BEFORE THE

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IDAHO PUBLIC
UTILITIES COMMISSION

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IN THE MATTER OF THE APPLICATION OF PACIFICORP DBA ROCKY MOUNTAIN POWER FOR APPROVAL OF CHANGES TO ITS ELECTRIC SERVICE SCHEDULES)))))))))

CASE NO. PAC-E-10-7

DIRECT TESTIMONY OF DONN ENGLISH

IDAHO PUBLIC UTILITIES COMMISSION

OCTOBER 14, 2010

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Q. Please state your name and business address for the record.

A. My name is Donn English. My business address is 472 W. Washington, Boise, Idaho 83702.

Q. By whom are you employed and in what capacity?

A. I am employed by the Idaho Public Utilities Commission as a senior auditor in the Utilities Division.

Q. What is your educational and experience background?

A. I graduated from Boise State University in 1998 with a BBA degree in Accounting. Following my graduation, I accepted a position as a Trust Accountant with a pension administration, actuarial and consulting firm in Boise. As a Trust Accountant, my primary duties were to audit the day-to-day financial transactions of numerous qualified retirement plans. In 1999, I was promoted to Pension Administrator. As a Pension Administrator, my responsibilities included calculating pension and profit sharing contributions, performing required non-discrimination testing and filing the annual returns (Form 5500 and attachments). In May of 2001, I became a designated member of the American Society of Pension Professionals and Actuaries (ASPPA). I was the first person in Idaho to receive the Qualified 401(k) Administrator certification and I am one of approximately ten people in Idaho who have earned the Qualified Pension Administrator certification. In 2001, I was promoted to a Pension Consultant, a position I held until 2003 when I joined the Commission Staff.

With the American Society of Pension Professionals and Actuaries, I served on the Education and Examination Committee for two years. On this committee I was responsible for writing and reviewing exam questions and study materials for the PA-1 and PA-2 exams (Introduction to Pension Administration Courses), DC-1, DC-2 and DC-3 exams (Administrative Issues of Defined Contribution Plans - Basic Concepts, Compliance Concepts and Advanced Concepts) and the DB exam (Administrative Issues of Defined Benefit Plans). I have also regularly attended conferences and training seminars throughout the country on numerous pension issues.

While with the Commission, I have audited a number of utilities including electric, water and gas companies and provided comments and testimony in several cases that dealt with general rates, accounting issues, pension issues and other regulatory issues. In 2004 I attended the 46^{th} Annual Regulatory Studies Program at the Institute of Public Utilities at Michigan State University sponsored by the National Association of Regulatory Utility Commissioners (NARUC). Since then I have regularly attended NARUC conferences and meetings, primarily the meetings of the Subcommittee of Accounting and Finance.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to present and support Staff adjustments to the Company's revenue requirement, specifically adjustments to employee wages and benefits, along with an adjustment to property taxes and a minor adjustment to the Company's revenue to impute fair market value for two subleases at the One Utah Center in Salt Lake City.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I am sponsoring Staff Exhibit Nos. 104-107. Exhibit No. 104 is a summary of all of the adjustments I propose to the Company's Revenue Requirement. The amounts listed are on a total Company (system) basis and have been provided to Staff witness Vaughn to include in the Regulatory Adjustment Model (RAM) and the Jurisdictional Allocation Model (JAM).

Q. Please explain the imputed revenue adjustment on Exhibit No. 104, line 1.

A. The Company's corporate offices are located at the One Utah Center in Salt Lake City. The Company currently leases 120,610 square feet at an average price of

$21.31 per square foot, and subleases some of its space to three major tenants at an average price of $18.48 per square foot. In addition, the Company also sublets office space to the Utah Sports Commission and the Economic Development Commission of Utah for $12.00 per year. Staff believes that it is not appropriate for customers, especially Idaho customers, to subsidize through electricity rates the leases for these two Utah Commissions at the below market rate that PacifiCorp has decided to grant to them. The total office space occupied by these two Commissions is 7,689 square feet. I impute revenue of $142,069 at a price of $18.48 per square foot, less the $24 annually received for these two sub-leases.

Q. Please explain your next adjustment.

A. The next adjustment I propose on Exhibit No. 104, line 2, is to remove $1,603,785 (system) from FERC Account 925 for Injuries and Damages.

Q. What is the basis for this adjustment?

A. In its Application, the Company proposed using a three-year average, net of receivables from insurance, of amounts booked into Account 925, Injuries and Damages, for a total of $3,481,634 on a system-wide basis, compared to only $1,877,849 during the 2009 test year.

