Q. Please state your name, business address and present position with PacifiCorp dba Rocky Mountain Power (the "Company").

A. My name is Dean S. Brockbank. My business address is 1407 West North Temple, Salt Lake City, Utah 84116. My present position is Vice President and General Counsel of PacifiCorp Energy.

Qualifications

Q. Briefly describe your educational background and business experience.

A. I have a Bachelor of Science degree in Accounting from Brigham Young University and hold a law degree from George Mason University. I have been employed by PacifiCorp for over seven years and support the commercial and trading, generation and mining departments as General Counsel. Prior to joining PacifiCorp I worked for Duke Energy Corporation as Assistant General Counsel.

Purpose and Overview of Testimony

Q. What is the purpose of your testimony?

A. My testimony explains the process involved in pursuing a new federal operating license for hydroelectric projects in general and the specific process that has been followed for relicensing the Klamath Hydroelectric Project ("Project") and settlement of issues related to the relicensing proceeding. My testimony explains how the expenses and costs for relicensing and settlement for the Project are prudent expenditures that have been incurred in the best interest of PacifiCorp's customers. The relicensing and settlement process costs for the Project for which the company is seeking recovery in this case amount to $73.69 million on an unallocated total system basis.

Q. Please summarize your testimony.

A. PacifiCorp's hydro generation facilities comprise an important component of its overall power supply portfolio. The Project has provided reliable, low-cost power since it was constructed. Owners of non-federal hydropower projects are required under the Federal Power Act to apply for new operating licenses from Federal Energy Regulatory Commission ("FERC"). Relicensing is a complex and often contentious regulatory process that takes many years to complete. The process requires consulting with multiple federal, state, tribal, environmental and community stakeholders; conducting and analyzing the results of numerous environmental studies; presenting and documenting the results of studies and consultation in license applications and other required documentation; and triggers the need to comply with other federal laws such as the federal Clean Water Act and Endangered Species Act. In order to operate hydro facilities and to preserve their unique benefits, licensees must seek new licenses and essentially "prove," through the relicensing process, that continuing to operate the project is still in the public interest. The Company pursued relicensing of the Project given the historic benefits provided to PacifiCorp's customers and the belief that the Project could be relicensed and operated economically in conformance with environmental requirements.

The relicensing process resulted in an outcome in which the Company determined that settlement of the relicensing proceeding through the Klamath Hydroelectric Settlement Agreement ("KHSA") was in customers' best interests. Throughout the relicensing and settlement process, PacifiCorp has sought to protect the interests of its customers by controlling costs, reducing uncertainty and risk, avoiding expensive litigation, and accurately assessing the impact of proposed regulatory mandates on the Project.

The outcome of PacifiCorp's relicensing and settlement process for the Klamath Hydroelectric Project will ensure that customers in all its states continue to benefit from the facilities prior to potential removal in 2020 in a manner that is cost effective and mitigates risks to customers. For example, the KHSA allows the Company to continue to operate the project as it has historically over the next 10 years. Under relicensing scenarios, generation from the project would be decreased in the near term, which would increase net power costs for all customers. In addition, the Company's relicensing and settlement efforts have achieved an outcome through the KHSA that protects customers from costs and risks related to continued relicensing of the Project as well as potential facilities removal. These are substantial benefits that have been realized through the expenditures the Company has incurred to pursue and obtain settlement of the relicensing process.

Q. Does your testimony address the reasonableness of the Company's decision to execute the KHSA?

A. Yes. My testimony in this proceeding initially focuses on the prudency of the costs incurred by the Company in pursuit of a new license for the Project and the costs incurred by the Company to reach settlement with stakeholders. I also provide an overview of the KHSA and describe the substantial benefits related to entering the KHSA as compared to continuing the relicensing process.

