

1 **Q Please state your name and business address.**

2 A. My name is Ted Weston. My business address is One Utah Center, Suite 2300,
3 201 South Main Street, Salt Lake City, Utah, 84111-2300.

4 **Qualifications**

5 **Q. What is your current position at PacifiCorp (the Company) and your**
6 **previous employment history with the Company?**

7 A. I am currently employed as the Manager of the Revenue Requirement section of
8 the Regulation Department. I joined the Company in 1983, and I have held
9 various accounting and regulatory positions prior to my current position.

10 **Q. What are your responsibilities?**

11 A. My primary responsibilities include the development, calculation and justification
12 of revenue requirement related issues, which support the Company's regulated
13 earnings and interjurisdictional cost allocations in the Company's retail
14 jurisdictions.

15 **Q. What is your educational background?**

16 A. I received a Bachelor of Science Degree in Accounting from Utah State University
17 in 1983. In addition, I have also attended various educational, professional and
18 electric industry seminars during my career at the Company.

19 **Purpose of Testimony**

20 **Q. What is the purpose of your testimony in this proceeding?**

21 A. The purpose of my testimony is to present the Company's Results of Operations
22 Report for the test period (the twelve months ended March 31, 2003), with limited
23 known and measurable adjustments through March 31, 2004. In describing this

1 Report, I indicate the sources of the base data, and describe certain normalizing
2 adjustments. My testimony presents evidence that based on its normalized results
3 of operations for this test period; PacifiCorp is earning an overall return on equity
4 (ROE) in Washington of 5.63 percent. This return is less than the ROE currently
5 authorized by the Washington Utilities and Transportation Commission (the
6 Commission) and is less than the return recommended in Mr. Peach's testimony
7 to provide a fair and equitable return for the Company's shareholders. An overall
8 price increase of \$26.7 million is required to produce the 11.25 percent ROE
9 requested by the Company in this proceeding.

10 **Results of Operations**

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

12 A. Exhibit No.__(JTW-2) is a page that summarizes the Company's Washington
13 Results of Operations Report. Exhibit No.__(JTW-3) consists of the Company's
14 Washington Results of Operations Report for the test period (the twelve-months
15 ended March 31, 2003) adjusted for known and measurable changes through
16 March 31, 2004 (hereafter referred to as the "Results" or the "Report".)

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

19 A. The Company used the Multi-State Process (MSP) Protocol allocation
20 methodology, as described in the testimony of Ms. Kelly, Mr. Duvall, and Mr.
21 Taylor, to develop its revenue requirement calculation.

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

23 A. The Report, which was prepared under my direction, details revenues, expenses

1 and rate base assigned to the Company's Washington jurisdiction using the MSP
2 Protocol allocation method. The Report provides twelve-month totals for
3 revenues and expenses and shows rate base as a thirteen-month average.
4 Operating results for the period are presented in terms of both return on rate base
5 and return on equity. The Report begins on page 1.0 with a summary starting in
6 the left-hand column 1 with Washington Unadjusted Results, then summarizes
7 normalization and proforma adjustments in column 2 to sum to the Total
8 Normalized Results in Column 3. The unadjusted results (Column 1) are a
9 product of total Company cost multiplied by MSP Protocol allocation factors
10 derived from weather-normalized loads. Column 2 combines and summarizes the
11 normalizing adjustments that are necessary to reach the "Total Normalized
12 Results" in Column 3. These normalizing adjustments include normalization for
13 Commission-ordered adjustments from prior dockets, unusual items that occur
14 during the test period, and annualization of changes that occurred during the test
15 period. Proforma adjustments normalize known and measurable items that will
16 occur on or before March 31, 2004. Column 4 shows the increase in Washington
17 revenues that would be required for the Company to earn an 11.25 percent return
18 on equity from its Washington operations. Column 5 reflects the Washington
19 normalized results with this revenue increase included. For comparison purposes,
20 page 1.0 reflects returns on rate base and equity for both the unadjusted and
21 normalized results.

22 The unadjusted results allocated to Washington according to the MSP
23 Protocol allocation method are detailed by FERC account in Tab 2. Supporting

1 documentation for the data in Tab 2 is provided under Tabs B1 through B20. The
2 total column of the unadjusted results on page 2.2 corresponds to the actual data
3 recorded in the Company's accounting records during the base test period. The
4 normalizing adjustments, which are required to smooth the impact of any unusual
5 events, which occurred during the test period, are identified on page 1.1.

6 Supporting documentation for column two is contained in Tabs 3 through 9. The
7 calculation of the MSP Protocol allocation factors is described under Tab 10.

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

10 A. I observe that, as detailed in Column 4 of page 1.0, an overall price increase of
11 \$26.7 million is required to produce the 11.25 percent ROE supported by Mr.
12 Peach's testimony.

