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April 15, 2010

VIA ELECTRONIC AND U.S. MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: UE 217 – In the Matter of PACIFICORP, dba Pacific Power’s Request for a General Rate Revision

Attention Filing Center:

Enclosed for filing in the above captioned docket are the original and five copies of the Supplemental Direct Testimony of Samuel C. Hadaway. Please note that Exhibit PPL/209 is confidential and is enclosed in a separate sealed envelope. Also enclosed are the original and five copies of the Supplemental Trial Brief. A copy of this filing was served on all parties to this proceeding as indicated on the attached Certificate of Service.

Very truly yours,

A handwritten signature in black ink, appearing to read "Amie Jamieson", with a long horizontal flourish extending to the right.

Amie Jamieson

cc: Service List

1 **CERTIFICATE OF SERVICE**

2 I hereby certify that I served a true and correct copy of the foregoing document in
3 UE 217 on the following named person(s) on the date indicated below by email and first-
4 class mail addressed to said person(s) at his or her last-known address(es) indicated below.

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DATED: April 15, 2010



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Docket No. UE-217
Exhibit PPL/207
Witness: Samuel C. Hadaway

**BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON**

PACIFICORP

Supplemental Testimony of Samuel C. Hadaway

April 2010

1 **Q. Please state your name.**

2 A. Samuel C. Hadaway.

3 **Q. Are you the same Samuel C. Hadaway who provided Direct Testimony**
4 **(Exhibit PPL/200) in this case?**

5 A. Yes.

6 **Q. What is the purpose of Supplemental Direct Testimony?**

7 A. At the Prehearing Conference on March 16, 2010, Administrative Law Judge Hardie
8 stated that because the Company's last rate of return, which included a notional ROE
9 component, was approved only a few months before the initial filing in this
10 proceeding, the Commission would require evidence of "a material change in the
11 markets, a change in circumstances, or some other good cause before it will be
12 inclined to change the Company's existing 10.125 percent ROE."¹ In this testimony,
13 I provide the additional information requested by Judge Hardie. That information
14 demonstrates that market conditions and other circumstances have changed, that
15 capital costs have increased, and that the Company's currently requested 10.60
16 percent return on equity ("ROE") is appropriate.

17 **Q. Please summarize the information you will provide.**

18 A. First, in each case the Company must attempt to estimate its required ROE given the
19 then-current capital market conditions. The Company must use this approach if it is
20 to ensure reasonable access to capital markets and maintain its financial integrity and
21 credit ratings as it competes with other companies for required capital. Second, and

¹ Prehearing Conference Report at 1 – 2 (March 18, 2010).

1 perhaps most important, the parties in UE 210 did not stipulate to an ROE of 10.125
2 percent. The ROE reflected in the Stipulation was stated to be a "notional"
3 (theoretical) number, only acceptable to the Company and the other parties as one
4 element in an agreed upon overall rate of return ("ROR"). In fact, the Stipulation
5 contains the following pertinent language: "No Party shall be deemed to have agreed
6 that any provision of this Stipulation is appropriate for resolving issues in any other
7 proceeding, except as specifically identified in this Stipulation." (Stipulation ¶ 18.)
8 Third, the Stipulation was signed by the parties in September 2009, and market
9 conditions have changed since then, as reflected in recent increases in government
10 and utility bond interest rates as well as the recent actions of the Federal Reserve
11 System ("Fed"). Finally, since the UE 210 Order ("Order"), the Company has
12 received (on February 18, 2010) the final order in its most recent Utah rate case
13 (Docket No. 09-035-23). After full litigation of the ROE issue, and with full
14 knowledge of the UE 210 Stipulation and Order, the Utah Commission set the
15 Company's authorized ROE at 10.6 percent. I will explain in this Supplemental
16 Direct Testimony why each of these items supports the Company's current request for
17 a higher ROE than was implied in the Stipulation in UE 210.

18 **Q. Was the 10.125 percent ROE reflected in the UE 210 Stipulation viewed by the**
19 **Company as its market required cost of equity?**

20 A. No. The notional 10.125 percent ROE in the Stipulation was only acceptable to the
21 Company when combined with all the other aspects of the settlement. The notional
22 ROE was well below the 11.0 percent ROE the Company had requested, and further
23 below the ROE range from my analysis based on data available in late 2008 and early

1 2009. In my Direct Testimony in UE 210, my DCF analysis supported an ROE range
2 of 11.2 percent to 11.6 percent, making the Company's 11.0 percent ROE request
3 when the case was filed in April 2009, itself, a conservative estimate of its cost of
4 equity.

5 **Q. Did the Commission recognize the uniqueness of settlements and their conditions**
6 **in settling rate cases?**

7 A. Yes. In its Order approving the Stipulation in UE 210, the Commission recognized
8 the difficulty in determining specific results in any cost category and noted that the
9 overall objective is to develop a reasonable outcome.

