Exhibit No.___(PMW-6T)
Docket Nos. UE-061546/UE-060817
Witness: Paul M. Wrigley

**BEFORE THE**
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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|---|---|
| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,<br><br>Complainant,<br><br>vs.<br><br>PACIFICORP dba Pacific Power & Light Company,<br><br>Respondent. | Docket No. UE-061546 |
| In the Matter of the Petition of<br><br>PACIFICORP dba Pacific Power & Light Company,<br><br>For an Accounting Order Approving Deferral Of Certain Costs Related to the MidAmerican Energy Holdings Company Transition. | Docket No. UE-060817 |

**PACIFICORP**

**REBUTTAL TESTIMONY**
**OF**
**PAUL M. WRIGLEY**

**March 2007**

**Q. Please state your name.**

A. My name is Paul M. Wrigley.

**Q. Have you filed direct testimony in this case?**

A. Yes.

**Q. Please describe the purpose of your rebuttal testimony.**

A. The purpose of my rebuttal testimony is twofold. First, I update from the original filed case the revenue requirement that the Company is seeking. This revenue requirement incorporates all adjustments and updates (as presented in my testimony or that of other Company witnesses) to which the Company is agreeing in the rebuttal testimony. Second, I address adjustments in the testimony of Staff witnesses Mr. Schooley and Mr. Kermode and ICNU witnesses Ms. Iverson and Mr. Falkenberg.

My testimony makes the following points:

- I concur with these specific adjustments made by Mr. Schooley: Out of Period Adjustments, Pro Forma Wages, Revised CAGW & SO factors, Production Tax Change, and Customer Deposits. In addition, I update the filing to incorporate the WUTC regulatory fee as recommended by Mr. Schooley.
- I demonstrate that both Mr. Schooley's and Ms. Iverson's adjustments to MEHC Transition savings should be rejected as they do not appropriately match the savings and costs.
- I demonstrate that Mr. Schooley's Investor Supplied Working Capital Methodology and Ms. Iverson's Pension Adjustment do not comply with the Commission order in PacifiCorp's last general rate case, Docket UE-050684

(2005 Rate Case).

- I show why Mr. Falkenberg's adjustment to line losses is an inappropriate departure from reliance on historic test period data.
- Finally, I update my testimony for known and measurable changes since the original filing.

**Updated Revenue Requirement**

**Q. What is the revised revenue requirement being sought by the Company in this proceeding?**

A. The Company's updated revenue requirement increase is $19,043,000. This represents an increase of 8.4 percent over current rates and it is a reduction of $4,167,000 from the amount requested by the Company in its original filing.

**Q. Why has the Company updated its revenue requirement request since its original filing?**

A. The Company has updated its request to take account of information developed during the discovery process in this proceeding, and in response to a number of the points raised in the testimony of other parties. In addition, the Company's initial filing has been updated to include more current data.

**Q. Please describe Exhibit No.___(PMW-7).**

A. This exhibit updates Tabs 1, 2 and 10 of Exhibit No.___(PMW-4) – the Results of Operations for the period ending March 31, 2006. In addition, a Tab 9 is added which lists the changes to its original revenue requirement to which the Company is agreeing.

**Uncontested Adjustments**

**Q. Please describe the adjustments in the testimony of other parties that the Company is accepting in their entirety.**

A. The following table lists those adjustments and their individual impact on revenue requirement. These adjustments are accepted in their entirety by the Company. As explained on page 8 of Mr. Schooley's testimony, however, there may be a variance between the adjustment as calculated by the Company and as calculated by Staff (or other intervening parties) for various reasons, but these differences are not due to a dispute regarding the substance of the adjustment. Rather, they are due to different recommendations on rate of return, the inclusion of revenue related expenses, and/or the use of a different conversion factor.

As noted above, the Company has modeled each adjustment in Tab 9 of its model so that these adjustments complement its original filing.