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

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

15 A. The revenue, expense and rate base data which comprise the unadjusted Results of
16 Operations is extracted directly from the Company's accounting system and has
17 been summarized under Tabs B1 through B20. The extraction process is largely a
18 matter of downloading information from the Company's accounting database.

19 **Q. Do the Company's unadjusted Results of Operations for the twelve months**
20 **ended March 2003 provide a reasonable basis for setting Company prices?**

21 A. Although these results provide a good starting point for the ratemaking process,
22 the test year data reflects the operating environment and the unique set of
23 circumstances that occurred during that particular twelve-month period. It is a fair

1 depiction of actual results for the period, but is not appropriate as a predictor of on
2 going Company performance, which should be the basis of Company prices. To
3 adequately reflect results on a going-forward basis, it is necessary to make certain
4 adjustments to reflect normal conditions. These adjustments annualize specific
5 events in the test period or normalize unusual events.

6 **Normalizing Adjustments**

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

8 A. The following section uses the term “normalizing adjustment” in a generic sense
9 to refer to both annualization of in-period events and normalization of unusual
10 events. In reporting results of operations, it is the Company’s goal to develop a
11 “typical” test period, free from effects of unusual events. To accomplish this goal,
12 normalization adjusts for out-of-period events and the impact of unusual, non-
13 recurring events, such as one-time write-offs. Adjustment 3.6, Reverse
14 Contingencies, is an example of the normalization of a nonrecurring event.
15 Annualization is also required to reflect the effect of changes that occur partway
16 through the test period. For example, a wage increase that takes place in March
17 should be adjusted to reflect a full 12-month impact.

18 Adjustments need not be restricted to events that occurred within the test
19 period. In order to match prices with anticipated conditions in the rate-effective
20 period, it is necessary to reflect significant known and measurable out-of-period
21 adjustments in the ratemaking process. A case in point would be the adjustment
22 to reflect the effects of the recently approved depreciation rates that occurred after
23 the end of the base test period.

1 **Q. Would you explain the normalizing adjustments for the test period?**

2 A. Yes. Page 1.1 is a summary by tab of the adjustments. Supporting detail for each
3 normalizing adjustment is provided in the Report under Tab 3-9. A brief
4 description and the underlying reason for each adjustment is contained in my
5 testimony. Additional information is provided in the descriptions for each of the
6 adjustments included within the exhibit. For discussion purposes, all adjustments
7 will be presented in pre-tax dollars, where applicable. The income tax effect of
8 each adjustment is calculated and reflected on the summary page following each
9 tab.

10 **Q. Please explain the revenue adjustments summarized under Tab 3, page 3.0.**

11 A. **Weather Normalization** (Adjustment 3.1) – The weather normalization
12 adjustment removes from test period revenue the effects of weather or temperature
13 patterns that were measurably different than normal, as defined by 30-year
14 historical studies by the National Oceanic & Atmospheric Administration. Only
15 residential and commercial sales are considered weather-sensitive. Industrial
16 sales are more sensitive to specific economic factors than to weather. This
17 adjustment increases Washington residential revenues by \$537,693 and reduces
18 commercial revenues by \$109,767 for a net increase of \$427,926. Test period
19 state load data used in the calculation of jurisdictional allocation factors have also
20 been temperature normalized.

21 **Effective Price Change** (Adjustment 3.2) – The effective price change
22 adjustment increases revenues by \$1,364,320. This adjustment annualizes the
23 one-percent price increase that was effective January 1, 2003 for April through

1 December 2002 to reflect a full year of revenues based on the new rates. This was
2 accomplished by applying the new rates in the contracts and tariffs to the actual
3 energy usage.

4 **Revenue Normalizing** (Adjustment 3.3) – This adjustment normalizes test period
5 revenues by removing out-of-period adjustments. It also removes the impact of
6 Schedules 97 (Centralia gain), 98 (BPA), and 191 System Benefit Charge that are
7 separate riders on the customers bills recorded in general business revenues. The
8 adjustment increases Washington situs revenues by \$20,743,729.

9 **USBR/UKRB Discount** (Adjustment 3.4) – Under contract with PacifiCorp, the
10 U.S. Bureau of Reclamation (USBR) and the Klamath Basin Water Users'
11 Protective Association (UKRB) receive a discounted tariff in exchange for their
12 water rights. The contracts preserve the Company's interests in three hydro
13 projects on the Klamath River. Because all customers share in the benefits of the
14 hydro production from these plants, the PacifiCorp Interjurisdictional Taskforce
15 on Allocations (PITA) determined that it was appropriate that the costs should be
16 shared in the same way. The MSP Protocol also proposes that these costs should
17 be allocated the same as the hydro facilities. This increases Washington's
18 allocated share of hydro expense by \$1,755,178.

