Q. Please state your name and business address.

A. My name is Jeffrey K. Larsen. My business address is One Utah Center, Suite 2300, 201 South Main Street, Salt Lake City, Utah 84140.

Qualifications

Q. What is your current position at PacifiCorp (the Company) and your previous employment history with the Company?

A. I am currently employed as Vice President, Compliance in the Regulation and Finance departments. I joined the Company in 1985, and I have held various accounting and regulatory related positions prior to my current position.

Q. What are your current responsibilities?

A. My responsibilities include the coordination of regulatory and finance related issues within the Company, the management of revenue requirement, cost of service, power costs, and other regulatory analysis, and regulatory and financial compliance monitoring. As part of this responsibility and in previous positions, I have sponsored testimony on behalf of the Company in regulatory proceedings in the states of Washington, Oregon, Utah, Wyoming, and California.

Q. What is your educational background?

A. I received a Master of Business Administration degree from Utah State University in 1994 and a Bachelor of Science degree in Accounting from Brigham Young University in 1985. I have also participated in the Company's Business Leadership Program through the Wharton School and an Advanced Education Program through the J.L. Kellogg School of Management at Northwestern University. In addition to formal education, I have also attended various educational, professional and electric industry related seminars during my career at the Company.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony provides an overview of the Company's direct case in this proceeding, followed by a discussion of the following points:

- The Rate Plan entered into by the Company in its last general rate case in Washington, Docket No. UE-991832 ("1999 Rate Case");
- The changed circumstances since the Rate Plan was agreed upon;
- The Company's financial performance under the Rate Plan, and whether the Company's financial results for Washington meet the threshold for interim rate relief, under applicable standards;
- The rate relief the Company has received in its other jurisdictions since the Rate Plan has been in effect;
- The relief the Commission has granted other Washington electric utilities facing the same operating conditions as the Company; and
- The relief the Company is seeking in this proceeding, and how it complies with the Rate Plan.

Overview of the Company's Direct Case

Q. Please summarize the Company's direct case in this proceeding.

A. In addition to my testimony, the Company's direct case consists of the following witnesses:

- Mark Widmer testifies regarding the Company's power costs, including a comparison of the level of net power costs included in the 1999 Rate Case and the forecasted levels for the Deferral Period (June 2002 – May 2003) as well as through March 31, 2006, which is just beyond the end of the Rate Plan Period (through December 31, 2005). His testimony shows that as compared to the $486 million of annual net power costs included in the Company's 1999 Rate Case **[Redacted]**. As a result of these dramatically higher power costs, the financial returns the Company can be expected to achieve for the remainder of the Rate Plan Period will be grossly inadequate.
- Steve McDougal presents the Company's most recent actual Washington financial results for the period ended March 31, 2002 and forecasts of the Company's Washington revenues and expenses for the remainder of the Rate Plan Period. His testimony demonstrates that without the rate relief requested by the Company in this filing, the Company's financial results in Washington will be dismal for the remainder of the Rate Plan Period.
- Bill Griffith presents the Company's proposal for amortizing the deferred power costs into rates. As discussed in Mr. Griffith's testimony, the Company proposes to amortize deferred amounts against the Centralia and merger credits currently appearing on customers' bills.

The Rate Plan

Q. Please describe the Rate Plan under which the Company is operating in Washington.

A. The 1999 Rate Case concluded with the issuance of the Commission's Third Supplemental Order on August 9, 2000. That Order approved a Stipulation, which, among other things, included a Rate Plan that placed limitations on changes in the Company's general base rates through the Rate Plan Period. A copy of the Stipulation is included as Exhibit ___ (JKL-1). Under the Stipulation, the Company was allowed to increase its general base rates by 3.0 percent on September 1, 2000, by 3.0 percent on January 1, 2002, and by 1.0 percent on January 1, 2003, and was generally precluded otherwise from changing its general base rates through the Rate Plan Period. (Stipulation, Section 2)

Q. Does the Rate Plan preclude the Company from seeking accounting deferrals?

A. No. The Stipulation specifically addresses that issue, and permits the Company to submit "petitions for accounting orders, as appropriate, for treatment of . . . expenditures during the Rate Plan Period." (Stipulation, Section 9) Thus, the Petition filed by the Company to commence this proceeding in April 2002 is consistent with the Rate Plan.