Uncontested Adjustments

| Staff Adj. No. | Company Adj. No. | Description | Revenue Requirement Impact |
|---|---|---|---|
| 4.4 | 9.2 | Out of Period Adjustments | $ (266,595) |
| 4.10 | 9.3 | Pro Forma Wages | $ 1,107,982 |
| 5.4 | 9.8 | Miscellaneous Power Supply | $ (1,596,626) |
| 5.5 | N/A | Revised CAGW & SO Factors[1] | $ (2,193,439) |
| 7.10 | 9.5 | Production Tax Change | $ (193,201) |
| 8.17 | 9.6 | Customer Deposits | $ (260,210) |
| N/A | 9.1 | EEI Dues | $ (35,233) |
| | | TOTAL | $ (3,437,321) |

1. Revenue requirement impact based on 75% demand/25% energy for allocation of WCA fixed costs (per Company response to ICNU Data Request 2.4).

**Q. Please describe each of these uncontested adjustments in more detail.**

A. The Company accepts the following adjustments of Mr. Schooley:

- 4.4 – Out of Period Adjustments – The Company agrees that it is appropriate to make this additional out of period restating adjustment.
- 4.10 – Pro Forma Wages – As described by Mr. Schooley on page 7 of his testimony, it is appropriate to update test year results to reflect known changes since the rate year. This is one such adjustment and the Company agrees with it.
- 5.4 – Miscellaneous Power Supply – Mr. Widmer describes in his testimony why this adjustment is appropriate.
- 5.5 – Revised CAGW & SO factors – Both Mr. Schooley and Mr. Falkenberg recommend the incorporation of a Control Area Generation West allocation factor to allocate generation and transmission plant. The Company agrees to this adjustment, which also updates the System Overhead (SO) factor as a consequence.
- 7.10 – Production Tax Change – The Company agrees to this adjustment which updates the tax credit rate.
- 8.17 – Customer Deposits – The Company agrees to this adjustment which treats customer deposits as a rate base reduction and treats the interest as an operating expense.

In addition, the Company has updated the filing to incorporate the WUTC regulatory fee in the calculation of the conversion factor as described by Mr. Schooley on page 8 of his testimony.

Finally, Mr. Schooley on page 9 of his testimony addresses the issue if PacifiCorp's inclusion of 75 percent of its Edison Electric Institute (EEI) dues in expense for ratemaking purposes is appropriate. The Company has recently decided that it will not be a member of EEI in 2007, and Adjustment 9.1 removes the EEI dues from the calculation of revenue requirement.

**Q. Does this conclude the adjustments that the Company accepts in their entirety?**

A. Yes. In addition, there are certain adjustments proposed by Staff with which the Company is in partial agreement. I will now describe those in more detail.

**Partially Contested Adjustments**

**Q. Please describe the following table.**

A. The following table shows all the changes to the Company's original revenue requirement and also lists those of the adjustments that the Company is accepting in part.

Updated Revenue Requirement

| Staff Adj. No. | Company Adj. No. | Description | Revenue Requirement Impact |
|---|---|---|---|
| | | Original Revenue Requirement Increase | $23,209,610 |
| | | Uncontested Adjustments | ($3,437,321) |
| 8.13 | 9.7 | MEHC Transition Savings | $ (739,304) |
| 7.6 | 9.4 | IRS Settlement Adjustment | $ (182,661) |
| N/A | 9.9 | Conversion to Average Deferred Tax Balances | $ (8,692) |
| | | TOTAL | $ (930,657) |
| | | Cost of Debt/Conversion Factor Differences | $201,337 |
| | | Revised Revenue Requirement | $19,042,969 |

**MEHC Transition Savings**

**Q. Both Mr. Schooley & Ms. Iverson make adjustments to Adjustment 8.13, MEHC Transition savings. Please respond.**

A. As described on page 26 of Mr. Schooley's testimony, these adjustments are about "the costs and savings at issue related to severance the Company gave to departing employees as a result of the March 2006 acquisition." I will address Ms. Iverson's adjustment first, as it is the more egregious of the two.

Ms. Iverson's adjustment, as shown on Exhibit No.___(KEI-3, page 1 of 2), may appear complicated, but in fact it is extremely simple – she accepts all of the savings caused by departing employees and then disallows all severance payments paid during the historic test year that gave rise to the savings.

**Q. Is this the correct accounting treatment of the severance costs?**

A. No. It is asymmetric because it ignores the fact that without the payment of the severance costs, the imputed savings would not have occurred.

