

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	Docket No. UE-100749
v.)	
)	
PACIFICORP d/b/a PACIFIC POWER &)	
LIGHT COMPANY,)	
)	
Respondent.)	

REVISED RESPONSIVE TESTIMONY OF GREG MEYER

ON BEHALF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

AND PUBLIC COUNSEL

REVISED December 6, 2010

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q. WHAT IS YOUR OCCUPATION?**

5 **A.** I am a Senior Consultant in the field of public utility regulation with Brubaker &
6 Associates, Inc., energy, economic and regulatory consultants.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 **A.** These are set forth in Exhibit No.__(GRM-2).

10 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

11 **A.** I am appearing on behalf of the Industrial Customers of Northwest Utilities (“ICNU”)
12 and the Public Counsel Section of the Washington State Attorney General’s Office
13 (“Public Counsel”).

14 **Q. WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

15 **A.** My testimony recommends several adjustments to PacifiCorp’s cost of service. The
16 total value of all my adjustments would reduce PacifiCorp’s revenue requirement by
17 \$5.4 million (Washington basis).

18 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

19 **A.** I have identified and quantified adjustments to the Company’s cost of service. These
20 adjustments are shown in Table 1 and summarized below. Each adjustment is
21 addressed in greater detail later in this testimony. The fact that I do not address an
22 issue should not be interpreted as approval or acceptance by ICNU/Public Counsel of
23 any position taken by PacifiCorp unless I state otherwise in my testimony.

<u>Issue</u>	<u>Test Year Amounts</u>	<u>Company's Position (WA Situs)</u>	<u>ICNU/PC Position (WA Situs)</u>	<u>Adjustment to Company's Revenue Requirement</u>
Cash Working Capital (Revenue Requirement)	\$253,717	(\$1,304,850)	\$0	(\$1,304,850)
Incentive Compensation	\$1,400,000	\$1,400,000	\$700,000	(\$700,000)
Residential Revenues Net of Fuel Cost Adjustment to Test Year	\$122,902,093	\$2,280,505	(\$41,769)	(\$2,238,736)
SO ₂ Allowance Revenues	\$299,113	\$537,064	\$818,514	(\$281,450)
2010 Pro Forma Wage Increases	\$0	\$373,895	\$0	(\$373,895)
Outside Legal Expense	██████████	██████████	██████████	(\$48,931)
Supplemental Executive Retirement Plan	\$169,675	\$169,675	\$0	(\$169,675)
2009 Wages	\$34,200,829	\$34,200,829	\$34,072,463	(\$128,366)
Management Fee (SERP, Bonuses, & Legislative)	\$618,792	\$540,780	\$363,599	(\$177,181)
Total Adjustment to PacifiCorp's Revenue Requirement				(\$5,427,789)
Note:				
*ICNU Residential Rate Revenues presented net of additional fuel cost.				

- 1 1. Cash Working Capital ("CWC") – The Company's methodology for calculating CWC
2 overstates the CWC allowance. I recommend a zero CWC allowance.
- 3 2. Incentive Compensation – PacifiCorp's incentive compensation plan contains goals
4 which are not well defined, hard to quantify, relate to normal job requirements, do not
5 motivate employees to achieve above-average performance, and may enhance
6 shareholder value. I recommend that one-half of the incentive payments be
7 disallowed.
- 8 3. Normalization of PacifiCorp's Revenues – PacifiCorp's weather-normalized usage per
9 residential customer is too low. I recommend that the residential usage per customer
10 be based on a five-year average.

- 1 4. SO₂ Emission Allowance Sales Revenues – PacifiCorp proposes to amortize the sale
 2 of SO₂ emission allowances over 15 years. I recommend these sales should be
 3 amortized over five years.
- 4 5. Pro Forma Wage Increase – PacifiCorp has proposed to increase its cost of service to
 5 reflect 2010 wage increases. PacifiCorp has not analyzed all relevant factors during
 6 2010 to determine if the wage increase should be reflected in cost of service. I
 7 recommend that the 2010 wage increase be disallowed.
- 8 6. Legal Expenses – PacifiCorp has proposed to include the allocated share of outside
 9 legal expenses in cost of service. I recommend that only those outside legal expenses
 10 associated with the Washington jurisdiction be included in cost of service.
- 11 7. Supplemental Executive Retirement Plan (“SERP”) – PacifiCorp proposes to include
 12 SERP expenses in its cost of service. In prior cases, the Washington Utilities and
 13 Transportation Commission (“WUTC”) has disallowed SERP costs and no other
 14 Washington electric utility recovers this expense in rates. I recommend that
 15 PacifiCorp’s SERP costs be disallowed.
- 16 8. 2009 Wages – PacifiCorp has proposed to increase officer/exempt 2009 salaries by
 17 3.5%. I recommend that those salaries be increased instead by only 2.07%.
- 18 9. Management Fee – PacifiCorp has proposed to include \$7.3 million for management
 19 fees. I recommend that \$2.4 million be disallowed from this amount.

20 **I. CASH WORKING CAPITAL (“CWC”)**

21 **Q. DID THE COMPANY INCLUDE AN ALLOWANCE FOR CWC IN ITS**
 22 **DIRECT FILING?**

23 **A.** Yes. PacifiCorp witness R. Bryce Dalley presented direct testimony which includes
 24 an allowance for CWC of \$11,105,103 in rate base.

25 **Q. WHAT LEVEL OF WORKING CAPITAL WAS INCLUDED IN THE TEST**
 26 **YEAR BALANCES?**

27 **A.** PacifiCorp recorded \$2,159,291 for working capital in the test year rate base.

28 **Q. DO YOU CONTEST THE INCLUSION OF THIS AMOUNT IN**
 29 **PACIFICORP’S REVENUE REQUIREMENT?**

30 **A.** Yes, I do. The methodology that PacifiCorp relied on in calculating CWC does not
 31 provide an accurate reflection of actual working capital needed by the Company. This

1 can be seen by comparing the Company's proposed method to another commonly used
2 method.

3 **Q. WHAT IS YOUR RECOMMENDATION REGARDING CWC?**

4 **A.** I recommend that no CWC allowance be included in PacifiCorp's revenue
5 requirement.

6 **Q. WHAT WAS THE COMMISSION DECISION REGARDING CWC IN
7 PACIFICORP'S LAST LITIGATED RATE CASE?**

8 **A.** In PacifiCorp's last litigated rate case, Docket Nos. UE-061546 and UE-060817
9 (Consolidated), the Commission determined that, due to problems of allocation
10 methodology, the Company should be denied an allowance for CWC. The Company
11 had employed a lead-lag study, but had failed to correctly apply the WCA allocation
12 methodology.^{1/} My proposal achieves the same result, but for differing reasons.

13 **Q. WHY DO YOU PROPOSE TO NOT RECOGNIZE ANY ALLOWANCE FOR
14 CWC IN THIS PROCEEDING?**

15 **A.** It has been my experience that electric utilities generally have a negative CWC
16 allowance when a properly calculated lead-lag study is performed. I both performed
17 and supervised several electric utility lead-lag studies while employed by the Missouri
18 Public Service Commission which have resulted in negative CWC allowances. In
19 fact, in Missouri, it is most often the case for electric utilities to have negative CWC
20 allowances for purposes of rate cases.

^{1/} WUTC v. PacifiCorp, Docket Nos. UE-061546 and UE-060817 (Consolidated), Final Order ¶¶ 161-164 (June 21, 2007).

