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DEPARTMENT OF JUSTICE
GENERAL COUNSEL DIVISION

July 25, 2006

Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem OR 97308-2148

RE: UE 179 Staff's Errata Sheets

Dear Filing Center,

Enclosed for filing are correcting errata sheets to the testimony of the staff of the Public Utility Commission of Oregon that was originally filed on July 12, 2006.

Sincerely,

Michael T. Weirich
Assistant Attorney General
Regulated Utility & Business Section

MTW:na/DOCUMENT4
C: all parties

PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Bill Wordley. My business address is 550 Capitol Street NE, Suite 215, Salem, Oregon 97301. I am a Senior Economist in the Economic Research & Financial Analysis Division of the Utility Program of the Public Utility Commission of Oregon (OPUC).

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE?

A. My witness qualification statement is found in Staff/101, Wordley/1.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. In this testimony I will describe staff's proposed adjustments to the power costs that PacifiCorp has included in its filed case. I will also describe limitations with the company's power cost modeling, and staff's recommendation that the company pursue stochastic power cost modeling.

Q. PLEASE SUMMARIZE STAFF'S ADJUSTMENTS TO POWER COSTS.

A. Staff proposes three adjustments to the power costs allocated to Oregon:

(1) A reduction of \$1,096,400 to match the costs and revenues from contingency operating reserves that PacifiCorp provides to non-owned power generation plants on its system;

(2) A reduction of ~~\$13,253,202~~ \$10,266,259 to account for PacifiCorp's margin realized from wholesale market sales and purchase transactions that are not captured by the GRID power cost model used in this case; and

1 A. Staff used the only data available, which is the GRID power cost forecasts
2 from UE 134 and UE 147, and the actual cost power results from the test year
3 in each of those cases. The only other case that included power costs since
4 PacifiCorp began using GRID was UE 170, however the test period for that
5 case was calendar year 2006, for which actual results are not available at this
6 point.

7 **Q. WHAT IS STAFF'S PROPOSED MARGIN ADJUSTMENT?**

8 A. Staff's proposed margin adjustment, based on the two years of available data
9 is a reduction of ~~\$13,253,202~~ \$10,266,259 to Oregon's allocated power cost.

10 **Extrinsic Value Adjustment**

11 **Q. WHAT IS EXTRINSIC VALUE?**

12 A. Extrinsic value is the dollar value associated with the capacity of the
13 company's flexible power resources that is unused or not dispatched by
14 GRID. During actual operation of the power system, depending on market
15 conditions, PacifiCorp has the option to use this unused capacity and make a
16 positive margin. The company runs its power plants and takes delivery from
17 its flexible purchase power contracts whenever the market price for power
18 exceeds the cost of producing power from its plants or the cost of contact
19 power. This is called economic dispatch. Extrinsic value is inherent in the
20 actual operation of the company's system due to the volatility of the primary
21 inputs to GRID, and the correlation between these inputs, neither of which is
22 included in GRID as discussed earlier in this testimony.
23

1 consisting of 38 pages, contains supporting documents that I used to evaluate
2 the individual adjustments I propose.

3
4 **PART I:**
5 **RATE CASE SUMMARY**

6 **Q. WHAT ARE THE COMPANY AND STAFF'S PROPOSED REVENUE**
7 **REQUIREMENTS?**

8 A. On February 22, 2006, PacifiCorp filed an application for a general rate
9 increase in its Oregon service territory. The application, docketed UE 179
10 proposes to increase its Oregon revenues by \$112 million on an annual basis.
11 This request represents an overall rate increase of approximately 13.2% to
12 become effective with service on or after December 26, 2006. The Company
13 filed testimony, exhibits and work papers supporting its rate increase request.
14 Staff has evaluated the Company's proposal and examined the work papers
15 and supplementary data supplied in response to data requests. Our findings
16 are that the Company's requested rate increase is not warranted and should be
17 rejected. Based on Staff's analysis to date, we propose that the appropriate
18 increase in Oregon revenues should be ~~\$12.14~~ \$15.4 million on an annual
19 basis, an overall rate increase of ~~4.4%~~ 1.8%.

20 **Q. THERE IS A BIG DIFFERENCE BETWEEN WHAT THE COMPANY HAS**
21 **REQUESTED AND WHAT STAFF PROPOSES. HAS THERE BEEN A**
22 **SETTLEMENT MEETING TO RESOLVE THE DIFFERENCES?**

Total	\$14,832	\$2,187	(\$12,645)	(\$3,368)
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Q. ARE THERE ANY MORE ADJUSTMENTS THAT YOU HAVE EVALUATED AND WOULD LIKE TO DISCUSS?

