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

A. My name is D. Douglas Larson. My business address is Suite 2300, 201 South Main Street, Salt Lake City, Utah, 84111. My present position is Vice President, Regulation.

Qualifications

Q. Briefly describe your educational and professional background.

A. I graduated from Brigham Young University with a Bachelor of Science Degree in Accounting. In addition, I have also attended various educational, professional and electric industry related seminars during my career. I am currently a member of the board of directors of the Intermountain Electric Association, President of the Utah Foundation, and I am a licensed CPA in the State of Utah. I joined the Company in 1981 in the Financial Accounting Department and have held various accounting and regulatory-related positions prior to assuming my current position.

Q. What are your responsibilities as Vice President of Regulation?

A. I am responsible for the development and execution of the Company's regulatory policy across the six states in which the Company does business. This includes management of regulatory proceedings in each of the six states, including revenue requirement, cost-of-service, rate design and all other proposed changes to the Company's tariffs. In addition, I have responsibility for developing regulatory policy on issues that the commissions must address and making recommendations to management on policy decisions.

Purpose and Summary of Testimony

Q. What is the purpose of your testimony?

A. I will describe the power cost adjustment mechanism ("PCAM") that is being requested by PacifiCorp. If authorized by the Commission, the PCAM would reflect in rates, a portion of the variations in net power costs experienced by the Company. I will discuss the policy issues underlying this request and explain how the PCAM appropriately balances risk between the Company and its customers. I will further explain the reasons for the Company's request and discuss how PacifiCorp's proposed mechanism will return the Company to a reasonable level of earnings volatility and rebalance the overall interests of ratepayers and shareholders. I will also introduce the other witnesses providing direct testimony in this application.

Description of Proposed PCAM

Q. Please describe the PCAM being proposed by PacifiCorp.

A. Under the provisions of the PCAM, base net power costs will be established in a general rate case. Once the base has been established, each month the Company will calculate the difference between Adjusted Actual Net Power Costs and Base Net Power Costs. (These terms are defined in Mr. Widmer's testimony, where the operation of the PCAM is discussed in greater detail.) Utah's allocated share of the difference between these two amounts will be recorded as Deferred Net Power Costs. If the deferred amount is positive, the Company has collected more from customers than the actual costs incurred and the full amount of the net excess will be returned to customers over a 12-month period. If the deferral is negative, the

Company has collected less from customers than the actual costs incurred, and 90 percent of this shortfall will be recovered from customers over a 12-month period. The risk of a 10 percent under-recovery will provide PacifiCorp with an incentive to keep total net power costs as low as possible. Rather than establishing a fixed schedule for these filings, the Company proposes that a plus or minus $20 million accrued balance on a Utah basis be established as a trigger.

Q. Has the Company's PCAM proposal previously been discussed with Utah parties?

A. Yes. In accordance with the terms of the Stipulation dated February 14, 2005 in Docket No. 04-035-42, the Company, the Division of Public Utilities, the Committee of Consumer Services, and other interested parties held a number of meetings to discuss all aspects of power cost adjustment mechanisms. The PCAM being filed at this time was discussed in general terms in the course of those meetings.

Q. Is the Company seeking to implement PCAMs in all of its state jurisdictions?

A. Yes. PacifiCorp has already or will soon file PCAM applications in California, Oregon, Washington and Wyoming. A PCAM will be sought in Idaho in connection with the next general rate case there.

Q. Has PacifiCorp made any commitments that affect the timing of the filing of this PCAM proposal?

A. Yes. The Stipulation in Docket No. 05-035-54, which was established for approval of the sale of PacifiCorp to MidAmerican Energy Holding Company (MEHC), the Company committed to file its PCAM application at least three months prior to filing its next general rate case.

Reasons for Request

Q. Why is the Company seeking to implement a PCAM at this time?

A. Since 1999 the level of market prices has increased substantially and wholesale market prices have fluctuated tremendously, sometimes as much as five to ten times. As a result, the Company's net power costs, which represent a large proportion of the Company's total operating costs and are largely outside of the Company's control, are subject to a high degree of volatility. Historically, the possibility of under-recovering net power costs between general rate cases was a risk that the Company could be reasonably expected to bear. The Company believes net power costs will continue to fluctuate in the future and believes that it is necessary to have a power cost recovery mechanism in order to allow changes in net power costs to be reflected between general rate cases.

Q. How has the wholesale market price level and volatility changed the risk of under-recovering net power costs?

A. The actual net power costs incurred by PacifiCorp can change dramatically from the net power costs recovered in rates for reasons beyond the Company's control. For example, hydro and weather conditions, variations in loads, the timing of forced outages, and wholesale market prices for gas and electricity are uncontrollable. Historically, the Company has been able to absorb the risk of cost increases resulting from fluctuations in these factors because the cost of replacement power was relatively low. However, since the energy crisis, the market price level and volatility have made the cost exposure related to lost generation untenable for PacifiCorp. Replacement power that might have averaged $17/MWh prior to 2000 would have cost $80/MWh in 2004, an increase of nearly 500%.

Q. Has the Company's exposure to wholesale gas price volatility also increased significantly in recent years?

A. Yes. Prior to 2000, the only gas-fueled generating plant in PacifiCorp's fleet was Hermiston. In recent years gas plants have become a much more significant component of the Company's resource portfolio. As a result, the continuing instability of gas prices will only add to the overall volatility of net power costs.

Q. You referred to uncertain hydro conditions as a major contributor to net power cost volatility. Doesn't the MSP allocation method ensure that only a relatively small portion of hydro-related costs impact Utah?

A. The continuing drought in the Pacific Northwest has greatly reduced the Company's low cost hydro generation which must be replaced with more expensive market or thermal resources. While it is true that under the Revised Protocol allocation method only a small percentage of those costs are allocated to Utah, even a small share of a large reduction in what is virtually a zero-cost resource results in a significant increase in net power costs.

Q. Please describe the significance of net power costs relative to the Company's total cost of service.

A. In the Company's last general rate case (Docket 04-035-42), Utah-allocated net power costs were approximately $299 million or 24 percent of the Company's total Utah revenue requirement. We expect this percentage to grow due to load growth and the significant increase in wholesale energy prices. As net power costs become a larger portion of total revenue requirement, the fluctuation of these costs makes it increasingly important that we balance net power cost exposure between the Company and customers.

Q. Might the existence of a PCAM reduce Company management's incentive to optimally manage your portfolio?

A. No. The sharing applied to positive variances leaves a significant portion of risk with PacifiCorp and its shareholders. The Company and its management will have every incentive to continue to optimally manage our portfolio to avoid the risk associated with net power cost volatility. Furthermore, as testified to by Mr. Widmer, the collections under the PCAM will be subject to prudence review.

Introduction of Witnesses

Q. Please name additional witnesses and provide a brief description of their testimony.

A. The Company witnesses filing direct testimony are:

Mark T. Widmer, Director, Net Power Costs, will provide a detailed explanation of the Company's proposed PCAM and provide quantitative support for the Company's assertion of increased levels of risk.

David L. Taylor, Manager, Regulatory Affairs - Utah, describes the allocation methodology utilized in the PCAM to apportion net power cost variances to the Company's Utah jurisdiction.

Q. Does this conclude your testimony?

A. Yes.