**Q. Please state your name, business address and position with the Company.**

A. My name is Karl D. Anderberg. My business address is 825 NE Multnomah St., Suite 800, Portland, OR 97232. I am a Manager in the Regulation Department.

**Qualifications**

**Q. Please describe your educational background and previous employment history with the Company.**

A. I received a Bachelor of Science Degree in Accounting from the University of Utah in 1978. In addition to formal education, I have also attended various educational, professional and electric industry seminars during my career at the Company. I am a licensed CPA in the state of Utah. I joined the Company in 1985, and I have held various accounting and regulatory positions prior to my current position.

**Q. What are your responsibilities as Manager in the Regulation Department?**

A. I am responsible for managing the preparation of PacifiCorp's regulatory filings in the State of Washington, including the preparation of supporting testimony and exhibits. I also maintain communications with Commission Staff, the Public Counsel Section of the Attorney General's Office, as well as Washington customers, employees and other stakeholders.

**Purpose of Testimony**

**Q. What is the purpose of your rebuttal testimony?**

A. I will rebut certain adjustments proposed by ICNU Witness Falkenberg and Public Counsel witness Dittmer. Specifically, I will respond to:

- ? Mr. Falkenberg's proposed rate base offset related to the Gadsby combustion turbines (CTs);
- ? Mr. Falkenberg's proposed adjustment to impute additional revenues to the WAPA wheeling contract; and
- ? Mr. Dittmer's proposed disallowance of costs related to the canal embankment failure at the Swift No. 1 hydroelectric facility.

**Gadsby Combustion Turbine Offset**

**Q. Mr. Falkenberg proposes that the investment in the combustion turbines (CTs) at Gadsby be reduced by $7.5 million. Do you agree with this treatment?**

A. Absolutely not. Mr. Falkenberg's proposal is based on the assumption that an "avoided cost" from one transaction should become an offset to a totally separate transaction. There is no basis for reducing the Company's rate base investment in Gadsby by $7.5 million.

**Q. Please describe the background regarding the Gadsby CTs.**

A. During the Hunter 1 outage and the Western energy crisis, the Company leased mobile combustion turbine peaking units and installed them at the Gadsby Plant to help mitigate production costs. Even when Hunter returned to full production, the Company knew additional capacity was required to serve retail load and offered to extend the lease of this equipment through September 2002. The Company signed a contract with General Electric (GE) to lease the mobile peakers for $9.5 million.

**Q. When was the decision made to install CTs at Gadsby?**

A. During this time a variety of other peaking resources were being considered, including alternative technologies, sites, equipment suppliers, and purchases. Initially Pratt & Whitney was selected because it could meet the Company's installation schedule. However, in August 2001, GE Aero Energy Products was able to locate available equipment and provide PacifiCorp a turn-key offer that had a cost which, on a $/kW basis, is equivalent to the Pratt & Whitney installation. The GE LM6000 proposed to be installed by GE was significantly larger and more efficient to operate than the Pratt & Whitney FT-8 Twin Pacs. In addition, GE offered to terminate the lease on the mobile peakers if the GE LM6000 were purchased, which would produce a savings of $7.5 million for the Company and its customers. The Company elected to proceed with installation of the GE LM6000 at Gadsby. When the Gadsby Peaker presentation was made to the Board of Directors, it was noted that the GE LM6000 was the better alternative even excluding GE's offer to waive the remaining $7.5 million lease obligation. It should be noted that the turn-key offer was for $80.4 million, with the final costs being closer to $70 million.

**Q. What is the basis for Mr. Falkenberg's adjustment?**

A. He proposes to reduce the Gadsby investment by the $7.5 million savings, claiming that Company "may have had to choose" – and should have taken – an alternative under which GE would have agreed to a lower purchase price for the Gadsby CTs.

**Q. Why do you oppose the adjustment?**

A. It is inconsistent with generally accepted accounting principles to reduce a cost-based investment by "savings" achieved in a different transaction. Moreover, it is based on the fiction that this alternative was in fact available to the Company.

**Q. Mr. Falkenberg seems to imply that the Company was given a choice of the form in which to take the $7.5 million savings offered by GE. Would GE have been indifferent about offering the savings in the form of a reduction to the purchase price of the equipment rather than through early termination of the rental agreement?**

A. No. GE would obviously wish to offer the savings through termination of the rental agreement. The temporary CTs removed from Gadsby could be re-leased to other customers, reducing or eliminating any lost revenue to GE. On the other hand, a reduction in the purchase price of the peaking units would produce an immediate $7.5 million revenue reduction to GE. Therefore, the purchase was structured in a way that would provide the maximum benefit to PacifiCorp while minimizing the loss of revenue for GE—a "win-win" situation. Mr. Falkenberg's proposed adjustment ignores economic reality and implies that the Company should be able to impose its will on equipment manufacturers.