19 **SO2 Emission Allowances** (Adjustment 3.5) – Over the years, PacifiCorp's
20 annual revenues from the sale of emission allowances have been very uneven.
21 Thus, the level of emission allowance sales in any particular year is likely not to
22 reflect the normalized, ongoing level of revenue from such sales. In addition,
23 recognizing SO2 revenues in the year of the sale provides all the benefits to

1 current customers at the expense of customers in the future. Therefore, the
2 Company's approach is to amortize these allowance sales over a fifteen-year
3 period. This is the same treatment used by the Company and accepted by the
4 Commission in Docket No. UE-940947. The unamortized gain is included as a
5 reduction to rate base. Adjustment 3.5 reduces operating expense by \$340,594,
6 Washington's allocated share of the SO2 emission allowance amortization, and
7 reduces rate base by \$2,497,159 to reflect the unamortized gain.

8 **Remove Contingencies** (Adjustment 3.6) – During the late nineties, an accrual
9 was set up on the books for a potential liability arising from pool contract
10 disputes. In 2002, the disputes were settled without PacifiCorp incurring any
11 liability. The wholesale sales accrual that was set up in prior periods was reversed
12 during September 2002, overstating test period revenues. In 2001, the Company
13 also established contingencies for several other customers that were reversed
14 during the test period. Washington customers were never charged for these
15 accruals. Adjustment 3.6 therefore removes the non-recurring revenue associated
16 with the reversal of these prior period accruals, reducing Washington revenues by
17 \$2,077,963, and increasing the rate base by \$495,844.

18 **Special Revenue Reclassification** (Adjustment 3.7) – Under PITA, the revenues
19 from many of the interruptible special contracts would be allocated system-wide.
20 However, Washington has always assigned these revenues situs to their
21 originating jurisdiction. Washington's treatment is consistent with that proposed
22 in the MSP Protocol. Adjustment 3.7 reverses all system-allocated special
23 contract revenues from the test period and direct-assigns those revenues to the

1 appropriate states. This reclassification decreases Washington allocated revenues
2 by \$7,612,696.

3 **Centralia Gain** (Adjustment 3.8) – In May 2000, the joint-owners of the
4 Centralia plant finalized the sale the plant to TransAlta. When the transaction was
5 completed and the gain from the sale was known, a regulatory liability was set up
6 to recognize customers’ share of the gain. This liability is interest bearing and is
7 being returned to customers, in Schedule 97, as a credit on customers’ bills over
8 five-years, as ordered by the Commission in Docket No. UE-991832 (compliance
9 filing Appendix B). As customers receive the credit on their bill, the liability is
10 amortized and an offsetting entry is recorded to account 456. Adjustment 3.3
11 removes the Schedule 97 customer credit; this adjustment removes the liability
12 amortization, reducing Washington revenues by \$5,499,045.

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

14 A. **FAS 106** (Adjustment 4.1) – In Docket Nos. 20000-ET-92-50 and 20001-ET-92-
15 22, the Wyoming Commission authorized an accrual method of accounting for
16 FAS 106 expenses (post-retirement benefit costs). The order authorizing deferral
17 treatment for the difference between accrual and pay-as-you-go was established
18 for no more than three years with amortization of the remaining balance to occur
19 over the next seven years. The amortization of the deferred balance was
20 completed in December 2002.

21 Because this amortization should be direct assigned to Wyoming and the
22 amortization will not continue into the future, Adjustment 4.1 removes the
23 amortization expense from the revenue requirement calculation, which reduces

1 Washington's operating expenses by \$66,444 and reduces amortization expense
2 by \$6,308.

3 **Pension and Benefit Adjustment** (Adjustment 4.2) – Actuarial reports from the
4 adjusted test period indicate the Company's pension fund requires increased
5 contributions that substantially increase pension expense levels on a going-
6 forward basis. In addition to pension and post-retirement benefits, the Company
7 has experienced increases to employee medical, dental and other benefits. Mr.
8 Daniel Rosborough describes in further detail the cause and effects of these
9 pension and employee benefits in his testimony. Adjustment 4.2 normalizes the
10 base test year pension and benefits to an adjusted test period level. This
11 adjustment increases Washington operating expenses by \$2,265,656.

12 **Blue Sky Program** (Adjustment 4.3) – The Blue Sky Program is designed to
13 encourage voluntary customer participation in the acquisition and development of
14 renewable resources. To protect non-participants from subsidizing this program,
15 this adjustment removes revenues and expenses associated with this program from
16 the test period. Adjustment 4.3 reduces Washington revenues by \$58,475 and
17 reduces Washington expense by \$79,926.

18 **Miscellaneous General Expense** (Adjustment 4.4) – This adjustment removes
19 from results of operations certain miscellaneous expenses that should have been
20 charged below the line to non-regulated expenses, reducing Washington operating
21 expense by \$144,260.