10 We have recognized, however, that issues in a general rate case
11 typically reflect judgments along a continuum of outcomes and can
12 rarely be reduced to one "right" number in any cost category.
13 When considering a stipulation, therefore, we may evaluate the
14 validity of the rates based on "the reasonableness of the overall
15 rates, not the theories or methodologies used or individual
16 decisions made. (Order 10-022, page 6)

17 **Q. Have there been significant changes in capital markets since the settlement in**
18 **UE 210?**

19 A. Yes. The UE 210 settlement was signed by the parties six months ago. Since that
20 time, economic conditions and forecasts have improved and capital costs have
21 increased. From September 2009 through March 2010, interest rates on bonds of
22 single-A rated utilities like PacifiCorp increased by 30 basis points from 5.53 percent
23 to 5.84 percent. During that same time period, the rates on 30-year Treasury bonds
24 increased even more, from 4.19 percent to 4.64 percent. The Treasury bond rate is
25 now projected by Standard & Poor's ("S&P") to increase further to 5.0 percent in
26 2010 (S&P Trends & Projections, March 2010, page 8, attached as Exhibit PPL/208).

1 In addition to the actual and projected increases in interest rates, the Fed has
2 increased a key monetary policy interest rate as well. On February 18, 2010, the Fed
3 raised the "discount rate" it charges member banks when they borrow from the Fed
4 from 0.50 percent to 0.75 percent. This is the first increase in a government
5 controlled interest rate since the Fed began its efforts to mitigate the effects of the
6 financial crisis in 2008. This increase in the Fed's lending rate to banks is a concrete
7 reflection of the higher interest rates that are occurring and are expected in the
8 coming year.

9 The average ROEs authorized by state regulators in 2009 and more recently in
10 the 1st Quarter of 2010 also show that the notional ROE in UE 210 was below the
11 level that investors now might reasonably expect. Nationally, authorized ROEs for
12 electric utilities in 2009 averaged 10.48 percent. As a further reflection of rising
13 capital costs, during the 1st Quarter of 2010, allowed ROEs increased to 10.66
14 percent. (Regulatory Focus, Regulatory Research Associates, April 1, 2010, page 3,
15 attached as Confidential Exhibit PPL/209.)

16 **Q. Does the Company's recent ROE decision in Utah provide additional**
17 **information that was not available to the parties when they signed the UE 210**
18 **Stipulation?**

19 A. Yes. The Company's cost of equity was fully litigated in Utah in Docket No. 09-035-
20 23. On February 18, 2010, the Utah Public Service Commission determined the
21 Company's cost of equity to be 10.6 percent on an equity structure of 51 percent,
22 resulting in an overall ROR of 8.34 percent. This was less than a month after the
23 Order in UE 210 on January 26, 2010.

1 At the time of hearing, the Oregon settlement was known by the Utah
2 Commission. During the hearing, the Utah commissioners questioned me and
3 Company Treasurer Mr. Bruce N. Williams on the rationale for settling on the 10.125
4 percent ROE given that the requested ROE was 11.0 percent as in Utah case. Mr.
5 Williams and I explained and the Utah commissioners understood that the Oregon
6 10.125 percent ROE was notional and part of an overall settlement that allowed the
7 Company a reasonable change in rates. With this understanding, the Utah
8 Commission independently determined that the reasonable cost of equity for the
9 Company was 10.60 percent.

10 As stated in the Utah order:

11 Using the financial models as we deem appropriate, with the inputs
12 or components and weighting we believe reasonable, and weighing
13 all of the expert financial testimony received, we find and conclude
14 that a rate of return on common equity of 10.6 percent is
15 reasonable. (Order No. 09-035-23, page 16)

16 **Q. Please summarize your conclusions.**

17 The Company is required to request the most appropriate ROE given current financial
18 market requirements in order to obtain reasonable access to capital markets and to
19 maintain its financial integrity and credit ratings. To do otherwise, would undermine
20 its financing capability and increase its financing costs. The notional 10.125 percent
21 ROE in UE 210 was part of a settlement and should only be viewed in that context.
22 My ROE analysis in this case supports an ROE of 10.6 percent. Financial conditions
23 have changed since the settlement as seen in government and utility bond interest
24 rates and Federal Reserve System actions. Nationally, authorized ROEs during 2009
25 were 10.48 percent, and during the 1st Quarter of 2010, they averaged 10.66 percent.

1 Finally, in the Company's most recent Utah decision, that Commission authorized an
2 ROE of 10.6 percent, less than a month after the UE 210 Order. All these factors
3 demonstrate that market conditions and other circumstances associated with the
4 notional ROE used in UE 210 have changed. These changed market conditions and
5 rising capital costs should be reflected in the ROE authorized in the current case.

6 **Q. Does this conclude your testimony?**

7 A. Yes.

Docket No. UE-217
Exhibit PPL/208
Witness: Samuel C. Hadaway

**BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON**

PACIFICORP

Exhibit Accompanying Supplemental Testimony of Samuel C. Hadaway

**S&P Trends & Projections
March 2010**

April 2010

Industry Surveys Trends & Projections

*Sam Stovall, Chief Investment Strategist
David Wyss, Managing Director & Chief Economist, and Beth Ann Bovino,
Director & Senior Economist*

MARCH 2010

*What will happen
to equity prices
once the Fed
begins to raise
interest rates?*

Rising Rates Revisited

Sam Stovall, Chief Investment Strategist

The crutches are gone, and we are once again on our own, or so it seems from the Federal Reserve's statement following the surprise timing of its increase in the discount rate. Shortly thereafter, many said the Fed as much as told us they were going to do it, so it shouldn't have come as much of a surprise. Others asserted that the Fed is doing the economy a favor by draining the liquidity from the system and minimizing the threat of inflation. Whatever the rhetoric, our belief is, as Brooke Benton once sang, "It's just a matter of time" before the Fed begins to raise rates.

