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IDAHO PUBLIC  
UTILITIES COMMISSION

LISA D. NORDSTROM  
Senior Counsel

September 25, 2009

**VIA HAND DELIVERY**

Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
472 West Washington Street  
P.O. Box 83720  
Boise, Idaho 83720-0074

Re: Case No. IPC-E-08-22  
*Rule H*

Dear Ms. Jewell:

Enclosed please find for filing an original and eight (8) copies of the Response Testimony of Gregory W. Said on Reconsideration. One copy of the enclosed testimony has been designated as the "Reporter's Copy." In addition, a disk containing a Word version of Mr. Said's testimony has been provided for the Reporter and has been marked accordingly.

In addition, an original and eight (8) copies of the Certificate of Service to the parties is enclosed herein for filing.

Very truly yours,



Lisa D. Nordstrom

LDN:csb  
Enclosures

CERTIFICATE OF SERVICE

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IDAHO PUBLIC UTILITIES COMMISSION

I HEREBY CERTIFY that on this 25<sup>th</sup> day of September 2009 I served a true and correct copy of IDAHO POWER COMPANY'S RESPONSE TESTIMONY OF GREGORY W. SAID ON RECONSIDERATION upon the following named parties by the method indicated below, and addressed to the following:

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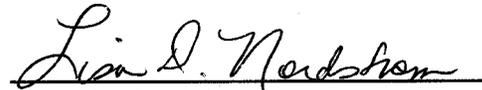
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\_\_\_\_\_  
Lisa D. Nordstrom

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UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR )  
AUTHORITY TO MODIFY ITS RULE H )  
LINE EXTENSION TARIFF RELATED TO ) CASE NO. IPC-E-08-22  
NEW SERVICE ATTACHMENTS AND )  
DISTRIBUTION LINE INSTALLATIONS. )  

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IDAHO POWER COMPANY

RESPONSE TESTIMONY

OF

GREGORY W. SAID

ON RECONSIDERATION

1 Q. Please state your name and business address.

2 A. My name is Gregory W. Said and my business  
3 address is 1221 West Idaho Street, Boise, Idaho.

4 Q. Are you the same Gregory W. Said that  
5 previously provided direct testimony in this case?

6 A. Yes, I am.

7 Q. Please describe the events leading up to  
8 your preparation of responsive testimony in this case.

9 A. On July 1, 2009, the Idaho Public Utilities  
10 Commission ("IPUC") issued Order No. 30853 detailing its  
11 findings as to the appropriate changes to be made with  
12 regard to Idaho Power Company's ("Idaho Power" or the  
13 "Company") provisions for constructing new service  
14 attachments, distribution line installations, or  
15 alterations. Those provisions are contained in the  
16 Company's Rule H.

17 Subsequent to the filing of petitions for  
18 reconsideration of the July 1 Order, the IPUC, on August  
19 19, 2009, issued Order No. 30883 granting the Petitions for  
20 Reconsideration of Ada County Highway District, City of  
21 Nampa, and Association of Canyon Highway Districts  
22 regarding jurisdictional authority issues relating to the  
23 Order. A briefing schedule was set to address those  
24 issues.

1           Order No. 30883 also granted in part and denied in  
2 part the Petition for Reconsideration filed by the Building  
3 Contractors Association of Southwestern Idaho ("BCA").  
4 Specifically, reconsideration was granted, but limited to  
5 the issue of the amount of initial allowances. The Order  
6 instructed the BCA to address "what allowance amount is  
7 reasonable based upon the cost of new distribution  
8 facilities."

9           On September 11, 2009, Dr. Richard A. Slaughter on  
10 behalf of the BCA submitted his testimony on  
11 reconsideration. I am presenting the Company's response to  
12 the BCA testimony.

13           Q.       Please describe the Commission's  
14 determination of the appropriate allowances to be provided  
15 to new residential customers outside of a residential  
16 subdivision as per Order No. 30853.