Q. Please describe how you have organized your testimony.

A. First, I briefly describe the Project and the benefits customers have derived and will continue to derive from the operation of the Project. Second, I provide an overview of the process to obtain a new operating license. Third, I describe the relicensing and settlement process undertaken to date to resolve the expiration of the Project license. Fourth, I explain the relicensing and settlement costs for which PacifiCorp seeks recovery in this case. Finally, I provide an overview of the KHSA and describe why the company's decision to execute the KHSA is in the best interest of the Company's customers.

Overview of the Project

Q. Please describe the Project.

A. The Project is a 169 megawatt hydroelectric facility on the Klamath River in southern Oregon and northern California. It consists of eight developments including seven powerhouses, five main stem dams on the Klamath River (Iron Gate, Copco No. 1, Copco No. 2, J.C. Boyle, and Keno), as well as two small diversion dams on Spring Creek and Fall Creek, tributaries to the Klamath River. The Project as currently licensed includes the East Side and West Side generating facilities, which use water diverted by the Link River Dam, a facility owned by the Bureau of Reclamation that regulates the elevation and releases of water from Upper Klamath Lake and which is not included in the Project. The Project also includes Keno Dam, which has no hydroelectric generation facilities, but which serves to regulate water levels in Keno Reservoir as required by the Project license. The Company operates all eight developments under one FERC license

(FERC Project No. 2082). The Project is partially located on federal lands administered by the Bureau of Land Management and the Bureau of Reclamation. The first hydroelectric development, Fall Creek, was completed in 1903 and Iron Gate, the last hydroelectric development, was completed in 1962. Keno Dam was completed in 1968. A map of the Project is provided as Exhibit RMP___(DSB-1).

Q. Generally, what benefits does the Project provide PacifiCorp and its customers?

A. Since its completion, the Project has provided reliable, low-cost power. As currently operated in compliance with the limitations of the existing license, the Project is a source of energy, capacity, and reserves. Unlike most other sources of generation, hydro projects also provide an additional environmental benefit because they are emissions-free. In addition, the generating units of the Project located in California qualify as renewable energy resources for the California Renewable Portfolio Standard.

Overview of Federal Relicensing

Q. Please provide an overview of the federal relicensing process.

A. Under the Federal Power Act ("FPA"), FERC has the exclusive authority to license nonfederal hydropower projects on navigable waterways. Original licenses are issued for a term of 50 years, after which a licensee may seek relicensing. FERC issues subsequent licenses for a term of not less than 30 years or more than 50 years with FERC deciding the length of the license. FERC regulations require that a licensee file a Notice of Intent to apply for a new license five and a half years prior to license expiration. On average, licensing takes eight to 10 years, and some applications have taken as long as 30 years. During the relicensing process, FERC typically allows projects to continue operating on annual license extensions under the same terms and conditions once the old license has expired. Such is the case with the Project at this time, as the original project license expired in 2006. The licensing process requires FERC to consider the economic, engineering, environmental, and socioeconomic aspects of the project. In issuing licenses, FERC must give "equal consideration" to environmental values and adequately protect and mitigate the effects of the Project based on environmental and other concerns. In doing so, FERC attaches conditions to the license.

Q. What roles do state and federal resource agencies play in the process?

A. State and federal fish and wildlife agencies review applications and submit comments to FERC regarding the impact the Project may have on the environment. Based on those impacts, state and federal agencies recommend conditions to FERC to place on the license to mitigate the potential impacts. The FPA gives certain federal agencies authority to require FERC to include the agency’s conditions on the license. For example, the Secretaries of Commerce and the Interior have the authority to require applicants to install fishways (ladders and screens) at projects, and to require applicants to reduce variability of in-stream flows.

Q. What options does an applicant have if the mandatory conditions make the project uneconomic?

A. The applicant has limited options. The applicant may accept the uneconomic license, decommission and remove the facility, or pursue litigation and challenge the mandatory conditions. The applicant has the option of selling the facility as well. Because of the potential risks of removal of facilities and the uncertainty of litigation, those options are seldom favored. Consequently, applicants often try to manage uncertainty by settling issues among the various stakeholders before licensing is completed or by negotiating acceptable decommissioning and removal outcomes.

