

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

3 A. My name is Robert M. Meredith. My business address is 825 NE Multnomah
4 Street, Suite 2000, Portland, Oregon 97232. I am currently employed as a Lead
5 Senior Cost of Service and Pricing Analyst in the Regulation Department.

6 **Q. Describe your education and professional background.**

7 A. I graduated magna cum laude from Oregon State University in 2004 with a
8 Bachelor of Science degree in Business Administration and a minor in
9 Economics. In addition to my formal education, I have attended various industry-
10 related seminars. Since 2004, I have had experience working for the Company in
11 Customer Service, Finance, Large Account Management, and Regulation. I have
12 been in my present position since 2007.

13 **Q. What are your responsibilities?**

14 A. My primary responsibilities are to prepare, present, and explain the results of the
15 Company's cost of service studies to regulators and interested parties in
16 jurisdictions where PacifiCorp provides retail electric service.

17 **Q. Have you testified in previous regulatory proceedings?**

18 A. Yes, I have previously filed testimony on behalf of the Company in the state of
19 California.

20 **Purpose of Testimony**

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

22 A. I will present the Company's functionalized Washington class cost of service
23 study based on the historic 12-month period ended December 31, 2010.

1 **Class Cost of Service Summary**

2 **Q. Please identify Exhibit No.__(RMM-2) and explain what it shows.**

3 A. Exhibit No.__(RMM-2) is the summary table from PacifiCorp's class cost of
4 service study for the State of Washington. The cost of service study is based on
5 PacifiCorp's annual results of operations for the State of Washington presented in
6 the direct testimony of Company witness R. Bryce Dalley. The study
7 summarizes, both by customer group and by function, the results of the cost of
8 service study. Page 1 presents results at the Company's December 2010 earned
9 rate of return. Page 2 presents the results using the rate of return provided by the
10 \$12.9 million requested price increase.

11 **Q. Please identify Exhibit No.__(RMM-3) and explain what it shows.**

12 A. Exhibit No.__(RMM-3) shows the cost of service results in more detail by class
13 and by function. Page 1 summarizes the total cost of service summary by class
14 and pages 2 through 6 contain a summary by class for each major function.

15 **Cost of Service Methodology**

16 **Q. Does the cost of service study filed in this case follow the methodology filed in**
17 **the Company's 2010 Washington general rate case, Docket UE-100749 (2010**
18 **Rate Case)?¹**

19 A. Yes, the cost of service study filed in this case continues to employ the same
20 methodology that was filed in the 2010 Rate Case.²

¹ See *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 06 (March 25, 2011).

² Over the past five years, the Company filed cost of service studies in Dockets UE-061546, UE-080220, UE-090205, and UE-100749. The cost of service study filed in the 2010 Rate Case used the Firm Capacity Sales Agreement between Bonneville Power Administration (BPA) and PacifiCorp instead of a Simple Cycle Combustion Turbine (SCCT) in its inputs to the peak credit method, but otherwise employed the West Control Area (WCA) allocation method initially approved in Docket UE-061546 and used in UE-080220 and UE-090205.

1 **Description of Procedures**

2 **Q. Please explain how the cost of service study was developed.**

3 A. Using the annual results of operations for the State of Washington presented in
4 the testimony of Mr. Dalley, the study employs the three-step functionalization,
5 classification, and allocation process. A detailed description of cost of service
6 procedures is contained in Exhibit No.__(RMM-5), Tab 1.

7 **Q. Please describe functionalization and how it is employed in the cost of service**
8 **study?**

9 A. Functionalization is the process of separating expenses and rate base items
10 according to five utility functions – production, transmission, distribution, retail
11 and miscellaneous.

- 12 • The production function consists of the costs associated with power
13 generation, including coal mining, and wholesale purchases.
- 14 • The transmission function includes the costs associated with the high
15 voltage system utilized for the bulk transmission of power from the
16 generation source and interconnected utilities to the load centers.
- 17 • The distribution function includes the costs associated with all the
18 facilities that are necessary to connect individual customers to the
19 transmission system. This includes distribution substations, poles and
20 wires, line transformers, service drops and meters.
- 21 • The retail services function includes the costs of meter reading, billing,
22 collections and customer service.

- 1 • The miscellaneous function includes costs associated with demand-side
2 management, regulatory expenses, and other miscellaneous expenses.

3 **Q. Describe how the classification process is used in the cost of service study.**

4 A. Classification identifies the component of utility service being provided. The
5 Company provides and customers purchase service that includes at least three
6 different components: demand-related, energy-related, and customer-related
7 components. Demand-related costs are incurred by the Company to meet the
8 maximum demand imposed on generating units, transmission lines, and
9 distribution facilities. Energy-related costs vary with the output of a kWh of
10 electricity. Customer-related costs are driven by the number of customers served.

