Q. Please state your name, business address and present position with PacifiCorp (the Company).

A. My name is Daniel J. Rosborough. My business address is 825 N.E. Multnomah, Suite 1800, Portland, Oregon 97232. My present position is Director of Employee Benefits.

Qualifications

Q. Briefly describe your education and business experience.

A. I have been employed by PacifiCorp for 23 years and I have served as the Director of Benefits for approximately 13 years. I attended Lane Community College and the University of Oregon.

Q. Please describe your current duties.

A. My responsibilities include the analysis, design, administration and compliance of the Company's heath and welfare and retirement programs.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony addresses the Company's pension and welfare benefit costs. All costs are presented on a system-wide basis before any reimbursement from joint owners. In the first section of my testimony, I will describe the two pension plans that PacifiCorp contributes to and the associated pension expenses that the Company is seeking to recover in this case. The first pension plan is PacifiCorp's defined benefit pension plan (PacifiCorp Retirement Plan). The Company's annualized pension costs for this plan during the test period are $57.4 million. Because a portion of this amount will be billed to the joint owners of the generation facilities that the Company operates, the net amount that the Company is seeking to recover in base rates is $55.6 million. The second pension plan is a separate plan negotiated with the International Brotherhood of Electrical Workers (IBEW Local 57 Retirement Plan). During the test year, the Company will incur $7. 5 million in pension expense associated with contributions the Company will make pursuant to the collective bargaining agreement on behalf of the PacifiCorp employees represented by IBEW Local 57. The amount that the Company is seeking to recover in base rates (net of joint owner reimbursement) is $7.3 million.

In the second section of my testimony, I describe the Company's request to recover in rates certain medical, dental and other benefit coverage costs and explain the major reasons for the increase in those costs. For the test year, these medical, dental and other benefit coverage costs are $84.9 million. The amount that the Company is seeking to recover in base rates (net of joint owner reimbursement) is $82.4 million. I also describe the actions the Company is taking to control those costs.

Pension Expense

Q. How many individuals participate in the two retirement plans?

A. As of January 1, 2005, the PacifiCorp Retirement Plan has approximately 4,747 active participants and the IBEW Local 57 Retirement Plan has approximately 1,620 active participants.

PacifiCorp Retirement Plan Pension Expense

Q. What is the PacifiCorp Retirement Plan's current funding status?

A. The plan is currently underfunded. This situation exists for two primary reasons: unusually low interest rates (which have significantly increased the present value of plan obligations, thereby increasing the amount of "expense" that is required to cover the cost of the PacifiCorp Retirement Plan), and substantial asset losses during the extended financial market downturn in 2000 – 2002. Strong investment performance in 2003 and 2004 and significant cash contributions have stabilized and actually improved the funded status over the past 18 months. The Company contributed $60 million in April of 2005 and expects to make cash contributions of of at least $76 million by April 15, 2006. For the four-year period ending in 2006, the Company's contributions have averaged over $58.5 million per year. As of January 1, 2005, the plan's funded status was approximately 70 percent.

Q. How is the Company's pension expense determined?

A. The expense for the plan is determined annually by an independent actuary, Hewitt Associates, as prescribed by the Financial Accounting Standards Board through its accounting standard governing the calculation of pension expense (SFAS 87). Under SFAS 87, the pension expense amount is calculated by the actuary based upon the actual demographics of the participants in the plan, the expected benefits to be paid, expected terminations and retirements, expected pay raises, current interest rates for valuing the plan's liabilities, and a forecast of the expected long-term rate of return on plan assets. Pension expense is typically calculated by the actuary on a calendar year basis. SFAS 87 also permits this calculation to be used by companies utilizing a different fiscal year, such as PacifiCorp, provided the fiscal year end is no more than three months after the calendar year end. To the extent that actual investment returns and other experience with the plan differ from these expectations, the differences are amortized into future expense once they exceed a certain threshold.

Q. What is the level of pension expense included in the Company's request?

A. The Company's expected pension expense for the test year is $57.4 million. The amount (net of joint owner reimbursement) that the Company is seeking to recover in base rates is $55.6 million. This is the net amount of pension expense the Company expects to incur in twelve months ending September 30, 2007 and is a blended amount based on expected calendar year (CY) 2006 and CY 2007 expense projections. The CY 2006 and CY 2007 calculations were developed using the actual CY 2005 expense (documented in Exhibit UP&L___(DJR-1), the January 1, 2005 Valuation Report prepared by Hewitt Associates) as a baseline and incorporating an actuarial assumed investment return of 8.75 percent for that year. The calculation also uses a discount rate used to value the plan's liabilities of 5.5 percent for CY 2006 and 5.75 percent for CY 2007. The Company believes a 5.5 percent discount rate for CY 2006 is reasonable given Moody's Corporate AA bonds are currently yielding approximately 5.5 percent. Exhibit UP&L___(DJR-2) provides the development of projected CY 2006 and 2007 pension expense from actual CY 2005 pension expense. This exhibit was prepared by Hewitt Associates, the Plan's actuary.