1 **Q. ARE YOU FAMILIAR WITH THE METHODOLOGY PROPOSED BY**
 2 **PACIFICORP?**

3 **A.** Yes. The 45-day method (referred to as the “1/8 of O&M” method by Company
 4 witness Dalley) was used predominantly before the lead-lag study concept was
 5 accepted as another method for calculating the CWC allowance. The 45-day method
 6 simply assumes that the utility has a 45-day revenue lag and a zero expense lag.
 7 Under the 45-day method, utilities are granted 45 days worth of cash working capital
 8 in rate base to compensate their assumed investment to cover utility cash expenses
 9 until such funds are obtained from the utilities’ ratepayers.

10 **Q. WHICH METHOD, THE 45-DAY METHOD OR A LEAD-LAG STUDY,**
 11 **PRODUCES MORE ACCURATE RESULTS?**

12 **A.** I believe the lead-lag study produces more accurate results. The purpose of a CWC
 13 adjustment is to allow a utility to earn a rate of return on the amount of cash necessary
 14 for operations that is “supported by capital on which investors are entitled to a
 15 return.”^{2/} The lead-lag study determines who provides the amount of cash that is
 16 necessary to fund operations on a day-to-day basis. If a utility spends cash for an
 17 expense before the ratepayer provides cash for utility service provided, the shareholder
 18 must supply that cash. However, if the utility receives cash from the ratepayer for
 19 utility service provided before the utility must pay cash for expenses incurred to
 20 provide that service, then ratepayers have provided the cash.

^{2/} WUTC v. PacifiCorp, Docket No. UE-050684, Final Order ¶ 189 (April 17, 2006) (stating, “[w]e agree with Staff that the objective is to quantify the amount of working capital and current assets supported by capital on which investors are entitled to a return.”).

1 **Q. WHY IS YOUR RECOMMENDATION TO NOT INCLUDE CWC IN THE**
 2 **CALCULATION OF RATE BASE REASONABLE?**

3 **A.** As I stated previously, my experience would suggest that a negative CWC allowance
 4 is a reasonable conclusion based on a properly conducted lead-lag study. The
 5 Company’s 45-day method will only produce a positive CWC calculation. The
 6 method that PacifiCorp relied on in calculating CWC does not provide an accurate
 7 reflection of actual working capital needed by the Company and, therefore, I
 8 recommend that the Commission reject PacifiCorp’s CWC adjustment.

9 **Q. ARE THERE ANY FEDERAL REGULATIONS THAT INDICATE THAT A**
 10 **ZERO CWC IS REASONABLE?**

11 **A.** Yes. The Federal Energy Regulatory Commission (“FERC”) Code of Federal
 12 Regulations 154.306 states:

13 **18 C.F.R. §154.306 Cash Working Capital.**

14 A natural gas company that files a tariff change under this part may not
 15 receive a cash working capital adjustment to its rate base unless the
 16 company or other participants in a rate proceeding under this part
 17 demonstrates, with a fully developed and reliable lead-lag study, a net
 18 revenue receipt lag or a net expense payment lag (revenue lead). Any
 19 demonstrated net revenue receipt lag will be credited to rate base; and,
 20 any demonstrated net expense payment lag will be deducted from rate
 21 base.

22 The same standard should equally apply to electric utilities.

23 **Q. YOU TESTIFIED EARLIER THAT IT HAS BEEN YOUR EXPERIENCE**
 24 **THAT ELECTRIC UTILITIES OFTEN HAVE A NEGATIVE CWC**
 25 **ALLOWANCE. CAN YOU CITE ANY SPECIFIC COMMISSION ORDERS**
 26 **WHICH RESULTED IN NEGATIVE CWC ALLOWANCES?**

27 **A.** Yes. In Case No. ER-2008-0318, the Missouri Public Service Commission Order
 28 reflected a negative CWC allowance of \$94.672 million including interest and tax

1 offsets.^{3/} In Docket Nos. 09-0306 through 09-0311, Consolidated, the Illinois
2 Commerce Commission Order reflected a negative CWC allowance of \$1.598 million
3 for AmerenCILCO, a negative \$3.040 million for AmerenCIPS and a negative \$9.031
4 million for AmerenIP electric operations.^{4/} I have attached the rate base schedules
5 which depict these amounts to this direct testimony as Exhibit No.__(GRM-3).

6 I have also attached as Exhibit No.__(GRM-4) to this direct testimony the
7 filing AmerenUE made in Case No. ER-2010-0036. As can be seen from this exhibit,
8 AmerenUE filed for a negative CWC allowance of \$18,350,000.^{5/}

9 **Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING EXHIBIT**
10 **NO.__(GRM-4)?**

11 **A.** Yes. If AmerenUE had used the methodology proposed by PacifiCorp, AmerenUE
12 would have requested a CWC allowance of \$117,058,000. I have provided the calculation of
13 this amount below.

^{3/} Missouri Public Service Commission Case No. ER-2008-0318, Staff's Recommendation to Approve
Tariff Sheets (Feb. 10, 2009).

^{4/} Central Illinois Light Company et al., Docket Nos. 09-0306 et al., Corrected Order (May 6, 2010);
Exhibit No. __ (GRM-3).

^{5/} Exhibit No.__(GRM-4) at 1, lines 6-10.

TABLE 2	
AmerenUE CWC Allowance Utilizing PacifiCorp Methodology	
Description	Amount (\$000)
Total O&M Expenses	\$1,794,748
<u>Less Fuel & Purchased Power</u>	
Nuclear	(\$ 72,522)
Coal	(\$ 627,394)
Oil	(\$ 2,106)
Natural Gas	(\$ 27,928)
Purchased Power	<u>(\$ 128,333)</u>
Net O&M Expenses	\$ 936,465
45-Day Factor	12.5%
CWC Allowance	\$ 117,058

As can be seen from the above table, there exists a significant difference between the results obtained from a lead-lag study and use of the 45-day method as proposed by PacifiCorp.

Q. PLEASE SUMMARIZE YOUR TESTIMONY REGARDING CWC.

A. I recommend the Commission recognize no CWC allowance for PacifiCorp. I also recommend that the Commission approve my adjustment of \$1.3 million (Washington basis) for this issue to PacifiCorp’s rate case. I have shown that there exists a significant difference between the CWC allowance proposed by PacifiCorp and a lead-lag study. I have demonstrated that a properly conducted lead-lag study may result in a negative CWC allowance, and a negative CWC may be reasonable for PacifiCorp. The 45-day method PacifiCorp has used to calculate the proposed allowance is not supported, which can be seen from the comparison of this method to the more widely

1 accepted lead-lag method. Regardless of what method is used by PacifiCorp in any
 2 future CWC proposals, it must be reliable and reflect the Company's actual
 3 circumstances.

4 FERC has ruled gas utilities may only request a CWC allowance based on a
 5 lead-lag study. Therefore, my recommendation for a zero CWC allowance is
 6 conservative and should be the minimum adopted by the Commission. I also
 7 recommend that PacifiCorp be required to perform a lead-lag study before the next
 8 rate case.

9 **II. INCENTIVE COMPENSATION**

10 **Q. DID THE COMPANY INCLUDE IN ITS COST OF SERVICE, EXPENSES**
 11 **ASSOCIATED WITH THE PAYMENT OF INCENTIVE COMPENSATION?**

12 **A.** Yes. According to the direct testimony of Company witness Erich D. Wilson, at page
 13 8, in this case, PacifiCorp is proposing to include \$1.4 million on a Washington
 14 jurisdictional basis to cover incentive compensation payments. The \$1.4 million is the
 15 test year level of incentive compensation payments.

16 **Q. DO YOU CONTEST THE INCLUSION OF ANY PORTION OF THIS \$1.4**
 17 **MILLION?**

18 **A.** Yes. I recommend that half or \$700,000 of the incentive compensation expense be
 19 removed from cost of service.

