Q. Please state your name, business address, and position with the Company.

A. My name is Darrell T. Gerrard. My business address is, 825 NE Multnomah St., Suite 1600, Portland, Oregon 97232. I am Vice President of Transmission and Distribution Engineering and Asset Management in the Company's Power Delivery Division (PD).

Qualifications

Q. Please describe your educational background and work experience.

A. I received a Bachelor of Science Degree in Electrical Engineering from the University of Utah and received a Certificate of Completion in Electricity from Utah's Technical College. In addition to formal education, I have attended various educational, professional and electric industry seminars, and serve on several association boards and hold several memberships and positions in industry associations, as shown on Exhibit UP&L___(DTG-1). I joined the Company in 1980 and during those 24 years, I have held various operational and engineering positions of increased responsibility providing extensive experience working across PacifiCorp's service territory prior to assuming my current position.

Q. What are your responsibilities as Vice President of Transmission and Distribution Engineering and Asset Management?

A. I am responsible for developing maintenance and construction strategies for PacifiCorp's transmission and distribution (T&D) networks. I am also accountable for future investment planning to ensure safe, economic and reliable energy delivery systems for our customers.

Purpose of Testimony

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

A. The purpose of my testimony is to explain the reason for the increased Fiscal Year (FY) 2006 expenditures related to the operation and maintenance of PacifiCorp's Utah electrical distribution system. I will explain how these increases contribute to the overall revenue requirement supported by the testimony of Mr. Ted Weston. My testimony explains these increases, and the circumstances that are driving them. Many of the increases are necessary to respond to the significant growth in customers and load in Utah, to implement a number of the specific recommendations from the May 28, 2004 Storm Report to the Utah Public Service Commission, and to continue to provide excellent customer service in the face of the increasing demands placed upon our system. Another significant contributor to the increases is the Company's increased focus on the implementation of proven operation and maintenance practices and standards, and a renewed emphasis on overall asset management objectives. PacifiCorp is implementing measures that will minimize long-term costs by striking a balance between operational expenses, preventative maintenance and capital expenditures. Implementation of these measures will maximize the Company's ability to provide reliable and safe service over the long term for its customers at the least cost. I also explain why the use of a future test period best reflects the operational conditions that the Company's Utah electrical distribution system will encounter during the period that rates are in effect.

Description of Expenditures

Q. Please describe the expenditures you will be discussing in your testimony.

A. These expenditures can be classified into three categories: operations expenses, maintenance expenses, and capital expenses. I will describe each of these briefly as it is important to understand why these expenditures are required.

Q. Please describe what is included in operations expenses.

A. Operations expenses are typically those required to carry out the Company's business of serving customers. These include expenses associated with call center management, bill processing and collections, meter reading, meter installation, locating facilities, responding to customer requests, restoring the system during outages and storms, repairing faults, and switching and configuration of our transmission and distribution systems for optimum season operations.

Q. Please explain the reasons for the increase in FY 2006 operations expenses.

A. Operations expenses can fluctuate due to circumstances beyond PacifiCorp's control, including economic conditions – which directly or indirectly drive load growth, new connections, meter installs, connection and disconnection activity, and collections – and weather, which drives customer bill inquiries, call center volumes and outage restorations. Thus, load growth in Utah is a key driver for the increase in operations expenses. Load growth increases the utilization and requires the expansion of PacifiCorp's distribution and transmission system. As the system increases in size, increased expenditures are required to ensure the safe and effective operation of the system. At the same time, PacifiCorp can exercise some control over these operations expenses by increasing maintenance and by making prudent capital additions for system upgrades and expansions, which help

reduce operations expenses related to faults or equipment failures. As discussed later in my testimony, portions of our asset management objectives are directed at helping to manage operations expenses by making them more predictable over time. PacifiCorp continues to look for efficiencies in planning and executing our work.

Q. What is included in maintenance expenses?

A. Maintenance expenses include both preventative maintenance and corrective maintenance. Preventative maintenance expenses are considered those required for preemptive purposes to provide vegetation management, sustain asset life, keep assets in servable condition, maintain safety requirements, prevent premature failures, and achieve expected asset life cycles. Corrective maintenance expenditures are required to correct operational, reliability and safety conditions identified as deficiencies on the system either as a result of inspection programs, or from storms or external damages. Our asset management objectives support corrective maintenance efforts by providing inspection programs that are linked strongly to capital investment planning.

