Exhibit
UP&L__(WE-1)

PacifiCorp
Exhibit UP&L _____(WE-1)
Docket No. 03-2035-02
Witness: William Eaquinto

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of William Eaquinto
Chronology of Relicensing of the North Umpqua Project

July 2003

# Chronology of Relicensing of the North Umpqua Project

**Background -** The parties to the Agreement are PacifiCorp, USDA Forest Service, National Marine Fisheries Service, USDI Fish and Wildlife Service, USDI Bureau of Land Management, Oregon Department of Environmental Quality, Oregon Department of Fish and Wildlife, and Oregon Water Resources Department (the "Parties"). The Settlement Agreement is accompanied by an Explanatory Statement that explains the science and policy basis of the Settlement Agreement

**June 13, 2001 - Resource Agencies, PacifiCorp, Announce North Umpqua Agreement**
Innovative Agreement to be submitted as basis for a new FERC license.

PORTLAND, OR – Oregon state and federal resource agencies and PacifiCorp today announced they had reached a comprehensive Agreement to resolve issues in the relicensing of PacifiCorp's North Umpqua Hydroelectric Project. The Agreement will result in significantly increased stream flows, substantial watershed restoration, and continued supply of electricity to customers in the region.

## Relicensing Chronology

**1947 -** Original 50-year license issued for the North Umpqua Hydroelectric Project.
**1948-1956 -** North Umpqua Hydroelectric Project constructed.
**October 28, 1988** - The reach of the North Umpqua River immediately downstream of the Soda Springs powerhouse is designated as a federal Wild and Scenic River.
**December 1991** - PacifiCorp initiates the formal process of relicensing the Project with the Federal Energy Regulatory Commission (FERC). Numerous studies are conducted and scientific information collected as necessary to develop and submit the license application.
**April 1994** - Secretaries of Agriculture and Interior issue the Record of Decision (ROD) for the Northwest Forest Plan (NFP).
**January 1995** - PacifiCorp files an application with FERC for a new license under the Federal Power Act (FPA) for the project.
**June 1995** - PacifiCorp initiates a watershed analysis with the USDA Forest Service and other interested parties to address issues raised in the licensing process and to conform to the NFP. The watershed analysis emphasizes fisheries, water quality, geomorphology and terrestrial wildlife, and is established with multi-agency and non-governmental organization participation.
**January 1997** - FERC license for the Project expires. Project continues to operate under an annual license with the same conditions as the original license.
**Summer 1997** - Settlement negotiations begin. The following parties form the North Umpqua Resource Management Team (Resource Team) to negotiate a settlement agreement based on the watershed analysis: PacifiCorp, USDA Forest Service, National Marine Fisheries Service (NMFS), USDI Fish and Wildlife Service (USFWS), Oregon Department of Environmental Quality (ODEQ), Oregon Department of Fish and Wildlife (ODFW), Oregon Water Resources Department (OWRD), Douglas County Board of Commissioners and non-governmental organizations (NGOs), including American Rivers, Pacific Rivers Council, Oregon Trout, Water Watch of Oregon, Umpqua Watersheds, Umpqua Valley Audubon Society, Umpqua Fisherman's Association, Oregon Natural Resources Council and Steamboaters. The Resource Team meets for two years.
**March 1998** - The Resource Team issues the North Umpqua Cooperative Watershed Analysis Synthesis Report, which is the first of its kind for hydro re-licensing. It incorporates new methodologies, developed by Stillwater Sciences and other expert scientists, and is conducted by scientists from Stillwater, government agencies, NGOs, and PacifiCorp.

**November 1999** - PacifiCorp withdraws from settlement negotiations. In December 1999, PacifiCorp petitions FERC for postponement of the National Environmental Policy Act (NEPA) process until September 2000, to allow for an update of record and application. NMFS, USDA Forest Service, USFWS and State of Oregon support the request for stay.
**January 5, 2000** - FERC denies request for postponement and orders final revision to PacifiCorp's 1995 application to be filed by February 21, 2000.
**February 2000** - PacifiCorp files an addendum to its 1995 application with FERC to update the relicensing record with information developed since the 1995 filing.
**May 2000** - In response to requests from state and federal agencies, NGOs, PacifiCorp and other stakeholders, FERC postpones issuing a notice that the application to relicense the Project is Ready for Environmental Analysis (REA) until September 30, 2000. This allows for a new round of settlement talks of 120-day duration.
**June 2000** - Members of the Resource Team, and additional members, agree to re-initiation of settlement talks. The parties to this round of mediation sessions, the Mediation Team, consist of PacifiCorp, USDA Forest Service, USDI Bureau of Land Management (BLM), National Marine Fisheries Service, USDI Fish and Wildlife Service, Oregon Department of Environmental Quality, Oregon Department of Fish and Wildlife, Oregon Water Resources Department, and non-governmental organizations, which include American Rivers, Pacific Rivers Council, Oregon Trout, Water Watch of Oregon, Umpqua Watersheds, Umpqua Valley Audubon Society, Oregon Natural Resources Council and Steamboaters.
**September 2000** - This Mediation Team does not reach agreement and does not have consensus to continue with the current mediated process, per the ADR Agreement. However, the majority of the Mediation Team chooses to continue the mediated process. The Parties to the continued mediation consist of PacifiCorp, USDA Forest Service, USDI Fish and Wildlife Service, USDI Bureau of Land Management, National Marine Fisheries Service, Oregon Department of Environmental Quality, Oregon Department of Fish and Wildlife, and Oregon Water Resources Department.
**November 2000** - FERC issues a Notice of Application Ready for Environmental Analysis, requiring that comments, recommendations, terms and conditions, and prescriptions for PacifiCorp's 1995 application be submitted to FERC by March 1, 2001.
**December 2000** - The Parties reach an agreement in principle, and agree to continue negotiations toward a final settlement agreement.
**February 2001** - The Parties extend the ADR process through May 30, 2001, to allow for completion of a settlement agreement and submission of the agreement to FERC.
**March 2001** - State and federal Parties file terms and conditions related to PacifiCorp's 1995 application and February 2000 ADR addendum with FERC.
**March 23, 2001** - The Oregon Fish and Wildlife Commission approves the Memorandum of Understanding (MOU) submitted by PacifiCorp. The MOU waives the State's statutory requirements for providing upstream fish passage at 5 of the 8 project dams. The MOU contains alternative mitigation measures in lieu of providing fish passage at these facilities.
**June 13, 2001** - The Parties sign a Settlement Agreement for the North Umpqua Hydroelectric Project and subsequently submit to FERC. The Settlement Agreement will be evaluated as part of the FERC environmental review process. The Parties request that FERC adopt the Settlement Agreement as its preferred licensing alternative. The agencies will file modified terms and conditions with FERC that are consistent with the Settlement Agreement.
**July 3, 2002** - ODEQ issues a 401 Water Quality Certification for the project.
**November 1, 2002** – Parties submit an amendment to the Settlement Agreement to FERC.
**December 13, 2002** – National Marine Fisheries Service's Final Biological Opinion submitted to FERC.
**December 18, 2002** – U.S. Fish and Wildlife Service's Final Biological Opinion submitted to FERC.
**2003 – 2004** - FERC is expected to issue a license for the project.

Exhibit
UP&L__(WE-2)

PacifiCorp
Exhibit UP&L _____(WE-2)
Docket No. 03-2035-02
Witness: William Eaquinto

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of William Eaquinto
Chronology of Relicensing of the Bear River Projects

July 2003

## Chronology of Relicensing of the Bear River Projects

- April 1996 – initiation of traditional relicensing process for the Soda, Grace-Cove, and Oneida Projects (FSCD issued).
- Relicensing studies were scoped with stakeholders; which included aquatics, terrestrial, recreation, cultural, land use, and aesthetics resources; and were conducted 1996-1998.
- January 1997 through March 1998 – "Delphi Approach" was utilized in an attempt to reach agreement with agency stakeholders on key issues, primarily flows related to project operations.
- November 1998 – Draft license applications issued for comments by stakeholders.
- June 1999 – PacifiCorp presented a draft settlement agreement to stakeholders in an attempt to resolve outstanding issues, but agreement was not reached.
- September 27, 1999 – License applications submitted to the FERC
- 2000 – Scoping meetings resulted in requests from stakeholders of more than 30 additional studies.
- June 2000 and January 2001 – FERC issued Additional Study Requests for information to complete their environmental analysis.
- August 2001 – AIR requests, communications with stakeholders, and results of consultant interview process indicated that agencies with prescriptive authorities under the FPA would prescribe costly mandatory measures that the FERC must include in the new licenses.
- November 2001 – PacifiCorp approached agency stakeholders and proposed settlement negotiations.
- December 2001 to April 2002 – Settlement discussions lead to an Agreement in Principle; draft Settlement Agreement was prepared and reviewed in subsequent meetings.
- August 28, 2002 – Final Settlement Agreement was signed by all stakeholders; formal Offer of Settlement was submitted to the FERC in September.
- November 1, 2002 – Draft EIS issued by the FERC; stakeholders coordinated comments were submitted to the FERC in December to ensure consistency with the Settlement Agreement.
- March 2003 – Draft 401 water quality certification expected to be issued consistent with Agreement; Final EIS expected.

