Q. Are you the same D. Douglas Larson who previously filed direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. I provide a general perspective on the intervenor testimony in this case. In so doing, I specifically address the tactics being employed in an effort to discredit PacifiCorp's (the Company's) case and describe the implausible positions taken by some of the parties, particularly the Committee of Consumer Services (CCS). (I find these positions to be implausible in that they actually recommend a rate reduction for PacifiCorp at a time when the Company is under extreme pressure to build new generating resources while upgrading its Utah distribution infrastructure and expanding maintenance programs.) Finally, I explain the basis for my belief that the credibility of both the ratemaking process and the legislative policy-making process in State of Utah are under attack in this case.

Comments on Intervenor Testimony

Q. Is the intervenor testimony in this case consistent with agreements reached prior to filing?

A. There is a test period stipulation in this docket that was signed (or at least not opposed) by all of the parties who have filed testimony in this case and approved by the Commission. That stipulation provides that the test period to be used for purposes of determining the Utah revenue requirement in this case consists of normalized, forecasted results for PacifiCorp's Fiscal Year (FY) 2006. On that basis I would have expected that parties might question some of the Company's forecast numbers, but I did not expect an all-out attack on the basic premises of forecasting. Instead, the parties have attempted to undermine the spirit of the stipulation by:

- Trying to impose a historical test period standard of forecasting on this future test period.
- Selectively misrepresenting the Company's internal budget processes and controls to justify adjustments.
- Accepting forecasted costs when they are lower than in the past and rejecting forecasted costs when they are higher than in the past.

.**Q. At the time the stipulation was approved by the Commission, were there indications given that the parties did not expect a level of perfection from the Company's test year forecast?**

A. Yes. Speaking in support of the stipulation, CCS witness Dan Gimble indicated that from the Committee's standpoint the Commission would effectively be running a future test year experiment or pilot using forecasted data. He also indicated that this would be new territory for everybody and the parties would have to "puzzle through" some difficult issues. Based on these comments, I would have expected the Committee to have made a greater effort to work with the Company to resolve forecasting issues rather than adopting the approach evident in their testimony. By taking the position that our plans will never happen and should not be funded, the Committee creates a self-fulfilling prophesy that makes the review process contemplated in the stipulation almost worthless.

Q. Please explain why the review process contemplated in the Stipulation is in your opinion "almost worthless"?

A. Certainly. My understanding of the basis of the Test Period Stipulation was that it involved an agreed stay out provision that precluded the Company from filing another rate case until parties had the opportunity to review how the Company projections contained in this filing compared to its actual experience. The Company gave up the opportunity to file a rate case for a certain period of time, but in exchange received the opportunity to use a future test period in the rate case and gained the ability to demonstrate to all parties that its projections and actual results were closely aligned. In fact we went as far as to agree with the parties how we would report the results in order to make a comparison meaningful. In reality however, selective adjustments that take the position that the projections will never happen make this after the fact review all but meaningless.

Q. Can you explain what you mean by "selective adjustments"?

A. Yes. A number of adjustments that are being offered by parties make no attempt to actually challenge or revise the delivery assumptions that the Company has communicated publicly. Rather, through the use of historical analysis, averaging or selective reliance on the lower of historical or future cost expectations, adjustments are proposed that defeat the whole Company attempt to create a step-change in investment levels. Placing heavy reliance on what has happened in the past, at a time when the Company, the Division and the Committee have recognized the need for significant new investment creates a situation where the step-change can never be made. Further, proposing adjustments that take the position that needed new investments will never happen is in reality a self fulfilling prophecy.

