Q. Mr. Weston, did you sponsor direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is three-fold. First, I will correct three errors identified in my Exhibit No. ___ (JTW-3), the Company's Washington Results of Operations Report. Second, I will update the Company's Net Power Costs to reflect the corrections Company witness Mark Widmer describes in his testimony. Third, I will rebut certain adjustments proposed by WUTC witnesses Thomas Schooley, Yohannes Mariam, Danny Kermode and Joanna Huang; ICNU witness Don Schoenbeck; and Public Council witness James Dittmer.

Specifically, I will respond to the following proposed adjustments:

? Ms. Huang's proposed adjustment for international assignees;

? Mr. Schooley's proposed adjustments for Employee Benefits and Customer Deposits;

? Dr. Mariam's proposed adjustment for weather normalization;

? Mr. Schooley's proposed adjustment for Pension Expenses;

? Ms. Huang's and Mr. Schoenbeck's proposed adjustments disallowing some of the Company's Miscellaneous & General Expenses;

? Mr. Kermode's proposed adjustment to interest expense associated with Construction Work in Progress;

? Mr. Schooley's proposed adjustment to deferred environmental clean-up costs;

- ? Mr. Schooley's and Mr. Dittmer's proposed adjustments to the Company's Cash Working Capital calculation; and
- ? Mr. Dittmer's and Mr. Schooley's proposed adjustments to Miscellaneous Deferred Debits.

Corrections to Exhibit No. ____ (JTW-3)

Q. Would you summarize the corrections to your Exhibit No. ___ (JTW-3)?

A. Yes. After filing my direct testimony I have identified three corrections that need to be made to Exhibit No. ____ (JTW-3). In addition, the Company is accepting an adjustment proposed by Mr. Schooley and Ms. Huang. The results of these corrections lowers the Company's revenue requirement request to $25.7 million, as demonstrated in Exhibit No. ___ (JTW-5). The corrections are as follows:

Hydro Relicensing: Adjustment 8.9 added the associated costs of recently completed licensing projects at North Umpqua to rate base. However, the accumulated depreciation reserve was inadvertently allocated to Washington by applying the System Generation factor rather than the correct Divisional Generation factor, overstating Washington rate base by $60,148.

Union Incentive (Adjustment 4.11). Bargaining unit employees negotiated not to participate in the incentive program. Instead they negotiated an increase to their base pay. The Company reflected this increase in base pay in its pro forma wage adjustment, but failed to remove the incentive payout from the test period, resulting in an inadvertent double count of expenses. This adjustment reduces Washington's operating expense by $386,887.

International Assignees. Adjustment 4.14 reduced the test period expense for employees that had returned to Scotland during the test period. However, due to a formula error in my spreadsheet, Oregon's System Overhead percentage was used, rather than Washington's System Overhead percentage. This correction increases Washington's operating costs by $685,973.

Q. Have you reflected Mr. Widmer's correction to Net Power Costs?

A. Yes. Mr. Widmer's testimony describes the corrections made that increased Net Power Costs $2,009,164 system-wide, with $195,094 of this amount allocated to Washington. I have updated adjustment number 5.1 to reflect these changes.

Q. Were any other adjustments impacted by this correction?

A. Yes. The Net Power Costs update impacted the seasonal factors increasing Washington's allocation of the West Valley Adjustment 5.5 by $263 and decreasing the MSP Fuel Adjustment 5.8 by $62,972.

Rebuttal Issues

Q. Please explain how you will refer to each issue.

A. Where applicable, I will use the same numbering scheme from Mr. Schooley's Exhibit No. ____ (TES-2) when referencing each issue.

International Assignees

Q. Did Ms. Huang propose an adjustment to the International Assignee costs, in addition to the adjustment mentioned above?

A. Yes. Ms. Huang proposed to update international assignee expenses for head count through March 31, 2004.

Q. Do you agree with this additional adjustment?

A. No, because she has ignored the matching principle. While it is certainly true that additional international assignees have returned to Scotland, those costs cannot be removed while ignoring cost increases in other areas. Specifically, during FY 2004 the Company had a net increase in manpower of 364 employees. Some of these were a direct result of filling positions vacated by these international assignees. The international assignee costs cannot be removed without recognizing the additional manpower costs.