**Q. What rationale does Ms. Iverson have for disallowing the severance costs?**

A. She does not offer a rationale. She simply proffers an unsupported conclusion that "the costs incurred by PacifiCorp in its transition to MEHC ownership … should not be included in base rates."

**Q. Would the imputed savings accepted by Ms. Iverson have occurred absent MEHC ownership?**

A. No. The savings and costs are implicitly linked – it is impossible to have one without the other. Her adjustment is extremely one-sided; it accepts all the savings and throws out all the costs that were incurred to achieve the savings.

**Q. On page 7 of her testimony, Ms. Iverson describes "OPUC staff's proposed conditions" in the Company's application in Oregon to address MEHC transition costs. Please comment.**

A. This document is part of a two page document entitled "Settlement Meeting Notice." It is a proposal made by OPUC Staff at a settlement conference. It is not clear for what purpose this document is offered in this proceeding – it is a settlement offer from another state that was never accepted by PacifiCorp, was never introduced into evidence in that state and was never accepted by regulators in that state. In fact, the OPUC has not yet issued a ruling on transition costs. Ms. Iverson cannot possibly provide an appropriate foundation to sponsor as an exhibit an unaccepted settlement offer presented by another party in another state. Moreover, doing so has a chilling effect on the willingness of parties, including PacifiCorp, to make settlement proposals.

**Q. Are the conditions proposed by a party in another state of value in this proceeding?**

A. No. First of all, the conditions were never accepted by PacifiCorp or the regulators in that state. Second, the relevant information is whether the savings in the test period resulting from the transition exceed the costs and therefore provide a benefit to Washington customers. The updated savings resulting from the program are $35,900,000 and this amount is included as a cost reduction in the revised rebuttal revenue requirement. The total severance costs are $42.1 million, which the Company requests be amortized over three years. Thus, Washington customers will benefit from the on-going savings of $35.9 million that will continue into the foreseeable future for a cost of $14 million for only three years.

**Q. Are there any other safeguards for Washington customers?**

A. Yes, the Company has accepted a cap on its A&G expenses in Washington as part of the transaction commitments adopted by the Commission in Docket UE-051090. To the extent that the severance expense causes A&G expenses to exceed the cap, they are not recoverable.

**Q. If the Commission were to put any weight on the OPUC Staff proposal, what would be the effect of implementing it in this proceeding?**

A. The OPUC Staff proposal compares the rate year labor costs and the unamortized severance balance to an inflation-adjusted historic labor costs to determine whether customers benefit from the severance program. This is an aggressive way of defining customer benefit. The following table shows the comparison:

| | |
|---|---|
| Total company labor costs for the twelve-months ending March 2006 | $533,384,302 |
| Severance Plan Savings | ($35,900,000) |
| Staff Adjustment 4.10 | $14,358,402 |
| Rate Year Labor Costs | $511,842,704 |
| Rate Year Unamortized Balance | $34,400,000 |
| SUM | $546,242,704 |
| | |
| Total company labor costs for the twelve-months ending March 2006 | $533,384,302 |
| Escalated at 1% per year to rate year | $546,400,000 |
| | |

The comparison takes the historic labor cost reduced by the severance savings and increased by Staff adjustment 4.10 to develop rate year labor costs of $511.8 million. This is the highest level of rate year labor costs, as it assumes that the Commission accepts Staff's labor adjustment and rejects all of ICNU's labor adjustments. To this I add the unamortized balance of the severance costs for the rate year ($34.4 million) to reach a total of $546.2 million.

This amount is then compared to the inflation-adjusted labor costs. Assuming a minimal one percent annual inflation adjustment, the inflation adjusted labor costs is $546.4 million. Since this amount is higher than the $546.2 million figure calculated under the OPUC Staff proposal, following this approach would support ***approval*** of the accounting application as filed, and would discredit Ms. Iverson's adjustment. Of course, a higher and much more likely inflation rate would show an even greater benefit to customers.

**Q. Does Ms. Iverson make any other mistakes in her analysis?**

A. Yes. Ms. Iverson incorrectly compares the total severance paid in the test year - $15.3 million - with the $11.9 million of severance payments relating to change in control in the test year that the Company has requested be capitalized, rather than the difference between the two. The difference of $3.4 million is not related to the change in control and is not the subject of the accounting request. As described in the direct testimony of Company witness Mr. Wilson, the Company is diligent in seeking to minimize on-going labor costs, and severance is one of the tools used by the Company which benefits customers.