Q. Do you have some specific examples that you can provide to the Commission?

A. Yes. While other witnesses will deal in detail with the specific rebuttal of proposed adjustments, I provide the following as evidence to the Commission of adjustments that, if adopted, virtually ensure that history will repeat itself and customers will not reap the benefits of proposed service improvements:

- Rejection of proposed new employee levels based on historical levels. This adjustment is proposed by both the Committee and the Division based on their analysis of historical data. Even then the historical data only takes into account the internal part of the picture rather than the total labor resources available to the Company.
- Rejection of proposed capital expenditure plans based on a documentation standard imposed by interveners. In many ways this adjustment is even more punitive because it appears to disregard the historical track record of spending at or near capital budget. This is a perfect example where I would have believed that the "experiment" could have been used to discuss appropriate evidence going forward rather than propose significant disallowances that will have a real impact on our customers.
- Selective acceptance of historical or future costs based on the lowest available costs. Clear examples of this are the ability of CCS Witnesses to accept projections that produce lower costs while indicating concern at

projections that produce higher costs. The treatment of Pensions and Insurance forecasted expense are in stark contrast to each other with one common denominator, the lowest possible number is selected. Surely these areas would have been perfect areas to select for an after the fact evaluation if there was some doubt as to the projections supported by qualified experts? The Company does not expect forecasts to be adopted without question, but it does expect a fair and consistent standard to be in place.

I could continue my list, but I hope my point is clear. By determining that planned funding will never happen or that costs will only follow historical trends, Mr. Gimble's "experiment" is rendered meaningless. It also leaves the Company no further forward in seeking to achieve the step-change in investment so apparent in its public plans.

Q. Why did PacifiCorp originally seek to use a forecast FY06 test period in this rate filing?

A. Simply put, PacifiCorp believes that only a test year that properly matches the conditions expected in the rate-effective period can provide the revenues needed to enable the Company to meet its responsibility to its Utah customers to provide safe and reliable electric service. With the rapid growth of the Company's system, the implementation of new approaches to asset management and the implementation of the recommendations from the Storm Report, it became clear that the only test period that could adequately reflect this needed expenditure is the one that includes a clear assessment of the operation and maintenance, and capital costs PacifiCorp must incur in order to deliver these initiatives and meet all of the objectives it faces in the near future. The FY06 future test year is the test year capable of meeting this need and properly reflecting for rate setting purposes the costs the Company must incur in the rate effective period to provide the level of service it is planning for its customers.

Q. Is the use of a forecast test year consistent with Utah statutes?

A. Yes. In 2003, the Utah Legislature amended section 54-4-4(3) of the Utah utility code to provide for the use of 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 proceeding is consistent with the requirements of that statute.

Q. Why did the legislature amend the statute to clarify the availability of the forecast test year option?

A. The legislature amended the statute to better serve the needs of utility customers and utilities by providing clear policy direction that the use of a forecasted test year must be an option available to any utility that seeks to file a general rate case.

Q. Regardless of the statutory authority that exists, is there broad support for the use of forecast test years among the parties who have filed testimony in this proceeding?

A. No, based on the reports I have received, it appears that just the opposite is true. The test year stipulation that I previously referred to also established a taskforce to develop and propose rules to establish timing, evidentiary and procedural requirements to implement the provisions of UCA Section 54-4-4(3). This taskforce has already met several times, and the parties who have participated, which include most of the parties in this case, have expressed a preference for the continued use of historical test years. In fact, there has been a discussion of filing requirements that would effectively preclude the use of fully forecasted test years in future rate cases. In general, there has been great resistance among parties to the formulation of rules and filing requirements that would facilitate the use of the forecast test year option provided by the legislature.

Q. Do you believe that the intervenor testimony in this case is a reflection of the resistance to the use of forecast test years that the Company has seen in the test year taskforce meetings?

A. Yes. The intervenor testimony in this case represents a coordinated attack on the concept of a forecast test year. This attack is being led by the Committee of Consumer Services, but it is supported by the UAE and the UIEC. The DPU seems more willing to consider options to make a forecast work. I believe that intervenors see the use of a forecast test period in this case as a cancer that must be stopped before it spreads. Thus, it is not sufficient for them to question forecasting assumptions and propose reasonable adjustments. Instead, they have made a concerted effort to discredit the basic concept of a future test period by proposing historical test period standards for a future test period.

