Exhibit No. ___(JAJ-1T)
Docket No. UE-03_____
2003 PP&L Rate Case
Witness: Judith A. Johansen

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 JUDITH A. JOHANSEN

December 2003

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

A. My name is Judith A. Johansen. My business address is 825 NE Multnomah, Suite 2000, Portland, Oregon 97232. I am PacifiCorp's President and Chief Executive Officer. I also serve on the ScottishPower Board of Directors.

Q. Briefly describe your educational and professional background.

A. I hold a Bachelor of Arts degree in political science from Colorado State University and a Juris Doctorate degree from the Northwestern School of Law at Lewis and Clark College. Before assuming my present position with PacifiCorp, I served as Executive Vice President of Regulation and External Affairs. Prior to joining the Company in December 2000, I was Administrator and Chief Executive Officer of the Bonneville Power Administration, where I also served as a Senior Policy Advisor and Vice President for Generation Supply. I also worked for Avista Energy as Vice President of Business Development and prior to that I practiced law.

Q. What are your responsibilities as President and Chief Executive Officer?

A. I lead PacifiCorp's executive team and am ultimately responsible for all aspects of the business across its six-state service territory. The Company's senior executives report to me on both operational and policy issues and I, with assistance from my executive team, identify and prioritize the Company's business objectives and then assume responsibility for ensuring that our different goals are met.

Q. What is the purpose of your testimony?

A. I provide an overview of the Company's case and provide the context for the other witnesses who testify regarding our specific proposals. I first discuss the Company's objectives and then introduce the Company witnesses and briefly discuss the issues they address.

Q. Why did the Company file this case?

A. PacifiCorp last had a fully adjudicated general rate case in the State of Washington in 1986. In the past few years, the Company, the utility industry and the region each have experienced significant and unforeseen events that combine today to merit revisiting our rate structure to ensure that our rates are fair, just, reasonable, and sufficient. The Commission itself recognized that the magnitude of these unprecedented recent events justifies terminating the Company's five-year rate plan it implemented in 2000. In its Sixth Supplemental Order: Denying Petition for Accounting Order; Rejecting Tariff Filing; Authorizing Subsequent Filing, Docket No. UE-020417 (July 15, 2003) ("Order"), the Commission wrote:

> "[T]he Rate Plan has been so overtaken by events that it is no longer in the public interest for the Company's rates to remain unexamined through the Rate Plan Period. . . . Such an examination is long overdue and seems imperative in the wake of the recent power market crisis. It would be contrary to the public interest for us to bar this important matter from full consideration at an early date. . . ." Order at 10-11.

As important as it is for the Company to address its financial condition in Washington, it also is imperative that the Company resolve ongoing cost-allocation issues across its six-state service territory. These issues need to be addressed so that the Company is assured of fully recovering future investments in resources to serve its customers. Accordingly, in addition to revisions to our rates, this case requests that the Commission review and approve an inter-jurisdictional cost allocation protocol ("Protocol") that was developed by the Company following nearly two years of consultation among Company employees, customer representatives and regulatory staff from most of the states served by the Company.

Q. What are the Company's specific objectives in filing this rate case?

A. The Company's objectives are to: (1) ensure that its rates are fair, just, reasonable and sufficient, reflecting the actual cost of conducting business in the State of Washington; (2) obtain approval to implement the Protocol for ratemaking purposes in Washington; (3) restore financial strength to maintain infrastructure and ensure reliable service; (4) eliminate financial disincentives to promoting energy efficiency improvements throughout the company's service territory; (5) reset power costs; and (6) confirm the prudence of the resource acquisitions described in the 2001 Prudence Report developed by the Company and Commission staff, as well as demonstrate the prudence of additional resources acquired since that Report.

Q. When the rate increases requested in this case are fully implemented, what will the total cumulative rate increase be for the Company's Washington customers?

A. The Company's requested increases total $26.7 million, representing a 13.5 percent increase across all customer classes.

