortization and
12 depreciation during the year.

13 Q. Do you have what's been marked as Exhibit 145
14 in front of you? Can you identify that as the response
15 to Staff Data Request 491?

16 A. Yes, I have that.

17 Q. Is that the Company's response to Staff Data
18 Request 491?

19 A. Yes, it is.

20 MS. RENDAHL: Your Honor, I'd offer Exhibit
21 145.

22 MR. VAN NOSTRAND: No objection.

23 JUDGE MOSS: 145 will be admitted.

24 Q. (By Ms. Rendahl) Referring to your Tab B-11,
25 Page 2 of 11, would you please identify all of the

00586

1 costs that comprise the Account 182.399 which appears
2 in the middle of the page, I believe, 182.399 on the
3 left-hand side, primary account, Secondary Account 288
4 that disallow Colstrip --

5 A. Disallow Colstrip --

6 Q. Of \$1,179,000?

7 A. Yes.

8 Q. If you could identify those costs, please,
9 that comprise that account that disallows Colstrip of
10 \$1,179,000.

11 A. I'm not sure in terms of identifying. What
12 are you seeking?

13 Q. For example, does it represent the AFUDC on
14 Colstrip common costs, common plant?

15 A. This would represent -- I'm looking at Staff
16 Request 369, and it responds to Colstrip 3 disallowance
17 in Washington. Colstrip 3 deferred carrying charges
18 were recorded in Account 182.299, Control 288, in 1987.
19 The balance December 31, '98 is \$1,152,515, which would
20 be the 1998 balance, and what you were just referring
21 to is an average balance.

22 Q. So does this include AFUDC on Colstrip that
23 the Commission disallowed? Excuse me. Can you explain
24 how the costs were accrued on the Company's books and
25 why they were accrued in this fashion?

00587

1 A. We're referring to the disallowed Colstrip in
2 Secondary Account 288?

3 Q. Correct.

4 A. Let me first get this response. In Cause No.
5 U-83-57, the Commission allowed the Company to continue
6 to accrue AFUDC on the portion of common plant that was
7 excluded from rate base. In Cause No. U-86-02, the
8 Commission allowed Colstrip 4 to be recorded in rate
9 base in the amortization of the deferred carrying
10 charges for Colstrip 3. The Colstrip 3 deferred
11 carrying charges were recorded in Account 182.399,
12 Control 288 in 1987.

13 Q. Thank you. I think that will clarify. If we
14 could refer back to your Adjustments 4.3 and 4.4, so
15 this will be in your Tab 4. These refer to your early
16 retirement adjustment. I'm concerned at this point
17 about the calculation of the rate base impact there.
18 In both of these adjustments, the amounts represented
19 in the "miscellaneous deferred debits" line, which
20 would be -- bear with me a second here. It's the
21 unamortized balance, early retirement on Page 4.3,
22 immediately under the heading "adjustment to rate
23 base." Do you see that?

24 A. Yes.

25 Q. For the Account 186, the amounts represented

00588

1 in this unamortized balance, early retirement,
2 represent the adjustment for the unamortized balance of
3 these assets for the average of the end of year, end of
4 June 30th, 2001; is that correct?

5 A. Yes. That would be the attempt with the
6 correction made in the revised filing.

7 Q. And Adjustment 4.3 also includes an offset in
8 the deferred balance for the unfunded portion of the
9 pension expense; is that correct?

10 A. Can you repeat that? I don't believe that's
11 correct.

12 Q. Adjustment 4.3 also includes an offset in the
13 deferred balance for the unfunded portion of the
14 pension expense; is that correct?

15 A. What the two lines, unamortized balance,
16 early retirement, there is a negative 22 million. That
17 was our original adjustment and it was in error, and
18 we've revised that with the correction to unamortized
19 balance adding in an additional 59 million.

