

1 Company's filing. The fact that ICNU's witnesses have not addressed an issue should
2 not be construed as an endorsement of PacifiCorp's position. In addition, ICNU may
3 support or adopt issues and adjustments proposed by other parties.

4 **Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR**
5 **TESTIMONY?**

6 **A.** Yes. I am sponsoring Exhibit No.__(KEI-2) through No.__(KEI-13). These exhibits
7 were prepared either by me or under my supervision and direction.

8 **Q. WOULD YOU PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS?**

9 **A.** My adjustments reduce PacifiCorp's Washington jurisdictional revenue requirements by
10 approximately ~~\$5.8~~\$5.7 million. The main points of my testimony can be summarized as
11 follows:

- 12 • The Company's expenses and rate base adjustments for transition savings and
13 costs associated with MEHC should be revised to reflect more updated labor
14 savings. Neither the costs associated with software conversion or severance
15 should be recovered from ratepayers, as this cost is strictly associated with the
16 transition to MEHC. ICNU's revision to the MEHC adjustment results in a \$2.5
17 million reduction in PacifiCorp's revenue requirement on a Washington basis.
- 18 • PacifiCorp has included in its test year revenue requirement an electric pension
19 expense of ~~\$86.9~~\$58.1 million on a total Company basis. Given that PacifiCorp
20 will be adjusting its pension plans in the near future, the Commission should
21 revise PacifiCorp's pension expense utilizing the average of fiscal year 2005 and
22 fiscal year 2006 pension expenses. This results in an adjustment of ~~\$13.3~~\$12
23 million and a jurisdictional Washington revenue requirement adjustment of
24 ~~\$1.00.9~~ million.
- 25 • The Commission should exclude 100% of the executive incentive costs and 50%
26 of the non-executive incentive costs from PacifiCorp's revenue requirement.
27 Excluding these expenses reduces PacifiCorp's Washington jurisdictional revenue
28 requirement by \$2.0 million.
- 29 • PacifiCorp's medical health care benefits should be adjusted to reflect a larger
30 contribution from employees. PacifiCorp's employees contribute between 10% to
31 20%, or 15% on average. Surveys indicate that employee contributions are
32 approximately 22% on total industry-wide basis. Reducing these costs for a
33 greater employee contribution lowers the Company's expense by \$3.6 million,
34 and the Washington jurisdictional revenue requirement by \$0.3 million.

- I agree with the Company's overall objective on rate spread where the revenue increase will be allocated across customer classes by applying a uniform increase to most customer classes, including residential, Schedule 48T (Large General Service) and Schedule 40 (Agricultural Pumping) customers. Furthermore, the Company's proposal for designing rates which result in larger increases to fixed charges and demand charge components is also consistent with the cost study and appears reasonable.

Q. WHAT IS THE IMPACT ON PACIFICORP'S WASHINGTON REVENUE REQUIREMENT OF THE ADJUSTMENTS THAT YOU ARE PROPOSING?

A. Table 1 below summarizes the impact of ICNU's proposed adjustments on PacifiCorp's Washington revenue requirement.

TABLE 1

**Summary of Revenue Requirement Adjustments
(000)**

Description	Washington Jurisdiction
MEHC Transition Costs	\$2,457
Pension Expense	\$1,043 <u>\$944</u>
Incentive Compensation	\$2,045
Health Care	<u>\$ 282</u>
Total	\$5,827 <u>\$5,728</u>

I. MEHC TRANSITION COSTS

Q. HAVE YOU REVIEWED PACIFICORP'S ADJUSTMENT RELATING TO MEHC TRANSITION COSTS?

A. Yes. PacifiCorp witness Mr. Wrigley presents the adjustment for MEHC transition costs and savings on Page 8.0 1 Total of his Exhibit No.__(PMW-4) (Column 8.13). His adjustment calls for a Net Operating Income adjustment of \$0.8 million, and a Net Rate Base impact of \$1.8 million for an overall revenue requirement reduction of \$1.0 million.

II. PENSION EXPENSE

Q. WHAT LEVEL OF PENSION/RETIRMENT EXPENSES HAVE BEEN INCLUDED IN THE COMPANY'S FILING?

A. For the test period ended March 2006, PacifiCorp includes \$87.4 million of pension/retirement benefits in its filing.^{7/}

Q. SHOULD AN ADJUSTMENT BE MADE TO THIS AMOUNT?

A. Yes. The Company has recently announced that it is making changes to its traditional defined benefit pension plan.^{8/} The ramifications of moving to this newer plan are undetermined at this time, however, it must be assumed that PacifiCorp is doing so in order to reduce both its expenses as well as the uncertainty regarding its pension requirements. While the Company has stated that it is in the process of developing a pension expense update, this update has not been released at this time, and the Company does not have an expected timeline for preparing such projections.^{9/} We do know that the Company has announced upcoming changes to its pension plan which will be effective June 1, 2007. Consequently, PacifiCorp's pension expenses during the time period when these new base rates will be in effect may be significantly lower than the test period amounts.

Q. WHAT PENSION EXPENSES DO YOU PROPOSE BE INCLUDED IN PACIFICORP'S TEST YEAR COST OF SERVICE?

A. The amount of pension expenses should be normalized to reflect an average of FY 2005 and FY 2006, or ~~\$73.52~~\$46.06 million. While this amount of expense is not based on any specific underlying scenario, it at least makes some recognition that pension

^{7/} Exh. No.__(KEI-4) at 3.

^{8/} Exh. No.__(KEI-8) at 1.

^{9/} Id.

1 expenses should be lower going forward and especially when the rates being developed
2 in this proceeding will be in place.

3 **Q. WHAT IS THE AMOUNT OF THIS ADJUSTMENT?**

4 **A.** Exhibit No.__(KEI-9) provides the details of this adjustment. Averaging the last two
5 years of expense results in an adjustment of a reduction in the Washington jurisdictional
6 revenue requirement of ~~\$1.0~~\$0.9 million.

7 **III. INCENTIVE COMPENSATION PROGRAMS**

8 **Q. HAS THE COMPANY INCLUDED ANY COSTS ASSOCIATED WITH**
9 **INCENTIVE PROGRAMS IN ITS TEST YEAR REVENUE REQUIREMENT?**

10 **A.** PacifiCorp has included \$50.7 million of incentives on a total Company basis.^{10/} Of this
11 amount, total Company executive compensation incentives is \$1.6 million.^{11/}

12 **Q. ARE YOU PROPOSING ANY ADJUSTMENT TO THE COMPANY'S**
13 **INCENTIVE COSTS?**

14 **A.** Yes. ICNU recommends that 100% of the executive incentive costs be excluded and the
15 non-executive incentives be shared equally by ratepayers and shareholders. As a result,
16 the non-executive portion of the incentive expense would be reduced by 50%.

17 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION FOR EXCLUDING**
18 **100% OF THE EXECUTIVE INCENTIVES AND 50% OF THE NON-**
19 **EXECUTIVE EMPLOYEE INCENTIVES?**

20 **A.** First, it is inappropriate to include additional compensation for PacifiCorp's top nine
21 executives. The additional compensation for these nine executives is approximately
22 \$181,000 each.^{12/} Any additional compensation that the executives receive should come
23 from shareholders. Second, while it is not entirely clear from the 2005/2006 Annual
24 Incentive Plan, it does appear that a portion of the incentives are tied to the "PacifiCorp

^{10/} Exh. No.__(KEI-10) at 1.

^{11/} Id.

^{12/} Id.