17           A.       The Commission, in Order No. 30853,  
18 determined that new residential customers outside a  
19 residential subdivision should receive an allowance of up  
20 to \$1,780. The \$1,780 amount was based upon the current  
21 installation cost of Standard Terminal Facilities for  
22 single phase service to residential customers. The  
23 components of this amount were described by Mr. Sparks in  
24 his direct testimony and workpapers in this case. Standard

1 Terminal Facilities costs include the costs associated with  
2 providing and installing one overhead service conductor and  
3 one 25 kVa transformer to serve a 200 amperage meter base.  
4 Based upon this allowance, customers that required non-  
5 typical, larger than standard transformation or customers  
6 that wanted underground service would be required to pay as  
7 a contribution in aid of construction ("CIAC") those work  
8 order costs that exceeded the Standard Terminal Facilities  
9 cost of \$1,780. Customers are responsible for the costs of  
10 new primary conductor constructed between the existing  
11 distribution facilities and the customers' terminal  
12 facilities, as well as any secondary conductor constructed  
13 between the transformers and junction boxes.

14           The effect of the allowance is typically that for  
15 new residential customers requesting overhead service from  
16 existing facilities adjacent to their new home, there is no  
17 cost to the customer. However, if the customer wants  
18 underground service, or if the customer is building a large  
19 home that requires larger than standard transformation, or  
20 if the customer is some distance from existing facilities,  
21 that customer is responsible for the additional costs of  
22 providing service.

23           Q.           Please describe the Commission's  
24 determination of the appropriate allowances provided to

1 **developers** of residential properties *inside* residential  
2 subdivisions as per Order No. 30853.

3           A.           Similar to its decision as to the  
4 appropriate allowance for residential customers outside of  
5 residential subdivisions, the Commission determined that  
6 allowances within subdivisions should be based upon the  
7 same Standard Terminal Facilities costs that were used for  
8 residential customers outside of subdivisions. Therefore,  
9 the Commission set the allowance at \$1,780 *per installed*  
10 *transformer* within subdivisions.

11           The effect of the allowance inside a subdivision  
12 requiring six transformers is that the Company funds the  
13 first \$10,680 (6 \* \$1,780) of a developer's work order  
14 costs. Work order costs for residential subdivisions  
15 typically include: (1) primary conductor necessary to  
16 reach new transformers, (2) the transformers, and (3)  
17 secondary conductor to junction boxes. Meters and services  
18 are not typically installed as part of subdivision work  
19 orders. Later, when homes are constructed and new owners  
20 request service, Idaho Power installs meters and service  
21 conductor but those individual owners are only financially  
22 responsible for the overhead/underground differential for  
23 services (similar to customers outside subdivisions) and,

1 in the case of large lot subdivisions, any additional  
2 secondary line extensions.

3 Q. What is Dr. Slaughter's recommendation for  
4 an allowance?

5 A. Dr. Slaughter's recommendation, as I  
6 understand it, is to provide an upfront allowance to  
7 developers (not customers) of residential subdivisions  
8 equal to \$1,232 *per lot* within the subdivision.

9 He equates the number of lots within a residential  
10 subdivision to the number of customers that will  
11 potentially be served, implying that no development risk  
12 exists. He devotes a significant portion of his testimony  
13 comparing an embedded cost number of \$1,232 *per customer* to  
14 the Commission-ordered allowance within residential  
15 subdivisions of \$1,780 *per installed transformer*. I will  
16 detail in my testimony why this is not a valid comparison.

17 As the Company has stated in reply comments, there  
18 is a difference between lots and customers. Lots represent  
19 a possibility of future customers that will receive service  
20 from the Company, but are by no means a guarantee of future  
21 customers.

22 Q. What is the financial effect of Dr.  
23 Slaughter's recommendation?

1           A.       Dr. Slaughter's recommended mechanism treats  
2 developers of residential subdivisions more favorably than  
3 individual customers seeking connections outside of  
4 subdivisions. It tends to provide allowances in  
5 subdivisions that exceed the costs of Standard Terminal  
6 Facilities with the excess allowances offsetting the costs  
7 of primary conductor and secondary conductor. Such  
8 treatment is inconsistent with the treatment of residential  
9 customers outside of subdivisions who do not receive an  
10 allowance greater than the cost of Standard Terminal  
11 Facilities.