Q. Why have pension expenses increased so dramatically?

A. The PacifiCorp Retirement Plan expense increased dramatically from CY 2003 ($14.8M) to CY 2004 ($31.5M) to CY 2005 ($49.9M) and is expected to increase again in CY 2006 ($60.3M). The average increase from 2003 through 2006 is $15.2 million per year. This is primarily due to a decline in value of Plan assets which occurred between 2000 and 2002 and discount rates that have remained at historic lows for the past several years. Unfortunately, interest rates and financial market performance are factors that are beyond the Company's control. During 2000 – 2002, the Plan experienced $450 million of asset losses (the difference between actual investment loss and the amount of return assumed by the actuary). Reflecting those losses has an obvious and significant impact on pension expense. However, because the Company spreads each year's gains or losses over the succeeding five years (spreading losses and gains to mitigate volatility is allowed under SFAS 87 and is a common practice among large pension plans), the resulting increase in pension expense is smoothed over the period. Thus, what could be a really dramatic increase in pension expense is smoothed. But that also means that the aggregate of these gains and losses is built into the succeeding years' pension expense until it is fully amortized. It will therefore take until CY 2008 for all of the earlier losses (incurred in 2000-2002) to be fully recognized and eliminated.

Q. Are the pension plans of other utilities impacted by the same economic conditions?

A. Yes. PacifiCorp is no different than other utilities, or company's with defined benefit plans in other industries for that matter. Trust fund investments over the 2000 - 2002 period performed poorly for almost every large fund, and interest rate declines inflate the liabilities of all pension plans. Investment returns were strong in 2003 and 2004 which helped asset growth, but interest rates remained very low, and are approximately 125 basis points (as of December 2005) lower than in 2002, which means that liabilities of plans have stayed very high.

Q. Who oversees the money that is contributed to the PacifiCorp Retirement Plan?

A. The Company has appointed a Committee (PacifiCorp Pension Investment Committee) that has a fiduciary responsibility to oversee the prudence of the investment of those assets and determine the asset allocation investment strategy. All plan assets are held in a trust and those assets can be used only for the benefit of plan participants. PacifiCorp's Pension Investment Committee has retained outside consultants to assist in this function and has delegated the actual investment responsibility to outside professional investment managers. The plan assets are broadly diversified across asset classes and investment managers. Relative to comparable corporate plans, the PacifiCorp Retirement Plan's investment returns over the last five years have been very favorable compared to those of peer plans.

Q. The "Stipulation on Filing Requirements, Discovery and Timing of Test Period Hearing" previously submitted in this docket requires the Company to provide certain detailed pension expense information as part of this filing. Have you prepared the required information?

A. Yes. Attachment A, Section II.B.4.f of the Stipulation specifies pension data that is to be provided by PacifiCorp for three 12-month periods: (1) the 12-month period ending September 30, 2005, (2) the 12-month fiscal year ending March 31, 2005, and (3) the 12-month period ending September 30, 2007. The pension information required by the Stipulation is provided in Exhibit UP&L___(DJR-3).

IBEW Local 57 Retirement Plan Pension Expense

Q. Please describe the IBEW Local 57 Retirement Plan pension expense.

A. The Company's contribution for this expense is subject to the collective bargaining process. When the plan was first established pursuant to collective bargaining in 1998-1999, the union and the Company agreed that the Company would contribute 7 percent of eligible pay to the plan, but that favorable investment returns would prompt negotiations to determine and agree upon a more appropriate contribution level. In accordance with the collective bargaining process, the Company made a $5 million contribution in 2003, $5.6 million contribution in 2004, but no contribution for 2005. Under the current bargaining agreement, the Company commenced monthly contributions at 7 percent of pay for eligible employees in January 2006, as 2005 investment returns were less than assumed year to date. At 7 percent of pay, contributions annually will be approximately $7.3 million for CY 2006 and $7.6 million for CY 2007. For the period then ending September 30, 2007, the company contributions are expected to be $7.5 million before joint owner charges and $7.3 million after joint owner charges.

Q. Why is this pension expense separate from the defined benefit plan expense discussed above?

A. It is a separate plan. As described above, the IBEW Local 57 Retirement Plan was negotiated in 1998/1999, and became effective as of July 1, 1999. PacifiCorp is not the plan sponsor but is contractually obligated through the collective bargaining process to make contributions on the behalf of PacifiCorp employees represented by IBEW Local 57 and eligible to participate. Prior benefits earned by these same employees, and assets to pay the benefits, were transferred to this new plan in 2001 and those benefits are now the obligation of that Trust and not the obligation of the PacifiCorp Retirement Plan.

