BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR APPROVAL OF ITS PROPOSED ELECTRIC SERVICE SCHEDULES & ELECTRIC SERVICE REGULATIONS	**)))))**	**Docket No. 04-035-42** **STIPULATION TESTIMONY OF D. DOUGLAS LARSON**

FEBRUARY 23, 2005

Q. Please state your name.

A. My name is D. Douglas Larson.

Q. Did you previously offer testimony in this proceeding?

A. Yes, I have previously filed both direct and rebuttal testimony in this case and testified to the test period stipulation, previously presented to this Commission.

Purpose and Summary of Testimony

Q. What is the purpose of your testimony?

A. On August 4, 2004, PacifiCorp filed an application for a revenue requirement increase of approximately $111 million, based on a future test period that began on April 1, 2005 and ended on March 31, 2006. That requested increase was subsequently reduced to approximately $96 million, as described in detail in the Company's rebuttal testimony. As a result of settlement negotiations, the parties in this proceeding have reached a Stipulation regarding revenue requirement, rate spread and rate design and other terms and conditions. The purpose of my testimony is to explain why the terms of this Stipulation are just, reasonable and in the public interest. Specifically, I will address the reasonableness of the Stipulation as it pertains to test year issues, revenue requirement, "stay-out" and price effective dates, reporting requirements, and the establishment of task forces. Mr. William Griffith will address the rate spread and rate design provisions of the Stipulation.

Test Year Issues

Q. How is the Stipulation in the public interest with respect to test year issues?

A. Facing rapid expansion and growth in its Utah service territory, PacifiCorp filed its application in this case based on a Fiscal Year 2006 future test year in order to best reflect these changing conditions. Use of a forecast test year allowed the Company to more accurately reflect the growth in Utah peak demand that has been about twice that of base load growth. The forecast also enabled PacifiCorp to capture in rate base the cost of expanding the distribution system to support system load growth and certain large investments such as the Currant Creek power plant that is currently under construction. The parties in this case have previously agreed to the Company's use of that forecast future test year through a stipulation that was approved by the Commission in an order dated October 20, 2004. The future test period was the first for PacifiCorp in Utah in two decades and has proved to be a learning process for everyone involved. The parties knew in advance that this was new territory and that we would have to work through some new issues. The process of dealing with these issues, combined with new consultants and new witnesses for the intervenors, and an unfamiliar, for Utah, test year, resulted in an unprecedented level of discovery in this case. The sheer volume of discovery has been a costly burden for all parties and nearly pushed the Company to the point of administrative gridlock. The Stipulation recognizes these problems and attempts to address them going forward.

Q. How does the Stipulation propose to resolve the problems of administering a forecast test year that became apparent in this case?

A. The Stipulation creates two task forces that will address forecast test year issues. The "Forecasting Task Force" will be formed to discuss methods for forecasting revenues, expenses, rate base and customer loads and to discuss escalation factors and indices. The "Discovery Task Force" will meet to discuss ideas to improve the efficiency of the exchange of information and discovery. Both of these groups will complement the work already being done by the Test Period Task Force previously established by the Commission. Before PacifiCorp files its next general rate case, the forecasting and discovery task forces will submit reports to the Commission explaining the information obtained and analyzed, consensus positions and issues still in dispute. In addition, parties to the Test Period task force will file a request that the Commission establish a subgroup of that task force to deal specifically with filing requirements. The parties in this proceeding have a mutual interest in improving forecasting techniques and establishing reasonable reporting requirements and filing requirements, and it is expected that the work of these three task forces will facilitate the appropriate use of forecast test periods in future gas and electric utility rate cases.

Revenue Requirement

Q. What factors are driving PacifiCorp's request for a rate increase in this proceeding?

A. The key factor driving the Company's need for a rate increase is the substantially increased investment needed to serve the growth in demand for electricity by Utah customers. The need to supply peak demand has required the Company to make large investments in new generating resources and to expand and upgrade its Utah distribution system. We have a responsibility to ensure safe, reliable service that we take very seriously. PacifiCorp is also experiencing the same cost pressures faced by other businesses, including rapidly rising costs associated with funding pensions, increased costs in health care and other employee benefits.

Q. Do you believe that the cost of capital authorized in the Stipulation is adequate to finance the need for increased investment that you have just described?

A. Yes. The return on common equity of 10.5% authorized by this Stipulation is a compromise between the positions of the parties and is within, although in my view, at the low end of, the range of reasonable results. The 10.5% ROE is in line with recent awards in other jurisdictions. The capital structure supported by the Stipulation is that proposed by the Company and is intended to help maintain our existing long-term debt ratings. The Company's proposed capital structure is consistent with others in the utility industry and the expected trend to greater common equity percentages.

Q. Why do you believe the stipulated revenue requirement increase of $51 million is reasonable and in the public interest?

A. The $51 million increase is significantly less than requested by PacifiCorp in this case. Furthermore, the Stipulation was reached only after the parties had completed an exhaustive discovery process and had fully analyzed the Company's requested increase. The need for a $51 million increase was the final, informed consensus of parties representing the full spectrum of PacifiCorp's Utah retail customers.

Q. Is a $51 million annual revenue increase sufficient to allow PacifiCorp to continue to provide safe and reliable service to its Utah customers?