20 **Q. WHAT IS THE BASIS FOR YOUR PROPOSED DISALLOWANCE?**

21 **A.** I believe the goals for the achievement of incentive compensation payments are not
 22 well defined. In my opinion, many of the goals are more related to normal job
 23 requirements/duties and do not motivate employees to achieve above-average
 24 performance. Furthermore, many of the goals are not quantitative, thus, making it
 25 hard for an employee to gauge performance at any particular time frame. Based on

1 these observations, I am recommending that one-half of the incentive payments be
 2 disallowed.

3 **Q. PLEASE DESCRIBE PACIFICORP’S ANNUAL INCENTIVE PLAN (“AIP”).**

4 **A.** PacifiCorp’s AIP is based on the achievement of group employee goals and
 5 achievement of individual goals. In addition to group goals and individual goals,
 6 employees may be evaluated based on new issues or opportunities that affect
 7 PacifiCorp during the year.

8 Employees are evaluated by their performance against six group goals. The
 9 group goals describe the characteristics the Company believes are important to the
 10 success of PacifiCorp. Attached as Exhibit No. ___(GRM-5) are the six group goals
 11 and the performance factors for each group goal. PacifiCorp’s employees establish
 12 their own individual goals which are designed to advance the achievement of the
 13 group goals of the Company. The individual goals are weighted 70% of the
 14 employees’ overall evaluation, while the group goals are weighted 30% towards the
 15 employees’ overall evaluation.

16 **Q. PLEASE DESCRIBE WHAT STANDARDS YOU BELIEVE SHOULD BE**
 17 **INCLUDED IN A PROPERLY CONSTRUCTED INCENTIVE PLAN.**

18 **A.** I believe an acceptable incentive plan should be developed that contains goals that
 19 improve or maintain PacifiCorp’s existing operational performance. The payments
 20 associated with the incentive plan should be directly related to the achievement of
 21 those goals.

22 The goals for the incentive plan should be easily understood by the affected
 23 employees. Employees should also easily be able to determine their performance
 24 against those goals at any time during the year.

1 **Q. WHAT TYPES OF GOALS WOULD YOU RECOMMEND BE INCLUDED IN**
2 **AN INCENTIVE PLAN?**

3 **A.** Appropriate goals for an incentive plan could include safety, managing operation and
4 maintenance (“O&M”) expenses, system reliability, and customer service.

5 **Q. ARE YOU AWARE OF A WUTC ORDER WHICH SUPPORTS YOUR IDEAS**
6 **ABOUT A PROPERLY CONSTRUCTED INCENTIVE PLAN?**

7 **A.** Yes. In WUTC v. Washington Natural Gas Co., the Commission stated:

8 The Commission does agree with Staff that some of the incentives fall
9 short in terms of sending employees the message that the purpose of the
10 program is to encourage improved service. The Commission believes
11 however that the company can do a far better job in the future of
12 creating incentives and setting goals that advantage ratepayers.... Such
13 goals might include controlling costs, promoting energy efficiency,
14 providing good customer service, and promoting safety. Plans which
15 do not tie payments directly to goals that clearly and directly benefit
16 ratepayers will face disallowance in future proceedings.^{6/}

17 **Q. ARE YOU AWARE OF ANOTHER COMMISSION DECISION WHICH**
18 **SUPPORTS YOUR IDEAS ABOUT A PROPERLY CONSTRUCTED**
19 **INCENTIVE PLAN?**

20 **A.** Yes. In Union Electric Case No. EC-87-114, the Missouri Public Service Commission
21 stated:

22 At a minimum, an acceptable management performance plan should
23 contain goals that improve existing performance, and the benefits of the
24 plan should be ascertainable and related to the plan.^{7/}

25 **Q. DO YOU BELIEVE THE GROUP GOALS AS LISTED IN EXHIBIT**
26 **NO.__(GRM-5) CONTAIN THE STANDARDS AND CRITERIA YOU**
27 **DESCRIBED ABOVE?**

28 **A.** No. I have reviewed the group goals. I continue to believe that these goals do not
29 provide the employees with the quantitative goals to assess their performance. It is
30 also difficult to assess or ascertain how some of the goals improve or maintain

^{6/} WUTC v. Washington Natural Gas Co., Docket No. UG-920840, Fourth Suppl. Order at 19 (Sept. 27, 1993).

^{7/} Staff v. Union Elec. Co., 29 Mo. P.S.C. (N.S.) 313, 325 (1987).

1 PacifiCorp's existing operational performance. Finally, I believe some of the goals
2 are more properly classified as standard job requirements/duties and therefore should
3 not be considered performance goals tied to incentive compensation payments.

4 **Q. CAN YOU PROVIDE SOME EXAMPLES OF PERFORMANCE FACTORS**
5 **CONTAINED IN THE GROUP GOALS WHICH DO NOT GIVE**
6 **EMPLOYEES THE ABILITY TO ASSESS THEIR PERFORMANCE?**

7 **A.** Yes. I have listed below certain performance factors which I believe would not be
8 easily quantifiable for use as a performance measure. These are examples from
9 PacifiCorp's AIP group goals.

10 ➤ Customer Focus:

- 11 • Proactively meets internal or external customer expectations by anticipating
12 needs and effectively addressing and resolving problems, issues and concerns
13 in a timely manner.

14 ➤ Job Knowledge:

- 15 • Ensures that all compliance aspects of position are known and followed;
16 understands and complies with all policies, codes and regulations applicable to
17 position and company.

18 ➤ Planning and Decision Making:

- 19 • Demonstrates high levels of personal accountability.

20 ➤ Productivity:

- 21 • Holds self and others accountable to quality results.

22 ➤ Builds Relationships:

- 23 • Accepts personal differences and values diversity.

24 ➤ Leadership:

- 25 • Embraces change and motivates others to achieve goals.

1 The above list contains performance factors from each of the six group goals. I
 2 believe these performance factors are not quantifiable to different levels of
 3 performance. For example, how would a person exceed performance for the
 4 performance factor “Embraces Change and Motivates Others to Achieve Goals”?
 5 These performance factors also lead to subjective evaluation by the manager.
 6 Subjective evaluation of employees for incentive compensation should be minimized.

7 **Q. CAN YOU PROVIDE SOME EXAMPLES OF PERFORMANCE FACTORS**
 8 **WHICH YOU CONTEND SHOULD BE CONSIDERED AS A JOB**
 9 **COMPONENT OR REQUIREMENT?**

10 **A.** Yes. I have listed below certain performance factors which I believe should be
 11 considered job components or requirements.

12 ➤ Customer Focus:

- 13 • Shares information with customers to build their understanding of issues and
 14 capabilities.

15 ➤ Job Knowledge:

- 16 • Keeps up with current developments and trends in area of expertise as a part of
 17 personal development.

18 ➤ Planning and Decision Making:

- 19 • Not afraid to make decisions and ensure appropriate people are informed.

20 ➤ Productivity:

- 21 • Performs well under pressure and does not create undue pressure for others;
 22 meets deadlines.

23 ➤ Builds Relationships:

- 24 • Acts with integrity by demonstrating professional, courteous, ethical and fair
 25 behavior at all times.

26 ➤ Leadership:

- 27 • Demonstrates passion; personal commitment and enthusiasm.

1 The above list contains performance factors from each of the six group goals. I
 2 believe these performance factors are more properly classified as job requirements or
 3 duties. PacifiCorp claims that the AIP is to provide employees with incentives to
 4 perform at an above-average level. I cannot understand, for example, why an
 5 incentive plan needs to incent an employee to “act with integrity by demonstrating
 6 professional, courteous, ethical and fair behavior at all times.” This performance
 7 factor should be a job requirement for all employees working at PacifiCorp and should
 8 not be used as a performance factor for incentive compensation.

