Exhibit No. ___(ANM-1T)
Docket No. UE-03_____
2003 PP&L Rate Case
Witness: Andrew N. MacRitchie

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PACIFICORP dba Pacific Power & Light Company, Respondent.	)	Docket No. UE-03______

PACIFICORP

DIRECT TESTIMONY OF ANDREW N. MACRITCHIE

December 2003

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

A. My name is Andrew N. MacRitchie. My business address is 825 NE Multnomah, Suite 2000, Portland, OR 97232. I am employed by PacifiCorp as Executive Vice President, responsible for Strategy and Major Projects.

Q. Mr. MacRitchie, please summarize your education and business experience.

A. I received an honors degree from Glasgow University in Electrical and Electronic Engineering. I obtained an MBA from Strathclyde Graduate Business School in 1992 and undertook an Executive Development Program at Wharton Business School in 1996. I joined ScottishPower in 1986, initially as a Project Team Leader on engineering IT projects. Since then, I have led, or taken part in, many of the significant change programs within the Company. I led the ScottishPower/PacifiCorp U.S merger team and led the subsequent PacifiCorp Transition Planning effort. I assumed my current position in January 2002, having spent two years as head of PacifiCorp's Power Delivery Business Unit. I am responsible for the Company's major program initiatives including the Multi-State Process ("MSP") which is the subject of these proceedings, the proposed Northwest Regional Transmission Organization and our clean air initiatives.

Q. Have you previously testified in state regulatory proceedings?

A. Yes. I was a witness in hearings in all six states related to the approval of the ScottishPower/PacifiCorp merger. My direct testimony was filed as part of the Company's Structural Realignment Proposal ("SRP") application in December 2000. The SRP proceedings were subsequently stayed pending the MSP.

Purpose of Testimony

Q. What is the purpose of your testimony in this proceeding?

A. My testimony supports the Company's request that the Commission adopt the "PacifiCorp Inter-jurisdictional Cost Allocation Protocol" ("Protocol") for purposes of determining the Company's Washington rates in this proceeding. A copy of the Protocol is included with our testimony as Exhibit No.___(ALK-2).

Q. What is the Protocol?

A. The Protocol is a document that describes how PacifiCorp's generation, transmission and distribution costs will be allocated or assigned to PacifiCorp's six retail jurisdictions pursuant to what we refer to as the "MSP Solution." The Protocol also describes mechanisms for ensuring continued dialog among interested parties regarding PacifiCorp interjurisdictional cost allocation issues and procedures for resolving disputes that may arise among our state jurisdictions.

Q. What will be the significance of Commission adoption of the Protocol in this proceeding?

A. Adoption of the Protocol for purposes of setting rates in this proceeding will indicate that the Commission believes that the terms of the Protocol are balanced and reasonable and should be followed in future PacifiCorp rate proceedings in Washington. However, the Company understands that Commission adoption of the Protocol will not be binding on parties to future rate proceedings and that challenges to the terms of the Protocol will have to be dealt with on their merits as they arise. Nonetheless, we are hopeful that as a result of the MSP, all concerned will recognize that the public interest is furthered by stable and predictable interjurisdictional cost allocation principles and that the terms of the Protocol will continue to enjoy broad support in the years ahead.

Q. Will adoption of the Protocol in and of itself compel the inclusion of any of the Company's costs in its rates?

A. No. The Protocol only specifies interjurisdictional allocation and assignment *methods* for costs that the Commission otherwise finds to be prudent and reasonable.

Q. Is the Company seeking to have all of its state commissions ratify the Protocol?

A. Yes. We have made identical and simultaneous filings in Idaho, Oregon, Utah and Wyoming. We expect to make a comparable filing in California later this year.

History of the Protocol

Q. Please describe the events that gave rise to the Protocol.

A. In December of 2000, through its SRP filings, the Company proposed to reorganize itself into six state distribution companies, a generation company and a service company.

Q. Why did the Company propose the SRP restructuring?

A. Our SRP policy testimony indicated that the filing was in response to a number of external developments, namely:

1) direct access initiatives in Oregon and elsewhere;
2) the need to provide independent control of our transmission assets consistent with Federal Energy Regulatory Commission ("FERC") expectations;
3) fundamental changes that have occurred in wholesale power markets;
4) the risk of generation supply shortages;
5) industry consolidation;
6) divergent policy goals of our various state commissions;
7) the limitations of traditional cost-of-service regulation; and

8) the breakdown of the Company's interjurisdictional cost allocation process.