**Q. Please compare Mr. Schooley's adjustment to that of Ms. Iverson.**

A. Mr. Schooley has six recommendations. I will comment on the first of the two main recommendations, which is to disallow the expense associated with employees notified of displacement prior to May 2006. Mr. Wilson, in his testimony, discusses why it is appropriate to recover the full severance paid to executives under the Executive Severance Plan.

The disallowance of the expense associated with employees notified of displacement prior to May 2006 is inappropriate because Washington's customers began to benefit from the A&G rate cap on the first month after the close of the MEHC transaction (April 2006).

Commitment Wa 7a. requires that:

> "Beginning with the first month after the close of the transaction, Washington's share of the $0.5 million monthly credit will be deferred for the benefit of customers … and accrue interest at PacifiCorp's authorized rate of return."

The Company began accruing this amount in April 2006 and the balance will be approximately $660,000 on July 1, 2007. Mr. Griffith has developed a tariff which will return this amount to customers over an approximate one year period.

The savings associated with the A&G cap have accrued to customers since the closing of the transaction. Recognition of the costs incurred by the Company in achieving the savings associated with the A&G cap should also begin with the closing of the transaction. Prohibiting the Company from including the pre-May 2006 costs as part of the deferral would run counter to the objective of matching savings and costs.

**Q. Please discuss Mr. Schooley's other recommendations.**

A. PacifiCorp does not oppose his recommendations to record the transition costs in Account 182.3 and to begin amortization over a three-year period beginning with the month that rates are in effect in this general rate case. His recommendation to include the transition costs in rate base as part of a working capital calculation, however, is punitive. The severance costs are real costs and should not be included in a working capital calculation. It should be noted that Mr. Schooley lists this as a condition on page 28 of his testimony, but does not comment further in his testimony about this treatment of the costs and does not include it as a condition on page 36. In the absence of an explanation by Mr. Schooley of the basis for this adjustment, it should be rejected.

**Q. Do you agree with any portion of Mr. Schooley's and Ms. Iverson's testimony?**

A. Yes. Both Mr. Schooley on page 41 of his testimony and Ms. Iverson on page 6 of her testimony identify an error in the Company's original testimony. This is reflected above in my updated adjustment. I also accept their recommendation that the Company exclude computer upgrade costs from the deferral. In addition, the adjusted A&G expense is now lower than the A&G cap and, as explained by Ms. Iverson on pages 6 and 7 of her testimony, the Company's original adjustment to reduce A&G should therefore be eliminated.

**Cash Working Capital**

**Q. How was cash working capital addressed in the last case by the Commission?**

**A.** The Commission order in the 2005 Rate Case states:

> "The Commission has accepted lead-lag studies (some offered by Staff), indicated openness to methods other than ISWC, and declined to 'endorse' either method."

> "In short, Staff's reliance on precedent to defeat the Company's use of lead-lag studies or any other method to prove its working capital requirement is misplaced.... We expect Staff to support its reliance on the ISWC approach, particularly if it is true that the ISWC method is used by no other regulators, as the Company asserts." (Order 04 at ¶¶ 187, 188)

**Q. Has Staff offered anything substantive and evidentiary in response to the Commission's request in this case?**

A. No. Mr. Schooley makes two tenuous arguments to support his proposed adjustment. First, he makes a speculative claim that the Company's use of a lead lag study creates an incentive for the Company to pay invoices sooner than necessary. Second, he states that two, possibly three, states prefer the balance sheet method. I will explain why those arguments should not be persuasive and why they are not consistent with the Commission's 2005 Rate Case order.

**Q. What methodology does the Company use to calculate cash working capital?**

A. The Company relies on a lead lag study for purposes of calculating cash working capital. Cash working capital based on a lead lag study is calculated by taking total operation and maintenance expense allocated to the jurisdiction (excluding depreciation and amortization) and adding its share of allocated taxes, including state and federal income taxes and taxes other than income. This total is divided by the number of days in the year to determine the Company's adjusted daily cost of service. The daily cost of service is then multiplied by net lag days to produce the adjusted cash working capital balance.