Changed Circumstances Since the Rate Plan was Entered

Q. How have circumstances changed since the parties entered into the Rate Plan?

A. The two years since the Rate Plan was adopted have been probably the most tumultuous period in the history of utility ratemaking in the western United States. Beginning in May 2000—about the time the Rate Plan was entered into—wholesale power prices in the West surged dramatically, and displayed unprecedented volatility and unpredictability. As observed by the Commission, power markets throughout the interconnected West were "drastically disrupted" during this period and exhibited "prices and price volatility that are unprecedented in anyone's experience," resulting in risks to a utility and its customers that "have increased beyond anyone's reasonable expectation." (*Avista Utilities*, Docket No. UE-010395, Sixth Supplemental Order, pp. 2-3). This situation was exacerbated in 2001 by other, unrelated circumstances, including abnormally poor hydro conditions and, for the Company, the extended outage at the Company's Hunter 1 generating unit, a 430-MW baseload generating unit. The Company's losses were further compounded by the impact of unanticipated rule changes adopted by the Federal Energy Regulatory Commission, or FERC, in June 2001, and the resulting market price decreases that followed those rule changes.

Q. Haven't power prices more recently returned to more normal levels, by historical standards?

A. Although the Company more recently has not experienced the extremely high power prices that occurred through late 2000 and early 2001, the Company's power costs during the Deferral Period continue to reflect the impacts of the 2000-2001 western energy crisis, as discussed in Mr. Widmer's testimony. Moreover, power costs remain at a level substantially higher than the amount currently included in rates in Washington. As discussed in Mr. Widmer's testimony, the Company anticipates that power costs will remain substantially higher during the remainder of the Rate Plan Period than the $486 million annual figure proposed by the Company in the 1999 Rate Case.

Q. What about the expected savings from implementation of the Transition Plan?

A. As the Commission may recall, the Company developed a Transition Plan following the merger with ScottishPower. This Plan was included in the evidentiary record of the 1999 Rate Case. It was contemplated that the savings to be produced by implementation of the Transition Plan during the Rate Plan Period would offset cost increases in other areas, thus allowing the Company to achieve reasonable financial results over the course of the Rate Plan Period. While the Company has achieved many of the savings anticipated in the Transition Plan, these savings have been more than offset by increased costs in other areas. These higher costs, coupled with the unprecedented increases in power costs during the early years of the Rate Plan as addressed by Mr. Widmer, have produced a situation where the Company has no opportunity to earn a reasonable return on its Washington operations during the Rate Plan Period. The limited rate relief being sought in this case will help with immediate financial distress due to the high power costs but does not resolve the longer-term issue of rate shock at the conclusion of the Rate Plan.

The Standard for Interim Rate Relief

Q. What does the Rate Plan provide with respect to additional rate relief during the Rate Plan Period?

A. The Rate Plan stipulation allows the Company to "re-open" the Rate Plan and file a general rate case, upon meeting certain prescribed conditions.

Q. Why is the Company seeking a power cost deferral rather than filing for interim relief and a general rate case as the Rate Plan stipulation contemplates?

A. The Company would prefer to fulfill its commitment under the Rate Plan and not seek relief through a general rate case if limited rate relief can be obtained through the Company's proposal in this proceeding. We have therefore crafted this filing in the interests of obtaining limited rate relief, without "re-opening the Rate Plan," that will allow the Company to otherwise abide by the terms of the Rate Plan. At the same time, however, without some limited rate relief, the Company would be saddled with unreasonably low financial returns over the Rate Plan Period and re-opening the Rate Plan would need to be addressed.

Q. Can the Company make the necessary showing for relief under Section 11 of the Rate Plan stipulation?

A. Yes, we believe we can make the necessary demonstration. Section 11 of the Stipulation allows rate relief if (a) interim rate relief is warranted under the six part standard adopted by the Commission in *Pacific Northwest Bell*, Cause No. U-72-30, and (b) the Company is requesting similar rate relief in its two largest U.S. retail jurisdictions.