Q. Has PacifiCorp made every effort to ensure the reliability of its test year forecast?

A. Yes. We have a clear idea of what we need to accomplish by the end of FY06. We know how our loads are growing, and we know what resources need to be added to serve those loads. We know what we want to do to upgrade our distribution system and to adopt more aggressive maintenance programs and we thought we knew that both the Division and the Committee were supportive of these plans. Those plans are real and robust, and additional revenues are required to accomplish them.

Q. Have the Company's plans to upgrade its distribution system and to adopt more aggressive maintenance programs been made public?

A. Yes. A very public process was undertaken to examine the causes of the December 2003 Storm Outage and to develop an action plant for improving system reliability. This inquiry culminated in the preparation of a 300 page report (the Storm Report) by PacifiCorp, details of which were reviewed in public meetings and copies of which were made available to the public. The Storm Report identified 28 specific actions which are necessary to improve the quality and reliability of service to customers. The Storm Report was further reviewed by Williams Consulting, Inc. (Williams), an independent consulting firm engaged by the DPU. Williams issued its own report which evaluated the actions and proposed a number of additional actions that were agreed to by Company. The Williams report was also publicly discussed. Since the Storm Report was issued, PacifiCorp has conducted several additional meetings to inform the public about changes in its Utah distribution operation and maintenance procedures and to update progress being made on implementing these steps. This public process has developed a broad consensus that the initiatives being undertaken by the Company to improve its service reliability are timely and necessary. PacifiCorp's

Integrated Resource Plan (IRP) has been the subject of a similarly intensive public review. The need to obtain the financial resources necessary to complete these reliability initiatives and to implement the IRP was an important consideration in the Company's decision to use a forecast test year in this case.

Q. Does PacifiCorp's test year forecast of capital additions and operating expenses reasonably reflect the conditions the Company will face in the future?

A. Yes. As we explained in our direct testimony, our projections of test year capital additions and operating expenses have been carefully reviewed and reasonably reflect the conditions we will face during the rate-effective period. In addition, our forecasts certainly better reflect conditions in the rate effective period than the historical data some of the intervenors want to use. However, the CCS, UAE and UIEC seem to be asking the Company to provide the equivalent of credit card receipts documenting the prepayment of FY06 expenses before they will accept the forecast and, in the absence of the receipts, seem inclined to fall back to historical data, unless the forecast results in a lower revenue requirement. While the credit card standard, and the other variations on historical test period standards proposed by the intervenors, are obviously inconsistent with a future test period, PacifiCorp has demonstrated in this case that its forecasts reflect the conditions it will face and the expenditures it will make in the test period. As the rebuttal testimony of Mr. Gerard and other PacifiCorp witnesses show, the Company's actual capital additions have been very close to budget in recent years and this consistent pattern of historical performance provides evidence of the Company's ability to implement its forecasted expenditures in this case.

Q. Is there evidence Committee witnesses have adopted a standard of proof so onerous that even other intervenor witnesses cannot support it?

A. Yes. For example, in support of her adjustment to reduce the Company's forecast test year capital additions, Ms. DeRonne states that "the Company has not adequately demonstrated that these projects are <u>known and measurable</u> (emphasis added) (Page 20, lines 2-3). I would submit that "known and measurable" is not the standard of proof for the Company to meet in a forecast test year. Mr. Binz testifying for AARP recognizes this incongruity. He states, "when setting rates on the basis of a future test period, it is no longer possible to construct a test year based on 'known and measurable adjustments'". I believe it is significant that even parties who appear to be in lock-step as far as their desire to discredit the Companies forecast, are in complete disagreement as to the appropriate evaluation criteria. This disparity illustrates the general confusion of the intervenor testimony in this case.

Q. Do you believe it is important for intervenor witnesses to offer a credible basis for questioning the Company's forecast?

A. Yes. The Company has provided evidence that its forecast is reasonable based on the best available information, but intervenor witnesses have decided to disregard it. The Company has filed a detailed explanation of its forecasting procedures. The Commission has a right to expect an equal effort from those who seek to discredit the Company's efforts.