Exhibit
UP&L__(WE-3)

PacifiCorp
Exhibit UP&L _____(WE-3)
Docket No. 03-2035-02
Witness: William Eaquinto

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of William Eaquinto
North Umpqua Relicensing Costs To March 31, 2003

July 2003

**PacifiCorp**
**North Umpqua Relicensing Costs-To Date March 31, 2003**
**All Costs on System Basis**

PacifiCorp
UP&L__(WE-3)
Docket No. 03-2035-02
Witness: William Eaquinto

| Cost Item: | Vendor | Description of Work | Direct | Indirect | Total |
|---|---|---|---|---|---|
| | | | In Thousands of Dollars | | |
| Material* | | | $ 352 | | |
| Material Overheads | | | | $ 75 | |
| Company Labor | | | 2,690 | | |
| Labor Overheads | | | | 842 | |
| Printing Overheads | | | | 34 | |
| Construction Overheads | | | | 3,861 | |
| AFUDC | | | | 16,788 | |
| Property Taxes | | | | 1,149 | |
| Outside Services and Miscellaneous: | | | | | |
| Technical Studies, Power Upgrades and License Application | | | | | |
| | Richard B Davis | Surveying, mapping and aerial photography | 223 | | |
| | Raytheon | Resource utilization study, application preparation and erosion control plan | 3,135 | | |
| | Triad Mechanical | Fish trap services | 127 | | |
| | Foster, Wheeler | Terrestrial study | 152 | | |
| | Vestra Services | GIS Database and map preparation | 1,154 | | |
| | Simulation Group | Model preparation for resource utilization study | 106 | | |
| | Harza Northwest | Aquatic study | 4,742 | | |
| | EDAW | Land aethetics, recreation and cultural studies | 3,796 | | |
| | MWH Global | Aquatic resource study (401 Certification) | 95 | | |
| | RTG Fisheries | Field biological support | 319 | | |
| | Washington Infrastructure | Erosion control and Soda Dam studies | 451 | | |
| | JC Headwaters | Palcolimnology study and nutrient budget study | 262 | | |
| | | Subtotal | 14,560 | | |
| Watershed Analysis and Other Studies: | | | | | |
| | Stillwater Services | Watershed analysis and Other | 4,979 | | |
| Settlement/Faciliators | | | | | |
| | Management Resources | Settlement meeting support | 378 | | |
| | Schwennesen & Assoc | Mediation services | 60 | | |
| | Triangle Associates | Mediation services | 808 | | |
| | | Subtotal | 1,245 | | |
| Communications/Public Relations: | | | | | |
| | Robertson, Grosswiler | Public relations | 228 | | |
| | Kathleen McFall | Technical writing | 140 | | |
| | INFUSA | Web site | 29 | | |
| | | Subtotal | 397 | | |
| Other | | | | | |
| | Stoel, Rives | Legal services | 1,725 | | |
| | Van Ness Feldman | Legal services | 34 | | |
| | Camas Land Use Consult | Environmental coordinator | 151 | | |
| | Various | Employee expenses | 521 | | |
| | NACES | On-site coordination | 92 | | |
| | State of Oregon | Hydroelectric project reauthorization expenses | 663 | | |
| | Other | Various | 1,448 | | |
| | | Subtotal | 4,634 | | |
| Totals | | | $ 28,856 | $ 22,749 | $ 51,605 |

Summary of Activity by Year in Thousands

| Year | Year End To | Increase |
|---|---|---|
| 1992 | $ 3,002 | $ 3,002 |
| 1993 | 9,954 | 6,952 |
| 1994 | 16,712 | 6,758 |
| 1995 | 20,837 | 4,125 |
| 1996 | 23,737 | 2,900 |
| 1997 | 27,551 | 3,814 |
| 1998 | 30,937 | 3,386 |
| 1999 | 35,278 | 4,341 |
| 2000 | 39,597 | 4,319 |
| Q1-2001 | 41,151 | 1,554 |
| FY 2002 | 46,122 | 4,971 |
| FY 2003 | 51,605 | 5,483 |

*A portion of these costs will be capitalized to tangible plant-in-service.

Exhibit
UP&L__(WE-4)

PacifiCorp
Exhibit UP&L _____(WE-4)
Docket No. 03-2035-02
Witness: William Eaquinto

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of William Eaquinto
Bear River Hydro Relicensing Costs to March 31, 2003

July 2003

**PacifiCorp**
**Bear River Hydro Relicensing Costs-To Date March 31, 2003**
**All Costs on System Basis**

PacifiCorp
UP&L_(WE-4)
Docket No. 03-2035-02
Witness: William Eaquinto

| Cost Item: | Description of Work/Vendor | Direct | Indirect | Total |
|---|---|---|---|---|
| | | In Dollars | | |
| Material* | | $ 108,229 | | |
| Material Overheads | | | $ 3,284 | |
| Company Labor | | 815,547 | | |
| Labor Overheads | | | 245,247 | |
| Printing Overheads | | | 4,172 | |
| Capital Surcharge | | | 279,171 | |
| AFUDC | | | 1,386,258 | |
| Property Taxes | | | 59,686 | |
| Outside Services and Miscellaneous: | | | | |
| | License Studies and License Application | | | |
| | Ecosystems Research | 91,763 | | |
| | JTS, Inc. Professional | 6,155 | | |
| | HDR Engineering | 184,074 | | |
| | Duke Engineering | 616,578 | | |
| | EA Engineering | 110,255 | | |
| | Northrup, Devine & T | 212,862 | | |
| | Utah State University | 25,012 | | |
| | Inventory, Mapping & Land Services | | | |
| | MAPCON | 278,217 | | |
| | Jerry Timmins Surveying | 6,400 | | |
| | Engineering Studies | | | |
| | Black & Veatch | 110,739 | | |
| | Transcripts & Technical Writing Support | | | |
| | Kathleen McFall | 22,966 | | |
| | Buchanan Reporting | 1,156 | | |
| | Temporary Employees | | | |
| | Manpower Temporary Svcs | 22,526 | | |
| | North American Contract Employee | 13,561 | | |
| | Scott Pratt | 2,409 | | |
| | Facilator | | | |
| | SWCA | 85,205 | | |
| | Legal Services | | | |
| | Kruse, Landa & Mayco | 24,511 | | |
| | Fabian & Clendenin | 292 | | |
| | Stoel, Rives | 158,007 | | |
| | Corporate Legal Transfer | 153,070 | | |
| | Tom Nelson & Assoc | 9,007 | | |
| | Van Ness Feldman | 8,061 | | |
| | Advertising Cost | | | |
| | Evans Group | 1,473 | | |
| | Other | | | |
| | Employee Expenses | 92,234 | | |
| | Other | 35,350 | | |
| Totals | | $ 3,195,657 | $ 1,977,818 | $ 5,173,475 |

Summary of Activity by Year in Dollars

| Year | Year End Total | Increase |
|---|---|---|
| 1994 | $ 158,024 | $ 158,024 |
| 1995 | $ 903,738 | 745,714 |
| 1996 | $ 1,371,012 | 467,274 |
| 1997 | $ 2,233,349 | 862,337 |
| 1998 | $ 2,808,043 | 574,694 |
| 1999 | $ 3,150,152 | 342,109 |
| 2000 | $ 3,648,661 | 498,509 |
| Q1-2001 | $ 3,719,433 | 70,772 |
| FY 2002 | $ 4,379,883 | 660,450 |
| FY 2003 | $ 5,173,475 | 793,592 |

*A portion of these costs will be capitalized to tangible plant.

Exhibit
UP&L__(WE-5)

PacifiCorp
Exhibit UP&L _____(WE-5)
Docket No. 03-2035-02
Witness: William Eaquinto

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of William Eaquinto
Bigfork Relicensing Costs to March 31, 2003

July 2003

**PacifiCorp**
**Bigfork Relicensing Costs-To Date March 31, 2003**
**All Costs on System Basis**

PacifiCorp
UP&L__(WE-5)
Docket No. 03-2035-02
Witness: William Eaquinto

| Cost Item: | Description of Work/Vendor | Direct | Indirect | Total |
|---|---|---|---|---|
| | | | In Dollars | |
| Material | | $ 358 | | |
| Company Labor | | 87,040 | | |
| Labor Overheads | | | $ 20,526 | |
| Printing Overheads | | | 372 | |
| Construction Overheads | | | 35,023 | |
| AFUDC | | | 122,732 | |
| Property Taxes | | | 9,832 | |
| Outside Services and Miscellaneous: | | | | |
| License Studies and License Application | | | | |
| | Black & Veatch | 99,901 | | |
| | Eby & Associates | 4,501 | | |
| Fish Screen Study | | | | |
| | Black & Veatch | 26,045 | | |
| Mapping and Aerial Photos | | | | |
| | Raleigh & Assoc | 61,877 | | |
| | Bergman Photographic | 2,775 | | |
| Transcripts and Technical Editing | | | | |
| | Judith Montgomery | 1,860 | | |
| | Hedman, Asa & Gilman | 305 | | |
| Contract Employee Support | | | | |
| | North American Contractors | 1,382 | | |
| Legal Services | | | | |
| | Stoel, Rives | 67,453 | | |
| | Tom Nelson & Assoc | 2,544 | | |
| Cultural Resources Plan | | | | |
| | Hertiage Research Center | 10,266 | | |
| Other | | | | |
| | Employee Expenses | 23,251 | | |
| | Other | 6,969 | | |
| | | - | | |
| | | - | | |
| Totals | | $ 396,526 | $ 188,484 | $ 585,010 |

Summary of Activity by Year in Dollars

| Year | Year End Total | Increase |
|---|---|---|
| 1994 | | $ - |
| 1995 | 74,339 | 74,339 |
| 1996 | 100,207 | 25,868 |
| 1997 | 142,867 | 42,660 |
| 1998 | 229,749 | 86,882 |
| 1999 | 276,501 | 46,752 |
| 2000 | 338,310 | 61,809 |
| Q1-2001 | 376,605 | 38,295 |
| FY 2002 | 477,383 | 100,778 |
| FY 2003 | 585,010 | 107,627 |

Exhibit
UP&L__(WE-6)

PacifiCorp
Exhibit UP&L _____(WE-6)
Docket No. 03-2035-02
Witness: William Eaquinto

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of William Eaquinto
American Fork Relicensing Costs to March 31, 2003

July 2003

**PacifiCorp**
**American Fork Relicensing Costs-To Date March 31, 2003**
**All Costs on System Basis**

PacifiCorp
UP&L__(WE-6)
Docket No. 03-2035-02
Witness: William Eaquinto

| Cost Item: | Description of Work/Vendor | Direct | Indirect | Total |
|---|---|---|---|---|
| | | In Dollars | | |
| Material | | $ 32 | | |
| Company Labor | | 58,880 | | |
| Labor Overheads | | | $ 6,932 | |
| Printing Overheads | | | - | |
| Construction Overheads | | | 23,095 | |
| AFUDC | | | 92,759 | |
| Property Taxes | | | 4,778 | |
| Outside Services and Miscellaneous: | | | | |
| License Studies and License Application | | | | |
| | Ratheon (EBASCO) | 48,487 | | |
| | Black & Veatch | 10,477 | | |
| | JTS, Inc. | 2,262 | | |
| | EA Engineering | 42,460 | | |
| | Stillwater Ecosystem | 84,401 | | |
| Legal Services | | | | |
| | Stoel, Rives | 16,633 | | |
| | Tom Nelson & Assoc | 28,456 | | |
| | Corporate Legal Cost Transfer | 24,488 | | |
| | Van Ness Feldman | 1,359 | | |
| Other | | | | |
| | Employee Expenses | 6,772 | | |
| | Pacific Legal | 2,510 | | |
| | Other | 7,899 | | |
| | | - | | |
| | | - | | |
| Totals | | $ 335,115 | $ 127,564 | $ 462,679 |

Summary of Activity by Year in Dollars

| Year | Year End Total | Increase |
|---|---|---|
| 1994 | $ 33,611 | $ 33,611 |
| 1995 | 70,789 | 37,178 |
| 1996 | 94,828 | 24,039 |
| 1997 | 131,282 | 36,454 |
| 1998 | 153,218 | 21,936 |
| 1999 | 168,552 | 15,334 |
| 2000 | 202,825 | 34,273 |
| Q1-2001 | 214,752 | 11,927 |
| FY 2002 | 376,311 | 161,559 |
| FY 2003 | 462,679 | 86,368 |

