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

A. My name is Randy A. Landolt. My position is Managing Director of Hydro Resources. My business address is 825 N.E. Multnomah, Suite 1500, Portland, Oregon.

Q. Briefly describe your educational background, professional training and experience.

A. I received a Bachelor of Science degree in Civil Engineering from Oregon State University and have been a Registered Professional Engineer in the State of Oregon. I have served PacifiCorp as a design engineer and various levels of management associated with the engineering, licensing and operations of the Company's hydroelectric facilities.

Q. What is the purpose of your testimony?

A. My testimony explains the specific details that impair the future economic viability of the Naches hydroelectric facility (the "Naches Project" or "Project") and describes the Company's financial analysis of the Naches Project. The purpose of my testimony is to provide some further background into the financial analysis that was performed in regard to the sale. In addition, I provide further description of the terms of the sales agreement ("Agreement") introduced as an exhibit by Mr. Cunningham (Exhibit ___ (BGC-2)). Furthermore, I introduce the potential impact on the cost of energy from the Naches Project in the event FERC licensing is required.

Q. Please describe how you have organized your testimony.

A. First, I briefly describe the methodology used in the financial analysis and evaluation of the Naches Project. Then, I provide an additional financial analysis that considers

the impact on the cost of energy from the Naches Project should FERC licensing be required. Last, I summarize the terms of the sale of the water rights and related assets of the Naches Project contained in the Agreement.

Q. Please describe the methodology used in the financial analysis and evaluation of the Naches Project.

A. The levelized cost of energy from the Naches Project was compared to the levelized cost of a similar energy purchase from the market. The levelized cost of energy from the Naches Project was determined on the basis of the estimated capital expenditures and expense needed to operate and maintain the Project for an additional 30 years. To complete the analysis, it was also necessary to estimate how much energy the Naches Project would produce in the future. The amount of energy the Naches Project is expected to generate in the future is expected to decline because existing limiting agreements and the increases in flows for downstream fish reduce how much water can be diverted into the Wapatox canal and subsequently made available for power generation. This cost of energy was then compared to the levelized cost of a market purchase.

For this analysis, a market purchase was assumed to be energy supplied at Mid-Columbia ("Mid-C"). The value of a market purchase was determined using the Company's July 10, 2002 Official Market Price Projections. The Official Market Price Projections consists of three different scenarios, they are 1) Medium Case – Cyclic Growth (also known as the Base Case), 2) High Case –Bullish Gas and 3) Low – Commodity Competition Case. The Official Market Prices are a combination of the

Forward Prices and fundamental model prices using the Midas model. The development of the Official Market Prices uses the following methodology:

- Forward market prices alone are used through June 2005.
- July through December 2005 is weighted 75% forward market/25% Midas.
- January through June 2006 is a 50-50 weight between forward market and Midas.
- July through December 2006 is weighted 25% market/75% Midas.
- After December 2006, only Midas results are used.

The Midas fundamental model results depend on the natural gas price forecast. The natural gas prices for the high and low cases, are scaled at 125% and 85% of the medium price case, respectively.

In addition to sensitivity to market price, a number of other sensitivities were also performed. These included evaluating the impact of changes in the generation as well as the unlikely case in which the amount of capital and operations and maintenance ("O&M") expenditures needed to keep the plant operational were greatly reduced.

Q. Please describe the results of the analysis.

A. Exhibit ___ (RAL-1) is a base case comparison of the levelized cost of energy from a Mid-C market purchase compared to the levelized cost of energy from continued operation of the Project under three different generation scenarios. Column A is the levelized total cost of energy to ratepayers for continued operation of the facility. This cost includes the capital and O&M the facility will require over the next 30 years as well as the energy cost component associated with the return on the existing asset.

Column B is the levelized cost of a Mid-C market purchase. Columns C & D are the levelized costs of a Mid-C market purchases under the high and low market cases, respectively. The results shown in Exhibit ___ (RAL-1) are based on a 30-year analysis using an after-tax discount rate of 7.57% and an inflation rate of 2.5%.

Exhibit ___ (RAL-1) indicates that, under all of the generation and market price purchase scenarios, it would be a lower cost option to purchase from market, and therefore, that it would be prudent to sell the Project.