**WAPA Contract**

**Q. What is the issue regarding WAPA wheeling in this case?**

A. Mr. Falkenberg proposes to impute revenue to a contract under which PacifiCorp provides wheeling to Western Area Power Administration (WAPA) customers. The WAPA Contract provides that PacifiCorp deliver power across certain high and low voltage transmission lines to WAPA customers located in Utah, including

Hurricane City, Weber Basin Project, Hill Air Force Base, Tooele Army Depot, Central Utah Water Conservancy District, and the University of Utah. The Points of Interconnection where WAPA replacement power is made available to PacifiCorp are at Mona 345 kV bus, Four Corners 345 kV bus, Glen Canyon 230 kV bus, Vernal 138 kV bus and several hydro projects directly connected to the 138 and 46 kV systems of PacifiCorp within Utah.

**Q. Does the WAPA wheeling contract provide benefits to Washington customers?**

A. Yes. The WAPA contract currently provides a revenue source greater than the cost of owning and operating a pro-rated share of the specific facilities used as they were contemplated in 1962. In 2003, total actual wheeling revenues were $2,819,275. The operating and maintenance cost attributable to the WAPA wheel was approximately $183,000 as it represents about 10 percent of the Utah control area load served by PacifiCorp. Total maintenance on the facilities used in the Utah control area was $1,825,690 in 2003. Therefore, out of the $2,819,275 of annual revenue from WAPA, approximately $2,636,000 was available as a contribution to fixed costs. Recognizing that the assets serving the WAPA wheel are more than 42 years old and largely depreciated, this contribution exceeds current fixed costs. In addition, WAPA is required to reimburse PacifiCorp for energy losses resulting from the WAPA Contract at a rate of 7%. PacifiCorp's current transmission loss factor is 4.48%.

**Q. Why do other firm wheeling contracts provide revenues based on PacifiCorp's average embedded revenue requirement?**

A. Under PacifiCorp's Open Access Transmission Tariff, PacifiCorp provides two types of firm wheeling service, Point-to-Point and Network. Both reflect rates designed to provide revenues based on an average embedded (or rolled in) revenue requirement. Under these agreements, a transmission customer is entitled to use the entire transmission system of PacifiCorp in exchange for paying a single system wheeling rate. For Point-to-Point Customers that rate is set by FERC tariff. Payment entitles the customer to the full firm rights on the contract transmission path. This would include the firm scheduling rights up to twenty minutes before each hour as well as the right to re-market its firm transmission reservation to other parties. Any revenues from such re-marketing would belong to the customer. In addition, a Point-to-Point customer can select alternative receipt and/or delivery points throughout PacifiCorp's entire transmission system with no additional charges from PacifiCorp. Network Customers pay for transmission services based on their contribution to PacifiCorp's average transmission system coincidental peak. They can use PacifiCorp's entire transmission system in serving their loads. Firm resources are deliverable on a firm basis, and alternate resources can be substituted up to twenty minutes before each hour with the highest level of priority for any non-firm use of the transmission system (i.e. PacifiCorp would have to curtail non-firm transmission service). In addition, PacifiCorp must plan and construct for these customers' load growth. The level of service that both Point-to-Point and Network transmission customers enjoy justifies a charge based on PacifiCorp's total transmission system cost of service.

**Q. How does the service available to WAPA under the contract differ from the service provided to PacifiCorp's transmission customers paying for service based on average embedded transmission pricing?**

A. WAPA is limited to the use of only those points of interconnection and points of delivery listed in the contract. WAPA may not substitute alternate resources or deliver its energy to alternate points of delivery. WAPA may not re-market any of its transmission rights to any party. Also, PacifiCorp has no planning or construction requirements resulting from load growth occurring within the load serving systems of WAPA's customers served from PacifiCorp under the WAPA contract. These circumstances need to be taken into account in determining whether PacifiCorp's charges to WAPA under the WAPA contract are just and reasonable.

**Q. Does the WAPA contract provide any other benefits to Washington customers?**

A. Yes. The lack of flexibility afforded to WAPA under the WAPA contract results in short term transmission marketing opportunities for PacifiCorp. PacifiCorp Transmission Systems actively markets available transmission scheduling rights over its Open Access Same-time Information System ("OASIS"). These available transmission rights can be from un-committed transmission capacity or from transmission capacity committed to others that remains un-scheduled (as is the WAPA contract transmission capacity throughout the year). These short-term transmission sales appear as revenue credits against the total system cost of service allocation to Washington retail customers, thus reducing rates. The total amount of short-term transmission revenue credits allocated to Washington in this proceeding is $990,639 based on the product of total short-term revenues ($11,167,044) and Washington's allocation factor (8.5129%). In 2003, PacifiCorp's short term wheeling revenues associated with imports from Mona, Four Corners and Glen Canyon were $1,506,222;: $837,812; and $237,725 respectively. This level of revenue would no doubt be adversely affected if WAPA controlled the flexibility in its scheduling practices or if it owned the right to re-market its transmission rights to others.