Q. Has the Company requested similar rate relief in its two largest U.S. retail jurisdictions?

A. Yes. The Company's two largest U.S. retail jurisdictions are Utah and Oregon. In Utah, the Company in early 2001 requested, and received, an interim rate increase of $70 million in 2001 in Docket No. 01-035-01. The Company requested similar relief in Oregon—a proposed $42.7 million increase in Docket UE 122—but that request was denied by the Oregon PUC in Order No. 01-423 issued in May 2001. It should be noted, however, that the Company had received a $22.8 million rate increase to commence amortizing deferred power costs in February 2001, and was ultimately allowed to defer and amortize about $130 million in extraordinary power costs in the Oregon proceeding (UM 995).

Q. What is the six-part standard from *Pacific Northwest Bell*?

A. The six-part standard in *Pacific Northwest Bell* consists of the following considerations:

1. This Commission has the authority, in proper circumstances, to grant interim relief to a regulated utility; this should be done only after an opportunity for adequate hearing.

2. An interim increase is an extraordinary remedy, and should be granted only where an actual emergency exists or where relief is necessary to prevent gross hardship or gross inequity.

3. The mere failure of a utility's currently-realized rate of return to equal the rate of return previously authorized to the utility by this Commission as adequate is not sufficient, standing alone, to justify a grant of interim relief.

4. The Commission should review all financial indices as they concern the applicant, including the rate of return, interest coverage, earnings coverage, and the growth, stability, or deterioration of each, together with the immediate and short-term demands for new financing and whether the grant or denial of interim relief will have such an adverse effect on financing demands as to substantially affect the public interest.

5. In the current economic climate the financial health of a utility may decline very swiftly, and interim relief stands as a useful tool in an appropriate case to stave off impending disaster. This tool, however, must be used with caution, and it must be applied only in cases where the denial of interim relief would cause clear jeopardy and detriment to its ratepayers and its stockholders. This is not to say that interim relief should be

> granted only after disaster has struck or is imminent, but neither should interim relief be granted in any case where full hearing can be accomplished and the case in chief resolved without clear jeopardy to the utility.
>
> 6. As in all matters before this Commission, we must reach our conclusion while keeping in mind the statutory charge to this Commission that we must "regulate in the public interest." This is our ultimate responsibility, and a reasoned judgment must give appropriate weight to all relevant factors.

The next section of my testimony discusses how the Company's financial condition compares with the required showing under *Pacific Northwest Bell*.

Company's Financial Performance Under the Rate Plan

Q. Please describe the actual financial results achieved by the Company under the Rate Plan.

A. Since June 2000—when the Rate Plan stipulation was executed—the Company has borne the entire shortfall between actual power costs and the level included in rates. The under-recovery has been significant. During the two years from June 2000 until June 1, 2002 when deferrals are proposed to commence, the Company experienced power costs for serving Washington customers that were about $98 million higher than the level reflected in rates. The result has been to severely depress the Company's earnings from Washington operations. The Company's revised results of operations used in the 1999 Rate Case reflected a 5.6 percent ROE based on a 1998 historical period forecasted to June 2001. Although the most recent 12 month period for which results of operations figures are available, the 12 months ended March 31, 2002, shows an adjusted return of 6.9 percent, the forecast for future periods shows a sharply downward trend for the remainder of the Rate Plan Period. This is not surprising, as the 6.9 percent

ROE reflects the majority of the price increases established in the Rate Plan—the two 3 percent increases effective in January 2001 and January 2002, respectively, and three months of the 1 percent increase effective January 2003. Without annual ongoing increases in the later years of the plan, however, the returns deteriorate significantly **[Redacted]**. Mr. McDougal's Exhibit ___(SRM-2) presents the historical results for the 1999 Rate Case, fiscal year 2002, and the forecasts for fiscal years 2003 through 2006, all on an adjusted basis.

