BEFORE THE

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IDAHO PUBLIC
UTILITIES COMMISSION

IDAHO PUBLIC UTILITIES COMMISSION

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-07-5

DIRECT TESTIMONY OF JOE LECKIE

IDAHO PUBLIC UTILITIES COMMISSION

SEPTEMBER 28, 2007

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

A. My name is Joe Leckie. My business address is 472 West Washington Street, Boise, Idaho.

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

A. I am employed by the Idaho Public Utilities Commission (Commission) as an auditor in the Utilities Division.

Q. What is your educational and experience background?

A. I graduated from Brigham Young University with a Bachelors of Science degree in Accounting. I worked for the accounting firm Touche Ross in its Los Angeles office for approximately one year. I then attended law school and graduated from the J. Rueben Clark School of Law at Brigham Young University with a Juris Doctorate degree. I am licensed to practice law in the State of Montana. I practiced law in the State of Montana for approximately 25 years. I have been employed at the Commission as an auditor since March 2001. I have attended the annual regulatory studies program sponsored by the National Association of Regulatory Utilities Commissioners (NARUC) at Michigan State University in August of 2001. I have attended several other training courses sponsored by NARUC on regulatory accounting and auditing.

Q. Would you please summarize your contribution to Staff's recommendations in those areas of the rate case that you personally reviewed?

A. I personally reviewed the following areas and recommend the following adjustments that have an effect on the revenue requirement:

1) The recommendation to remove $3,500,000 (system) from Company adjusted rate base for the anticipated annual lease payment for a coal lease.

2) The recommendation to remove $1,932,285 (system) from the Company's rate base for the Company's interest in Dragline #757 at the Jim Bridger Coal mine.

3) The recommendation to remove $2,750,000 (system) of incentive pay from the total Company's employee expense.

4) The recommendation to remove $125,000 (system) from lease expense for lease payment reductions given to sub lessees of space rented by the Company in the One Utah Center in Salt Lake City.

5) The recommendation to remove MEHC change-in-control (CIC) transition expenses of $424,691 (system) for the costs associated with changing

the Company's accounting reporting system from a fiscal year reporting period to a calendar year reporting period.

6) The recommendation to remove MEHC transition expenses in the amount of $2,784,177 (system) paid to employees who received severance payments when their employment was terminated with the Company.

Q. How are your recommended adjustments shown and included in Staff's recommended revenue requirement?

A. All of my recommended adjustments are included in Staff's proposed revenue requirement as shown in Staff witness Harms' Staff Exhibit Nos. 108 through 112.

Q. Would you please explain your recommendation to remove $3,500,000 (system) from the Company's adjusted rate base for the anticipated annual lease payment?

A. The Company included in its revenue requirement calculation as part of adjusted rate base, an addition of $3,500,000 (system) for a coal lease. See page 8.9 of McDougal Exhibit No. 11. The Company sets forth a description of its adjustment to Miscellaneous Rate Base in Footnote 2 on page 8.6 of the Company's Exhibit No. 11. It states the following:

> "2 - The Company is prepared to participate in an auction to lease Cottonwood coal reserves from the Utah Trust Lands Administration. Upon Completion of the

successful bid, the company plans to extract the coal for use in its electric generation operations. In order to secure the mineral rights through a successful bid, the company estimates that it will have to submit 5 annual payments of $7 million to the Utah Trust Lands Administration, beginning in calendar year 2007. This adjustment reflects the first annual payment into results."

The Company is including in its adjusted rate base an anticipated cost that is not yet ripe for inclusion. At the time of the filing of this testimony, the auction has not taken place. There is no assurance that the Company will be successful in the auction. The addition of this amount in rate base at this time does not qualify as a known and measurable adjustment. The outcome of the auction is not known, and the actual bid has not been legally accepted. Because of the unsettled nature of this adjustment, it should not be included in the Company's rate base amount.

If the Company were to be successful in the auction, and were awarded the mineral rights for the bid it anticipates making, the first installment of $3,500,000 (system) still should not be included in rate base because the addition would not meet the criteria used by Staff for proforma inclusion in rate base. It is not a generating or transmission facility and its value is not in excess of $100 million system, the criteria used by Staff for proforma adjustments to rate base.

Q. Why have you recommended that rate base be reduced for Dragline #757 at the Jim Bridger coal mine?

A. The rate base of the Jim Bridger Mine's property in service is included in the Company's rate base value. Since the Company is a 2/3 owner of the mine (the other 1/3 is owned by Idaho Power) only 2/3 of the mine's total rate base is included. Also, the mine used a beginning/ending average to determine its 2007 rate base value which is the value included by the Company.