The Trustees of the PacifiCorp/IBEW Local 57 Retirement Trust now manage these assets. There are four Trustees from PacifiCorp management and four from Local 57 IBEW leadership. The Trust employs professional actuarial consultants, administrators, an attorney, an auditor, and investment managers. PacifiCorp provides funding to the plan based upon a collectively bargained agreement and annual negotiations.

Medical, Dental and Other Benefit Coverage Costs

Q. What level of medical, dental and other benefit costs are included in the Company's revenue requirement in this case?

A. The Company expects to incur $84.9 million ($82.4 million net of joint owner reimbursement) in the test period for medical, dental and other benefit costs that it expects to incur. This represents an increase of $5.8 million (4.7%) over the equivalent prior 12 month period expense of $80.2 million.

Q. Please explain the reasons for the increase in these costs.

A. The rising cost of medical coverage is the primary reason for the increase in these costs. PacifiCorp's health plans, like almost every other health plan in the United States, have been experiencing significant increases in medical inflation. The primary drivers behind the increases are:

- Government mandates and continued cost shifting by government plans to the private sector;
- An aging population;
- The cost of prescription drugs, compounded by very effective direct consumer marketing;
- Increased prevalence of chronic and high cost treatment; and
- Development and expansion of new medical technology.
- A lesser degree of effectiveness of managed care plans. It is widely believed that after several years of successful negotiations with providers to minimize annual cost increases, the "market" has now turned and providers are being more successful at negotiating increases with managed care networks;

Q. How do the medical cost increases that PacifiCorp has been experiencing compare to the cost increases being experienced by other employers?

A. Over the past several years, PacifiCorp's record with respect to cost increases in medical plans compared favorably to that of other employers. Exhibit

UP&L___(DJR-4) outlines the recent history of increases for PacifiCorp's primary health plans relative to how a similar set of plans would have fared using national medical inflation experience. As the exhibit demonstrates, PacifiCorp's plans have performed better than the average plan experience. As illustrated in this exhibit, PacifiCorp's electric operations group has experienced a six-year increase of 68.6 percent in medical costs while the national average for the same types of plans has increased by 75.3 percent. In 2005, however, that trend changed and the Company's medical costs increased at a rate of 18 percent annually, which is expected to slow in 2006 and 2007. We are projecting annual increases of 10 percent per year for those two years.

Q. Has PacifiCorp made any changes to its medical programs or practices to try to mitigate the cost increases?

A. Yes. Over the past few years, a number of changes have been incorporated into the PacifiCorp plan design to attempt to mitigate cost increases, including:

- Employee cost sharing has steadily increased over the past several years. During 2004, the Company paid 91 percent of the total plan cost and employees paid 9 percent. This cost sharing was adjusted again in 2005 so that employees paid 10 percent of the monthly cost of the plan. For 2006, the Company subsidy is decreased to 85 percent of overall plan cost to maintain parity with the average medical plan subsidy provided by other electric utilities.
- Elimination of the $100 deductible medical plan. This plan option was the least cost-effective plan offered by PacifiCorp and was eliminated in 2005.

- In 2004, the Company implemented changes to the prescription drug program to increase the cost share borne by employees and further encourage the use of generic drugs. Further changes to limit the Company's cost of prescription drugs will be implemented for 2006 when the maximum out of pocket limit for employees is raised from $500 to $750.
- Implementation of a mail order prescription drug program. These programs have proven effective at slowing the increases in this area, which for most plans has been the most difficult cost challenge.
- Expansion of geographic locations offering managed care plans. In areas where a managed care plan can be supported, the Company has expanded these offerings accordingly.
- The plan has for several years included a fully paid physical exam benefit for covered individuals. In order to continue to emphasize long term cost savings and improved health through a "preventive medicine" approach, this benefit was slightly improved in 2003 and will be again in 2006.
- The Company has continually expanded the educational materials and resources for plan participants in order to make them better consumers of the plan and better able to utilize plan benefits. Included in this arena are access to a 24-hour Nurse Advice Line, an on-line health risk assessment tool, and access to specialty programs for transplants and other high costs claim areas.
- Implementation of a Consumer Driven Health Plan and a Disease Management program. These plans are anticipated to be instrumental in controlling the long term cost challenges of our programs.

Q. Do you conclude that the pension and benefit costs described in your testimony reflect the cost the Company will experience during the rate effective period?

A. Yes. This filing includes the most current information available to us and reflects our best estimate of our benefit plan costs for the period.

Q. Does this conclude your direct testimony?

A. Yes.