A. Yes, I have proposed an adjustment to Hydro Relicensing costs. This adjustment is S-17 and detailed in Exhibit PPL/901 Tab. 8.5.

Q. WHAT DO YOU PROPOSE?

A. I propose that the expenses that the Company has included in the test year budget for cash payments associated with its Hydro relicensing agreements at Bear River and North Umpqua be removed. The cash payments are a part of the hydro license. These nonrecurring expenses should be added to the test year rate base and the expenses amortized over the life of the facility licenses, in the case of Bear River, 24 years and in the case of North Umpqua. 33 years. This adjustment results in a revenue requirement of \$102,000 related to the expenditures, which is a reduction of \$584,000 increases the Oregon allocated revenue requirement by \$100,000 but results in a decrease in the Company's filed revenue requirement request of \$609,000.

Q. DO YOU HAVE ANY MORE ADJUSTMENTS TO RECOMMEND?

A. No, that is all the adjustment I would propose.

Q. DO YOU HAVE ANY FURTHER TESTIMONY YOU WOULD LIKE TO PRESENT?

A. No.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

PacifiCorp
UE 179
Twelve Months Ended CY 2007
(\$000)

	SUMMARY SHEET	2007 Oregon Results Per Company Filing (1)	Adjustments (2)	2007 Adjusted (3)	Required Change for Reasonable Return (4)	Results at Reasonable Return (5)
1	Operating Revenues					
2	Retail Sales	\$845,831	\$0	\$845,831	\$15,387	\$861,218
3	Wholesale Sales	278,958	10,266	289,224	0	289,224
4	Other Revenues	34,396	1,239	35,635	0	35,635
5	Total Operating Revenues	<u>\$1,159,185</u>	<u>\$11,505</u>	<u>\$1,170,690</u>	<u>\$15,387</u>	<u>\$1,186,077</u>
6	Operating Expenses					
7	Steam Production	\$208,897	(\$10,019)	\$198,878	\$0	\$198,878
8	Hydro Production	10,895	(1,312)	9,583	0	9,583
9	Other Power Supply	344,596	(5,991)	338,605	0	338,605
10	Transmission	34,631	(1,671)	32,960	0	32,960
11	Distribution	74,778	(3,064)	71,714	0	71,714
12	Customer Accounts	36,313	(750)	35,563	0	35,563
13	Customer Service & Info	2,686	0	2,686	99	2,785
14	Sales	0	0	0	0	0
15	Administrative and General	69,288	(10,441)	58,847	0	58,847
16	Total Operation & Maintenance	<u>\$782,085</u>	<u>(\$33,248)</u>	<u>\$748,837</u>	<u>\$99</u>	<u>\$748,936</u>
17	Depreciation	121,382	0	121,382	0	121,382
18	Amortization	18,573	23	18,596	0	18,596
19	Taxes Other than Income	45,968	0	45,968	368	46,336
20	Income Taxes	52,652	14,757	67,409	5,661	73,070
21	Miscellaneous Revenue & Expense	(3,168)	0	(3,168)	0	(3,168)
22	Total Operating Expenses	<u>\$1,017,494</u>	<u>(\$18,468)</u>	<u>\$999,026</u>	<u>\$6,128</u>	<u>\$1,005,154</u>

23	Net Operating Revenues	\$141,691	\$29,973	\$171,664	\$9,257	\$180,921
24	Average Rate Base					
25	Electric Plant in Service	\$4,450,735	(\$2,254)	\$4,448,481	\$0	\$4,448,481
26	Less: Accumulated Depreciation & Amortization	(1,914,195)	0	(1,914,195)	0	(1,914,195)
27	Accumulated Deferred Income Taxes	(324,880)	0	(324,880)	0	(324,880)
28	Accumulated Deferred Inv. Tax Credit	(7,435)	0	(7,435)	0	(7,435)
29	Net Utility Plant	\$2,204,225	(\$2,254)	\$2,201,971	\$0	\$2,201,971
30	Plant Held for Future Use	0	0	0	0	0
31	Acquisition Adjustments	19,855	0	19,855	0	19,855
32	Working Capital	25,678	(385)	25,293	127	25,420
33	Fuel Stock	18,042	0	18,042	0	18,042
34	Materials & Supplies	29,929	0	29,929	0	29,929
35	Customer Advances for Construction	0	0	0	0	0
36	Weatherization Loans	33	0	33	0	33
37	Prepayments	7,211	0	7,211	0	7,211
38	Misc. Deferred Debits	26,071	0	26,071	0	26,071
39	Misc. Rate Base Additions/(Deductions)	(28,846)	0	(28,846)	0	(28,846)
40	Total Average Rate Base	\$2,302,198	(\$2,639)	\$2,299,559	\$127	\$2,299,686
41	Rate of Return	6.15%		7.47%		7.87%
42	Implied Return on Equity	5.96%		8.44%		9.50%