Exhibit
UP&L__(WE-7)

PacifiCorp
Exhibit UP&L _____(WE-7)
Docket No. 03-2035-02
Witness: William Eaquinto

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of William Eaquinto
Powerdale Relicensing Costs to March 31, 2003

July 2003

**PacifiCorp**
**Powerdale Relicensing Costs-To Date March 31, 2003**
**All Costs on System Basis**

PacifiCorp
UP&L__(WE-7)
Docket No. 03-2035-02
Witness: William Eaquinto

| Cost Item: | Description of Work/Vendor | Direct | Indirect | Total |
|---|---|---|---|---|
| | | In Dollars | | |
| Material* | | $ 68,872 | | |
| Company Labor | | 445,563 | | |
| Labor Overheads | | | $ 175,691 | |
| Printing Overheads | | | 32,395 | |
| Construction Overheads | | | 381,153 | |
| AFUDC | | | 1,291,505 | |
| Property Taxes | | | 58,790 | |
| Outside Services and Miscellaneous: | | | | |
| License Studies and License Application | | | | |
| | Harza Northwest | 1,079,769 | | |
| | Black & Veatch | 48,488 | | |
| | Hardin-Davis | 8,181 | | |
| | Northwest Hydraulics | 13,876 | | |
| | Finley Engineering | 5,166 | | |
| | Merdian Engineering | 40,404 | | |
| | WG Moe & Sons | 5,725 | | |
| | Raleigh & Assoc | 227,551 | | |
| | Kloppenburg Photography | 1,993 | | |
| Fish Ladder Modification | | | | |
| | WG Moe & Sons (1) | 176,046 | | |
| Faciliator | | | | |
| | Sheri K Austin | 1,428 | | |
| Contract Employee Support | | | | |
| | North American Contractors | 10,270 | | |
| Legal Services | | | | |
| | Stoel, Rives | 199,385 | | |
| | Tom Nelson & Assoc | 24,071 | | |
| | Van Ness Feldman | 29,048 | | |
| | Corporate Legal Cost Transfer | 41,421 | | |
| Other | | | | |
| | Employee Expenses | 27,222 | | |
| | State of Oregon | 61,403 | | |
| | Donnerber | 1,125 | | |
| | Other | 13,704 | | |
| Totals | | $ 2,530,711 | $ 1,939,535 | $ 4,470,246 |

Summary of Activity by Year in Dollars

| Year | Year End Total | Increase |
|---|---|---|
| 1994 | $ 64,090 | $ 64,090 |
| 1995 | 1,085,211 | 1,021,121 |
| 1996 | 1,838,841 | 753,630 |
| 1997 | 2,594,711 | 755,870 |
| 1998 | 2,912,546 | 317,835 |
| 1999 | 3,232,580 | 320,034 |
| 2000 | 3,509,370 | 276,790 |
| Q1-2001 | 3,556,401 | 47,031 |
| FY 2002 | 3,784,586 | 228,185 |
| FY 2003 | 4,470,246 | 685,660 |

*A portion of these costs will be capitaled to tangible Plant-in-Service with associated AFUDC

## BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

| | | |
|---|---|---|
| IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR APPROVAL OF ITS PROPOSED ELECTRIC RATE SCHEDULES & ELECTRIC SERVICE REGULATIONS | ) ) ) ) ) ) ) ) | Docket No. 03-2035-02<br><br>DIRECT TESTIMONY OF DANIEL J. ROSBOROUGH |

**JULY 2003**

**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 20 years and I have served as the Director of Benefits for approximately 10 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 is divided into two parts. In the first section, I will describe two types of PacifiCorp's pension expenses for which the Company is seeking recovery in this case. The Company proposes to recover in base rates $14.8 million in annualized test period pension costs for PacifiCorp's defined benefit pension plan. In addition, the Company is seeking to recover in base rates $5.0 million in pension expense associated with a test-year payment for the significant majority of employees of PacifiCorp represented by the International Brotherhood of Electrical Workers ("IBEW") Local 57. In the second section of my testimony, I describe the Company's proposal to recover in base rates the $62 million in test period medical, dental and other benefit coverage costs and explain the major reasons for the increase in those costs. Finally, I describe the actions the Company is taking to control those costs.

**Pension Expense**

**Defined Benefit Pension Plan Expense**

**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, assumed terminations and retirements, assumed pay raises, current interest rates for valuing the plan's liabilities and an assumption for the expected long-term rate of return on plan assets. Pension expense is calculated by the actuary on a calendar year basis but SFAS 87 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 divergent from the calendar year. To the extent that actual investment returns and other plan experience differ from the assumptions, these differences are amortized into future expense once they exceed a certain threshold.

**Q. What is the plan's current funding status?**

A. The plan is currently underfunded. This situation exists for two primary reasons:

unusually low interest rates (which means the current valuation of liabilities are unusually high); and poor investment returns over the past three years as most investment markets have performed poorly. The Company granted a cost of living increase to its long-term retirees in 2002; however, the effect of this increase on pension expense is minimal. Other than this minimal increase, the plan's underfunding is not related in any way to any other types of plan enhancements granted to employees.

**Q. Is the plan underfunded due to offering benefits that are more valuable than those of other comparable utility companies?**

A. No. The company retains Hewitt Associates to conduct a comparison of its benefit programs to those of other utilities every other year to ensure competitiveness. The last such survey was done in mid-2002 and showed the PacifiCorp Retirement Plan to be comparable to the average defined benefit plan value of other surveyed utilities. Attached as Exhibit UP&L___(DJR-1) is an introduction to the survey results and the page related to the evaluation of the defined benefit plan. As the survey shows, PacifiCorp's defined benefit plan is within 2% of the value of the average of all other plans included in the survey group.

**Q. Please describe the expected level of pension expense in years subsequent to 2003.**

A. Based on the analysis provided to the Company by Hewitt Associates, the Company's forecasted pension expense is expected to increase to approximately $48 million by 2008:

Q. **How are the pension plans of other utilities impacted by the same economic conditions?**

A. PacifiCorp is no different than other utilities in this regard. Trust fund investments over the past few years have performed poorly for most every large fund, and interest rate declines inflate the liabilities of all pension plans.

Q. **Who oversees the money that is contributed to the Company's pension plan?**

A. The Company has appointed a 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 only be used for the benefit of plan participants. PacifiCorp's Committee has retained outside consultants to assist in this function and have 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, over the last five years the PacifiCorp plan's investment returns have been above those of the median peer plan.

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

A. The Company is seeking to recover $14.8 million in actual pension expense. SFAS 87 actuarial calculations conducted by the Company's actuary, Hewitt Associates, determined an expense of $14.8 million for calendar year 2003, which the Company began recording in April 2003 as permitted under SFAS 87.

Q. **How does the Company propose to recover its pension expense in this case?**

A. The Company is seeking to recover the pension expense the Company is currently incurring by annualizing the effect of the April 2003 change in pension expense from the base test year level.

**Q. Why is annualization appropriate for this expense?**

A. The request reflects an increase in the amount of pension plan expense that occurred in April 2003. This is a known and measurable change from base test year expense that occurred before January 1, 2004. The Company expects to incur expense at this level through January 1, 2004 and at higher levels in later years. Therefore, PacifiCorp seeks to annualize the effect of the April 2003 change as on-going, known and measurable change from the base test year, consistent with the terms of the stipulation in this case. Annualizing the pension expense helps ensure that rates are set at a level consistent with the Company expense that will be ongoing after final rates become effective.

**Q. How does the Company's proposed method of recovering pension expense in this case differ from that proposed in other states?**

A. In the recent General Rate Cases that have been filed in Oregon and Wyoming, the Company proposed a balancing account approach for pension expenses. It did this to take into account the sharp increases in pension expenses realized in FY2004 and that are projected for the periods FY2005 to FY2008. The intent was to limit the exposure of ratepayers to these sharp increases by averaging the impact of this increase over a five-year period and booking initial over-collection of expenses to a balancing account. This would have provided the certainty of a level pension expense for the next five years. At the end of the five-year period, any over-collection of expenses could be refunded to ratepayers.

**Q. Why have you not proposed such a balancing account in Utah?**

A. While I believe that the balancing account is a useful method to limit volatility in pension expenses, and therefore potential rate volatility to customers, I have been advised by my attorney that the terms of the stipulation for this rate case preclude any known and measurable changes that would take effect after January 1, 2004. I have therefore limited my expense request to this period. I do believe that the balancing account approach is a useful tool, and subject to no stipulation constraints in the next rate case, it would be the Company's intent to propose such an approach.

**IBEW 57 Pension Expense**

**Q. Please describe the IBEW 57 pension expense.**

A. In February 2003, PacifiCorp contributed $5.0 million to its IBEW 57 employees' pension plan pursuant to the terms of its agreement with IBEW 57. The agreement with the IBEW 57 was reached through the collective bargaining process.

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

A. After negotiations with IBEW, the Company agreed to spin-off the assets and liabilities for the employees represented by IBEW 57 into a separate pension plan. The spin-off of the assets and liabilities of the new pension plan was in accordance with the requirements of Internal Revenue Code sections 401(a)(12) and 414(l). As required, assets were allocated to each participant pursuant to section 4044 of the Employee Retirement Income Security Act.

The Trustees of the PacifiCorp/IBEW Local 57 Retirement Trust Fund 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 that recognizes seven percent (7%) of regular pay as pension eligible compensation. Pension eligible compensation is calculated at the end of each pay period and funds are transferred to the Trust per the terms of the bargained agreement.

**Q. What ratemaking treatment is PacifiCorp proposing for the IBEW 57 pension expense?**

A. PacifiCorp proposes to recover the $5.0 million contribution as an in-period test year expense.

**Q. Is the IBEW 57 Pension expense a recurring expense?**

A. Yes, the required expense for the plan is determined on an annual basis by the plans actuarial consultant under the same accounting standards identified above. The terms of the agreement with IBEW 57 require that the Company provide a contribution based on covered employees' regular pay. The Company expects to update the expense levels for the next contribution as part of its October 15, 2003 filing.

**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 has recorded an increase from $55 million in 2000 to $61 million during the test period for medical, dental and other benefit costs that it incurred during the test period. The Company also anticipates that this will increase to $70 million and has included this information in its filing. This reflects a total increase of $15 million in those costs since 2000.

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

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

- 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;
- 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.

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

A. Over the past several years, PacifiCorp's increases relative to other plans have been relatively favorable. Attached as Exhibit UP&L___(DJR-2) is an exhibit that 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.