Employee Benefits

Q. Do you agree with Mr. Schooley's proposal to reduce Employee Benefits by $7 million on a Total Company basis?

A. Yes. At the time the Company made its filing, the Company's proposal was based on the expected level of expenses in the FY 2004 budget of $69.4 million. The actual expenses for FY 2004 were $62.4 million. This is documented in the Company's Response to Public Counsel Data Request No. 10. The Company accepts this adjustment, which reduces Washington's operating expenses by $586,361.

Customer Deposits

Q. Do you accept the adjustment related to Customer Deposits proposed by Mr. Schooley?

A. Yes. Mr. Schooley proposes to reduce Washington allocated rate base by the average test-year balance of Washington jurisdictional Customer Deposits, or $1,029,605, and to increase operating expenses by $12,149, which is $1,029,605 multiplied by 1.18 percent (interest rate paid on Washington jurisdiction deposits, per response to Public Counsel Data Request No. 85). Mr. Dittmer proposed a similar adjustment, but Mr. Dittmer's adjustment was incorrect because he included the wrong months in his calculation. The Company accepts Mr. Schooley's adjustment.

<u>Weather Normalization</u>

Q. Do you agree with Dr. Mariam's proposed adjustment to the Company's weather normalization methodology in Adjustment 3.1?

A. No. Company witness Reed Davis will address Dr. Mariam's approach to weather normalization. I will address two issues that Dr. Mariam ignored when preparing his revenue imputation. Weather normalization impacts three areas of the revenue requirement calculation: revenues, loads, and variable costs. Based upon his conclusion that loads would be higher than the Company had projected, Dr. Mariam made an upward adjustment to revenues, but did not make a corresponding adjustment to reflect the incremental cost associated with serving those loads. ("Staff did not make a determination regarding the impact of its temperature adjustment on Mr. Buckley's net power costs or allocation factors. Any such determination would be beyond the scope of Dr. Mariam's testimony." Staff Response to Data Request No. 3.8.) The largest cost of serving this additional load is the extra power needed to serve load, but other variable and allocation costs would normally be expected to increase as well. (*See* Staff Response to Data Requests No. 3.3: "To properly reflect the *net* effect of Dr. Mariam's recommended [temperature normalization] adjustment on the Net

Power Cost for Washington, the loads of all jurisdictions, utilizing the recommended methodology, would have to be re-calculated and incorporated into both the GRID model and the Company's inter-jurisdictional allocation models.") An unsophisticated analysis of the additional net power costs suggests an increase in Washington revenue requirement of about $2 million, which would largely offset the revenue adjustment proposed by Dr. Mariam.

<u>Pension Expense</u>

Q. Do you agree with Mr. Schooley's assertion that there is a "double count" of pension costs included in PacifiCorp's filing and his proposal to remove $1,502,000 from the pension adjustment?

A. No. Mr. Schooley's asserted double count is based on the premise that the pension liability (and therefore the expense) related to the Enhanced Early Retirement Program that occurred in the year 2000 is included in both the Transition Plan amortization expense and the actuarially-determined Pension Expense shown in adjustment 4.2 of my Exhibit No. __(JTW-3). This is not the case. In 2000, the net present value of the pension liability related to the Enhanced Early Retirement program was actuarially determined. A regulatory asset was established with a corresponding liability pursuant to the Washington Commission Order in Docket No. UE-000969. Pursuant to that same order, the regulatory asset is being amortized over a five-year period to Account 930.2. The actuarially determined pension expense included in my adjustment 4.2 does not include any expense related to the Enhanced Early Retirement Program except for a small interest expense true-up to reflect the time value of money as payment of the obligation approaches. The estimated interest expense is approximately $900,000 on a total company basis, or $75,000 allocated to Washington. The interest true-up is a legitimate cost of the test period and does not represent a double count of pension costs included in the Transition Plan amortization expense. For these reasons Mr. Schooley's proposed removal of $1,502,000 of pension expenses should be rejected.