																			(Base Rates)	
		(S-9) Amortization of Common Stock Expenses																	(S-16) Hydro Relicensing adjustment	(S-17) Station Service Adjustment
		(S-1) Rebasing	(S-2) Incentives	(S-3) FIT/ SIT	(S-4) Memberships	(S-5) Other Revenues	(S-6) Uncollectible	(S-7) A&G Benefits and Pensions	(S-8) RTO Adjustment	(S-10) Generation Overhaul Expense	(S-11) Power Delivery Adjustment	(S-12) O&M Normalization Adjustment	(S-13) Wholesale Margin Adjustment	(S-14) Ancillary Services Adjustment	(S-15) Extrinsic Value Adjustment					
1	Staff Adjustments																			
2	Operating Revenues																			
3	Retail Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
4	Wholesale Sales	0	0	0	0	0	0	0	0	0	0	0	10,266	0	0	0	\$10,266			
5	Other Revenues	0	0	0	0	1,239	0	0	0	0	0	0	0	0	0	0	\$1,239			
6	Total Operating Revenues	\$0	\$0	\$0	\$0	\$1,239	\$0	\$0	\$0	\$0	\$0	\$0	\$10,266	\$0	\$0	\$0	\$11,505			
7	Operating Expenses																			
8	Steam Production	0	0	0	0	0	0	0	0	(4,780)	0	(2,586)	0	0	(2,851)	0	(\$10,019)			
9	Hydro Production	0	0	0	0	0	0	0	0	(127)	0	(499)	0	0	0	(686)	0			
10	Other Power Supply	0	0	0	0	0	0	0	0	(197)	0	(281)	0	(1,096)	(4,417)	0	(\$5,991)			
11	Transmission	0	0	0	0	0	0	0	0	0	(1,671)	0	0	0	0	0	(\$1,671)			
12	Distribution	0	0	0	0	0	0	0	0	0	(3,064)	0	0	0	0	0	(\$3,064)			
13	Customer Accounting	0	0	0	0	0	(750)	0	0	0	0	0	0	0	0	0	(\$750)			
14	Customer Service & Info	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0			
15	Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0			
16	Administrative and General	(1,053)	(3,857)	0	(54)	0	0	(4,751)	0	(584)	0	(142)	0	0	0	0	(\$10,441)			
17	Total Operation & Maintenance	(\$1,053)	(\$3,857)	\$0	(\$54)	\$0	(\$750)	(\$4,751)	\$0	(\$584)	(\$5,104)	(4,877)	(\$3,368)	\$0	(\$1,096)	(\$7,068)	(\$686)	\$0	(\$33,248)	
18	Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0		
19	Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	23	0	\$23		
20	Taxes Other than Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0		
21	Income Taxes	400	1,481	(2,248)	19	470	285	1,822	0	222	1,938	1,852	1,279	3,895	416	2,683	243	0	\$14,757	
22	Miscellaneous Revenue and Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0		
23	Total Operating Expenses	(\$653)	(\$2,376)	(\$2,248)	(\$35)	\$470	(\$465)	(\$2,929)	\$0	(\$362)	(\$3,166)	(\$3,025)	(\$2,089)	\$3,895	(\$680)	(\$4,385)	(\$420)	\$0	(\$18,468)	
24	Net Operating Revenues	\$653	\$2,376	\$2,248	\$35	\$769	\$465	\$2,929	\$0	\$362	\$3,166	\$3,025	\$2,089	\$6,371	\$680	\$4,385	\$420	\$0	\$29,973	
25	Average Rate Base																			
26	Electric Plant in Service	\$0	(\$1,410)	\$0	\$0	\$0	\$0	(\$1,530)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$686	\$0	(\$2,254)	
27	Accumulated Depreciation & Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
28	Accumulated Deferred Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
29	Accumulated Deferred Inv. Tax Credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
30	Net Utility Plant	\$0	(\$1,410)	\$0	\$0	\$0	\$0	(\$1,530)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$686	\$0	(\$2,254)	
31	Plant Held for Future Use	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
32	Acquisition Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
33	Working Capital	(14)	(49)	(47)	(1)	10	(10)	(61)	0	(8)	(66)	(63)	(43)	81	(14)	(91)	(9)	0	(\$395)	
34	Fuel Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
35	Materials & Supplies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
36	Customer Advances for Construction	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
37	Weatherization Loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
38	Prepayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
39	Misc. Deferred Debits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
40	Misc. Rate Base Additions/(Deductions)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0	
41	Total Average Rate Base	(\$14)	(\$1,459)	(\$47)	(\$1)	\$10	(\$10)	(\$1,591)	\$0	(\$8)	(\$66)	(\$63)	(\$43)	\$81	(\$14)	(\$91)	\$677	\$0	(\$2,639)	
42	Revenue Requirement Effect	(\$1,087)	(\$4,140)	(\$3,743)	(\$58)	(\$1,277)	(\$774)	(\$5,077)	\$0	(\$603)	(\$5,271)	(\$5,036)	(\$3,478)	(\$10,979)	(\$1,132)	(\$7,301)	(\$609)	\$0	(\$50,165)	