Q. How would PacifiCorp's proposed rates compare to the rates of other utilities?

A. PacifiCorp's average Washington rates would remain among the lowest in the State and the Nation. According to the most recently available survey from the Edison Electric Institute (Summer 2003), the Company's Washington residential prices are ranked the lowest in the nation among 167 investor-owned utilities. If implemented as requested, our residential rates would remain in the lowest 5 percent of the 167 utilities cited in the survey above. Moreover, our residential rates will continue to be lower than most utilities in Washington. Exhibit No.__(JAJ-2) shows the Company's proposed average residential price compared with average residential prices for other Washington utilities as reported by the Energy Information Administration for 2002. The Company's proposed average residential rate would be in the lowest two-fifths of all Washington utilities.

Similarly, our overall average rates will continue to be low compared to those of other utilities. Based on the EEI survey referenced above, if the proposed price increase in this case is approved, the Company's total average price will rank among the lowest twenty percent of utilities surveyed.

Q. What is the Company's record for providing quality service in Washington?

A. The Company has an outstanding record for providing quality service in Washington, and across our six-state service territory. In fact, the Company was recently recognized for its excellent customer service. In a survey conducted by TQS Research, an independent survey group, PacifiCorp ranked among the top ten utilities in the nation, and was the only Western utility included in the top performers. Following the merger with ScottishPower in 1999, the Company implemented a comprehensive package of service quality improvements that included seven Performance Standards and eight Customer Guarantees. PacifiCorp is meeting or has exceeded all of these commitments, resulting in superior customer service across customer classes. With respect to our performance in Washington in particular, our success rate in meeting Customer Guarantee commitments is 99.97 percent for fiscal year 2004. In addition, we expect to achieve ahead of schedule our merger commitments to reduce both the duration and frequency of outages by 10 percent and to reduce the number of momentary outages by 5 percent. Another measure

measure of customer service is Commission complaints, where we have reduced the number of complaints from 53 in fiscal year 1999 to 26 Commission complaints for fiscal year 2003. We have further reduced this figure to 16 Commission complaints to date in fiscal year 2004. We have achieved excellence in customer service by focusing on customers' needs and continually implementing improvements. Examples of these improvements are the new billing statement that was rolled out during the summer of 2003, recent investment in new meter reading equipment and uniforms for metering employees, and enhancements to outage communication systems to better serve our customers.

Q. Please identify the different factors that led the Company to file this case.

A. A variety of specific issues combined to lead the Company to file this case at this time, including:

1. Unforeseen and dramatic cost increases driven by external conditions, including increases in insurance costs, pension costs, costs related to providing health care coverage to employees and unexpectedly higher power costs.
2. Lingering, negative financial consequences of an unprecedented 24-month period that included the Western energy crisis and the September 11 terrorist attacks.
3. Increasing uncertainty related to recovery of future generation and transmission costs across the Company's multi-state system absent a formal method to allocate inter-jurisdictional costs. This is especially important in light of the Company's Integrated Resource Plan, which proposes adding 4,000 MW to the Company's generation portfolio over the next 10 years, as well as 450 MWa of demand-side resources. Washington, of course, has contributed to this need, as growth in our

Washington service territory has been above the system average, with peak requirements growing faster than base load requirements.

4. The need to recover recent investments the Company made to acquire new generation resources and to obtain new operating licenses for several hydro electric facilities.

5. An opportunity for the Commission to review and act upon the 2001 Prudence Report developed by representatives of the Company and Commission staff following settlement of the Company's last general rate case in August 2000.

Q. Is the Company proposing any alternative ratemaking mechanisms in this filing?

A. The Company is interested in implementing a decoupling mechanism designed to remove disincentives to investment in cost-effective demand-side resources, and notes that Northwest Natural Gas has submitted a comparable proposal recently in proceedings before the Commission. Because this rate case is complex and the company wishes to conduct discussions with all interested parties before submitting a specific decoupling proposal, we have not included a specific mechanism in our direct case. We would, however, like to begin work promptly with the parties to develop a decoupling mechanism that could be approved by the Commission in this proceeding.