9 **Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING THE**
 10 **PERFORMANCE FACTORS CONTAINED IN THE SIX GROUP GOALS?**

11 **A.** Yes. I would like to point out that I only provided examples of performance factors
 12 which could not be quantified or which should be job requirements. I am not
 13 suggesting these examples are exhaustive, or that the categories are mutually
 14 exclusive.

15 Also, referring back to Exhibit No.____(GRM-5), I would argue that many of
 16 the performance factors do not have performance metrics associated with them to
 17 determine if the operations of PacifiCorp are improved or maintained.

18 **Q. IN YOUR REVIEW OF THE COMPANY’S AIP GROUP GOALS DID YOU**
 19 **FIND ANY GROUP GOALS THAT COULD BE ATTRIBUTABLE TO THE**
 20 **ATTAINMENT OF SHAREHOLDER VALUE?**

21 **A.** Yes. Both the Customer Focus and Productivity performance factors have attributes
 22 that are designed to enhance shareholder value.

- 23 • Customer Focus: Dedicated to meeting the expectations of internal and external
 24 customers, co-workers and stakeholders; obtains first-hand information from
 25 customers and uses it to improve processes and services; acts with customers in
 26 mind; establishes and maintains effective relationships with customers and gains
 27 their respect and trust.

- 1 • Productivity: Achieves a high level of relevant accomplishments for the benefit of
2 the company and its customer. Uses appropriate methods to implement solutions;
3 checks processes and tasks to ensure accuracy and efficiency; initiates action to
4 correct problems or notifies others of quality issues as appropriate.

5 Along with these performance factors, many of the goals improve shareholder value.

6 **Q. ARE YOU REJECTING ALL OF THE PERFORMANCE FACTORS WHICH**
7 **COMPRISE THE SIX GROUP GOALS?**

8 **A.**No. I believe that several of the performance factors which comprise the six group
9 goals would be good starting points to develop performance standards for an incentive
10 compensation plan that are understandable, quantifiable and performance-enhancing.

11 For example, a performance factor under the Planning and Decision Making
12 Goal states, “[u]ses metrics and milestones, and goal reassessment to measure
13 execution and determine whether correction to plan is needed.” I believe this
14 performance factor could be used to implement several performance criteria for
15 different departments in adhering to O&M expense control.

16 **Q. PLEASE SUMMARIZE YOUR INCENTIVE COMPENSATION**
17 **ADJUSTMENT.**

18 **A.**I am recommending that 50% of the incentive compensation payments be removed
19 from cost of service. I have discussed some of the concerns I have with the six group
20 goals of the AIP. The individual goals are weighted 70% while the group goals are
21 weighted 30% for the employees’ overall evaluation. A 50% reduction to the
22 incentive plan is a fair and reasonable adjustment to the incentive compensation
23 expense level. I believe this is a conservative recommendation. Particularly,
24 considering the current economic environment, the Commission may wish to eliminate
25 all incentive compensation from the PacifiCorp Washington revenue requirement.

1 **III. NORMALIZATION OF PACIFICORP'S REVENUES**

2 **Q. DO YOU BELIEVE THE LEVEL OF ELECTRIC REVENUES IN**
3 **PACIFICORP'S COST OF SERVICE IS APPROPRIATE?**

4 **A.** No. PacifiCorp's proposed level of residential revenue is understated. I recommend
5 that the level of residential revenues be increased by approximately \$2.2 million. This
6 amount is net of additional fuel cost.

7 **Q. WHAT IS THE TEST YEAR LEVEL OF RESIDENTIAL REVENUES?**

8 **A.** The test year level of residential revenues is \$122,902,093.

9 **Q. WHAT IS YOUR PROPOSED ADJUSTMENT TO THE TEST YEAR LEVEL**
10 **OF RESIDENTIAL REVENUES?**

11 **A.** I propose to decrease test year revenues by \$79,439. PacifiCorp has proposed to
12 decrease test year revenues by \$4,337,210.

13 **Q. WHAT IS THE BASIS FOR YOUR STATEMENT THAT THE LEVEL OF**
14 **RESIDENTIAL REVENUES PROPOSED BY PACIFICORP IS TOO LOW?**

15 **A.** I have reviewed the usage per customer for the calendar years 2005-2009 as compared
16 to the Company's weather-normalized usage for the test year. Table 3 lists the annual average
17 usage per customer for the residential class for 2005-2009 and the test year weather
18 normalized.

TABLE 3	
<u>Historic Analysis of Residential Use per Customer</u>	
<u>Year</u>	<u>Residential Use Per Customer (kWh)</u>
2005	15,193
2006	15,492
2007	15,767
2008	15,612
2009	16,261
Company Test Year (Weather Normalized)	15,128
Five-Year Average (2005-2009)	15,671
<hr/> Source: FERC Form 1 and Exhibit No.____(RDB-3), Table 2.	

1 Table 3 shows that the average usage per customer used by PacifiCorp to annualize
 2 residential revenues (15,128 kWh) is too low. The residential usage proposed by
 3 PacifiCorp has been exceeded for each year since 2005. The amount of normalized
 4 residential usage I recommend be used (15,671 kWh), is still lower than the actual
 5 2009 usage during the current economic recession (16,261 kWh).

6 **Q. WHY IS IT IMPORTANT TO ANNUALIZE REVENUES USING THE**
 7 **CORRECT USAGE PER CUSTOMER?**

8 **A.** It is important to annualize revenues using the correct usage per customer because that
 9 level of annualized revenues determines the incremental revenue requirement needed
 10 by the utility to pay the expenses to operate the utility and provide the opportunity for
 11 a reasonable return to shareholders. If the usage per customer is set too low, the utility

1 will collect more revenues than is necessary to pay its expenses and provide the
 2 opportunity for a reasonable return to shareholders. If the usage per customer is set
 3 too high, the opposite will occur.

4 **Q. PLEASE DESCRIBE YOUR RECOMMENDED ADJUSTMENT TO**
 5 **PACIFICORP'S RESIDENTIAL CLASS.**

6 **A.** I analyzed the residential usage per customer for the period 2005-2009 and compared
 7 those usages to the level proposed by PacifiCorp. I calculated a five-year average
 8 usage per customer for the residential class and multiplied that usage by the
 9 normalized test year customers and the current average residential margin energy rate.
 10 Based on this analysis, I believe test year residential revenues should be decreased by
 11 \$79,439. Similarly, I believe PacifiCorp's proposed residential revenues should be
 12 increased by \$4,257,771. Offsetting the revenues for fuel results in a revenue
 13 requirement reduction of \$2,238,744 to PacifiCorp's rate case.

14 **IV. SO₂ EMISSION ALLOWANCE SALES REVENUES**

15 **Q. WHAT WAS THE LEVEL OF SO₂ EMISSION ALLOWANCE SALES**
 16 **REVENUES RECORDED DURING THE TEST YEAR?**

17 **A.** For the test year, PacifiCorp generated SO₂ emission allowance sales revenues of
 18 \$3,790,891 on a total Company basis (approximately \$299,113 on a Washington
 19 basis).

20 **Q. HAS PACIFICORP INCLUDED REVENUES FROM THE SALE OF SO₂**
 21 **EMISSION ALLOWANCES IN ITS COST OF SERVICE?**

22 **A.** Yes. PacifiCorp has included a 15-year amortization of current and past SO₂ emission
 23 allowance sales revenues in its cost of service. The 15-year amortization of SO₂
 24 emission allowance sales revenues produces a level of revenues of \$537,064 on a
 25 Washington basis.