So what may happen to equity prices once the Fed begins to raise rates in an attempt to reduce the stimulus to the economy? In order to appreciate overall market and sector movements during periods of rising rates, it might be helpful to examine the market's reaction to specific rate cycles during the past 50 years.

FED RATE HIKES, INTEREST RATE CHANGES & STOCK MARKET PERFORMANCES 1946-2008

RATE		NO. OF MONTHS		S&P 500 % CHANGE BEFORE & AFTER RATE HIKES					
INCREASE PERIODS		IN THIS	TIL NEXT	INTEREST RATE LEVEL		6 MONTHS		12 MOS.	
START	END	CYCLE	CYCLE	START	END	CHG.	BEFORE	AFTER	
04/25/46	01/16/53	81	13	1.00	2.00	1.00	14.2	(20.8)	(22.3)
04/15/55	08/23/57	28	3	1.50	3.50	2.00	18.5	9.1	26.9
09/12/58	09/11/59	12	9	1.75	4.00	2.25	14.4	15.9	18.0
07/17/63	04/04/69	69	19	3.00	6.00	3.00	6.9	10.7	21.0
07/16/71	04/25/74	33	7	4.00	8.00	4.00	6.7	4.1	7.6
08/31/77	02/15/80	30	3	5.25	13.00	7.75	(3.4)	(9.5)	7.4
09/26/80	05/05/81	7	6	10.00	14.00	4.00	29.8	6.5	(12.4)
04/09/84	04/09/84	0	7	8.50	9.00	0.50	(9.0)	4.3	14.5
09/04/87	02/24/89	18	17	5.50	7.00	1.50	12.7	(16.4)	(17.4)
02/04/94	02/01/95	12	5	3.00	6.00	3.00	7.0	(4.0)	(0.4)
03/25/97	03/25/97	0	18	5.25	5.50	0.25	15.4	19.4	39.8
06/30/99	05/16/00	11	8	4.75	6.50	1.75	8.8	8.3	6.7
06/30/04	06/29/06	24	15	1.00	5.25	4.25	2.4	6.8	5.6
Average		25	10			2.50	9.6	2.6	7.3

Past performance is no guarantee of future results. Note: Discount Rate used from 1946-1989. Fed funds rate used after.

Source: Standard & Poor's Equity Research.

The Fed has initiated a rate-tightening program 13 times since 1946. Rate increases occurred over a 25-month period, on average. Of course, individual observations show that twice the Fed raised rates only once and then stopped, as if to say, "Oops, maybe we shouldn't have done that."

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We also see 10 of the 13 rate hikes occurred over a period of 11 months or more. Finally, we see that the Fed usually changed course by starting a rate-cutting cycle an average of 10 months after the last rate increase, possibly because the Fed stepped on the brakes a little too hard in the prior rate-tightening cycle.

Six months before the Fed started raising rates, the S&P 500 rose an average 9.6%, recording advances 11 of 13 times. (The discount rate was used from 1946 through 1989; the Fed funds rate was used thereafter. Before 1989, the Fed did not announce changes to the Fed funds rate.) Only in 1977 and 1984 did the market fall ahead of higher rates. The market possibly acted so well leading up to the first rate hike because either the rate hikes took investors by surprise, or investors rationalized them as having to take the bad with the good, since higher rates indicate that the economy is growing strongly.

Today, the question on most investors' minds is how the market responded after the start of these rate increases. The answer: Better than you might have guessed. From 1946 to 2009, the S&P 500 rose an average 8.1% during all 64 years, or approximately 4.0% in every six-month period. The S&P 500's average six-month price rise after the start of a rate-hiking cycle was only 2.6%, as investors likely expected stock prices to suffer from the oncoming rate increases. However, 12 months after the first rate hike, stock returns held up fairly well, averaging a gain of 7.3%—less than 100 basis points below the long-term average. In addition, it may be encouraging to know that the S&P 500 declined just 31% of the time both six and 12 months after the Fed started raising rates.

Sector Standouts and Slackers

Historical sector performances 12 months after the first rate hike offer less helpful or convincing investment guidance, in my opinion, than they do after the first rate cut. (Please see Rule #7 in my book *The Seven Rules of Wall Street* to get a more complete analysis of how the market and its sectors performed after rate increases and decreases.) The story they tell about which sectors are typically helped or hurt by rising rates is less clear. Is it because investors don't believe that the party is really ending? Or is it because the reasons why the Fed begins to raise rates are more varied than the reasons to lower them? The truth could contain a little of each.

During challenging periods for stock prices as a whole, I would have expected to see the traditional lineup of sector outperformers. This was not the case, as it turned out. Bear markets typically leave no place to hide: all 10 sectors posted average price declines. The lowest price declines, however, have historically come from the Consumer Staples, Health Care, and Utilities sectors. That's because in good times and bad, people still eat, drink, smoke, get sick, and heat their homes. As a result, I frequently say that "When the going gets tough, the tough go eating, smoking, and drinking. And if they overdo it, they go to the doctor." Therefore, I thought I would see the likes of Information Technology on the bottom, and Utilities on the top. However, I was mistaken.