<u>Miscellaneous & General Expenses</u>

Q. Do you accept any of the adjustments related to Miscellaneous & General Expenses proposed by Ms. Huang?

A. Yes. Ms. Huang has identified two professional fees that should not have been allocated to Washington. The first is Oregon-related SB 1149 expenditures and some reimbursable consulting work. Removal of these two items reduces Washington allocated expense by $83,625.

Q. Do you agree with Ms. Huang's other adjustments on Miscellaneous & General Expenses (Adjustment 4.4)?

A. Partially. The Company agrees with part of Ms. Huang's adjustments to accounts 920 and 923. Page 4.4 of my Exhibit No. ___ (JTW-3) shows that the Company had already adjusted account 920 to remove the $30,134 for the employee on loan to Wyoming. Ms. Huang has proposed another adjustment to account 920 summarized as Non-Reg Activities. Because we have not received supporting documentation for this adjustment as of the filing date for our rebuttal testimony, we are opposing it. The Company had already adjusted account 923 by removing $911,186 for Professional Fees Services.

In account 930, Ms. Huang made adjustments identical to those proposed by the Company except for Miscellaneous & Other Expenses. Again, because we have not yet received supporting documentation for this adjustment, we are opposing it. In total, we had already made identical adjustments totaling $1,915,741.

Q. How did Ms. Huang propose adjusting Account 921?

A. Ms. Huang reviewed July and December invoices identifying items to remove and then calculated a percentage of those two months and applied that same percentage to the total costs recorded in Account 921. The Company opposes this approach which is neither accurate nor scientific. The Company has reviewed account 921 and removed $220,939 in its original filing.

Q. Do you agree with Ms. Huang's Blue Sky adjustment?

A. No. The Company's Blue Sky adjustment 4.3 removed all costs of the Blue Sky program. The Blue Sky program costs are captured by cost center and reported annually. The Company removed the Blue Sky cost from account 930 rather than listing each individual account to which the charges were booked. Accepting Ms. Huang's adjustment would double count this adjustment.

Q. Did Mr. Schoenbeck propose adjustments to remove certain administrative and general expenses?

A. Yes. Mr. Schoenbeck proposed three adjustments: Hive Down, Snake River Legal Fees, and Non-Affiliate Accounting Expenses.

Q. Do you agree with Mr. Schoenbeck's adjustments for Hive Down?

A. No. Mr. Schoenbeck points out that this name refers to a process in which assets are exchanged between parent and subsidiary companies in various restructuring activities. While this definition is generally accurate, it is not an accurate description of what these costs represent in the case of PacifiCorp. All legal services performed by Stoel Rives related to MSP are referred to as "Hive Down." Originally, the Structural Realignment Proposal (SRP) involved Company restructuring activities that were similar to Hive Down activities as defined by Mr. Schoenbeck. Due to the restructuring activities involved, Stoel Rives referred to all SRP services performed as "Hive Down." As SRP evolved into MSP, and Company restructuring was no longer being considered, Stoel Rives continued to refer to these services as "Hive Down." None of the Hive Down costs sought in this proceeding is attributable to SRP. Therefore, Mr. Schoenbeck has mistakenly, but understandably, assumed that these costs are associated with restructuring activities due to how Stoel Rives titled these services.

Q. Do you agree with Mr. Schoenbeck's proposed adjustment relating to Snake River Legal Fees?

A. No. On page 15, line 10, Mr. Schoenbeck claims that the Snake River dispute was "unique" and "non-recurring," and therefore should be adjusted out of regulatory results. The Company would agree that every lawsuit is "unique" in some manner. The more relevant question is whether the level of legal fees incurred in the test year is representative of the Company's annual litigation expense. The answer to that question is "yes." In 2002 the Company incurred expenses of $1 million in Yakama litigation cost, and $1.1 million of litigation expense related to the Lewis River in 2004. The unique facts giving rise to lawsuits will generally be nonrecurring in most cases, but the ongoing level of legal expense is a necessary cost of service. While the Company cannot predict the specific issues that will arise in the future, recent history suggests that this is a representative level of legal fees.