1 **Q. WHAT IS THE BASIS FOR THE 15-YEAR AMORTIZATION PROPOSED BY**
2 **PACIFICORP?**

3 **A.** The 15-year amortization was developed through PacifiCorp's negotiation with other
4 parties and approved as part of the WUTC Docket No. UE-940947.^{8/}

5 **Q. DO YOU AGREE WITH THE AMOUNT PACIFICORP HAS INCLUDED IN**
6 **THE COST OF SERVICE?**

7 **A.** No. I recommend that the sale of SO₂ allowances be amortized over five years. I am
8 proposing that the unamortized balance of SO₂ allowance revenues at December 31,
9 2009, be amortized over five years instead of the 15-year amortization proposed by
10 PacifiCorp.

11 **Q. WHY ARE YOU PROPOSING TO AMORTIZE THE SO₂ ALLOWANCE**
12 **SALES OVER FIVE YEARS?**

13 **A.** I believe the current 15-year amortization period is too long. The sale of SO₂
14 allowances is a recurring event and those revenues generated from the sale of SO₂
15 allowances should be flowed back to customers in a more expedited manner.

16 **Q. PLEASE PROVIDE THE ANNUAL SALES OF SO₂ EMISSION**
17 **ALLOWANCES THAT PACIFICORP HAS MADE.**

18 **A.** Table 4 summarizes the SO₂ allowances sales PacifiCorp has made since 1994.

^{8/} WUTC v. PacifiCorp, Docket No. UE-940947, Final Order at 3 (September 14, 1994).

1 major storm strikes the service territory of a utility, the utility is usually granted
 2 recovery of those external costs over five years. Five years, in my experience, is
 3 generally the most widely accepted amortization period for extraordinary events or
 4 recurring events with volatility unless a trend in the activity can be observed.
 5 Obviously, shorter and longer amortizations have been adopted by commissions, but
 6 five years is generally appropriate and reasonable.

7 In this instance, a five-year amortization period is more appropriate because it
 8 credits customers' rates in a more timely manner from the sales of SO₂ allowances. A
 9 shorter amortization period is also appropriate in this case because it reduces the
 10 impact of PacifiCorp's 21% proposed rate increase.

11 **Q. WHAT IS THE TOTAL VALUE OF YOUR SO₂ ALLOWANCE SALES**
 12 **ADJUSTMENT?**

13 **A.** Reducing the amortization period for SO₂ allowances from 15 years to 5 years reduces
 14 revenue requirement by \$281,450 on a Washington jurisdictional basis. I am
 15 proposing that the level of test year SO₂ sales revenues be adjusted to \$818,514.
 16 PacifiCorp is proposing a level of SO₂ sales revenues of \$537,064. Therefore, I am
 17 proposing that PacifiCorp's revenue requirement be reduced by \$281,450.

18 **V. PRO FORMA WAGE INCREASE**

19 **Q. DID PACIFICORP INCLUDE PRO FORMA WAGE INCREASES IN ITS**
 20 **COST OF SERVICE?**

21 **A.** Yes. PacifiCorp has proposed to increase labor expense by \$373,895 on a Washington
 22 jurisdictional basis to reflect wage increases which took effect in 2010. The test year
 23 does not reflect any wage increase for wages effective in 2010.

1 **Q. DO YOU CONTEST THE INCLUSION OF THIS AMOUNT IN**
2 **PACIFICORP'S REVENUE REQUIREMENT? PLEASE EXPLAIN.**

3 **A.** Yes, I do. PacifiCorp has selectively chosen to propose that its wages be increased in
4 2010 without demonstrating that all relevant factors of the revenue requirement have
5 been considered. In other words, PacifiCorp has chosen to include one item of cost of
6 service to increase the revenue requirement without examining all the operations of
7 the Company to determine if there are corresponding offsets to the wage increase.

8 **Q. WHEN DO THE 2010 PACIFICORP WAGE INCREASES TAKE EFFECT?**

9 **A.** The wage increases take effect during various times in the year. Wage increases occur
10 in January, February, July, and October 2010.

11 **Q. WHAT IS A TEST YEAR AND WHAT IS ITS IMPORTANCE?**

12 **A.** A test year is established in a rate case to allow all parties to audit/review a common
13 period of costs of a utility and to provide the Commission a common starting point on
14 which to evaluate different parties' positions. It is my understanding that in
15 Washington, the matching principle requires that all cost of service components—
16 revenue, investment, expenses, and cost of capital—must be considered and evaluated
17 at a similar point in time.^{9/} A test year allows for the preparation of a reconciliation to
18 capture all parties' positions. A fully audited historic test year should establish a
19 relationship between rate base, expenses and revenues that the utility expects to
20 experience during the years rates are in effect. Therefore, proposing an adjustment
21 that encompasses a period of time beyond the test year should require the utility to
22 demonstrate that an isolated test year adjustment is needed within the context of a rate

^{9/} WUTC v. PacifiCorp, Docket No. UE-050684, Final Order ¶ 194 (April 17, 2006).

1 case in order to earn its authorized return during the years when the proposed rates are
 2 in effect.

3 Once a party suggests that post test year adjustments should be included in cost
 4 of service, that party should be required to demonstrate that all relevant factors which
 5 are subject to audit for the test year have been considered and this isolated adjustment
 6 must still be recognized. Certain other expenses beyond the test year may decrease
 7 from test year levels. In addition, revenues may increase and rate base may decline.

8 This Commission has discussed this issue at length in recent rate case decisions:

9 [F]or expense or revenue items, pro forma adjustments *must be*
 10 *matched with offsetting factors.* Offsetting factors, as the term
 11 suggests, diminish the impact of the known and measurable event. A
 12 mismatch would be created if offsetting factors are not taken into
 13 account. That is, the known and measurable change will be overstated
 14 or understated, distorting the test year relationships among revenues,
 15 expenses, and rate base.^{10/}

16 The matching principle requires that *all factors affecting a proposed*
 17 *pro forma change be considered in determining the pro forma level of*
 18 *expense.* This includes consideration of offsetting factors such as
 19 efficiency gains that may or may not be associated directly with the
 20 proposed pro forma adjustment.... We emphasize that there are two
 21 aspects to the consideration of offsetting factors. First, there should be
 22 evidence showing consideration of whether a proposed increase in
 23 expense directly produces any offsetting benefits.... On the other hand
 24 *contemporaneous changes in revenues or expenses [may occur]*
 25 *that are not directly related to the proposed pro forma adjustment, but*
 26 *which offset its financial impacts.*^{11/}

27 In this case, PacifiCorp has asked to increase test year expense for 2010 wage
 28 increases without any analysis that all other elements of test year costs will remain

^{10/} WUTC v. Avista Corp., Docket Nos. UE-090134, UG-090135 & UG-090518, Final Order ¶ 46 (Dec. 22, 2009) (emphasis added).

^{11/} WUTC v. Puget Sound Energy, Inc., Docket Nos. UE-090704 and UG-090705, Final Order at 27- 28 (April 2, 2010) (emphasis added).

1 unchanged. This produces a potential mismatch between proposed revenues, expenses
2 and rate base.

3 **Q. YOU MENTIONED THE POSSIBILITY THAT SOME POST TEST YEAR**
4 **EXPENSES COULD BE LOWER, THEREBY OFFSETTING THE 2010**
5 **WAGE INCREASE. HAVE YOU IDENTIFIED ANY SUCH POSSIBLE**
6 **OFFSETS?**

7 **A.** Yes. Several offsets come to mind. One offset is the revenues that will be generated
8 from the sale of SO₂ allowances in 2010 if the Commission adopts my
9 recommendation to amortize the 2009 unamortized revenue balance over five years.
10 The SO₂ adjustment that I propose does not reflect any SO₂ revenues from sales in
11 2010. As can be seen from Table 4 of my testimony, PacifiCorp has already made
12 \$402,500 of SO₂ allowance sales through February 2010. The additional jurisdictional
13 revenues can be offset against the pro forma wages.

