

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND )  
TRANSPORTATION COMMISSION, )  
 )  
Complainant, )  
 )  
v. )  
 )  
PACIFICORP d/b/a PACIFIC POWER & )  
LIGHT COMPANY, )  
 )  
Respondent. )  
\_\_\_\_\_

Docket No. UE-100749

**RESPONSIVE TESTIMONY OF GREG MEYER**  
**ON BEHALF OF**  
**THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**  
**AND PUBLIC COUNSEL**  
**REDACTED VERSION**

**October 5, 2010**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,  
3 Chesterfield, MO 63017.

4 **Q. WHAT IS YOUR OCCUPATION?**

5 **A.** I am a Senior Consultant in the field of public utility regulation with Brubaker &  
6 Associates, Inc., energy, economic and regulatory consultants.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
8 **EXPERIENCE.**

9 **A.** These are set forth in Exhibit No.\_\_\_\_(GRM-2).

10 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

11 **A.** I am appearing on behalf of the Industrial Customers of Northwest Utilities (“ICNU”)  
12 and the Public Counsel Section of the Washington State Attorney General’s Office  
13 (“Public Counsel”).

14 **Q. WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

15 **A.** My testimony recommends several adjustments to PacifiCorp’s cost of service. The  
16 total value of all my adjustments would reduce PacifiCorp’s revenue requirement by  
17 \$5.5 million (Washington basis).

18 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

19 **A.** I have identified and quantified adjustments to the Company’s cost of service. These  
20 adjustments are shown in Table 1 and summarized below. Each adjustment is  
21 addressed in greater detail later in this testimony.

**TABLE 1**

**Proposed Revenue Requirement Adjustments**

<b><u>Issue</u></b>	<b><u>Company's Position (WA Situs)</u></b>	<b><u>ICNU/PC Position (WA Situs)</u></b>	<b><u>Adjustment to Company's Revenue Requirement</u></b>
Cash Working Capital (Revenue Requirement)	\$ 1,309,555	\$ ---	(\$1,309,555)
Incentive Compensation	\$ 1,400,000	\$ 700,000	(\$ 700,000)
Residential Rate Revenues	\$118,564,883	\$120,803,627	(\$2,238,744)
SO <sub>2</sub> Allowance Revenues	\$ 537,064	\$ 818,514	(\$ 281,450)
2010 Pro Forma Wage Increases	\$ 373,895	\$ ---	(\$ 373,895)
Outside Legal Expense			(\$ 48,931)
Supplemental Executive Retirement Plan	\$ 169,675	\$ ---	(\$ 169,675)
2009 Wages	\$ 34,200,829	\$ 34,020,878	(\$ 179,951)
Management Fee (SERP, Bonuses, & Legislative)	\$ 171,180	\$ ---	(\$ 171,180)
Total Adjustment to PacifiCorp's Revenue Requirement			(\$5,473,382)

Note:

\*ICNU Residential Rate Revenues presented net of additional fuel cost.

1. Cash Working Capital (“CWC”) – The Company’s methodology for calculating CWC overstates the CWC allowance. I recommend a zero CWC allowance.
2. Incentive Compensation – PacifiCorp’s incentive compensation plan contains goals which are not well defined, hard to quantify, relate to normal job requirements, do not motivate employees to achieve above-average performance, and may enhance shareholder value. I recommend that one-half of the incentive payments be disallowed.
3. Normalization of PacifiCorp’s Revenues – PacifiCorp’s weather-normalized usage per residential customer is too low. I recommend that the residential usage per customer be based on a five-year average.
4. SO<sub>2</sub> Emission Allowance Sales Revenues – PacifiCorp proposes to amortize the sale of SO<sub>2</sub> emission allowances over 15 years. I recommend these sales should be amortized over five years.

- 1 5. Pro Forma Wage Increase – PacifiCorp has proposed to increase its cost of service to  
2 reflect 2010 wage increases. PacifiCorp has not analyzed all relevant factors during  
3 2010 to determine if the wage increase should be reflected in cost of service. I  
4 recommend that the 2010 wage increase be disallowed.
- 5 6. Legal Expenses – PacifiCorp has proposed to include the allocated share of outside  
6 legal expenses in cost of service. I recommend that only those outside legal expenses  
7 associated with the Washington jurisdiction be included in cost of service.
- 8 7. Supplemental Executive Retirement Plan (“SERP”) – PacifiCorp proposes to include  
9 SERP expenses in its cost of service. In prior cases, the Washington Utilities and  
10 Transportation Commission (“WUTC”) has disallowed SERP costs and no other  
11 Washington electric utility recovers this expense in rates. I recommend that  
12 PacifiCorp’s SERP costs be disallowed.
- 13 8. 2009 Wages – PacifiCorp has proposed to increase officer/exempt 2009 salaries by  
14 3.5%. I recommend that those salaries be increased instead by only 2.07%.
- 15 9. Management Fee – PacifiCorp has proposed to include \$7.3 million for management  
16 fees. I recommend that \$2.4 million be disallowed from this amount.

17 **I. CASH WORKING CAPITAL (“CWC”)**

18 **Q. DID THE COMPANY INCLUDE AN ALLOWANCE FOR CWC IN ITS**  
19 **DIRECT FILING?**

20 **A.** Yes. PacifiCorp witness R. Bryce Dalley presented direct testimony which includes  
21 an allowance for CWC of \$11,145,151 in rate base.

22 **Q. DO YOU CONTEST THE INCLUSION OF THIS AMOUNT IN**  
23 **PACIFICORP’S REVENUE REQUIREMENT?**

24 **A.** Yes, I do. The methodology that PacifiCorp relied on in calculating CWC does not  
25 provide an accurate reflection of actual working capital needed by the Company. This  
26 can be seen by comparing the Company’s proposed method to another commonly used  
27 method.

28 **Q. WHAT IS YOUR RECOMMENDATION REGARDING CWC?**

29 **A.** I recommend that no CWC allowance be included in PacifiCorp’s revenue  
30 requirement.

1 **Q. WHY DO YOU PROPOSE TO NOT RECOGNIZE ANY ALLOWANCE FOR**  
2 **CWC IN THIS PROCEEDING?**

3 **A.** It has been my experience that electric utilities generally have a negative CWC  
4 allowance when a properly calculated lead-lag study is performed. I both performed  
5 and supervised several electric utility lead-lag studies while employed by the Missouri  
6 Public Service Commission which have resulted in negative CWC allowances. In  
7 fact, in Missouri, it is most often the case for electric utilities to have negative CWC  
8 allowances for purposes of rate cases.

9 **Q. ARE YOU FAMILIAR WITH THE METHODOLOGY PROPOSED BY**  
10 **PACIFICORP?**

11 **A.** Yes. The 45-day method (referred to as the “1/8 of O&M” method by Company  
12 witness Dalley) was used predominantly before the lead-lag study concept was  
13 accepted as another method for calculating the CWC allowance. The 45-day method  
14 simply assumes that the utility has a 45-day revenue lag and a zero expense lag.  
15 Under the 45-day method, utilities are granted 45 days worth of cash working capital  
16 in rate base to compensate their assumed investment to cover utility cash expenses  
17 until such funds are obtained from the utilities’ ratepayers.

18 **Q. WHICH METHOD, THE 45-DAY METHOD OR A LEAD-LAG STUDY,**  
19 **PRODUCES MORE ACCURATE RESULTS?**

20 **A.** I believe the lead-lag study produces more accurate results. The purpose of a CWC  
21 adjustment is to allow a utility to earn a rate of return on the amount of cash necessary  
22 for operations that is “supported by capital on which investors are entitled to a  
23 return.”<sup>1/</sup> The lead-lag study determines who provides the amount of cash that is

---

<sup>1/</sup> WUTC v. PacifiCorp, Docket No. UE-050684, Final Order ¶ 189 (April 17, 2006) (stating, “[w]e agree with Staff that the objective is to quantify the amount of working capital and current assets supported by capital on which investors are entitled to a return.”).

