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

A. My name is Christy A. Omohundro. My business address is 825 NE Multnomah, Suite 800, Portland, Oregon, 97232. My present position with PacifiCorp is Managing Director, Regulation.

Qualifications

Q. Briefly describe your educational and professional background.

A. I hold a Master of Business Administration degree from Vanderbilt University as well as a Bachelor of Science degree in Accounting and Liberal Arts from Spring Hill College. I have worked for PacifiCorp since January 2002. Prior to assuming my present role in January 2002, I served for over nine years in various leadership roles with Puget Sound Energy, most recently as Director of Rates and Regulatory Policy. In that capacity, I was responsible for ongoing development of company regulatory policy, implementation of that policy through building relationships with regulators and their staffs, and integration of that policy with legislative, customer, and market strategies. In addition, I have experience with integrated resource planning and industry restructuring.

Q. What are your responsibilities as Managing Director, Regulation?

A. I am responsible for all state regulatory matters for the states of Washington, Oregon, and California.

Purpose and Summary of Testimony

Q. What is the purpose of your testimony?

A. I will explain why the Company is seeking to implement a Power Cost

Adjustment Mechanism (PCAM) in Washington. My testimony shows that:

- The Company's net power cost exposure is asymmetric and therefore undermines the Company's long-run opportunity to earn its authorized rate of return.
- Adoption of a PCAM would be consistent with the treatment afforded other Washington utilities and is in the public interest.
- A PCAM would benefit customers by enhancing the Company's credit quality and lowering its cost of borrowing.

Reasons for Request

Q. Why is the Company seeking to implement a PCAM in Washington?

A. Starting with Western energy crisis of 2000-2001, wholesale market prices have risen and fluctuated tremendously, as shown in Mark Widmer's testimony. As a result, the Company's net power costs, which represent a large proportion of the Company's total operating costs and are largely outside of the Company's control, are subject to a large degree of volatility. The Company's net power costs will continue to fluctuate in the future and it is therefore necessary to have a PCAM in order to allow changes in net power costs to be reflected between general rate cases. Moreover, as described in Mr. Widmer's testimony, the Company's net power cost exposure to losses is asymmetric, thereby jeopardizing the Company's opportunity to earn its allowed rate of return over time. Finally, such a mechanism would be consistent with Commission precedent regarding rate adjustment mechanisms for the recovery of variations in power costs.

Q. Has the Commission approved power cost adjustment mechanisms for other electric utilities?

A. Yes. PacifiCorp is the only investor-owned electric utility in Washington without a mechanism for recovering variations in power costs. In June 2002, the Commission approved an Energy Recovery Mechanism, or ERM, for Avista Corporation. *Docket No. UE-011595, Fifth Supplemental Order*. The ERM generally permits recovery of 90% of power cost increases in excess of a $9 million dead band. In June 2002, the Commission approved a power cost adjustment (PCA) mechanism for Puget Sound Energy which includes a $20 million dead band, followed by additional bands with sharing percentages ranging from 50 percent recovery to 95 percent recovery. The recovery percentage increases to 99 percent upon reaching a $40 million cumulative balance. *Docket No. UE-011570, Twelfth Supplemental Order*. More recently, Avista on March 30 submitted a general rate filing in which it proposes to eliminate the dead band on its ERM in favor of a 90 percent sharing mechanism of all power cost variations. *Docket No. UE 050482*.

Q. Please describe the significance of net power costs relative to the Company's total cost of service.

A. Mr. Widmer's testimony shows that the Company's power costs amount to some $830 million. This amount represents between one-third and one-fourth of total retail revenue.

Q. Has there been a shift in the apportionment of net power cost exposure between customers and shareholders in recent history?