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

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

- Implementation of a mail order prescription drug program. These programs have proven affective at slowing the increases in this area, which for most plans has been the most difficult cost challenge;
- Required employee contributions have been increased each year for the past several years, with the most significant increases coming in the 2002-2005 period. Over this period, PacifiCorp is moving to an overall lower level of Company subsidy for medical benefits;
- 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;
- The Company has continually expanded the educational materials and resources for plan participants in order to make them better consumers of the plan and best 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; and
- Employee cost sharing has steadily increased over the past several years through increases to annual out of pocket limits.

Under consideration for 2004 are additional cost mitigation changes. These will be designed to continue to mitigate the expected upward pressure on health care costs. Changes under consideration include: changes to the prescription drug benefit, inclusion of some higher deductible programs which carry a lower employee and Company cost and incorporation of chronic disease management programs.

Exhibit UP&L___(DJR-3) is an exhibit which provides a summary of survey results for the Company's health care programs, conducted in 2002 by Hewitt Associates. This survey data demonstrates that PacifiCorp's plans are very representative of those offered by other electric utilities.

**Q. Does this conclude your direct testimony?**

A. Yes.

Exhibit
UP&L__(DJR-1)

PacifiCorp
Exhibit UP&L _____(DJR-1)
Docket No. 03-2035-02
Witness: Daniel J. Rosborough

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of Daniel J. Rosborough
Defined Benefit Pension Plan Survey Results

July 2003

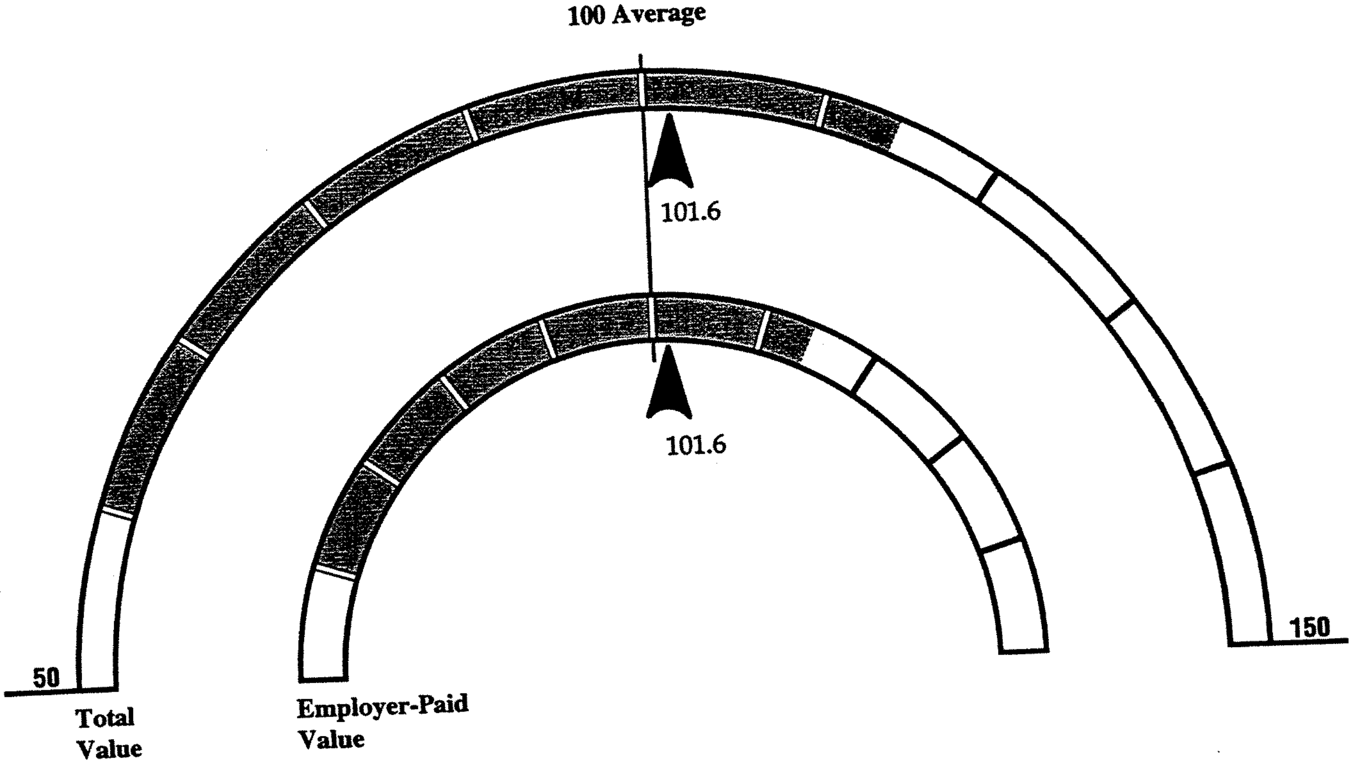
The following sheet compares the "value" of PacifiCorp's defined benefit retirement program against the defined benefit retirement plans of a comparator list of companies. The companies included in the universe are:

Arizona Public Service
Cinergy Corp.
DQE, Inc.
Duke Energy Corporation
Edison International
Entergy Services, Inc.
Northwest Natural
Questar Corporation
Reliant Resources, Inc.
Salt River Project
Southern California Gas Company
Southern Company

The top bar in the illustration compares the value of the overall plan to the average value of the plans of the universe of companies. The second bar compares the plans again on the basis of the employer-funded value.

For example, on the **Defined Benefit Pension** comparison, PacifiCorp's plan is 1.6% more valuable than the average plan. Because the plan is entirely company paid, the values are the same on both bases.

# Retirement: Defined Benefit Pension Versus 11 Base Companies with Plans




| Ranking Among Plans in Study | Employer-Paid Index | Total Index |
|---|---|---|
| First | 114.2 | 114.2 |
| Fourth | 111.5 | 111.5 |
| Seventh | 102.1 | 102.1 |
| Eleventh | 59.8 | 59.8 |

| Your Position Relative to the Base Companies | Employer-Paid Value | Total Value |
|---|---|---|
| Index | 101.6 | 101.6 |
| Ranking | 7th/8th | 7th/8th |

Exhibit
UP&L__(DJR-2)

PacifiCorp
Exhibit UP&L _____(DJR-2)
Docket No. 03-2035-02
Witness: Daniel J. Rosborough

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of Daniel J. Rosborough
Recent Cost Increases of PacifiCorp's Primary Health Plans

July 2003

# PacifiCorp Active Experience

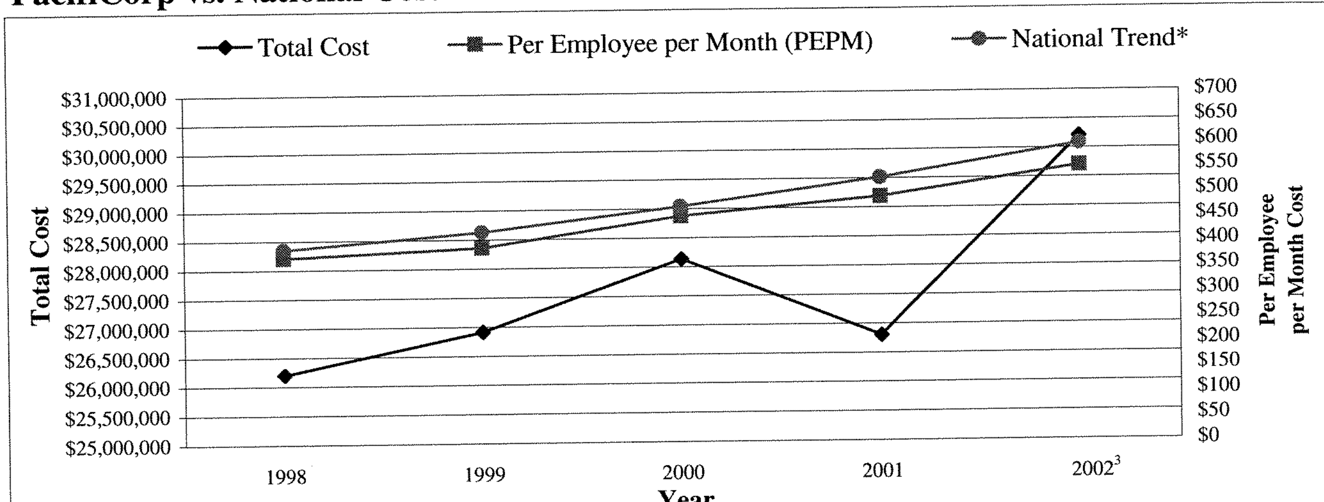
## All Active Employees[1]

| Year | Total Cost | Enrollment | Per Employee per Month (PEPM) | Change | National Trend Applied to PEPM[2] | Change |
|---|---|---|---|---|---|---|
| 1998 | $26,196,533 | 5,836 | $374.07 | N/A | $390.49 | N/A |
| 1999 | $26,908,221 | 5,728 | $391.47 | 4.7% | $423.34 | 8.4% |
| 2000 | $28,131,020 | 5,182 | $452.38 | 15.6% | $471.32 | 11.3% |
| 2001 | $26,801,450 | 4,570 | $488.72 | 8.0% | $526.45 | 11.7% |
| 2002 [3] | $30,200,000 | 4,588 | $548.53 | 12.2% | $592.58 | 12.6% |
| **1999–2002** | | | | **30.7%** | | **34.8%** |
| **Total experience savings amount for 1999:** | | | **$2,190,474** | | | |
| **Total experience savings amount for 2000:** | | | **$1,177,786** | | | |
| **Total experience savings amount for 2001:** | | | **$2,069,309** | | | |
| **Total experience savings amount for 2002:** | | | **$2,424,851** | | | |

## Active Electric Operations[1]

| Year | Total Cost | Enrollment | PEPM | Change | National Trend Applied to PEPM[2] | Change |
|---|---|---|---|---|---|---|
| 1998 | $19,017,495 | 4,251 | $372.80 | N/A | $378.39 | N/A |
| 1999 | $19,113,446 | 4,108 | $387.73 | 4.0% | $409.02 | 8.1% |
| 2000 | $20,961,159 | 4,002 | $436.47 | 12.6% | $454.60 | 11.1% |
| 2001 | $21,097,755 | 3,738 | $470.34 | 7.8% | $506.32 | 11.4% |
| 2002 [3] | $24,000,000 | 3,733 | $535.76 | 13.9% | $572.41 | 13.1% |
| **1999–2002** | | | | **26.2%** | | **33.8%** |
| **Total experience savings amount for 1999:** | | | **$1,049,618** | | | |
| **Total experience savings amount for 2000:** | | | **$870,418** | | | |
| **Total experience savings amount for 2001:** | | | **$1,613,586** | | | |
| **Total experience savings amount for 2002:** | | | **$1,641,633** | | | |