Income Tax Calculations		(S-1) Rebasing	(S-2) Incentives	(S-3) FIT/ SIT	(S-4) Memberships	(S-5) Other Revenues	(S-6) Uncollectible	(S-7) A&G Benefits and Pensions	(S-8) RTO Adjustment	(S-9) Amortization of Common Stock Expenses	(S-10) Generation Overhaul Expense	(S-11) Power Delivery Adjustment	(S-12) O&M Normalization Adjustment	(S-13) Wholesale Margin Adjustment	(S-14) Ancillary Services Adjustment	(S-15) Extrinsic Value Adjustment	(S-16) Hydro Relicensing adjustment	(S-17) Station Service Adjustment	Total Adjustments (Base Rates)
1	Book Revenues	\$0	\$0	\$0	\$0	\$1,239	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$10,266	\$0	\$0	\$0	\$0	\$11,505
2	Book Expenses Other than Depreciation	(1,053)	(3,857)		(54)	0	(750)	(4,751)	0	(584)	(5,104)	(4,877)	(3,368)	0	(1,096)	(7,068)	(663)	0	(\$33,225)
3	State Tax Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
4	Interest	(0)	(47)	(2)	(0)	0	(0)	(51)	0	(0)	(2)	(2)	(1)	3	(0)	(3)	22	0	(\$84)
5	Schedule M Differences	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
6	State Taxable Income	\$1,053	\$3,904	\$2	\$54	\$1,239	\$750	\$4,802	\$0	\$584	\$5,106	\$4,879	\$3,369	\$10,263	\$1,096	\$7,071	\$641	\$0	\$44,814
7	Add OR Depletion Adjustment-Net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
8	Total State Taxable Income	\$1,053	\$3,904	\$2	\$54	\$1,239	\$750	\$4,802	\$0	\$584	\$5,106	\$4,879	\$3,369	\$10,263	\$1,096	\$7,071	\$641	\$0	
9	State Income Tax	\$48	\$177	(\$277)	\$0	\$56	\$34	\$218	\$0	\$27	\$232	\$222	\$153	\$466	\$50	\$321	\$29	\$0	\$1,756
10	State Tax Credits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
11	Net State Income Tax	\$48	\$177	(\$277)	\$0	\$56	\$34	\$218	\$0	\$27	\$232	\$222	\$153	\$466	\$50	\$321	\$29	\$0	\$1,756
12	Additional Tax Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
13	Other Schedule M Differences	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
14	Federal Taxable Income	\$1,005	\$3,727	\$279	\$54	\$1,183	\$716	\$4,584	\$0	\$557	\$4,874	\$4,657	\$3,216	\$9,797	\$1,046	\$6,750	\$612	\$0	\$43,058
15	Federal Tax @ 35%	352	1,304	(\$1,971)	19	414	251	1,604	0	195	1,706	1,630	1,126	3,429	366	2,362	214	0	\$13,001
16	Federal Tax Credits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
17	Current Federal Tax	\$352	\$1,304	(\$1,971)	\$19	\$414	\$251	\$1,604	\$0	\$195	\$1,706	\$1,630	\$1,126	\$3,429	\$366	\$2,362	\$214	\$0	\$13,001
18	ITC Adjustment																		\$0
19	Deferral	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
20	Restoration	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
21	Total ITC Adjustment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
22	Provision for Deferred Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
23	Total Income Tax	\$400	\$1,481	(\$2,248)	\$19	\$470	\$285	\$1,822	\$0	\$222	\$1,938	\$1,852	\$1,279	\$3,895	\$416	\$2,683	\$243	\$0	\$14,757