A. Yes. As described in Mr. Widmer's testimony, the Company's net power cost exposure – defined as the variance between actual and authorized net power costs – has risen more than thirty-fold since 1999. It is difficult to dispute that wholesale energy markets have become significantly more volatile since the energy crisis of 2000-2001. In addition to larger fluctuations in market prices, the average market price has risen considerably over the past ten years. This combination of greater volatility and higher market prices has produced a much riskier environment for all participants in the wholesale energy market, and regulated utilities are no exception. At the same time, the apportionment of risk relating to net power cost exposure, facilitated through normalized rates and levels of authorized return, has remained unchanged. As a result, PacifiCorp and its shareholders shoulder this increased exposure and the Company does not have a reasonable opportunity to earn its allowed rate of return.

Q. Has the Company taken actions to protect itself from the increased market volatility described above?

A. Yes. The Company has attempted to insulate itself and its customers from significant adverse movements in the wholesale power markets. For example, the Company is able to meet a significant portion of its native load requirements through reliable, low-cost owned generation as well as through long- and medium-term power purchase agreements (PPAs). These generation sources reduce the frequency and size of PacifiCorp's market transactions from what they would otherwise be. Through the integrated resource planning (IRP) process, the Company identifies resource requirements which have resulted in the Company filing Requests for Proposals (RFPs) for resources to meet load requirements on a least cost, risk adjusted basis. This process provides further assurances to the Commission and customers as to the prudent nature of our net power costs involving power purchases and or the construction of generation facilities. Under the PCAM the Company is proposing in this case, the Company would continue to have an incentive to manage its system and associated risks prudently by virtue of the sharing mechanism, which would result in the Company shouldering a significant portion of net power cost exposure between rate cases.

Q. How would the Company's proposed PCAM address this situation?

A. Adopting the Company's proposed PCAM would mitigate the increase in power cost exposure borne by the Company's shareholders. Simply put, if power cost exposure is now thirty times greater than before 1999, the Company's risk would be only three times higher with a 90/10 PCAM. As described in Dr. Hadaway's testimony, implementation of a PCAM does not involve a simple re-allocation of the historical level of risk between shareholders and customers. Rather, given these higher current risks borne by the Company, investors would require a higher equity return to compensate for these risks in the event the Company failed to secure approval of some form of power cost recovery mechanism in this case.

Credit Rating Implications

Q. Would implementation of a PCAM positively influence the Company's overall credit rating?

A. Yes. The investment community and analysts monitoring the energy industry have identified the increased level of risk associated with the regulated energy environment. In response to the increased risk borne by regulated utilities participating in wholesale energy markets, the major credit rating agencies have begun imputing debt on utility balance sheets for long-term PPAs. This debt imputation impacts the credit ratios of a utility and may contribute to a credit downgrade. Mr. Williams describes this further in his direct testimony.

In a recent research article titled "Fuel and Power Adjusters Underpin Post-Crisis Credit Quality of Western Utilities," Standard & Poor's states that PacifiCorp's lack of a fuel and purchased power adjustment mechanism is a credit concern. Exhibit No.___(CAO-2). Consistent with this statement, Standard & Poor's has indicated in recent public presentations and in personal meetings with PacifiCorp, that the risk factor used when evaluating PPAs will be significantly reduced if the Company has a reasonably structured PCAM in place.

Q. Does the level of debt imputation vary by type of PCAM?

A. Yes. Under the approach followed by Standard and Poor's, a 10-20% imputation is applied when the PCAM is legislatively approved, a 30-50% imputation is applied for a Commission based PCAM, and a 50-70% imputation is applied without a PCAM. Mr. Williams's testimony describes the debt impact of PPAs in the evaluation by Standard & Poor's in the Company's most recent earnings review.

Q. What does this mean for PacifiCorp?

A. If a PCAM is in place, PacifiCorp would be required to infuse less equity to offset the imputed debt impacts of PPAs on its balance sheet. This would not only help PacifiCorp to maintain its credit rating under its current supply portfolio, but would also facilitate the development of the independent energy market by making PPAs less costly for customers.