Standard & Poor's Industry Surveys

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**SECTOR RETURNS 12 MONTHS AFTER
THE FIRST RATE HIKE SINCE 1946**

S&P 500 SECTOR	AVERAGE % CHG.	FREQUENCY OF BEATING S&P 500 (%)
Information Technology	20	69
Health Care	13	54
Telecommunications Services	10	67
Energy	10	46
Consumer Staples	7	46
Industrials	7	23
Consumer Discretionary	7	38
Utilities	5	38
Financial	4	38
Materials	3	31

Past performance is no guarantee of future results.
Source: Standard & Poor's Equity Research Services.

Tech Was On Top

Information Technology stocks have done well after initial rate hikes for two possible reasons. First, investors may rationalize that as the economy will likely slow because of rising interest rates, companies may begin to spend more on technology in order to improve productivity. They figure these companies will want to remain price competitive during a potential slump in orders. Rather than hire more employees as the economy slows, the thinking goes, companies will provide the existing workers with better technology.

Another reason technology companies may continue to post strong stock price gains after the

Fed has started raising interest rates could be that most have little debt on their balance sheets. Because technology firms frequently don't need to borrow money to operate or grow, their interest expense will not go up as interest rates rise. This will help their earnings growth on a relative basis.

Utilities, on the other hand, are big users of debt and typically feel the pinch of higher interest rates on their overall earnings. Hence, investors may shy away from these big borrowers when interest rates are rising. In addition, many investors who own Utilities do so for the dividend yield. (Utility stocks are frequently referred to as bond substitutes or proxies.) Utilities, therefore, may feel the effects of "substitution" more acutely than other sectors.

In conclusion, the data show that investors aren't very sure where to turn when interest rates are on the rise. While some defensive sectors (such as Health Care) typically hold up well, others (such as Utilities) do not. Although some cyclical sectors (such as Financials) take it on the chin as interest rates began to rise, others (such as Information Technology) do not, due to the absence of interest expense. Remember, however, that what worked in the past may not work in the future.

The Fed has put us on notice that an increase in the Fed funds rate is probably just around the corner (S&P Economics thinks it may occur in September and sees the Fed funds rate at 0.75% by year-end). Does that mean we should sell all the stocks we own and hunker down in cash? Hardly. Nevertheless, it does indicate that overall market returns may be more difficult to come by and that we all need to be very careful where we tread with sectors. ■

Weathering the Economy

David Wyss, Managing Director & Chief Economist, and Beth Ann Bovino, Director & Senior Economist

The first quarter is, as usual, suffering from bad weather. Although economic data are seasonally adjusted, weather variations in the first quarter have more impact on the economy than in other quarters. For example, snowstorms keep people at home, and they reduce production. A hotter summer can affect the economy by increasing electricity usage or keeping people off the golf course, but it doesn't usually keep them in the house or away from work.

Construction is the sector most sensitive to severe weather during the winter months, which was undoubtedly partly responsible for the weakness in home sales and starts in January. It's hard to work on a house when there's a foot of snow in the way. Retail sales, and especially car sales, are also hurting. People don't shop when the roads are bad, and who wants to buy a new car and take it out on black ice? We can usually rely on the weather improving in the spring, which should improve the economy, even on a seasonally adjusted basis.

The incoming data suggest the economy has cooled off after a hot fourth quarter, but whether the cooling is just a result of weather—in which case, it will warm up in the spring—or is more fundamental

