Q. Please state your name.

A. My name is Jeffrey K. Larsen.

Q. Did you previously offer testimony in this proceeding?

A. Yes, I have previously filed direct testimony in this case.

Purpose and Summary of Testimony

Q. What is the purpose of your testimony?

A. On March 7, 2006, PacifiCorp filed an application, together with revenue requirement, cost of service, rate spread and rate design testimony, for a rate increase of $197.2 million based on a 12 month forecast test period ending September 30, 2007. On April 5, 2006, in compliance with the provisions of Commitment U23 of Appendix A to the Stipulation in Docket No. 05-035-54, PacifiCorp filed supplemental testimony that reduced the Company's proposed rate increase from $197.2 million to $194.1 million. As a result of settlement negotiations, the parties have reached agreement on the revenue requirement and rate spread issues in this proceeding as specified in the Stipulation which was filed with the Commission on July 26, 2006.

The purpose of my testimony is to walk through the terms of the Stipulation and explain why they are just, reasonable and in the public interest. Specifically, I will address the reasonableness of the stipulation as it pertains to revenue requirement, "stay-out" and price effective dates, rate spread, spending commitments and reporting requirements.

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

A. The need for this increase is driven by a few main cost areas: new plant investment, net power costs, generation-related operation and maintenance costs, Power Delivery program costs, and employee labor and benefits. The key factor driving the increases in these cost areas 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 transmission lines and to expand and upgrade its Utah distribution system. The Company projects that over $2 billion of new capital investment, including $1.3 billion in Utah, will be added to the system by September 2007.

Q. Did the intervening parties conduct a thorough review of the Company's filing?

A. Yes. The Stipulation was reached only after the Parties had fully analyzed the Company's requested increase. Review of the case began even before it was filed. Prior to filing the case, the Company met with the Division of Public Utilities (DPU), the Committee of Consumer Services (CCS), and key customers to explain the need for the case and the primary cost drivers of the proposed rate increase.

As a result of the work of the Filing Requirements and Discovery Taskforces, the Company provided significantly more background information and supporting documentation with the filing than in any previously filed case.

Significant detail supporting the projections of revenues, operating costs, labor costs, capital expenditures, regulatory adjustments, other rate base, and taxes was provided with the filing. In addition to the full revenue requirement presentation for the Company's proposed forward looking test period, the Company also provided results of operations with full revenue requirement detail for two additional periods; an historical test period and a mid period half way between the historical and the Company's proposed forecast test periods. Cost of service results for both the historical period and the Company's proposed test period were also provided. Responses to two sets of master data request, totaling 89 additional areas of inquiry, were also submitted at the time of, or soon after the filing.

After the filing, the Division of Public Utilities ("DPU") and the Committee of Consumer Service ("CCS") conducted thorough audits of the Company's case. As a part of their audits, representatives for the DPU and CCS made on-site visits to PacifiCorp's Portland offices and the Currant Creek Plant and the Lake Side construction sites to review Company records and visit with key Company personnel. Other parties conducted their own review of the case. During this review period, the Company responded to an additional 678 discovery requests from the parties in the case.

Terms of the Stipulation

Q. Please briefly summarize the terms of the Stipulation.

A. Under the terms of the Stipulation, customer rates will increase by $115 million, or 9.95 percent. That rate increase will be implemented in two steps with an $85 million (7.35%) increase on December 11, 2006, and an additional $30 million (2.60%) increase on June 1, 2007.

Q. Please describe the significant elements of the Stipulation.

A. Paragraphs 1 through 6 of the Stipulation lay the foundation and give the background behind the settlement. Paragraphs 7 through 11 detail the revenue requirement and rate spread elements of the Stipulation. Paragraphs 12 through 17 list specific regulatory commitments the Company is making. Paragraphs 18 through 22 cover the obligations of the parties related to the Stipulation. Each of these areas is explained in detail below.

Revenue Requirement

Q. Earlier in your testimony you indicated that the rate increase will occur in two steps. What is the reasoning behind the two step increase and how will it work?

A. The Parties agree that PacifiCorp should be allowed to increase its annual Utah jurisdictional revenue requirement by $115 million effective on December 11, 2006. Tariff rates will be designed to collect the full amount of the $115 million rate increase. However, as a result of a compromise on many of the issues and in consideration of mitigating the impacts of the rate increase, $30 million of that increase will be delayed until June 1, 2007. This will be accomplished by application of a rate credit ranging from 2.22 percent to 2.86 percent of a customers monthly bill depending on rate schedule. The net effect is that customer rates will increase by $85 million on December 11, 2006. On June 1, 2007, the rate credits will end and the full $115 million rate increase will be reflected in customer bills starting on that date.

Q. Does the Stipulation specify the authorized cost of capital, adopt a specific test year, or identify individual revenue requirement components and adjustments?

A. The Stipulation calls out two specific items. First, the Stipulation specifies a 10.25 percent return on common equity, but does not adopt a specific capital structure or an overall weighted cost of capital. Second, the Stipulation states that IM Flash's projected load should properly be included in PacifiCorp's Utah retail load forecast for ratemaking purposes. Because different parties relied upon different test periods and adjustments in supporting the agreed upon $115 million increase, there is no overall agreement as to the test period or revenue requirement adjustments which led to the stipulated revenue requirement increases.

Q. Why do you believe the stipulated revenue requirement increase of $115 million is reasonable?

A. The $115 million increase is significantly less than requested by PacifiCorp in this case. It represents a very conservative projection of the assets that will be in service and the costs the Company will incur to serve our customers during the period the new rates will be in effect. As I indicated earlier in my testimony, the Company is experiencing unprecedented growth, particularly in the state of Utah. The $115 million rate increase provides the minimum level of revenues necessary to cover the cost of building, operating and maintaining the generating plants, transmission lines and distribution facilities necessary to support that growth.