1 necessary to fund operations on a day-to-day basis. If a utility spends cash for an  
2 expense before the ratepayer provides cash for utility service provided, the shareholder  
3 must supply that cash. However, if the utility receives cash from the ratepayer for  
4 utility service provided before the utility must pay cash for expenses incurred to  
5 provide that service, then ratepayers have provided the cash.

6 **Q. WHY IS YOUR RECOMMENDATION TO NOT INCLUDE CWC IN THE**  
7 **CALCULATION OF RATE BASE REASONABLE?**

8 **A.** As I stated previously, my experience would suggest that a negative CWC allowance  
9 is a reasonable conclusion based on a properly conducted lead-lag study. The  
10 Company's 45-day method will only produce a positive CWC calculation. The  
11 method that PacifiCorp relied on in calculating CWC does not provide an accurate  
12 reflection of actual working capital needed by the Company and, therefore, I  
13 recommend that the Commission reject PacifiCorp's CWC adjustment.

14 **Q. ARE THERE ANY FEDERAL REGULATIONS THAT INDICATE THAT A**  
15 **ZERO CWC IS REASONABLE?**

16 **A.** Yes. The Federal Energy Regulatory Commission ("FERC") Code of Federal  
17 Regulations 154.306 states:

18 **18 C.F.R. §154.306 Cash Working Capital.**

19 A natural gas company that files a tariff change under this part may not  
20 receive a cash working capital adjustment to its rate base unless the  
21 company or other participants in a rate proceeding under this part  
22 demonstrates, with a fully developed and reliable lead-lag study, a net  
23 revenue receipt lag or a net expense payment lag (revenue lead). Any  
24 demonstrated net revenue receipt lag will be credited to rate base; and,  
25 any demonstrated net expense payment lag will be deducted from rate  
26 base.

27 The same standard should equally apply to electric utilities.

1 **Q. YOU TESTIFIED EARLIER THAT IT HAS BEEN YOUR EXPERIENCE**  
2 **THAT ELECTRIC UTILITIES OFTEN HAVE A NEGATIVE CWC**  
3 **ALLOWANCE. CAN YOU CITE ANY SPECIFIC COMMISSION ORDERS**  
4 **WHICH RESULTED IN NEGATIVE CWC ALLOWANCES?**

5 **A.** Yes. In Case No. ER-2008-0318, the Missouri Public Service Commission Order  
6 reflected a negative CWC allowance of \$94.672 million including interest and tax  
7 offsets.<sup>2/</sup> In Docket Nos. 09-0306 through 09-0311, Consolidated, the Illinois  
8 Commerce Commission Order reflected a negative CWC allowance of \$1.598 million  
9 for AmerenCILCO, a negative \$3.040 million for AmerenCIPS and a negative \$9.031  
10 million for AmerenIP electric operations.<sup>3/</sup> I have attached the rate base schedules  
11 which depict these amounts to this direct testimony as Exhibit No. \_\_\_ (GRM-3).

12 I have also attached as Exhibit No. \_\_\_ (GRM-4) to this direct testimony the  
13 filing AmerenUE made in Case No. ER-2010-0036. As can be seen from this exhibit,  
14 AmerenUE filed for a negative CWC allowance of \$18,350,000.<sup>4/</sup>

15 **Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING EXHIBIT**  
16 **NO. \_\_\_ (GRM-4)?**

17 **A.** Yes. If AmerenUE had used the methodology proposed by PacifiCorp, AmerenUE  
18 would have requested a CWC allowance of \$117,058,000. I have provided the  
19 calculation of this amount below.

---

<sup>2/</sup> Missouri Public Service Commission Case No. ER-2008-0318, Staff's Recommendation to Approve  
Tariff Sheets (Feb. 10, 2009).

<sup>3/</sup> Central Illinois Light Company et al., Docket Nos. 09-0306 et al., Corrected Order (May 6, 2010);  
Exhibit No. \_\_\_ (GRM-3).

<sup>4/</sup> Exhibit No. \_\_\_ (GRM-4) at 1, lines 6-10.

<b>TABLE 2</b>	
<b>AmerenUE CWC Allowance Utilizing PacifiCorp Methodology</b>	
<b>Description</b>	<b>Amount (\$000)</b>
Total O&M Expenses	\$1,794,748
<b><u>Less Fuel &amp; Purchased Power</u></b>	
Nuclear	(\$ 72,522)
Coal	(\$ 627,394)
Oil	(\$ 2,106)
Natural Gas	(\$ 27,928)
Purchased Power	<u>(\$ 128,333)</u>
Net O&M Expenses	\$ 936,465
45-Day Factor	12.5%
CWC Allowance	\$ 117,058

1                   As can be seen from the above table, there exists a significant difference  
2                   between the results obtained from a lead-lag study and use of the 45-day method as  
3                   proposed by PacifiCorp.

4   **Q.   PLEASE SUMMARIZE YOUR TESTIMONY REGARDING CWC.**

5   **A.**   I recommend the Commission recognize no CWC allowance for PacifiCorp and  
6           approve my adjustment of \$1.3 million (Washington basis) for this issue. I have  
7           shown that there exists a significant difference between the CWC allowance proposed  
8           by PacifiCorp and a lead-lag study. I have demonstrated that a properly conducted  
9           lead-lag study may result in a negative CWC allowance, and a negative CWC may be  
10          reasonable for PacifiCorp. The 45-day method PacifiCorp has used to calculate the  
11          proposed allowance is not supported, which can be seen from the comparison of this  
12          method to the more widely accepted lead-lag method. Regardless of what method is



1 used by PacifiCorp in any future CWC proposals, it must be reliable and reflect the  
2 Company's actual circumstances.

3 FERC has ruled gas utilities may only request a CWC allowance based on a  
4 lead-lag study. Therefore, my recommendation for a zero CWC allowance is  
5 conservative and should be the minimum adopted by the Commission. I also  
6 recommend that PacifiCorp be required to perform a lead-lag study before the next  
7 rate case.

## 8 II. INCENTIVE COMPENSATION

9 **Q. DID THE COMPANY INCLUDE IN ITS COST OF SERVICE, EXPENSES**  
10 **ASSOCIATED WITH THE PAYMENT OF INCENTIVE COMPENSATION?**

11 **A.** Yes. According to the direct testimony of Company witness Erich D. Wilson, at page  
12 8, in this case, PacifiCorp is proposing to include \$1.4 million on a Washington  
13 jurisdictional basis to cover incentive compensation payments.

14 **Q. DO YOU CONTEST THE INCLUSION OF ANY PORTION OF THIS \$1.4**  
15 **MILLION?**

16 **A.** Yes. I recommend that half or \$700,000 of the incentive compensation expense be  
17 removed from cost of service.

18 **Q. WHAT IS THE BASIS FOR YOUR PROPOSED DISALLOWANCE?**

19 **A.** I believe the goals for the achievement of incentive compensation payments are not  
20 well defined. In my opinion, many of the goals are more related to normal job  
21 requirements/duties and do not motivate employees to achieve above-average  
22 performance. Furthermore, many of the goals are not quantitative, thus, making it  
23 hard for an employee to gauge performance at any particular time frame. Based on  
24 these observations, I am recommending that one-half of the incentive payments be  
25 disallowed.