Q. Has the Company used the three-year average for Injuries and Damages in the past?

A. Yes, however, none of those general rate cases went to a full hearing where the Commission has made a ruling on the issue. Staff will occasionally support the use of averages for accounts that show volatility from year to year that are beyond the Company's control. However, when it comes to Injuries and Damages, each individual entry into that account is, by its very nature, an extraordinary and hopefully non-recurring expense. The account is a catch-all account for minor accidents, automobile accidents, and sometimes for damages where employee negiligence is involved. For those reasons alone, it would be feasible to argue that the entire amount should be removed from revenue requirement.

Q. Are you recommending removal of the entire amount?

A. No. I propose using the actual amounts booked in 2009 for Injuries and Damages, net of receivables, for two reasons. First, the 2009 level was the lowest level booked into that account over the past three years, so it is an amount that is reasonably attainable. By including the lowest level incurred during the last three years, it provides incentive for the Company to continue to manage the amounts it spends on Injuries and Damages. Secondly, the amounts booked to Account 925 have been trending downward, from $5.4 million in 2007, to $3.2 million in

2008, to $1.9 million in 2009. This downward trend can be attributed to safety measures undertaken by the Company during 2008 and 2009.

Q. Briefly describe some of the specific safety measures that were undertaken by the Company during 2008 and 2009.

A. The safety measures, among other things, ensured that Company policy was developed, effectively communicated to employees, and was being followed at all levels of the organization and that there was sufficient control, monitoring, and correct procedures in place to meet the stated safey performance, which was to be in the top 10% of the Company's peer group. The plan also established a road risk management program to reduce preventable vehicle accidents by 10% below the 2007 and 2008 targets. The plan also included crew audits in the field, managers walking the dock, management's morning stretch and flex and a daily safety briefing at the start of each shift. Quarterly facility audits and monthly crew audits were performed. All deficiencies observed were corrected and responsible employees received coaching, counseling and training.

Q. Does the decline in the amounts spent on Injuries and Damages reflect that the plan is working?

A. Yes, I believe it does. Therefore, it would not be reasonably prudent to allow the Company to recover in rates any amount that does not take into consideration the Company's recent safety efforts.

Q. Please explain the adjustment to property taxes shown on Exhibit No. 104, line 3.

A. The Company has requested to recover in rates an amount it believes will accrue for property taxes for 2010. However, the Company routinely appeals the assessed value of the property that is taxed by the different states in which the Company owns and maintains property. Since 2005, the Company has received refunds from successful appeals totaling over $1.7 million. Because the total accrual for property tax is included in base rates, shareholders receive the benefit of all property tax refunds. Customers who are actually paying the accrued property taxes in their retail rates should receive the benefit of any refunds from the successful property tax appeals. The adjustment of $288,125 is the average amount refunded to the Company for the tax years 2005 through 2010. This amount is representantive of what I believe the Company may receive in refunds for successful appeals of the 2010 tax liability.

Q. Please explain the Company's treatment of pension expense in this case.

A. The Company requested to recover its 2010 actual cash contributions to the pension plan, instead of the accrued expense calculated under the Statement of Financial Accounting Standards No. 87 (SFAS 87), commonly referred to as the pension expense. This is consistent with prior PacifiCorp rate cases and the Letter of Understanding from the Commission Staff.

Q. Can you briefly refresh the Commission on the difference between the two amounts?

A. Without getting into the details of how the two different amounts are calculated, which has been rehashed in previous cases, the cash contribution is the actual cash outlay invested into the plan's trust account, while the SFAS 87 pension expense is reflected on the financial statements of the Company as a reduction (or increase) in the Company's earnings. Both amounts are calculated using similar principles, although the rules for calculation are very different. Staff and the Commission have generally supported the use of the actual cash contribution as the starting point for determining an amount to be included in a utility's annual revenue requirement.

In this case, the Company reflects a pension expense of $31,800,000 to be recorded on its books for 2010, with a cash contribution of $104,800,000 for 2010 on a total system basis. After adjusting the amounts to remove the portion for the mines and to account for just the O&M portion, the Company proposes an adjustment of

$47.7 million, as shown on Exhibit No. 105, Column (c), line 11.