20 The issue associated with that, we originally
21 identified the amount that should be given rate base
22 treatment, and from that then, we were taking off the
23 amortization associated with the adjustment, but the
24 amortization was of the entire costs, not the amount
25 associated with the unfunded pension, and therefore,

00589

1 when we did the amortization over five years, we
2 actually ended up with a negative rate base amount,
3 which is incorrect. We should have had an amount
4 remaining for the unamortized portion associated with
5 this adjustment, so we've revised and corrected for
6 that.

7 Q. Would you look at Page 4.3.6, please? This
8 is your revised calculation; correct?

9 A. That's correct.

10 Q. The 37 million represents the 59 and the 22?

11 A. Yes.

12 Q. If you look under the adjustment to rate base
13 for early-out, and it says "less early-out not funded."
14 Do you see that on Page 4.3.6?

15 A. Less early-out not funded, yes.

16 Q. And so that the \$88,618,724 is the unfunded
17 portion of the early-out pension costs; correct?

18 A. The \$88,618,724 is the total amount of Phase
19 1 pension costs that's shown on Page 4.3.5 pension,
20 Phase 1 actuarial costs. Those were the costs that
21 were accrued for pensions associated with the early
22 retirement program.

23 Q. Can you identify or explain what the
24 62-million-dollar early-out funding refers to?

25 A. That refers to the funding of that amount, I

00590

1 believe, over a -- I believe that is the funding over
2 the period covered by our test period, but I would want
3 to verify that. I don't have the detail supporting
4 that number in here.

5 Q. Is it a five-year funding plan?

6 A. I believe it is five years starting in '98.

7 Q. So does the 62 million represent about
8 three-and-a-half years of funding?

9 A. I would have to check and verify and provide
10 that.

11 Q. Would you accept that subject to check that
12 that 62-million-dollar amount represents about three,
13 and-a-half years of funding?

14 A. Sure.

15 Q. So the 26 million dollar amount just below
16 the early-out funding amount, that represents the
17 remaining unfunded portion after three-and-a-half
18 years?

19 A. \$26,585,616, yes. Yes, that would be the
20 remaining unfunded balance subject to the check of 3.5
21 years.

22 Q. So if we go through this calculation on Page
23 4.3.6, adjustment to rate base for early-out, if you
24 start with the 120 million early retirement accrual and
25 subtract out the 1.120 and then the 26 million, you

00591

1 will end up with the \$92,594,965?

2 A. Yes.

3 Q. So the \$518,993 for either 1998 amortization
4 or 1999, that amount reflects one fifth of the
5 amortization over a five-year period of the
6 \$92,594,000?

7 A. Yes.

8 Q. Thank you. If you could turn to what's been
9 marked as Exhibit 105, can you identify that as the
10 response to Staff Data Request 135?

11 A. I was just finishing the calculation.
12 \$62,033 is three-and-a-half-year amortization.

13 Q. Thank you.

14 A. Let me catch up with you now.

15 Q. So now if you look at what's been marked as
16 Exhibit 105 for identification.

17 A. This would be WUTC Request 135.

18 Q. This is the Company's response to Data
19 Request 135?

20 A. Yes.

21 Q. And Attachment Response 135-D?

22 A. Yes.

23 MS. RENDAHL: Your Honor, I move 105 into
24 evidence.

25 MR. VAN NOSTRAND: No objection.

00592

1 JUDGE MOSS: It will be admitted as marked.

2 Q. (By Ms. Rendahl) Looking at this exhibit,
3 specifically the Attachment Response 135-D, would the
4 level of unfunded pension as of December 31st, 1998, is
5 approximately 185 million?

6 A. Can you repeat that?

7 Q. If you look at Attachment Response 135-D, can
8 you verify that the level of unfunded pension as of
9 December 31st, 1998, is approximately 185 million?

