Q. Please state your name, business address and present position with PacifiCorp dba Utah Power & Light Company (the Company).

A. My name is Donald N. Furman. My business address is 825 NE Multnomah, Suite 2000, Portland, Oregon 97232. My present position is Senior Vice President, Regulation and External Affairs.

Qualifications

Q. Briefly describe your educational and professional background.

A. I hold a Bachelor of Arts degree in economics from Northwestern University and a Juris Doctorate degree from Lewis and Clark Law School. Before assuming my present position with PacifiCorp, I served as Vice President of Transmission, Vice President of Domestic Business Development, and President of the Company's unregulated power marketing subsidiary.

Q. What are your responsibilities as Senior Vice President, Regulation and External Affairs?

A. I oversee all regulatory matters, including rate cases, before six state utility commissions and the Federal Energy Regulatory Commission. I am also responsible for all of the Company's government relations activities at both the state and federal level. I am a member of the Chief Executive Committee, and I participate in key management decisions on the levels of investment and expenses required to effectively operate the regulated business.

Purpose and Summary of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of the Company's 2004

Utah General Rate Case filing, and to provide the context of this rate case for other witnesses who will testify regarding our specific proposals. I explain how load growth and external factors are requiring substantial increases in investment and expense in order to ensure that we continue to provide safe, reliable power to our Utah customers. I then discuss the Company's need, in light of these rapidly rising costs, to set rates using a future test period, which best reflects the conditions that the Company will encounter in Utah during the rate effective period. I also explain why this test period, as well as an appropriate return on equity, is critical to maintain the financial strength of the Company. I explain that even with these cost increases electricity prices will remain excellent value for customers in Utah. Finally, I introduce the Company witnesses and briefly discuss the issues they address.

Q. Please explain why the Company is filing for a requested increase at this time.

A. The filing promotes PacifiCorp's key goals of delivering safe, reliable electric service, providing excellent customer service and maintaining reasonable, competitive prices while being provided with a fair opportunity to earn a reasonable rate of return. Although the magnitude of the increase is significant, the Company has carefully reviewed the development of this filing to ensure that this request is reasonable. The Company believes that with the level of growth and the required investment in the system, its request is both responsible and prudent. Even with the price increases proposed in this case, PacifiCorp's service remains an exceptional value when measured against other utilities within the state, across the West, and throughout the nation.

Q. What rate increase is the Company requesting?

A. The Company is requesting a rate increase of $111 million in accordance with the Revised Protocol.

Q. Please explain the Company's objectives in this rate case.

A. The Company's objectives are to: (1) recover cost increases driven by the increased load growth in Utah; (2) recover cost increases driven by external conditions; and (3) improve financial strength to support the significant investment that is required to maintain infrastructure and ensure reliable service for our Utah customers.

In order to improve financial strength, the filing includes the use of a test period that "best reflects" the significant investment being made in Utah, and requests an increase in the return on equity to reflect a fair return on equity in the current investment markets.

We also seek to minimize the impacts of our prices on our customers and our communities. In my testimony, I address each of these objectives separately.

Load Growth

Q. Please explain what you mean by "cost increases driven by the increased load growth in Utah."

A. Since the last rate case filed in Utah, the Company has seen continued load growth in Utah. Mr. Davis explains in more detail the causes of the growth in loads, and the basis for the Company's belief that the growth trend will continue. Essentially, the Company continues to see growth in both customer numbers and in the amount of energy that customers are using. Such load growth mandates investment in the Company's system, as Mr. Gerrard describes in more detail.

In addition, Mr. Davis testifies that, while Utah's energy usage has grown about 32 percent over the ten year period from 1994 through 2003, its contribution to the Company's summer peak has grown by about 53 percent. Thus, while PacifiCorp must invest to meet that peak load growth, the increase in the underlying energy usage provides insufficient revenue to cover those additional costs. Utah's share of the total system load has also increased from 37.3 percent in FY 2001 to 41.2 percent as of FY 2006. Under the Revised Protocol allocation method described by Mr. Taylor, this means that Utah is picking up a higher allocation of overall total system costs. As noted by Mr. Davis, the extent of this growth has been magnified as a result of the economic conditions in other states.