12           Furthermore, as I will discuss later in my  
13 testimony, Dr. Slaughter's allowance recommendation  
14 inappropriately includes a component for substations which  
15 are excluded from the provisions of Rule H.

16           In my opinion, it would be illogical for the  
17 Commission to conclude that the Company should make a  
18 greater investment on behalf of a speculative development  
19 within a subdivision than the investment the Company makes  
20 for an actual new residential customer outside a  
21 residential subdivision.

22           Q.       As the Commission reconsiders its  
23 determination of appropriate residential allowances, what

1 do you see as the primary considerations the Commission  
2 must make?

3           A.       The determination of appropriate residential  
4 allowances is primarily a policy issue of how to apportion  
5 the costs and risks associated with extending distribution  
6 service to new customers. Current policy decisions  
7 regarding allowances to residential customers and  
8 residential developers should take into consideration: (1)  
9 current economic factors facing the Company and its  
10 customers, (2) consistency of allowances within each  
11 customer class, and (3) risks associated with the  
12 differences between requests made by residential *customers*  
13 and requests made by residential *developers*.

14           Once the Commission has settled on appropriate  
15 policy, the only remaining issue is to determine the  
16 appropriate method by which the allowances are to be  
17 determined.

18           Q.       What policy rationale does Dr. Slaughter  
19 give for his recommendation?

20           A.       Dr. Slaughter points to policy the  
21 Commission set in 1995 as precedent for policy in 2009. He  
22 quotes Commission Order No. 26780 issued in 1995 wherein  
23 the Commission stated:

1 We find that new customers are  
2 entitled to have the Company provide  
3 a level of investment equal to that  
4 made to serve existing customers in  
5 the same class. Recovery of those  
6 costs in excess of embedded costs  
7 must also be provided for and the  
8 impact on the rates of existing  
9 customers is an important part of  
10 our consideration.

11 (Order 26780 at 17.)

12 Q. Does the Company agree with Dr. Slaughter  
13 that the level of investment that the Company should make  
14 on behalf of new customers via allowances for line  
15 installations and service attachments should not change  
16 over time?

17 A. No. While there is some value in having a  
18 consistent policy over time, there is also value in  
19 changing policy in light of changing circumstances. As I  
20 pointed out in my direct testimony in this proceeding, the  
21 Company has filed four general rate cases and two single-  
22 issue rate cases since 2003. The Company recently filed a  
23 Notice of Intent to file an additional general rate case  
24 later this year. In general, additional revenues generated  
25 from the addition of new customers and load growth are not  
26 keeping pace with the additional expenses created and  
27 required to provide ongoing safe and reliable service to  
28 new and existing customers. Given the current frequency of

1 rate case activity and recognition that the Company will  
2 still be making substantial investments in generation and  
3 transmission assets in coming years, the Company believes  
4 it is reasonable for the Commission to adjust its policy  
5 with regard to the level of investment that the Company  
6 should make on behalf of new customers via allowances for  
7 line installations and service attachments. What worked in  
8 1995 is not working today.

9           In addition, I believe that the Commission must re-  
10 examine and update its historical policy regarding  
11 residential allowances to ensure consistent treatment  
12 within the residential class while at the same time  
13 recognizing the differences in risk associated with  
14 facilities constructed for customers or constructed for  
15 developers.

16           Q.       In your opinion, did Dr. Slaughter follow  
17 the Commission instructions to address "what allowance  
18 amount is reasonable based upon the cost of new  
19 distribution facilities" when making his allowance  
20 recommendation for residential subdivisions?

21           A.       No. The Commission's instruction to  
22 evaluate the cost of "new" distribution facilities is  
23 consistent with the Company's contention that current  
24 policy should be based upon current conditions. Dr.