Q. Why is the reference to Washington-only financial data relevant?

A. As the Commission is aware, the Company operates in six jurisdictions, and Washington represents less than 10 percent of the Company's total operations. Poor financial results from Washington can be completely obscured by the results from other states, particularly if other states have provided recent rate relief. (As discussed later in my testimony, the Company, in fact, has received considerable rate relief from its other jurisdictions since June 2000.) A Washington-only analysis ensures that Washington rates cover Washington costs (plus a reasonable return), with no cross-subsidization by, or of, other states. Thus, our analysis looks at the financial indicators for Washington-only. A similar approach was recently followed by the California PUC in granting an interim increase for the Company in July 2002. In rejecting a suggestion that company-wide operations be used in determining whether an interim increase is necessary, the CPUC decision stated:

> Historically, we have set rates based on California jurisdictional operations. If we were to do as ORA and the other parties suggest, we would base a determination of whether an interim increase is necessary on total company operations. In other words, if the total company is

> financially healthy, California rates need not be increased regardless of whether the results of operations for California demonstrate that California ratepayers are paying the full costs of the service they receive, including a reasonable return. Logically, however, this would mean that if the total company results of operations are poor, California rates should be increased regardless of whether California ratepayers are already paying their share. This is not reasonable. California rates should be based on California operations. California ratepayers should not subsidize other states, nor should they be subsidized by them. Therefore, we will base our decision on California jurisdictional operations. (Application 01-03-026, Decision 02-06-071, pp. 4-5.)

Q. How does the Company's Washington-only financial data compare to the required showing under the *Pacific Northwest Bell* interim rate standard?

A. In examining the Commission's precedent applying the interim rate standard, it appears that five criteria are the most relevant: (1) return on equity, (2) interest coverage, (3) cash flows, (4) capital requirements and immediate or short-term needs for new financings, and (5) whether the financial condition is such that the Company is denied access to capital on reasonable terms.

<u>Return on Equity</u>

Q. Please describe the Company's return on equity for Washington operations during the Rate Plan Period, both historically and projected.

A. Exhibit ___(JKL-2) summarizes the information from Mr. McDougal's Exhibit ___(SRM-2) and presents the Company's return on equity from Washington operations, the projected returns for fiscal years 2003 through 2006 on an adjusted basis, and on an adjusted basis for the 1999 Rate Case and for fiscal year 2002.

Q. What does Exhibit ___(JKL-2) show?

A. As discussed earlier, the Company had very low returns beginning with the 1999 Rate Case resulting in the Rate Plan and continued through to March 2002 even with the ROE being bolstered by Rate Plan price increases. **[Redacted]**

<u>Interest Coverage</u>

Q. Based on the Washington-only operations, please describe what level of interest coverage the Company has maintained, and expects to maintain, during the Rate Plan Period.

A. Exhibit ___(JKL-3) presents the Company's pre-tax interest coverage levels, based on Washington operations, for fiscal year 2002, and the projected levels for fiscal years 2003 through 2006. These calculations are performed in the manner prescribed by Standard & Poor's.

Q. What does Exhibit ___(JKL-3) show?

A. Pre-tax coverage levels show a steady rate of decline throughout the Rate Plan Period. Coverage starts out at an unacceptably low level **[Redacted].**

Q. What sort of credit rating does this level of pre-tax interest coverage suggest?

A. Based on the benchmarks used by Standard & Poor's, pre-tax interest coverage in these ranges suggests a "BB" rating, or below investment grade. (This is based on Standard & Poor's business position "4", which is the Company's classification.)

<u>Cash Flows</u>

Q. Have you performed an analysis showing the cash flows generated by the Company's Washington-only operations for the Rate Plan Period?

A. Yes. Exhibit ___(JKL-4) presents a summary of the Company's cash flows, based on Washington operations, for the projected levels for fiscal years 2003 through 2006.