Q. Do you see evidence of "cherry picking" in the adjustments proposed by intervenor witnesses?

A. Yes. It seems that if the Company's forecast indicates that an expense is increasing over historical levels, no amount of evidence is sufficient to support the higher amount. On the other hand, intervenor witnesses have had no trouble making "reasonable assumptions" that would adjust costs below forecast test year levels. For example, the actual pension expense being recorded in FY05 is significantly higher than historic 2004 levels and FY06 pension expense is expected to further increase. However, even an analysis prepared by PacifiCorp's pension actuary was unable to demonstrate to Ms. DeRonne's satisfaction that test year pension costs should be higher than historic levels. When we turn to insurance premiums, however, it is a different story. Ms. DeRonne is proposing an adjustment to reduce test year (FY 2006) property and liability insurance premiums because actual FY05 insurance premiums have been lower than expected. Thus, by Ms. DeRonne's reasoning it is unreasonable to believe that test year pension expense will be higher than historical levels, despite the fact that actual FY05 pension expense has increased and is expected to increase further in FY06, based on actuarial analysis. In contrast, according to Ms. DeRonne it is also reasonable to assume that reductions in FY05 insurance premiums will continue in FY06, without any supporting evidence. These types of selective adjustments only give me concern that the Committee is more interested in reducing rates and discrediting the use of forecast test years than in establishing a reasonable revenue requirement.

Q. Is there evidence to suggest that the Company's forecast test year expense is conservative?

A. Yes. Almost before this rate case was filed, it became evident that unusual measures would be required to hold FY05 expenditures within budgeted levels. As a result a number of cost-reduction initiatives, some of which are described in Ms. DeRonne's testimony, were undertaken to keep overall spending levels within budget parameters. Even with these initiatives, the November 2004 forecast of FY05 operation, maintenance and general expense is higher than the forecast amounts used to develop test year expense. Mr. Furman and Mr. Gerrard discuss the budget initiatives in greater detail in their testimony

Q. What are the potential consequences if the Company's test year forecast turns out to be grossly inaccurate?

A. As I explained in my direct testimony, the Company understands that it effectively has been given one chance to demonstrate its ability to produce a reliable forecast test year. Given our belief that the ability to file forecast test years is essential to the long-term financial viability of the Company, we have a tremendous incentive to make the FY06 forecast as reliable as possible. That is why it is so discouraging to have our test year forecast summarily dismissed by the Committee and others. It is especially disheartening to think that people can ask nearly two thousand multi-part data requests and still lack a general understanding of the Company's budget preparation and approval processes.

Q. There seems to be an underlying message in the intervenor testimony that PacifiCorp should be expected to continue to invest to serve growing load and to incur additional costs to increase service reliability while at the same time decreasing prices. What is your response?

A. The notion that PacifiCorp should be able to "do more with less" is unrealistic. (In fact it is a lot more for less, since current prices are based on financial data that is two years old.) 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. Will lower revenues and reduced cash flow impede PacifiCorp's ability to invest in its system and improve maintenance practices.

A. Yes. No utility can continue to make capital investments and operating improvements if it cannot generate the cash flow necessary to support them. Current revenues and cash flow are sufficient to support historic levels of investment and historic levels of operation and maintenance expense. Going forward the Company needs to dramatically increase its capital investment to serving growing loads and has a mandate to spend more on maintenance programs. These needs require more cash not less.

Q. Is there any indication that the parties in this proceeding grasp the necessity of providing more cash rather than less?

A. No, in fact the opposite appears to be true. In response to a discovery question that asked how the Company can meet its improvement objectives without increasing spending, Ms. DeRonne stated that the Committee's recommendation allows the majority of PacifiCorp's requested additions to transmission and distribution plant in fiscal years 2005 and 2006. This argument is analogous to a surgeon cheerfully informing his pianist patient that he was able to save the majority of his fingers. Unfortunately, all of the fingers and all of the plant additions are needed to do the job. Ms. DeRonne also appears to suggest that the Committee's huge proposed adjustments to "non-operating expenses" such as income taxes would have no effect on the Company's ability to fund its operating requirements. The Committee's proposed adjustments would effectively place the burden on PacifiCorp's shareholders to provide the additional cash needed to continue the Company's operations while earning little or no return on their investment.