1 **Q. PLEASE DESCRIBE PACIFICORP’S ANNUAL INCENTIVE PLAN (“AIP”).**

2 **A.** PacifiCorp’s AIP is based on the achievement of group employee goals and  
3 achievement of individual goals. In addition to group goals and individual goals,  
4 employees may be evaluated based on new issues or opportunities that affect  
5 PacifiCorp during the year.

6 Employees are evaluated by their performance against six group goals. The  
7 group goals describe the characteristics the Company believes are important to the  
8 success of PacifiCorp. Attached as Exhibit No. \_\_\_ (GRM-5) are the six group goals  
9 and the performance factors for each group goal. PacifiCorp’s employees establish  
10 their own individual goals which are designed to advance the achievement of the  
11 group goals of the Company. The individual goals are weighted 70% of the  
12 employees’ overall evaluation, while the group goals are weighted 30% towards the  
13 employees’ overall evaluation.

14 **Q. PLEASE DESCRIBE WHAT STANDARDS YOU BELIEVE SHOULD BE**  
15 **INCLUDED IN A PROPERLY CONSTRUCTED INCENTIVE PLAN.**

16 **A.** I believe an acceptable incentive plan should be developed that contains goals that  
17 improve or maintain PacifiCorp’s existing operational performance. The payments  
18 associated with the incentive plan should be directly related to the achievement of  
19 those goals.

20 The goals for the incentive plan should be easily understood by the affected  
21 employees. Employees should also easily be able to determine their performance  
22 against those goals at any time during the year.

1 Q. WHAT TYPES OF GOALS WOULD YOU RECOMMEND BE INCLUDED IN  
2 AN INCENTIVE PLAN?

3 A. Appropriate goals for an incentive plan could include safety, managing operation and  
4 maintenance (“O&M”) expenses, system reliability, and customer service.

5 Q. ARE YOU AWARE OF A WUTC ORDER WHICH SUPPORTS YOUR IDEAS  
6 ABOUT A PROPERLY CONSTRUCTED INCENTIVE PLAN?

7 A. Yes. In WUTC v. Washington Natural Gas Co., the Commission stated:

8 The Commission does agree with Staff that some of the incentives fall  
9 short in terms of sending employees the message that the purpose of the  
10 program is to encourage improved service. The Commission believes  
11 however that the company can do a far better job in the future of  
12 creating incentives and setting goals that advantage ratepayers.... Such  
13 goals might include controlling costs, promoting energy efficiency,  
14 providing good customer service, and promoting safety. Plans which  
15 do not tie payments directly to goals that clearly and directly benefit  
16 ratepayers will face disallowance in future proceedings.<sup>5/</sup>

17 Q. ARE YOU AWARE OF ANOTHER COMMISSION DECISION WHICH  
18 SUPPORTS YOUR IDEAS ABOUT A PROPERLY CONSTRUCTED  
19 INCENTIVE PLAN?

20 A. Yes. In Union Electric Case No. EC-87-114, the Missouri Public Service Commission  
21 stated:

22 At a minimum, an acceptable management performance plan should  
23 contain goals that improve existing performance, and the benefits of the  
24 plan should be ascertainable and related to the plan.<sup>6/</sup>

25 Q. DO YOU BELIEVE THE GROUP GOALS AS LISTED IN EXHIBIT  
26 NO. \_\_\_ (GRM-5) CONTAIN THE STANDARDS AND CRITERIA YOU  
27 DESCRIBED ABOVE?

28 A. No. I have reviewed the group goals. I continue to believe that these goals do not  
29 provide the employees with the quantitative goals to assess their performance. It is  
30 also difficult to assess or ascertain how some of the goals improve or maintain

---

<sup>5/</sup> WUTC v. Washington Natural Gas Co., Docket No. UG-920840, Fourth Suppl. Order at 19 (Sept. 27, 1993).

<sup>6/</sup> Staff v. Union Elec. Co., 29 Mo. P.S.C. (N.S.) 313, 325 (1987).

1 PacifiCorp's existing operational performance. Finally, I believe some of the goals  
2 are more properly classified as standard job requirements/duties and therefore should  
3 not be considered performance goals tied to incentive compensation payments.

4 **Q. CAN YOU PROVIDE SOME EXAMPLES OF PERFORMANCE FACTORS**  
5 **CONTAINED IN THE GROUP GOALS WHICH DO NOT GIVE**  
6 **EMPLOYEES THE ABILITY TO ASSESS THEIR PERFORMANCE?**

7 **A.** Yes. I have listed below certain performance factors which I believe would not be  
8 easily quantifiable for use as a performance measure. These are examples from  
9 PacifiCorp's AIP group goals.

10 ➤ Customer Focus:

- 11 • Proactively meets internal or external customer expectations by anticipating  
12 needs and effectively addressing and resolving problems, issues and concerns  
13 in a timely manner.

14 ➤ Job Knowledge:

- 15 • Ensures that all compliance aspects of position are known and followed;  
16 understands and complies with all policies, codes and regulations applicable to  
17 position and company.

18 ➤ Planning and Decision Making:

- 19 • Demonstrates high levels of personal accountability.

20 ➤ Productivity:

- 21 • Holds self and others accountable to quality results.

22 ➤ Builds Relationships:

- 23 • Accepts personal differences and values diversity.

24 ➤ Leadership:

- 25 • Embraces change and motivates others to achieve goals.

1                   The above list contains performance factors from each of the six group goals. I  
2 believe these performance factors are not quantifiable to different levels of  
3 performance. For example, how would a person exceed performance for the  
4 performance factor “Embraces Change and Motivates Others to Achieve Goals”?  
5 These performance factors also lead to subjective evaluation by the manager.  
6 Subjective evaluation of employees for incentive compensation should be minimized.

7 **Q. CAN YOU PROVIDE SOME EXAMPLES OF PERFORMANCE FACTORS**  
8 **WHICH YOU CONTEND SHOULD BE CONSIDERED AS A JOB**  
9 **COMPONENT OR REQUIREMENT?**

10 **A.** Yes. I have listed below certain performance factors which I believe should be  
11 considered job components or requirements.

12       ➤ Customer Focus:

- 13           • Shares information with customers to build their understanding of issues and  
14           capabilities.

15       ➤ Job Knowledge:

- 16           • Keeps up with current developments and trends in area of expertise as a part of  
17           personal development.

18       ➤ Planning and Decision Making:

- 19           • Not afraid to make decisions and ensure appropriate people are informed.

20       ➤ Productivity:

- 21           • Performs well under pressure and does not create undue pressure for others;  
22           meets deadlines.

23       ➤ Builds Relationships:

- 24           • Acts with integrity by demonstrating professional, courteous, ethical and fair  
25           behavior at all times.

1           ➤ Leadership:

- 2           • Demonstrates passion; personal commitment and enthusiasm.

3           The above list contains performance factors from each of the six group goals. I  
4 believe these performance factors are more properly classified as job requirements or  
5 duties. PacifiCorp claims that the AIP is to provide employees with incentives to  
6 perform at an above-average level. I cannot understand, for example, why an  
7 incentive plan needs to incent an employee to “act with integrity by demonstrating  
8 professional, courteous, ethical and fair behavior at all times.” This performance  
9 factor should be a job requirement for all employees working at PacifiCorp and should  
10 not be used as a performance factor for incentive compensation.

11 **Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING THE**  
12 **PERFORMANCE FACTORS CONTAINED IN THE SIX GROUP GOALS?**

13 **A.** Yes. I would like to point out that I only provided examples of performance factors  
14 which could not be quantified or which should be job requirements. I am not  
15 suggesting these examples are exhaustive, or that the categories are mutually  
16 exclusive.