Q. Other than the FPA, what other laws must FERC take into consideration when granting licenses?

A. Because licensing is a "federal action," FERC must evaluate the application under a host of federal laws: the Clean Water Act ("CWA"), the Coastal Zone Management Act, the National Environmental Policy Act ("NEPA"), the Endangered Species Act ("ESA"), the Fish and Wildlife Coordination Act, and the National Historic Preservation Act, among others. These laws add significant time and expense to the application process.

The Company has sought CWA Section 401 certifications for the Project from both Oregon and California. In addition, ESA considerations are present at the Project due to the presence of threatened coho salmon in the Klamath River below Iron Gate dam, and endangered Lost River and shortnose suckers that predominantly reside in Upper Klamath Lake and its tributaries but utilize habitat within the Project boundary.

Q. Does FERC offer more than one relicensing process?

A. Yes. At the time the license application for the Project was developed and filed – the final license application was submitted to FERC in February 2004 – applicants could use either traditional or alternative licensing processes. During the process of developing the license application for the Project, FERC developed an additional licensing process called an integrated licensing process, which became the default process for relicensing in 2005. Applicants may also enter into a negotiated settlement at any time. The Company initiated licensing under the traditional approach for the Project, and has pursued settlement to resolve the issues related to the Project relicensing.

Q. Please provide a more detailed description of the traditional FERC relicensing process.

A. The traditional process involves three stages of consultation. In the first stage, the applicant distributes an Initial Consultation document, which explains the project and its operation and environmental setting to federal and state agencies, tribes, non-governmental organizations ("NGOs"), community interest groups and other stakeholders. Following the consultation document, the stakeholders meet and visit the site. Thirty days after the meeting, comments and additional study recommendations are due to the applicant. Stage one ends when a set of resource-by-resource study plans and stakeholder consultation documentation have been completed and provided to FERC.

Q. What takes place in the second stage of consultation?

A. In the second stage, the applicant conducts the proposed studies and prepares a draft license application, which it distributes to FERC and to interested agencies, tribes and stakeholders for review and comment. At this stage, agencies routinely request additional studies, which can be costly and time-consuming. The applicant may refer such requests to FERC for dispute resolution and FERC may request additional information. The applicant must provide FERC with a written summary of how the Company resolved any disagreements with agencies and others. The second stage ends when FERC accepts a final application for filing.

Q. Please describe the third stage.

A. In the third stage, FERC solicits initial comments and preliminary terms and conditions from resource agencies, tribes, and stakeholders, and gives notice that the project is ready for environmental analysis under NEPA. FERC may require additional information from the applicant to address those comments. FERC next initiates its detailed environmental and engineering review and solicits final comments, recommendations, terms and conditions, and mandatory prescriptions. From all of this information, FERC prepares an Environmental Assessment or Environmental Impact Statement taking into account comments, responses and conditions. Ultimately, FERC issues a license order describing both how the project will be operated during the next license term, and what environmental and other enhancement obligations the licensee must fulfill. Those obligations include the mandatory terms and conditions provided by the Secretaries of Commerce, Agriculture and Interior. In addition, if relevant, FERC appends any conditions associated with CWA Section 401 water quality certifications that have been issued by state agencies.

Q. Please describe the relicensing process to date for the Project.

A. PacifiCorp filed a Notice of Intent to relicense and issued its First Stage Consultation Document on December 15, 2000. In an attempt to arrive at consensus-based approaches to the licensing process with the various stakeholders involved, PacifiCorp pursued a "traditional-plus" licensing approach in which the traditional process was followed with a concerted effort to solicit stakeholder input and agreement on study plans before they were submitted to FERC for review. This "traditional-plus" approach resulted in a significant number of stakeholder meetings to review proposed study plans, gather input, and attempt to achieve consensus. The Company took this collaborative approach to relicensing intending to complete the process more rapidly with agreement among the stakeholders in order to avoid a prolonged and expensive relicensing proceeding, which is common for hydroelectric relicensing.

