

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

3 A. My name is C. Craig Paice. My business address is 825 NE Multnomah, Suite
4 2000, Portland, Oregon 97232. My present position is Regulatory Consultant in
5 the Regulation Department.

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

7 A. I received a Bachelor of Science Degree in Business Management from Brigham
8 Young University in 1976. I have also attended various educational, professional
9 and electric industry seminars during my career with the Company. I have been
10 employed by PacifiCorp since the merger in 1989. Prior to that time, I was
11 employed by Utah Power & Light Company beginning in 1978 holding various
12 positions in the accounting, customer service, and regulatory areas.

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 states of
19 Washington, Oregon, Wyoming, California and Utah.

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

21 A. I will present the Company's functionalized Washington class cost of service
22 study based on the historic twelve-month period ended December 31, 2009.

1 **Class Cost of Service Summary**

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

3 A. Exhibit No.__(CCP-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 2009 earned
9 rate of return. Page 2 presents the results using the rate of return provided by the
10 \$56.7 million requested price increase.

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

12 A. Exhibit No.__(CCP-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 2009 Washington general rate case (Docket UE-090205)?**

18 A. Yes, the Company continues to employ the West Control Area (WCA) allocation
19 method initially approved in Docket UE-061546. However, the peak credit
20 method used to classify production and transmission costs as demand or energy in
21 this cost of service study has been revised. In prior proceedings, the peak credit
22 method compared the cost of a current peaking resource (Simple Cycle
23 Combustion Turbine, or SCCT) to the cost of a current baseload resource

1 (Combined Cycle Combustion Turbine, or CCCT) to determine the demand-
2 related component while all other costs were specified as energy-related. In this
3 proceeding, inputs to the peak credit method are modified so that capacity cost
4 data from the Firm Capacity Sales Agreement between Bonneville Power
5 Administration (BPA) and PacifiCorp are used instead of SCCT data. I explain
6 the reason for this revision later in my testimony.

7 **Description of Procedures**

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

9 A. Using the annual results of operations for the State of Washington filed by Mr.
10 Dalley, the study employs the three-step functionalization, classification, and
11 allocation process. A detailed description of cost of service procedures is
12 contained in Exhibit No.____(CCP-5), Tab 1.

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

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

- 18 • The production function consists of the costs associated with power
19 generation, including coal mining, and wholesale purchases.
- 20 • The transmission function includes the costs associated with the high voltage
21 system utilized for the bulk transmission of power from the generation source
22 and interconnected utilities to the load centers.

- 1 • The distribution function includes the costs associated with all the facilities
2 that are necessary to connect individual customers to the transmission system.
3 This includes distribution substations, poles and wires, line transformers,
4 service drops and meters.
- 5 • The retail services function includes the costs of meter reading, billing,
6 collections and customer service.
- 7 • The miscellaneous function includes costs associated with demand-side
8 management, regulatory expenses, and other miscellaneous expenses.

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

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

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

18 A. After the costs have been functionalized and classified, the next step is to allocate
19 them among the customer classes. This is achieved by the use of allocation
20 factors that specify each class' share of a particular cost driver, such as west
21 control area peak demand, energy consumed, or number of customers. The
22 appropriate allocation factor is then applied to the respective cost element to
23 determine each class' share of cost. A detailed description of PacifiCorp's

1 functionalization, classification and allocation procedures and the supporting
2 calculations for the allocation factors are contained in my work papers.

3 **Q. How are generation and transmission costs classified between demand**
4 **energy components?**

5 A. As previously stated, all production and transmission plant and expenses in prior
6 proceedings were classified using a peak credit method where the cost of a current
7 peaking resource (SCCT) was compared to the cost of a current baseload resource
8 (CCCT). This relationship determined the demand-related classification
9 component with all other costs considered to be energy-related. However, it is
10 inappropriate to continue using SCCT costs in the peak credit method calculation
11 since the Company does not employ SCCT generating facilities in the west
12 control area. For this reason, the Company replaced SCCT costs with capacity
13 cost data from the BPA Firm Capacity Sales Agreement. This comparison of the
14 BPA Firm Capacity Sales Agreement costs to CCCT costs produces a reasonable
15 demand-related classification for generation and transmission costs based upon
16 actual Company operations within the west control area. All remaining costs
17 continue to be classified as energy-related.

18 **Q. Please identify Exhibit No. ___(CCP-4) and explain what it shows.**

19 A. Exhibit No. ___(CCP-4) shows the peak credit calculation that determined the
20 demand and energy classification percentages used for generation and
21 transmission costs in the cost of service study. In the calculation, the numerator is
22 determined using the BPA Peaking Contract fixed cost of \$86.43/kW per year.
23 The denominator is the total cost, both fixed and variable, of a CCCT consistent

1 with the Company's resource planning and avoided cost calculations. This
2 calculation produces a 33 percent demand-related classification with the
3 remaining 67 percent of costs classified as energy-related. In the Company's
4 previous rate case, the peak credit calculation resulted in a 12 percent demand-
5 related classification with the remaining 88 percent classified as energy-related.

6 The demand-related portion continues to be allocated using class loads
7 coincident with PacifiCorp's highest 100 summer (April-October) and highest
8 100 winter (November-March) hourly retail west control area peak loads,
9 consistent with the Company's past practice in Washington. The energy-related
10 portion is allocated using class annual MWh's adjusted for losses.

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

12 A. Distribution costs are classified as either demand-related or customer-related. In
13 this study, only meters and services are considered as customer-related, with all
14 other costs considered demand-related. Distribution substations and primary lines
15 are allocated using the maximum rate schedule peaks (also identified as class non-
16 coincident peaks). Distribution line transformers are allocated using the weighted
17 non-coincident peak (NCP) method. The costs of secondary lines are also
18 allocated using the weighted NCP method, but are only allocated to residential
19 and small general service customers where line transformers are jointly used by
20 more than one customer. Services costs are allocated to secondary voltage
21 delivery customers only. The allocation factor is developed using the installed
22 cost of new services for different types of customers. Meter costs are allocated to

1 all customers. The meter allocation factor is developed using the installed costs
2 of new metering equipment for different types of customers.

3 **Q. Please explain how customer accounting and customer service expenses are**
4 **allocated.**

5 A. Customer accounting expenses are allocated to classes using weighted customer
6 factors. The weightings reflect the resources required to perform such activities
7 as meter reading, billing, and collections for different types of customers. DSM
8 expenditures are allocated on the same basis as generation costs. Other customer
9 service expenses are allocated on the number of customers in each class.

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

12 A. Most general plant, intangible plant, and administrative and general expenses are
13 functionalized and allocated to classes based on generation, transmission, and
14 distribution plant. Costs identified as supporting customer systems are considered
15 part of the retail services function and have been allocated using customer factors.
16 Coal mine plant is allocated consistent with generation and transmission
17 resources.

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

20 A. No costs are assigned to wholesale contracts. The revenues from these
21 transactions are treated as revenue credits and are allocated to customer groups
22 using appropriate allocation factors. Other electric revenues are also treated as

1 revenue credits. Revenue credits reduce the revenue requirement that is to be
2 collected from firm retail customers.

3 **Partial Requirements Service**

4 **Q. Does the cost of service study include results for partial requirements**
5 **service?**

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

14 **Work papers**

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

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

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

22 A. Yes.