Q. Please describe the other sensitivity cases that were performed.

A. Another scenario was developed to compare the unlikely case in which future capital and O&M expenditures were greatly reduced. This scenario is summarized in Exhibit ___ (RAL-2). This comparison shows that continued ownership is slightly less costly than a market purchase except in the case in which very high market prices were to continue for the 30-year period. PacifiCorp does not endorse this low capital spending scenario but ran it for the purpose of assessing the sensitivity of the analysis to changes in capital expenditures. This scenario shows that even optimistic assumptions about capital spending do not materially influence the conclusion that there is no significant benefit to customers of retaining the Project.

Another scenario is summarized in Exhibit ___ (RAL-3). This scenario shows that when FERC licensing costs of $1.07 million and about 2% less energy generation are factored into the analysis, selling the Project is the lower cost option.

The third scenario varied three assumptions from the base case. It assumed FERC licensing costs of $1.07 million, 2% less energy generation, and lower capital expenditures than the base case. Exhibit ___ (RAL-4) also shows that given these

assumptions the levelized cost of purchasing energy will be less than operating Naches.

Based on all of these scenarios, I conclude that the Company's analysis is robust. The studies demonstrate that when all the scenarios are weighted with an equal probability, selling the Naches water rights and associated assets is the preferred option to continuing to own and operate the Naches Project.

Q. Are there any other compelling reasons that the Company considered that support the sale of the Naches Project?

A. Other than the financial analysis that strongly supports divestiture, the single most compelling argument that supports the proposed sale to United States Bureau of Reclamation ("Reclamation") is the potential that the Naches Project will require a FERC license. FERC has prepared a preliminary finding in May 2002 that the Naches Project is a navigable water way. The implication of this finding is that the Naches Project will become subject to FERC licensing requirements. FERC has not yet issued an order requiring PacifiCorp to obtain a license but it is expected that this order may be forthcoming in the near future. PacifiCorp has requested that FERC delay such a finding on the basis that PacifiCorp will conclude a sale of the Project.

The FERC licensing process is very costly and time consuming. The process requires a large resource commitment to manage the various studies, prepare applications, and administer the implementation process. It can be expected that there will be a requirement for significant additional capital expenditures, a reduction in energy from the Naches Project, or both.

Q. Please explain in more detail what the licensing process entails.

A. Under the Federal Power Act ("FPA"), FERC has the exclusive authority to license nonfederal hydropower projects on navigable waterways, federal lands and under certain other criteria. The licensing process requires FERC to address both the economics and engineering issues and potential environmental and socioeconomic effects of the project. FERC must give "equal consideration" to developmental and environmental values including hydroelectric development; fish and wildlife resource, including their spawning grounds and habitat; visual resources; cultural resources; recreational opportunities and other aspects of environmental quality; irrigation; flood control; and water supply.

In issuing licenses, FERC must include conditions to adequately protect, mitigate damage to, and enhance fish and wildlife (and their habitats) based on the recommendations of state and federal fish and wildlife agencies. However, under the FPA, some federal agencies can file conditions that become, upon their filing, mandatory for FERC to include in any license issued. For example, mandatory conditions include the ability of the Secretaries of Commerce and the Interior to prescribe fishways (ladders and screens) at projects. The high costs associated with installation of fishways coupled with lost generation as a result of instream flow requirements can result in FERC issuance of uneconomic licenses. The licensee's only recourse is to accept an uneconomic license or pursue litigation challenging mandatory conditions or other requirements which increases costs, creates uncertainty, and has no guarantee of leading to a successful outcome given the courts' proclivity for deferring to natural resource agency opinion.

It is important to note that in addition to multiple agencies, tribes and other stakeholders, several other federal and state laws and regulations must be addressed as part of obtaining a new license. The regulations that are most relevant to the Naches Project include the federal Clean Water Act and the Endangered Species Act. Under Section 401 of the Clean Water Act, an applicant must obtain certification from the state that it is meeting state water quality standards and criteria. Compliance with the Clean Water Act can be extremely costly, involving increased instream flows and other measures. FERC cannot issue a new license without Section 401 water quality certification. Under the Endangered Species Act, FERC must consult with the federal fishery agencies to determine whether issuing a new license might jeopardize the existence of any endangered or threatened species or result in critical habitat destruction. As noted in Mr. Esget's testimony, endangered salmon and bulltrout species currently are affected by the Naches Project.

Q. Describe the project licensing process.

A. Applicants for licenses may use either traditional or alternative licensing processes. All licensing processes involve several stages of consultation and preparation of documents that must be submitted to FERC. Generally speaking, for smaller projects such as the Naches Project, a traditional approach would be employed. In the traditional process, there are three major stages of consultation. The first stage involves holding meetings and seeking verbal and written input from state and federal agencies, Indian Tribes, non-governmental organizations, community interests and others regarding studies to be conducted to determine project impacts on the environment and natural resources. Stage one ends when a set of resource-by-

resource study plans and detailed consultation documentation have been completed and provided to FERC.