When PacifiCorp acquires resources through its RFP process, debt imputation is a factor associated with the evaluation of energy options. Because debt is imputed for PPAs, the Company must also infuse a commensurate level of equity to balance its ratios to maintain its current credit rating. A lower risk factor associated with PacifiCorp's portfolio of PPAs will help to make purchased power more attractive relative to other options considered in the RFP process.

Q. Is the Company seeking to implement power cost recovery mechanisms in the other jurisdictions in which it operates?

A. Yes. Our current Oregon general rate case filing, Docket UE 170, includes a proposal for implementation of an annual net power cost update, and the Company on April 15, 2005 made a separate Oregon filing requesting a PCAM. (Docket UE 173.) In Wyoming, the Public Service Commission is considering revisions to its rules governing pass-on mechanisms for commodity costs that would broaden the availability to include most power cost variations, and we expect to seek implementation of a power cost recovery mechanism consistent with that Commission's new rules. The Company intends to request a PCAM in Utah next fall to early winter and expects to request PCAMs in our next California and Idaho general rate case filings as well.

Effect of PCAM

Q. How would implementation of a PCAM benefit customers?

A. The PCAM would buttress the Company's ability to invest the capital needed to provide reliable service, as I have described earlier in my testimony. It would improve the Company's ability to attract capital by improving its ability to earn its authorized rate of return. At present, unanticipated changes in power costs are not generally recovered in rates since rates are based upon normal power costs and are not "trued up" to actual costs. The PCAM would allow prices to reflect actual power costs.

A PCAM would benefit customers by enhancing the Company's credit quality and lowering its cost of borrowing. A PCAM would also help level the playing field for resource selections when evaluating PPAs compared to building Company-owned projects as the debt imputation ascribed to PPAs would decrease.

The PCAM would also give customers the price signals they need to respond to high power costs. Today, if power prices rise unexpectedly consumers might not even be aware of it. Consumers are in a position to influence the Company's power costs by controlling the amount they use. Price response by consumers must be one of the key ways that the Company and the Region manage periods of tight supply. Today consumers are insulated from the impacts of unexpected increases in power costs, and have no incentive to reduce the amount they use in such circumstances. The PCAM would improve this situation by linking the Company's actual costs to the prices paid by consumers.

Q. Would a PCAM diminish Company management's incentive to effectively manage the power supply portfolio?

A. No. As described by Mr. Widmer, collections under the PCAM will be subject to prudence reviews. Prudence reviews directly address Company actions in a way that the risks of volatile power costs do not. Furthermore, the sharing percentage leaves a meaningful portion of power cost risk with PacifiCorp and its shareholders. The Company and its management will have ample incentive to continue to effectively manage the power supply portfolio.

PCAM Structure

Q. Please describe the structure of the PCAM being proposed by the Company.

A. Mr. Widmer's testimony describes in detail the PCAM being proposed by the Company.

Q. Does the proposed PCAM pass all power cost variations into rates?

A. No. As I mentioned above, the PCAM includes a sharing mechanism to preserve the Company's incentives to manage power costs prudently and efficiently. As described in Mr. Widmer's testimony, ninety percent of the difference between (1) the baseline level of net power costs authorized by the Commission when setting rates in this proceeding, and (2) the actual level of net power costs would be included in the deferral account. The remaining ten percent of power cost variations would be borne by shareholders.

Q. How would net power cost variances be allocated to Washington?

A. Mr. Duvall’s testimony describes how net power cost variances under the PCAM would be allocated to Washington under the Revised Protocol inter-jurisdictional cost allocation methodology.

Q. PacifiCorp recently filed an application with the Commission requesting authorization to defer costs associated with low-hydro conditions. How will this filing impact that application?

A. If approved by the Commission, the PCAM would incorporate the Company’s proposed hydro deferral that is pending before the Commission in Docket No. UE-050412 and replace it on a going forward basis.

Q. Does this conclude your testimony?

A. Yes.