Exhibit No. ___(DJR-1T)
Docket No. UE-03_____
2003 PP&L Rate Case
Witness: Daniel J. Rosborough

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

PACIFICORP

DIRECT TESTIMONY OF DANIEL J. ROSBOROUGH

December 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 NE 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 $5million 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:

historically 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 No. __(DJR-2) 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 percent 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 $47 million by 2008.

Q. 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 $19.8 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, plus $5 million in pension expense related to the expense for the IBEW Local 57 Retirement Program recorded in February 2003.

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.

IBEW Local 57 Pension Expense

Q. Please describe the IBEW Local 57 pension expense.

A. In February 2003, PacifiCorp contributed $5 million to its IBEW Local 57 employees' pension plan pursuant to the terms of its agreement with IBEW Local 57. The agreement with the IBEW Local 57 was reached through the collective bargaining process. PacifiCorp will be making a contribution for the 2003 calendar year in January of February 2004, which is expected to be between $5-5.5 million.

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 Local 57 into a separate pension plan that was created in July of 1999. 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 IBEW Local 57 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.

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

A. PacifiCorp proposes to recover the $5 million contribution in February 2003 as an in-period test year expense.

Q. Is the IBEW Local 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 Local 57 require that the Company provide a contribution based on covered employees' regular pay. As indicated above, the next contribution is scheduled for January or February 2004.

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 expects to record $69 million in fiscal 2004 for medical, dental and other benefit costs that it incurred during the test period (non-pension and post-retirement expenses).

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 No. ___(DJR-3) 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;
- Employee cost sharing has steadily increased over the past several years through increases to annual out of pocket limits; and
- Implementation of a Consumer Driven Health Plan and a Disease Management programs. These plans are anticipated to be instrumental in controlling the long term cost challenges of our programs. In 2004, we are also implementing changes to the prescription drug program to increase the employee's cost sharing and further incent the use of generic drugs.

Exhibit No. ___(DJR-4) is an exhibit that 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 testimony?

A. Yes.