17           Also, referring back to Exhibit No. \_\_\_(GRM-5), I would argue that many of  
18 the performance factors do not have performance metrics associated with them to  
19 determine if the operations of PacifiCorp are improved or maintained.

20 **Q. IN YOUR REVIEW OF THE COMPANY’S AIP GROUP GOALS DID YOU**  
21 **FIND ANY GROUP GOALS THAT COULD BE ATTRIBUTABLE TO THE**  
22 **ATTAINMENT OF SHAREHOLDER VALUE?**

23 **A.** Yes. Both the Customer Focus and Productivity performance factors have attributes  
24 that are designed to enhance shareholder value.

- 25           • Customer Focus: Dedicated to meeting the expectations of internal and external  
26 customers, co-workers and stakeholders; obtains first-hand information from

1 customers and uses it to improve processes and services; acts with customers in  
2 mind; establishes and maintains effective relationships with customers and gains  
3 their respect and trust.

- 4 • Productivity: Achieves a high level of relevant accomplishments for the benefit of  
5 the company and its customer. Uses appropriate methods to implement solutions;  
6 checks processes and tasks to ensure accuracy and efficiency; initiates action to  
7 correct problems or notifies others of quality issues as appropriate.

8 Along with these performance factors, many of the goals improve shareholder value.

9 **Q. ARE YOU REJECTING ALL OF THE PERFORMANCE FACTORS WHICH**  
10 **COMPRISE THE SIX GROUP GOALS?**

11 **A.** No. I believe that several of the performance factors which comprise the six group  
12 goals would be good starting points to develop performance standards for an incentive  
13 compensation plan that are understandable, quantifiable and performance-enhancing.

14 For example, a performance factor under the Planning and Decision Making  
15 Goal states, “[u]ses metrics and milestones, and goal reassessment to measure  
16 execution and determine whether correction to plan is needed.” I believe this  
17 performance factor could be used to implement several performance criteria for  
18 different departments in adhering to O&M expense control.

19 **Q. PLEASE SUMMARIZE YOUR INCENTIVE COMPENSATION**  
20 **ADJUSTMENT.**

21 **A.** I am recommending that 50% of the incentive compensation payments be removed  
22 from cost of service. I have discussed some of the concerns I have with the six group  
23 goals of the AIP. The individual goals are weighted 70% while the group goals are  
24 weighted 30% for the employees’ overall evaluation. A 50% reduction to the  
25 incentive plan is a fair and reasonable adjustment to the incentive compensation  
26 expense level. I believe this is a conservative recommendation. Particularly,

1 considering the current economic environment, the Commission may wish to eliminate  
2 all incentive compensation from the PacifiCorp Washington revenue requirement.

3 **III. NORMALIZATION OF PACIFICORP'S REVENUES**

4 **Q. DO YOU BELIEVE THE LEVEL OF ELECTRIC REVENUES IN**  
5 **PACIFICORP'S COST OF SERVICE IS APPROPRIATE?**

6 **A.** No. PacifiCorp's proposed level of residential revenue is understated. I recommend  
7 that the level of residential revenues be increased by approximately \$2.2 million. This  
8 amount is net of additional fuel cost.

9 **Q. WHAT IS THE BASIS FOR YOUR STATEMENT THAT THE LEVEL OF**  
10 **RESIDENTIAL REVENUES IS TOO LOW?**

11 **A.** I have reviewed the usage per customer for the calendar years 2005-2009 as compared  
12 to the Company's weather-normalized usage for the test year. Table 3 lists the annual  
13 average usage per customer for the residential class for 2005-2009 and the test year  
14 weather normalized.

<b>Year</b>	<b>Residential Use Per Customer (kWh)</b>
2005	15,193
2006	15,492
2007	15,767
2008	15,612
2009	16,261
Company Test Year (Weather Normalized)	15,128
Five-Year Average (2005-2009)	15,671



Source: FERC Form 1 and  
Exhibit No. \_\_\_ (RDB-3), Table 2.

1 Table 3 shows that the average usage per customer used by PacifiCorp to annualize  
2 residential revenues (15,128 kWh) is too low. The residential usage proposed by  
3 PacifiCorp has been exceeded for each year since 2005. The amount of normalized  
4 residential usage I recommend be used (15,671 kWh), is still lower than the actual  
5 2009 usage during the current economic recession (16,261 kWh).

6 **Q. WHY IS IT IMPORTANT TO ANNUALIZE REVENUES USING THE**  
7 **CORRECT USAGE PER CUSTOMER?**

8 **A.** It is important to annualize revenues using the correct usage per customer because that  
9 level of annualized revenues determines the incremental revenue requirement needed  
10 by the utility to pay the expenses to operate the utility and provide the opportunity for  
11 a reasonable return to shareholders. If the usage per customer is set too low, the utility  
12 will collect more revenues than is necessary to pay its expenses and provide the  
13 opportunity for a reasonable return to shareholders. If the usage per customer is set  
14 too high, the opposite will occur.

15 **Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENT TO**  
16 **PACIFICORP'S RESIDENTIAL CLASS.**

17 **A.** I analyzed the residential usage per customer for the period 2005-2009 and compared  
18 those usages to the level proposed by PacifiCorp. I calculated a five-year average  
19 usage per customer for the residential class and multiplied that usage by the  
20 normalized test year customers and the current average residential margin energy rate.  
21 Based on this analysis, I believe test year residential revenues should be increased by  
22 \$2.2 million.

1                    **IV.    SO<sub>2</sub> EMISSION ALLOWANCE SALES REVENUES**

2    **Q.    HAS PACIFICORP INCLUDED REVENUES FROM THE SALE OF SO<sub>2</sub>**  
3    **EMISSION ALLOWANCES IN ITS COST OF SERVICE?**

4    **A.**    Yes. PacifiCorp has included a 15-year amortization of current and past SO<sub>2</sub> emission  
5    allowance sales revenues in its cost of service.

6    **Q.    DO YOU AGREE WITH THE AMOUNT PACIFICORP HAS INCLUDED IN**  
7    **THE COST OF SERVICE?**

8    **A.**    No. I recommend that the sale of SO<sub>2</sub> allowances be amortized over five years. I am  
9    proposing that the unamortized balance of SO<sub>2</sub> allowance revenues at December 31,  
10    2009, be amortized over five years instead of the 15-year amortization proposed by  
11    PacifiCorp.

12   **Q.    WHY ARE YOU PROPOSING TO AMORTIZE THE SO<sub>2</sub> ALLOWANCE**  
13   **SALES OVER FIVE YEARS?**

14   **A.**    I believe the current 15-year amortization period is too long. The sale of SO<sub>2</sub>  
15    allowances is a recurring event and those revenues generated from the sale of SO<sub>2</sub>  
16    allowances should be flowed back to customers in a more expedited manner.

17   **Q.    PLEASE PROVIDE THE ANNUAL SALES OF SO<sub>2</sub> EMISSION**  
18   **ALLOWANCES THAT PACIFICORP HAS MADE.**

19   **A.**    Table 4 summarizes the SO<sub>2</sub> allowances sales PacifiCorp has made since 1994.

**TABLE 4**

**PacifiCorp Sales of SO<sub>2</sub> Emission Allowances<sup>1</sup>**

<u>Year</u>	<u>Amount</u>
1994	\$ 9,313,460
1995	\$ 6,175,869
1996	\$ 5,770,845
1997	\$20,326,755
1998	\$11,528,830
1999	\$ 463,315
2000	\$10,819,607
2001	\$ 3,634,620
2002	\$ 566,760
2003	\$ 585,036
2004	\$ 908,181
2005	\$16,224,771
2006	\$15,619,652
2007	\$14,663,498
2008	\$ 4,889,027
2009	\$ 3,790,891
2010 <sup>2</sup>	\$ 402,500

<sup>1</sup>Source: Company Exhibit \_\_\_ (RBD-3) attached workpapers 3.4.1-3.4.3.