REVENUE REQUIREMENTS
EFFECTS OF ADJUSTMENTS

Revenues and Expenses Rate Base		(S-1) Rebasing	(S-2) Incentives	(S-3) FIT/ SIT	(S-4) Memberships	(S-5) Other Revenues	(S-6) Uncollectible	(S-7) A&G Benefits and Pensions	(S-8) RTO Adjustment	(S-9) Amortization of Common Stock Expenses	(S-10) Generation Overhaul Expense	(S-11) Power Delivery Adjustment	(S-12) O&M Normalization Adjustment	(S-13) Wholesale Margin Adjustment	(S-14) Ancillary Services Adjustment	(S-15) Extrinsic Value Adjustment	(S-16) Hydro Relicensing adjustment	(S-17) Station Service Adjustment	Total Adjustments (Base Rates)
Total		(\$1,085)	(\$3,949)	(\$3,737)	(\$58)	(\$1,278)	(\$773)	(\$4,869)	\$0	(\$602)	(\$5,262)	(\$5,028)	(\$3,472)	(\$10,590)	(\$1,130)	(\$7,289)	(\$698)	\$0	(\$49,820)
		(2)	(191)	(6)	0	1	(1)	(208)	0	(1)	(9)	(8)	(6)	11	(2)	(12)	89	0	(\$345)
		(\$1,087)	(\$4,140)	(\$3,743)	(\$58)	(\$1,277)	(\$774)	(\$5,077)	\$0	(\$603)	(\$5,271)	(\$5,036)	(\$3,478)	(\$10,579)	(\$1,132)	(\$7,301)	(\$609)	\$0	(\$50,165)

Item	<u>Proposed Staff Adjustments</u>		Revenue Requirement Effect
	Staff	Issue	
		<u>Revenue Requirement on the Company's Filed Results</u>	\$111,977
S-0	BC/TM	Rate of Return-UE 179 Staff ROR 7.87%	(\$46,370)
S-1	LK	Rebasing Adjustment Adjusts O&M expenses to reflect additional benefits from Rebasing Program not included in test period results.	(\$1,087)
S-2	LK	Incentives Adjustment Staff adjusts test year incentive expenses to the traditional sharing percentages approved in previous GRCs (disallowing 50% of non-exec. and all of exec. Incentives.)	(\$4,140)
S-3	JJ	FIT and SIT Adjustments Adjusts test period income taxes based on Staff's proposed capital structure.	(\$3,743)
S-4	PR	Membership Adjustments Adjustment reflects EEI membership status.	(\$58)
S-5	PR	Other Revenues Adjustment Adjusts Other Revenues to properly reflect test year revenue projections.	(\$1,277)
S-6	PR	Uncollectibles Adjustment Represents the difference between the results of operations and a 3 year average of uncollectibles from FERC Form 1 data.	(\$774)
S-7	MD	A&G, Benefits and Pension Adjustments Includes RTO adjustment and adjusts A&G, Benefits and Pensions.	(\$5,077)
S-8	ED	RTO Adjustment This is included in the A&G adjustment S-7 .	\$0
S-9	ED	Amortization of Capital Stock Expenses Removes costs associated with issuing common stock from test year results of operations.	(\$603)
S-10	ED	Generation Overhaul Expenses Adjusts certain supplemental increases to generation overhaul O&M expenses.	(\$5,271)
S-11	ED	PD Program Adjustment Adjusts some Power Distribution new system O&M and support costs.	(\$5,036)
S-12	ED	O&M Normalization Adjustments Adjusts generation, contracts and special maintenance O&M normalization in some areas.	(\$3,478)