1 Slaughter's recommendation is based upon 14 year-old policy  
2 and what he calls "the Company's embedded distribution  
3 costs." Rather than evaluating the costs of facilities  
4 currently required within a given subdivision, Dr.  
5 Slaughter proposes allowances be based upon historical  
6 investments of the Company on behalf of customers. In that  
7 regard, I believe that Dr. Slaughter includes costs that  
8 are unrelated to facilities required as part of residential  
9 subdivision requests and therefore should not be considered  
10 when determining allowances.

11 Q. What does Dr. Slaughter propose as the  
12 allowance to be funded by the Company inside a residential  
13 subdivision?

14 A. Dr. Slaughter proposes an allowance of  
15 \$1,232 per lot within a residential subdivision.

16 Q. What methodology did Dr. Slaughter use to  
17 derive his \$1,232 per lot recommendation?

18 A. Dr. Slaughter has simply re-packaged  
19 computations made by the Commission Staff earlier in this  
20 case. Those computations included costs related to  
21 investments the Company has made in substations, primary  
22 lines, secondary lines, transformers, services, and meters  
23 that have been allocated to the residential class in rate  
24 proceedings. Attachment 4 to Staff Comments in this

1 proceeding quantified total net plant for these six items  
2 per residential customer at \$1,104. Staff Comments  
3 described an adjustment of this number to arrive at \$1,232  
4 per customer, an amount Staff described as a "revenue  
5 neutral" level. Staff did not make a proposal based upon  
6 its quantifications. Staff ultimately recommended no  
7 allowance inside subdivisions but instead proposed refunds  
8 equal to the cost of overhead transformers to developers as  
9 new homes are built and customers are connected. See Staff  
10 Comments at pp. 6-7.

11 Q. Does the Company believe that allowances for  
12 residential subdivisions should be based upon what Staff  
13 calls "revenue neutral" and Dr. Slaughter calls "embedded  
14 costs" that include substations, primary lines, secondary  
15 lines, transformers, services, and meters?

16 A. No. The Company disagrees with both the  
17 policy underlying the computations and the methodology used  
18 based upon that policy. The Commission did not utilize the  
19 Staff's computations when it made earlier determinations in  
20 this case and it should not accept those computations as  
21 re-presented by the BCA.

22 First, with regard to the methodology, the  
23 Commission should recognize that residential subdivision  
24 work orders typically include only a primary line (or

1 backbone), a number of transformers and secondary line to  
2 individual lots. There are no costs associated with  
3 substations, services, or meters in residential subdivision  
4 work orders. Service conductor and meters are not  
5 installed within subdivisions until later when homes are  
6 actually constructed and customer load occurs. In my  
7 opinion, there is no reason to provide allowances to  
8 developers for costs that are not incurred or included in  
9 the developer's work order to construct facilities  
10 necessary for the residential subdivision.

11           Second, with regard to consistency of policy, per  
12 Order No. 30853, residential customers outside of  
13 subdivisions receive allowances based solely on Standard  
14 Terminal Facilities. They receive no allowances for the  
15 costs of substations, primary lines, or secondary lines.  
16 In my opinion, it is not appropriate to base an allowance  
17 to developers for lots inside a residential subdivision on  
18 facilities that are not considered for allowances to  
19 residential customers outside of subdivisions.

20           Third, again with regard to consistency of policy,  
21 as pointed out by Dr. Slaughter, transformers often serve  
22 more than one ultimate customer. Offering an allowance on  
23 a per customer basis rather than on a per transformer basis  
24 can lead to the unreasonable result that the allowance is

1 greater than the cost of terminal facilities (in this case  
2 transformers) required to provide service. These excess  
3 allowances would theoretically be applied to other work  
4 order costs such as primary and secondary line  
5 construction, an allowance that is not provided to any  
6 other customer group. In my opinion, allowances should  
7 consistently be based upon terminal facilities and  
8 allowances should not exceed these costs.

9 Q. Further addressing the allowance computation  
10 methodology, does the Company believe that the Staff  
11 computation adopted by Dr. Slaughter represents a correct  
12 "revenue neutral" level that can be used for quantifying  
13 historical per residential lot investments made by the  
14 Company in residential subdivision work orders?