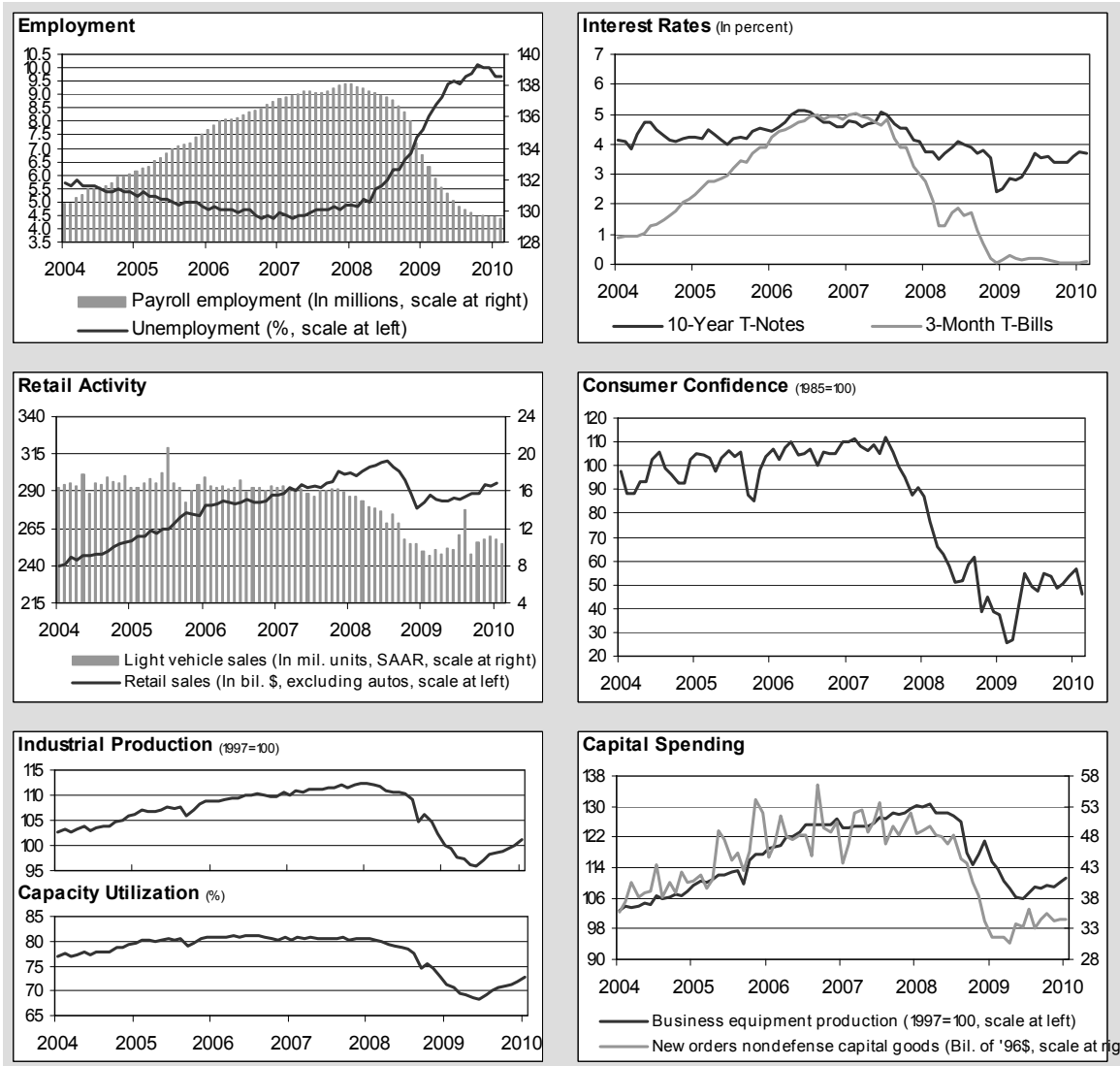
won't be clear until we see the spring data. We believe the slowdown is mostly weather-related, but it's significant enough to make us nervous.

Housing Cools Off

As expected, home sales continued to slump in January after the autumn surge, which resulted from buyers cashing in on the \$8,000 first-time homebuyer tax credit. Although the government extended the credit through June 2010 (with contracts signed by April), people didn't know this when signing their contracts last fall. Sales likely will continue to decline through the winter (in part because of the bad weather), but we expect them to rise again in the second quarter as buyers try to purchase ahead of the next cut-off date.

Weaker sales likely will hurt prices. The S&P/Case-Shiller Home Price Index rose for the seventh consecutive month in December, by 0.3% for the 20-city seasonally adjusted index, but it remains down 29% from its July 2006 high (compared with April, when it was down 32%). We expect prices to drop about 6% through the spring, probably breaking the April 2009 low. The median existing home price in January 2010 was flat versus a year earlier, a bit stronger than might have been expected, given the drop in home sales (down 7.2% for existing and 11.2% for new).

We believe housing markets have stabilized but are not yet recovering, aside from the tax rebate, which did give markets a boost. But regional differences are important. In most of the US, prices are beginning