14 The other offset relates to the Powerdale Hydro Removal adjustment proposed
15 by the Company. It is my understanding that at the end of 2010, the amortization of
16 the regulatory asset will cease and expense savings will be realized going forward.
17 This is about \$586,333 in Washington savings. Again, these expense savings could be
18 used to offset the wage increases.

19 Finally, PacifiCorp has experienced workforce reductions since the end of the
20 test year. Therefore, the level of payroll included in the Company's rate case is
21 overstated. Combining all of these events together would easily offset the 2010 wage
22 increase and produce a lower revenue requirement. For example, despite the
23 Company's statement that it has no plans to make workforce reductions, its number of
24 Full Time Equivalent employees ("FTEs") steadily declined throughout 2009 and into
25 2010. Since December, 2009, PacifiCorp has eliminated 1% of non-union FTEs and

1 1.2% of union FTEs.^{12/} Since January, 2009, the Company has reduced non-union
 2 FTEs by 2% and union FTEs declined by 4%.^{13/} The workforce declines have been
 3 constant and are continuing for union positions.^{14/} PacifiCorp has not been able to
 4 calculate the payroll expense impact of workforce reductions that have occurred since
 5 December 31, 2009.^{15/}

6 **Q. WHY HAVEN'T YOU PROPOSED SUCH AN ADJUSTMENT?**

7 **A.** I have not proposed those isolated adjustments because I have not performed an audit
 8 of all the relevant factors of PacifiCorp's operations beyond the test year to determine
 9 if those adjustments are warranted. I cannot state that the relationship of revenues,
 10 expenses, and rate base established using test year data would be significantly
 11 impacted by proposing those adjustments.

12 **Q. PLEASE DESCRIBE YOUR RECOMMENDATION.**

13 **A.** Since all relevant factors have not been considered and PacifiCorp has not shown that
 14 the relationship between rate base, expenses and revenues from the audited test year
 15 needs to be adjusted, I recommend that the Commission not adjust test year expense
 16 for the 2010 wage increase. PacifiCorp's proposed electric cost of service should be
 17 reduced by \$373,895. If the Commission does not accept my wage adjustment, then
 18 the Commission should make other adjustments to reflect savings

^{12/} Exhibit No.____ (GRM-6) at 2-3 (PacifiCorp's Response to Public Counsel Data Request No. 64, Attachment). (Between January and June, 2010, non-union FTEs decreased from 2384 to 2360.5. During the same period, union FTEs decreased from 3247 to 3220.5).

^{13/} Id. (Between January, 2009 and June, 2010, the number of non-union FTEs decreased from 2409 to 2360.5 and the number of union FTEs decreased from 3351.5 to 3220.5).

^{14/} Id. at 6-7 (PacifiCorp's Response to Public Counsel Data Request No. 119, Attachment). (By the end of August, 2010, PacifiCorp eliminated an additional 22 union positions).

^{15/} Id. at 8 (PacifiCorp's Response to Public Counsel Data Request No. 138(a)).

1 that have not been reflected in the test period, which would likely result in a larger
2 revenue requirement reduction.

3 **VI. LEGAL EXPENSES**

4 **Q. WHAT LEVEL OF EXPENSE HAS PACIFICORP INCLUDED IN THE COST**
5 **OF SERVICE FOR OUTSIDE LEGAL FEES?**

6 **A.** PacifiCorp has included [REDACTED] for outside legal expense. This amount is also the
7 test year level of expense in this case.

8 **Q. DO YOU CONTEST ANY OF THIS AMOUNT?**

9 **A.** Yes. I believe a reduction of \$48,931 should be made to that total.

10 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR LEGAL EXPENSE.**

11 **A.** PacifiCorp allocates its outside legal expenses using a system overhead allocation
12 factor. While it may be appropriate for some legal costs to be allocated system-wide,
13 other costs are not appropriate for such allocation methodology. For example, legal
14 costs specific to an issue in a specific jurisdiction should be directly assigned to that
15 jurisdiction.

16 My adjustment eliminates the legal expense associated with proceedings that
17 are not related to Washington operations. It is my position that legal costs relating to
18 specific jurisdictions should be directly assigned to those jurisdictions.

19 **Q. HOW MUCH DO YOU PROPOSE TO ELIMINATE FROM LEGAL**
20 **EXPENSES INCLUDED IN THE TEST YEAR?**

21 **A.** Based upon my review of the confidential response to Public Counsel Data Request
22 No. 95, I am proposing that \$48,931 be disallowed.

23 **Q. PLEASE EXPLAIN HOW THIS AMOUNT WAS DERIVED.**

24 **A.** In response to Public Counsel Data Request No. 95, Confidential Attachment PC 95,
25 the Company provided the net variance between directly assigning *all* outside legal

1 expenses incurred during the test year as opposed to allocating these on the SO basis.
 2 The total legal expenses allocated to Washington using the SO factor were [REDACTED].
 3 Directly assigning these same expenses on a WA Situs basis reduces the cost to
 4 Washington to [REDACTED] for a net variance of \$48,931. I have not analyzed the
 5 prudence of the individual expenditures of legal fees.

6 **VII. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

7 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATED TO PACIFICORP’S**
 8 **SERP.**

9 **A.** PacifiCorp has included in test year operating expenses \$169,675.^{16/} I am
 10 recommending that this entire amount be disallowed from rates. SERP provides
 11 substantial post-retirement benefits to certain executives beyond what the Internal
 12 Revenue Service guidelines allow for tax purposes and what is received in the
 13 Company’s general retirement plan.

14 **Q. ARE THERE ANY CURRENT EMPLOYEES COVERED BY PACIFICORP’S**
 15 **SERP PLAN?**

16 **A.** There is one. In its 2010 10-K, PacifiCorp stated that “Mr. Walje was the only NEO
 17 [Named Executive Officer] who participated in our SERP during 2009, and we have
 18 no plans to add new participants in the future.” This means that most costs are
 19 attributable to retired employees who are no longer providing service to Washington
 20 ratepayers and that SERP is not necessary for attracting or retaining employees. Mr.
 21 Walje is President of Rocky Mountain Power.

^{16/} Exhibit No. __ (GRM-6) at 1 (PacifiCorp’s Response to Public Counsel Data Request No. 5 First Revised).

1 **Q. DO ANY OTHER REGULATED ELECTRIC UTILITIES RECOVER SERP**
 2 **COSTS THROUGH RATES IN THIS STATE?**

3 **A.** No. Avista Utilities does not include SERP in above-the-line expenses.^{17/} In addition,
 4 this Commission rejected a request by Puget Sound Energy (“PSE”) to include SERP
 5 costs in rates. In its Final Order in the most recent PSE rate case, the Commission
 6 stated:

7 [W]e find persuasive the arguments recommending removal of [SERP]
 8 costs. PSE has failed to provide an adequate justification for
 9 continuing to require ratepayers to fund supplemental retirement
 10 benefits for a small number of executives who already are highly
 11 compensated and entitled to the same levels of qualified retirement plan
 12 benefits as other employees, within the limits of what the IRS allows.^{18/}

13 It is my understanding that the Commission’s holding in the recent PSE case is
 14 in keeping with its prior treatment of supplemental retirement program costs.