10 A. The funded status as of 31 December for 1998,
11 \$185,993,000, which would be the unfunded portion.

12 Q. Thank you. So that's a yes?

13 A. Yes.

14 Q. How would you distinguish the funding of the
15 88 million dollars we discussed before versus the
16 funding of any of the remainder of the 185 million?

17 A. The Company made a contribution in 1998 of
18 the 94 million dollars. The way we've treated it in
19 our calculations, a portion of that was attributable to
20 the early retirement program, and the remainder was
21 ongoing normal pension.

22 Q. So how did the Company determine how much of
23 that was related to the early retirement?

24 A. Well, the early retirement was identified by
25 actuarial studies showing there is a total of 88

00594

1 identified a cost-reduction program to reduce ongoing
2 costs in 1999, and because of that, it opened up the
3 early retirement program for additional employees to
4 qualify for it, and I believe there is 35 employees, 27
5 of which were electric employees that elected to leave
6 under that early retirement option, so we classified it
7 as a Phase 1 and Phase 2, but it was all part of the
8 early retirement program in 1998. It's just that those
9 later employees didn't actually start leaving until
10 about 1999.

11 Q. So this is an accrued pension expense that's
12 in addition to the 88 million?

13 A. Yes.

14 Q. Was this 3.948 million dollars also unfunded
15 pension expenses at the end of 1998?

16 A. I would have to check on the funding status
17 of that 3.9 million, whether it was all funded or not
18 at the time of the accrual.

19 Q. Subject to check, would you accept that this
20 3.948 million was also unfunded pension expense as of
21 the end of 1998?

22 A. Yes.

23 Q. Thank you. Let's refer now to Page 4.7 and
24 your Adjustment 4.7. This refers also to pension
25 adjustments. In this adjustment, you proposed to

00595

1 amortize a regulatory asset of 88.9 million over a
2 five-year period; is that correct?

3 A. I don't believe the amount is correct. There
4 is an \$86,886,996 pension regulatory asset that was
5 written off.

6 Q. So you're referring on Page 4.7.1 to the
7 \$86,397,205 figure?

8 A. No. I'm referring to the number at the very
9 top of the page, \$86,886,996.

10 Q. So you are proposing to amortize the asset of
11 \$86,886,996 over the five-year period?

12 A. Yes.

13 Q. And this regulatory asset represents the
14 difference between the FAS-'87 expense calculation and
15 what the Company funded and expensed for the years '87
16 through '97; is that correct?

17 A. Yes.

18 Q. Looking at Exhibit 105 again and your
19 response to Data Request 135-D, in that response, the
20 Company provided a comparison of the funded level of
21 pension expense and the total obligation, and that
22 analysis indicates an underfunded status of 185
23 million; correct?

24 A. That's correct.

25 Q. The Company has a regulatory asset of 88

00596

1 million in Account 182.387; is that correct?

2 A. That's correct.

3 Q. This amount is offset by amounts associated
4 with California and Montana that bring it to the 86.9
5 million shown on Page 4.7.1 of your exhibit; is that
6 correct?

7 A. Subject to check. I don't show a line item
8 for California, Montana.

9 Q. But you will accept that subject to check?

10 A. Yes.

11 Q. The Company also has an accumulated provision
12 for pension in Account 22835. I believe these are from
13 your journal runs. At the beginning of the year, it
14 offset the regulatory asset exactly, and by the end of
15 the year, December 31, 1998, an amount of 98.2 million
16 had been accumulated. Can you accept that subject to
17 check?

18 A. Can you repeat that and what the sources
19 would be that I would be checking, what journal?

20 Q. From trial balance runs that have accounts
21 and subaccounts, there should be an Account 22835, and
22 subject to your check, would you agree that at the
23 beginning of the year, in Account 22835, the Company
24 offset the regulatory asset that accumulated provision
25 for pension exactly, and yet at the end of year,

00597

1 December 31, 1998, an amount of 98.2 million had been
2 accumulated? We can go over this with you after as
3 well.

4 A. I'm just trying to think. You phrased it
5 that there was an offset to the regulatory asset. I
6 don't want to confuse our pension assets with the
7 FAS-'87 regulatory asset that was written off. This
8 was written off the books, so your adjustment to 22835
9 wouldn't be offsetting something that wasn't there, so
10 I'm a little confused.