Q. What does Exhibit ___(JKL-4) show?

A. Cash flows are slightly positive in fiscal year 2003, and turn negative for the remaining years of the Rate Plan Period. **[Redacted]**

Capital Requirements and Financing Needs

Q. What are the Company's capital requirements with respect to Washington operations during the Rate Plan Period?

A. As summarized on Line 11 of Exhibit____(JKL-4) and detailed in Mr. McDougal's Exhibit ___(SRM-5), the Company's capital expenditure requirements related to Washington for the remainder of the Rate Plan Period are significant. **[Redacted].** The expenditures include new generation facilities being added to the Company's system, as well as capital expenditures to meet federal Clean Air Act requirements and hydro licensing costs for the Company's Lewis River projects in Washington.

Q. What are the Company's financing requirements for the remainder of the Rate Plan Period?

A. Exhibit ___ (JKL-5) shows the financing requirements that the Company will have to satisfy, system-wide, during the Rate Plan Period. These requirements **[Redacted]** will need to be fulfilled through external sources using a combination of equity, short-term debt and long-term debt. If the funding is not available, then the Company would have to either cancel capital projects, cut costs beyond those anticipated in the Transition Plan, or reduce dividends. These actions would all have additional adverse impacts on the financial or operational stability of the Company, especially when viewed on a Washington jurisdictional basis.

Ability to Attract Capital on Reasonable Terms

Q. What is the Company's current credit rating?

A. PacifiCorp is rated Baa1 by Moody's Investors Service. In November 2001, Moody's lowered the debt rating on PacifiCorp's senior secured debt from A2 to A3, citing the "weaker financial condition at PacifiCorp caused, in large part, by above market purchase power costs incurred by PacifiCorp which surfaced from a very volatile wholesale power market in the west." Standard & Poor's, for its part, downgraded the Company's ratings to A- (long-term) and A-2 (short-term) on November 9, 2001, citing the "continuing difficulties relating to PacifiCorp's above-market fuel and purchased-power costs." The outlook for the Company remained "negative" which, according to Standard & Poor's, "reflects the uncertainty relating to the amount of refunds for excess power costs by the various regulators in the U.S., and the potential for continued volatility in PacifiCorp's service area."

Q. Given the financial indicators described above for Washington operations, would the Company be able to access credit on reasonable terms if it were relying solely on the results for Washington operations?

A. No. Returns on equity are clearly inadequate, and are deteriorating. Interest coverage levels are inadequate, and do not support the Company's existing credit ratings. In fact, the interest coverage levels correspond to a "BB" rating from

Standard & Poor's, which is below investment grade. Moreover, the cash flow analysis demonstrates that the Company has a compelling need to be able to access the capital markets, based on the required needs of the Washington operations. With the above financial indicators, however, the Company would likely not be able to access credit on reasonable terms. The terms would be those appropriate for "junk" bond issuances, not the rates associated with investment grade issuances. Given the recent tightening of credit standards for electric utilities, it is not entirely clear the Company could access any capital at all.

Q. Please explain.

A. A recent Standard & Poor's report describes the U.S. electric power industry as experiencing its worst credit crunch since the Great Depression, and predicts that the crisis can be expected to worsen given the billions of dollars that need to be refinanced in coming months. According to Standard & Poor's, there were 135 credit downgrades of utility holding companies and their subsidiaries in the first nine months of 2002, four times the number in the year earlier period. Fifty-seven of these downgrades occurred during the July through September period alone. Moreover, nearly one third of the major companies in the sector are on watch for future downgrades, suggesting that the industry hasn't yet hit bottom. A sustained erosion in ability to finance could jeopardize future energy supplies, as utilities will find it difficult and expensive (or even impossible) to roll over debt and complete costly new generation and transmission projects.

Relief Granted to the Company in Other Jurisdictions

Q. Has the Company received rate relief in the other jurisdictions in which it operates during this period?

A. Yes. As described in detail in Mr. Widmer's testimony, the Company has taken action in all of its other jurisdictions. The regulatory relief provided by the Company's other jurisdictions has been viewed positively by the financial community. Attached as Exhibit ___(JKL-6) is a release issued by Standard & Poor's entitled "PacifiCorp Receives Support from Western Regulators," which comments favorably on actions in Oregon, Utah, Idaho and California.