## PacifiCorp vs. National Cost Trend




* Average national medical trend applied to total active PEPM costs

[1] Includes HMO premiums, UHC paid claims, UHC expenses, UBH paid claims, and UBH expenses; includes COBRA/LTD/LOA and non-regulated plans and excludes opt-outs

[2] National trend weighted by product

[3] Estimated based on data through November 2002

Exhibit
UP&L__(DJR-3)

PacifiCorp
Exhibit UP&L _____(DJR-3)
Docket No. 03-2035-02
Witness: Daniel J. Rosborough

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of Daniel J. Rosborough
Health Care Benefit Plan Survey Results

July 2003

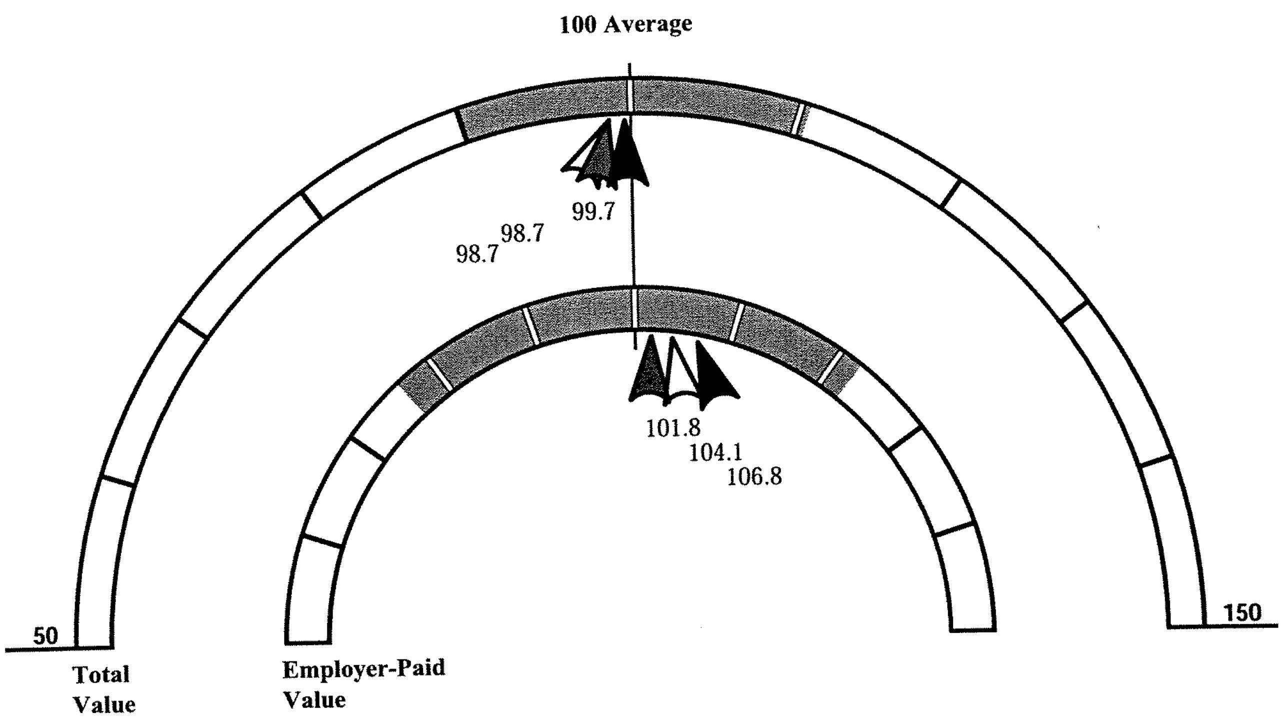
The following sheet compares the "value" of PacifiCorp's health care programs against a comparator list of companies. The companies included in the universe are:

Arizona Public Service
Cinergy Corp.
DQE, Inc.
Duke Energy Corporation
Edison International
Entergy Services, Inc.
Northwest Natural
Questar Corporation
Reliant Resources, Inc.
Salt River Project
Southern California Gas Company
Southern Company

The top bar in the illustration compares the value of the overall plans to the average value of the plans of the universe of companies. The second bar compares the plans again on the basis of the employer funded value.

On the comparison, using the arrow outlined in black (this arrow compares plans using a 92% company subsidy for PacifiCorp's medical plan, which is the subsidy in effect during 2003), PacifiCorp's total healthcare plans are 98.7% of the average plan value. On the comparison of Employer Provided value (the second bar), PacifiCorp subsidizes approximately 4.1 percent more of the plan cost than the average company. The company is transitioning to a lower medical subsidy (90% of plan cost) over time, which will be complete in 2005. Using the gray arrow, the 90% subsidy, based on 2002 plan design, is shown as 98.7% for the overall plan and 101.8% for the company provided value.

# All Preretirement Health Care: Medical, Dental, Vision, and Hearing




| Ranking Among Plans in Study | Employer-Paid Index | Total Index |
|---|---|---|
| First | 122.2 | 110.5 |
| Fourth | 107.7 | 103.0 |
| Seventh | 94.2 | 100.4 |
| Eleventh | 76.4 | 90.1 |

| Your Position Relative to the Base Companies | Employer-Paid Value Index | Employer-Paid Value Ranking | Total Value Index | Total Value Ranking |
|---|---|---|---|---|
| Current Medical | 106.8 | 5th/6th | 99.7 | 7th/8th |
| Revised Med + 92% Subsidy | 104.1 | 6th/7th | 98.7 | 7th/8th |
| Revised Med + 90% Subsidy | 101.8 | 6th/7th | 98.7 | 7th/8th |

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

| | | |
|---|---|---|
| IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR APPROVAL OF ITS PROPOSED ELECTRIC RATE SCHEDULES & ELECTRIC SERVICE REGULATIONS | ) ) ) ) ) ) ) ) | Docket No. 03-2035-02<br><br>DIRECT TESTIMONY OF DAWN T. CARTWRIGHT |

**JULY 2003**

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

A. My name is Dawn T. Cartwright. I am the Risk and Insurance Manager for PacifiCorp based at 825 NE Multnomah, Portland OR.

**Qualifications**

**Q. Briefly describe your education and business experience.**

A. I graduated from Linfield College in 1990 with a Degree in Business. Prior to joining PacifiCorp, I was the Risk Manager for a nationwide cold storage facility. I joined PacifiCorp in 1999 and worked primarily in Human Resources until taking the Risk Manager position in the Spring of 2001.

**Q. Please describe your current duties.**

A. I am responsible for implementing and managing all aspects of the PacifiCorp's insurance related risk management strategy.

**Purpose of Testimony**

**Q. What is the purpose of your testimony?**

A. Since 2000, insurance markets have undergone a rapid and steep 'hardening' process. This hardening is typified by increasing premium costs and restrictions on policy coverage. The cost of insurance is now reportedly at a 40-year high and there is little prospect of an early return to the levels of pricing and coverage enjoyed in the last decade. The purpose of my testimony is to describe how this effects PacifiCorp and how PacifiCorp proposes to recover these increased insurance and insurance related costs.

**Background**

**Q. What has caused the current hardening process in the insurance industry?**

A. There are three primary causes for this change:

1. Underwriting errors and undercharging during the late 1990's caused insurance costs to decline steadily. This, in turn, was primarily caused by:
   a) Excess capacity forced prices down as insurers competed for market share;
   b) A buoyant stock market allowed insurers to use investment returns to compensate for poor underwriting results and still deliver healthy net profits; and
   c) A failure of insurers to adequately assess the risks being insured.
2. The insurance industry experienced unexpected and very significant increases in the level of losses being sustained. The events of 9/11 are part of this, but are not the sole or even the main cause. This increase in losses has been witnessed across most types of insurance.
3. The insurance industry suffered a collapse in equity values. The value of insurance company investment assets and the income derived from those assets are extremely important components of insurance companies' income. Changes in world stock markets have had a very serious effect on insurance industry financial performance and security.

**Q. Insurance markets have traditionally been cyclical. Is there any evidence to suggest that current conditions are anything other than a short-term correction?**

A It is difficult to predict the future path of insurance markets. Although insurers have now addressed the first of the three factors described above and are underwriting on a more commercially sound basis, the other two factors show little sign of reversal. The consensus of opinion seems to be that the current hardening will last for some time into the future.

**Q. Please quantify the effect of these changes on insurance premiums.**

A. Around the world and across all industry sectors, insurance premiums have risen dramatically. These increases have been seen across all types of insurance and have ranged from tens of percent to hundreds of percent for unattractive risks.

**Q. What has been the effect of this hardening on PacifiCorp?**

A. PacifiCorp is now carrying higher deductibles on many of its insurance policies. Almost all of its policies contain more exclusions and, in general, more restrictive detailed conditions. For example, the Company has been unable to obtain property damage coverage for most of its transmission and distribution assets and for some parts of its gas turbines. Many insured perils such as earthquake are now severely limited or excluded wholly or partly. Insurance for terrorism which had previously been comprehensively provided without a separate charge is now provided, as required under the recently enacted Terrorism Risk Insurance Act of 2002 (the "Act"), on a limited basis at a significant cost.

**Q. Is PacifiCorp the only utility impacted by these restrictions and cost increases?**

A. No. All utilities have been impacted by these developments. For example, Northwest Natural Gas Company's Mr. Bruce DeBolt has submitted prefiled testimony with the Oregon Commission in case UG 152, where he says:

> "Now, due to high claim rates, corporate financial scandals, concerns over terrorism, and the fall of the equities market, insurance companies are increasing rates, scaling back on coverage or simply refusing to underwrite. Utilities have been hit especially hard because of the financial scandals associated with some companies in the energy industry as well as their perceived vulnerability to attacks on physical infrastructure." (Exhibit NWN 100, page 28, lines 15 – 20).

**Premiums**

**Q. You have previously described in general the increases in premiums that PacifiCorp has paid and will pay in the future. What are the premiums included in this filing?**

A. As shown in Mr. Weston's testimony in Tab 4, page 4.9.1, the actual Property and Liability Insurance premiums for the test period are \$17.0 million and are anticipated to increase to \$18.5 million before January 1, 2004. This is a substantial increase to the premium costs incurred by the Company in recent years due to the external factors discussed above. It is also important to remember that these costs do not reflect like for like coverage. As mentioned earlier, coverages have been lost and some taken to balance out our overall insurance portfolio.

**Q. Is PacifiCorp taking steps to help minimize such increases?**

A. Yes. PacifiCorp has undertaken and continues to undertake a comprehensive marketing process of its insurance requirements using Marsh, one of the world's leading insurance brokers. PacifiCorp markets its insurance requirements in the US, London, European and other insurance centers such as Bermuda to maximize competition. PacifiCorp is also investigating the options offered by a captive insurance company, which may prove to be less costly than the commercial markets.