22 **General Wage Increase** (Adjustments 4.5 & 4.6) – PacifiCorp has several labor
23 groups, each with different effective contract renewal dates. Adjustments 4.5 and

1 4.6 annualize the effective wage increases received during the test period for labor
2 charged to operation and maintenance accounts and restates expense as though the
3 wage increase was effective for the entire test year. This annualization was
4 calculated by identifying actual wages for each labor group by month, and
5 applying the negotiated wage increase to the wages for the months prior to the
6 effective contract date. These adjustments also remove wages paid to employees
7 who left during the year. Adjustments 4.5 and 4.6 decrease Washington's
8 allocated share of operating and maintenance expense by \$559,323.

9 **Pro-Forma General Wage Increase** (Adjustments 4.7 & 4.8) – These
10 adjustments normalize labor expenses to better match labor cost during the period
11 the proposed rates will be in effect. It uses the annualized labor from Adjustments
12 4.7 and 4.8 as the base and adds the scheduled wage increases for the period April
13 1, 2003 through March 31, 2004 into the test period as of the date they become
14 effective. The adjustment removes salaries paid to employees who left since
15 March and annualize the salary paid to the new hires through September 2003.
16 This adjustment increases Washington's allocated share of operating and
17 maintenance expense by \$1,050,199.

18 **FICA Adjustment** (Adjustment 4.9) – Effective in 2002, the earnings base for
19 Social Security increased from \$84,900 to \$87,000. This change will increase the
20 Company's expense for Social Security tax. Adjustment 4.9 annualizes this
21 increased expense and also reflects the FICA tax associated with the annualized
22 and pro forma General Wage increases (Adjustments 4.5, 4.6, 4.7 & 4.8).

1 Adjustment 4.9 increases taxes other than income by \$53,879 on a Washington
2 basis.

3 **FERC Price Cap Accrual** (Adjustment 4.10) – FERC has retroactively adjusted
4 the price cap on energy transactions in California from \$250 per MWH to \$40 per
5 MWH. Based on this action, the Company accrued for a possible net liability of
6 \$17 million associated with those energy trades. Because the outcome of this
7 issue is not known, this adjustment removes the expense from test period results.

8 Adjustment 4.10 decreases Washington operating expense by \$1,373,123.

9 **Property Insurance** (Adjustment 4.11) – During the base test period, property
10 and liability insurance and uninsured losses were in excess of \$43 million. Ms.

11 Dawn Cartwright explains some of the changes to the insurance industry and the
12 impact of those changes on the Company's insurance costs in her testimony.

13 Insurance expense for the adjusted test year is expected to be \$39.7 million, which
14 is \$3.1 million lower than actual expense due to a reversal during the base test
15 period of a prior period accounting entry. Adjustment 4.11 decreases

16 Washington's operating expense by \$257,261.

17 **Sale of Naches Hydro Plant** (Adjustment 4.12) – The USBR has negotiated with
18 the Company to purchase the Naches Hydro Plant and to obtain the associated
19 water rights. While the terms and agreements have been finalized, the sale was
20 not completed until after the end of the base test period and therefore the
21 transaction was not reflected in unadjusted results. This adjustment normalizes
22 test year revenue requirement by removing annual booked depreciation expense of
23 \$147,443, O&M expenses of \$25,354, and property tax expense of \$5,379, which

1 represents Washington's allocated share of the costs associated with the Naches
2 Plant. The plant investment is removed in Adjustment 8.6 in Tab 8.

3 **Severance Accrual** (Adjustment 4.13) – During the test period, the regulatory
4 asset associated with the Transition Plan was reduced to reflect more current
5 expectations associated with employee severance costs. This entry reduced the
6 asset balance by crediting the asset and debiting expense. Adjustment 4.13
7 removes the asset write-down from base test period results, thereby reducing
8 Washington operating expense by \$443,410.

9 **International Assignees** (Adjustment 4.14) – This adjustment removes the costs
10 associated with international assignees that have returned to Scotland. Since
11 March, twenty-three international assignees have returned to Scotland. This
12 adjustment removes their associated costs, reducing test period expenses by
13 \$946,244.

14 **Q. How was the Net Power Cost adjustment calculated?**

15 A. The Net Power Cost adjustment normalizes revenues and expenses in a manner
16 consistent with normalized operation of production facilities, as described in
17 Mr. Widmer's testimony. The normalized Net Power Cost developed and
18 explained in Mr. Widmer's testimony is reflected in Tab 5. I will explain how the
19 Net Power Cost is reflected in results and also describe several other adjustments
20 that affect power costs.