Q. What lessons have you learned from the Company's forecast test year filing in this proceeding?

A. If I were to summarize my learning experience at this point in the proceeding, it would be easy to become discouraged; but I choose to remain optimistic--believing that the journey has just begun. However, if I were to accept what has happened to date at face value, I would be forced to conclude that this proceeding seems to have turned the test year into an exercise to see who can reshape it to most closely resemble an historic test year. I might have concluded that a utility which chooses a forecast test year option should expect to bear the consequences. These consequences might include two thousand multi-part data requests, many of them repetitive and overlapping. They might include numerous recycled adjustments that have previously been soundly rejected in this and other jurisdictions but which can be used to consume Company resources in rebuttal and artificially reduce revenue requirement. Such consequences might include adjustments without merit to affiliate coal contracts that have undergone regulatory scrutiny for over 20 years. They might also include adjustments to net power costs that require the Company speculate about events that never happened. I might have been instructed in all of these things, but I hope at the end of the day to learn a better lesson. I hope to learn that efforts to discredit the forecast test year have been in vain, that this Commission will determine that the Company's projections reasonably reflect what its expenses are likely to be during the rate effective period, and that a utility making its best effort to serve its customers and meet their needs can expect to fully recover its prudently-incurred costs and be afforded the opportunity to earn a fair return for its shareholders.

Q. Do you still have hope that a forecast test year can be the basis for a reasonable outcome to this proceeding?

A. Yes. While I am disappointed that intervenor testimony has created an unnecessarily hostile atmosphere in this case, I still believe that reasonable people can find common ground. The purpose of this rate case was not to provide a forum for the opponents of forecast test years to vent their frustration with recent legislative changes to the Utah utility code. This case was filed because the Company needs a significant revenue increase in order to acquire the resources needed to serve growing loads and to make improvements to system reliability that are supported by customers and regulators alike. The Company believes that a forecast test year provides the best means for capturing these increasing costs. That said, I recognize that there are legitimate concerns when rates are established on the basis of projected costs, and that it is reasonable to expect some assurance that the Company will not over-earn as a consequence.

Q. What can be done to ensure that PacifiCorp would not unjustly benefit from forecast variances?

A. The only way that PacifiCorp could "unjustly benefit" from a forecast test year would be to earn more than its authorized return on equity. The Company would be supportive of safeguards to protect against over-earning. The purpose of a forecast test year is to give the Company a reasonable chance to earn its authorized return during a time of increasing costs--not to provide an opportunity for over-earning. In the test year stipulation, PacifiCorp agreed to allow sufficient time to make "actual to forecast" comparisons before proceeding with its next general rate case. The use of a forecast test year with appropriate safeguards would protect the interests of both the Company and its customers and would provide a welcome alternative to the extreme positions taken by the intervenors in this case.

Q. Do you believe that this case has policy implications broader than simply determining the appropriate price adjustment for PacifiCorp?

A. Yes. I believe that this case brings into question how regulatory policy decisions made by the Utah legislature are to be implemented by the Public Service Commission. It was clearly the intent of the legislature that gas and electric utilities should have the realistic option of having their rates set based on a forecast test year. If the intervenors in this case have their way, they would establish the utility's burden of proof for the accuracy of forecast data to be equal to that for actual historical data. This is an impossible burden and one that is not required in the many states that successfully use forecast test years. I believe that the Commission needs to find a reasonable way to implement the legislature's policy decision, whether through the use of safeguards or other appropriate means. It was not the intent of the legislature that utilities should be allowed to file their rate cases based on a forecast test year and but then have them effectively converted to a historic basis through intervenor adjustments.

Q. Does this conclude your rebuttal testimony?

A. Yes.