15 A. No. As I have discussed, the Staff  
16 computations include amounts for substations, meters, and  
17 service conductor which are not provided as part of  
18 residential subdivision work orders. Of the remaining  
19 three cost categories (transformers, primary lines, and  
20 secondary lines) only transformers are considered when  
21 determining allowances for all other customer classes.  
22 Furthermore, Staff included the costs of both primary and  
23 secondary transformers that receive allocation to  
24 residential class in general rate case proceedings. New

1 residential requests under Rule H provisions rarely, if  
2 ever, include primary transformers. In order to remain  
3 consistent with the treatment of all other customer  
4 classes, the Commission should isolate its review of Dr.  
5 Slaughter's computations to the transformer component.

6 Q. Please quantify the embedded net plant  
7 investment per customer in transformers *per residential*  
8 *customer* based upon data contained in Staff Comments in  
9 this proceeding.

10 A. Based upon Attachment 4 to Staff's Comments,  
11 the embedded net plant investment in transformers for the  
12 residential class is \$314.80 per residential customer  
13 (\$123,250,351 / 391,525 customers). As I pointed out  
14 previously in my testimony, this amount includes primary  
15 transformer costs that should not be included and are  
16 unrelated to Rule H requests.

17 Q. Can you quantify the embedded net plant  
18 investment in transformers *per residential transformer*  
19 based upon the numbers contained in Staff Comments?

20 A. Unfortunately, there is not an easy method  
21 to arrive at such a number. However I am told by the  
22 Company's Line Design Leader that the Company has installed  
23 approximately 132,662 transformers smaller than 150 kVA.  
24 These transformers can and do serve a variety of customer

1 classes. Using an allocation methodology used in rate  
2 cases based upon customer demands, my staff tells me that  
3 60.6 percent of secondary transformer costs are allocated  
4 to the residential class. Using this percentage, the  
5 estimated number of residential transformers is 80,393  
6 (132,662 x 0.606). Using that value, the embedded net  
7 plant per installed residential transformer is \$1,533 per  
8 installed transformer. ( $\$123,250,351 / 80,393$   
9 transformers.) Again, please remember that this number  
10 includes primary transformers as well as secondary  
11 transformers. Even so, the Commission approved allowance  
12 of \$1,780 per installed residential transformer based upon  
13 current costs is more generous than an allowance of \$1,533  
14 per transformer that would result from an isolated look at  
15 the embedded cost of both primary and secondary  
16 transformation per installed residential transformer. If  
17 primary transformers were removed from the computation, the  
18 \$1,780 allowance would appear even more generous.

19 Q. What rationale does Dr. Slaughter provide in  
20 support of his per customer allowance as opposed to a per  
21 transformer allowance?

22 A. Dr. Slaughter implies that developers of  
23 residential subdivisions should be awarded greater overall  
24 allowances via a per lot allowance than the overall

1 allowance provided to residential customers outside of  
2 subdivisions because more lots can be served per  
3 transformer within subdivisions than the number of  
4 customers served per transformer outside of subdivisions.  
5 However, Dr. Slaughter fails to consider the financial risk  
6 associated with lots that are left undeveloped; i.e.,  
7 facilities have been installed and there is no connected  
8 load.

9 Q. Do you have an estimate of the number of  
10 undeveloped residential lots within subdivisions that  
11 currently have no homes, but have backbone and transformers  
12 available to provide service?

13 A. I am told that the current estimate of  
14 vacant, undeveloped residential lots in residential  
15 subdivisions where the Company has installed backbone line  
16 and transformers is greater than 20,000 lots.

17 Q. Notwithstanding the risk of non-development  
18 of residential lots within residential subdivisions, is  
19 there a difference between the number of *potential*  
20 *customers* served per transformer within a subdivision and  
21 the number of customers that are served per transformer  
22 outside of subdivisions?