21 **Q. Please explain the Net Power Cost adjustments summarized under Tab 5,
22 page 5.0.**

23 A. **Net Power Cost Study** (Adjustment 5.1) – The Net Power Cost adjustment

1 normalizes steam and hydro power generation, fuel, purchased power, wheeling
2 expense, and sales for resale in a manner consistent with the contractual terms of
3 sales and purchase agreements. It also normalizes hydro and weather conditions
4 for the adjusted test period as described in Mr. Widmer's testimony. This study
5 removes Black Hills special sales authorized in Cause No. U-86-02. Page 5.1.1 of
6 the Report compares the normalized Net Power Costs developed by Mr. Widmer
7 to the actual test period amounts to determine the amount of the adjustment. The
8 net impact of Adjustment 5.1 is to increase Washington revenues by \$4,986,946,
9 with an offsetting decrease in operating expense of \$4,523,121.

10 **Removal of Colstrip** (Adjustment 5.2) – This adjustment removes the Colstrip 3
11 plant from cost of service. This treatment was authorized in Cause No. U-86-02.
12 This adjustment reduces expense in Washington by \$1,064,936 and reduces rate
13 base by \$7,852,573.

14 **Trail Mountain Closure Amortization** (Adjustment 5.3) – In March 2001,
15 PacifiCorp closed its Trail Mountain Mine, which supplied coal to the Hunter
16 Plant (a jointly owned facility), and replaced that coal with lower cost coal from
17 the Sufco contract.

18 **Q. Will you explain what led to the Company's decision to close Trail**
19 **Mountain?**

20 **A.** Yes. When the Company acquired the Trail Mountain Mine from Arco in 1992, it
21 was aware that acquisition of the Trail Mountain reserves provided the Company
22 with access to the adjacent Cottonwood Lease. Production from Trail Mountain
23 and Cottonwood leases would insure a future supply of coal for the Hunter Plant.

1 The Company first nominated the Cottonwood lease for bid in 1991. By 1998,
2 however, PacifiCorp knew that the economically recoverable coal reserves at Trail
3 Mountain were limited. In 1999, the Company considered other alternatives to
4 pursuing the Cottonwood coal reserves and producing its own coal. The
5 Company issued a request for proposal from outside suppliers. PacifiCorp's long
6 term fueling strategy called for the Company to move into adjacent Cottonwood
7 coal reserves and to continue to produce its own coal, a fact that the other
8 producers in the area knew. At the time PacifiCorp issued its request for proposal,
9 Utah's coal production was about 25 million tons annually, with the Company
10 producing around 8 million tons, or 32 percent of the total production. The
11 Company's mines have long provided the Company with leverage in the Utah coal
12 market and on coal prices. Coal suppliers knew that for their bids to be
13 successful, they would have to be superior to the Company's own cost of
14 production. As a result, the Company was able to negotiate a very favorable five-
15 year contract with an outside supplier. This contract provided an economic
16 justification to cease further environmental permitting of the Cottonwood lease
17 and to close the Trail Mountain Mine.

18 **Q. How have customers benefited from the Trail Mountain Closure?**

19 A. Customers are receiving annual fuel savings of over \$19 million a year under the
20 new coal purchase contract compared to continued operation of Trail Mountain.
21 Even with a five-year amortization of the closure cost and including a carrying
22 charge on the unrecovered plant investment, customers still receive a net benefit
23 of over \$7 million annually.

1 **Q. How is the Company accounting for these closure costs?**

2 A. In April 2002, two regulatory assets totaling \$46 million were recorded on the
3 Company's books, one for the Trail Mountain Closure costs and the other for the
4 unrecovered Trail Mountain Investment. These regulatory assets are being
5 amortized over a five-year period beginning April 2001 and ending March 2006.
6 A petition for an accounting order for Trail Mountain was filed with the
7 Commission on October 10, 2003. The amortization expense is recorded in
8 Account 501, Fuel Expense. However, because this amortization includes the
9 joint-owners share, we removed it from the normalized fuel costs included in
10 Adjustment 5.1, Net Power Cost study. Because the normalized Net Power Cost
11 does not include the amortization of Trail Mountain closure costs, Adjustment 5.3
12 includes PacifiCorp's share of twelve months amortization expense of
13 \$7,935,023. This adjustment also removes the \$385,200 of joint owner payments
14 to PacifiCorp from Account 456, because the joint owners' share of amortization
15 expense is not included.

16 In addition, because the regulatory assets were not recorded until
17 April 2002 and include the joint owners' portion, it was necessary to correct the
18 balance of the unamortized regulatory asset included in the test period.
19 Adjustment 5.3 decreased Account 182M by \$4,305,259, reflecting the
20 appropriate regulatory asset balance of \$25,331,032 in the adjusted test period.

21 Adjustment 5.3 decreases Washington revenues by \$33,799, increases
22 operating expense by \$675,503, and decreases rate base by \$366,503.