Q. Please explain stakeholder participation in the relicensing process for the Project.

A. Public meetings for the relicensing process began in January 2001 and continued through 2002 and 2003. The final license application was submitted to FERC in February 2004. FERC issued its first scoping document for the environmental review process in April 2004 and scoping was completed in May 2005. FERC issued notice that the project was ready for environmental analysis on December

28, 2005. The original FERC license expired February 28, 2006, and annual licenses have been issued by FERC since that time.

Federal agencies – the National Marine Fisheries Service, U.S. Fish and Wildlife Service, Bureau of Reclamation, and Bureau of Land Management – issued draft terms and conditions for a new license in March 2006. The draft terms called for full volitional fish passage at all Project developments as well as other license conditions to benefit environmental resources that would reduce power generation and increase the costs of a new license. That same month, the Company submitted applications to California and Oregon for CWA Section 401 water quality certifications of the Project. As a result of the Energy Policy Act of 2005, the Company had the opportunity to challenge the underlying facts behind the draft agency terms and conditions and propose alternative licensing conditions. The Company filed alternative license conditions with FERC that the Company believed provided similar environmental benefits as the draft agency terms and conditions but at less cost and loss in power production from the Project. The Company's filing also challenged material facts relied upon by the agencies. A trial-type hearing was conducted on these issues of material fact underlying the agency terms and conditions in August 2006 and a decision was issued by an administrative law judge in September 2006. Also in September 2006, FERC issued a draft Environmental Impact Statement for Hydropower License.

Incorporating the findings of the trial-type hearing, the agencies issued modified terms and conditions for a new license in January 2007. FERC then initiated ESA consultation for a new license in March 2007 and the National Marine Fisheries Service and U.S. Fish and Wildlife Service issued final biological opinions in December 2007. To initiate analysis of the project under the California Environmental Quality Act pursuant to obtaining CWA Section 401 certification, the Company signed a memorandum of understanding with the California State Water Resources Control Board in September 2007. FERC completed its environmental analysis of the project and released its final Environmental Impact Statement for Hydropower License in November 2007.

Q. Please describe the relicensing process after the Company filed its applications for CWA Section 401 certification of the Project.

A. Since filing its applications in March 2006 for CWA Section 401 certification with California and Oregon, PacifiCorp has been implementing water quality studies and monitoring in order to improve water quality conditions in the Project reservoirs and in the Klamath River downstream of Project facilities. The result of these study and planning efforts will help the states of California and Oregon assess whether the Project can meet applicable water quality standards. In June 2009, the California North Coast Regional Water Quality Control Board issued a draft total maximum daily load ("TMDL") report for the Klamath River and in February 2010, the Oregon Department of Environmental Quality released its draft TMDL for the Klamath River in Oregon. The TMDLs prescribe nutrient, temperature, and dissolved oxygen requirements in the river that must be attained by Project facilities. PacifiCorp has been actively involved in reviewing the

TMDLs since they will ultimately inform the conditions that may be imposed on the Project through the CWA Section 401 certification processes.

Q. Please describe how settlement is used in FERC relicensing process.

A. Due to the complex nature of relicensing proceedings and the many issues and stakeholders involved in the process, many relicensing proceedings are resolved by settlement. As mentioned before, a settlement between the parties to a relicensing proceeding can be entered at any time while the relicensing process is ongoing. Settlements are encouraged by FERC and recent changes to the relicensing process alternatives have been made to encourage applicants and stakeholders to reach consensus on the issues related to project relicensing so the parties can reach settlement. Indeed, PacifiCorp has pursued settlement for the majority of its recently completed hydro relicensing proceedings including the North Umpqua, Bear River, and Lewis River projects. In addition, settlements have been entered among PacifiCorp, agencies and stakeholders to decommission the Condit, American Fork, and Powerdale hydro projects after those projects began the traditional FERC relicensing process.