<sup>2</sup>Sales through February 2010.

1 As can be seen from the above table, the sales of SO<sub>2</sub> allowances are an  
2 annually recurring event. However, the amount of revenues received from those sales  
3 varies from year to year.

4 I agree with PacifiCorp that the proper way to flow these revenues back to  
5 ratepayers is through an amortization of past sales. However, I contend that a 15-year  
6 amortization is too long.

7 **Q. WHY DID YOU CHOOSE A FIVE-YEAR AMORTIZATION PERIOD?**

8 **A.** Generally, five-year amortizations are proposed when addressing extraordinary events,  
9 or recurring events with impacts that cannot be easily predicted. For example, when a

1 major storm strikes the service territory of a utility, the utility is usually granted  
2 recovery of those external costs over five years. Five years, in my experience, is  
3 generally the most widely accepted amortization period for extraordinary events or  
4 recurring events with volatility unless a trend in the activity can be observed.  
5 Obviously, shorter and longer amortizations have been adopted by commissions, but  
6 five years is generally appropriate and reasonable.

7 In this instance, a five-year amortization period is more appropriate because it  
8 credits customers' rates in a more timely manner from the sales of SO<sub>2</sub> allowances. A  
9 shorter amortization period is also appropriate in this case because it reduces the  
10 impact of PacifiCorp's 21% proposed rate increase.

11 **Q. WHAT IS THE TOTAL VALUE OF YOUR SO<sub>2</sub> ALLOWANCE SALES**  
12 **ADJUSTMENT?**

13 **A.** Reducing the amortization period for SO<sub>2</sub> allowances from 15 years to 5 years reduces  
14 revenue requirement by \$281,450 on a Washington jurisdictional basis.

15 **V. PRO FORMA WAGE INCREASE**

16 **Q. DID PACIFICORP INCLUDE PRO FORMA WAGE INCREASES IN ITS**  
17 **COST OF SERVICE?**

18 **A.** Yes. PacifiCorp has proposed to increase labor expense by \$373,895 on a Washington  
19 jurisdictional basis to reflect wage increases which took effect in 2010.

20 **Q. DO YOU CONTEST THE INCLUSION OF THIS AMOUNT IN**  
21 **PACIFICORP'S REVENUE REQUIREMENT? PLEASE EXPLAIN.**

22 **A.** Yes, I do. PacifiCorp has selectively chosen to propose that its wages be increased in  
23 2010 without demonstrating that all relevant factors of the revenue requirement have  
24 been considered. In other words, PacifiCorp has chosen to include one item of cost of

1 service to increase the revenue requirement without examining all the operations of  
2 the Company to determine if there are corresponding offsets to the wage increase.

3 **Q. WHEN DO THE 2010 PACIFICORP WAGE INCREASES TAKE EFFECT?**

4 **A.** The wage increases take effect during various times in the year. Wage increases occur  
5 in January, February, July, and October 2010.

6 **Q. WHAT IS A TEST YEAR AND WHAT IS ITS IMPORTANCE?**

7 **A.** A test year is established in a rate case to allow all parties to audit/review a common  
8 period of costs of a utility and to provide the Commission a common starting point on  
9 which to evaluate different parties' positions. It is my understanding that in  
10 Washington, the matching principle requires that all cost of service components—  
11 revenue, investment, expenses, and cost of capital—must be considered and evaluated  
12 at a similar point in time.<sup>2/</sup> A test year allows for the preparation of a reconciliation to  
13 capture all parties' positions. A fully audited historic test year should establish a  
14 relationship between rate base, expenses and revenues that the utility expects to  
15 experience during the years rates are in effect. Therefore, proposing an adjustment  
16 that encompasses a period of time beyond the test year should require the utility to  
17 demonstrate that an isolated test year adjustment is needed within the context of a rate  
18 case in order to earn its authorized return during the years when the proposed rates are  
19 in effect.

20 Once a party suggests that post test year adjustments should be included in cost  
21 of service, that party should be required to demonstrate that all relevant factors which  
22 are subject to audit for the test year have been considered and this isolated adjustment

---

<sup>2/</sup> WUTC v. PacifiCorp, Docket No. UE-050684, Final Order ¶ 194 (April 17, 2006).

1 must still be recognized. Certain other expenses beyond the test year may decrease  
2 from test year levels. In addition, revenues may increase and rate base may decline.

3 This Commission has discussed this issue at length in recent rate case decisions:

4 [F]or expense or revenue items, pro forma adjustments *must be*  
5 *matched with offsetting factors*. Offsetting factors, as the term  
6 suggests, diminish the impact of the known and measurable event. A  
7 mismatch would be created if offsetting factors are not taken into  
8 account. That is, the known and measurable change will be overstated  
9 or understated, distorting the test year relationships among revenues,  
10 expenses, and rate base.<sup>8/</sup>

11 The matching principle requires that *all factors affecting a proposed*  
12 *pro forma change be considered in determining the pro forma level of*  
13 *expense*. This includes consideration of offsetting factors such as  
14 efficiency gains that may or may not be associated directly with the  
15 proposed pro forma adjustment.... We emphasize that there are two  
16 aspects to the consideration of offsetting factors. First, there should be  
17 evidence showing consideration of whether a proposed increase in  
18 expense directly produces any offsetting benefits.... On the other hand  
19 .... *contemporaneous changes in revenues or expenses [may occur]*  
20 *that are not directly related to the proposed pro forma adjustment, but*  
21 *which offset its financial impacts.*<sup>9/</sup>

22 In this case, PacifiCorp has asked to increase test year expense for 2010 wage  
23 increases without any analysis that all other elements of test year costs will remain  
24 unchanged. This produces a potential mismatch between proposed revenues, expenses  
25 and rate base.

---

<sup>8/</sup> WUTC v. Avista Corp., Docket Nos. UE-090134, UG-090135 & UG-090518, Final Order ¶ 46 (Dec. 22, 2009) (emphasis added).

<sup>9/</sup> WUTC v. Puget Sound Energy, Inc., Docket Nos. UE-090704 and UG-090705, Final Order at 27- 28 (April 2, 2010) (emphasis added).

1 **Q. YOU MENTIONED THE POSSIBILITY THAT SOME POST TEST YEAR**  
2 **EXPENSES COULD BE LOWER, THEREBY OFFSETTING THE 2010**  
3 **WAGE INCREASE. HAVE YOU IDENTIFIED ANY SUCH POSSIBLE**  
4 **OFFSETS?**

5 **A.** Yes. Several offsets come to mind. One offset is the revenues that will be generated  
6 from the sale of SO<sub>2</sub> allowances in 2010 if the Commission adopts my  
7 recommendation to amortize the 2009 unamortized revenue balance over five years.  
8 The SO<sub>2</sub> adjustment that I propose does not reflect any SO<sub>2</sub> revenues from sales in  
9 2010. As can be seen from Table 4 of my testimony, PacifiCorp has already made  
10 \$402,500 of SO<sub>2</sub> allowance sales through February 2010. The additional jurisdictional  
11 revenues can be offset against the pro forma wages.