A. Yes. The stipulated increase provides for a reasonable level of revenues for PacifiCorp to use to run its operations although these are lower than those originally filed. Because the increase is based on a forecast future test year, the revenues will be collected at the same time that costs are incurred, removing the majority of regulatory lag in Utah and providing the Company with certainty of revenues that it will receive in rates. Having certainty of revenues at the same time as costs are incurred allows PacifiCorp to manage its cost run rate. However, as the Stipulation recognizes in paragraph 12, PacifiCorp will need to exercise its managerial discretion to revise the forecasted revenues, expenses and capital investment levels included in its original filing; for example the run rates in some areas of the business will be lower than proposed in our original filing. This does not mean that we are not committed to the plans outlined in our original filing, just that in some instances they will take a little longer to deliver.

"Stay-Out" and Price-Effective Dates

Q. Please describe the compromise between "stay-out" and price effective dates that is embodied in the Stipulation.

A. It may be useful to define these terms before attempting to explain how they are balanced in the Stipulation. A "stay-out" provision is an agreement by PacifiCorp not to file its next general rate case prior to a specific future date. A "stay-out" provision provides customers with an extended period of rate stability and effectively requires that the Company defer the implementation of its next rate increase. In the Test Year Stipulation previously approved by the Commission in this proceeding, the Company agreed not to file its next general rate case before

January 1, 2006. The proposed Stipulation extends this "stay-out" period an additional two months until March 1, 2006. In return for an additional two months of price stability for customers, the Stipulation provides the Company with an opportunity to implement its $51 million increase one month earlier than required by statute, i.e., on March 1, 2005 rather than April 1, 2005.

Q. Why do believe this trade-off between filing dates and rate implementation dates is just and reasonable for Utah customers?

A. At this time it is not possible to quantify the monetary impact of this compromise, because it involves the deferral of a potential future rate increase which is unknown in amount. However, given the expected continued growth in Utah's demand for electricity and the additional ongoing investment that will be necessary to serve that growth, it seems reasonable to assume that deferring the Company's next price increase for two additional months will be worth at least as much as accelerating the collection of the current increase by one month. In any case, the trade-off in implementation dates is only one component of an overall settlement that was determined to be fair and reasonable by representatives of parties in this case.

Reporting Requirements

Q. Why is it reasonable and necessary for this Stipulation to change the reporting provisions of the Test Period Stipulation?

A. The Test Period Stipulation requires that the Company provide a report comparing its forecast revenues, expenses and capital additions to the actual revenues, expenses and rate base additions experienced during the forecast period.

At the time the Test Period Stipulation was approved, this requirement was reasonable because the forecast revenues, expenses and capital additions were matched with the requested revenue requirement increase. Since this Stipulation reduces the Company's price increase to $51 million, the original forecast costs no longer match revenues and it became necessary to adjust the reporting requirement accordingly.

Q. Why is it no longer appropriate to compare actual test year (FY 2006) costs against the forecast costs in PacifiCorp's original filing?

A. If the Company had been granted a price increase of $111 million as originally requested, it would have been appropriate to compare actual test year expenditures against the forecast costs that supported the $111 increase. However, the Stipulation now calls for a $51 million increase and further acknowledges that the Company will have to manage the forecasted expenses and capital investment levels in its original filing. Therefore, it is only reasonable to revise the forecasted test year expenditures to a level comparable to the $51 million revenue increase and to make comparisons of actual test year costs against this revised forecast. This allows meaningful analysis of how the Company performs against its revised forecasted Utah Budget.

Task Forces

Q. Please describe the four task forces created under the terms of the Stipulation.

A. The four task forces created by the Stipulation are (1) the Service Quality Review Group; (2) the Cost of Service and Rate Design Task Force; (3) the Forecasting

Task Force; and (4) the Discovery Task Force. The Service Quality Review Group will review PacifiCorp's Utah system performance and support as well as appropriate service quality standards and discuss ongoing investment and maintenance plans. The Cost of Service and Rate Design Task Force will discuss generation-related cost of service and cost allocation issues, customer charge and other rate design issues. I have previously described the nature of the Forecasting and Discovery Task Forces and explained how their analysis and recommendations will help to streamline the management of future rate case proceedings.

Q. Please explain how the Service Quality Review Group and the Cost of Service and Rate Design Task Force will serve the public interest.

A. The Service Quality Review Group will provide an opportunity for interested parties to keep informed about PacifiCorp's investment and maintenance plans and to monitor the Company's service quality performance. The Review Group will also provide a forum for parties to express their concerns about service quality-related issues and to receive feedback from Company personnel who are knowledgeable and accountable for these matters. The Cost of Service and Rate Design Task Force will provide an opportunity to discuss and analyze these key issues, especially as they are impacted by rapid peak load growth in Utah, free from the time constraints and the contested atmosphere of a general rate case. The report generated by this task force could be instrumental in defining and reaching consensus on the cost of service and rate design issues that will be brought before the Commission in future PacifiCorp rate cases.

Q. In addition to establishing these task forces, does the Stipulation call for additional discussions that will serve the public interest?

A. Yes. The Stipulation calls for PacifiCorp, the Division, the Committee and other interested parties to meet to meet to explore power cost adjustment mechanisms (PCAMs) and other mechanisms to protect against uncontrollable costs and unforeseen, volatile expenses. The Company believes that use of a PCAM is potentially a better way to address net power cost recovery in Utah and believes that continued discussion of this issue is in the best interest of its customers.

Conclusion

Q. Do you believe the Stipulation is a fair conclusion to this case and is in the public interest?

A. Yes. I have explained why the revenue requirement proposed in the Stipulation is fair and reasonable. I have also described the reporting requirements and the task forces provided under the terms of the Stipulation and indicated how they will benefit the regulatory process in Utah. For all of these reasons, I conclude that the Stipulation is just, reasonable and in the public interest and should be approved by this Commission.

Q. Does this conclude your testimony?

A. Yes.