S-13	BW	Wholesale Margin Adjustment Adjusts for additional margin that the company will realize from wholesale market sales and purchase transactions not captured in GRID.	(\$10,579)
S-14	BW	Ancillary Services Adjustment Reduces contingency reserve adjustment to net variable power costs to match ancillary services revenues in the filed case.	(\$1,132)
S-15	BW	Extrinsic Value Adjustment Reflect the option value of flexible power resources not dispatched in GRID.	(\$7,301)
S-16	ED	Hydro Relicensing Adjustment Adjusts cash payments from test year expenses.	(\$609)
S-17	BW	Station Service This adjustment was dropped.	\$0
S-18	ED	Miscellaneous Differences Accounts for differences between company and Staff working capital allowance and rounding differences.	(\$55)
		Other Issues	
			(96,590)
		<u>Staff* Adjusted Revenue Requirement</u>	\$15,387
		Percent change	1.81%

ISSUE 3, NON-LABOR ADMINISTRATIVE AND GENERAL EXPENSE ADJUSTMENT**Q. PLEASE SUMMARIZE THIS ADJUSTMENT.**

A. I performed a thorough review of non-labor costs in PacifiCorp's Administrative and General accounts, Accounts 921 through 935. These accounts include insurance costs, corporate overhead costs, office expense, rents, and miscellaneous other costs. I did not make any membership adjustments as these adjustments were made by Staff Witness Rossow in Staff/400. After I summed all of my specific adjustments, I escalated these adjustments using PacifiCorp's escalation rates. I then took the escalated Oregon-allocated amount, **\$5,100,805** ~~\$5,162,599~~, and subtracted from this amount, PacifiCorp's adjustment PPL/901, 4.5, A&G Expense Cap of \$4,985,367, receiving an Oregon adjustment of **\$115,438** ~~\$177,232~~.

Non-labor A&G Expense	<u>(\$115,438)</u> (\$177,232)
-----------------------	--

Exhibit Staff/604 –**Errata** shows details of this adjustment.

Q. PLEASE EXPLAIN PACIFICORP'S ADJUSTMENT PPL/901, 4.5, A&G EXPENSE CAP.

A. During UM 1209, Commission Order No. 06-121, dated February 24, 2006, the parties to the docket agreed to Commitment O12 that established an A&G base-line stretch goal of \$22.8 million that was allowed to be escalated annually.

In UE 179, PacifiCorp calculated its total Company A&G costs at \$249.01 million. The difference between this amount and the escalated base-

1 line stretch goal amount, which equaled \$231.49 million is \$17.52 million,
2 \$4.99 million Oregon-allocated. As a result, PacifiCorp adjusted this amount
3 (\$17.52 million system-wide, \$4.99 million Oregon-allocated) from test year costs.

4 **Q. EVEN THOUGH PACIFICORP MADE THIS SIGNIFICANT ADJUSTMENT TO**
5 **A&G COSTS, DID YOU ACTUALLY DISCOVER TOTAL PROPOSED**
6 **ADJUSTMENTS THAT WERE GREATER THAN PACIFICORP'S**
7 **\$4.99 MILLION ADJUSTMENT?**

8 A. Yes. As previously mentioned, my line item review resulted in \$5.10 ~~\$5.46~~ million
9 in adjustments. As Exhibit Staff/604 indicates, the majority of the adjustment
10 resulted from adjustments in insurance, legal costs, and corporate overhead costs.
11 It should be noted that if PacifiCorp had not agreed to the A&G stretch goal in UM
12 1209, my adjustments would have been \$5.10 ~~\$5.46~~ million. My thorough review
13 of costs is appropriate since the stipulated A&G stretch goal was calculated based
14 on my A&G adjustments in UE 170.

15 **Q. PLEASE EXPLAIN THE CORPORATE OVERHEAD ADJUSTMENT.**

16 A. This adjustment resulted from subtracting the MEHC corporate overhead costs of
17 \$8.8 million from the test year Scottish Power costs of \$14.3 million. This resulted
18 in a system adjustment of \$5.5 million, \$1.56 million Oregon-allocated. This
19 adjustment is displayed in Staff/Exhibit/604.

20 As background on this issue, Commission Order No. 06-305, dated
21 June 19, 2006, (UI 249) approved PacifiCorp's application for an Intercompany
22 Administrative Services Agreement with Midamerican Energy Holding

1 PacifiCorp when it was still owned by Scottish Power (Orders No. 04-737 and
2 05-146). In these dockets (UI 233 and UI 233(1)), PacifiCorp was able to
3 demonstrate a cost savings to customers by using a captive insurance provider.