Q. Do you agree with Mr. Schoenbeck's adjustments related to Non-Affiliated Accounting Expense?

A. No. Mr. Schoenbeck's list totaling $1,976,000 that he has called Non-Affiliated Accounting Expenses contains several grouping errors, items that are costs of the regulated operations, and double-counts the Company's professional service fees, adjustment 4.4. The first line item, Transactional Cost Analysis, has an error: Mr. Schoenbeck has included $349,021 in his total amount of $1,290,000 that has no relation to Transactional Costs. The remaining balance was already removed from results by the Company. The second line item titled Capital Structure contains similar errors. The third line item, Non-Affiliate Audits, was already removed by the Company. The fourth line item, Aquila professional fees, is related to the hedge costs addressed in Mr. Widmer's rebuttal testimony. The fifth line item is for captive insurance, which is a regulated function. The Company is pursuing avenues to control insurance and noninsured losses, and one of those options is a captive insurance company.

Q. Do you agree with Ms. Huang that severance costs should be averaged?

A. No. The Company's operating costs continue to rise over historical levels. Therefore, averaging operational costs never allows the Company the opportunity to recover prudently incurred expenditures.

<u>Construction Work in Progress</u>

Q. Do you agree with Mr. Kermode's argument that the Company's Interest Synchronization should include Construction Work in Progress in the pro forma interest adjustment for Interest Synchronization (Adjustment 7.1)?

A. No. On pages 7 and 8, lines 15 through 20 and 1-3, respectively, of Mr. Kermode's testimony, he claims that the interest expense associated with CWIP is smaller for tax purposes than for book purposes, thereby creating a tax burden that should be paid for by the Company's shareholders. As a preliminary matter, it is objectionable for Mr. Kermode to use an apparent double standard under which any item that reduces customer costs becomes an immediate benefit to the customer, but if that same item later increases customer costs, then the Company should bear the burden.

Notwithstanding the foregoing concern, the Company has already flowed through a pretax reduction to customers in the amount of $8 million. This can be seen by looking first at the Schedule M1 deduction of $18 million for Book AFUDC at Tab B6 page 2 of Exhibit No. ____ (JTW-3). On page 1 of that same tab there is a Schedule M1 addition of $7 million for Avoided Cost. The $7 million Avoided Cost is normalized, leaving a pretax deduction of $18 million. These items are summarized in Tab 2 on page 2.21 of the operating results for calculating the federal and state current tax expense. In addition, on line 1364 of that same page is an income item for AFUDC-Equity in the amount of $10 million. The net result of including debt and equity AFUDC in the tax calculation is a flow-through benefit that reduces pretax taxable income by $8 million. In other words, the Company has already recognized the flowed-through tax reduction benefit in its filed case. Consequently, adding a CWIP component into the pro forma interest expense calculation, as argued by Mr. Kermode, is not only unnecessary, it creates a double count of this benefit.

<u>Environmental Clean-up Costs</u>

Q. Does the Company accept Mr. Schooley's assignment of the deferred clean-up costs associated with the Environmental Settlement (Adjustment 8.1)?

A. No. Mr. Schooley's treatment of this item is inconsistent. On one hand, Mr. Schooley accepts the Company's allocation of the proceeds of the Environmental Settlement to Washington. On the other hand, Mr. Schooley rejects the Company's allocation of the clean-up costs associated with the settlement and proposes Control Area assignment of the deferred clean-up costs. Since the Environmental Settlement is a direct result of the clean-up costs, both the clean-up costs and the settlement proceeds should be allocated the same way. While the Company does not agree with Mr. Schooley's application of the Hybrid allocation, if the Commission adopts this method, the Company requests that a corresponding correction be made to the Environmental Settlement allocation. I have identified the settlement payments by Control Area and allocated Washington its share. Based on Control Area allocation, Washington would receive a $1.4 million credit rather than the $1.9 million credit, increasing Washington rate base by $528,951.

Q. Did Mr. Schooley propose any other adjustments to environmental clean-up costs?

A. Yes. Mr. Schooley has identified the legal costs included in the deferred balance and proposes that they be removed from the balance.

Q. Do you agree with this adjustment?

A. No. The insurance settlement that the Company has treated as a reduction to rate base in Adjustment 8.1 was meant to cover all costs associated with cleaning up these sites. If the Commission does not want to defer legal costs associated with these clean-up sites, the appropriate treatment would be to write off legal expenses against the Environmental Settlement, thereby reducing that balance.

