Exhibit No. ___(DTC-1T)
Docket No. UE-03_____
2003 PP&L Rate Case
Witness: Dawn T. Cartwright

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 DAWN T. CARTWRIGHT

December 2003

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

A. My name is Dawn T. Cartwright. I am the Risk and Insurance Manager for PacifiCorp based at 825 NE Multnomah, Suite 1800, Portland, OR 97232.

Qualifications

Q. Briefly describe your education and business experience.

A. I graduated from Linfield College in 1990 with a degree in Business Administration. Prior to joining PacifiCorp, I was the Risk Manager for a nationwide cold storage facility. I joined PacifiCorp in 1999 and worked primarily in Human Resources until taking the Risk Manager position in the Spring of 2001.

Q. Please describe your current duties.

A. I am responsible for implementing and managing all aspects of PacifiCorp's insurance-related risk management strategy.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. Since 2000, insurance markets have undergone a rapid and steep 'hardening' process. This hardening is typified by increasing premium costs and restrictions on policy coverage. The cost of insurance is now reportedly at a 40-year high and there is little prospect of an early return to the levels of pricing and coverage enjoyed in the last decade. The purpose of my testimony is to describe how this affects PacifiCorp and how PacifiCorp proposes to recover these increased insurance and insurance related costs.

Background

Q. What has caused the current hardening process in the insurance industry?

A. There are three primary causes for this change:

1. Underwriting errors and undercharging during the late 1990s caused insurance costs to decline steadily. This, in turn, was primarily caused by:
   a) Excess capacity forced premiums down as insurers competed for market share;
   b) An exuberant stock market allowed insurers to use investment returns to compensate for poor underwriting results and still deliver healthy net profits; and
   c) A failure of insurers to adequately assess the risks being insured.
2. The insurance industry experienced unexpected and very significant increases in the level of losses being sustained. The events of September 11th are part of this, but are not the sole or even the primary cause. This increase in losses has been witnessed across most types of insurance.
3. The insurance industry suffered a collapse in equity values. The value of insurance company investment assets and the income derived from those assets are extremely important components of insurance companies' income. Changes in world stock markets have had a very serious effect on insurance industry financial performance and security.

Q. Insurance markets have traditionally been cyclical. Is there any evidence to suggest that current conditions are anything other than a short-term correction?

A It is difficult to predict the future path of insurance markets. Although insurers have now addressed the first of the three factors described above and are underwriting on a more commercially sound basis, the other two factors show little sign of reversal. The consensus of opinion seems to be that the current hardening will last for some time into the future.

Q. Please quantify the effect of these changes on insurance premiums.

A. Around the world and across all industry sectors, insurance premiums have risen dramatically. These increases have been seen across all types of insurance and have ranged from tens of percent to hundreds of percent for unattractive risks.

Q. What has been the effect of this hardening on PacifiCorp?

A. PacifiCorp is now carrying higher deductibles on many of its insurance policies. Almost all of its policies contain more exclusions and, in general, more restrictive detailed conditions. For example, the Company has been unable to obtain property damage coverage for most of its transmission and distribution assets and for some parts of its gas turbines. Many insured perils such as earthquake are now severely limited or excluded wholly or partly. Insurance for terrorism which had previously been comprehensively provided without a separate charge is now provided, as required under the recently enacted Terrorism Risk Insurance Act of 2002, on a limited basis at a significant cost.

Q. Is PacifiCorp the only utility impacted by these restrictions and cost increases?

A. No. All utilities have been impacted by these developments. For example, Northwest Natural Gas Company's Mr. Bruce DeBolt has submitted prefiled testimony with the Oregon Commission in case UG 152, where he says:

> "Now, due to high claim rates, corporate financial scandals, concerns over terrorism, and the fall of the equities market, insurance companies are increasing rates, scaling back on coverage or simply refusing to underwrite. Utilities have been hit especially hard because of the financial scandals associated with some companies in the energy industry as well as their perceived vulnerability to attacks on physical infrastructure." (Exhibit NWN 100, page 28, lines 15 – 20).