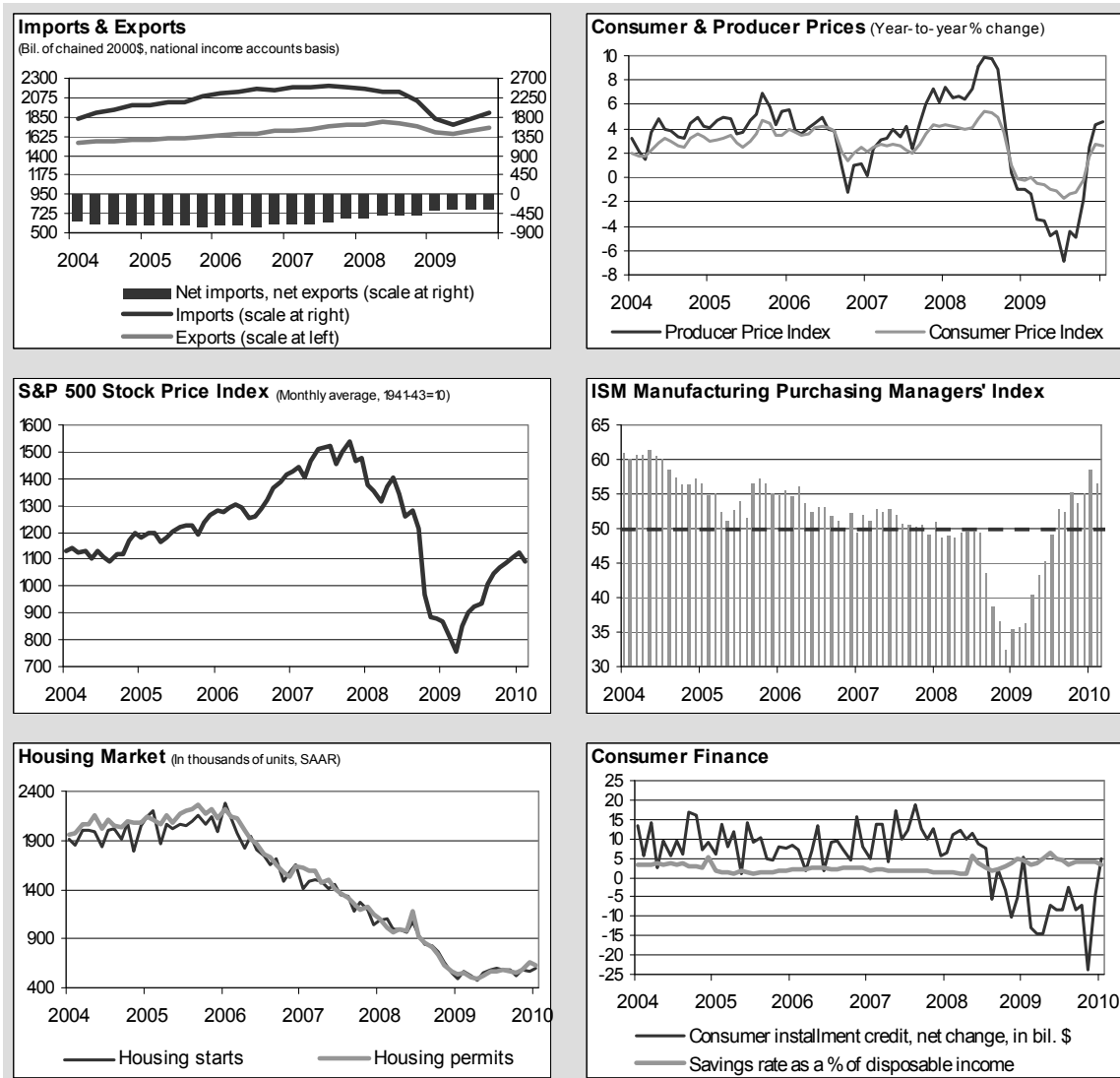


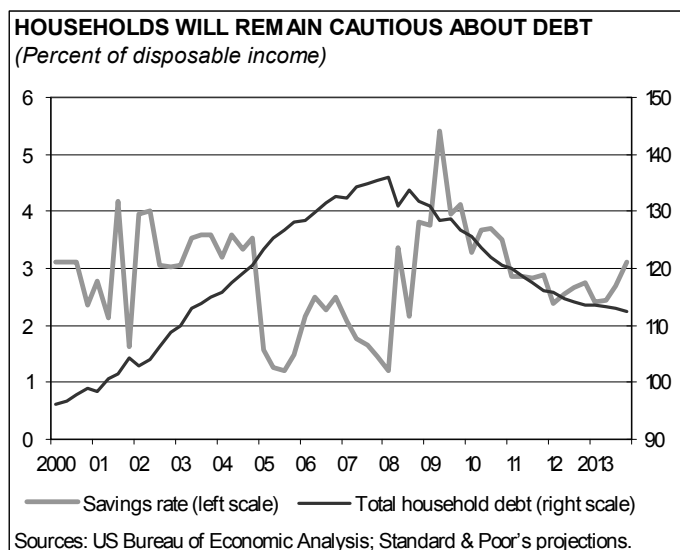
to turn up. However, in the most overpriced regions, which had high percentages of second homes and investment properties (South Florida, Arizona, and Nevada), prices are still falling. In overpriced areas where primary residences are more dominant (such as most of California), prices dropped dramatically, but they are now rising as homeowners decide that this is a buying opportunity. And then there is Detroit, where a lack of jobs makes any recovery a faint hope.

Unfortunately, nonresidential construction continues to decline. The January construction data show a continued drop in both public and private construction spending. February likely will be even worse. Weather was responsible for some of the decline in January, but the major problem for private construction is the lack of any reason to build another hotel, office building, or shopping center. We expect real nonresidential spending to drop another 13% in 2010. Public construction, on the other hand, likely will surge in the spring as states try to spend the remaining stimulus infrastructure funds before the end of the fiscal year. We expect some of that spending to spill into fiscal 2011.

Consumers Get Friskier

Although the employment data suggest Americans weren't able to get to work in February because of the snowstorms, they do appear to have made it to the shopping malls. The strong consumer spending data from January and the February chain store reports show that Americans are shopping despite the weather and the decline in disposable income. The saving rate dropped to 3.3% in January, in part





because of a sharp rise in federal tax collections; this is probably temporary, but is also an indication that we might have underrated the American consumer.

Incomes remain weak, even without considering the tax payment increase in January. Spending on big-ticket items such as autos continues soft. However, the household aversion to debt seems to be waning. After 11 straight months of decline, consumer credit outstanding rose \$5 billion in January. Higher nonrevolving debt, reflecting stronger car sales at the end of 2009, was responsible for the increase. Credit card balances dropped again in January. We still expect consumers to lag rather than lead the

recovery, but it appears they might not be as far behind as we had thought.