Q. Please describe the settlement process to date for the Project.

A. For the Project, PacifiCorp initiated settlement discussions in October 2004 with stakeholders following submittal of the license application. The first mediated settlement meeting was conducted in January 2005. Settlement meetings proceeded through 2005 and mid-2006 when the settlement group turned its attention to resolving basin-wide issues among the stakeholders. This group of stakeholders, after months of negotiations, released the draft Klamath Basin

Restoration Agreement ("KBRA") in January 2008. Because the provisions surrounding these broader issues were beyond the scope of the relicensing proceedings, PacifiCorp did not participate in these negotiations. The KBRA is intended to resolve issues of water allocation in the Klamath Basin and provide for habitat restoration and called for removal of PacifiCorp's main stem hydroelectric dams. Following release of the KBRA, active settlement negotiations were resumed among PacifiCorp, the federal government, and the states of California and Oregon.

Other key stakeholders joined the settlement negotiations, resulting in an Agreement in Principle ("AIP"), which was released on November 13, 2008. The AIP laid out a framework for resolution of the issues related to relicensing of the Project including the potential decommissioning and removal of PacifiCorp's four main stem dams on the Klamath River – J.C. Boyle, Copco No. 1, Copco No. 2, and Iron Gate. As a result of discussions with the National Marine Fisheries Service and the U.S. Fish and Wildlife Service, PacifiCorp also developed an Interim Conservation Plan to provide benefits to ESA-listed aquatic species during the period of interim operations prior to potential dam removal or the re-establishment of fish passage through the Project pursuant to project relicensing.

Following the release of the AIP, PacifiCorp pursued further negotiations with the parties to the AIP – the federal government, California and Oregon – as well as an expanded group of stakeholders, agencies, and other interested parties to complete a final settlement agreement for the Project. On February 18, 2010, the KHSA was executed by over 30 parties, including PacifiCorp, the Secretary of the Interior, governors from the states of Oregon and California, Native American Tribes, and parties representing counties, irrigation districts, fishermen, environmentalists and other organizations. I have provided a detailed chronology of key points in the Klamath relicensing and settlement process as Exhibit RMP___(DSB-2).

Q. Is PacifiCorp a signatory to the KBRA?

A. No. PacifiCorp is a party to the KHSA but not the KBRA. The two agreements, however, are linked.

Q. Absent the settlement under the KHSA, what steps remain to be completed in the relicensing process?

A. In order for FERC to issue a new Project license, CWA Section 401 water quality certification must first be completed by the states of California and Oregon. The conditions of the CWA Section 401 certification would then be incorporated into the new FERC license for the Project. PacifiCorp has CWA Section 401 water quality certification applications pending in both states. However, pursuant to the KHSA, CWA Section 401 certification of the Project will be held in abeyance while the Secretary of the Interior makes a determination as to whether the four main stem Klamath River dams owned by PacifiCorp should be decommissioned and removed or relicensed.

Costs and Benefits of Relicensing

Q. Please describe how pursuing relicensing and settlement has provided customer benefits.

A. PacifiCorp has pursued relicensing to preserve economic benefits to its customers from the Project. Had the Company not elected to pursue relicensing of the Project, it would have been required to submit an application to FERC for surrender of the Project license and decommissioning/removal of the facilities. Doing so would have exposed PacifiCorp's customers to the uncertainties related to potential decommissioning and removal of the facilities, while necessitating that PacifiCorp's customers pay for the immediate replacement of the energy provided by the Project. Throughout the relicensing and settlement process, PacifiCorp has taken the position that decommissioning and removal of the Project without sufficient protections against the associated costs, risks and liability is not in the best interests of the Company or its customers. To that end, it has pursued settlement in a manner that will provide those protections. In addition, the relicensing and settlement process has provided benefits by allowing customers to continue to benefit from the Project during the period between the expiration of the Project license in March 2006 and continuing until the potential removal of the facilities.