11 MS. RENDAHL: Then in the alternative, I'd
12 like to make a record requisition to have you explain
13 the change in balance from the beginning of the year in
14 Account 22835 and the end of the year balance, December
15 31, 1998, and explain the purpose of the account.

16 THE WITNESS: Okay. We can do that.

17 JUDGE MOSS: That will be No. 18.

18 Q. (By Ms. Rendahl) Looking at Exhibit 105, the
19 Data Request Response 135, Part G, Staff asked the
20 Company to provide all authorizations for the creation
21 of the regulatory asset for the amortization of this
22 cost over five years. Do you see that?

23 A. Yes.

24 Q. In the Attachment Response G, that's the
25 Company's response; correct?

00598

1 A. Attachment Response G; is that what you said?

2 Q. Yes.

3 A. Attachment Response G has a Utah order, an
4 Idaho order, Wyoming response from FERC.

5 Q. Thank you.

6 A. And a response from Oregon.

7 Q. I'm going to read you a passage from
8 PacifiCorp's 1986 annual report, and this is at Page
9 56, so you can accept it subject to check. "The
10 companies intend to adopt Statement of Financial
11 Accounting Standards No. 87, employers accounting for
12 pensions effective January 1, 1987. The effect on
13 pension expense is not material, and I'm asking you to
14 accept that that's correct, subject to check.

15 A. That's in the 1996?

16 Q. 1986 annual report at Page 56.

17 A. Yes, subject to check.

18 Q. That same stockholders' annual report on the
19 same page shows the present value of accumulated plan
20 benefits at 191.7 million and assets available for
21 benefits, 285.5 million. Can you accept that subject
22 to check?

23 A. Can you give me those amounts again?

24 Q. Accumulated plan benefits of 191.7 million,
25 and assets available for benefits at 285.5 million.

00599

1 A. We can do that subject to check.

2 Q. Could you please identify any authorization
3 by this Commission for PacifiCorp not to follow pension
4 accounting according to FAS '87-'88?

5 A. No, I don't believe so.

6 Q. Now, referring to your Adjustment 5.2, which
7 is the Washington removal of Colstrip 3 in Black
8 Hills -- This is in Tab 5 -- this adjustment represents
9 the Company's attempt to follow the Commission's
10 previous decision in Docket U-8602; is that correct?

11 A. Yes.

12 Q. In that proceeding, the Colstrip 3 and Black
13 Hills contracts were removed from rate base based on
14 the testimony of Mr. Winterfeld and Mr. Lott; is that
15 correct?

16 A. It was removed. I'm not sure who the
17 witnesses were for the Commission.

18 Q. That's fine. And the intent of the
19 adjustment was to remove Colstrip 3 from the rate base;
20 is that correct, or would you accept that subject to
21 check?

22 A. Yes. It was to remove that as well as the
23 Black Hills contract.

24 Q. In that proceeding, the rate base did not
25 include the amounts you propose in your Exhibit 72 for

00600

1 miscellaneous deferred debits, prepayments, fuel stock,
2 materials and supply, working capital, miscellaneous
3 rate base, and miscellaneous deductions. Can you
4 accept that subject to check?

5 A. Yes.

6 Q. Can you identify the adjustments or
7 exclusions in the Company's case which remove any of
8 these items as they relate to Colstrip?

9 A. Let me get caught up with you.

10 Q. I'd be happy to repeat the question when you
11 need me to.

12 A. Can you repeat the next question?

13 Q. Can you identify the adjustments or
14 exclusions in the Company's case which remove any of
15 these items as they relate to Colstrip?