The second stage involves conducting the proposed studies and preparing and distributing a draft license application to agencies, tribes and stakeholders for review and comment, including review by FERC. Once the draft application has been submitted, agencies routinely request that additional costly and time-consuming studies be undertaken prior to application finalization. The applicant may refer such requests to FERC for dispute resolution and may or may not be successful in challenging the request. This stage also must be documented by the applicant with a written summary of agreements and disagreements reached with agencies and others. Stage two ends upon submittal of a draft license application to the FERC.

Once the draft application has been filed, the third phase of licensing ensues. Stage three includes conducting further environmental studies, analysis and consultation as FERC initiates its required environmental assessment under the National Environmental Protection Act. This includes FERC preparation of an Environmental Assessment or Environmental Impact Statement.

Q. What kinds of costs are associated with the licensing process?

A. It has been estimated that an absolute minimum cost for the study and application phase of the FERC licensing requirement at the Naches Project would be $1.07 million. Licensing capital costs could include funds required for the installation of a tailrace barrier, fish-ladder upgrade and flow monitoring. Funds are also expected to be required to operate and maintain the environmental capital measures.

PacifiCorp's recent experience with studies and applications for FERC licenses for similarly-sized facilities indicates that the costs could be significantly higher than the estimated $1.07 million. For example, at PacifiCorp's 6-megawatt Powerdale Project on the Hood River in Oregon, licensing costs are approximately $3.8 million and it has taken seven years to complete the process. Additionally, PacifiCorp recently asked FERC to postpone a license while it explores project decommissioning as it appears a new license will result in uneconomic operations.

In addition to the process costs for licensing, it has also been estimated that a new license for the Naches Project would result in a 20-25 percent reduction in energy production due to a requirement for increased water flows in the Naches River particularly for endangered fish species.

Q. How does the proposed transaction overcome problems presented by FERC licensing?

A. Since Reclamation is a federal entity and will not be operating the project for generation, no FERC license will be required.

Q. Please summarize the terms of the sale.

A. Exhibit ___ (BGC-2) is a copy of the executed Agreement between Reclamation and PacifiCorp. The Agreement is substantially a water rights agreement in that Reclamation's primary objective is to purchase and control the flow of water. PacifiCorp will convey to Reclamation the Naches Project dam, the diversion structure, the fish screens, the canal, the generating facilities, and tailrace. The equipment and tools required to operate and maintain the canal and access ways will be conveyed to Reclamation. Reclamation will assume all responsibility for the

operation and maintenance of the canal to ensure the irrigators with legitimate rights are supplied with water. The Agreement calls for Reclamation to remove the power generating capabilities. PacifiCorp will keep the existing Naches Plant substation after the controls currently located in the powerhouse are relocated into the substation switchyard. PacifiCorp will make modifications to improve access to the switchyard as required. PacifiCorp will be responsible for removing any loose or flaking paint from the exterior of the buildings. PacifiCorp will be responsible for removal and cleanup of any contaminated soils that may exist. PacifiCorp will be responsible for any needed asbestos removal or encapsulation.

Following a complete identification of the subject land and easements to be transferred to Reclamation, an appraisal will be performed by a mutually acceptable appraiser. Reclamation will pay PacifiCorp for the conveyed land according to the appraised value of the property. Any equipment and tools that Reclamation will not require will be redistributed to other PacifiCorp facilities.

Final closing on the sale is contingent upon approval by this Commission as well as other public service and utility commissions as required by the statutes of the states in which PacifiCorp operates. Final closing is also contingent upon a variety of federal guidelines as well as Congressional budget approval for federal funds to be spent in federal fiscal year 2003.

Q. How is PacifiCorp addressing other outstanding issues related to the proposed sale?

A. PacifiCorp has identified other issues regarding the proposed sale and is developing plans to deal with these issues. First, the proposed sale eliminates two employee

positions. Processes are already in place for these employees to be moved into new positions when the transfer of operation takes place. The second issue is the impact on the community of reduced property tax payments associated with the Naches Project. Plans are being developed to address the most seriously impacted entities that would be affected by a loss in property tax revenue.

Q. Does this conclude your direct testimony?

A. Yes, it does.