Q. How much has the Company incurred in the licensing and settlement processes?

A. Through June 30, 2010, the Project had accumulated $71.12 million on a system-wide basis in relicensing and settlement process costs. A detailed cost breakdown for the Project is provided as Confidential Exhibit RMP___(DSB-3). The project is currently forecast to be completed at a total cost of approximately $74 million on a system-wide basis.

Q. Do the relicensing and settlement costs include costs to implement the KHSA?

A. No. The relicensing and settlement costs only include costs related to pursuing the traditional relicensing process and the costs necessary to pursue settlement of the Project relicensing. Costs related to implementing the KHSA will be recovered as they are incurred prior to potential removal of the facilities through normal operations and maintenance costs and, where applicable, specific capital projects related to KHSA implementation.

Q. What are the major cost categories for the process costs?

A. For costs through 2009, approximately 52 percent of the costs ($35 million) derive from outside expert consulting and legal services. These services included the development of the information necessary to prepare the first stage consultation document and the costs to consult with stakeholders and prepare detailed study plans for the various resource areas investigated as part of the relicensing process. These services included the execution of the vast array of technical studies required and the costs to prepare the license application. Examples of the studies and data collected include:

- Complete aerial photography and mapping of the Project,
- Bathymetric and sediment studies of Project reservoirs,
- Environmental resource investigations,

- Wildlife and vegetation surveys,
- Geomorphology studies,
- Biological and engineering studies of various fish passage alternatives, fisheries modeling and habitat assessment,
- Studies of potential Project operational enhancements,
- Historic and cultural resources investigations,
- Socioeconomic studies,
- Recreation surveys and planning,
- Extensive water quality monitoring, and development of a Project water quality model and associated water quality modeling studies,
- Development of cost estimates for potential protection, mitigation, and enhancement ("PM&E") measures likely to be required in a new license.

These costs also included license application preparation, CWA Section 401 applications costs and related studies, ESA consultation and documentation costs, legal review and legal costs associated with the Company's challenge to agency terms and conditions, responses to comments in relation to the license application and required analysis of the Project pursuant to the California Environmental Quality Act. Finally, this included costs associated with the settlement process, facilitator and mediator services, communications and other services.

The amount of information necessary to be developed for the preparation and support of hydroelectric license applications is rather astounding. The Project license application and associated study documentation and filings produced by the Company require in excess of 8 feet of shelf space. This is similar to the shelf space devoted to the Company's license application for the recently relicensed North Umpqua project.

Materials, labor and associated expenses accounted for approximately $11 million – or approximately 16 percent of total costs. These costs included labor and associated costs for the Company's project management, technical leads, environmental scientists, and administrative staff. The remaining costs are related to property taxes paid against accrued relicensing costs, and Allowance for Funds Used During Construction ("AFUDC"). Costs included in this rate case Application related to the Project are included in the testimony and exhibits of Mr. Brian S. Dickman.

Q. What controls did the Company put in place to insure that the expenditures made in the relicensing process were required, necessary, and prudent?

A. First, the Company appoints a Project Manager for each relicensing project. The Project Manager works with Hydro Resources and PacifiCorp Energy management to coordinate all efforts related to the process and project cost management. The Company also assembles a project team, which is comprised of technical leads who are subject matter experts in the various relicensing areas. Examples of technical leads include: fishery and wildlife biologists, cultural and recreation specialists, engineering, etc. The team develops a relicensing strategy to address likely required studies and potential PM&E measures. The technical leads assist the Project Manager is overseeing work tasks within their area of expertise. Consultants have been generally selected through a formal bidding process unless specific expertise was needed, in conformance with general PacifiCorp procurement policy.