**Uninsured Losses**

**Q. Please discuss how uninsured losses have been considered previously.**

A. In addition to premiums, 'insurance' costs have traditionally included the costs of those events that fall within the policy deductible, or those events which are regarded as insurable but are in fact excluded by the policy terms. Previously, these costs have been recovered through the establishment of reserves based on the historic level of such costs. It is important to remember that uninsured losses and premiums are simply two sides of the same coin. A choice to carry a higher deductible and pay less in premiums simply brings more risk for uninsured losses to the Company and its customers.

In 2002, as insurance premiums skyrocketed, PacifiCorp sought to critically evaluate the balance between premiums and uninsured losses. We reviewed our loss history and estimated likely annual average insurance recoveries and compared this to additional premiums we were being asked to pay (approximately $5 million) to retain our $1.5 million deductible. The results of this comparison are demonstrated in Exhibit UP&L_____(DTC-1). This review showed that it was not justifiable to spend an additional $5 million to buy down the deductible. Since 2002 PacifiCorp has continued to seek to strike the right balance between these two factors and has opted to continue to carry a $7.5 million per event deductible with respect to Property insurance.

**Q. How does PacifiCorp propose to deal with the increases in uninsured losses that it has experienced in the test year?**

A. PacifiCorp recognizes that at the current levels of premiums, the value of some insurance purchases should be carefully examined. For PacifiCorp, this examination has included the review of policy deductibles, limits and coverage types. In addition, PacifiCorp proposes that the previous historic level of reserves be increased to reflect the increase in uninsured costs. We request an increase in the uninsured loss reserve of around $13.3 million. This includes an increase in uninsured losses for Property of $1.5 million, uninsured losses for Liability of $5.5 million and estimated additional Property and Liability losses of $6.3 million. As shown in Mr. Weston's testimony in Tab 4, page 4.9.1, this request represents the actual experience of the Company in the test period. This request is also supported by a historical review of losses compared to our current levels of coverage, a review of the impact of the loss aggregate protections on some policies, the loss of transmission and distribution system coverage and the loss of terrorism coverage that was previously provided at no additional cost. Our specific recommendations with respect to the estimated additional Property and Liability losses of $6.3 million are supported by Exhibit UP&L____(DTC-2), which shows the areas where we are incurring higher uninsured losses.

**Q. What is the accounting associated with this proposal?**

A. Currently the Company uses an accrual method of accounting for uninsured losses with property and injury damages. Estimating the annual uninsured claims and amortizing that estimate through account 924 and 925. The other side of the accrual is to Account 228 Accumulated Provision for Property and Injuries. Then when actual claims are resolved they are charged against the provision balance. The only change proposed is an increase to the provision balance. Historically, the provision for property and injuries was around $8 million. Based on actual experience during 2003, and my analysis, with the increase in deductibles and claim settlements, the Company believes the provision should be increased to $21.3 million.

**Q. Does the Company intend to propose known and measurable adjustments to these costs?**

A. Yes. In our October 15, 2003 filing, we will update those costs to reflect changes that have occurred, or will occur on or before January 1, 2004.

**Q. Does this conclude your testimony?**

A. Yes.

Exhibit
UP&L__(DTC-1)

PacifiCorp
Exhibit UP&L _____(DTC-1)
Docket No. 03-2035-02
Witness: Dawn T. Cartwright

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

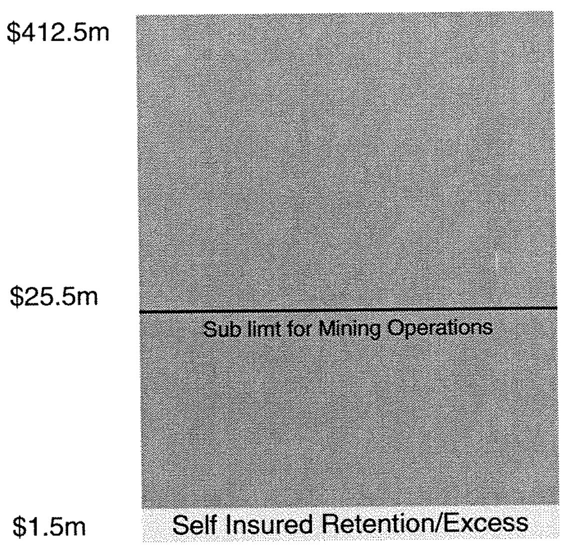
---

Exhibit Accompanying Direct Testimony of Dawn T. Cartwright
2002 Property Damage Renewal Options

July 2003

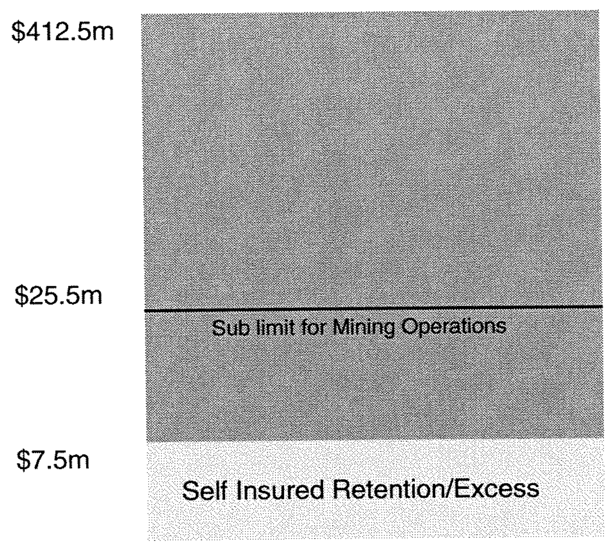
# 2002 Property Damage Renewal Options
## Excludes Overhead Network Assets

**Option One**




**US Cost $13,800,000**

**Option Two**




**US Cost $8,850,000**

### Loss History As Of 6-30-2003 (Calendar Year/Excluding T&D Losses)

| | | | Recovery | |
|---|---|---|---|---|
| YEAR | # of Claims | Total | Option #1 | Option #2 |
| 2002 | 11 | 1,577,774 | - | - |
| 2001 | 11 | 5,113,199 | 538,137 | - |
| 2000 | 17 | 23,958,814 | 17,549,670 | 9,940,617 |
| 1999 | 16 | 8,968,466 | 1,707,793 | - |
| 1998 | 17 | 6,008,586 | 1,270,221 | - |
| | | 45,626,839 | 21,065,821 | 9,940,617 |
| Annualized | | 9,125,367.80 | 4,213,164.20 | 1,988,123.40 |

### Loss History As Of 6-30-2003 (Calendar Year/Excluding T&D & Hunter I Loss)

| | | | Recovery | |
|---|---|---|---|---|
| YEAR | # of Claims | Total | Option #1 | Option #2 |
| 2002 | 11 | 1,577,774 | - | - |
| 2001 | 11 | 5,113,199 | 537,137 | - |
| 2000 | 16 | 6,518,197 | 1,609,053 | - |
| 1999 | 16 | 8,968,466 | 1,707,793 | - |
| 1998 | 17 | 6,008,586 | 1,270,221 | - |
| | | 27,436,041 | 5,124,204 | - |
| Annualized | | 5,487,208.20 | 1,024,840.80 | |

The claims history, with and/or without Hunter, does not justify spending an additional $5m to buy down the deductible.

Exhibit
UP&L__(DTC-2)

PacifiCorp
Exhibit UP&L _____(DTC-2)
Docket No. 03-2035-02
Witness: Dawn T. Cartwright

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of Dawn T. Cartwright
Uninsured Losses

July 2003

# Uninsured losses

In addition to insurance premiums PacifiCorp incurs costs in respect of loss events which are not covered by an insurance policy. These costs may be in respect of the deductible that applies to the policy or may be costs that are entirely uninsured. PacifiCorp has historically made a budgetary allowance for these costs.

The changes in the insurance market, with higher deductibles and narrower cover, means that for the same pattern of events the uninsured cost associated with those events will be very much higher than would have been the case previously. Some factors that will increase the mean annual value of uninsured losses include:

1. Imposition of higher deductibles. The deductible on Property Damage has increased from $1m in 1999 to $7.5m currently.

2. Removal of aggregate protection on insurance policies, primarily liability

3. Removal of insurance cover for damage to overhead transmission network.

4. Others – example: need to meet deductibles for multiple events that do not match prior loss history

A table that includes estimates of the mean annualized value of these factors is included below

| **Loss Event** | **$million** |
|---|---|
| | |
| Higher Deductibles | 2.5 |
| Aggregate Protection on Policies | .4 |
| Transmission and Distribution Network | .9 |
| Others | 2.5 |
| | |
| Total | 6.3 |
| | |

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

| | | |
|---|---|---|
| IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR APPROVAL OF ITS PROPOSED ELECTRIC RATE SCHEDULES & ELECTRIC SERVICE REGULATIONS | ) ) ) ) ) ) ) ) | Docket No. 03-2035-02<br><br>DIRECT TESTIMONY OF LARRY O. MARTIN |

**JULY 2003**

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

A. My name is Larry O. Martin. My business address is PacifiCorp, 825 N.E. Multnomah, Portland, Oregon 97232, Suite 1900. My present position is Tax Director.

**Qualifications**

**Q. Please briefly describe your education and business experience.**

A. I was awarded a Bachelor of Science degree in Accountancy from Brigham Young University in December 1984, and a Masters of Accountancy in Taxation in August 1985, also from Brigham Young University. I have been a Certified Public Accountant since 1987. My business experience includes over five years with the public accounting firm Ernst & Young (f/k/a Ernst & Whinney); ten years as the senior tax executive for JELD-WEN, Inc., a privately-held manufacturing firm; and over two and one-half years as Director of Tax with PacifiCorp. My previous experience includes all areas of U.S. corporate taxation including mergers and acquisitions, tax controversy and issues resolution, compliance, planning, financial accounting and reporting for taxes, property, sales and use, and international taxes.

**Q. Please describe your present duties.**

A. I am responsible for all aspects of the Company's income tax function including: compliance, accounting, financial and management reporting, issues resolution, and planning.

**Purpose of Testimony**

**Q. What is the purpose of your testimony?**

A. I provide testimony to support recovery of the tax settlement payments the Company has made during the test year in this case. In accordance with the stipulation for this rate case, my testimony also supports the recovery of costs associated with Internal Revenue Service ("IRS") settlements that will be paid on or before January 1, 2004.

**Q. Please outline your testimony.**

A. First, I explain how tax costs are currently calculated for ratemaking purposes and describe the Commission's resolution of the Company's previous request for a different ratemaking treatment. I also explain how the Company's accrual for adjustments to income taxes has been funded. Second, I support the Company's request for the Commission to adopt a new ratemaking treatment for in-period IRS tax settlement payments. In this section, I also discuss the timeline and elements of the tax settlement process.