Staff conducted an on-site audit of the mine's property in service as part of the audit for this rate case. During the visit, it was noted that the dragline was setting idle. Through audit questioning, it was determined that the dragline was not being used, had not been used for some time, and that it was to be sold. The dragline was sold in 2007. This is the same dragline that was setting idle when Staff visited the mine in 2003. Staff determined that the dragline was not used and useful, and it should be removed from the mine's rate base value as included on the Company's books.

The undepreciated value of the dragline on the mine's books is $5,796,912 (system). The undepreciated cost of the dragline was included in the mine's beginning rate base value, but because it was sold in 2007, was not included in the ending rate base value. Therefore only one-half (1/2) of the undepreciated balance should be removed and is the basis for the adjustment.

The Company is a 2/3 owner of the mine (the other 1/3 is owned by Idaho Power). When the Company's 2/3 interest in one-half of the undepreciated dragline balance are determined, the Company's rate base is overstated by $1,932,285 (system). See Staff Exhibit No. 105.

The Company realized a gain on the sale of the dragline of approximately one million dollars. This gain was recorded as a reduction of maintenance expense on the mine's books. This treatment of the gain gives the ratepayers the benefit of the gain.

Q. Why have you recommended that the incentive pay for the Company's employees be reduced by $2,750,000 (system)?

A. The Company has included $27.5 million (system) in the rate case as the budgeted amount the Company may pay for incentive pay in 2007. Company witness Wilson in his pre-filed testimony testified that this amount would be awarded to the Company's employees on the basis of the individual employees achievement of predetermined performance levels.

The general principle governing whether

incentive pay is included in rates or excluded as a below the line expense is whether the payment of the incentive pay is based upon benefits flowing to the ratepayers. If the ratepayers receive the benefit of the promoted performance, then the incentive pay is included in rates; but if the promoted performance improves the financial performance of the Company and benefits the shareholders, then the incentive pay should not be included.

The Company has established measurements that are used to evaluate individual employees performance. If the employees' performances produce benefits to the ratepayers, then that portion of the incentive pay that is awarded to the employees based on that performance would be included in rates. If the employees' performance produces benefits to the shareholders in the form of increased profits, then that portion of the incentive pay that is awarded to the employee based on that performance should be excluded from rates.

Company witness Wilson indicates that the awarding of incentive pay is unrelated to financial standards, but that all the incentive pay is based only on those performance goals that benefit ratepayers. He uses the 2007 goals of Richard Walje, President of Rocky Mountain Power, as an example of an employee's performance goals.

Staff reviewed Wilson Exhibit No. 22, Richard Walje's 2007 goals. Part 5 of that exhibit are the goals that relate to financial matters. The first two bullet points of the section are "(A)chieve targeted Rocky Mountain Power net income" and "(A)chieve targeted operating expense budget". These two goals focus directly on the financial performance of the Company. If these goals were achieved, then the resulting benefits would flow directly to the Company's shareholders.

Also on page 5 of Wilson's testimony, he states that "Note that all employees are expected to operate within their respective budgets, but corporate financial performance and returns are not a factor in determining the compensation amount." This testimony is not internally consistent. If employees were expected to operate at a minimum level of performance, the failure to meet that expectation would have an affect on the employee's incentive pay. Operating within an established budget is a financial performance that is an essential element of achieving financial objectives that benefit shareholders.

Q. Why would the benefits flow directly to the Company's shareholders?

A. The Company would establish its budgets so that the revenues and expenses would at a minimum achieve sufficient profits to ensure the Company would earn its rate of return. The rate of return goes to the shareholders. If the Company is then able to achieve its budgetary goals and targets, the shareholder is the party who receives the immediate benefit for the Company achievement by receiving a greater rate of return.

If, however, the Company is able to achieve its budgetary goals and targets over extended periods, then this achievement may benefit ratepayers as the Company seeks new rates in a rate case; but viewed in the short-term, the shareholder is the beneficiary of the Company's employees achieving the Company's goals and targets regarding expenses and budgets.

Q. Is it Staff's position that the Company should not be able to include any of the incentive compensation as a recoverable expense?

A. No, it is clear that a great portion of the incentive pay is awarded to the employees for performance measures and goals that have an effect on service to ratepayers. Because the ratepayers benefit from these employees performances, a portion of the incentive pay should be included in the Company's above the line expenses. Staff recommends that 90% of the incentive pay be included as an appropriate employee expense, and included in rates. The remaining 10% of incentive pay is attributable to the achievement of financial objectives and goals that benefit shareholders and Staff therefore recommends it be removed from the revenue requirement.