16 A. And those items being which accounts?

17 Q. Miscellaneous deferred debits, prepayments,
18 fuel stock, materials and supplies, working capital,
19 miscellaneous rate base, and miscellaneous deductions.

20 A. No.

21 Q. Looking back at Page 3.5 under Tab 3 of your
22 Exhibit 72 --

23 A. 3.5?

24 Q. Correct. -- you make an adjustment for the
25 cost of various water rates that are being paid for by

00601

1 the provision of a rate discount. Can you verify that?

2 A. This Adjustment 3.5 does a couple of things,
3 but the overall scope of it is to properly handle the
4 discount associated with water rights.

5 Q. A portion of this adjustment relates to the
6 California service territory and the customers being
7 transferred that will continue to receive the discount;
8 is that correct?

9 A. That's correct.

10 Q. As part of the contract to sell PacifiCorp,
11 would you accept subject to check that PacifiCorp has
12 agreed to pay seven million for it's obligations being
13 assumed by the buyer under the 1956 contract with the
14 Bureau of Reclamation?

15 A. Yeah. As a part of that sales agreement, the
16 buyer has taken the obligation for those customers with
17 the water rights rather than the Company because it
18 wouldn't have tariffs, that it could provide a lower
19 cost of service to them, would have to pay them for the
20 water rights. The purchaser for the California
21 properties has assumed that obligation, with a
22 seven-million-dollar charge.

23 Q. The \$711,576 amount in Adjustment 3.5 for
24 prepayments, that's Washington's share of the
25 unamortized balance of the seven-million-dollar

00602

1 prepayment with a balance calculated at the beginning-
2 and end-of-year balance for the end of year 2001; is
3 that correct?

4 A. With an average balance at June 2001, yes.

5 Q. Other than the sale of the California service
6 territory, was the Company obligated to pay for the
7 water rights in advance?

8 A. No. The customers received their discount
9 through their tariff prices. The reason it's been
10 treated as a rate base item in this case, typically,
11 that amount runs about a million and a half or two
12 million dollars a year in discount for the California
13 properties. With the prepayment, the amortization is a
14 million dollars a year, so there is a benefit there to
15 customers.

16 Q. If you will turn now back to Exhibit 104 -- I
17 believe that's already been admitted.

18 A. This would be the supplement to No. 130?

19 Q. That's correct; the attachment response
20 130-B. The Company provided a calculation in this
21 exhibit of the estimated gain on the sale of the
22 California service territory. This response indicates
23 an estimated gain after federal income tax of 4.2
24 million; is that correct? That would be on the summary
25 page of Appendix 1.

00603

1 A. That's correct.

2 Q. Does the Company propose to allocate any of
3 that gain to the ratepayers in Washington or any other
4 state?

5 A. No. That gain would be based on the
6 distribution of properties in California.

7 Q. The Company has also sold service territories
8 in Montana and Idaho. Does the Company propose to
9 allocate any gain from the service in these territories
10 to Washington customers?

11 A. The sale of Idaho.

12 Q. Montana and Idaho in the Pacific division.

13 A. The Idaho properties were sold a number of
14 years ago and aren't included in our test period, and
15 those were distribution properties.

16 Q. Then let's just discuss Montana. Does the
17 Company propose to allocate any gains from the sale of
18 the service territory to Washington customers?

19 A. No. Again, it was a sale of distribution
20 properties in Montana. Those would not be allocated
21 across the system.

22 Q. If you look at your Adjustment 4.1 on Tab 4,
23 Page 4.1, this is related to fuel stocks. Adjustment
24 4.1 attempts to remove the impact of the FAS-106
25 deferrals allowed in Oregon and Wyoming but

00604

1 inadvertently allocated the process system; is that
2 correct?

3 A. Yes. It was going through an account that
4 was allocated system wide, so we reversed that and
5 properly assigned it back to Oregon and Wyoming.