12 The other offset relates to the Powerdale Hydro Removal adjustment proposed  
13 by the Company. It is my understanding that at the end of 2010, the amortization of  
14 the regulatory asset will cease and expense savings will be realized going forward.  
15 This is about \$586,333 in Washington savings. Again, these expense savings could be  
16 used to offset the wage increases.

17 Finally, PacifiCorp has experienced workforce reductions since the end of the  
18 test year. Therefore, the level of payroll included in the Company's rate case is  
19 overstated. Combining all of these events together would easily offset the 2010 wage  
20 increase and produce a lower revenue requirement. For example, despite the  
21 Company's statement that it has no plans to make workforce reductions, its number of  
22 Full Time Equivalent employees ("FTEs") steadily declined throughout 2009 and into  
23 2010. Since December, 2009, PacifiCorp has eliminated 1% of non-union FTEs and

1 1.2% of union FTEs.<sup>10/</sup> Since January, 2009, the Company has reduced non-union  
2 FTEs by 2% and union FTEs declined by 4%.<sup>11/</sup> The workforce declines have been  
3 constant and are continuing for union positions.<sup>12/</sup> PacifiCorp has not been able to  
4 calculate the payroll expense impact of workforce reductions that have occurred since  
5 December 31, 2009.<sup>13/</sup>

6 **Q. WHY HAVEN'T YOU PROPOSED SUCH AN ADJUSTMENT?**

7 **A.** I have not proposed those isolated adjustments because I have not performed an audit  
8 of all the relevant factors of PacifiCorp's operations beyond the test year to determine  
9 if those adjustments are warranted. I cannot state that the relationship of revenues,  
10 expenses, and rate base established using test year data would be significantly  
11 impacted by proposing those adjustments.

12 **Q. PLEASE DESCRIBE YOUR RECOMMENDATION.**

13 **A.** Since all relevant factors have not been considered and PacifiCorp has not shown that  
14 the relationship between rate base, expenses and revenues from the audited test year  
15 needs to be adjusted, I recommend that the Commission disallow the 2010 wage  
16 increase. PacifiCorp's electric cost of service should be reduced by \$373,895. If the  
17 Commission does not accept my wage adjustment, then the Commission should make  
18 other adjustments to reflect savings that have not been reflected in the test period,  
19 which would likely result in a larger revenue requirement reduction.

---

<sup>10/</sup> Exhibit No. \_\_\_ (GRM-6) at 2-3 (PacifiCorp's Response to Public Counsel Data Request No. 64, Attachment). (Between January and June, 2010, non-union FTEs decreased from 2384 to 2360.5. During the same period, union FTEs decreased from 3247 to 3220.5).

<sup>11/</sup> Id. (Between January, 2009 and June, 2010, the number of non-union FTEs decreased from 2409 to 2360.5 and the number of union FTEs decreased from 3351.5 to 3220.5).

<sup>12/</sup> Id. at 6-7 (PacifiCorp's Response to Public Counsel Data Request No. 119, Attachment). (By the end of August, 2010, PacifiCorp eliminated an additional 22 union positions).

<sup>13/</sup> Id. at 8 (PacifiCorp's Response to Public Counsel Data Request No. 138(a)).



1 **VI. LEGAL EXPENSES**

2 **Q. WHAT LEVEL OF EXPENSE HAS PACIFICORP INCLUDED IN THE COST**  
3 **OF SERVICE FOR OUTSIDE LEGAL FEES?**

4 **A.** PacifiCorp has included [REDACTED] for outside legal expense.

5 **Q. DO YOU CONTEST ANY OF THIS AMOUNT?**

6 **A.** Yes. I believe a reduction of \$48,931 should be made to that total.

7 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR LEGAL EXPENSE.**

8 **A.** PacifiCorp allocates its outside legal expenses using a system overhead allocation  
9 factor. While it may be appropriate for some legal costs to be allocated system-wide,  
10 other costs are not appropriate for such allocation methodology. For example, legal  
11 costs specific to an issue in a specific jurisdiction should be directly assigned to that  
12 jurisdiction.

13 My adjustment eliminates the legal expense associated with proceedings that  
14 are not related to Washington operations. It is my position that legal costs relating to  
15 specific jurisdictions should be directly assigned to those jurisdictions.

16 **Q. HOW MUCH DO YOU PROPOSE TO ELIMINATE FROM LEGAL**  
17 **EXPENSES INCLUDED IN THE TEST YEAR?**

18 **A.** Based upon my review of the confidential response to Public Counsel Data Request  
19 No. 95, I am proposing that \$48,931 be disallowed.

20 **Q. PLEASE EXPLAIN HOW THIS AMOUNT WAS DERIVED.**

21 **A.** In response to Public Counsel Data Request No. 95, Confidential Attachment PC 95,  
22 the Company provided the net variance between directly assigning *all* outside legal  
23 expenses incurred during the test year as opposed to allocating these on the SO basis.

24 The total legal expenses allocated to Washington using the SO factor were [REDACTED].

25 Directly assigning these same expenses on a WA Situs basis reduces the cost to

1 Washington to [REDACTED] for a net variance of \$48,931. I have not analyzed the  
2 prudence of the individual expenditures of legal fees.

3 **VII. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

4 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATED TO PACIFICORP'S**  
5 **SERP.**

6 **A.** PacifiCorp has included in test year operating expenses \$169,675.<sup>14/</sup> I am  
7 recommending that this entire amount be disallowed from rates. SERP provides  
8 substantial post-retirement benefits to certain executives beyond what the Internal  
9 Revenue Service guidelines allow for tax purposes and what is received in the  
10 Company's general retirement plan.

11 **Q. ARE THERE ANY CURRENT EMPLOYEES COVERED BY PACIFICORP'S**  
12 **SERP PLAN?**

13 **A.** There is one. In its 2010 10-K, PacifiCorp stated that "Mr. Walje was the only NEO  
14 [Named Executive Officer] who participated in our SERP during 2009, and we have  
15 no plans to add new participants in the future." This means that most costs are  
16 attributable to retired employees who are no longer providing service to Washington  
17 ratepayers and that SERP is not necessary for attracting or retaining employees. Mr.  
18 Walje is President of Rocky Mountain Power.

19 **Q. DO ANY OTHER REGULATED ELECTRIC UTILITIES RECOVER SERP**  
20 **COSTS THROUGH RATES IN THIS STATE?**

21 **A.** No. Avista Utilities does not include SERP in above-the-line expenses.<sup>15/</sup> In addition,  
22 this Commission rejected a request by Puget Sound Energy ("PSE") to include SERP

---

<sup>14/</sup> Exhibit No. \_\_ (GRM-6) at 1 (PacifiCorp's Response to Public Counsel Data Request No. 5 First Revised).

<sup>15/</sup> WUTC v. Avista Corp., Docket Nos. UE-090134 and UG-090135, TR 597:9-11.

1 costs in rates. In its Final Order in the most recent PSE rate case, the Commission  
2 stated:

3 [W]e find persuasive the arguments recommending removal of [SERP]  
4 costs. PSE has failed to provide an adequate justification for  
5 continuing to require ratepayers to fund supplemental retirement  
6 benefits for a small number of executives who already are highly  
7 compensated and entitled to the same levels of qualified retirement plan  
8 benefits as other employees, within the limits of what the IRS allows.<sup>16/</sup>

9 It is my understanding that the Commission's holding in the recent PSE case is  
10 in keeping with its prior treatment of supplemental retirement program costs.