Finally, due to the fluid and multi-disciplinary nature of the FERC relicensing process, which requires significant legal support, the Office of General Counsel reviews the relicensing project and works with the Project Manager and outside counsel to assure that legal services in support of the relicensing effort are necessary, prudent, and procured in conformance with Company policies that are intended to control costs.

Q. Please explain how outside services costs have been managed?

A. First, an overall budget was established for the project spanning the time through expected license issuance. Each year, as part of the annual budgeting and approval process, the portion of the Project budget to be expended in the upcoming year is thoroughly reviewed and approved by management. Throughout the year, a monthly break down of all Project expenditures is provided to department management and to the Project Manager. This process provides an opportunity to look at Project costs on an overall basis and make adjustments as may be necessary to stay within the overall Project budget if possible. The process also provides an opportunity to review all expended costs on a monthly basis to ensure they are proper and represent prudent expenditures to accomplish the relicensing and settlement objectives.

Q. Has the complexity of the Project impacted the overall level of process costs?

A. Yes. As detailed earlier in my testimony, the relicensing process is time-consuming, complex and requires the expenditure of significant staff labor, outside technical support, and legal services to prepare an application and defend that application through the regulatory process. The Project has been the most complex and contentious relicensing proceeding the Company has undertaken for its many hydroelectric projects. Even so, the Project relicensing costs compare favorably with another recent relicensing effort by the Company on the North Umpqua River. At the conclusion of that relicensing process in 2005, the total cost was approximately $55.1 million. In that case, the relicensing and settlement process spanned 10 years, from 1991 to 2001. The settlement parties were fewer in number and included: U.S. Forest Service, National Marine Fisheries Service, U.S. Fish and Wildlife Service, Bureau of Land Management, Oregon Department of Environmental Quality, Oregon Department of Fish and Wildlife, and Oregon Water Resources Department.

KHSA Details

Q. Please provide a more detailed description of the KHSA.

A. The KHSA provides for the transfer of the Project to a dam removal entity ("DRE") no earlier than 2020. The KHSA calls for the Secretary of the Interior to conduct further studies and environmental review and to issue a determination by March 2012 as to whether dam removal should proceed. Prior to the Secretary's determination, key milestones called for in the KHSA must occur, including the passage of federal legislation to enact key provisions of the KHSA and to provide protection for the Company and its customers from liabilities related to dam removal. Prior to transfer of the Project facilities to the DRE, PacifiCorp will continue to operate the facilities and its customers will continue to benefit from the low-cost power produced by the facilities. Prior to dam removal, the KHSA requires the Company to implement a number of interim measures to benefit environmental resources in the Klamath Basin.

Q. Please provide an overview of PacifiCorp's approach to the negotiations that led to the execution of the KHSA.

A. Relicensing the project has been a complex and challenging process that is interwoven into longstanding and contentious issues in the Klamath Basin. Throughout these negotiations, the federal government and the states of Oregon and California have expressed a strong policy preference that PacifiCorp's dams on the Klamath River be removed. In response, PacifiCorp outlined four core principles that guided its negotiation strategy related to a path that could lead to dam removal:

1. Protect utility customers from uncertain costs of dam removal;
2. Transfer dams to a third party for removal;
3. Protect utility customers from liabilities of dam removal; and
4. Ensure that utility customers continue to benefit from the low-cost power of the dams until the dams are removed

Q. Does the KHSA deliver the Company's four core principles?

A. Yes. The terms of the KHSA deliver each of these elements for the benefit of PacifiCorp's customers. As such, the KHSA provides a more certain and less risky path forward for customers.