<u>Cash Working Capital</u>

Q. Does the Company agree with Mr. Schooley's proposed adjustments to Cash Working Capital?

A. No. In its Direct Case, the Company based its Cash Working Capital on its 1998 Lead Lag study. In contrast, Mr. Schooley argues that the Company should use what is known as the "Investor Supplied Working Capital" (ISWC) calculation. We disagree. Lead Lag studies are widely recognized as the most accurate method of calculating the cash working capital requirements in a regulated utility, as Public Counsel witness Dittmer acknowledges in his testimony. Because of the superiority of a Lead Lag study, methods such as ISWC are used only when the cost and effort required to complete a Lead Lag study prevent its use. Therefore, the Company continues to support the use of a Lead Lag study to calculate Cash Working Capital.

While the Staff-endorsed ISWC method may be easier to apply, its flaws are well-documented. Robert Hahne points out in *Accounting for Public Utilities* that the ISWC method "assumes that all non-utility or non-jurisdictional assets are investor-supplied . . . [; this] represents a *fatal flaw* in the typical application of this approach." (Emphasis added.)

If the Commission nevertheless adopts the ISWC method, then certain aspects of his Exhibit No. ___ (TES-4) must be corrected. Specifically, when preparing the ISWC calculation, Mr. Schooley excluded accounts 174, 175, 244 and 245 that were non-cash FAS 133 mark-to-market measurements. However, accounts 182, 186, 253, and 254 (included in Mr. Schooley's calculation) all include average balances related to FAS 133 that must be removed. When Mr. Schooley's exhibit is corrected for this error, an additional deferred credit of $343.2 million should be removed, along with $571.2 million of deferred debits.

I have prepared an Exhibit No.___ (JTW-6) that reflects these corrections to Mr. Schooley's ISWC calculation. The net effect of correcting his calculation is to convert the ISWC from a negative $112.3 million balance to a positive balance of $115.7 million (*i.e.*, an increase of $228 million). Washington would be allocated $9.7 million of this balance as compared to the $7.2 million based on the Company's 1998 Lead Lag study. Based on this error in Mr. Schooley's ISWC calculation he erroneously concluded that since the Company's ISWC was negative there was no need to include prepayments, fuel stock, material and supplies, working capital, and some miscellaneous deferred credits. In fact, these assets are a part of total working capital and are properly included in rate base.

The purpose of a working capital adjustment for regulated purposes is to calculate the Cash Working Capital required to cover the time between payment for services and receipt of revenue. Mr. Hahne states, "To that amount, various other requirements for cash must be added and amounts not supplied by investors . . . must be deducted. These additions include cash balances, prepayments, materials and supplies, and fuel stock. Deductions include customer advances and contributions in aid of construction." The Company properly included all of these additions and deductions, along with the cash working capital balance, in its rate base.

Q. Please summarize your position.

A. A Lead Lag study is widely recognized as the most accurate method of calculating Cash Working Capital. PacifiCorp had a Lead Lag study, and it was upon this study that its Cash Working Capital calculation was based. In contrast, Staff recommends the use of a flawed, albeit easier, methodology. The Company stands behind the Lead Lag study methodology. However, if the Commission adopts Staff's recommendation, certain assumptions and conclusions in Staff's calculation need to be corrected as shown in my Exhibit No.___ (JTW-6).

Q. Does the Company agree with Mr. Dittmer's proposed adjustments to Cash Working Capital?

A. No. Unlike Mr. Schooley, Mr. Dittmer supports the use of the Lead Lag study, but Mr. Dittmer has proposed certain adjustments because he believes that the 1998 study is outdated and does not capture current efficiencies implemented by the Company. While we do not agree to certain of his adjustments, the Company does concede that there have been several changes since the 1998 Lead Lag study. These changes are reflected in a new Lead Lag study completed in March 2004 (2003 Lead Lag Study).

Q. Please explain why you disagree with Mr. Dittmer's conclusions regarding the Lead Lag study.

A. Mr. Dittmer claims the revenue lag in the 1998 study is insupportably long. He cites a billing lag of 11 days, which is incorrect. In fact, the 1998 study calculated a general business revenue billing lag of only 5.56 days in Washington. The revenue lag is even less under the 2003 Lead Lag Study, at 4.72 days.