6 Q. So just referring to the rate base portion of
7 the adjustment, this adjustment attempts to remove the
8 amortization of FAS-106 deferrals from the fuel stock
9 accounts; correct?

10 A. There is a portion of those that went through
11 fuel.

12 Q. Fuel or fuel stock?

13 A. Fuel stock with Account 151.

14 Q. Looking at Page 4.1, the 348912 under
15 "payroll, clearing, fuel" represents the debits to
16 these three accounts for this amortization in 1998; is
17 that correct?

18 A. You are referring to the adjustment detail
19 below --

20 Q. Under "total company, adjustment to expense,"
21 third line down, "payroll, clearing, fuel," Account
22 151, and that amount represents the debits to these
23 three accounts for this amortization in 1998; correct?

24 A. Yes.

25 Q. How did the fuel stocks get charged to

00605

1 expenses? Is it based on an average inventory and
2 usage?

3 A. Yes. It's an average as the fuel comes into
4 151. I'm not sure if it's a FIFO or LIFO or weighted
5 average methodology.

6 Q. So no part of your Adjustment 4.1 affects
7 fuel expense?

8 A. No, I don't believe it would. Where it's
9 come into 151 would be bursted out of that account, so
10 in our accounting, it wouldn't be flowing out of there.

11 Q. If you look now under Tab 8, your Adjustment
12 8.6, relating to materials allocation adjustment.

13 A. On that last one, I would like to do a record
14 requisition to make sure I give you the proper answer
15 and information on that.

16 Q. How about subject to check?

17 A. Okay.

18 Q. So would you accept subject to check that no
19 part of your Adjustment 4.1 affects fuel expense?

20 A. Now we are onto which adjustment now?

21 Q. Tab 8, Page 8.6, Adjustment 8.6. Do you have
22 that in front of you?

23 A. Yes, I do.

24 Q. This adjustment is intended to correct
25 misallocation of materials and supplies from two of the

00606

1 Company's mines; correct?

2 A. Yes, that's correct.

3 Q. Looking at Page 8.6, you show an item
4 originally allocated to Washington that should have
5 been charged to the system in amount of \$3,331,000;
6 correct?

7 A. That's correct.

8 Q. Referring to the references you made to Tab
9 B-13, Page 9 of 15, the three million dollars is shown
10 on the line Account 154.1, Secondary Account SO-201-P.
11 Would you accept that subject to your check?

12 A. Can you give me those references again? You
13 are looking at Tab B-13?

14 Q. 9 of 15.

15 A. Secondary Account?

16 Q. SO-201-P.

17 A. Okay.

18 Q. Is that correct?

19 A. That's correct.

20 Q. This subaccount SO-201-P refers to the
21 Centralia plant location; is that correct?

22 A. Yes, I believe so.

23 Q. So in your Tab 9 adjustment to remove
24 Centralia, did you remove this three million dollars,
25 and if you'd like to do this, we would be happy to do

00607

1 this by record requisition.

2 A. Why don't we do that so we don't spend time
3 trying to reconcile these numbers.

4 MS. RENDAHL: Record Requisition No. 19, in
5 your Tab 9 adjustment to remove Centralia, did you
6 remove the three million dollars on Tab B-13, Page 9 of
7 15.

8 MR. VAN NOSTRAND: Could you repeat that one
9 more time, counsel?

10 MS. RENDAHL: In the Company's Tab 9
11 adjustment to remove Centralia, did the Company also
12 remove the three million dollars referred to on Page
13 8.6 and also Tab B-13, Page 9 of 15. Are you ready?

14 THE WITNESS: Yes.

15 Q. (By Ms. Rendahl) Moving on to a different
16 topic, miscellaneous rate base issues, the per books
17 miscellaneous rate base includes the average balances
18 -- hold on just a moment.

19 In your per-books results, miscellaneous rate
20 base includes the average balances of account
21 unrecovered plant, Subaccount 18.22, which is the
22 Trojan plant; correct?