Q. What is the basis for your adjustment to pension expense?

A. At the time of this writing, the 2010 actuarial valuation has not been completed. The Company has not provided any detailed calculations from its actuaries illustrating how the $104.8 million contribution was calculated. Though there is no reason to believe that the 2010 contributions are miscalculated, Staff was not able to verify the amounts. Furthermore, the estimated future contributions calculated by the Company's actuaries and provided to Staff confidentially indicate a significant decrease in pension funding in future years. The required contribution for 2010 is approximately twice as much as the contribution for 2009 and estimated contribution for 2011. To include the 2010 contribution amount in rates that go into effect in 2011 and could potentially remain in effect for several years would allow the Company to collect significantly more in revenue than necessary to meet its pension obligations. I have used an average of the projected contributions to the pension plan for the period of 2010-2014 as the amount to include in Staff's revenue requirement for pension expense, as shown on Exhibit No. 105 Column (d), line 1. The projected future contributions to the PacifiCorp Retirement Plan are shown on Confidential Exhibit No. 106. The Staff adjustment that I recommend for pension expense is $20,875,647 as shown on Exhibit No. 105, Column (e), line 12 and Exhibit No. 104, line 4.

Q. Please explain the next adjustment on Exhibit No. 104, line 5 labeled as SERP.

A. SERP is an acronym for Supplemental Executive Retirement Plan. A SERP is a non-qualified plan for executives of a Company to provide additional benefits above and beyond those covered in more conventional retirement plans to ensure the executive can maintain the same standard of living in retirement. The only active participant in this retirement plan is the President of Rocky Mountain Power, and the Company included $2.6 million on a total system basis to cover this cost. Idaho customers should not be required to pay for additional retirement benefits for executives of a utility above and beyond the retirement benefits that are available to rank and file employees. Because an executive's salary is already higher than the typical employee, and the typical retirement benefits provided are based on the level of wages earned, the executive is already receiving a larger benefit than the other employees. Any additional benefit provided should be paid for solely by shareholders, especially since an executive's performance is typically based on creating value for the shareholder.

Q. Please explain the next adjustment of $33,103,859 on Exhibit No. 104, line 6, labeled Incentive Payments.

A. Yes, this adjustment represents Staff's adjustment to the Company's proposed level of employee bonuses, ultimately removing 100% of employee bonuses from revenue requirement.

Q. Please briefly describe the Company's Incentive Plan.

A. The Company establishes an annual amount to be awarded to employees each year. The amount an employee receives is based on an individualized set of goals for that particular employee. If an employee achieves those goals, a bonus is awarded.

Q. Why are you proposing to remove employee bonuses from the Company's revenue requirement?

A. I am recommending the removal of bonus payments for two reasons. First, because the criteria to receive a bonus is on an individualized basis, it is impossible for Staff to determine if such criteria benefits shareholders or customers. The Commission has previously ruled that incentive pay can only be included in annual revenue requirement if it is related to indentifiable customer benefits. If the criteria for an employee to receive a bonus has a shareholder benefit, then the shareholders should bear the cost. Any amount of bonus that ties to operating budgets would have a direct impact on the earnings per share of the Company and therefore would benefit shareholders. However, because of the complexity of the Company's Incentive Plan, there is no way to determine whether the Commission's criteria to include bonuses in revenue requirement has been met. Secondly, I believe that the Commission is cognizant of the public perception of Rocky Mountain Power awarding employee bonuses at a time when it is asking to increase the rates it charges for electricity, and especially when many of its customers are struggling financially. During a time of economic despair throughout Rocky Mountain Power's territory, which is described in Staff witness Thaden's direct testimony and Exhibit Nos. 115 and 116, it is not appropriate to seek recovery of bonus payments from customers. If Rocky Mountain Power believe's that today's financial environment mandates the need for rate increases, those rate increases should be mitigated by a concerted attempt to lower costs and salaries.

Q. What is the total percentage of the incentive plan included in an employee's total compensation?

A. The Company has proposed to recover $33,103,859 for the annual incentive plan and bonuses, which is the

2010 budgeted level. Union employees do not participate in the Company's incentive plan. The total 2010 non-union proforma wages and salaries is $201,802,000. This equates to incentives being 16.4% of total wages for 2010.

Q. Would you please explain the adjustment to Employee Wages listed on Exhibit No. 104.

A. The net effect of this adjustment removes all wage increases awarded by Rocky Mountain Power to its employees during 2009 and 2010, and sets the level of straight-time labor at the January 1, 2009 level.

Q. Please briefly descrive the Company's proposal for employee wages in this case.

A. Actual December 31, 2009 labor related expenses were annualized to reflect any increases that occurred in 2009 as being included for a full twelve months. The annualized 2009 labor expenses were then escalated at either the contractual increase for union employees or the actual increase for non-union employees to reflect a 2010 pro forma budgeted amount.

Q. What types of wage increases were awarded in 2009 and 2010?

A. In 2009, non-union employees received a 3.5% wage increase, while the union employees received between 1.25% and 3 percent. In 2010, the non-union employees received an increase of 0.88% while the union employees received between 1.5 and 2.5 percent.