Q. Apart from these power cost proceedings, has the Company also been granted general rate increases since May 2000?

A. Yes, the Company has been granted general rate increases in Oregon, Utah and Wyoming, and an interim increase in California.

- In Oregon, the Company was granted rate increases of $13.6 million and $64.4 million, respectively, in September 2000 (Docket UE 111) and September 2001 (Docket UE 116).
- In Utah, the Company was granted rate increases of $17.0 million and $40.6 million, respectively, in May 2000 (Docket No. 99-035-10) and September 2001 (Docket No. 01-035-01).
- In Wyoming, the Company was granted rate increases of $12.0 million and $8.9 million, respectively, in May 2000 (Docket No. 20000 ER-99-145) and October 2001 (Docket No. 20000 ER-00-162).

- In California, the Company was allowed to increase its rates by one cent per kilowatt-hour, or $4.7 million per year, as an interim increase, pending the outcome of the general rate filing. (Application No. 01-03-026)

Q. What is the relevance of the rate relief granted in the Company's other jurisdictions since the Rate Plan was adopted?

A. First, it reinforces the appropriateness of looking only to the Company's Washington results for purposes of evaluating the Company's request for rate relief in this case. The current financial condition of the Company is attributable to the relief it has been able to obtain from the other jurisdictions in which it operates. Given the limited portion of the Company's system located in Washington, the poor financial results from Washington are obscured by the rate relief granted in other jurisdictions. Second, it suggests that Washington has not borne its share of the ongoing impacts of the Western power crisis on the Company's system. Virtually every state has granted substantial rate relief to the Company in response to the dramatic shifts in power costs faced by every Western utility since mid-2000. The Company's residential customers in Washington, in contrast, have seen their rates decline since mid-2000, due to the inclusion of the Centralia credit and Bonneville Power Administration residential exchange benefits, which have more than offset the limited rate increases allowed under the Rate Plan. In the face of conditions facing the electric utility industry in the West, and the rate increases that all other Western utilities have incurred, this is an anomalous situation.

Relief Granted by the Commission to Other Washington Electric Utilities

Q. How does the relief sought by the Company in this proceeding compare to the rate relief granted to the other electric utilities in Washington?

A. Both Avista Utilities and Puget Sound Energy operate in the same Western wholesale energy markets that rocked the Company during 2000 and 2001, and both utilities were faced with financial emergencies requiring interim rate relief. The Commission responded with rate relief in the case of both companies. Avista, for its part, was allowed to defer excess power costs commencing as of July 1, 2000, and will be recovering these deferred amounts in rates at an 11.9 percent annual rate until 2006, when the deferred amounts are expected to be exhausted. In addition to these deferred cost recoveries, Avista was granted a 25% temporary rate increase in July 2001, a 6.2 percent increase in March 2002 and a further 19.3 percent increase in June 2002. PSE received a $25 million interim increase over a three-month period in March 2002, followed by a permanent 4.6 percent increase in electric rates in June 2002. Both companies were also authorized to implement power cost adjustment mechanisms, in response to potentially volatile wholesale power markets. The Company's proposal in this case seems modest when compared to the relief granted these two companies, particularly when it is considered that the underlying cause of such financial distress for all three companies was the ruinous conditions in the wholesale electricity markets throughout 2000 and most of 2001 and the continuing impacts therefrom.

Q. Why isn't PacifiCorp seeking to implement a power cost adjustment mechanism?

A. Although the Company considered proposing a similar power cost recovery mechanism for Washington following the Avista and PSE decisions, the Company opted for a more limited form of rate relief, as discussed below. Nonetheless, in evaluating the Company's request for relief, it is hoped that the Commission is open to the same flexibility as it demonstrated in fashioning the power cost recovery mechanisms for Avista and PSE in the face of extraordinary conditions in the Western power markets.

Relief Requested by the Company

Q. Please describe the relief the Company is seeking in this proceeding.

A. We are proposing to commence deferring excess net power costs—defined as the difference between actual net power costs and the level included in current rates—for a one-year period commencing June 1, 2002 and continuing through May 31, 2003. As discussed in Mr. Widmer's testimony, this deferral period would allow the Company to capture the effects of the forward purchases for summer 2002 that were made in the spring of 2001 prior to the June 2001 FERC price cap order.