Externally Influenced Costs

Q. Please elaborate on what you mean by "cost increases driven by external conditions."

A. As Mr. Rosborough discusses in more detail, the Company has seen continued increases in pension costs and costs related to health insurance. External factors, such as the downturn in the financial markets and significant increases in medical costs, are driving these increases. Although the Company has mitigated some of the impact of those increases with internal cost control initiatives, those externally driven costs are largely unavoidable. Rising costs in these areas are not unique to PacifiCorp or even to the utility sector. The scale of the Company's operations means that personnel-related costs such as pensions and health benefits are significant in terms of the Company's overall costs.

Q. What efforts has the Company made to control costs?

A. PacifiCorp has achieved increased efficiencies through many different initiatives, including improved call center operations, new procurement cost savings, and implementing internal process changes. As Mr. Gerrard points out in his testimony, the Company is currently implementing measures that will allow us to minimize our long-term power delivery costs by striking a proper balance between operational expenses and preventative maintenance. Essentially this approach seeks to get maximum value for each dollar spent on maintaining and operating the growing system.

Effective management of costs is one of the essential planks in the Company's strategy. To accomplish cost control, we have designed our planning and budgeting processes to connect more closely with the regulatory process. For example, we review and analyze all budgets with regard to the level of a particular cost already in rates. In this way, we make visible to our line managers the consequences of cost increases in the form of rate increases. This approach creates a discipline deep within the organization to recognize the impact of even small business decisions on the prices our customers pay. This disciplined approach has been a key part of the development of this filing, especially when we are looking to have a future test period in place.

Financial Strength - Future Test Year and ROE

Q. What test year has PacifiCorp used to determine its revenue requirement in this case?

A. The Company has used a future test year that begins April 1, 2005 and ends March 31, 2006. This twelve-month period corresponds with the Company's 2006 Fiscal Year. Our intention is to effect a change in rates concurrent with when costs are incurred, and to select a test period that best reflects the conditions that will exist during the rate effective period.

Q. Does the Commission have the authority to adopt a future test year?

A. Yes. Section 54-4-4(3)(b)(i) states that in establishing the test period, the Commission may use "a future test period that is determined on the basis of projected data not exceeding 20 months from the date a proposed rate increase or decrease is filed with the commission." The Company's filing in this case complies with the 20-month limit.

Q. Do you believe that the future test period best reflects the conditions that will be encountered by the Company during the rate effective period?

A. Yes. As a member of the Chief Executive Committee, I participate in discussion and decision-making around all major issues facing the Company. Prominent among these issues is the growth happening across the system and, in particular, in the State of Utah. A considerable investment, certainly large by historical standards, is required to ensure that we continue to provide safe, reliable, cost-effective electric service to our Utah customers. The test period that "best reflects" these conditions is one that takes full account of these changing circumstances. Mr. Larson expands on this issue in his testimony, where he examines the alternatives that were available to the Company when selecting the most appropriate test period.

Q. Are there other issues that should be considered when determining the Test Period that "best reflects" the rate effective period?

A. Yes. The Company's financial strength is critical to its ability to make these substantial investments in a cost effective manner. These investments are critical to ensure that we continue to provide safe, reliable service to our customers. In order to continue to attract investment at competitive rates, the Company must be able to demonstrate to the financial community that it has a fair opportunity to earn its authorized rate of return. In a time of significant growth, the failure to allow the Company to reflect these changing conditions in rates sends a clear signal to the financial markets that the Company cannot earn its allowed rate of return. Those markets will respond by lowering our share price, effectively raising our cost of capital. With the rapid and sustained growth anticipated in Utah, this is an ongoing issue, rather than just a short term issue.

Q. Would you briefly address the way the test period was developed?

A. Yes. PacifiCorp has followed a detailed and rigorous process to ensure that the costs shown in the test period are realistic and are required to prudently operate the business. This process has included a very thorough review of the FY 2006 Budget and a review of FY 2004 costs with appropriate indices applied to them. Mr. Weston explains in his testimony the detailed process that was followed.