**Q. Do you agree that revenue should be imputed for this 42-year old contract at the FERC Open Access Transmission Tariff rate for firm transmission across the entire PacifiCorp system?**

A. No. It is not appropriate to impute revenue additions or deductions for any contract 42 years after it was signed. First, the law does not allow this contract to be unilaterally modified 42 years after it was signed. Revenue imputation has at its root the notion that the contract can be unilaterally changed. It is not appropriate to impute higher revenue for a contract just because it might be perceived by some to have prices that are currently less than market price. Second, no utility regulator took exception with the contract during the first 21 years. Lastly, 42 years ago transmission was not marketed in a manner that provided the level of scheduling and re-marketing flexibility to the customer as is the case today for those transmission agreements returning an average embedded revenue. As discussed above, modern transmission contracts provide all of the flexibility and remarketing rights to the customer. The limited rights provided to the customer under the WAPA Contract would make pricing and cost allocation using an average embedded method unjust and unreasonable.

**Q. Do you agree with Mr. Falkenberg's allegation that the WAPA wheeling contract was imprudent?**

A. No. First, in 1962 WAPA signed wheeling contracts with nine transmission owners, including Utah Power. Each of those contracts was priced essentially the same. Mr. Falkenberg acknowledges on page 50 of direct testimony that both Utah Power and CP National Corporation provided wheeling to WAPA at the identical price. An inference to draw here is that these contracts were reasonably priced at the time they were signed. Second, as previously discussed, the WAPA contract reflected transmission services as they were typically provided in 1962 and was priced in accordance with the restrictions on WAPA's use of this contract. These restrictions (together with the price) resulted in a reasonable management decision to sell transmission service.

Also, Mr. Falkenberg claims that because the contract does not have explicit price escalators, the contract is imprudent. In fact, not all commercial contracts have price escalators. Today it is not unusual for a contract to be levelized over the contract period. These levelized contracts are characterized by constant price. Yet, levelized contracts are not categorically imprudent. Over the contract life a reasonable margin is earned.

When evaluating the appropriateness of price escalation in relation to transmission contracts, it should be noted that transmission revenue requirement does not escalate rapidly over time. In fact it typically declines as the assets are depreciated. The bulk of transmission revenue requirement is attributed to depreciation and return on the initial transmission plant. This portion of revenue requirement is basically fixed in the early years then declines until the asset is fully depreciated. The variable costs, operating and maintenance expense, typically represent less than 10% of transmission revenue requirement.

**Q. Do you agree with Mr. Falkenberg's calculation of imputed revenue?**

A. No. Mr. Falkenberg's calculation is based on the assumption that the only benefit Washington customers receive from the facilities used to provide firm transmission service under the WAPA Contract is the level of revenue received from WAPA. In fact, in addition to these revenues, a portion of the short-term revenues used as credits in this proceeding would be a result of WAPA's unscheduled transmission rights. Mr. Falkenberg fails to recognize the value of the credit for short-term transmission service sold.

**Q. Is there an alternative adjustment for WAPA that could be considered?**

A. If the Commission determines that an adjustment is warranted, it should be similar to the Colstrip #3 adjustment. Such an adjustment removes from revenue requirement all revenue, operating expenses, and rate base associated with the plant dedicated to the contract, and PacifiCorp in exchange would retain the revenues it receives. Such an adjustment would likely increase revenue requirement to retail customers in Washington. PacifiCorp is not currently proposing an adjustment for WAPA, however. The adjustment proposed by Mr. Falkenberg is without support, and should be rejected.

**Canal Embankment Failure at Swift No. 1 Hydroelectric Power Facility**

**Q. Mr. Dittmer proposes to eliminate test-year expenditures related to repairs at the Company's Swift No. 1 hydroelectric facility that PacifiCorp is seeking to recover from Public Utility District No. 1 of Cowlitz County. Do you agree with his adjustment?**

A. No. Mr. Dittmer cites two reasons in support of his adjustment: (1) that these expenditures are non-recurring, and (2) that they may be reimbursed by Cowlitz PUD pursuant to litigation or settlement. I will address each of these issues below.

**Q. Do you agree that the repairs at Swift No. 1 are non-recurring?**

A. While it is likely true that these specific costs are non-recurring, the more relevant question is whether the level of costs included in the test year is representative of the level of costs that occur during a normal year. I have examined PacifiCorp's Semi-annual reports filed with the Washington Commission for fiscal years 2001, 2002 and 2003 and found the total company level of Hydro Operation and Maintenance Expenses included in the test year to be consistent with levels in the previous two years. Thus the fact that a specific repair may be non-recurring does not justify exclusion of the expenditure from rates. These costs are representative of the types of costs that the Company regularly incurs with respect to its hydro facilities, and should be reflected in rates.

**Q. Are some of the costs subject to reimbursement by Cowlitz PUD?**

A. Whether or not the Company will recover any of its costs from Cowlitz PUD is the subject of litigation. On June 17, 2004, the Company entered into a confidential settlement agreement with Cowlitz PUD. To the extent that the

Company receives reimbursement from Cowlitz for damages incurred in the test period, the Company agrees that rate base should be reduced by the amount of the reimbursement. The remaining costs, however, should be recoverable in rates for the reasons discussed above.

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

A. Yes.