11 **Q. How does PacifiCorp determine cost responsibility among customer classes?**

12 A. After the costs have been functionalized and classified, the next step is to allocate
13 them among the customer classes. This is achieved by the use of allocation
14 factors that specify each class' share of a particular cost driver, such as west
15 control area peak demand, energy consumed, or number of customers. The
16 appropriate allocation factor is then applied to the respective cost element to
17 determine each class' share of cost. A detailed description of PacifiCorp's
18 functionalization, classification and allocation procedures and the supporting
19 calculations for the allocation factors are contained in my work papers.

20 **Q. How are generation and transmission costs classified between demand and
21 energy components?**

22 A. All production and transmission plant and expenses, including fuel and purchased
23 power, are classified using a peak credit method where the cost from the

1 Bonneville Power Administration (BPA) Firm Capacity Sales Agreement is
2 compared to the cost of a current baseload resource (Combined Cycle
3 Combustion Turbine, or CCCT) to determine the demand-related component. All
4 other costs are considered energy-related.

5 **Q. Please identify Exhibit No.__(RMM-4) and explain what it shows.**

6 A. Exhibit No.__(RMM-4) shows the peak credit calculation that determined the
7 demand and energy classification percentages used for generation and
8 transmission costs in the cost of service study. In the calculation, the numerator is
9 determined using the BPA Peaking Contract fixed cost of \$100.20/kW per year.
10 The denominator is the total cost, both fixed and variable, of a CCCT consistent
11 with the Company's resource planning and avoided cost calculations. This
12 calculation produces a 35 percent demand-related classification with the
13 remaining 65 percent of costs classified as energy-related. In the 2010 Rate Case,
14 the peak credit calculation resulted in a 33 percent demand-related classification
15 with the remaining 67 percent classified as energy-related.

16 The demand-related portion continues to be allocated using class loads
17 coincident with PacifiCorp's highest 100 summer (April-October) and highest
18 100 winter (November-March) hourly retail west control area peak loads,
19 consistent with the Company's past practice in Washington. The energy-related
20 portion is allocated using class annual MWhs adjusted for losses.

21 **Q. How are the distribution costs classified and allocated?**

22 A. Distribution costs are classified as either demand-related or customer-related. In
23 this study, only meters and services are considered as customer-related, with all

1 other costs considered demand-related. Distribution substations and primary lines
2 are allocated using the maximum rate schedule peaks (also identified as class non-
3 coincident peaks). Distribution line transformers are allocated using the weighted
4 non-coincident peak (NCP) method. The costs of secondary lines are also
5 allocated using the weighted NCP method, but are only allocated to residential
6 and small general service customers where line transformers are jointly used by
7 more than one customer. Services costs are allocated to secondary voltage
8 delivery customers only. The allocation factor is developed using the installed
9 cost of new services for different types of customers. Meter costs are allocated to
10 all customers. The meter allocation factor is developed using the installed costs
11 of new metering equipment for different types of customers.

12 **Q. Please explain how customer accounting and customer service expenses are**
13 **allocated.**

14 A. Customer accounting expenses are allocated to classes using weighted customer
15 factors. The weightings reflect the resources required to perform such activities
16 as meter reading, billing, and collections for different types of customers.
17 Demand side management (DSM) expenditures are allocated on the same basis as
18 generation costs. Other customer service expenses are allocated on the number of
19 customers in each class.

20 **Q. How are administrative and general expenses, general plant and intangible**
21 **plant allocated by PacifiCorp?**

22 A. Most general plant, intangible plant, and administrative and general expenses are
23 functionalized and allocated to classes based on generation, transmission, and

1 distribution plant. Costs identified as supporting customer systems are considered
2 part of the retail services function and have been allocated using customer factors.
3 Coal mine plant is allocated consistent with generation and transmission
4 resources.

5 **Q. Are costs and revenues associated with wholesale contracts included in the**
6 **cost of service study?**

7 A. No costs are assigned to wholesale contracts. The revenues from these
8 transactions are treated as revenue credits and are allocated to customer groups
9 using appropriate allocation factors. Other electric revenues are also treated as
10 revenue credits. Revenue credits reduce the revenue requirement that is to be
11 collected from firm retail customers.

12 **Partial Requirements Service**

13 **Q. Does the cost of service study include results for partial requirements**
14 **service?**

15 A. No. The partial requirements customer served by PacifiCorp in the state of
16 Washington is not included in the embedded cost of service study because this
17 type of customer usually has very sporadic loads that vary from year to year,
18 producing volatile cost of service results depending on whether or not service has
19 been required during the actual west control area peak hours. The Company's
20 practice is to derive prices for this type of service from the prices and costs for
21 full requirements service. Revenue from partial requirement service is allocated
22 back to other classes as a revenue credit.

1 **Work papers**

2 **Q. Have you included your work papers?**

3 A. Yes. My work papers are included as Exhibit No.____(RMM-5). Tab 1 of this
4 exhibit is a detailed narrative describing the Company's functionalization,
5 classification and allocation procedures. Tab 2 is the complete functionalized
6 results of operations. Tab 3 shows the functionalization factors used in this case.
7 Tabs 4 through 5 show the class cost of service detail.

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

9 A. Yes.