23 **FAS 133** (Adjustment 5.4) – Adjustment 5.4 removes FAS 133 costs from the test

1 period. Effective June 2001, FAS 133 required that all companies recognize
2 derivatives as either assets or liabilities and measure those instruments at fair
3 market value. For financial reporting purposes, the changes in fair market value
4 are booked to either income or expense. Adjustment 5.4 removes the impact of
5 these financial reporting requirements and reduces Washington operation
6 expenses by \$1,352,718.

7 **West Valley Lease** (Adjustment 5.5) – On March 5, 2002, PacifiCorp entered
8 into a fifteen-year operating lease agreement with PPM Energy, Inc. (“PPM”).
9 The agreement provides PacifiCorp with complete operational control and the
10 entire output of a 200 MW natural gas-fired power plant in West Valley City,
11 Utah, as discussed further in Mr. Tallman’s testimony. The output of this
12 resource is modeled and reflected in Adjustment 5.1; however, only nine months
13 of lease expense is reflected in the base test period. In addition to the lease
14 expense, the Company pays for the property taxes associated with this facility.
15 This adjustment annualizes the lease and property tax expense. Adjustment 5.5
16 increases Washington allocated expense by \$355,288.

17 **Load Curtailment Reversal** (Adjustment 5.6) – During the power crisis, the
18 Company initiated load curtailment and conservation programs to mitigate rising
19 power costs. During the test period, final accounting entries were recorded to
20 these programs. This adjustment removes those accounting entries of non-
21 recurring programs from results, increasing Washington expense by \$151,209.

22 **BPA Regional Exchange** (Adjustment 5.7) – This adjustment reverses the BPA
23 credit from purchased power costs. Adjustment 3.3 removed the credit from

1 revenues. Since this credit is a pass through to PacifiCorp customers from BPA,
2 it should not be included in determining PacifiCorp's revenue requirement. This
3 adjustment increases expense by \$20,850,595.

4 **MSP Fuel Adjustment** (Adjustment 5.8) – This adjustment reallocates the fuel
5 costs using the MSP Protocol method. Fuel costs are allocated using each
6 participating state's share of annual system energy usage. For each type of
7 Seasonal Resource, other than Seasonal Contracts, energy-related costs are
8 allocated using the weighted monthly energy usage. Similar to the weighting of
9 demand-related costs, each state's monthly energy usage is weighted by that
10 month's portion of annual energy generation for the particular Resource. The
11 annual fuel costs for that resource are then allocated using its seasonally weighted
12 energy factor. This adjustment decreases expense by \$3,373,033.

13 **Q. Please explain the depreciation and amortization adjustments summarized**
14 **under Tab 6, page 6.0.**

15 A. **Annualized Depreciation Expense** (Adjustment 6.1) – This adjustment re-states
16 the test period depreciation expense to a level consistent with fiscal year 2003
17 thirteen-month average plant balances using the depreciation rates from the 1997
18 study. Adjustment 6.1 increases Washington allocated expense by \$90,223.

19 **Annualized Accumulated Depreciation** (Adjustment 6.2) – Adjustment 6.1
20 annualizes depreciation expense based on fiscal year 2003 thirteen-month average
21 plant balances. This adjustment reflects the impact of that annualization on the
22 accumulated depreciation balance. Adjustment 6.2 decreases Washington
23 allocated rate base by \$45,113.

1 **Pro Forma Depreciation** (Adjustment 6.3) – This adjustment reflects
2 depreciation expense at the rates included in the Company's new depreciation
3 study that was approved by the Commission on July 31, 2003 in Order No. UE-
4 021271, with rates effective as of April 1, 2003. Adjustment 6.1 applies the
5 depreciation rates from the 1997 study to the average plant balances; this
6 adjustment captures the incremental change in depreciation expense associated
7 with moving to the depreciation rates in the Company's new depreciation study.
8 Adjustment 6.3 decreases Washington allocated expense by \$1,867,828.

9 **Pro Forma Accumulated Depreciation** (Adjustment 6.4) – Adjustment 6.3
10 normalizes depreciation expense using the most recently authorized depreciation
11 rates applied to fiscal year 2003 thirteen-month average plant balances. This
12 adjustment reflects the impact of that normalization on the accumulated
13 depreciation balance. Adjustment 6.4 increases Washington allocated rate base by
14 \$933,914.

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

16 **A. Interest True-Up** (Adjustment 7.1) – The amount of interest expense included in
17 the test period is a cost of financing rate base through debt securities. It is
18 therefore appropriate to synchronize, or true up, the amount of interest expense
19 with the amount of rate base. This true up was accomplished by multiplying the
20 jurisdiction-specific adjusted rate base by the weighted cost of debt. The interest
21 determined in this manner was then compared to the actual interest recorded
22 during the base test period to determine the necessary adjustment. Interest
23 expense is a deduction to taxable income, and therefore the revenue requirement

1 impact of the interest true up is reflected as a change in income tax expense.

