Exhibit No. ___(DNF-1T)
Docket No. UE-03_____
2003 PP&L Rate Case
Witness: Donald N. Furman

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

PACIFICORP

DIRECT TESTIMONY OF DONALD N. FURMAN

December 2003

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

A. My name is Donald N. Furman. My business address is 825 NE Multnomah, Suite 2000, Portland, Oregon 97232. My present position is Senior Vice President, Regulation and External Affairs.

Q. Briefly describe your educational and professional background.

A. I hold a Bachelor of Arts degree in economics from Northwestern University and a Juris Doctorate degree from Lewis and Clark Law School. Before assuming my present position with PacifiCorp, I served as Vice President of Transmission, Vice President of Domestic Business Development, and President of the Company's unregulated power marketing subsidiary.

Q. What are your responsibilities as PacifiCorp's Senior Vice President, Regulation and External Affairs?

A. I am responsible for all of the Company's regulatory and governmental relationships. I oversee all regulatory matters, including all rate cases, before six state utility commissions and the Federal Energy Regulatory Commission. I am also responsible for all of the Company's political activities at both the state and federal level.

Q. What is the purpose of your testimony?

A. I present the Company's proposal for overall rate of return, which includes the embedded cost of debt and preferred stock calculated by Mr. Williams and the capital structure and return on equity ("ROE") recommendations of Dr. Hadaway. I also discuss the financial circumstances not reflected in Dr. Hadaway's ROE recommendation that warrant a slightly higher ROE than suggested by Dr. Hadaway's models.

Overall Rate of Return

Q. What is the Company requesting for an overall rate of return in this proceeding?

A. The following table identifies the requested capital structure components and the resulting overall rate of return.

Capital Components	Ratio	Cost	Weighted Cost
Debt	51.51%	6.51%	3.352%
Preferred Stock	1.41%	6.72%	0.095%
Common Equity	47.08%	11.25%	5.297%
TOTAL	100.00%		8.743%

Q. What is the basis for the Company's requested capital structure and overall rate of return?

A. The requested capital structure is the actual capital structure of the electric utility at September 30, 2003. The cost rates for debt and preferred stock are those provided in the testimony of Company Treasurer, Mr. Bruce N. Williams. The requested return on equity is supported by the testimony of Dr. Sam Hadaway, as well as the circumstances I will discuss later in my testimony.

Requested Return on Equity

Q. What is the Company's requested ROE in this proceeding?

A. As indicated in the table above, the Company is seeking an ROE of 11.25 percent in this proceeding. The analysis in Dr. Hadaway's testimony supports a return of 11.0 percent. In my view, there are additional circumstances that need to be taken into account which would produce a ROE one-quarter of a percent above the level suggested by Dr. Hadaway.

Q. Please describe these circumstances.

A. These circumstances generally fall within two categories. First, there are the unusual conditions that currently exist in the capital markets today that are likely to change during the period this case is pending before the Commission. Second, the Company faces unique risks that are not captured in Dr. Hadaway's analysis.

Q. Please describe the conditions currently existing in the capital markets.

A. At the time the Company performed its financial analyses to support this rate filing, long-term interest rates were at historic lows. As discussed in Mr. Hadaway's testimony, long-term interest rates through the first half of 2003 had declined to their lowest levels since the 1960s. Interest rates are expected to increase during the 11-month suspension period for this proceeding. As discussed in Dr. Hadaway's testimony, economic growth has improved since mid-2003, and is expected to continue improving through 2004, with the growth rate for real Gross Domestic Product projected at over 4.0 percent per year. This growth, combined with projected federal budget deficits, will place upward pressure on interest rates, with rates on government and corporate bonds rising one-half to three-quarters percent from current levels. This expected increase in interest rates is consistent with the forward interest rate curves which project a one-half percent increase in the 10-year Treasury rate within the next twelve months. The slightly higher ROE of 11.25 percent reasonably takes account of the conditions in the capital markets that likely will prevail by the time this case is decided in November 2004.

Q. Why is it important to reflect these conditions in the capital market?

A. It would be inappropriate to set the Company's ROE on a going-forward basis using interest rates that are at forty-year lows. That would not reflect capital costs that the Company will face in the foreseeable future. This is a particularly important issue for the Company given its large capital needs to support its construction and resource acquisition efforts. As discussed in Ms. Johansen's testimony, the Company's recent Integrated Resource Plan concludes that the Company needs to add 4,000 MW to its generation portfolio over the next 10 years.

Q. What are some of the risks faced by the Company that are not captured in Dr. Hadaway's analysis?

A. In the aftermath of the Western energy crisis, all utilities in the West share certain risks and uncertainty. The Western energy crisis of 2000-2001 decimated the balance sheets and credit ratings of many utilities and marketers, forcing many to exit the wholesale power markets. Only two Western utilities, for example, meet the credit quality standards necessary to be included in Dr. Hadaway's group of comparable companies. Among other factors, power market volatility, weakened capital structures, significant regulatory flux, an unprecedented number of utility bankruptcies, and a continuing decline in utility credit ratings have given many investors and would-be investors the impression that utilities in the West are no longer a predictable source of dividends and returns. Another consequence is that there are very few investment-grade counterparties remaining in the West with which the Company can conduct wholesale transactions, which has significantly reduced the liquidity of formerly robust wholesale power markets.

Apart from these pervasive regional risks, the Company faces other challenges that are unique to the Company.

Q. Please describe these risks.

A. PacifiCorp faces unique risks due to its geographic and jurisdictional diversity. The states served by the Company have increasingly divergent objectives regarding their future energy priorities. Differing and often conflicting policies, which can range from policies dictating investment in renewable generation in some states to policies compelling the Company to favor new coal resources in others, create operational and financial uncertainty that is unique to a utility with the geographic diversity of PacifiCorp.

Second, unlike many electric utilities, PacifiCorp faces more electric commodity risk. Dr. Hadaway's analysis is based on the cost of equity for a group of companies that are comparable to PacifiCorp in terms of credit quality and percentage of domestic electric sales, yet the risks borne by PacifiCorp with respect to power cost recovery are not reflected in the comparable company analysis. During the Western power crisis, PacifiCorp absorbed over $700 million in excess power costs, including $80 million in Washington. Due to this experience, financial analysts frequently express concerns about PacifiCorp's ability to recover power costs in their evaluation of the Company.

Q. What concerns are cited by financial analysts in their evaluation of PacifiCorp?

A. In my role at PacifiCorp, I have regular discussions with analysts representing a broad range of buy- and sell-side institutions. These conversations typically focus on the Company's regulatory and commodity environment, and the risks that lie therein. They focus on the risks associated with power cost recovery and general rate cases in their analysis of the Company. The Western energy crisis and its aftermath have caused analysts to view Western utilities as higher risk than utilities in the remainder of the U.S., the U.K., and Europe. Although power markets in the West have returned to more normal conditions, concerns remain as to the uncertainties of supply and transmission, regulatory certainty, and continued bouts of volatility in energy markets. Due to these concerns, PacifiCorp is generally viewed as having a higher risk profile, with returns that are less certain. Goldman Sachs, for its part, cites regulatory uncertainty associated with the significant new resource investments the Company will be making in the coming year. (Analyst Comment of November 4, 2003 regarding the "Underperform" stock rating.) As the Company enters this construction cycle, it is important that allowed returns reflect the capital costs that the Company can be expected to incur in raising the necessary capital.

Q. Does this conclude your direct testimony?

A. Yes.