11 In WUTC v. Washington Water Power Co., the Commission disallowed  
12 "supplemental pensions" for retired employees, accepting the argument that the  
13 Company had not shown "any improvement to productivity among current employees  
14 to justify" costs, finding that the pensions appeared to be "gifts, which should be  
15 contributed by shareholders rather than ratepayers."<sup>17/</sup>

## 16 VIII. 2009 WAGES

17 **Q. HAS PACIFICORP PROPOSED TO INCLUDE WAGE INCREASES THAT**  
18 **WENT INTO EFFECT DURING CALENDAR YEAR 2009 IN ITS COST OF**  
19 **SERVICE?**

20 **A.** Yes. PacifiCorp has proposed to reflect all wage increases that took effect during  
21 2009 for all of its employees.<sup>18/</sup>

22 **Q. ARE YOU CONTESTING ANY OF THE WAGE INCREASES THAT WENT**  
23 **INTO EFFECT DURING 2009?**

24 **A.** Yes. I recommend that the wage increase applicable to the Officer/Exempt Labor  
25 Group be held to the average increase granted to the other labor groups. The overall

---

<sup>16/</sup> WUTC v. Puget Sound Energy, Inc., Docket Nos. UE-090704 and UG-090705, Order No. 11 ¶¶ 74-81 (April 2, 2010).

<sup>17/</sup> WUTC v. Washington Water Power Co., Docket No. U-85-36, Third Suppl. Order, pp. 26-27 (April 4, 1986).

<sup>18/</sup> Exh. No. \_\_ (RBD-3) at 4.3.3.

1 average granted to all non-officer/exempt labor groups was 2.07% during 2009. This  
2 adjustment to the Officer/Exempt Labor Group would lower PacifiCorp's cost of  
3 service by \$179,951 (WA Situs) for base payroll and payroll taxes.

4 Table 5 provides the wage increase and effective date of that increase for each  
5 labor group of PacifiCorp.

<b><u>Labor Group</u></b>	<b><u>Effective Date of Wage Increase</u></b>	<b><u>Wage Increase Percentage</u></b>
Officer/Exempt	January 2009	3.50%
IBEW 125	February 2009	2.50%
IBEW 659	February 2009	2.50%
UWUA 197	September 2009	1.25%
UWUA 127 Wyoming	No Increase	---
IBEW 415 (Laramie 57)	July 2009	1.50%
IBEW 57 PD	February 2009	3.00%
IBEW 57 PS	February 2009	3.00%
PCCC Non-Exempt	No Increase	---
IBEW 57 CT	June 2009	3.00%
Non-Exempt	January 2009	3.50%

Source: Exhibit \_\_\_(RBD-3), page 4.3.3

6 The adjustment I am proposing would lower the Officer/Exempt wage increase to  
7 2.07% for 2009.

8 **Q. HOW DID YOU CALCULATE THE 2.07% WAGE INCREASE?**

9 **A.** The 2.07% wage increase represents the average wage increase granted to all the other  
10 labor groups listed in Table 5 for 2009.

11 The Company provided the wages booked through 2009 and the wage  
12 increases granted within the year. I calculated the wage increase granted to the  
13 Officer/Exempt employees and eliminated it. Then, I calculated the average wage

1 increase granted to the other employee groups, 2.07%, and I applied this wage  
2 increase to the Officer/Exempt Labor Group.

3 **Q. WHY IS THE 2.07% AVERAGE WAGE INCREASE APPROPRIATE FOR**  
4 **THE OFFICER/EXEMPT LABOR GROUP?**

5 **A.** The Officer/Exempt Labor Group represents the Executive Managers and other  
6 salaried employees of PacifiCorp. Generally, these employees consist of the higher  
7 paid employees of the Company.

8 In its testimony, PacifiCorp does not provide adequate justification why this  
9 labor group should receive one of the highest wage increases for 2009. I have merely  
10 reduced that wage increase percentage to match the overall increase provided to the  
11 employees of PacifiCorp.

12 **Q. ARE YOU AWARE OF ANY UTILITIES WHICH HAVE LIMITED THE**  
13 **WAGE INCREASES FOR ITS EXECUTIVES?**

14 **A.** Yes. In 2009, Avista Utilities did not grant its executives any pay increase.<sup>19/</sup>

15 In 2009, Puget Sound Energy's Named Executive Offices ("NEO") saw an  
16 average wage increase of less than 2% with two executives including the CEO  
17 receiving only 0.6% increases.<sup>20/</sup>

18 Furthermore, in 2010, Ameren Leadership Team ("ALT") members from  
19 Ameren Corporation will receive no merit increases. In addition, the vast majority of  
20 non-ALT management employees will receive no pay increase in 2010.<sup>21/</sup>

---

<sup>19/</sup> WUTC v. Avista Corp., Docket Nos. UE-100467 and UG-100468, Direct Testimony of Elizabeth M. Andrews (Exhibit EMA-1T) at 45: 13-14 (Mar. 23, 2010).

<sup>20/</sup> In addition, in 2009, non-equity incentive compensation for the Company's NEOs fell an average 38%.  
See Puget Energy Form 10-K, at 70 (filed Feb. 26, 2010).

<sup>21/</sup> Union Electric Company, d/b/a AmerenUE, Case No. ER-2010-0036, Rebuttal Testimony of AmerenUE witness Krista G. Bauer at 12 (February 11, 2010).

1 **Q. ARE YOU AWARE OF ANY UTILITY WHICH HAS COMPLETELY**  
2 **REMOVED EXECUTIVE SALARIES FROM THEIR PROPOSED COST OF**  
3 **SERVICE?**

4 **A.** Yes. Ameren Illinois Utilities (“AIUs”) removed the salaries from the five  
5 highest-paid executive officers, as well as all incentive compensation paid to officers  
6 and removed all incentive compensation related to earnings-type goals for all  
7 non-officer employees. Below, I have included that portion of the direct testimony of  
8 Craig D. Nelson, Vice President of Regulatory Affairs and Financial Services, from  
9 Docket Nos. 09-0306 through 09-0311 (Pages 9-10 of Ameren Exhibit 1.0E).

10 Q. ARE THE AIUS OFFERING TO SHOULDER ANY OF THE  
11 FINANCIAL BURDEN TO MITIGATE THE IMPACT OF  
12 THESE PROPOSED INCREASES ON THEIR CUSTOMERS?

13 A. Yes, as I mentioned, due to today’s difficult economic climate and its  
14 impact on its customers, the AIUs are voluntarily not seeking recovery  
15 of:

- 16 • All incentive compensation paid to officers of Ameren  
17 Corporation and its subsidiaries (including the AIUs). The  
18 amount allocated to and/or incurred by the AIUs for which the  
19 AIUs are not seeking recovery is approximately \$2.2 million.
- 20 • The portion of incentive compensation paid to employees which  
21 is based on earnings-type goals. The amount incurred by and/or  
22 allocated to the AIUs for which we are not seeking recovery is  
23 approximately \$1.2 million.
- 24 • Compensation paid to the five highest-paid executive officers  
25 for 2008 (as reported in the Notice of Annual Meeting of  
26 Shareholders and Proxy Statement of Ameren Corporation  
27 dated March 11, 2009) which is allocated to the AIUs. The  
28 amount allocated to the AIUs for which the AIUs are not  
29 seeking recovery is approximately \$2.9 million.

