SUMMARY OF PACIFICORP DIRECT TESTIMONY
PAC-E-05-1

Below is a summary of PacifiCorp testimony filed in support of its general rate case application. Copies of the filing are available online at **www.pacificorp.com**; click on "News and Info" and then select "Regulatory Information" and "Idaho." Copies of the filing can also be reviewed during regular business hours at the offices of the Idaho Public Utilities Commission in Boise and in these Utah Power offices:

- 25 East Main, Rexburg
- 509 South 200 East, Preston
- 852 E. 1400 North Shelley
- 24852 U.S. Highway 89, Montpelier

JOHN W. STEWART
Managing Director, Regulation for PacifiCorp's Eastern Service States

Company witness Stewart provides an overview of the Company's 2005 Idaho general rate case filing and explains that PacifiCorp's last general rate increase in Idaho took place in 1986. As a result of several limited issue base rate reductions, PacifiCorp's ongoing base rates are approximately 7% *lower* today than they were in 1986.

Due to the effects of increasing inflation on the Company's operating costs, increases in employee pension and health care costs, and investments in new generation resources, PacifiCorp is requesting a rate increase of $15.1 million. This represents an average overall price increase of 9.2 percent in net rates from rates in effect today. The net increase reflects the expiration of the Power Cost / Tax Surcharge in September 2005, which produces a net increase of $11.4 million. To determine its revenue requirement, the Company used an historical test year beginning April 1, 2003, and ending March 31, 2004 (FY 2004) adjusted for known and measurable costs and investments.

Mr. Stewart testifies that Commission approval of this increase will enable the Company to maintain the financial strength necessary to attract the requisite capital to meet the growing electrical service needs of its Idaho customers. He also explains the Company's efforts to mitigate rate impacts on Idaho customers, the Company's cost control efforts, and the reasonableness of the rate increase.

SAMUEL C. HADAWAY
FINANCO, Inc.

Company witness Hadaway presents testimony concerning the Company's return on equity (ROE). Based on his review of alternative versions of the constant growth and multistage growth Discount Cash Flow (DCF) model, Mr. Hadaway proposes an 11.125 percent point value for PacifiCorp's cost of equity. His analysis is confirmed by a risk premium analysis and a review of economic conditions expected to prevail during the rate effective period. Mr. Hadaway further explains that this estimate is reasonable balance between consensus economic forecasts for significantly higher interest rates during the rate effective period and the lower ROEs that can be obtained from traditional DCF methods based on recent historically low dividend yields and traditional DCF growth estimate methodologies.

BRUCE N. WILLIAMS
Treasurer

Company witness Williams offers testimony concerning the Company's capital structure, cost of debt and cost of preferred stock as of September 30, 2004, updated through September 30, 2005, for known and measurable changes. He determines the Company's embedded cost of long-term debt to be 6.34 percent and the embedded cost of preferred stock to be 6.64 percent. Mr. Williams also calculates the average PacifiCorp capital structure for the test year to be 51 percent long-term debt, 1.2 percent preferred stock, and 47.8 percent common stock equity. When combined with Company witness Hadaway's 11.125 percent return on equity recommendation, PacifiCorp proposes an overall weighted cost of capital of 8.633 percent.

J. TED WESTON
Regulation Manager

Company witness Weston presents the Company's overall revenue requirement based on normalized results of operations for a FY 2004 test year with known and measurable adjustments. Based upon these results of operations, Mr. Weston explains that PacifiCorp is presently earning an overall ROE of 5.8 percent in its Idaho jurisdictional service territory – far below any other ROE recently authorized for other Idaho investor-owned utilities and less than what is required to provide a fair and equitable return for PacifiCorp shareholders.

The Company requests a price increase of $15.1 million based on the Revised Protocol stipulation that resulted from the multi-state jurisdictional cost allocation process. This request is $1.8 million less than the increase otherwise supported by the Company's revenue requirement analysis, but was limited due to the Revised Protocol's rate mitigation cap. Mr. Weston explains the normalizing adjustments made to actual test period results related to revenue, operation and maintenance expense, net power costs, depreciation and amortization, taxes and rate base.

MARK T. WIDMER
Director, Net Power Costs

Company witness Widmer describes the results of the production cost model study for the twelve-month test period ending March 31, 2004, when updated for known and measurable changes. He also describes how and why input data is normalized for use in the Company's production cost model – the Generation and Regulation Initiates Decision Tools (GRID) model – when calculating net power costs. Finally, Mr. Widmer explains hydro modeling associated with the VISTA hydro model and inclusion of the Aquila Hydro hedge in rates.

STAN K. WATTERS
Senior Vice President, Commercial & Trading

Company witness Watters testifies regarding PacifiCorp's acquisition of three long-term resources that are or will be in-service when the general rate change goes into effect. These projects are the West Valley Lease, the installation of three generation units at the Gadsby Plant site, and the 525 MW combined cycle combustion turbine at Currant Creek. Mr. Watters demonstrates that these resources were prudently acquired and provide benefits both system-wide and to PacifiCorp's Idaho customers.

DANIEL J. ROSBOROUGH
Director of Employee Benefits

Company witness Rosborough testifies to the Company's increased pension and employee benefit costs. PacifiCorp proposes to recover in base rates $48.5 million in annualized pension costs it expects to incur for its defined benefit pension plan. The Company also seeks to recover in base rates $3 million in pension expense associated with a contribution to a separate pension plan negotiated with employees represented by the International Brotherhood of Electrical Workers. Mr. Rosborough describes the Company's proposal to recover in rates $110.4 million in medical, dental and other benefit coverage costs and explains the major reasons for these increased costs. Finally, Mr. Rosborough addresses the actions the Company is taking to control these rising costs.

DAVID L. TAYLOR
Principal Regulatory Consultant

Company witness Taylor explains how the Multi-State Process Revised Protocol cost allocation methodology and the stipulated Rate Mitigation Mechanism filed in Case No. PAC-E-02-03 affect the Company's Application. He then describes the jurisdictional allocation differences between the Modified Accord Allocation Methodology previously adopted by the Idaho Commission and the currently proposed Revised Protocol allocation methodology, and details the impacts of those allocation changes on the Idaho revenue requirement. Finally, Mr. Taylor presents PacifiCorp's class cost of service study that functionalizes, classifies, and allocates costs to each customer class.

WILLIAM R. GRIFFITH
Director of Pricing and Regulatory Operations

Company witness Griffith testifies that PacifiCorp's pricing objective is to implement the 9.2 percent overall net price increase while reflecting cost of service and minimizing customer bill impacts. To that end, the Company proposes a rate increase cap so that no rate schedule class receives more than 1.5 times the overall net increase (13.8 percent). The Company also proposes that no class receive less than one-half the overall net increase (4.6 percent). Consequently, PacifiCorp proposes the following allocation of the net price increase for the major customer classes:

- Residential: 9.6%
- General Service
  - Schedules 23 and 23A: 5.5%
  - Schedules 6, 6A and 35: 7.7%
  - Schedules 8, 9 and 19: 4.6%
- Irrigation: 10.4%
- Nu-West Special Contract: 13.8%
- Public Street Lighting: 13.8%

Lastly, Mr. Griffith describes the Company's proposed changes in price design for the affected rate schedules.

PROOF OF SERVICE

I hereby certify that on this 14th day of January, 2005 I caused to be served, via Overnight mail, a true and correct copy of the foregoing Application to the following:

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