23 A. Yes. The typical transformer installed  
24 outside a subdivision is a single phase 25 kVA transformer

1 that can typically serve 3 customers. The \$1,780 allowance  
2 is based upon the installed cost of that transformer (\$915)  
3 along with service conductor and metering (\$865). The  
4 typical transformer installed inside a subdivision is a  
5 single phase 75 kVA transformer. The Company's and  
6 Commission Staff's position is that allowances should be  
7 based on the costs associated with overhead Terminal  
8 Facilities, which, in a residential subdivision, equates to  
9 transformers. The current installed cost of an overhead  
10 single phase 75 kVA transformer is \$1,667. The Commission-  
11 approved allowance provided exceeds the cost of the  
12 typically installed transformer inside a subdivision by  
13 \$113 per transformer, but offers an equivalent benefit to  
14 customers, whether located inside or outside a subdivision.  
15 As I have testified previously, service conductor and  
16 metering are provided to homeowners at a later time and are  
17 not costs incurred by developers.

18 A request for service within a residential  
19 subdivision has an implied number of ultimate customers per  
20 transformer, whereas a request for service to a residential  
21 customer outside of a subdivision does not. However, if  
22 additional residential customers request service that can  
23 be served by an existing transformer, those customers only  
24 receive an allowance reflective of service conductor and

1 metering because the transformer is already there. As a  
2 result, Dr. Slaughter's conclusion that residential  
3 allowances outside of residential subdivisions are more  
4 generous than allowances within residential subdivisions is  
5 erroneous.

6 Q. Based upon your responsive testimony, what  
7 recommendation do you now make with regard to the  
8 appropriate level of allowances within residential  
9 subdivisions?

10 A. I recommend that the Commission reaffirm its  
11 original conclusion that an allowance of \$1,780 per  
12 installed transformer is the appropriate allowance to be  
13 funded by the Company within residential subdivisions. The  
14 allowance is appropriate based upon policy that considers  
15 current economic conditions, consistent treatment between  
16 and within customer classes, and different risk attributes  
17 of new residential customers and residential developers.  
18 The methodology of determining an appropriate allowance  
19 within a residential subdivision based upon the current  
20 cost of transformers is appropriate and consistent with a  
21 policy that treats residential customers inside and outside  
22 subdivisions similarly.

23 Q. Do you have any additional comments on Dr.  
24 Slaughter's testimony on reconsideration?

1           A.       Yes. On page 8 of his testimony on  
2 reconsideration, Dr. Slaughter includes a table that he  
3 attributes to Staff as his source. In fact, only a portion  
4 of the table is taken from Staff computations. Dr.  
5 Slaughter arrives at an incorrect conclusion that the  
6 Company will somehow achieve negative investment per  
7 customer by incorrectly equating what he terms "recovery  
8 through existing rates" with contributions in aid of  
9 construction. Generally speaking, as long as the Company  
10 provides any allowance, that allowance is representative of  
11 a Company investment on behalf of customers. The Company  
12 is entitled to recover depreciation expense as well as  
13 other O&M expenses associated with that investment. The  
14 Company is also entitled to an opportunity to earn a return  
15 on its investments. However, recovery of investment-  
16 related expenses should not be confused with contributions  
17 in aid of construction (e.g., work order expenses in excess  
18 of allowances) which offset rate base.

19           On page 10 of Dr. Slaughter's testimony on  
20 reconsideration, he states that as a result of a \$1,780 per  
21 installed transformer allowance within a subdivision, "the  
22 Company will be in an excess earning situation with regard  
23 to its distribution plant." This conclusion suggests that  
24 the Company color codes its revenues and assesses under-

1 and over-earning of the Company's authorized rate of return  
2 by functional category. This is not a historic approach  
3 utilized by the Commission. I am confident that the  
4 Commission can and will monitor the earnings of the Company  
5 over time. In the last decade, the Company has found it  
6 difficult to earn its authorized rate of return, much less  
7 earn more than its authorized rate of return. The  
8 Commission should continue to consider the Company's actual  
9 earnings from a global perspective rather than a piecemeal  
10 perspective.

11 Q. Does that conclude your testimony?

12 A. Yes, it does.