4 I did not escalate the insurance adjustment to calendar year 2007, since
5 insurance premium costs are more market-driven than they are inflation-driven.
6 Exhibit/Staff 604 displays my adjustments to insurance costs.

7 **Q. PLEASE SUMMARIZE THE LEGAL ADJUSTMENTS.**

8 A. Although I accepted the vast majority of PacifiCorp's legal costs, I removed certain
9 legal costs that were extraordinary in nature and would not be repeated in the test
10 year. These costs were associated with FERC and other wholesale power
11 lawsuits, PUHCA reporting, and legal costs concerning PacifiCorp and the
12 Wyoming Public Service Commission.

13 I also adjusted certain legal costs concerning industrial customers in other
14 states. Since Oregon customers do not receive any benefits of the revenues
15 received from these customers, Oregon customers should not have to share in the
16 burden of legal expenses associated with these customers. Exhibit/Staff 604 =
17 Errata displays my adjustments to legal costs.

18 **Q. PLEASE SUMMARIZE THE REMAINING ADJUSTMENTS.**

19 A. I adjusted numerous miscellaneous costs (i.e. International Assignee expenses,
20 donations, grants, Director stock awards, celebrations, etc.) that should have been
21 recorded below the line ~~or and~~ not included in utility expenses. Exhibit/Staff 604
22 displays my adjustments to other miscellaneous costs.
23

Non-Labor A&G Adjustments

Account	Cost	Reason	Allocation	Oregon
921	\$215,618	International/SOE Air Travel (was \$212,214)	28.4419%	\$61,326
921	\$40,249	West Coast Coffee (was \$28,449)	28.4419%	\$11,448
921	\$60,000	Economic Development Corporation	28.4419%	\$17,065
921	\$64,607	Catering Services-Non Employees	28.4419%	\$18,375
921	\$7,756	Various Non-Oregon expenses - Customer/Marketing (was \$38,243)	28.4419%	\$2,206
921	\$0	CWIP Translation-Pre Settlement (was \$81,806)	28.4419%	\$0
921	\$0	Dues & Licenses - Paul	28.4419%	\$0
921	\$0	Electricity (was \$41,779)	28.4419%	\$0
921	\$109,963	Capital Environmental Expense	28.4419%	\$31,276
921	\$8,000	Marysville Land Rights	28.4419%	\$2,275
921	\$36,880	Lodging - UK	28.4419%	\$10,489
921	\$36,497	Meals & Entertainment - Various	28.4419%	\$10,380
921	\$14,297	Wyoming Metering Expense	28.4419%	\$4,066
921	\$46,242	Misc. Material & Supplies	28.4419%	\$13,152
921	\$2,500	Off-Site Facility Rentals (not in filed Staff/604)	28.4419%	\$711
921	\$12,591	On-Site Meals & Refreshments	28.4419%	\$3,581
921	\$92,370	Other Employee Related Expenses (was \$68,310)	28.4419%	\$26,272
921	\$37,585	Other Ground Trans - Wyoming	28.4419%	\$10,690
921	\$2,095	Non-Business Registration	28.4419%	\$596
921	\$22,139	IAS Training (No longer under Scottish Power)	28.4419%	\$6,297
921	\$33,297	Vehicle Leasing - PERK	28.4419%	\$9,470
921	\$842,686	Total (was \$954,994)		\$239,676
923	\$2,895,849	Legal Fees - PPL V. Wyoming PSC (court found in favor of PSC-- will not be a test year cost); FERC and other Wholesale cases that have wound down and will not be test year costs; PUHCA Reporting to SEC that is no longer required; Specific customer lawsuits that Oregon does not share revenue on (MAGCORP, OCI, DOES - revenues should match expenses); and civic activities (CEO Organization) Was \$2,967,864 in Staff/604	28.4419%	\$823,634
923	\$149,409	Accounting Fees - IAS, Immigration Services (CFO Organization)	28.4419%	\$42,495
923	\$28,300	Blue Sky	28.4419%	\$8,049
923	\$19,322	Ex-Pat Services (Power Delivery)	28.4419%	\$5,496