Q. What is the reason for the reduction in the lease expense for the Utah One Center?

A. The Company has a lease for office space in the One Utah Center where it houses its Salt Lake Office operations. The Company has unoccupied space in the lease that has been released to subtenants. The Company subleases 78,924 sq.ft. of space for annual revenues of $2,010,904 (system). The revenues received for the subleasing is a reduction in the total annual lease expense.

The Company has provided community and economic incentives in the total amount of $125,000 (system) as rental reduction to two of its subtenants. This reduces the annual revenues from subleasing by $125,000 (system). The granting of reduced rent for community and economic incentives, although admirable, is not an appropriate expense for customers to pay. This treatment is consistent with Commission policy for donations. Moving this reduction in the sublease revenues below the line reduces the annual lease expense by $125,000 (system).

Q. Why have you not allowed any of the transition cost associated with the Company changing its financial reporting period from a fiscal year (April 1 to March 31) to a calendar year?

A. The Company requested the right to defer the costs associated with this change in a previous case before the Commission. In Order No. 30225 (Case No. PAC-E-06-11), the Commission allowed these costs to be deferred but required the Company demonstrate the benefits before the Company could recover these costs.

The total cost the Company has incurred for this transition was $424,691 (system). The Company included all these costs in O&M expenses. The Company was required by the Commission to show any benefits to the ratepayers by this change when the Company sought recovery of these costs. Company witness McDougal stated in his testimony that the Company could show benefits to the ratepayers in the reduction of Administrative and General Costs, but not in this area specifically.

These costs were incurred so that the Company's books would synchronize reporting periods with MEHC and its other affiliates. Any benefits that flow from this change, provide benefits only for the internal flow of financial information between the Company and MEHC, and have no effect on the ratepayers. Ratepayers will not see any difference in their service by this change. Therefore, without any showing of tangible benefits to customers, Staff recommends this expense not be recovered from customers and $424,691 (system) should be removed from the revenue requirement.

Q. Are you recommending the removal of any of the transitional severance pay that the Company has asked to amortize in this case?

A. Yes, I am recommending that $2,784,177 (system) of the total severance pay be removed from the amount of authorized transition cost to be amortized in the case. The Company has asked to amortize a total of $39,522,007 (system) of severance payments made to employees who left their employment as part of the MEHC transition.

The Company originally asked to defer these costs as part of Case No. PAC-E-06-11. And in Order No. 30255 the Commission allowed the Company to defer and seek recovery of these cost in a future rate case. The Commission also indicated that the Company must be able to produce supporting documentation showing the benefits of such costs to the Company and customers.

Company witness Wilson presented Exhibit Nos. 25 and 26 detailing the severance payments made and the cost savings to the Company through the reduced wage and salary cost of the severed employees. In those exhibits the Company segregated the severance compensation paid to executive employees and to non-executive employees.

Then in Company witness McDougal's Exhibit No. 11, page 4.17.1, the Company summarized the data from the Wilson exhibits and determined the total severance pay it would seek to recover. The Company used a three (3) year amortization schedule and is asking to recover $13,174,002 (system) per year in rates.

Staff has prepared Staff Exhibit No. 106 as a comparison of the severance compensation paid to the non-executive and executive employees. This allows a comparison of the compensation paid vs. the saving achieved in each class of employees. Staff Exhibit No. 106 shows that for the non-executives class of employees, the amount of severance paid was less than the savings realized from not paying the employees for continued employment. Severance compensation was paid in the amount of $28,170,716 (system) and savings were realized in the amount of $32,008,881 (system). Therefore all of the severance pay for the non-executive employees is covered by associated savings and all the severance compensation for the non-executive employees should be included in the amortization of these costs.

The numbers in Staff Exhibit No. 106 also show that the severance compensation paid to the executive class of employees was more that the amount of savings realized. Therefore Staff capped the allowable executive severance pay by the amount of the savings. The executives were paid $11,387,114 (system) in severance compensation and the Company only realized $3,496,455 (system) in saving by discontinuing employment of the executive employees.

The Company in Wilson's testimony set forth reasons why the executive class of compensation was higher on the average than the average paid to the non-executive class. Although the Company statements may be correct, an analysis of each class of employees' severance pay should be able to show that the cost-reduction benefits to the ratepayer are greater than the cost the ratepayer is asked to pay in rates. The savings in each class of employees should be greater than the cost of that class' severance compensation. Therefore, Staff capped the amount of the severance pay in each class at the lower of the actual amount paid or the savings realized.