Q. How would the deferred amounts be recovered in rates?

A. As discussed in Mr. Widmer's testimony, the Company estimates that about $17.5 million of excess net power costs will accumulate during the deferral period (including carrying costs). As discussed in Mr. Griffith's testimony, the Company proposes to recover these costs in rates by netting them against the available balances in the Centralia and Merger credit accounts. If the Commission will recall, the Company was required in Docket No. UE-991262 to flow through to its Washington customers a portion of the gain from the sale of Centralia, which amounts to $10.2 million as of October 2002. As a condition for approving the merger of PacifiCorp with ScottishPower in Docket No. UE-981627, the Company was required to provide a merger credit of $3 million per year for four years beginning January 1, 2001. The remaining credit to be paid is $6.8 million as of October 2002. By January 1, 2003, we expect these accounts will contain approximately a total of $14.8 million remaining to be distributed. The Company proposes to apply the power cost deferrals to these credits until they are exhausted, as discussed more fully in Mr. Griffith's testimony.

Q. Is there precedent for using the merger and Centralia credits in this manner?

A. Yes. In both Utah and Idaho, the Company was allowed to recover deferred power costs in rates by applying them, in part, against the Centralia and merger credits. In Utah, the deferred power cost balance was reduced by the regulatory liability due to customers associated with the Centralia and by the remaining months of the merger credit. The Company has a surcharge in place to collect the remainder through March 2004. In Idaho, the remaining amounts associated with the merger credit were credited to the balance of deferred power costs, reducing the amount to be collected in a surcharge.

Q. How does this request for relief comply with the provisions of the Rate Plan?

A. As described above, the Rate Plan stipulation expressly allows the Company to petition for deferral of expenses or revenues, as appropriate, during the Rate Plan Period. (Stipulation, Section 9) With respect to rate recovery of deferred amounts, the Rate Plan precludes changes in general rates during the Rate Plan Period, with the exception of the limited increases in 2001, 2002 and 2003. By applying the deferred amounts against the Centralia and merger rate credits, a change in general rates is avoided, thus preserving the essential feature of the Rate Plan.

Q. In the event the Centralia and merger credit balances prove to be insufficient to recover the Deferred Power Costs in rates, how does the Company propose to recover any remaining balance?

A. The Company proposes that any remaining balance after exhausting the Centralia and merger credits be retained in the deferred account and addressed in the Company's next general rate filing in Washington after expiration of the Rate Plan Period.

Q. How will the Company's proposal be affected if recovery does not commence as of January 1, 2003?

A. As described in Mr. Griffith's testimony, the Company proposes to commence applying deferred power costs against the Centralia and merger credits as of January 1, 2003. Because the balances in these credit accounts decline each month as they are amortized into rates, however, a delay significantly beyond January 1, 2003 would likely leave an insufficient balance in these accounts to cover the deferred power costs. In this event, the Company would propose to implement a surcharge to recover any deferred power costs remaining after exhaustion of the credit balances. We are not making a specific proposal for such a surcharge now, however, since the Company's proposal would make that remedy unnecessary.

Conclusion

Q. Please summarize your testimony.

A. By this filing, the Company is seeking limited relief from the constraints of the Rate Plan it entered over two years ago, prior to the western energy crisis of 2000 and 2001. As a result of the unprecedented increases and volatility in the western power markets, the Company has suffered serious financial harm in Washington, and continues to bear the lingering effects in the form of power costs that are expected to be significantly higher throughout the Rate Plan Period than the level included in rates. Without formally "re-opening" the Rate Plan, the Company proposes to obtain limited relief that will enable it to fulfill the essential terms of the Rate Plan by not changing general rates prior to 2006 (except as provided in the Rate Plan). The Company believes it has demonstrated the financial need underlying this request, through the discussion of the Commission's interim rate standard and application of those criteria to the Company's financial indicators for its Washington operations.

Q. Does this conclude your testimony?

A. Yes.