Q. Please explain the reasons for the increase in maintenance expenses in FY 2006.

An increase in maintenance spending is required for the Company to inspect its growing Utah distribution system on a more frequent basis and to correct deficiencies found during these inspections before they become detrimental to the system and create operational or safety issues.

Q. You mentioned that vegetation management is part of maintenance expense. Did the issue of vegetation management receive comment during the recent Storm Report?

A. Yes it did. As part of this report the Company outlined the plans to significantly increase operational expenditure in key areas such as Vegetation Management and fault correction. In reviewing these recommendations Williams Consulting Inc recommended the following action:

"Accelerate the vegetation management program to reach a 3-year tree trimming cycle as soon as possible." (page 4).

Q. Did other maintenance expense issues receive any comment in the Williams Report?

A. Yes. Williams was very supportive of the plans to increase expenditure in this area. In their report, they commented:

"Provide suitable increases in baseline maintenance budgets and resources in order to keep up with corrective maintenance work orders such that system reliability improves." (page 5).

Q. What is the total increase in T&D Operations and Maintenance expenses in FY 2006?

A. Exhibit UP&L___(DGT-2) shows that these expenses will increase by $22.8 million, which is an increase of 26.8 percent.

Q. Please describe the increase in PacifiCorp's Utah distribution-related capital expenditures.

A. As shown in Exhibit UP&L___(DTG-3), PacifiCorp will add $283.5 million to its

Utah distribution, transmission and general plant in service by FY 2006. Distribution-related capital additions are driven by several factors, many of which are outside the Company's direct control. These investments are required for upgrading and expansion of our T&D systems for the purposes of serving new customers, load growth of existing customers, sustaining or improving reliability, and relocation or replacement of assets due to deterioration, age, end of useful life, or as a result of damage from external causes. Primary factors, or drivers, that influence capital requirements are load growth (obligation to serve), system planning and design standards, system performance standards, reliability and operational history and safety.

Q. What is the reason for the increased capital spending in FY 2006?

A. A primary driver is the increase in the number of customers that the Company serves in Utah, as well as load additions from existing customers. This sustained growth is described in the testimony of Mr. Reed Davis. Load additions from existing customers on existing networks require the capacity of these networks to be upgraded. In his testimony and exhibits, Mr. Davis describes the continued growth levels in Utah. PacifiCorp is adding more than 200 Mw of distribution capacity in Utah on an annual basis. This load growth is expected to continue and represents the equivalent of adding around 16,000 customers to the Company's Utah system each year, requiring a corresponding investment in the infrastructure needed to supply it with electricity.

Q. Are there other reasons for the increase in capital spending?

A. Yes. There is also considerable capital spending targeted to improve the

reliability of the PacifiCorp's service in Utah. The reliability and performance of our assets in the state is not yet at the level we believe our customers want and deserve. Although the Company has seen recent improvements in its reliability metrics, the trend is not improving as fast as we would like. Sustained and consistent capital investment programs are necessary to replace aging and deteriorating assets, correct deficiencies identified during inspection cycles and to minimize our long-term costs, and to improve reliability of service.

Q. Did the issue of reliability spending feature in the Storm Report?

A. Yes. The Company provided detailed recommendations on planned reliability spending as part of its plan to implement a number of specific recommendations from the Storm Report.

On the issue of the cost of reliability improvements, Williams Consulting Inc. made the following comments:

"We agree with the company's findings and conclusions relative to capital budgets and programs…." (Williams Report page 22). In addition, they further stated:

"With regard to the costs of improving reliability, whether through an improved vegetation management program or other targeted maintenance activities, we note the findings of Accenture's February 2004 survey of residential customers who experienced the blackout of August 2003. Two findings from that survey may be of value to consider. First, 55 percent of respondents indicated a willingness to pay more for improvements that would maximize electric system reliability. And second, customers want more information from their utilities

during emergencies." (Williams Report page 19).

Our plans are developed to take these issues into account.

