Q. Please state your name, employer and business address.

A. My name is Steven R. McDougal. I am employed by PacifiCorp ("Company"), which operates as Rocky Mountain Power and Pacific Power. My business address is 201 South Main, Suite 2300, and Salt Lake City, Utah, 84111.

Qualifications

Q. What is your current position at the Company and what is your employment history?

A. I am currently employed as the director of revenue requirements for the Company. I have been employed by PacifiCorp or its predecessor companies since 1983. My experience at PacifiCorp includes various positions within regulation, finance, resource planning, and internal audit.

Q. What are your responsibilities as director of revenue requirements?

A. My primary responsibilities include overseeing the calculation and reporting of the Company's regulated earnings or revenue requirement, assuring that the inter-jurisdictional cost allocation methodology is correctly applied, and the explanation of those calculations to regulators in the jurisdictions in which the Company operates.

Q. What is your educational background?

A. I received a Master of Accountancy from Brigham Young University with an emphasis in Management Advisory Services in 1983 and a Bachelor of Science degree in Accounting from Brigham Young University in 1982. In addition to my formal education, I have also attended various educational, professional and electric industry-related seminars.

Q. Have you testified in previous proceedings?

A. Yes. I have provided testimony before the Utah Public Service Commission, the Washington Utilities and Transportation Commission, the California Public Utilities Commission, the Idaho Public Utilities Commission, the Wyoming Public Service Commission and the Utah State Tax Commission.

Purpose of Testimony

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to request authorization for the recording of a net reduction in the existing pension and postretirement welfare regulatory asset for a pension curtailment gain and a measurement date change transitional adjustment. If authorized, the net reduction in regulatory asset would avoid the recording of income to the Company's benefit and directly charging retained earnings. The Company proposal is an effort to maintain normalized pension costs and avoid exposing customers to the cost volatility imposed by financial accounting pronouncements.

Proposed Accounting Changes

Q. Why is the Company requesting the authorization of a net reduction in pension-related regulatory assets?

A. A retirement choice program was offered to non-union participants of PacifiCorp's Retirement Plan ("Retirement Plan"). Non-union participants had the option to switch from the cash balance formula offered in the Retirement Plan to enhanced benefits in the Company's defined contribution 401(k) plan effective January 1, 2009. Participants electing this change will not be able to switch back to the Retirement Plan's cash balance formula. The employee election period closed on October 3, 2008. As required by accounting financial standards, the Company must follow curtailment accounting when an event occurs that significantly reduces the accrual of defined pension benefits. The enactment of the new retirement choice program and the number of employees choosing the 401(k) plan will require the Company to record a substantial curtailment gain. In addition, effective January 2008, IBEW Local 659, agreed with the Company to change its retirement benefit approach to a 401(k) only program. This triggered a small curtailment gain, which was recorded as an offset to existing pension regulatory assets.

The second adjustment is a change to the measurement date for the pension and other postretirement welfare plan liabilities. Due to a new financial accounting standard, the annual measurement date for these liabilities is changing from September 30 to December 31, PacifiCorp's calendar year end. Under previous guidance, plan assets and obligations were allowed to be measured up to three months prior to a company's fiscal year end.

Pension Costs Accounting and Regulatory Treatment

Q. What is the financial impact of the requested changes in accounting?

A. The net overall impact provided by Hewitt & Associates, the Company's pension actuary, is a net pretax benefit to customers of $27 million on a total Company basis. The components of this amount are $41 million for the curtailment gain (Non-union and Local 659) netted by the measurement date change transition adjustment of $14 million. The Company is seeking a ten-year amortization for this pretax net benefit.

Q. What are current on-going pension expenses and other postretirement welfare costs excluding these one-time adjustments for the Company?

A. Please refer to Exhibit No. RMP___(SRM-1), Section A, which presents the 2008, 2009, 2010 and beyond estimated pension and other postretirement welfare expenses. This provides the basis for comparing the accounting impacts with and without regulatory approval of this application.

Q. What is the financial impact of this requested change in accounting on the on-going pension expense?

A. Please refer to Exhibit No. RMP___(SRM-1), Section B, which shows the increased pension expense and other postretirement welfare expense offset exactly by the net reduction in regulatory asset over the analysis' time horizon. As shown on line 7, the overall combined impact on pension and other postretirement welfare expense, at the end of the ten year amortization period, is identical to the values in Section A. There is a minor timing difference related to when the expenses occur but the net impact is zero over the ten-year amortization period.

Q. What would be the financial impact of the requested change in accounting if it were not authorized?

A. Please refer to Exhibit No. RMP___(SRM-1), Section C, which illustrates the financial impact if these changes were not approved by the Commission. Section C, line 16, shows higher pension and other postretirement welfare expense values incurred in the future. This increase is equal to the total value of the foregone net reduction in regulatory asset reflected on line 6. As mentioned previously, without Commission authorization the net benefit would be booked to the Company's current year income and retained earnings and therefore unavailable to be amortized in offsetting the higher future pension costs.

Q. If adopted, over what period of time would you propose the net reduction in regulatory asset be amortized to expense and thus flow through rates?

A. The Company proposes that the net reduction in regulatory asset be amortized in a manner that closely approximates the prior service amortizations that would have continued if it were not for the accelerated recognition due to the curtailment. This would result in an amortization period of approximately ten years. These amortizations would be returned to customers in rates on a net basis as part of net periodic benefit cost in those years.

Q. When does the Company propose to record the adjustment?

A. Based on information currently available, the Company will be recording the curtailment gain in October 2008. The new accounting pronouncement requires removal of the lag in measurement date for fiscal years ending after December 15, 2008; therefore, the Company is required to record the transitional adjustment in December 2008.

<u>RECOMMENDATIONS</u>

Q. Please summarize the Company's request.

A. The Company requests that the Commission issue an order by December 31, 2008 authorizing the Company to make the following accounting adjustments:

- Record a net reduction in account 182.3 to offset the existing pension and other postretirement welfare regulatory asset for the curtailment gain triggered by the retirement choice program and Local 659 change, and measurement date change transitional adjustment.
- Amortize the reduction in regulatory asset to expense over a ten-year period with the opportunity to recover the amount in rates as part of net periodic benefit cost. Rate treatment would be determined in a future rate proceeding.

If authorized by the Commission, these adjustments would be made in lieu of recognition of income to the benefit of the Company and a direct charge to retained earnings as would otherwise be required by the new accounting pronouncements. The Company requests approval by December 31, 2008 to be able to align with the removal of the lag in measurement date.

Q. Does this conclude your testimony?

A. Yes.