Mr. Dittmer also incorrectly imputes a 21.7-day collection lag. The actual collection lag is 22.99 days in 2003. The Company attributes these reductions to the Handheld Replacement Project (as mentioned by Mr. Dittmer), the Meter Reroute Project, new customer statements, and increased payment options.

Finally, the total revenue lead days in Washington for 2003 are 41.3, compared to the 34.2 days proposed by Mr. Dittmer.

Q. Please summarize the differences between the Company's 2003 Lead Lag Study, Mr. Dittmer's testimony, and the Company's 1998 Lead Lag Study with respect to the total revenue receipt day lag for Washington.

A. Mr. Dittmer calculated the total revenue receipt day lag as 34.2 days, compared to the Company's 1998 Lead Lag study of 47.9 days, a net reduction of 13.7 days. The Company's 2003 Lead Lag Study concludes that the Company's total revenue receipt day lag is 41.3 days, a net reduction of 6.6 days. The Company has updated the Cash Working Capital for this change, which would reduce Washington's rate base by $4,097,593 based on the Company's filed position.

Q. **Do you agree with Mr. Dittmer's other proposed adjustments to Cash Working Capital?**

A. No. Mr. Dittmer's proposal to include interest expense in the calculation of expense lag is an unconventional view of the working capital calculation and is unsupported by regulatory accounting manuals. It should also be noted that the Federal Energy Regulatory Commission (FERC) specifically excluded bond interest from Lead Lag calculations in its 1984 Notice of Proposed Rulemaking on "Calculation of Cash Working Capital Allowance for Electric Utilities." The policy basis is that interest expense is offset by the return on investment belonging to investors, and according to FERC, neither component can be expected to be included in a Lead Lag study.

<u>Miscellaneous Deferred Debits</u>

Q. **Mr. Dittmer seeks to remove $7,090,093 of Miscellaneous Deferred Debits from the Company's rate base and $1,005,699 of the associated amortization expense. Do you agree with this adjustment?**

A. No. I have prepared Exhibit No. ___ (JTW-7) to identify each of the components included in Mr. Dittmer's adjustment. The Company is seeking recovery of the current remaining balances and applicable annual amortization expense of these items. The Company has made significant investments in the identified assets that directly benefit customers and permit the Company to continue to provide reliable and affordable service.

Q. Do you agree with Mr. Dittmer's treatment of these miscellaneous deferred debits?

A. No. As seen in the responses to Public Counsel Data Requests 148 and 130, the Company provided Public Counsel documentation and descriptions for these deferred debits. Rather than look at each deferred debit individually, Mr. Dittmer simply assumes that all should be disallowed. Each of these deferred debits represents an investment made by the Company to lower operating costs, or match the costs with the benefits, which directly benefits customers.

Q. Please explain the proposed adjustment relating to the Mill Fork Coal Lease.

A. The Mill Fork Coal Lease is $2.2 million of the balance allocated to Washington. PacifiCorp purchased the Mill Fork reserves for $25.2 million in 1999. Five equal payments in the amount of $5.04 million were made to the Utah State Trust Lands Administration. The last payment was made on April 1, 2003. After the final lease payment was made, this investment was transferred to electric plant in-service in December 2003. This lease secures approximately 60 million tons of economically recoverable coal, or approximately 15 years of production.

Q. Do you agree with Mr. Dittmer's and Mr. Schooley's recommendations to remove the Mead-Phoenix Availability Transmission Charge from rate base?

A. No. The Mead-Phoenix Availability Transmission Charge is a contract that provides the Company with the ability to integrate its Colorado generation into the PacifiCorp system in order to meet system load. This contract provides a system benefit, and therefore approximately $1.5 million has been allocated to Washington customers. This is a prepaid availability and transmission charge for

150 MW of additional firm transmission availability that is amortized over the 50-year life of the agreement (through 2047). This asset facilitates the Company system balancing activities, thereby benefiting all customers.