Q. What was the outcome of the SRP filings?

A. The SRP filings proved to be controversial - in large measure because of a concern that the proposed restructuring would result in a loss of jurisdiction from our state commissions to the FERC and the Securities and Exchange Commission. Ultimately, a number of parties and some state commissioners encouraged the Company to seek other means of resolving the Company's concerns that did not require a legal restructuring of the Company. We were strongly encouraged to initiate an informal process aimed at achieving consensus among interested parties regarding a number of important issues facing the Company. To that end, in March 2002, we made an additional set of state filings asking our state commissions to initiate investigations and endorse a collaborative process to address interjurisdictional issues facing PacifiCorp. These filings were broadly supported by our state commissions and gave rise to what became known as the MSP. Pending the MSP, we agreed to put our SRP filings on hold.

Q. What occurred in the MSP?

A. The Company first secured the appointment of Robert Hanfling as facilitator of the process. Mr. Hanfling has substantial experience in the energy industry and a great deal of past involvement in the resolution of complex disputes. With Mr. Hanfling's guidance, an initial organizing meeting was held in April of 2002 in Boise. At that first meeting, a schedule of future meetings and objectives for the process were established. A number of additional MSP meetings were held through December of 2002. At the December, 2002 meeting, it was agreed that it would then be appropriate to suspend further meetings pending additional economic analysis by the Company of various concepts that had been discussed in the prior meetings.

Q. Who participated in the MSP collaborative meetings?

A. All of the major meetings were attended in person by in excess of 50 individuals representing some 18 entities from the states of Utah, Oregon, Wyoming, Washington and Idaho. These included representatives of state commission policy staffs, advocacy staffs, industrial customers and consumer groups. A number of other people participated by telephone.

Q. Was the MSP limited to these large group meetings?

A. By no means. The Company participated in a number of separate meetings with representatives from individual states or groups of states and conducted various technical workshops. More formal hearings were conducted in some states to review MSP progress. There were weekly telephone conferences and e-mail exchanges. There was a dedicated website for information sharing. Throughout the process, the Company responded to a large number of formal and informal data requests from the parties. Mr. Hanfling had regular contact with a number of MSP participants and consulted from time to time with individual state commissioners regarding his efforts.

Q. What analyses were conducted subsequent to December of 2002?

A. As of the December meeting, parties agreed to focus on two potentially viable methods for interjurisdictional cost allocation – the "Dynamic" proposal and the "Hybrid" proposal. These two approaches are described in detail in Mr. Duvall's direct testimony. Following the December meeting, the Company focused its analytical efforts on understanding the merits and economic consequences of these two methods. Mr. Duvall's testimony also describes the various studies that were pursued.

Q. When did the last large group meeting occur?

A. Our last meeting was in July 2003. At that time, the Company presented the results of its analyses of the Dynamic and Hybrid proposals and the parties made known their concerns and preferences. Utah representatives continued to strongly support the Dynamic model and Oregon representatives stated a preference for the Hybrid approach. Idaho and Wyoming representatives expressed a willingness to consider either approach, with Idaho leaning toward the Hybrid model and Wyoming leaning toward the Dynamic. Washington staff representatives were opposed to the Dynamic model, with a strong preference for the Hybrid approach.

Q. What was the ultimate outcome of the July meeting?

A. The parties recognized that a consensus did not appear to be within their grasp. There seemed to be a general recognition that the collaborative process had been valuable, but had run its course. The Company was encouraged to take the analytical results and all of the parties' views into consideration and come forward with a proposal that was most responsive to the needs of our states. We followed that guidance and developed the Protocol and MSP Solution accordingly.

Q. Did you discuss the provisions of the Protocol with the parties in advance of filing this testimony?

A. Yes. We have participated in a number of meetings and conversations during August and September. The Company believes that the Protocol represents a sound and principled compromise of a number of strongly held views. As with any compromise, various elements of the Protocol displease different parties. Likewise, the Protocol fails to achieve some of PacifiCorp's original objectives. Nonetheless, we are cautiously optimistic that our proposal will ultimately enjoy broad support and that we will be able to move forward.