**Current Regulatory Treatment of Tax Settlement Payments**

**Q. How are the Company's tax costs included in its cost of service?**

A. Cost of service for the Company currently includes the estimated tax accrual for the current test period only. The Company's ultimate tax liability for the tax year that corresponds to that test period will not be known for up to several years, as described below, and thus, is not included. Other tax payments associated with ultimate tax liability for previous years that are paid in the test period are currently not included. Specifically, tax payments for the test period that will be made after the test year are excluded, as are tax payments related to IRS audits, appeals and/or settlements (referred to collectively herein as "tax settlements") made in the test year but related to prior year tax returns.

**Q. Has the Company previously requested a different regulatory treatment for its tax settlement payments?**

A. Yes. In Docket No. 97-035-01, the Company requested that a tax contingency be set-up to recognize that tax settlement payments relating to a test year would be incurred outside that actual test period. The Company argued that in the absence of such a contingency, there would be a mismatch between the revenue collected for taxes and the Company's ultimate tax liability.

**Q. Did other parties agree with PacifiCorp's proposed tax contingency?**

A. No. The Division argued that the contingency represented a request for recovery of future, unknown costs and should not be included in the cost-of-service. In response, the Company argued that the income tax contingency is not for an "unexpected" change in income tax expense but captured tax settlement costs that were a normal, reoccurring event for the Company every year since 1970. Moreover, the Company argued that a reasonable approximation of the necessary level of contingency was possible based on historical experience.

**Q. How did the Commission ultimately resolve the issue?**

A. The Commission denied PacifiCorp's request for a tax contingency stating: -

> "With $45 million accrued to meet future contingencies, we conclude the Company now has adequate funds to meet future tax assessments. But if the fund should prove inadequate, the Company can request amortization of an assessment over a reasonable period of time, as the Division has recommended."

In its petition for rehearing, PacifiCorp argued that on rehearing it would show that the accrual had not been funded by customers; that the holding that the Company use the accrual before seeking recovery from customers was confiscatory and that the Commission clarify that in subsequent proceedings, requests for recovery of a tax assessment for a prior period would not be subject to an adjustment as an out-of-period expense. The Commission denied PacifiCorp's request for rehearing.

**Q. Please explain the reason for the Company's request in this proceeding.**

A. The Commission stated in its order in Docket No. 97-035-01 that the Company could seek an amortization of tax assessments over a reasonable period of time if its then-existing fund proved inadequate. As discussed below, PacifiCorp has incurred tax assessments in the test year in this case that exceed the then-existing tax accrual. In any event, while PacifiCorp does hold reserves to meet tax settlements, as it is required to do so, PacifiCorp's then-existing and current accrual have not been funded by Utah customers. Therefore, PacifiCorp is now requesting that the Commission permit recovery of the tax settlements paid in the test period and that will be paid on or before January 1, 2004 over a period not to exceed five years.

**Q Please explain why you state that the tax contingency accrual has not been funded by Utah customers.**

A The Company books a current tax liability, which includes the test period tax liability and a tax liability associated with the audits of prior years. As described in more detail below, this tax liability is adjusted to reflect assessments of the audit and the results of the settlement and appeals process as those events occur. When

PacifiCorp makes a rate case filing in Utah, it includes the estimated accruals relating to tax liability for the test period; it does not include the booked amounts for reserves for assessments against the Company resulting from income tax audits. Therefore, these reserves are not and have not been included in the cost of service. Thus, the entire $45 million accrual discussed in the order in Docket 97-035-01 and the Company's reserves are not and have not been funded by Utah customers.

**Test Period Tax Settlements**

**Q. What is the amount of the tax settlement payments made during the test period, and how does the Company propose to recover such amount?**

A. The Utah portion of the total tax settlement paid is $32,458,419, as detailed in the testimony of Mr. Ted Weston, Tab 7, Page 7.5.1. In consideration of the significant amount and the impact on customers, the Company proposes to recover this amount over a period not to exceed five years. Accordingly, the amortization would include an adjustment to increase the current income tax expense by $6,491,684 (one-fifth of the total), with the remaining four-fifths of the amount reflected as an adjustment to the rate base as an accumulated deferred income tax balance to be amortized over the remaining four years. Additionally, the Company expects to complete an administrative appeal with the IRS imminently and an additional amount will be paid at that time. The Company intends to include an update to the current request for recovery in its October 15, 2003 filing.

**Q. Please explain the nature of the tax settlement payments.**

A. The tax settlement payments for which the Company is seeking recovery in this case relate to the exam and appeal of the 1991-93 audit and the exam of the 1994-98 audit.

Payments related to these tax settlements were made during the test period. The additional payment expected to be included in the Company's October 15, 2003 filing relates to the appeal of the 1994-98 audit.

**Q. Why is there a discrepancy between cost of service taxes and the tax settlement amounts?**

A. As described above, the Company's tax liability for ratemaking purposes is based on the estimated accrual booked during the test period. Booked adjustments to the liability made at a later time associated with tax settlement payments are currently disallowed in the cost of service in future filings. However, the tax estimate used for ratemaking purposes is not the ultimate tax liability of the Company.

**Q. Does this mean the booked tax expense used for ratemaking purposes is based upon estimates?**

A. Yes. Exhibit UP&L___(LOM-1), Life Cycle of A Tax Year, illustrates the book, tax and regulatory treatment of tax costs of the Company over the period of time before the filing of a tax return through the assessment of the ultimate tax liability. Estimates of the ultimate tax liability for a specific tax year are made throughout the entire life cycle of that tax year. Based upon the quarterly estimated tax liability required for US GAAP purposes, estimates are first made prior to the conclusion of a tax year based upon the business activity occurring in each quarter. Events, such as the filing of an extension of time for the filing of the return, and the filing of the return itself, provide opportunities for revision of the previous estimates. At the time of the events, the book provision is adjusted to reflect the additional precision that can be achieved because the Company has more time to fully analyze the details of the accounting during the fiscal year.

**Q. Does the filing of the return establish the ultimate tax liability for a specific tax year?**

A. No. Filing the return represents the Company's best estimate of the tax liability at that point in time, given the time constraints under which the return must be completed and filed. Subsequent to filing the return, the IRS and state taxing authorities audit the return. Upon conclusion of the IRS audit, the Company decides which issues to appeal, either administratively within the IRS or through the courts. Estimates continue to be made throughout this process, and a final determination of the tax liability for a given tax year is only made upon conclusion of litigation or when the Company no longer pursues an adjustment.

**Q. How does the IRS audit effect the tax accrual?**

A. In the course of its audit, the IRS will issue a Notice of Proposed Adjustment ("NOPA") for each adjustment the IRS believes should be made to taxable income. As these NOPAs are issued, the Company reviews the merits of the IRS' position, which may include proposed adjustments such as carry-over items from different time periods, differing interpretations of tax law, new interpretations of tax law applied retrospectively and other items. The Company determines whether to concede to the IRS position, provide additional information in support of the Company's position, negotiate the settlement of the specific issue as part of concluding the entire audit, or to appeal the issue upon completion of the audit. The tax accrual will be adjusted either up or down as the NOPAs are received, and based upon the Company's assessment of the issue, as needed to accurately state the tax liability on the books. As shown in Exhibit UP&L___(LOM-1), conclusion of the federal and state audits is normally completed only several years after the end of the fiscal year under examination.

**Q. How is the tax accrual effected if adjustments are appealed by the Company?**

A. Estimates continue to be revised throughout either an administrative appeal or litigation, based upon concessions made by either party. Again, Exhibit UP&L___(LOM-1) shows that on average, appeals are concluded only several years after the end of the subject fiscal year.

**Q. If this is true, when does the tax liability become final for a specific tax year?**

A. The tax liability for a specific tax year becomes final when either the taxing authority or the courts establish a deficiency, and the Company decides not to pursue further appeals, or further appeal is unavailable. Alternatively, the Company and the taxing authority may settle the appeal at any point throughout the process. Although the tax liability may be a negotiated settlement, it is at that time that the tax liability for a given year is conclusive.

**Q. Does this mean that it is not possible to identify all taxes relating to a fiscal year until some time afterwards?**

A. Yes, it is typical that all taxes due for a particular year are not paid until several years after this time.

**Q. Why does the Company believe it is reasonable to recover in-period tax settlement payments?**

A. Tax settlements, although ongoing, are not known and measurable until the deficiency is ultimately assessed by the taxing authority. Thus, recovery for such payments is more appropriately sought when the deficiency is assessed, and the level of the payment is therefore known and measurable, than in a prior period. As a result, the appropriate time for the Company to recover the tax settlement payments as reasonable, known and measurable costs is when those assessments are paid in a test year. Also, the event giving rise to the tax settlement payments does not occur until the deficiency is assessed. Thus, consistent with ratemaking principles, recovery for those payments should be sought in a test period which includes the event, *i.e.* the assessment of deficiency and payment.

**Q. Are test-period payments for tax settlements out-of-period costs?**

A. No. The event giving rise to the additional payments is not the original tax year return, but the adjustment proposed and agreed-upon with the appropriate taxing authority during the test period. Although the original return is the source for current adjustments, the adjustments are separate from the original return and arise as a result of IRS and state taxing authority audit activity during the test period. Financial and regulatory rules share a common principle that an amount must be known and measurable in order for an accrual to be made. As PacifiCorp previously noted in its request for rehearing in Docket 97-035-01, rejecting these tax settlement payments as out-of-period costs places the Company in a no-win situation in which Commission policies preclude the recovery of normal, reasonable expenses.

**Q. Are the adjustments by taxing authorities, and the resulting tax settlement payments, ongoing?**

A. Yes. The Company has been identified by the IRS as a taxpayer included in the

Large and Mid-Size Business ("LMSB") audit program (formerly Coordinated Examination Program, or "large-case" program). As a taxpayer in this program, the Company is audited by the IRS for every tax year. Given the breadth of scope, intensity, and time invested in the IRS audit (ten man-years were devoted to the 1994-98 audit), adjustments to the returns are a virtual certainty. All states in which the Company operates have laws which require agreed-upon federal adjustments to be reported to the states, and the adjusted tax to be paid.

**Q. Why is it appropriate to view adjustments by the taxing authorities as arising from current audit activity rather than the original tax return?**

A. As stated above, the Company is subject to audit for every tax year. Thus, this is an ongoing expense that can properly be matched with the year in which the audit activity takes place and concludes. Similar treatment is afforded to other like transactions. For example, an installment note received upon the sale of an asset is treated as a separate asset from the property. The note is booked at its original face value. The note is classified as current or non-current on the balance sheet based upon its term rather than the original life of the asset. Valuation of the note is based upon its collectibility, even if the note contains provisions to repossess the original asset. Although the original asset gave rise to the note, the note is treated entirely separate from the asset.