Q. Do you agree with the proposed adjustment for the Trail Mountain Mine?

A. No. The Trail Mountain Mine Unrecovered Investment represents the closure costs and balance of the net mine investment for which the Company is seeking approval in the deferral application in Docket No. UE-031657. Closure of the mine and procurement of replacement coal under a contract with Sufco has resulted in net system savings of $36 million. Washington customers benefit from this savings, and approximately $1 million of the cost of closing the mine has been allocated to Washington customers. At the time PacifiCorp purchased the Trail Mountain Mine in 1992, PacifiCorp anticipated acquisition of certain leases adjacent to the Trail Mountain Mine to allow PacifiCorp to extend the life of the mine through 2011. Since that time, however, several factors contributed to a change of plans. First, additional drilling revealed that the geology of the adjacent Cottonwood lease was less favorable than expected. Second, the adjacent lease would not become available when PacifiCorp needed the reserves. Third, a coal contract from the Sufco mine was negotiated at very economical prices. As reflected in the deferral application in Docket No. UE-031657, the cost of coal purchased from Sufco is approximately $20 million per year less than historical costs of Trail Mountain. The revenue requirement related to the Trail Mountain Mine closure cost amortization is significantly less than the savings associated with the new Sufco contract. The value of the Sufco contract savings is $95 million for the 2001-05 period. The net fuel savings (*i.e.*, net of the Trail Mountain Mine closure costs) is $36 million. By closing the mine and incurring the necessary closure costs, the Company is saving Washington customers significant amounts in fuel costs.

Q. Do you agree with the proposed adjustment for the Hermiston Swap?

A. No. The Hermiston Swap accounts for $671,000 allocated to Washington customers. PacifiCorp acquired a one-half interest in the Hermiston Generating Plant on July 31, 1996. The Hermiston Generating Plant provided increased generation capacity to better serve customers in the Western Control Area. Under the purchase arrangements, PacifiCorp was required to pay an amount that included "prepayment expenses or expense for termination of interest protection agreements." PacifiCorp had the obligation to pay the termination value related to one-half of the project's interest rate swap ($10.8 million at acquisition date). PacifiCorp chose to accept an assignment of a one-half interest in the project's interest rate swap rather than force a termination at that time, thus deferring the cash payment while retaining the ability to terminate the swap upon its election. The swap also served to hedge the short-term debt that PacifiCorp incurred to fund the acquisition. This account is the unamortized value of the purchase price ($10.8 million) of the interest rate swap. In January 2000, PacifiCorp elected to terminate the swap by paying the counter-party the termination value, which was the same as the unamortized credit balance.

Q. Do you agree with the proposed adjustment for the Wyodak Deferred Coal Costs Settlement?

A. No. In April 2001, PacifiCorp and Wyodak Resources entered into a New Restated and Amended Coal Supply Agreement, which resulted in a cost savings to PacifiCorp customers of nearly $4/ton. As part of the agreement, PacifiCorp agreed to make a lump sum payment to Wyodak of $7.4 million. This payment represents a settlement of past billing disputes as well as consideration for the reduced coal prices agreed to by Wyodak and is being amortized over the term of the new coal agreement. Further, PacifiCorp estimates that the coal savings under the new contract terms to be approximately $40 million over the original term. The settlement and new coal contract represent significant cost savings that directly benefit PacifiCorp's customers. The Wyodak Deferred Coal Costs Settlement represents $578,000 of the total $7.1 million in proposed adjustments.

Q. Do you agree with the proposed adjustment for Miscellaneous Contract Buyouts?

A. No. Under the Public Utility Regulatory Policies Act of 1978 (PURPA), the Company is required to purchase power from qualifying renewable power or cogeneration facilities (QFs). The Company has been able to renegotiate and buy out certain QF contracts and then amortize the lump-sum payouts over the life of the contracts. The Company chose to make these buyouts because it could purchase power at lower prices than were being charged by the QFs. This net savings reduces net power costs that are allocated to Washington customers.

$576,000 associated with these QF contract buyouts has been allocated to Washington customers.