Q. Does the Company believe the MSP was a success?

A. Yes. While long, always challenging and sometimes frustrating, the MSP contributed substantially to a mutual understanding of various parties' views and concerns. When we started, a number of parties questioned whether a "problem" really existed. When we concluded, there was broad consensus that there were important issues to be resolved and a universal commitment to trying to find solutions. The process also gave rise to valuable and extensive analytical work. Our new modeling capability and the results of this analysis should provide the basis for well-informed discussion and sound decisions in the years ahead.

Policy Objectives

Q. Mr. MacRitchie, earlier in your testimony you described the concerns that gave rise to the Company's SRP filing. Do the same issues remain relevant today?

A. Yes. While ensuing events would cause us to place somewhat different emphasis on the considerations that caused us to make the SRP filing, they all remain relevant and important.

Q. Please explain.

A. The Oregon direct access legislation (SB 1149) adopted in 1999, and our expectation that other states would pursue direct access, was a principal reason for the SRP filing. Since the extreme difficulties experienced in California in 2000-2001, our customers and regulators remain understandably wary of industry restructuring and direct access. Implementation of SB 1149 has proceeded more slowly than we previously expected.

Very few of our customers in Oregon have elected direct access and no direct access legislative initiatives appear to be moving forward in our other jurisdictions. Nonetheless, we believe that Oregon remains committed to implementing SB 1149. We also perceive that our major industrial customers in Oregon and elsewhere remain interested in pursuing direct access opportunities as soon as they are persuaded that a liquid and reliable electricity market exists. Therefore, we continue to believe that it is critical to put arrangements in place that permit one or more of our jurisdictions to implement direct access without prejudicing customers in our other jurisdictions. The current lull in the direct access debate presents an opportunity to deal with related interjurisdictional issues on a principled and dispassionate basis. We believe that the MSP participants were committed to such an approach and we expect that the "wall-off" concepts contained in the Protocol will be broadly supported.

Q. **Do the FERC's transmission initiatives remain an important consideration?**

A. Yes. As with direct access, the formation of regional transmission organizations under FERC direction has proceeded more slowly than we would have expected three years ago. Nonetheless, PacifiCorp remains supportive of FERC's broad objectives. We are striving to find a way to participate in an RTO in a manner that does not create undue risks for our customers or shareholders and takes account of the unique characteristics of the western system. In addition, the Company is actively participating in regional coordination groups that are focussed on ensuring reliability across the Western states. Clarity on the recovery of transmission costs from its states will allow the Company to have confidence to invest in important infrastructure assets.

Q. What about your concerns regarding fundamental changes in wholesale power markets?

A. These remain every bit as vital today and are a major factor in our desire to achieve an MSP resolution.

Q. Please explain.

A. While wholesale power markets are considerably more functional than they were three years ago, liquidity is greatly reduced and there are far fewer market participants. We are mindful of the potential for future wholesale power market dysfunction and extreme price volatility. The best hedge against these risks is a balanced supply portfolio of long-term contracts and generating resources. Consensus on an MSP Solution affords PacifiCorp greater confidence to make long-term commitments to these resources that involve hundreds of millions of dollars.

Q. Does there remain a risk of generation supply shortages?

A. Yes. The independent power industry has yet to recover from the events of 2000-2001. We are told that few entities are prepared to construct new generation on a "merchant" basis and that long-term contractual commitments will be required in order for independent power producers to obtain reasonable financing. Additionally, our projections of PacifiCorp's need for new generation, particularly on the east side of our system, are materially greater than they were three years ago. Again, these factors make it critical for us to be in a position to make major, long-term financial commitments with reasonable confidence in our ability to recover 100 percent of our prudently incurred costs.

Q. Do you continue to expect industry consolidation?

A. The financial shock suffered by the electric industry resulting from the Western power market crisis of 2000-2001 has undoubtedly slowed consolidation. We continue to believe that additional efficiency gains are available from appropriate utility combinations. A major impediment to pursuing such transactions is regulatory risk and uncertainty. This is particularly true for PacifiCorp, given its large number of jurisdictions and complex operations.