15 In WUTC v. Washington Water Power Co., the Commission disallowed
 16 “supplemental pensions” for retired employees, accepting the argument that the
 17 Company had not shown “any improvement to productivity among current employees
 18 to justify” costs, finding that the pensions appeared to be “gifts, which should be
 19 contributed by shareholders rather than ratepayers.”^{19/}

^{17/} WUTC v. Avista Corp., Docket Nos. UE-090134 and UG-090135, TR 597:9-11.

^{18/} WUTC v. Puget Sound Energy, Inc., Docket Nos. UE-090704 and UG-090705, Order No. 11 ¶¶ 74-81 (April 2, 2010).

^{19/} WUTC v. Washington Water Power Co., Docket No. U-85-36, Third Suppl. Order, pp. 26-27 (April 4, 1986).

VIII. 2009 WAGES

1
2 **Q. HAS PACIFICORP PROPOSED TO INCLUDE WAGE INCREASES THAT**
3 **WENT INTO EFFECT DURING CALENDAR YEAR 2009 IN ITS COST OF**
4 **SERVICE?**

5 **A.** Yes. PacifiCorp has proposed to reflect all wage increases that took effect during
6 2009 for all of its employees.^{20/}

7 **Q. ARE YOU CONTESTING ANY OF THE WAGE INCREASES THAT WENT**
8 **INTO EFFECT DURING 2009?**

9 **A.** Yes. I recommend that the wage increase applicable to the Officer/Exempt Labor
10 Group be held to the average increase granted to the other labor groups. The overall
11 average granted to all non-officer/exempt labor groups was 2.07% during 2009. This
12 adjustment to the Officer/Exempt Labor Group would lower PacifiCorp's cost of
13 service and test year expenses by \$128,366 (WA Situs) for base payroll and payroll
14 taxes.

15 Table 5 provides the wage increase and effective date of that increase for each
16 labor group of PacifiCorp.

^{20/} Exh. No. __ (RBD-3) at 4.3.3.

TABLE 5

PacifiCorp's Perception Wage Increase Analysis

<u>Labor Group</u>	<u>Effective Date of Wage Increase</u>	<u>Wage Increase Percentage</u>
Officer/Exempt	January 2009	3.50%
IBEW 125	February 2009	2.50%
IBEW 659	February 2009	2.50%
UWUA 197	September 2009	1.25%
UWUA 127 Wyoming	No Increase	---
IBEW 415 (Laramie 57)	July 2009	1.50%
IBEW 57 PD	February 2009	3.00%
IBEW 57 PS	February 2009	3.00%
PCCC Non-Exempt	No Increase	---
IBEW 57 CT	June 2009	3.00%
Non-Exempt	January 2009	3.50%

Source: Exhibit____(RBD-3), page 4.3.3

1 The adjustment I am proposing would lower the Officer/Exempt wage increase to
 2 2.07% for 2009.

3 **Q. HOW DID YOU CALCULATE THE 2.07% WAGE INCREASE?**

4 **A.** The 2.07% wage increase represents the average wage increase granted to all the other
 5 labor groups listed in Table 5 for 2009.

6 The Company provided the wages booked through 2009 and the wage
 7 increases granted within the year. I calculated the wage increase granted to the
 8 Officer/Exempt employees and eliminated it. Then, I calculated the average wage
 9 increase granted to the other employee groups, 2.07%, and I applied this wage
 10 increase to the Officer/Exempt Labor Group.

1 **Q. WHY IS THE 2.07% AVERAGE WAGE INCREASE APPROPRIATE FOR**
 2 **THE OFFICER/EXEMPT LABOR GROUP?**

3 **A.** The Officer/Exempt Labor Group represents the Executive Managers and other
 4 salaried employees of PacifiCorp. Generally, these employees consist of the higher
 5 paid employees of the Company.

6 In its testimony, PacifiCorp does not provide adequate justification why this
 7 labor group should receive one of the highest wage increases for 2009. I have merely
 8 reduced that wage increase percentage to match the overall increase provided to the
 9 employees of PacifiCorp.

10 **Q. ARE YOU AWARE OF ANY UTILITIES WHICH HAVE LIMITED THE**
 11 **WAGE INCREASES FOR ITS EXECUTIVES?**

12 **A.** Yes. In 2009, Avista Utilities did not grant its executives any pay increase.^{21/}

13 In 2009, Puget Sound Energy’s Named Executive Offices (“NEO”) saw an
 14 average wage increase of less than 2% with two executives including the CEO
 15 receiving only 0.6% increases.^{22/}

16 Furthermore, in 2010, Ameren Leadership Team (“ALT”) members from
 17 Ameren Corporation will receive no merit increases. In addition, the vast majority of
 18 non-ALT management employees will receive no pay increase in 2010.^{23/}

^{21/} WUTC v. Avista Corp., Docket Nos. UE-100467 and UG-100468, Direct Testimony of Elizabeth M. Andrews (Exhibit EMA-1T) at 45: 13-14 (Mar. 23, 2010).

^{22/} In addition, in 2009, non-equity incentive compensation for the Company’s NEOs fell an average 38%. See Puget Energy Form 10-K, at 70 (filed Feb. 26, 2010).

^{23/} Union Electric Company, d/b/a AmerenUE, Case No. ER-2010-0036, Rebuttal Testimony of AmerenUE witness Krista G. Bauer at 12 (February 11, 2010).

1 **Q. ARE YOU AWARE OF ANY UTILITY WHICH HAS COMPLETELY**
 2 **REMOVED EXECUTIVE SALARIES FROM THEIR PROPOSED COST OF**
 3 **SERVICE?**

4 **A.** Yes. Ameren Illinois Utilities (“AIUs”) removed the salaries from the five highest
 5 paid executive officers, as well as all incentive compensation paid to officers and
 6 removed all incentive compensation related to earnings-type goals for all non-officer
 7 employees. Below, I have included that portion of the direct testimony of Craig D.
 8 Nelson, Vice President of Regulatory Affairs and Financial Services, from Docket
 9 Nos. 09-0306 through 09-0311 (Pages 9-10 of Ameren Exhibit 1.0E).

10 Q. ARE THE AIUS OFFERING TO SHOULDER ANY OF THE
 11 FINANCIAL BURDEN TO MITIGATE THE IMPACT OF
 12 THESE PROPOSED INCREASES ON THEIR CUSTOMERS?

13 A. Yes, as I mentioned, due to today’s difficult economic climate and its
 14 impact on its customers, the AIUs are voluntarily not seeking recovery
 15 of:

- 16 • All incentive compensation paid to officers of Ameren
 17 Corporation and its subsidiaries (including the AIUs). The
 18 amount allocated to and/or incurred by the AIUs for which
 19 the AIUs are not seeking recovery is approximately \$2.2
 20 million.
- 21 • The portion of incentive compensation paid to employees
 22 which is based on earnings-type goals. The amount
 23 incurred by and/or allocated to the AIUs for which we are
 24 not seeking recovery is approximately \$1.2 million.
- 25 • Compensation paid to the five highest-paid executive
 26 officers for 2008 (as reported in the Notice of Annual
 27 Meeting of Shareholders and Proxy Statement of Ameren
 28 Corporation dated March 11, 2009) which is allocated to the
 29 AIUs. The amount allocated to the AIUs for which the
 30 AIUs are not seeking recovery is approximately \$2.9
 31 million.