The problem for growth is that it is hard to find a sector that can lead the recovery. Although residential construction seems to have bottomed out, it likely will crawl rather than jump back. Although we expect housing starts to rise 25% in 2010, to 690,000, that level is less than half the 1.6 million needed to match current population growth and estimated replacement. Nonresidential construction is expected to drop further in 2010, reflecting the high vacancy rates for office and retail space. With employment rising slowly in the coming months because of employer caution, it will take a while to reduce vacancies.

The employment data may be better than they appear on the surface. The household measure of employment has now risen strongly for two consecutive months, while the payroll measure has continued to drop. This pattern is typical of the early stage of a recovery. In the first 12 months after the 1990 recession, household employment rose 492,000, while payrolls fell 239,000. Similarly, after the 2001 recession, household employment increased 283,000 in the first 12 months, while payrolls dropped 562,000. When the economy begins to recover, companies are usually still too scared to bring on permanent employees. They hire part-time or contract workers to fill in the needed slots and only later put them on the payroll. At the end of the year, these workers get a 1099 tax form instead of a W-2. They only count as temp workers in the payroll data if they are hired through a temp agency. However, we believe most of them would describe themselves as employed when called upon by an enumerator from the Bureau of Labor Statistics. During the first two months of 2010, household employment surged 649,000, while payrolls dropped 62,000. Note that in the two years ended December 2009, household and payroll employment were both down 8.4 million.

Exit, but Is There a Bear?

The federal government's stimulus program ends in September. At that time, we expect that the unemployment rate will still be above 9% and that growth will likely be sluggish. The risk remains that the economy could slide back into recession. The example of Japan in the 1990s is a cautionary tale: each round of fiscal stimulus resulted in a spurt of growth, but each time Japan's government withdrew the stimulus, the economy sank back into recession.

Could this happen in the US? So far, it appears that US growth has depended less on fiscal stimulus than the Japanese economy did during the spurts of growth in the 1990s. However, the US economy has yet to feel the bulk of the stimulus. We expect the peak to come in the next two quarters, when public construction spending should rise sharply, as the shoveling for the "shovel-ready" projects finally starts.

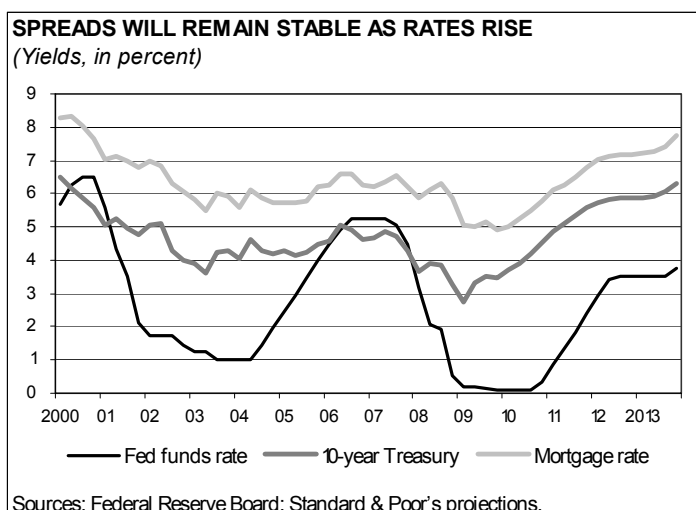
Our guess is that the US is less likely to withdraw stimulus quickly. We expect some kind of stimulus bill for fiscal 2011, although perhaps at less than half the fiscal 2010 level. Without such a package, growth would slow even more significantly in the fourth quarter of this year—just in time for the Congressional

elections. But the dysfunctional nature of Congress makes a stalemate very possible, in which case we would have to mark down our 2011 forecast somewhat.

The gradual withdrawal of fiscal support in Europe will also be a factor. Greece's government has pushed through a very restrictive budget package, which will cut the 2010 deficit to 4% of GDP from the earlier projection of 10%. The cuts are very painful and have led to strikes and rioting. Most countries in Europe are in much better fiscal condition, but if the others are forced to slice deficit spending sharply, it could further slow the European recovery. Fortunately, Germany and France are in relatively strong fiscal condition, and they will remain the main engines of growth in Europe.

When Will the Fed Move?

The Federal Reserve's exit from its liquidity programs seems to be progressing without much of a problem. The Fed has now stopped almost all purchases of securities under the various Term Asset-Backed Securities Loan Facility (TALF) programs. We expect the Fed to exit the TALF gradually, mostly by allowing securities to mature rather than by selling them off. The federal funds rate continues in its recent 0%–0.25% range, and we expect the Fed to hold the funds rate stable until unemployment starts to decline more consistently. Because we expect the unemployment rate to edge back up in the coming months, we don't see the Fed moving until the third quarter, and it might even wait until after the November election.



The Fed's upcoming exit from purchases of residential mortgage-

backed securities adds to nervousness. Some observers expect mortgage rates to rise sharply in response. The fact that they haven't risen already on the announcement seems evidence that the market is stable enough to keep spreads near the current level. However, we do expect that Treasury bond yields will rise as the economy continues to recover. As a result, even though spreads will remain stable, we expect mortgage rates to reach 5.8% by the end of next year. The higher mortgage rates will dampen the housing recovery.