2 Adjustment 7.1 decreases the interest expense allocated to Washington by

3 \$880,276, thereby increasing income tax expense by \$334,074.

4 **Q. Is the calculation of the Interest True-up consistent with the treatment in**
5 **PacifiCorp's previous litigated general rate case in Washington, Cause No.**
6 **U-86-02?**

7 A. No. In Cause No. U-86-02, Construction Work in Progress (CWIP) was included
8 in the rate base balance to which the weighted cost of debt was applied. The
9 intent of this treatment was to flow through the benefits of the interest deduction
10 to customers. Since the accrual for AFUDC is a negative interest expense item
11 due to the fact that AFUDC is capitalized to CWIP during the year, this produces
12 the effect of revenue in the financial income for income tax calculations. The
13 Internal Revenue Service (IRS) does not recognize AFUDC as a taxable event,
14 however, so AFUDC is removed for tax purposes from financial income as a
15 schedule M-1 deduction, which creates flow-through to customers of the interest
16 deduction to taxes. Therefore, it is no longer necessary to include CWIP as a
17 component of the interest synchronization calculation.

18 **Q. Please continue to explain the tax adjustments summarized under Tab 7,**
19 **page 7.0.**

20 A. **Flow-Through Deferred Tax** (Adjustment 7.2) – This is a Commission-ordered
21 adjustment in Cause No. U-86-02. This adjustment removes the deferred tax
22 expenses and related accumulated deferred tax balances for all items that are not
23 related to the life and method differences between book and tax depreciation.

1 Adjustment 7.2 increases expense allocated to Washington by \$312,381 and
2 increases rate base allocated to Washington by \$3,634,651.

3 **Year-End Deferred Taxes** (Adjustment 7.3) – This is a Commission-ordered
4 adjustment in Cause Nos. U-86-02 and U-84-65. This adjustment brings deferred
5 taxes to the year-end level rather than the thirteen-month average balance by
6 increasing the Accumulated Deferred Tax balance by \$3,618,692, and decreasing
7 the Unamortized ITC by \$141,000.

8 **Malin-Midpoint Adjustment** (Adjustment 7.4) – In 1981 PacifiCorp placed a
9 transmission line known as Malin-Midpoint into service. The Company was
10 eligible for investment tax credits and accelerated depreciation. PacifiCorp
11 entered into a Safe Harbor lease to transfer the tax benefits to an unrelated third
12 party. The amount of the lease was \$43,869,000. In Cause Nos. U-82-12/35 and
13 U-83-33, the Commission ordered the gain to be amortized over a thirty-year
14 period with associated rate base treatment. This adjustment increases rate base by
15 \$311,868 and increases income tax expense by \$420,379.

16 **Wyoming Wind Tax Credit** (Adjustment 7.5) – This adjustment normalizes the
17 federal income tax credit associated with placing the Wyoming wind generating
18 plant into service before December 31, 2003. The credit is based on the
19 generation of the plant. Adjustment 7.5 reduces Washington income tax expense
20 by \$186,337.

21 **Property Tax Adjustment** (Adjustment 7.6) – This adjusts test period property
22 tax expense to a level consistent with plant balances, increased revenues, and
23 property valuations. Adjustment 7.6 increases the property taxes allocated to

1 Washington by \$136,227.

2 **IRS Settlement** (Adjustment 7.7) – During the base test period the IRS completed
3 an audit of PacifiCorp’s tax filings from 1991 through 1998. Mr. Larry Martin’s
4 testimony explains why the additional tax expense from the audit should be
5 recovered from customers. The Company is proposing that the costs be amortized
6 over a period not to exceed five years. Washington’s portion of the additional tax
7 expense was determined by calculating a weighted average of the Income Before
8 Tax factor over that same period and applying that weighted IBT factor to the total
9 cost. Washington’s share of this expense is \$5.8 million which, when amortized
10 over five years, increases Washington current taxes by \$1,159,454 and rate base
11 by \$4,637,815.

12 **Q. Please explain the miscellaneous rate base adjustments summarized under**
13 **Tab 8, page 8.0.**

14 **A. Environmental Settlement** (Adjustment 8.1) – In 1996, PacifiCorp received an
15 insurance settlement of \$33 million for environmental clean-up projects. These
16 funds were transferred to a subsidiary called PacifiCorp Environmental
17 Remediation Company (PERCO). This adjustment is necessary to reflect those
18 insurance proceeds as a reduction to rate base. The credit will be reduced or
19 amortized over time as PERCO expends dollars on clean-up costs. The remaining
20 balance reduces Washington rate base by \$1,854,370.