IX. MANAGEMENT FEE

Q. PLEASE DESCRIBE THE “MANAGEMENT FEE” THAT PACIFICORP HAS INCLUDED IN ITS TEST YEAR OPERATING EXPENSES.

A. PacifiCorp pays an annual “Management Fee” to Mid-American Energy Holdings Company (“MEHC”) under an “Intercompany Administrative Services Agreement.” The Services Agreement allocates certain of MEHC’s costs to its subsidiaries. The Agreement describes “Administrative Services” as including, but not being limited to: services by executive, management, professional, technical and clerical employees; financial services tax and accounting services; use of office facilities; and use of vehicles and equipment.^{24/}

In 2009, PacifiCorp booked \$8,353,029 above-the-line for MEHC management fees. Before allocating any portion of this to Washington operations, PacifiCorp removed \$1,053,029 of this amount pursuant to MEHC merger commitment WA-4(b) in Order 07, Docket No. UE-051090, which caps the amount allowable for the fee at \$7.3 million.^{25/} The Washington-allocated portion of the resulting \$7.3 million fee is \$540,784.^{26/}

Q. PLEASE DESCRIBE THE TEST YEAR LEVEL OF EXPENSE AND THE COMPANY’S PROPOSED ADJUSTMENT TO THE TEST YEAR EXPENSE LEVEL.

A. The test year level of MEHC fees for the Washington jurisdiction totaled \$618,792. PacifiCorp proposed an adjustment to reduce the test year level of expense by \$78,012

^{24/} Exhibit No.__(GRM-6) at 9-11 (PacifiCorp’s Response to Staff Data Request No. 25, Attachment 2, p. 1).

^{25/} Id. at 9

^{26/} Id. at 4 (PacifiCorp’s Response to Public Counsel Data Request No. 83(c) (stating that the management fee is allocated based on the SO factor).

1 to comply with the merger commitment discussed above. Therefore, PacifiCorp is
 2 proposing a level of Washington MEHC fees of \$540,784.

3 **Q. ARE YOU RECOMMENDING A DISALLOWANCE OF ANY OF THE**
 4 **AMOUNT THAT PACIFICORP DID NOT REMOVE?**

5 **A.** Yes. I am recommending that the amount included in Washington rates be further
 6 reduced by \$171,180 to reflect disallowance of costs included in the management fee
 7 that are not appropriate for inclusion in Washington rates. The effect of my proposal
 8 would set the MEHC management fees at approximately \$363,600. Specifically, these
 9 costs are: MEHC and MidAmerican Energy Company (“MEC”) bonuses, costs of the
 10 SERP, and legislative costs and contributions. Table 6 summarizes the adjustment
 11 that I am proposing.

TABLE 6		
<u>Washington Management Fee Costs</u>		
<u>Type of Cost</u>	<u>System Total</u>	<u>WA-Allocated</u>
SERP ^{27/}	██████████	██████████
MEHC Bonuses ^{28/}	██████████	██████████
MEC Bonuses ^{29/}	██████████	██████████
Legislative/Contributions ^{30/}	██████████	██████████
TOTAL	\$ 2,391,747	\$ 171,180

^{27/} Exhibit No. __ (GRM-6) at 9-11 (PacifiCorp’s Response to Staff Data Request No. 25, Attachment 1).

^{28/} Id.

^{29/} Id.

^{30/} PacifiCorp’s Response to Public Counsel Data Request No. 103, Confidential Attachment.

1 **Q. DOES THE \$1 MILLION REDUCTION THAT PACIFICORP MADE IN**
2 **COMPLIANCE WITH DOCKET NO. UE-051090 FUNCTIONALLY REMOVE**
3 **THE BONUS AND SERP COSTS MENTIONED ABOVE?**

4 **A.** No. The Commitment to reduce the management fee established in Docket
5 No. UE-051090 appears to be designed to limit allowable management fees and says
6 nothing of any disallowed amounts covering those types of expenses that should be
7 booked below-the-line or otherwise not charged to PacifiCorp's Washington
8 customers. Moreover, the total amount of inappropriate costs well exceeds the \$1
9 million removed for compliance with UE-051090. Therefore, the UE-051090
10 limitation should be considered before inappropriate costs are removed.

11 **Q. IS THERE SUPPORT FOR YOUR RECOMMENDATION IN PACIFICORP'S**
12 **OWN ADMINISTRATIVE SERVICES AGREEMENT WITH MEHC?**

13 **A.** Yes. According to the terms of the Services Agreement, PacifiCorp must bear those
14 costs that are inappropriate for recovery in each state where it operates.

15 Article 4(a)(iii) of the Agreement states:

16 It is the responsibility of rate-regulated Recipient Parties to this
17 Agreement [i.e., PacifiCorp] to ensure that *costs which would have*
18 *been denied recovery in rates had such costs been directly incurred by*
19 *the regulated operation are appropriately identified and segregated in*
20 *the books of the regulated operation.*^{31/}

21 **Q. COULD YOU PLEASE EXPLAIN YOUR ADJUSTMENT FOR SERP**
22 **COSTS?**

23 **A.** As previously discussed in my testimony, SERP costs should not be recovered through
24 rates. Exhibit No.__(GRM-6), which is PacifiCorp's response to WUTC Staff Data
25 Request No. 25, shows that [REDACTED] is included in the management fee for 2009

^{31/} Exhibit No.__(GRM-6) at 14 (PacifiCorp's Response to Staff Data Request No. 25, Attachment 2, p. 3) (emphasis added).

1 SERP costs, the Washington-allocated portion of which is [REDACTED]. I have removed
 2 the entire Washington-allocated portion.

3 **Q. PLEASE EXPLAIN THE DISALLOWANCE YOU ARE RECOMMENDING**
 4 **FOR MEC AND MEHC BONUSES.**

5 **A.** PacifiCorp has included in Washington rates [REDACTED] for annual bonuses paid to
 6 MEC and MEHC executives.^{32/} I am recommending disallowance of this entire
 7 amount because, after a review of page 125 of PacifiCorp’s Form 10-K, it appears that
 8 these bonuses are tied to performance of PacifiCorp’s parent company and therefore
 9 not closely aligned to customer-related performance at the utility level.

10 Unlike incentive compensation at the utility-company level, MEHC and MEC
 11 performance naturally relates more to financial success of the parent corporation, the
 12 focus of which is on the financial performance of subsidiaries. MEHC’s Form 10-K,
 13 page 144, states that the objective of annual bonus awards is to “reward the
 14 achievement of significant annual corporate goals.” The annual bonuses are given on
 15 a subjective basis, but are based on defined objectives that “commonly include
 16 financial and non-financial goals.” MEHC’s 10-K, on page 143, states that the annual
 17 incentive awards are part of an overall compensation philosophy meant to “create
 18 significant value for [MEHC].”

19 **Q. WHY ARE YOU RECOMMENDING DISALLOWANCE OF**
 20 **LEGISLATIVE/CONTRIBUTION COSTS?**

21 **A.** I have been informed that the Commission’s rules prohibit recovery through rates for
 22 costs associated with lobbying or influencing legislation. WAC 480-100-213 states in
 23 part: “The [C]ommission will not allow either direct or indirect expenditures for

^{32/} Id. at 10-11(PacifiCorp’s Response to Staff Data Request No. 25, Attachment 1).

1 political or legislative activities for rate-making purposes.... For purposes of this rule,
2 political or legislative activities include, but are not limited to...[e]ncouraging support
3 or opposition to ballot measures, legislation, candidates for a public office, or current
4 public office holders...” PacifiCorp’s response to Public Counsel Data Request
5 No. 103 shows that the Company has included on a system-basis [REDACTED] for
6 “Legislative (includes contributions).” This amount does not appear to include
7 regulatory costs, as there are separate “Regulatory” and “Regulation” cost categories.
8 The Washington-allocated portion of legislative costs is [REDACTED] which I have
9 removed completely pursuant to WAC 480-100-213.

10 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

11 **A.** Yes, it does.