Q. Does the Protocol lessen PacifiCorp's uncertainty regarding its ability to timely consummate beneficial merger transactions?

A. Not really. MSP participants were reluctant to commit in advance to the ratemaking treatment of potential mergers preferring to consider these matters on a case-by-case basis. Therefore, the Protocol does not resolve issues related to the treatment of major transactions. However, notwithstanding the absence of Protocol provisions, the MSP, and the various analyses that were done by the Company, could have the effect of facilitating the parties' evaluation of any proposed merger. There is a better understanding of cost causation, the benefits and opportunities associated with integrated system operation and the potential for mutually-beneficial interchange accounting between two systems.

Q. There was considerable discussion of divergent state policy goals at the time of the Company's SRP filing. Does this remain a concern?

A. Yes. Events of the last three years have only amplified our concerns.

Q. Why is that?

A. Three years ago, we perceived a potential for the Company to be torn between divergent policy goals of our states, but we did not have many concrete examples at which to point other then SB 1149. The MSP has demonstrated that there is a wide divergence of views regarding the Company's need for new resources and the resource choices that it should make. Our states possess different views on the appropriate level of environmental risks for coal-fired generation, leading to different views on the Company's "least cost-least risk" resource plan. For example, in a recent Oregon proceeding, a number of parties recommended that the Oregon Commission not acknowledge a coal plant proposed in the Company's 2003 Integrated Resource Plan. The Commission found that the Company had "not shown that the addition of a coal plant by FY 2008 or FY 2009 is reasonable, in light of current circumstances." Additionally, some MSP participants view our hydroelectric resources more in economic terms, while others are more concerned about a broader range of policy and environmental considerations. We believe that such divergent views are understandable and entirely legitimate. The challenge is to find a way to honor them in a way that does not cause gridlock in our resource planning process. For reasons described by Ms. Kelly in her testimony, the Protocol goes a long way toward meeting these objectives.

Q. The last concern cited in your SRP testimony was the perceived breakdown in the Company's interjurisdictional allocation process. What comments do you have in respect to that issue?

A. The MSP helped to reinvigorate discussions among states on PacifiCorp's interjurisdictional allocation issues. The Company appreciates the commitment of our states to the MSP and the dedication of valuable resources to further the resolution of these issues. The Protocol contains provisions meant to sustain these discussions in the future. Through the MSP, there was a valuable exchange of viewpoints and facts. There was also a mutual recognition of significant differences in energy policy perspectives and cost allocation approaches. These differences have caused two of our states to conclude that historical allocation methodologies are no longer acceptable and that a new allocation methodology is required.

We are cautiously optimistic that the Protocol will enjoy broad support from our states and will put in place a robust process for ensuring that states consider a system-wide perspective in decisions related to interjurisidictional cost allocations.

Benefits to Customers

Q. How will the Company's customers benefit from the Commission's adoption of the Protocol?

A. The Company's customers will continue to receive safe and reliable electricity service at reasonable prices. Exhibit No.___(ANM-2) depicts PacifiCorp's new resource requirements through 2014. It anticipates the needed addition of more than 5,000 megawatts of new generation or demand-side management at a cost that will approach the amount invested in PacifiCorp's existing generation fleet. Additionally, we face billions of dollars of investment associated with hydro relicensing and clean air requirements over this same time period. The Company will need to obtain significant new debt and equity financing to undertake these investments. Adoption of the Protocol will permit PacifiCorp's senior management to assure our Board of Directors and external investors that the Company has a reasonable opportunity to recover 100 percent of these prudent investments.

Q. Does this mean that PacifiCorp would not fulfill its obligation to serve if the Protocol is not adopted?

A. No. We are mindful of our obligations to both our customers and our shareholders. If the problems addressed by this filing are not resolved, the Company is put in an impossible position. Faced with a continued lack of consensus among our states regarding responsibility for new resources, we would undoubtedly somehow assure that there is continuity of service. However, we may be forced to do so in a manner that poses a higher level of risk for our customers and shareholders by relying upon shorter-term commitments that create exposure to price volatility and do not necessarily represent the least-cost approach to meeting our customers' expected load growth. Additionally, the cost of external financing would be greater due to the uncertainty of returns.

Q. Does this conclude your direct testimony?

A. Yes.