21 **Trapper Mine** (Adjustment 8.2) – PacifiCorp owns 21.47 percent interest in the
22 Trapper Mine, which provides coal to the Craig Generating Plant. This
23 adjustment is necessary to add the Company's share of Trapper Mine plant

1 investment to rate base, since this investment is in the Company's books in
2 Account 123.1 - Investment in Subsidiary Company. Washington's allocated
3 share increases rate base by \$364,883.

4 **Jim Bridger Mine** (Adjustment 8.3) - PacifiCorp owns a two-thirds interest in the
5 Bridger Coal Company, which supplies coal to the Jim Bridger Generating Plant.

6 The Company's investment in Bridger Coal Company is recorded on the books of
7 Pacific Minerals, Inc. (PMI). Because of this ownership arrangement, the coal
8 mine investment is not included in electric plant in service. The normalized coal
9 costs for Bridger Coal Company include the operating and maintenance costs of
10 mining, but provide no return on investment. This adjustment is therefore
11 necessary to properly reflect the Bridger Coal Company investment in test period
12 rate base. Washington's allocated share increases rate base by \$4,527,049.

13 **Colstrip No. 4 AFUDC** (Adjustment 8.4) – This adjustment removes AFUDC
14 from plant in service for the period Colstrip Construction Work in Progress
15 (CWIP) was allowed in rate base. This treatment was authorized in Cause No.U-
16 81-17 and was effective January 1, 1984. Adjustment 8.4 decreases Washington's
17 rate base by \$580,839 and decreases Washington's depreciation expense by
18 \$33,000.

19 **Dave Johnston (Glenrock) Mine Closure** (Adjustment 8.5) – A decision was
20 made in 1997 to close the Dave Johnston mine, which is operated by Glenrock
21 Coal Company. An additional accrual of \$33 million was recorded for
22 unrecovered reclamation costs. Since Washington customers were never charged
23 for this accrual, it is not appropriate for them to receive the offsetting reduction to

1 rate base. This adjustment increases Washington's rate base by \$1,710,148.

2 **Sale of Naches Hydro** (Adjustment 8.6) – PacifiCorp is negotiating the sale of
3 the Naches hydroelectric facility with the U.S. Bureau of Reclamation (USBR).

4 USBR is interested in this facility for the purpose of obtaining the water rights. It
5 is expected that the sale will be completed late in 2003. The accounting

6 transactions reflecting the sale are not reflected in the test period. This adjustment
7 removes the assets from rate base and adds back the accumulated depreciation.

8 The annual depreciation and O&M expenses are removed in Adjustment 4.12 in
9 Tab 4. This adjustment decreases Washington rate base by \$806,297.

10 **FERC 105 Asset Held for Future Use** (Adjustment 8.7) – At the end of fiscal
11 year 2003, the Company identified properties in FERC account 105 that should be
12 written off. Adjustment 8.7 removes these assets from results, reducing
13 Washington rate base by \$73,026.

14 **Trojan Investment Amortization** (Adjustment 8.8) – This adjustment removes
15 the Trojan amortization expense and the amortization balance from results, as
16 agreed upon in the Stipulation approved by the Commission in Docket No. UE-
17 991832. Washington's rate base decreases by \$733,458 and amortization expense
18 decreases by \$166,104.

19 **Hydro Relicensing** (Adjustment 8.9) – This adjustment normalizes hydro
20 relicensing projects that are expected to be completed between April 2003 and
21 March 31, 2004. These projects are described in more detail in Mr. Bill
22 Eaquinto's testimony. Page 8.9.1 details each of the components with estimated
23 completion dates. This adjustment increases Washington rate base by

1 \$10,552,538 and depreciation expense by \$263,005.

2 **System Benefit Charge** (Adjustment 8.10) – This adjustment removes from
3 results of operations the impact of the System Benefits Charge cost recovery
4 mechanism recovered through Schedule 191. The revenues collected on Schedule
5 191 were removed as part of adjustment 3.3. This adjustment reduces
6 Washington rate base by \$1,160,769.

7 **Update Cash Working Capital** (Adjustment 8.11) – This adjustment is
8 necessary to true up the cash working capital for the normalizing adjustments
9 made in this filing. Cash working capital is calculated by taking total operation
10 and maintenance expense allocated to Washington (excluding depreciation and
11 amortization) and adding Washington's share of allocated taxes, including state
12 and federal income taxes and taxes other than income. This total is divided by the
13 number of days in the year to determine the Company's adjusted daily cost of
14 service. The daily cost of service is multiplied by net lag days to produce the
15 adjusted cash working capital balance. Adjustment 8.11 increases Washington's
16 rate base by \$111,515.

17 **Q. What conclusions do you draw from your testimony?**

18 A. To the best of my knowledge, the normalized results are a fair and accurate
19 reflection of on-going operations of the Company. Based on these results,
20 PacifiCorp should receive a price increase of \$26.7 million.

21 **Q. Does this conclude your testimony?**

22 A. Yes.