Q. How will the rate increase sought in this case contribute to PacifiCorp's financial health?

A. The rate increase will allow the Company to have a fair opportunity to earn its allowed rate of return. The Company has focused on providing safe and reliable energy and exceptional customer service at low prices, and at the same time, PacifiCorp, with the assistance of Scottish Power, has taken active steps to maintain its financial ratings in the face of significant financial challenges. The Company now needs additional revenue to maintain and expand critical infrastructure, continue reliable service to customers, and ensure access to needed capital on reasonable terms. It is clear that PacifiCorp is in a growth cycle and needs to be in a position to attract equity from investors. Ensuring a fair allowed rate of return in the fastest growing state will be a significant message for these investors. In addition, allowing a future test period that best reflects the significant growth faced by PacifiCorp in Utah will also be a very significant and welcome message to these investors.

Q. What is the Company's current rate of return and how does that compare to the request in this application?

A. PacifiCorp is currently earning a normalized return on equity of only 6.0 percent in Utah, as described in Mr. Weston's testimony. This is considerably below the 10.70 percent stipulated to in the Company's most recent Utah rate case, and falls substantially short of the 11.125% return on equity supported by Dr. Hadaway's testimony in this proceeding. Dr. Hadaway's testimony indicates a range of appropriate levels of return on equity from 10.9 percent to 11.4 percent. The

Company is requesting that the Commission approve a return on equity of 11.125%, which is a realistic request and is towards the middle of that range and somewhat lower than the percent return requested by the Company in the 2003 Rate Case.

Customer Impact

Q. Why is it necessary to ask your customers to pay higher rates?

A. These higher rates are necessary to continue the required investment into this rapidly growing system. This investment is necessary to ensure that the Company continues to provide safe, reliable power to its Utah customers. Even with this requested increase, customer prices would be lower than they were in both real and nominal terms in 1985. This price stability has created a situation of stable and, at times, decreasing power prices, which has undoubtedly been good for the development of the state of Utah. That being said, healthy utilities are critical for economic growth and stability in the state. At this time, it is essential that PacifiCorp receives a rate increase that allows it to earn a fair return on the significant investment that it is making in Utah.

Q. What has the Company done to improve the economic health of the communities it serves?

A. The Company is very conscious of its responsibility to the State of Utah, its communities, and customers. The competitive rates that the Company provides are among the lowest in the nation and serve to support economic development by making Utah a low cost option for businesses considering locating in Utah. We know that the competitive cost of power is a key selling point for economic development agencies when they look to attract ongoing investment in Utah. The Energy Information Administration (US DOE) Electric Power Monthly July 2004 Report with year-to-date data through April 2004 shows Utah with the fifth lowest electric costs of the fifty states. The Company also works closely with state and local government agencies on economic and community development.

Q. Have these efficiency gains reduced the Company's customer service level?

A. No. Parallel with its cost control initiatives, the Company has made improved customer service a priority. In fact, the Company was recently recognized for its excellent customer service. In a survey conducted by TQS Research, an independent survey group, PacifiCorp ranked number one with 86.4 percent of customers with at least one megawatt of demand "very satisfied" with the level of service provided to them. Many of the commitments made at the time of the merger with Scottish Power addressed improved customer service. PacifiCorp has met or exceeded all of these promises, resulting in better customer service across customer classes. We are also committed to educating customers about energy efficiency and being a trusted resource to them by offering programs to help reduce energy use.

Q. What else has the Company done to soften the impact of this rate increase on its customers?

A. The Company has made concerted efforts to manage peak growth in Utah with the introduction of three new demand side management programs in Utah for the summer of 2003. These three new programs have the objective of reducing the consumption of power at peak times, and slowing the growth in peak demand, therefore reducing stresses on the existing infrastructure and limiting the need to purchase expensive peak power. The Company also intends to introduce further demand side management programs for the summer of 2005.

The Company will also propose additional rate design changes as part of this case. This will build on the approach approved in Docket 03-035-02 and will continue to look at the ongoing development of price signals that provide incentive to all customers to effectively manage the peak. Another objective of these changes will be to soften the impact of rate changes on customers who use less than average amounts of power, or who use the majority of their power at non-peak times. The Company is seeking to provide clear price signals to customers who contribute to the issue of peak growth in Utah and to provide cost-effective options for customers who can manage their load requirements in a manner that results in a reduction in their peak usage. This will be described in more detail by Mr. William R. Griffith.