Q. Why do you believe these increases are inappropriate?

A. Although the increases may seem minimal, they occurred at a time of economic distress for Rocky Mountain's customers. Unemployment rates doubled and tripled in many parts of the country, included Rocky Mountain Power's service territory, while wages and the consumer price index remained relatively flat. Americans on Social Security will not receive cost of living adjustments for 2010 and 2011, and most employees with the State of Idaho were forced to take pay cuts. While much of the population struggles, it is not prudent for utility companies to continually grant increases to its employees. Staff believes that during the past two years, Rocky Mountain Power had the opportunity to better control costs and mitigate rate increases. I recommend adjusting employee wages by $14,375,075 (Exhibit No. 104, line 7).

Q. Please describe the last adjustment on Exhibit No. 104, line 8.

A. The final adjustment I propose is to reduce the MidAmerican Energy Holding Company (MEHC) Management Fees allocated to PacifiCorp. Merger Commitment #28 commits PacifiCorp to limiting the amount of allocations from MEHC to PacifiCorp at $7.3 million, which the Company did in its

Application. However, included in the $7.3 million allocation from MEHC is $2.15 million in Supplemental Executive Retirement Plan contributions and bonuses to employees of MidAmerican. I remove this amount as a logical continuation of adjustments. Because I recommend removing bonuses and SERP contributions for Rocky Mountain Power employees from customers' retail rates, then the SERP contributions and bonuses for employees of MidAmerican should also be removed. Exhibit No. 107 illustrates how the $7.3 million cap is affected by this adjustment and shows my adjustment of $1,100,635.

Q. Does this conclude your direct testimony in this proceeding?

A. Yes, it does.

Rocky Mountain Power
Idaho General Rate Case - PAC-E-10-7
Summary of D. English Adjustments

Adjustment	System Amount	Idaho Allocation
1. Imputed Revenue	$ 142,069	$ 7,826
2. Injuries and Damages	$ (1,603,785)	$ (90,728)
3. Property Taxes	$ (288,125)	$ (16,299)
4. Pension Expense	$ (20,875,647)	$ (1,200,000)
5. SERP	$ (2,600,000)	$ (149,500)
6. Incentive Payments	$ (33,103,859)	$ (1,903,000)
7. Employee Wages	$ (14,375,075)	$ (826,500)
8. MEHC Affiliated Management Fees	$ (1,100,635)	$ (62,264)

Rocky Mountain Power
Idaho General Rate Case PAC-E-10-7
Adjustment to Pension Expense

	(a)	(b)	(c)	(d)	(e)
		COMPANY		STAFF	
	Cash Basis Pension Expense				
1.	Pension Funding	104,800,000		73,340,000	
2.	Portion to exclude mines	96.71%		96.71%	
		101,350,829		70,927,114	
3.	Portion to exclude joint ventures	96.21		96.21%	
4.	Pension Funding to Electric Expense		97,509,663		68,238,976
	Accrual Basis Pension Expense				
5.	Total Pension Expense	40,500,000		40,500,000	
6.	Less Local 57 Pension Expense	8,700,000		8,700,000	
7.	Actuarial Pension Exp in Results 2010	31,800,000		31,800,000	
8.	Electric Portion	96.21%		96.21%	
			30,594,790		30,594,780
9.	Total Difference		66,914,874		37,644,196
10.	O&M Portion		71.32%		71.32%
11.	Adjustment to O&M		47,723,488		26,847,841
12.	**Staff Adjustment to Company's Case**				**(20,875,647)**

Exhibit No. 105
Case No. PAC-E-10-7
English, D., Staff
10/14/10

Case No. PAC-E-10-07

Exhibit No. 106 prepared and sponsored by Donn English is Confidential and only available to those persons who have signed Protective Agreements

Rocky Mountain Power
Idaho General Rate Case - PAC-E-10-7
Affiliated MEHC Management Fees

Total Invoiced and Booked ATL

SERP	322,086
MEHC Bonus	1,700,237
MEC Bonus	131,342
Aircraft	700,336
Aircraft - Commercial Equivalent	139,748
OTHER	5,359,281
	8,353,030
Company Adjustment to get to Commitment 9	(1,053,029)
Company Proposed ATL Billing	7,300,000
Staff Adjusted ATL Billing (Removal of SERP and Bonuses)	6,199,365
Staff Adjustment to Company Case	(1,100,635)

Exhibit No. 107
Case No. PAC-E-10-7
English, D., Staff
10/14/10

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14TH DAY OF OCTOBER 2010, SERVED THE FOREGOING **NON-CONFIDENTIAL DIRECT TESTIMONY OF DONN ENGLISH**, IN CASE NO. PAC-E-10-07, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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