Non-Labor A&G Adjustments

<u>Account</u>	<u>Cost</u>	<u>DR</u>	<u>Reason</u>	<u>Allocation</u>	<u>Oregon</u>
923	\$1,356	20	Specific State Rate Case Services (External Regulatory Affairs)	28.4419%	\$386
923	\$567,556	20	MSP - Phase 3, RTO - Phase - 4, SP Tax (SM&P/CBS Exec), Canopy Botanicals	28.4419%	\$161,424
923	\$2,341	20	IA Tax Services (Economic Devel.)	28.4419%	\$666
923	\$50,677	20	Donations, Grants (Economic Devel.)	28.4419%	\$14,414
923	\$4,402	20	IA Tax Services (HR)	28.4419%	\$1,252
923	\$3,748	20	IA Tax Services (Internal Audit)	28.4419%	\$1,066
923	\$1,287	20	US Assignee - Tax Services	28.4419%	\$366
923	\$49,604	20	IA Tax Services, MSP - Phase 3, RTO (Major Projects)	28.4419%	\$14,108
923	\$333,820	20	Legal fees (MSP, RTO - Phase 4, Immigration - Major Projects)	28.4419%	\$94,945
923	\$36,491	339	Compensation Reduction Plan	28.4419%	\$10,379
923	\$89,549	339	Admin & Record Keeper - NQ Plans	28.4419%	\$25,469
923	<u>\$83,925</u>		Add Back PPL/901/4.4.2	28.4419%	<u>-\$23,870</u>
923	\$4,149,786		Total (was \$4,220,514)		\$1,180,278
924	<u>-\$2,884,563</u>		Property¹	28.4419%	<u>-\$820,427</u>
925	\$8,809,603		Liability	28.4419%	\$2,505,627
930.1	\$29,865	20	Utah Blue Sky	28.4419%	\$8,494
930.1	\$1,000	20	Carbon 50 Year Celebration	28.4419%	\$284
930.1	\$7,108	20	Spirit of Excellence Advertsing	28.4419%	\$2,022
930.1	\$29,423	20	Blue Sky Add (Melvin Marks) - \$29,423	28.4419%	\$8,368
930.1	\$8,836	20	Nonutility (Arbor Day, WY HS, WSJ SOX, Big Game)	28.4419%	\$2,513
930.1	<u>-\$20,608</u>		Blue Sky Adjustment 4,1	28.4419%	<u>-\$5,861</u>
930.1	\$55,624		Total	28.4419%	\$15,821
930.2	\$5,500,000	111	SPUK (\$14,300,000) - MEHC (\$8,800,000) ²	28.4419%	\$1,564,305
930.2	\$111,644	20	Challenge Grants, Promotions	28.4419%	\$31,754
930.2	\$166,020	20	Director Deferred Stock Awards	28.4419%	\$47,219
930	<u>-\$46,348</u>	20	Y2k Double Count	28.4419%	<u>-\$13,182</u>
930.2	\$5,611,644		Total	28.4419%	\$65,791

Non-Labor A&G Adjustments

Account	Cost	DR	Reason	Allocation	Oregon
931	\$2,083	20	Rent - Utah Sports	28.4419%	\$592
931	\$16,667	20	Rent - Econ Development	28.4419%	\$4,740
931	\$15,768	20	IBEW	28.4419%	\$4,485
931	\$34,518	20	Total	28.4419%	\$9,818
935	\$5,920	20	Unused Leave (To prevent double counting)	28.4419%	\$1,684
935	\$25,000	20	EDCU Contribution Agreement	28.4419%	\$7,110
935	\$1,702	20	Holiday Wreaths	28.4419%	\$484
935	\$2,485	20	Holiday Decorations	28.4419%	\$707
935	\$6,250	20	Utah Sports	28.4419%	\$1,778
935	\$169,694		Total	28.4419%	\$48,264
A&G	\$10,863,952		Total		\$4,809,151

Note:

- Insurance adjustment from Staff Work papers page 8.
- UM 1209 Commitment 09(b)(i) "to the Commission's satisfaction, in the context of a general rate case, that corporate allocations from MEHC to PacifiCorp included in PacifiCorp's rates are less than \$7.3 million."

1 **CERTIFICATE OF SERVICE**

2 I certify that on July 25, 2006, I served the foregoing upon all parties of record in this
3 proceeding by delivering a copy by electronic mail and by mailing a copy by postage prepaid
4 first class mail or by hand delivery/shuttle mail to the parties accepting paper service.

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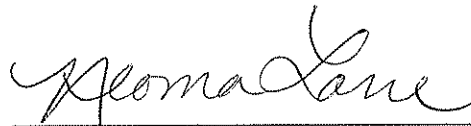
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