**Q. Why is the lead lag study not universally applied to all electric utilities for purposes of calculating cash working capital?**

A. Completion of a lead lag study is resource intensive due to the thoroughness of the approach and the requirement of extensive collecting and tracking of data. It is not feasible for all utilities. The value of a lead lag study is cost-effective for the Company as it is applied in five jurisdictions. If a lead lag study is not available, industry practice is to fall back on the formula approach or 45-day method, over the out-dated balance sheet methodology.

**Q. Does the heavy reliance on data to track net lead or lag of cash collected and cash spent mean that this approach is "overly complex" as stated by Mr. Schooley?**

A. No. In fact, Mr. Schooley states that the goal of measuring working capital is to "use consistently a method that is theoretically defensible, is not overly complex, and calculates the amount of working capital supplied by investors."

Mr. Schooley's method has been shown on the record not to be consistent and, as Mr. Schooley admits in his testimony, it is a method that is continually evolving and will continue to evolve due to its reliance on the balance sheet. He also contradicts the spirit of the goal he identified that the method must not be "overly complex." He states that the Company's lead lag study violates this goal because it is an "inch think document supporting this study [that] contains a plethora of detail, but in the end it makes a simple comparison: it compares the turnover in accounts receivable to the turnover in accounts payable." The mere fact that the data collected for the study produces a document that is "an inch thick" does not mean the method is overly complex. In fact, the Federal Energy Regulatory Commission (FERC) encouraged a shift to the lead lag study for the primary purpose of reducing the complexity and litigious burden of the cash working capital issue. FERC issued a Notice of Proposed Rulemaking (NOPR) as far back as 1984 on "Calculation of Cash Working Capital Allowance for Electric Utilities," and stated that "a fully-developed and reliable lead lag study is the most accurate method of determining the working cash needs of a particular utility."

**Q. Does Mr. Schooley provide any justification or evidentiary support to substantiate the lead lag study to not be reliable?**

**A.** No. Mr. Schooley does not find any errors or inaccuracies in the data reflected in the Company's lead lag study. Rather, he makes the unsupported claim that the lead lag approach does not provide proper incentives for the company. He argues that the Company is prepaying invoices earlier than necessary due to its lead lag method. According to Mr. Schooley, of the 115 net 30 invoices, 64 were paid earlier than the 30 days allowed and 36 of them were paid in 26 days. He therefore concludes that the lag days are increased by paying invoices earlier and the Company thereby benefits inasmuch as the greater the lag, the higher the cash working capital requirement. This ignores the many prudent business reasons for paying invoices on time, if not a few days early. For example, the 30-day payment period for a specific invoice could land on the weekend in which case it makes sense to pay it a few days in advance so it is not received late. The difference between 26 and 30 days cited by Mr. Schooley is immaterial, and falls within a reasonable range dictated by prudent business practices, and fails to support his claim that it is due to inappropriate incentives.

**Q. Does the Company agree that the lead lag study produces an incentive to pay invoices earlier than necessary?**

A. No. In fact, just the opposite is true. The lead lag study is a tool that helps drive operational efficiency. In the Company's 2003 lead lag study, net lag days were

11.7. Since that time, the Company has invested in automated meter reading and other operating improvements that have resulted in a reduction of net lag days in the current study to 6.07 as shown below.

| | 2003 | 2005 |
|---|---|---|
| **Revenue Lead Days** | 47.9 | 41.27 |
| **Expense Lag Days** | 36.2 | 35.2 |
| **Net Lag Days** | 11.7 | 6.07 |

Not only is the lead lag study an accurate, thorough and reliable method for calculating cash working capital, it also produces data that encourage the Company to be more efficient in its operations, contrary to Mr. Schooley's claims.

**Q. Does the Company agree with the working capital adjustments proposed by Mr. Schooley?**

A. No. Mr. Schooley is proposing to calculate working capital using a balance sheet approach he calls the investor-supplied working capital (ISWC) method.

**Q. Why does the Company disagree with the balance sheet approach to calculate investor supplied cash working capital?**

A. There are several weaknesses with this approach. First, the balance sheet provides only a snapshot in time with thirteen fixed data points over a twelve-month period. The determinations of a company's cash working capital requirements is a moving picture over time and should be representative of the fluidity of a company's cash liquidity needs for maintaining operations and providing service. This cannot be derived from a static balance sheet.