Q. Do you agree with the adjustment relating to the Tri State Firm Wheeling Prepayment?

A. No. This prepayment allows the Company access to 100 MW of transmission to better serve its customers. This is for transfers between the Company's Craig and Hayden units in Colorado and the Dave Johnston Substation in Wyoming. These rights augment PacifiCorp's ability to integrate its Colorado generation into the PacifiCorp system in order to meet system load. This facilitates the Company's system-balancing activities, thereby benefiting all customers through lower net power costs. Washington's allocation of this cost is approximately $201,000.

Q. Do you agree with the proposed adjustment for the Deferred Long Wall?

A. No. As the Long Wall is moved, the Company incurs additional setup costs. These costs are amortized as the coal is mined, matching the expenses with the coal produced. This amortization is in compliance with Generally Accepted Accounting Principles. Washington has been allocated approximately $100,000 of these costs.

Q. Do you agree with the proposed adjustment for the Hayden Fuel Contract Negotiation Costs?

A. No. In February 29, 2000, PacifiCorp, Public Service Company of Colorado, and Salt River Project (Hayden Participants) entered into a settlement agreement with Peabody Coal Sales to settle contract disputes regarding final mine reclamation, post-contract retiree benefits, contractual obligations, and stockpile issues. The settlement included a payment to Peabody from the Hayden Participants of $11.0 million for final reclamation. PacifiCorp's share of those payments was approximately $1.9 million. As part of the settlement agreement, a new coal supply agreement through December 31, 2011 was executed. Under the new agreement, Peabody assumed full responsibility for all reclamation costs and retiree benefits and all pending litigation and arbitration was dismissed. The savings in delivered fuel costs negotiated under this coal supply agreement more than offset the $11.0 million payment (approximately $22.8 million in savings). In addition, if Peabody elects not to supply the full requirements or chooses rail delivery for the Hayden Fuel Contract, Peabody will pay up to a maximum of $4.5 million toward the construction of a rail unloading facility at or near the plant. These savings are passed on to Washington customers in the form of reduced fuel costs. Approximately $90,000 of costs related to the renegotiation of the Hayden Fuel Contract were allocated to Washington.

Q. Do you agree with Mr. Dittmer's suggestion regarding the removal of $3,462,792 of regulatory assets and $1,131,461 of amortization expense from the revenue requirement?

A. No. Mr. Dittmer did not provide the Commission with an adequate outline of the regulatory assets he proposes to remove. Therefore, Mr. Dittmer's proposed removals are unsupported and without necessary detail. His basis for removing the regulatory assets was not merit-based, but was due solely to the Company not having received accounting deferral orders.

Q. Can you provide the Commission with an outline of the regulatory assets proposed to be removed by Public Counsel?

A. Yes. Cholla Plant transaction costs account for $1.5 million, while the Trail Mountain Mine Closure Costs and Unrecovered Investment combined represent $1.1 million. The remaining $804,000 consists of environmental clean-up costs.

Q. Please provide a description of the Company's adjustment relating to the Cholla Plant Transaction Costs.

A. The Company wrote off the Washington portion of Cholla Plant transaction costs after this case was filed. The Company has removed these costs from rate base and will not include the associated amortization expense in the calculation of the Washington revenue requirement. This adjustment reduces Washington's operating costs by $114,323 and Washington rate base by $1,516,298.

Q. Please explain why the Trail Mountain Mine closure costs appear as a regulatory asset.

A. The Trail Mountain Mine closure costs relate to the same issue that I described above. It is included in both areas because it was originally recorded in Account No. 186.8 until December 2002, at which point it was reclassified to Account No. 182.399. This entire balance is now located in FERC Account No. 182. The Company has an Accounting application pending before the Commission in Docket No. UE-031658.

Q. Did Mr. Dittmer consistently apply his deferral guidelines to the Company's filing?

A. No. Mr. Dittmer proposes to remove all deferred and regulatory assets, but has ignored the liabilities in Account 253.99 (Other Deferred Credits). These liabilities include the last installment of the Mill Fork payment, customer prepayments that are amortized over the contract, and other items where the Company has matched the amortization of revenues with the benefit. If the Commission were to rule in favor of Mr. Dittmer's adjustment, then these liabilities should be removed as well. This would increase Washington rate base by $6,359,199 and their amortization would reduce revenues by $695,167.

Q. Does this conclude your rebuttal testimony?

A. Yes.