

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp (the Company).**

3 A. My name is Douglas K. Stuver. My business address is 825 NE Multnomah,
4 Suite 1900, Portland, Oregon, 97232. My present position is Senior Vice
5 President and Chief Financial Officer.

6 **Qualifications**

7 **Q. Briefly describe your educational and professional background.**

8 A. I received a Bachelor of Arts degree in business administration, with a
9 concentration in accounting from the University of Pittsburgh in 1985. I am also
10 a certified public accountant. I joined PacifiCorp in 2004 as the controller for the
11 commercial and trading division of PacifiCorp. In 2006, I was named the
12 controller for PacifiCorp Energy. I was appointed to my current position in 2008.
13 Prior to working at the Company, I was employed by Duke Energy Corporation
14 for over five years, first as the vice president and controller of their trading
15 organization and then as the vice president of corporate risk management.

16 **Q. What are your responsibilities as Senior Vice President and Chief Financial**
17 **Officer?**

18 A. I am responsible for management of the financial aspects of the Company,
19 including tax, treasury, accounting, energy risk management, and financial
20 reporting.

21 **Purpose of Testimony**

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

23 A. The purpose of my testimony is to respond to the testimony of Mr. Greg R.

1 Meyer, sponsored by the Industrial Customers of Northwest Utilities (ICNU) and
2 Public Counsel, related to the charges associated with MidAmerican Energy
3 Holdings Company (MEHC) administrative services. I provide an overview of
4 the framework under which costs are charged from MEHC to PacifiCorp and
5 other MEHC subsidiaries, show that the level of the charges in this case is
6 reasonable and I demonstrate the benefits to the Company and its customers from
7 the services provided.

8 **Background on the IASA**

9 **Q. Is there an agreement filed with the Washington Utilities and Transportation**
10 **Commission (Commission) that governs the terms and conditions for MEHC**
11 **administrative services to PacifiCorp?**

12 A. Yes. The MEHC inter-company affiliated services agreement (IASA) governs
13 these services. In one of the commitments in the Stipulation governing MEHC's
14 acquisition of PacifiCorp, approved by the Commission in Order No. 07 in
15 Docket UE-051090, the Company agreed to file the IASA with the Commission.
16 The Company made this filing on March 30, 2006.

17 **Q. Please describe the types of charges for MEHC administrative services**
18 **governed by the IASA.**

19 A. There are two kinds of charges assigned for MEHC administrative services:
20 direct charges and allocated costs.

21 Direct charges are those costs where the employee performing the service
22 is working directly for or on behalf of the Company. Examples of these types of
23 charges would include, among other things, participation in Company specific

1 meetings, negotiations on behalf of the Company or performing individual tasks
2 related solely to the Company. The party receiving the benefit of the services
3 provided is charged for the operating costs incurred by the party providing the
4 service.

5 Allocated charges are for costs incurred for the general benefit of the
6 entire corporate group or multiple segments including the Company for which
7 direct charging is not practical. These include costs where the Company is
8 receiving benefits through joint participation in the larger group. Examples
9 include, among other things, senior management oversight of common functions
10 such as human resources, environmental, information technology and finance. An
11 allocation methodology is established to assign these charges fairly and is used
12 consistently from year to year.

13 **Costs Charged and Benefits Received Under the IASA**

14 **Q. Please describe the IASA charges included in the filing.**

15 A. In its initial filing, the Company included \$7.3 million, on a total company basis,
16 for charges under the IASA. As discussed in the rebuttal testimony of Company
17 witness Mr. R. Bryce Dalley and shown in the table below, in rebuttal the
18 Company has removed approximately \$189,000 in costs. This has reduced the
19 amount to \$7.1 million on a total company basis.

| | |
|--|------------------|
| MEHC Original Invoices (000's) | \$ 11,568 |
| <u>Remove the following items:</u> | |
| Amount capitalized | (206) |
| Legislative | (331) |
| Aircraft in excess of commercial equivalent | (709) |
| LTIP | (2,889) |
| SERP | (322) |
| Total Expenses for Inclusion in Rates | \$ 7,111 |
| Amount Included in Company's Initial Filing | \$ 7,300 |
| Rebuttal Adjustment | \$ (189) |