When the cap is applied to the amount of severance paid, the total amount of severance pay Staff recommends be included in the revenue requirement is $31,667,171 (system). See Staff Exhibit No. 106.

Staff Exhibit No. 107 is the same format as witness McDougal used in Exhibit No. 11, page 4.17.1, only with an additional column showing Staff's numbers for the severance compensation. Staff Exhibit No. 107 shows that

Staff did not include recovery of any severance paid before the beginning of 2006. The actual transition of the Company to MEHC was completed in April 2006. Any severance costs occurring in 2005 are too far removed from the transaction close to be adequately associated with the transition.

Staff Exhibit No. 107 shows that the recommended amount the Company should recover for its transition costs is $31,169,477 (system). Staff agrees that three years is an appropriate amortization period; therefore, the amortized amount that should be included in the revenue requirement is $10,389,826 (system). Staff has decreased the annual amortization by $2,784,177 (system) and it is this amount that Staff recommends be removed from the revenue requirement.

Q. Are there other areas of your review that impact the revenue requirement and need to be discussed for this case?

A. Yes, I reviewed the costs associated with the Powerdale Hydroelectric Facility decommissioning included as part of McDougal Exhibit No. 11, page 8.12. Deferral and amortization of these decommissioning costs were authorized by Order No. 30344 in Case No. PAC-E-07-4. Although I am not recommending a cost adjustment to the revenue requirement in this case, this item is being discussed further by Staff witness Carlock in her testimony related to the Multi-State Process (MSP).

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

A. Yes, it does.

PACIFICORP
CASE NO. PAC-E-07-5

Jim Bridger Mine Dragline #757

Description	Amount Bridger Mine Books	 PacifiCorp Books
Dragline Original Cost	$ 13,595,850	
Less Accumulated Depreciation	$ (7,798,938)	
Undepreciated Balance	$ 5,796,912	
Amount in beginning rate base balance but not in ending balance for 2007 rate base amount. (Undepreciated balance is divided by 2)	$ 2,898,456	
PacifiCorp's Interest (2/3 of Mine)		$ 1,932,285

Exhibit No. 105
Case No. PAC-E-07-5
J. Leckie, Staff
9/28/07

PACIFICORP
Case No. PAC-E-07-5

Determination of Severence Compensation Adjustment

	Non Executive	Executive	Totals
Number of Employees Receiving Severence in Rate Case (as of 3/9/07	234	9	243
% of total Employees Severed	96.3%	3.7%	
Severance Compansation per Attachment for Onsite Request 4 (Severed employees through 5/31/07)	$ 32,888,843	$ 12,861,087	$ 45,749,930
Severance Compensation for Employees leaving between 3/9/07 to 5/31/07	$4,718,127	$ 1,473,973	$ 6,192,100
Severance Compensation included in Rate Case (Severed employees through 3/9/07)	$ 28,170,716	$ 11,387,114	$ 39,557,830
% of Total Severance Compensation by class of employee	71.2%	28.8%	
Savings attributed to Severed Employees	$ 32,008,881	$ 3,496,455	
Severance Compensation Capped by Savings (Lesser of Actual Severance Paid or Savings)	$ 28,170,716	$ 3,496,455	$ 31,667,171
Average Severance Compensation per Employee	$ 120,388	$ 388,495	

Exhibit No. 106
Case No. PAC-E-07-5
J. Leckie, Staff
9/28/07

PACIFICORP
Case No. PAC-E-07-5

Determination of Change-in-Control Severence Compensation Adjustment

Comparison of Company Schedule to Adjusted Schedule

	Company as per Exhibit 11 Page 4.17.1	Staff Adjusted
Severance paid in 06	$ 39,557,830	$ 31,667,171
Severance - related SERP	$ 3,925,013	$ 3,925,013
Calendar Year 05 deferral	$ 461,871	
Less backfilled and non-regulated employees	$ (5,467,764)	$ (5,467,764)
Additions in Calendar Year 07 through 3/9/07	$ 1,045,057	$ 1,045,057
Total Change-in-Control Severance deferral allowed	$ 39,522,007	$ 31,169,477
Amortization of deferral -3 year amortization	$ 13,174,002	$ 10,389,826
Difference between Company and Staff annual amortization		$ 2,784,177

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 28TH DAY OF SEPTEMBER 2007, SERVED THE FOREGOING **DIRECT TESTIMONY OF JOE LECKIE,** IN CASE NO. PAC-E-07-05, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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