23 A. That's correct.

24 Q. Would you explain the treatment of the Trojan
25 costs as recorded in PacifiCorp's books and records?

00608

1 A. I believe we provided the treatment of that
2 account in response to WUTC 493.

3 Q. Why don't we turn to what's been marked as
4 Exhibit 144, and can you identify that as the Company's
5 response to Staff Data Request for 493?

6 A. Yes.

7 MS. RENDAHL: Your Honor, I'd offer Exhibit
8 144.

9 MR. VAN NOSTRAND: No objection.

10 JUDGE MOSS: 144 will be admitted.

11 Q. (By Ms. Rendahl) Mr. Larsen, in what year
12 did the Trojan plant last produce power?

13 A. I believe it was in either the end of 1992 or
14 early 1993.

15 Q. When did the Company decide to abandon the
16 plant?

17 A. I believe it would have been about the same
18 time period when it was no longer going to be used that
19 we sought regulatory asset treatment for the
20 unrecovered costs.

21 Q. The FERC system of accounts adopted by this
22 commission authorizes use of this account when
23 authorized by the Commission significant unrecovered
24 cost of plant facilities where construction has been
25 canceled or which has been prematurely retired. Do you

00609

1 know any decisions of this Commission concerning the
2 regulatory treatment of this abandoned generating
3 facility?

4 A. I'm not aware of the decision by the
5 Washington Commission.

6 MS. RENDAHL: As Record Requisition No. 20,
7 this is something that will help you to research, we
8 would like to know of any decision the Company has by
9 this Commission concerning regulatory treatment of the
10 abandoned Trojan plant.

11 Q. If you turn to Page 1.01 of your Exhibit 72,
12 Column 1 in Line 53, if you'd refer to the
13 miscellaneous rate base deduction, which is a credit to
14 rate base of approximately 7.4 million dollars, on Page
15 1.01, Column 1, Line 53, and if you will now look to
16 Page 41 of 45 in Tab 9, the 7.4-million-dollar average
17 balance is a summation of five accounts shown on this
18 page, Accounts 228.1 to 228.41, 42 and 99; correct?
19 253.99; correct?

20 A. I'm not sure if any of these accounts would
21 be impacted by the requisition that I will submit.
22 Where this Page 41 will be revised, I'm not sure if
23 that balance ties to the seven million you were
24 referring to.

25 Q. You are saying once it's revised, it may not

00610

1 tie back to the seven million?

2 A. It should. The numbers you are referring to
3 here may not at this time.

4 Q. I understand.

5 JUDGE MOSS: Ms. Rendahl, how much more do
6 you think you have?

7 MS. RENDAHL: I could probably finish within
8 a half an hour.

9 JUDGE MOSS: Are my colleagues on the Bench
10 prepared to stay an extra half hour? Are any of them?
11 Let me phrase another question. We have four hours
12 estimated by Public Counsel and ICNU for this witness.
13 Given what you have witnessed today, do you think that
14 those estimates are wildly exaggerated?

15 MR. CROMWELL: As much as it would pain me to
16 say so, I would have to say not.

17 JUDGE MOSS: You still think you will need
18 two hours?

19 MR. CROMWELL: Even going at about a question
20 a minute including the answer, I think that's about
21 where I think I'm at. There were a few issues that
22 Ms. Rendahl has taken off the table for me, but really
23 only a few, unfortunately.

24 JUDGE MOSS: Why don't we go off the record
25 for this discussion.

00611

1 (Discussion off the record.)

2 JUDGE MOSS: We had some off-the-record
3 discussion regarding our scheduling, and we are going
4 to go ahead and break. It's shortly after 5:00 in the
5 afternoon. We will have to start at 9:30 tomorrow.
6 Have a pleasant evening.

7

8 (Hearing recessed at 5:00 p.m.)

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