Q. Please explain the need for replacement of aging assets and system upgrades

A. Capital investment is necessary to replace aging assets prior to failure and to upgrade the system in specific areas in order to sustain existing reliability levels and in some cases improve it. As with many western utilities, a large portion of the Company's existing asset base was installed in the 1950's, 60's and 70's, and due to normal aging processes, these assets are nearing the point of replacement, which may be preceded by increased failures and higher maintenance costs. A few examples of assets that are targeted for replacement include: obsolete oil-type circuit breakers, station transformers with high-failure tap changers, electromechanical station meters and relays, sub-transmission lines, distribution lines, poles and cross arms, switchgear, and underground cable. The targeted system upgrades include: storm hardening improvements to lines, lightning performance improvements, expansion of substation SCADA systems improved capability for load transfers in urban areas, infrastructure to support new generation resource additions, and physical security enhancements dictated by the Federal Energy Regulatory Commission and the National Electricity Reliability Council. As the PacifiCorp's system ages and demand increases place additional requirements on the system, it is imperative that the Company keep pace with these requirements to meet the service standards we believe our customers deserve.

Q. How do reliability issues contribute to the increased Company expenditures in Utah?

A. As more assets are added to the system, PacifiCorp's operation and maintenance resources must be augmented. Essentially, with growth comes the need for additional maintenance on the additional plant. Reliability can become an issue if the Company's resources and maintenance activity levels do not keep pace with this growth. If PacifiCorp fails to increase its existing resources to address this growth, the Company will be left with resources that enable it to react only on the most critical operations and maintenance work to maintain minimally acceptable levels of system reliability. Reductions in customer service levels, and increased cost due to overtime and unplanned repairs will result. The Company's goal is to achieve longer term stability and balance in its operation, maintenance and capital spending. Meeting this goal will result in continued public and employee safety and an acceptable level of sustained system reliability.

Q. What benefits will customers receive from these increased Company expenditures?

A. These expenditures will allow PacifiCorp to increase system reliability in Utah in the face of the challenges posed by the combination of dramatic growth in customers and loads and our aging asset base to serve these loads. As part of the merger with Scottish Power, PacifiCorp agreed to implement a number of performance standards and customer service guarantees. We have maintained an excellent track record in fulfilling these commitments. In the most recent annual report card of performance (March 2004), the Company succeeded in meeting

99.9 percent of the customer service objectives. In addition, an independent study performed by TQS Research, Inc. found that PacifiCorp ranks number one in overall customer service in a national survey of large commercial and industrial electric customers. The Company would like to continue this level of excellence in providing customers with quality service, while improving reliability. However, given the increased demands PacifiCorp is facing in Utah, these performance levels can only be maintained through increased capital spending and a more systematic implementation of preventative maintenance.

Implementation of Asset Optimization Strategies

Q. Please describe how the Company optimizes asset life and minimizes long-term costs.

A. PacifiCorp must maintain its assets with the objectives of (1) reliable customer service, (2) extending asset lives, and (3) optimizing the cost/risk balance in maintenance costs over the life of the assets. Utility assets are typically long lived, possessing various operating characteristics and requiring appropriate maintenance strategies. PacifiCorp and the utility industry are continually seeking ways to optimize asset maintenance strategies and understand technical performance characteristics as utility assets age. Since the merger with Scottish Power, PacifiCorp has embraced an "Asset Management" strategy in which maintenance strategies and policies are centrally managed through a group specifically dedicated to this function. This Asset Management strategy uses data and various tools to determine which assets receive maintenance and when that maintenance will occur. Managing maintenance through an Asset Management

structure has facilitated implementation of proven practices Company-wide, based on experience from operations in the various states in which the Company serves. Best practices are also identified from other utilities and industry associations. PacifiCorp's objective moving forward is to take what it has learned and apply it to Utah assets by enhancing some maintenance policies and programs. The planned spending increases in the FY2006 test period will bring these practices into reality and deliver a number of the specific recommendations outlined in the Storm Report filed with the Commission.

Q. Please describe the key elements and activities associated with inspection and maintenance and other drivers or activities that are part of the Company's FY 2006 plans.