Additionally, because PacifiCorp does not have any type of power cost adjustment mechanism, the Company will absorb within that level of revenue all of the price risk associated with fuel and purchased power necessary to meet the energy requirements of our growing customer base. Finally, as a result of the stay out provisions in the stipulation, it is anticipated that customers will see price stability through at least August 2008, or nearly one year beyond the period of the cost projections used in the case.

Rate Spread and Rate Design

Q. Under the terms of the Stipulation how will the $115 million annual revenue increase be apportioned among Utah customers?

A. The full detail of the how the rate increase and the rate credits will be allocated to customer classes is found in Exhibit 1 to the Stipulation. The stipulated rate increase for the major customer classes is as follows:

Customer Class	Tariff Increase[1]	Rate Credit[2]	Net Increase[1]
Residential	10.31%	-2.44%	7.62%
General Service			
Schedule 23	9.31%	-2.22%	6.88%
Schedule 6	9.31%	-2.22%	6.88%
Schedule 8	10.31%	-2.44%	7.62%
Schedule 9	10.31%	-2.44%	7.62%
Irrigation	9.95%	-2.36%	7.35%

([1]Percent increases over current tariff rates. [2]Percent of stipulated tariff rates)

Q. Please explain the stipulated rate spread.

A. The proposed rate spread is designed to reflect cost of service results while balancing the impact of the rate change across customer classes.

The cost of service results support a smaller than average increase to Schedule 6 and Schedule 23. Based on these results, the Stipulation provides a price increase for Schedules 6 and 23 one percentage point less than the uniform increase for the other major schedules. At the same time, some lighting schedules along with Schedule 25 warrant an increase well above the average. The Stipulation provides a price increase for these customers which is two percentage points more than the uniform increase for most other major schedules.

Consistent with the agreement of the parties presented in the Load Research Working Group Report to the Commission dated July 1, 2002, irrigation customers will receive the overall average percentage change to tariff customers.

Electric furnace service and other lighting schedules warrant price decreases. No price change is applied to these customers.

Q. Have the parties reached agreement on how the rate increase will be applied to individual billing components for each rate schedule?

A. The parties have not reached agreement on the rate design. The Parties continue to discuss rate design issues and we hope to reach agreement on rate design for most, if not all customer classes in the near future.

Q. Will special contracts customers be assigned any of the rate increase?

A. The Parties have agreed that the $115 million rate increase will be collected from tariff customers. Special contract customers will also see price increases as a result of the general rate increase, but these increases will not occur at the same time and in some cases as much as two years following the price changes for tariff customers. Additionally in one case, because of ongoing contract negotiations, the amount of the increase in not yet known. The price increases for special contracts, when they occur, will be in addition to the $115 million increase to tariff customers.

Spending Commitments

Q. Has PacifiCorp agreed to commitments regarding system maintenance spending?

A. PacifiCorp has agreed to two specific spending commitments. First, during the period from October 2006 to September 2007, PacifiCorp's expenditures for distribution maintenance set forth in Federal Energy Regulatory Commission ("FERC") accounts 590 through 598 will be not less than 93% of $67.5 million. Second, during the period from October 2006 to September 2007, PacifiCorp's capital costs for distribution pole replacements will be not less than $5.1 million.

Q. How will the actual spending level be verified and what is the remedy should the agreed level of spending not occur?

A. PacifiCorp will provide a report of the status of its compliance with this commitment to DPU and the CCS on November 15, 2007. If the net revenue requirement impact of the two commitments falls below the amounts I identified above, the shortfall will be deferred for treatment in a future rate case.

Stay-Out Provision

Q. Does the Stipulation place any restrictions on when PacifiCorp can file for another price change?

A. Yes. As part of the Stipulation, PacifiCorp agrees that it will not file another Utah general rate case before December 11, 2007. Based on a normal suspension period, tariff prices should not change any earlier than August 7, 2008. This "stay-out" provision provides customers with an extended period of rate stability.

Filing Requirements

Q. Earlier in your testimony you indicated that additional filing requirements were followed in this case. Will those same requirements be followed in subsequent filings?

A. The Parties agree that they will hold discussions regarding appropriate revenue requirement and cost of service information filing requirements and master data requests for PacifiCorp's next Utah general rate case. If PacifiCorp and the parties participating in those discussions are unable to reach agreement on new information filing requirements, PacifiCorp agrees that it will provide the same additional filing requirement information and master data request responses as were provided in this case.

Reporting Requirements

Q. Has PacifiCorp agreed to any additional reporting requirements?

A. Yes. As part of the Stipulation, the Company agrees to provide summary actual results of operations in total for the states of Utah, Idaho and Wyoming comprising Rocky Mountain Power's service territory in its semi-annual results of operations reports. In addition, through a separate letter agreement with the DPU and the CCS, the Company has agreed to provide subsequent to its year end results of operations filing forecasted results of operations that look out two years beyond the historical year.

PCAM

Q. Does this Stipulation have any impact on the PacifiCorp's PCAM application in Docket No. 05-035-102?

A. Yes. Upon approval of this Stipulation, PacifiCorp agrees that it will withdraw its application in Docket No. 05-035-102. PacifiCorp also agrees that it will not file another application for approval for any kind of a power cost adjustment mechanism prior to December 11, 2007.

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 explained that the stay-out provisions of the Stipulation provide Utah customers with price stability for an extended period. I have also described the spending commitments and reporting requirements provided under the terms of the Stipulation and indicated how they will benefit the regulatory process in Utah. Finally, even with this rate increase, prices in Utah will be still be lower than they were twenty years ago and remain among the lowest in the west and in the country. 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?

Yes.