1 **IX. MANAGEMENT FEE**

2 **Q. PLEASE DESCRIBE THE “MANAGEMENT FEE” THAT PACIFICORP HAS**  
3 **INCLUDED IN ITS TEST YEAR OPERATING EXPENSES.**

4 **A.** PacifiCorp pays an annual “Management Fee” to Mid-American Energy Holdings  
5 Company (“MEHC”) under an “Intercompany Administrative Services Agreement.”  
6 The Services Agreement allocates certain of MEHC’s costs to its subsidiaries. The  
7 Agreement describes “Administrative Services” as including, but not being limited to:  
8 services by executive, management, professional, technical and clerical employees;  
9 financial services tax and accounting services; use of office facilities; and use of  
10 vehicles and equipment.<sup>22/</sup>

11 In 2009, PacifiCorp booked \$8,353,029 above-the-line for MEHC management  
12 fees. Before allocating any portion of this to Washington operations, PacifiCorp  
13 removed \$1,053,029 of this amount pursuant to MEHC merger commitment WA-4(b)  
14 in Order 07, Docket No. UE-051090, which caps the amount allowable for the fee at  
15 \$7.3 million.<sup>23/</sup> The Washington-allocated portion of the resulting \$7.3 million fee is  
16 \$540,784.<sup>24/</sup>

17 **Q. ARE YOU RECOMMENDING A DISALLOWANCE OF ANY OF THE**  
18 **AMOUNT THAT PACIFICORP DID NOT REMOVE?**

19 **A.** Yes. I am recommending that the amount included in Washington rates be reduced by  
20 \$171,180 to reflect disallowance of costs included in the management fee that are not  
21 appropriate for inclusion in Washington rates. Specifically these costs are: MEHC  
22 and MidAmerican Energy Company (“MEC”) bonuses, costs of the SERP, and

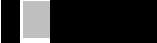
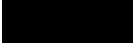
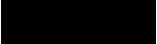
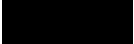
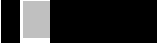

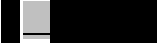
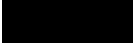
---

<sup>22/</sup> Exhibit No. \_\_ (GRM-6) at 9-11 (PacifiCorp’s Response to Staff Data Request No. 25, Attachment 2, p. 1).

<sup>23/</sup> Id. at 9

<sup>24/</sup> Id. at 4 (PacifiCorp’s Response to Public Counsel Data Request No. 83(c) (stating that the management fee is allocated based on the SO factor).

1 legislative costs and contributions. Table 6 summarizes the adjustment that I am  
 2 proposing.

<b>TABLE 6</b>		
<b><u>Washington Management Fee Costs</u></b>		
<b><u>Type of Cost</u></b>	<b><u>System Total</u></b>	<b><u>WA-Allocated</u></b>
SERP <sup>25/</sup>		
MEHC Bonuses <sup>26/</sup>		
MEC Bonuses <sup>27/</sup>		
Legislative/Contributions <sup>28/</sup>		
<b>TOTAL</b>	<b>\$ 2,391,747</b>	<b>\$ 171,180</b>

3 **Q. DOES THE \$1 MILLION REDUCTION THAT PACIFICORP MADE IN**  
 4 **COMPLIANCE WITH DOCKET NO. UE-051090 FUNCTIONALLY REMOVE**  
 5 **THE BONUS AND SERP COSTS MENTIONED ABOVE?**

6 **A.** No. The Commitment to reduce the management fee established in Docket  
 7 No. UE-051090 appears to be designed to limit allowable management fees and says  
 8 nothing of any disallowed amounts covering those types of expenses that should be  
 9 booked below-the-line or otherwise not charged to PacifiCorp’s Washington  
 10 customers. Moreover, the total amount of inappropriate costs well exceeds the \$1  
 11 million removed for compliance with UE-051090. Therefore, the UE-051090  
 12 limitation should be considered before inappropriate costs are removed.

---

<sup>25/</sup> Exhibit No. \_\_ (GRM-6) at 9-11 (PacifiCorp’s Response to Staff Data Request No. 25, Attachment 1).

<sup>26/</sup> Id.

<sup>27/</sup> Id.

<sup>28/</sup> PacifiCorp’s Response to Public Counsel Data Request No. 103, Confidential Attachment.



1 **Q. IS THERE SUPPORT FOR YOUR RECOMMENDATION IN PACIFICORP'S**  
2 **OWN ADMINISTRATIVE SERVICES AGREEMENT WITH MEHC?**

3 **A.** Yes. According to the terms of the Services Agreement, PacifiCorp must bear those  
4 costs that are inappropriate for recovery in each state where it operates.

5 Article 4(a)(iii) of the Agreement states:

6 It is the responsibility of rate-regulated Recipient Parties to this  
7 Agreement [i.e., PacifiCorp] to ensure that *costs which would have*  
8 *been denied recovery in rates had such costs been directly incurred by*  
9 *the regulated operation are appropriately identified and segregated in*  
10 *the books of the regulated operation.*<sup>29/</sup>

11 **Q. COULD YOU PLEASE EXPLAIN YOUR ADJUSTMENT FOR SERP**  
12 **COSTS?**

13 **A.** As previously discussed in my testimony, SERP costs should not be recovered through  
14 rates. Exhibit No. \_\_\_ (GRM-6), which is PacifiCorp's response to WUTC Staff Data  
15 Request No. 25, shows that [REDACTED] is included in the management fee for 2009  
16 SERP costs, the Washington-allocated portion of which is [REDACTED] I have removed  
17 the entire Washington-allocated portion.

18 **Q. PLEASE EXPLAIN THE DISALLOWANCE YOU ARE RECOMMENDING**  
19 **FOR MEC AND MEHC BONUSES.**

20 **A.** PacifiCorp has included in Washington rates [REDACTED] for annual bonuses paid to  
21 MEC and MEHC executives.<sup>30/</sup> I am recommending disallowance of this entire  
22 amount because, after a review of page 125 of PacifiCorp's Form 10-K, it appears that  
23 these bonuses are tied to performance of PacifiCorp's parent company and therefore  
24 not closely aligned to customer-related performance at the utility level.

---

<sup>29/</sup> Exhibit No. \_\_\_ (GRM-6) at 14 (PacifiCorp's Response to Staff Data Request No. 25, Attachment 2, p. 3)  
(emphasis added).

<sup>30/</sup> Id. at 10-11 (PacifiCorp's Response to Staff Data Request No. 25, Attachment 1).

1           Unlike incentive compensation at the utility-company level, MEHC and MEC  
2 performance naturally relates more to financial success of the parent corporation, the  
3 focus of which is on the financial performance of subsidiaries. MEHC’s Form 10-K,  
4 page 144, states that the objective of annual bonus awards is to “reward the  
5 achievement of significant annual corporate goals.” The annual bonuses are given on  
6 a subjective basis, but are based on defined objectives that “commonly include  
7 financial and non-financial goals.” MEHC’s 10-K, on page 143, states that the annual  
8 incentive awards are part of an overall compensation philosophy meant to “create  
9 significant value for [MEHC].”

10 **Q.   WHY ARE YOU RECOMMENDING DISALLOWANCE OF**  
11 **LEGISLATIVE/CONTRIBUTION COSTS?**

12 **A.**   I have been informed that the Commission’s rules prohibit recovery through rates for  
13 costs associated with lobbying or influencing legislation. WAC 480-100-213 states in  
14 part: “The [C]ommission will not allow either direct or indirect expenditures for  
15 political or legislative activities for rate-making purposes.... For purposes of this rule,  
16 political or legislative activities include, but are not limited to...[e]ncouraging support  
17 or opposition to ballot measures, legislation, candidates for a public office, or current  
18 public office holders...” PacifiCorp’s response to Public Counsel Data Request  
19 No. 103 shows that the Company has included on a system-basis [REDACTED] for  
20 “Legislative (includes contributions).” This amount does not appear to include  
21 regulatory costs, as there are separate “Regulatory” and “Regulation” cost categories.  
22 The Washington-allocated portion of legislative costs is \$ [REDACTED] which I have  
23 removed completely pursuant to WAC 480-100-213.

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes, it does.