Q. Please describe the decoupling mechanism that would be acceptable to the Company.

A. From a least-cost planning perspective, the problem with current ratemaking practice is the linkage of utilities' financial health to retail electricity throughput. Increased retail electricity sales produce higher fixed cost recovery and reduced sales have the opposite effect. To remove a conservation disincentive, we would propose that the parties agree to and the Commission endorse the adoption of a simple system of periodic true-ups in electric rates, designed to correct for disparities between utilities' actual fixed cost recoveries and the revenue requirement approved by this Commission. The true-ups would either restore to the utilities or give back to customers the dollars that were under- or over-recovered as a result of annual throughput fluctuations.

Financial Strength, Infrastructure and Reliable Service

Q. How did the energy crisis affect the Company's financial position?

A. Despite its weakened financial health, the Company continued to provide safe and reliable energy and exceptional customer service at low prices as both it and ScottishPower took action to maintain its financial stability in the face of profound and unexpected challenges. Nevertheless, the Company's financial position in Washington deteriorated significantly during and after the energy crisis and has yet to recover. The Company's shareholders absorbed more than $700 million in excess power costs incurred during the Western energy crisis, with approximately $80 million of those costs incurred to serve the Company's Washington retail customers. Those excess net power costs damaged the Company's overall financial condition by reducing earnings, increasing the Company's net debt and financing costs, constraining the level of capital investments, and adversely affecting the Company's capital structure.

In response to this deterioration in financial condition, the Company temporarily suspended the payment of dividends from PacifiCorp to ScottishPower in the first quarter of 2002. In addition, ScottishPower increased its investment in U.S. assets with an equity infusion of $150 million in 2002, shoring up PacifiCorp's capital structure to prevent a potential credit rating agency downgrade.

Q. How will the rate increase sought in this case improve PacifiCorp's financial health?

A. Given an opportunity to earn a reasonable rate of return and recover its recent investments in resources, the Company will be able to maintain critical infrastructure, continue reliable service to customers, and ensure access to needed capital on reasonable terms by restoring investor confidence.

Q. What is the Company's current rate of return and how does it compare to the request in this application?

A. Although PacifiCorp is currently authorized to earn a return on equity ("ROE") of 13.25 percent in Washington, the Company is currently earning a normalized ROE of 5.63 percent. The Company is requesting that the Commission approve a ROE of 11.25 percent, which is one-quarter percent above the 11 percent return described in Dr. Hadaway's testimony. Mr. Furman's testimony presents the Company's overall rate of return recommendation, as well as the basis for the slightly higher return on equity.

The Protocol

Q. What is the purpose of the Company's Protocol?

A. The Protocol describes how PacifiCorp's generation, transmission and distribution costs will be allocated or assigned to PacifiCorp's six retail jurisdictions. The Protocol also describes mechanisms for ensuring continued dialogue among interested parties regarding PacifiCorp's inter-jurisdictional cost allocation issues and procedures for resolving disputes that may arise among our state jurisdictions. It is the result of a great deal of work by the Company, many of its customers, Commission staffs and other parties and is founded on the principle that the public interest is furthered by stable and predictable inter-jurisdictional cost allocation principles.

If the Protocol is ultimately adopted, all of the states served by the Company will benefit from stable and predictable cost allocation. Moreover, the Protocol would facilitate the Company's ability to implement any particular state's energy policies, such as direct access in Oregon or the pursuit of renewable portfolio standards. If the Protocol is not adopted, however, the Company and its customers will suffer as each state continues to act independently in determining its share of the Company's operating costs. In the long run, this creates the potential for a regulatory 'race to the bottom' whereby each state has an incentive to shift its fair share of costs to the other states. Absent adoption of the Protocol, we are faced with a situation that not only makes it unlikely that we will be able to fully recover costs, but one that actually creates inappropriate incentives for each state to shift costs and avoid carrying its weight. Mr. MacRitchie, Ms. Kelly, Mr. Duvall and Mr. Taylor will explain the different financial and operational issues that necessitate the Protocol, but it is our desire to assure the different states that they each are responsible for an equitable and reasonable portion of our operating system that is at the heart of our desire to resolve our multi-jurisdictional issues.