Q. What other factors are influencing the Company's current and anticipated future costs of providing service?

A. Although difficult to quantify, we are continuing to face increased security requirements and risks in doing business in the post-September 11, 2001 environment. We are very aware that we provide an essential service and that we must continue to take prudent steps to protect our critical infrastructure. These costs include not just protection of the physical integrity of the system, but also includes threats to cyber-security via the internet and otherwise. The Company is also looking at new requirements for capital investments and improvements. In addition to our Integrated Resource Plan, capital expenditure will be required to continue to enhance our systems, to pursue clean air initiatives, renew FERC licenses to operate our hydro facilities and to further develop the reliability of our growing system.

Q. Why do you think the rate increase you are seeking in this case is reasonable?

A. In light of the significant investment that PacifiCorp is making to ensure that the electric system can cope with the rapid growth in Utah and that we can continue to provide safe, reliable power to our Utah customers, these percentage increases are both very necessary and reasonable.

Q. If this increase were fully implemented, how would PacifiCorp's rates compare to the rates of other utilities?

A. Even taking into account the increase requested in this filing, PacifiCorp will continue to be one of the lowest priced electric utilities, with average rates at the low end of all utilities in the state and rates for industrial customers among the lowest in the nation.

Introduction of Witnesses

Q. Please list the Company witnesses and provide a brief description of their subject matter.

A. The Company witnesses filing direct testimony are:

D. Douglas Larson, Vice President of Regulation, will explain why the future test year that begins on April 1, 2005 and ends on March 31, 2006 best reflects the conditions that the Company expects to experience in the rate-effective period.

Samuel C. Hadaway, FINANCO, Inc. will testify concerning the Company's return on equity. Based on a combination of Discounted Cash Flow (DCF) and Risk Premium analysis, as well as a review of the current market, the electric utility industry, and company-specific factors, Dr. Hadaway proposes a point value for PacifiCorp's cost of equity of 11.125%.

Bruce N. Williams, Treasurer, will testify concerning the Company's cost of debt and preferred stock. Mr. Williams will show the Company's embedded cost of long-term debt to be 6.54 percent and the embedded cost of preferred stock to be 6.635%. He will also explain the calculation of the projected average capital structure for the utility for the test year.

David L. Taylor, Director of Revenue Requirement and Cost of Service explains the cost allocation procedures that apply following the adoption of the new MSP Protocol in Utah.

Reed C. Davis, Director, Planning, will testify as to the changing load factors and load shape within Utah. He will explain how Utah's growth relates to the other states in the PacifiCorp system and how the changing underlying and peak growth in Utah is driving the overall system demand. He will also provide a view of future system growth in Utah relative to the other states.

J. Ted Weston, Regulation Manager**,** will present the Company's overall revenue requirement based on the forecasted results of operations for the test year ended March 2006. The allocation method used is the Revised Protocol methodology. Mr. Weston will describe the sources of the forecast data and present certain normalizing adjustments related to revenue, operation and maintenance expense, net power costs, depreciation and amortization, taxes and rate base.

Mark T. Widmer, Regulation Manager, will testify regarding PacifiCorp's net power costs. Mr. Widmer will describe the calculation of net power costs. Mr. Widmer will also describe the Company's production cost model and explain how input data is normalized in that model.

Darrell T. Gerrard, Vice President of Transmission and Distribution Engineering and Asset Management, will explain the reasons for the increased Fiscal Year 2006 expenditures related to the operation and maintenance of PacifiCorp's Utah electrical distribution system. Mr. Gerrard explains these increases and the circumstances that are driving them.

Stan K. Watters, Senior Vice President, Commercial & Trading, will provide information regarding the West Valley lease, the Gadsby Project and the Currant Creek Project.

Daniel J. Rosborough, Director of Employee Benefits, will testify regarding the Company's increased pension and employee benefit costs.

Q. Does this conclude your testimony?

A. Yes.