1 **Q. Mr. Meyer claims that the IASA charges in the filing should be reduced.**

2 **Please comment.**

3 A. I disagree with Mr. Meyer's adjustment. The overall level of IASA charges in
4 this filing is reasonable. For example, in 2009, the Company only received 16.4
5 percent of MidAmerican Energy Holdings Company's (MEHC) total labor
6 charges, even though PacifiCorp represents 40 percent of total revenues and more
7 than 50 percent of the combined net assets of MEHC and PacifiCorp. MEHC
8 charges out only 48.7 percent of its labor costs to its subsidiaries and the rest is
9 retained by MEHC. Mr. Dalley addresses the specific concerns raised by Mr.
10 Meyer in greater detail.

11 **Q. Have the services provided to the Company under the IASA permitted the
12 Company to substantially reduce its administrative and general costs?**

13 A. Yes. Prior to IASA, for the 12 months ended March 31, 2006, administrative and
14 general costs totaled \$248 million on a total company basis. In the current rate
15 case filed in Washington, which had a base period of twelve months ended
16 December 31, 2009, administrative and general costs were \$163 million,
17 including the IASA charges. PacifiCorp customers are benefitting from reduced

1 overall administrative and general costs, despite wage and other inflation,
2 facilitated by the IASA.

3 **Q. Please describe how the Company uses its participation in the IASA to the**
4 **benefit of its customers.**

5 A. The IASA provides the Company with a range of services, including executive
6 leadership, strategic management and planning, financial planning and analysis,
7 insurance, environmental compliance, financial reporting, human resources, legal,
8 accounting and other administrative services, at a fraction of the cost it would
9 otherwise incur for such services. Because of the IASA, there are several major
10 PacifiCorp business departments where the highest ranking employee is at the
11 director level, including information technology, human resources, and
12 environmental services. These directors report to MEHC management and, in
13 turn, PacifiCorp is charged only a fraction of the total costs for these senior
14 MEHC management positions. In 2009, IASA charges for the salary and benefits
15 of the Senior Vice President of Administrative Services were only \$119,000, or
16 \$9,000 on a Washington-allocated basis. This is substantially less than the level
17 of costs that would have been incurred if PacifiCorp had employed a full-time
18 Vice President of Human Resources and a full-time Vice President of Information
19 Technology. The Company believes that this is an efficient and effective way to
20 manage the business and help control costs.

1 **Q. Please explain how the Company benefits from using other MEHC**
2 **subsidiary employees to provide some services to the Company versus using**
3 **outside contractors.**

4 A. MEHC and its subsidiaries' staff are very experienced in dealing with the
5 Company's business needs given their extensive background in working with U.S.
6 regulated businesses. For example, MEHC corporate staff is well versed in
7 dealing with Federal Energy Regulatory Commission, North American Electric
8 Reliability Corporation, and the U.S. Securities and Exchange Commission
9 matters. In addition, MEHC has a consistent program of establishing salaries for
10 employees across all of its platforms and a consistent overarching employee
11 business expense policy. This consistency provides the assurance when
12 employees from other platforms provide services under the IASA that the
13 Company is obtaining the same benefit as if the work was performed by one of its
14 employees. This allows PacifiCorp to have access to a broader population of
15 expertise when dealing with specific issues on a direct cost basis.

16 **Q. Please provide examples of where the Company has received benefits from**
17 **belonging to the larger MEHC organization.**

18 A. The MEHC corporate management style emphasizes prudent cost management.
19 This has resulted in direct savings to the Company's customers both through
20 lower costs and higher benefits. For example, the Company's audit fees are lower
21 since the MEHC acquisition. The current hourly rate is \$162 per hour, as
22 compared to a rate of over \$216 per hour when the Company was acquired. Also,
23 since the Company was acquired, it has demonstrated that its incremental long-

1 term debt issuances were at a spread at least ten basis points below its similarly
2 rated peers.

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

4 A. Yes.