A. The key activities in PacifiCorp's inspection, maintenance and other programs are the following:

- Provide for planned maintenance and vegetation management that optimizes system reliability while minimizing long term cost.
- Increase maintenance spending to achieve optimal cycles beginning in FY 2006.
    - Safety inspections every 2 years
    - Underground detailed inspections every 4 years
    - Detailed inspections of overhead systems every 10 years (after initial 5 year program is completed)
    - Test and treat of wood poles every 10 years
    - Fix correctable conditions within an average 24 month period
    - Perform preventative maintenance on major substation equipment to extend life and prevent premature equipment failure
    - 3 year tree trimming and vegetation management cycle

Other Activities

- Reduce SAIDI (System Average Interruption Duration Index) minutes to 125 Company-wide over the next 10 years.

- Provide targeted capital investment programs for aging and deteriorated assets to minimize long-term cost and improve reliability.
- Maintain call center response times for customer service
- Continue in FY 2006 with a number of customer guarantees
- Continue support of our state of the art technical training centers
- Continue and improve our safety standards and programs

Q. Can you provide examples of how such programs will work?

A. Yes. As indicated above, PacifiCorp is working towards having the entire Company on a ten-year cycle for detail inspections and testing and treatment of distribution and local transmission poles. One example of our programs is the ten year cycle to optimize the balance between operational expenses and preventative maintenance while extending the life of the assets (wood poles in this case) and providing a reasonable level of system performance. PacifiCorp has prudent operations and maintenance plans and will closely monitor progress on a continuous basis.

Q. What are the long-term advantages of increasing maintenance and capital spending now?

A. PacifiCorp is working to increase maintenance activity and spending now in order to achieve a smoother and more predictable run-rate of operations and capital spend over the long term. Striking an appropriate balance between operational expenses and maintenance spending will extend the life of the assets, improve the level of system performance, and minimize long-term costs. In short, it will maximize the value of each dollar spent on the system, to the benefit of our customers. The Company's experience demonstrates a correlation between maintenance activities and customer reliability, coupled with the overall health of

utility assets. As noted above, a balance is necessary between operations work and maintenance work. PacifiCorp has recently experienced steadily increasing costs for both overhead and underground fault response and repair, and early in its inspection cycles the Company is logging more correctible conditions than anticipated. Targeting maintenance and capital replacement expenditures in areas with increasing fault rates will help improve system performance. This approach was supported by Williams Consulting Inc. who stated that the Company should:

"Mount a "catch-up" maintenance program in order to significantly reduce the outstanding corrective maintenance items within a short term period…" (page 30).

Q. Why are vegetation management costs forecast to increase in 2006?

A. A review of our vegetation management efforts in Utah has shown that the tree density in the state is nearly twice the density reported to PacifiCorp in a 1998 study conducted by a third party on contract with the Company. Although vegetation management funding was doubled to more than 9 million dollars, this level of spending has yielded a trim cycle of nearly 6 years. The focused 3-year vegetation management cycle being undertaken by the Company using proven methods will improve system performance in Utah. Making the expenditures necessary to maintain safe clearances from energized lines is an important investment for assuring a reliable electric system.

Q. How does PacifiCorp go about making sure operations and maintenance is performed in a timely, efficient and effective manner, and that funds are spent appropriately for the customers' benefit?

A. Power Delivery verifies the status of achieving its goals through its budgeting, planning and tracking systems and internal business control processes. There are several examples in our work management, system planning, project scheduling and asset tracking tools to monitor and measure performance. For example, our Customer Call Center handling technology provides real time customer data, while our Resource Utilization Tool tracks workforce needs and requirements for our operations, maintenance and capital plans and it helps identify the levels of contracting needed. Our Facilities Point Inspection Program is used to track inspection cycles, results and conditions found on the system that need correction. PacifiCorp also employs its SAP system to establish and manage cyclical Preventative Maintenance Plans and collect maintenance cost data for Transmission and Distribution (T&D) substations and apparatus. Another example is the separation of the operations and maintenance budgets through the use of an Activity Based Costing tool which tracks operation and maintenance activities for both work units and costs per unit. We also use our Prosper Outage reporting tool, developed and installed as one of the Scottish Power merger commitments. This system tracks and monitors system performance and collects our official customer outage data. Additionally, this past year PacifiCorp began implementation of a Capital Investment Planning tool to aid in the decision process. This process is required to prioritize the numerous capital investments PacifiCorp must consider each year. PacifiCorp also uses Premivara software, a well known industry tool, for planning and scheduling our many complex multi-year T&D capital projects. Finally, the Company has financial processes and

systems to prioritize, track and monitor spending to our plans. All of these systems and processes, and the staff that support, provide and use this information, allows the Company to perform work in the most efficient and effective manner, as well as at the lowest long-run cost to our customers consistent with meeting the service quality standards we believe our customers want and deserve.