Second, as described by Mr. Hahne in his text *Accounting for Public Utilities,* the balance sheet approach "does not recognize the working capital requirement from the time service is provided until revenues are recognized for financial reporting purposes."

**Q. Did Mr. Schooley provide any other support to justify the variations in the results of the ISWC methodology?**

A. No. In fact, Mr. Schooley admits his ISWC method necessitates refinements and improvements along the way due to "evolving requirements in Generally Accepted Accounting Principles that have increased the complexity of corporate balance sheets over time." While this may be true theoretically, it does not address the unreliability of his methodology and conversely does not cast doubt upon the reliability of the Company's more-robust lead lag methodology.

**Q. Has Staff provided a more compelling defense of the ISWC method?**

A. No. Even with the assertion that two, possibly three states preferring some type of balance sheet approach, Staff has not submitted anything to substantiate adjustments to the Company's figures or to demonstrate that there is a standard, reliable, accurate balance sheet approach that will prove to be a consistent method that is theoretically defensible and not overly complex, which Mr. Schooley defines as the objective.

**Q. Staff also makes an adjustment to remove prepayments, fuel stock, and materials and supplies from rate base. Does the Company agree with this proposed adjustment?**

A. No. Mr. Schooley erroneously excludes prepayments, materials and supplies, and fuel stock from the Company's rate base, reasoning that these are current assets and, as such, have already been accounted for in the ISWC methodology.

**Q. Do investors actually supply the capital to support these accounts?**

A. Yes. Using the lead lag approach, lag days reflect the amount of cash that investors are supplying to maintain operations. As Mr. Hahne states in his text *Accounting for Public Utilities* that, "[V]arious other requirements for cash must be added and amounts not supplied by investors... must be deducted. These additional include cash balances, prepayments, materials and supplies, and fuel stock." He further states, "[f]or ratemaking purposes, working capital is not a measure of liquidity at a point in time, but the average amount of investment required of investors on a continuing basis over and above that invested in plant and other specified rate base items. In general the components are: 1) fuel inventory, 2) materials and supplies inventories, 3) prepayments, and 4) cash working capital."

**Q. Why is it reasonable to include these items in rate base?**

A. These accounts are necessary to maintain operations beyond net plant necessary to provide service. They are necessary capital investments and not captured in the lead lag study or its calculation of cash working capital. They represent total working capital.

**Q. Please summarize your position.**

A. Mr. Schooley bases his calculation of cash working capital on the balance sheet method which has been disputed by the Company in its last two general rate cases. Staff has provided no new support for its methodology other than the reference to two states, possibly three, that he claims also prefer this approach. This methodology is outdated and has not been reviewed for a significant period of time during which FERC and other public utility commissions have moved forward to recommend a lead lag study as the most reliable method for calculating cash working capital and for reducing the litigation burdens resulting from the balance sheet approach. Moreover, Mr. Schooley erroneously recommends the exclusion of prepayments, materials and supplies, and fuel stock from rate base per his approach.

If the goal as Mr. Schooley states should be to consistently use "a method that is theoretically defensible, is not overly complex, and calculates the amount of work capital supplied by investors" then the Company's approach meets that standard. There has been no need demonstrated on the record in this case or previous cases for abandoning the lead lag study approach to working capital.

**IRS Settlement Amortization**

**Q. Please comment on Mr. Kermody's adjustment to contest PacifiCorp's IRS Settlement Adjustment (Adjustment 7.6.).**

A. The Company agrees that it is appropriate to remove normalized items from this adjustment as described on pages 17 – 18 of Mr. Kermody's testimony.

**Pension Expense**

**Q. Ms. Iverson discusses changes to the traditional benefit plan. What is the traditional benefit plan pension expense included in this proceeding?**

A. It is FAS 87 pension expense calculated using the same methodology as approved by the Commission in the 2005 Rate Case.

In that Docket, the Commission said:

> "We find the Company is correct in calculating FAS 87 and FAS 106 expenses. We expect that, barring a change in the accounting rules, the Company should continue to use the method employed in this case. The FASB rules constrain us from accepting ICNU's discount rate to calculate such expenses because it is a projected rate without support from the Company's accounting firm."