**Proposed Regulatory Treatment**

**Q. What is the Company's proposal for allowance of tax settlement payments?**

A. The Company requests that it be permitted to recover tax settlement payments made during the test period as an adjustment in the current case amortized over a reasonable period of time not to exceed five years.

**Q. On a going forward basis, are there alternative regulatory treatments to recovery of in-period tax settlement payments in general rate cases that the Commission could adopt?**

A. Yes. As requested by the Company in Docket No. 97-035-01, the Commission could establish a tax contingency included in cost-of-service to account for future adjustments to tax estimates and tax settlement costs.

**Q. Is the Company proposing such a tax contingency at this time?**

A. No. The Commission and other parties did not support such a contingency in Docket No. 97-035-01. If parties' positions have changed in this regard, PacifiCorp will work with those parties to develop a proposal to present to the Commission at a later time.

**Q. Please summarize the key points of your testimony.**

A. Permitting recovery of tax settlement payments is consistent with traditional regulatory principles because the payments were actually made in the test period and are therefore, known and measurable. The Company is subject to audit for each tax year and deficiency assessments take place many years after the end of the tax year. The Company's customers have not funded the Company's tax reserves. Because tax settlement payments are an on-going, normal and reasonable business expense, it is reasonable to permit recovery of these costs. Given the magnitude of the costs and the potential impact on customers, the Company requests that the Commission permit recovery of tax settlement payments made during the test period as an adjustment in the current case amortized over a reasonable period of time not to exceed five years.

**Q. Does this conclude your testimony?**

A. Yes.

Exhibit
UP&L__(LOM-1)

PacifiCorp
Exhibit UP&L _____(LOM-1)
Docket No. 03-2035-02
Witness: Larry O. Martin

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

PACIFICORP

---

Exhibit Accompanying Direct Testimony of Larry O. Martin
Life Cycle of A Tax Year

July 2003

# Life Cycle of A Tax Year
# with Book and Tax Implications
# (Using FYE 3/31/03 as an example)

| | 4/1/02 | 6/30/02 | 9/30/02 | 12/31/02 | 3/31/03 | 6/15/03 | 12/15/03 | 3/31/06 | 3/31/08 | 3/31/09 | 3/31/10 | 3/31/13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EVENTS | Start of fiscal year | Quarter Ends | Quarter Ends | Quarter Ends | Year-end | Original Return Due Date | Extended Return Due Date | Audits: Start | IRS done | States done | IRS Appeal Completed | Litigation Completed |
| | | Quarterly estimate of tax | Quarterly estimate of tax | Quarterly estimate of tax | Year-end tax provision | Tax return Extension | Tax return Filed | | True-up to IRS audit results | True-up to state audit results | Notice of deficiency & State amended returns | Court decision & State amended returns |
| **BOOKS** (Based upon current "event") | | Adjust accrual estimate based upon quarter's activity | Adjust accrual estimate based upon quarter's activity | Adjust accrual estimate based upon quarter's activity | Adjust accrual estimate based upon quarter's activity | | Adjust accrual estimate based upon return | | Adjust accrual est. based upon Notice Of Proposed Adjustments | Adjust accrual estimate for state audit results | Adjust accrual estimate for final IRS determination & state returns | Final accrual adjustment |
| **TAX** | | Tax payments | Tax payments | Tax payments | Tax payments | Tax payments | Provision to return true-up | | Federal tax payment | State tax payments | Federal & state tax payments | Federal & state tax payments |

PacifiCorp
Exhibit UP&L ___(LOM-1)
Docket No. 03-2035-02
Witness: Larry O. Martin

## BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

| | | |
|---|---|---|
| IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR APPROVAL OF ITS PROPOSED ELECTRIC RATE SCHEDULES & ELECTRIC SERVICE REGULATIONS | ) ) ) ) ) ) ) ) | Docket No. 03-2035-02<br><br>DIRECT TESTIMONY OF MARK R. TALLMAN |

**JULY 2003**

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

A. My name is Mark R. Tallman, my business address is 825 N.E. Multnomah, Suite 600, Portland, Oregon 97232, and my present position is Director of Origination, Commercial & Trading. My position is part of PacifiCorp's regulated merchant side.

**Q. How long have you been the Director of Origination at PacifiCorp?**

A. I have worked in my present capacity, first as the Manager of Wholesale Sales and currently as the Director of Origination, since 1998. I have been involved in the wholesale merchant side of PacifiCorp's business since 1995.

**Q. What did you do before working in the wholesale side of PacifiCorp's business?**

A. I served in a variety of different roles in PacifiCorp's engineering organization and retail distribution organization, including five years as a District Manager. I have worked at PacifiCorp for more than 18 years.

**Q. Please describe your educational history.**

A. I have a Bachelor of Science degree in Electrical Engineering from Oregon State University and a Masters of Business Administration from City University. I am also a Registered Professional Engineer in the states of Oregon and Washington.

**Q. Have you previously appeared in any proceedings before the Utah Public Utility Commission?**

A. Yes. I presented testimony in Docket No. 01-035-37, the certificate proceeding for the Gadsby peaker project ("Gadsby Project").

**Q. What is the purpose of your testimony?**

A. In its January 31, 2002 Order in Docket No. 01-035-37 approving a certificate for the Gadsby peakers, the Utah Commission said:

> "We note the representation by counsel for the Company that the only issue with respect to prudence the Company believes may be open concerns a review by any party desiring to do so of the bids received pursuant to its current request for proposals for wholesale market transactions. We agree. Short of the bid review caveat, we have concluded that the Gadsby resource addition is the best of alternatives."

The purpose of my testimony is to provide, in response to the Commission's order, a comparison of the Gadsby peakers with the bids received pursuant to the Company's 2001 RFP ("RFP")

**Q. Would you please summarize your testimony in this proceeding?**

A. I provide an overview of the Company's RFP process, including a discussion of the Company's bid review criteria and a description of the transactions PacifiCorp entered into as a result of the RFP. I also provide a comparison of the Gadsby peakers with the short-list bid proposals and the consummated transactions. That analysis shows that the Gadsby peakers were the least cost resource addition and would have been the preferred choice under the RFP. Finally, I briefly discuss some of the other operational and risk reduction benefits of the Gadsby peakers.

**Overview of the RFP process.**

**Q. Please provide a general description of the RFP process.**

A. In September 2001, PacifiCorp issued an RFP soliciting bids for resources in excess of 25 MW and capable of delivery in or to its Eastern control area (Wyoming, Utah and Idaho). The RFP was issued in response to projections that the Company would experience a resource shortage of 439 MW in July 2002, increasing to 1,262 MW by July 2009.

**Q. What level of response did the RFP receive?**

A. The RFP generated 52 proposals from 27 different parties. The proposals varied widely in terms of the type of product offered and the date of availability of the resource.

**Q. Please describe the initial evaluation process for the responses.**

A. After an initial credit evaluation, the responses were separated into tiers based on their ability to meet the Company's short-term resource needs. For example, bids in the first tier had to be capable of providing firm supply during peak, or super-peak hours, commencing the third quarter of 2002 and with a point of delivery in or to PacifiCorp's Eastern control area. The Company then asked a short-list of bidders, those with bids in the first two tiers, to refresh their bids and bid pricing specifically for the summer months during 2002 - 2004.

**Q. Why did PacifiCorp focus on short-term resources?**

A. During the RFP time period, PacifiCorp was actively engaged in updating its Integrated Resource Plan (IRP), which was due to be completed in December 2002. As a result, long-term supply proposals were held for consideration pursuant to the IRP process.

**Q. Please describe the evaluation process for the short-list proposals.**

A. PacifiCorp utilized a sophisticated structuring model and accepted industry practices to quantitatively evaluate the net present value based upon the delivery characteristics of the proposals under consideration. Each bid was evaluated based on the following criteria: (1) net value (PV$) against then current market; (2) net value (PV$) per 100 MW of capacity against the then current market; (3) optionality (day of calls, day ahead calls, take-or-pay); (4) point of delivery to PacifiCorp's system; (5) delivery period (shaped June through September, Annual); (6) capacity delivered (MW); (7) term (3 years, 10 years, other); and (8) firmness (firm, unit contingent). Exhibit UP&L___(MRT-1) summarizes the results of these offers.

**Q. Please briefly summarize the transactions that resulted from the RFP process.**

A. Based on its quantitative analysis of the proposals, PacifiCorp negotiated with three counterparties to consummate the following three transactions: (1) the 200 MW West Valley lease agreement with West Valley Leasing Company LLC, a subsidiary of PacifiCorp Power Marketing (now known as PPM Energy); (2) a 100 MW physical fixed price day-ahead call option with Morgan Stanley; and (3) a 100 MW physical day-ahead call option with Sempra.

**Economic Comparison of the Gadsby Peakers to the RFP Transactions.**

**Q. Have you prepared a comparison of the Gadsby peakers with the Sempra, Morgan Stanley and West Valley transactions?**

A. Yes. Exhibit UP&L___(MRT-2) provides a comparison of the Gadsby peakers with the three transactions.

**Q. What does the exhibit show?**

A. The first column on the left shows the criteria used to analyze the four alternatives. Moving from left to right, the second, third, fourth, and sixth columns summarize the results for the Gadsby peakers, West Valley, Sempra, and Morgan Stanley transactions respectively. The fifth column from the left (entitled "Physical") summarizes the results for a theoretical transaction for take or pay on-peak power delivered to Mona.

**Q. What do you conclude from the exhibit?**

A. As shown on Exhibit UP&L___(MRT-2), the Gadsby peakers have the highest net benefit ($6,940,631, or $5,783,859 on a per 100 MW basis) of any of the alternatives and an overall relative ranking of number one. The Gadsby peakers are the least cost resource alternative.

**Q. Do the Gadsby peakers also provide operational benefits not necessarily captured by the RFP comparison?**

A. Yes. The Gadsby peakers add flexibility and diversity to PacifiCorp's generation portfolio. Every power system that serves variable loads requires a blend of baseload, mid-range and peaking generation resources. Even though monthly energy usage may seem relatively predictable, power generation and delivery is dynamic and requires resources that can scale up and down when loads change. The Gadsby peakers provide a cost-effective way to quickly respond to changing loads or the loss of key transmission import paths.

**Q. Do the Gadsby peakers also act as a system hedge against wholesale market spikes, such as those that occurred in 2000 and 2001?**

A. Yes. The Gadsby peakers reduce PacifiCorp's exposure to market extremes, which are most pronounced during high demand, system peak periods.

**Q. Does this conclude your testimony?**

A. Yes.