Premiums

Q. You have previously described in general the increases in premiums that PacifiCorp has paid and will pay in the future. What are the premiums included in this filing?

A. As shown in Mr. Weston's Exhibit No.___(JTW-3) in Tab 4, page 4.11.1, the actual Property and Liability Insurance premiums for the test period are $17 million and are anticipated to increase to $19 million before January 1, 2004. This substantial increase to the premium costs incurred by the Company in recent years is due to the external factors discussed above. It is also important to remember that these costs do not reflect like for like coverage. As mentioned earlier, coverages have been lost and some taken out to balance out our overall insurance portfolio.

Q. Is PacifiCorp taking steps to help minimize such increases?

A. Yes. PacifiCorp has undertaken and continues to undertake a comprehensive marketing process of its insurance requirements using Marsh Inc., one of the world's leading insurance brokers. PacifiCorp markets its insurance requirements in the U.S., London, Europe and other insurance centers such as Bermuda to maximize competition. PacifiCorp is also investigating the options offered by a captive insurance company that may prove to be less costly than the commercial markets.

Uninsured Losses

Q. Please discuss how uninsured losses have been considered previously.

A. In addition to premiums, 'insurance' costs have traditionally included the costs of those events that fall within the policy deductible, or those events which are regarded as insurable but are in fact excluded by the policy terms. Previously, these costs have been recovered through the establishment of reserves based on the historic level of such costs. It is important to remember that uninsured losses and premiums are simply two sides of the same coin. A choice to carry a higher deductible and pay less in premiums simply brings more risk for uninsured losses to the Company and its customers. In 2002, as insurance premiums skyrocketed, PacifiCorp sought to critically evaluate the balance between premiums and uninsured losses. We reviewed our loss history and estimated likely annual average insurance recoveries and compared this to additional premiums we were being asked to pay (approximately $5 million) to retain our $1.5 million deductible. The results of this comparison are demonstrated in Exhibit

No.___(DTC-2). This review showed that it was not justifiable to spend an additional $5 million to buy down the deductible. Since 2002, PacifiCorp has continued to seek to strike the right balance between these two factors and has opted to continue to carry a $7.5 million per event deductible with respect to Property insurance.

Q. **How does PacifiCorp propose to deal with the increases in uninsured losses that it has experienced in the test year?**

A. PacifiCorp recognizes that at the current levels of premiums, the value of some insurance purchases should be carefully examined. For PacifiCorp, this examination has included the review of policy deductibles, limits and coverage types. In addition, PacifiCorp proposes that the previous historic level of reserves be increased to reflect the increase in uninsured costs. We request an increase in the uninsured loss reserve of around $60,000. As shown in Mr. Weston's Exhibit No.___(JTW-3) in Tab 4, page 4.11.1, this request represents the actual experience of the company in the test period. This request is also supported by a historical review of losses compared to our current levels of coverage, a review of the impact of the loss aggregate protections on some policies, the loss of transmission and distribution system coverage and the loss of terrorism coverage that was previously provided at no additional cost. Our specific recommendations with respect to the estimated additional Property and Liability losses of $6.3 million are supported by Exhibit No.___(DTC-3), which shows the areas where we are incurring higher uninsured losses.

Q. What is the accounting associated with this proposal?

A. Currently the Company uses an accrual method of accounting for uninsured losses associated with property and injury damages. Estimating the annual uninsured claims and amortizing that estimate occurs through Account 924 and 925. The other side of the accrual is to Account 228 & 254, Accumulated Provision for Property and Injuries & Regulatory Liability. Then when actual claims are resolved they are charged against the provision balance in Account 228. The only change proposed is an increase to the provision balance that historically was around $8 million. Based on actual experience during 2003, my analysis, and the increase in deductibles and claim settlements, the Company believes the provision balance in Account 228 & 254 should be increased to $21 million.

Q. Does this conclude your testimony?

A. Yes.