**Q. Does ICNU propose a pension expense adjustment in this case?**

A. Yes. ICNU has proposed to adjust pension expense to the average of FY 2005 and FY 2006 pension expense.

**Q. Is ICNU's adjustment consistent with the Commission order in the 2005 Rate Case?**

A. No. In that proceeding, the Commission stated that the Company was correct in using the FAS 87 expense and rejected ICNU's discount rate. Ms. Iverson's adjustment is an indirect attempt to substitute a new discount rate by averaging two years of costs, and should be rejected.

It should also be rejected because it violates the test year convention. Historic test year costs may be updated to reflect known changes since the test year. Simply replacing actual test year costs with a two year backward looking average is not such an adjustment.

**Q. What methodologies has ICNU proposed in other rate proceedings?**

A. ICNU witnesses have used a variety of methods to challenge pension expenses, the only common theme of which is to achieve a result that lowers pension costs. In PacifiCorp's last Oregon general rate case (Docket UE 179), ICNU proposed an adjustment by increasing the discount rate, increasing the return on pension assets and decreasing the labor inflation assumption. In the Oregon general rate case prior to that (Docket UE 170) and in the 2005 Rate Case in Washington, ICNU proposed an adjustment that was simply predicated on increasing the discount rate.

**Q. Is this adjustment discussed by other witnesses?**

A. Yes. Mr. Wilson provides additional rebuttal testimony on the lack of merit in this adjustment.

**Loss Factors**

**Q. Do you agree with Mr. Falkenberg's recommendation to adjust the line losses?**

A. No. Mr. Falkenberg departs from the use of test period data in the case of line losses and proposes to use historical losses for the five most recent fiscal years, the effect of which is to replace 10.95 percent with 10.107 percent. Adjustments to a normalized test period are for known and measurable changes and should be applied consistently across all aspects of the rate case. It is inappropriate to simply remove the year-to-year variability in line losses by use of a simple average, since this same approach cannot be applied to all other aspects of the rate case. Line losses are a complicated function of many variables and their interactions. Because it is impossible to correctly model these complex interactions, we cannot apply them consistently across all aspects of the case. For example, line losses may have been lower in the past due to lower demand on the system by some group of customers. The lower demands on the system would also translate to lower revenues from the customers. To apply a line loss adjustment to net power costs without applying the appropriate adjustment caused by the same circumstances affecting line losses would bias the results in the case. When dealing with a historical test year adjusted for known and measurable changes, it is appropriate to use the actual losses in the test year.

**Centralia Sale**

**Q. Mr. Falkenberg adjusts net power costs on the basis of his claim that 50% of the gain from the sale of the Centralia plant accrued to shareholders. Is this assertion true?**

A. No. The Washington-allocated gain on the sale was $23,767,802. The Company's shareholders received $2,976,602 of this amount – 12.5 percent. The vast majority of the gain – 87.5 percent – was received by Washington ratepayers. (See Exhibit No.___(PMW-8) – Advice Letter 00-011, Exhibit 4, page 2 – the compliance filling which implemented the tariff returning the Centralia gain to ratepayers).

Mr. Widmer in his testimony demonstrates why this adjustment is inappropriate. In the event the adjustment is adopted, however, the facts surrounding it should be correct.

**Updated information**

**Q. Does the revenue requirement requested in this proceeding incorporate updated information?**

A. Yes, I have updated the treatment of accumulated deferred income tax balances to reflect a recent IRS Private Letter Ruling. I have also updated my revenue requirement request to incorporate the new embedded cost of Long- and Short-

Term Debt that Mr. Williams has calculated.

**Year End Deferred Taxes**

**Q. Have the tax data changed since the case was filed?**

A. Yes, the accumulated deferred income tax balances have changed.

**Q. Please explain the reason for the change.**

A. An IRS Private Letter Ruling, PLR-152844-05, was issued in December 2006 that stated that it was inconsistent treatment to reflect accumulated deferred income tax balances in rate base on a year end balance while reflecting the remaining rate base components on an average balance.

**Q. Please explain how the accumulated deferred income tax balances have changed.**

A. The accumulated deferred income tax balances have been changed to reflect a 13-month average balance to be consistent with the 13-month average balance reflected by the remaining rate base components.

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

A. Yes.