Q. How will PacifiCorp's obligation to serve its customers be affected if the Protocol is not approved?

A. The Company will continue to meet its obligation to serve, i.e., to procure or build sufficient resources to serve load. If the problems addressed by this filing are not resolved, however, the Company is put in an impossible position. Faced with the unenviable prospect of an ongoing lack of consensus among our states regarding responsibility for new resources, the Company may be forced to rely upon shorter-term commitments that create exposure to price volatility and may 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.

Introduction of Witnesses

Q. Please list the Company witnesses and provide a brief description of the subjects they will be covering in their testimony.

A. The Company witnesses filing direct testimony are:

Donald N. Furman, Senior Vice President, Regulation and External Affairs, who will present the Company's overall rate of return recommendation, as well as describe the circumstances that justify a return on equity slightly higher than suggested by Dr. Hadaway's models.

Samuel C. Hadaway, FINANCO, Inc., who will testify concerning the Company's return on equity. Dr. Hadaway's analysis suggests a cost of equity for PacifiCorp of 11.00 percent.

Bruce N. Williams, Treasurer, who will address the Company's cost of debt and preferred stock. Mr. Williams will show the Company's embedded cost of long-term debt to be 6.51 percent and the embedded cost of preferred stock to be 6.72 percent.

Andy MacRitchie, Executive Vice President Strategy and Major Projects, who will introduce and provide the history of both the SRP and MSP projects.

Andrea Kelly, Managing Director Major Projects, who will provide the details of the Company's Protocol. Ms. Kelly's testimony will be supported by testimony from **Greg Duvall**, Managing Director Major Projects, and **Dave Taylor**, Director of Revenue Requirements. In addition, Mr. Taylor also presents PacifiCorp's functionalized Class Cost of Service Study for Washington based on the test period ending March 2003.

Mark T. Widmer, Regulation Manager, who will testify regarding PacifiCorp's net power costs, including a description of the calculation of net power costs. Mr. Widmer will also address the 2001 Prudence Report.

Mark Tallman, Managing Director of Trading and Origination, who will provide information regarding the Company's acquisition of two long-term system resources: the West Valley lease agreement ("West Valley Lease") and the installation of three General Electric LM-600 generation units at the Gadsby plant site (the "Gadsby Project"). Mr. Tallman also will demonstrate that these resources were prudently acquired and discuss the system-wide benefits of these resources.

Ted Weston, Regulation Manager, who will testify regarding the Company's overall revenue requirement and present the Company's normalized results of operations for the twelve months ended March 31, 2003 with limited known and measurable adjustments through March 31, 2004. Mr. Weston will present the normalizing adjustments to actual test period costs related to revenue, operation and maintenance expense, net power costs, depreciation and amortization, taxes and rate base.

Daniel J. Rosborough, Director of Employee Benefits, who will testify to the Company's increased pension and employee benefit costs. Mr. Rosborough's testimony will describe how this affects PacifiCorp and how PacifiCorp proposes to recover these increased pension and employee benefit-related costs.

Dawn T. Cartwright, Risk and Insurance Manager, who will testify to the increase in the Company's insurance costs. Ms. Cartwright's testimony will describe how this affects PacifiCorp and how PacifiCorp proposes to recover these increased insurance-related costs.

William Eaquinto, Vice President of Hydro Licensing, who provides testimony on the Company's actions with respect to the relicensing of the North Umpqua, Bear River and Big Fork hydroelectric projects; and the decommissioning of the Powerdale and American Fork projects. Mr. Eaquinto's testimony demonstrates the prudence of the Company's costs associated with these efforts.

Larry Martin, Tax Director, who will provide testimony to (i) support recovery of the tax settlement payments the Company has made during the test year in this case, and (ii) support the recovery of known and measurable costs associated with Internal Revenue Service settlements that will be paid on or before March 31, 2004.

William Griffith, Director of Pricing, will discuss the Company's pricing proposals. He will present (i) the Company's proposed tariffs, (ii) the Company's proposed rate spread and rate design, and (iii) the Company's proposal for the distribution to customers of the Aquila Hydro Hedge payment.

Q. Does this conclude your direct testimony?

A. Yes.