Q. Can PacifiCorp deliver its aggressive FY2006 plans and will customers see benefits from this increase in spending?

A. The answer to both questions is yes. We have stepped up our activity over the past several years and have met our operations, maintenance and capital plans, which were necessary to meet our customers' growth, safety and reliability needs. An example of our performance can be seen in Exhibit UP&L___(DTG-4) and Exhibit UP&L___(DTG-5). These exhibits graph several recent years of the Company's actual spending against budget for Power Delivery OMAG and Vegetation Management. They reflect that even during periods of increasing activity and budgets, we have come within small margins of our overall targets. This is evidence that with the resources we can move to the higher levels of performance and reliability which we believe are necessary. The requested increase in spending in this filing will allow us to maintain performance where standards are being met and further, the additional spending will move us to the higher levels of performance and service necessary for the long term benefit of our system and our customers.

Q. Is there any additional evidence that supports the plans to increase spending in this area?

A. Yes. In addition to my testimony that these expenses are necessary to enhance the performance of this rapidly growing system, Williams Consulting Inc noted that the current maintenance expenditures in Utah are fairly low on an industry basis. Williams noted that the average maintenance expenditures in Utah in 2002 and 2003 were $27 per customer compared to an industry average of $45 per customer. While we have been continuing to increase our spending during 2004 and 2005, which makes this comparison a little dated, I do believe that this further validates the requirement to increase spending in this key area.

Future Test Period

Q. Is it your belief that a future test period "best reflects" the conditions that you will encounter during the time that rates are in effect?

A. Yes it is. My planning and analysis shows that the Company requires additional dollars not currently reflected in rates in order to effectively and prudently manage the capacity and reliability of its transmission and distribution system to the standards we believe our customers deserve. My testimony outlines the various reasons for the required increase in expenditure, which in my judgment are critical. These reasons include, the rapid growth in the numbers of customers and the increase in average energy usage by new and existing customers, the development and introduction of new programs aimed at increasing the operational effectiveness of the resources and the funding required to implement a number of the specific recommendations contained in the Storm Report that was

presented to the Commission on May 18, 2004. The Storm Report recognizes a requirement and contains a clear PacifiCorp commitment to meet increased standards in a number of key areas. The objective of all of these initiatives is to ensure that our Utah customers enjoy quality, highly reliable electric service at a time that the system serving them is growing and developing. With the rapid growth of the system, the implementation of new approaches to asset management and the implementation of a number of specific recommendations from the Storm Report, it is clear to me that a future test period is required to adequately reflect this needed expenditure.

Q. If you receive these increases, how can the Commission be assured that this additional funding will be used for the benefit of customers?

A. As part of a fast growing business, I recognize that in this period of rapid system growth there will be an ongoing need to continue a high level of investment in the system in order to deliver high and increasing levels of reliability. Many of the activities that I describe are ongoing assessment and enhancement programs, and initiatives, such as vegetation management, that require a stable level of funding going forwards in order to ensure that appropriate cycles are attained and then maintained.

I believe that PacifiCorp has a very strong record of delivering Power Delivery OMAG and Vegetation Management expenditures at or close to budget as shown in Exhibit UP&L___(DTG-4) and Exhibit UP&L___(DTG-5), and that the detailed programs and plans that are being developed ensure that the projections are not only realistic but will be delivered during this period. It is

therefore my strong assertion that the level of expenditure I have addressed in my testimony will indeed be made in an efficient and effective manner if the needed revenue is made available in the rates set by the Commission at the conclusion of this case.

Q. So it is your testimony that the future projected spend is a fair reflection of the expenditure that is necessary to maintain and develop a reliable system in Utah?

A. Yes, and it is also my testimony that revenues to cover these expenditure levels are critical to meeting the service quality and reliability standards we believe our customers want and deserve.

Q. Does this complete your direct testimony?

A. Yes, it does.