Q. How does the KHSA protect customers from uncertain costs of dam removal?

A. The KHSA contains a $200 million cap on the customer contribution to the costs of dam removal.

Q. Were there any other key considerations for PacifiCorp as it negotiated the terms of the KHSA?

A. Yes. PacifiCorp negotiated the terms of the KHSA in a manner that resulted in a fair and balanced outcome to customers and other stakeholders. Under relicensing, the status quo for the Project just isn't an option. As such, the costs to customers under the KHSA were compared against a baseline relicensing scenario throughout the negotiations. This analysis ensured that customers would be expected to be no worse off under the KHSA as compared to a conservative estimate of relicensing costs. This analysis, combined with the significant risk-reducing elements of the KHSA, ensures that the KHSA is in the public interest.

Q. Please describe PacifiCorp's general approach to the economic analysis supporting its decision to enter into the KHSA.

A. Prior to entering the KHSA, PacifiCorp compared the cost to customers of the KHSA with the costs to customers under a conservative relicensing scenario. The costs to customers of relicensing are highly uncertain. As such, the Company developed a relicensing case against which the economics of the KHSA were compared. The relicensing case relies heavily on the costs and data developed as part of the FERC Final Environmental Impact Statement ("FEIS").

Q. How was the analysis structured?

A. The analysis evaluated the Present Value Revenue Requirement ("PVRR") of the stream of costs under the KHSA and compared it against the PVRR of the stream of costs under the relicensing scenario. The analysis covered a 44-year period beginning in 2010 – this equates to a 40-year license beginning in 2013.

Q. What did the analysis assume with respect to the costs of replacement power?

A. In both scenarios, the Company assumed that lost generation would be replaced with renewable, non-carbon emitting resources. This was accomplished through the use of a forward price curve that contained a "carbon adder" as a reasonable proxy for the cost of renewable replacement power. I would note that there is also lost generation under the baseline relicensing scenario due to operating restrictions that were included in the FERC FEIS.

Q. How did the Company use the analysis to inform its negotiation strategy?

A. As mentioned above, the Company was willing to agree to a set of financial commitments under the KHSA that did not exceed the cost estimates in the relicensing scenario. However, it was also important to the durability of the KHSA that the other settlement parties viewed the overall result as fair and balanced. If the PVRR of the KHSA was significantly below the baseline relicensing case, this durability would have been threatened.

Q. Does the KHSA result in a fair and balanced outcome to PacifiCorp's customers?

A. Yes. Based on the results of this conservative analysis, the KHSA results in a PVRR that is below the cost of relicensing. This is shown in a summary of the Company's economic analysis included in Confidential Exhibit RMP___(DSB-4). The PVRR calculations are addressed in the testimony of Mr. Steven R. McDougal. More importantly, customers are protected from the risks and liabilities that exist absent an agreement among the parties. These risks include:

(1) potentially higher costs under final terms and conditions for relicensing; (2) difficulties in securing state and federal approvals for relicensing; (3) continued litigation related to endangered species act requirements and water quality issues; and (4) early shut-down and removal of the project. In the end, the terms of the KHSA allow the Company to respond to the policy preferences of the federal government favoring removal of the Project, while protecting all of PacifiCorp's customers for the long term with respect to economic impact and risks.

Q. Have any credit rating entities commented on the benefits of the KHSA?

A. Yes. In an October 7, 2010, credit report for PacifiCorp, Standard & Poor's cited the KHSA as a "Major Rating Factor" providing strength to PacifiCorp's credit rating. The Standard & Poor's assessment stated that "A settlement reached in February 2010 regarding the contentious Klamath hydro relicensing case has the potential to adequately address the company's financial exposure if the project is decommissioned, which will not occur before 2020."

Q. What does this rating agency comment mean with respect to customer benefits?

A. This means that PacifiCorp's execution of the KHSA pursuant to the relicensing and settlement process has favorably impacted customers already by strengthening PacifiCorp's credit rating, which ultimately translates to a lower cost of debt, which reduces PacifiCorp's costs and keeps customer rates down.

Q. Does this complete your direct testimony?

A. Yes.