Economic Policy			
	2009	E2010	E2011
Monetary Indicators			
Discount Rate	3.3	3.4	5.4
Fed Funds Rate	0.1	0.4	2.4
M-2 Growth (%)	7.6	2.6	5.9
Fiscal Policy: Budget Surplus/(Deficit)			
Unified* (Bil.\$)	(1,415.7)	(1,380.2)	(1,079.1)
NIPA** (Bil.\$)	(1,227.9)	(1,295.6)	(953.9)
Surplus: GDP Ratio (%)	(8.6)	(8.7)	(6.2)
E-Estimated. *Fiscal year. **Based on accrual (not cash) accounting and uses a calendar year.			

Financial markets have calmed down, making funds easier to get. Despite the continued weakness in bank lending, larger corporations have been able to borrow. The cash balances of the S&P industrials (the S&P 500, excluding financial corporations) hit a record in the fourth quarter. Corporate bond issuance was at a record high worldwide in 2009 as corporate treasurers locked in low long-term yields. Very little of that was speculative-grade debt, but with the speculative-grade spread above Treasury yields now back to more normal levels, we are beginning to see some early signs of revival in that

market. The speculative-grade yield is now 637 basis points above Treasuries—still greater than the average of 520 basis points, but well below the 1,700-basis-point peak in October 2008 and near the average of the last (2001) recession. ■

Economic Indicators

Seasonally Adjusted Annual Rates — Dollar Figures in Billions

	Annual % Change				2009				E2010				E2011			
	P2009	E2010	E2011	P2009	E2010	E2011	3Q	P4Q	1Q	2Q	3Q	4Q	1Q	2Q		
Gross Domestic Product																
\$14,258.3	\$14,810.8	\$15,504.5	(1.3)	3.9	4.7		\$14,242.1	\$14,461.7	\$14,587.6	\$14,731.9	\$14,885.9	\$15,037.9	\$15,227.1	\$15,402.3		
(1.3)	3.9	4.7	-	-	-		2.6	6.3	3.5	4.0	4.2	4.1	5.1	4.7		
(2.4)	2.8	2.9	-	-	-		2.2	5.9	2.3	2.1	2.7	2.9	2.9	2.8		
1.2	1.0	1.7	-	-	-		0.4	0.4	1.2	1.9	1.5	1.2	2.2	1.8		
*Components of Real GDP																
\$9,235.6	\$9,438.2	\$9,677.2	(0.6)	2.2	2.5		\$9,252.6	\$9,291.7	\$9,351.1	\$9,402.1	\$9,468.8	\$9,530.7	\$9,580.2	\$9,636.9		
(0.6)	2.2	2.5	-	-	-		2.8	1.7	2.6	2.2	2.9	2.6	2.1	2.4		
1,101.3	1,173.5	1,258.5	(3.9)	6.6	7.2		1,122.7	1,123.4	1,145.4	1,159.5	1,183.8	1,205.3	1,223.8	1,241.0		
2,037.0	2,085.0	2,118.9	(1.0)	2.4	1.6		2,033.3	2,053.7	2,067.7	2,079.9	2,091.7	2,100.5	2,104.5	2,112.7		
6,088.4	6,179.0	6,309.9	0.1	1.5	2.1		6,090.6	6,108.2	6,134.0	6,160.2	6,193.7	6,228.0	6,257.5	6,290.8		
1,291.9	1,308.2	1,393.5	(17.7)	1.3	6.5		1,269.0	1,289.1	1,286.7	1,304.8	1,315.1	1,326.3	1,349.3	1,374.8		
(17.7)	1.3	6.5	-	-	-		(5.9)	6.5	(0.7)	5.7	3.2	3.5	7.1	7.8		
890.3	966.7	1,082.7	(16.7)	8.6	12.0		879.8	917.4	924.2	952.1	980.2	1,010.5	1,043.7	1,071.5		
349.9	353.3	438.8	(20.7)	1.0	24.2		350.5	354.6	340.2	346.2	354.0	372.8	394.9	424.8		
(20.7)	1.0	24.2	-	-	-		19.0	4.8	(15.2)	7.1	9.4	23.0	25.9	33.9		
(107.6)	28.8	49.4	-	-	-		(139.2)	(16.9)	36.7	22.6	23.4	32.5	43.8	45.5		
2,564.8	2,595.8	2,570.1	1.9	1.2	(1.0)		2,585.5	2,577.9	2,580.2	2,598.1	2,602.7	2,602.1	2,591.9	2,576.0		
1,026.7	1,064.3	1,034.5	5.2	3.7	(2.8)		1,043.3	1,043.7	1,053.1	1,068.0	1,069.3	1,066.9	1,055.2	1,040.3		
1,541.2	1,535.5	1,539.1	(0.2)	(0.4)	0.2		1,545.5	1,537.8	1,531.0	1,534.2	1,537.5	1,539.2	1,540.5	1,539.3		
(355.4)	(376.0)	(376.2)	-	-	-		(357.4)	(347.1)	(370.0)	(377.1)	(377.7)	(379.4)	(376.0)	(374.5)		
1,472.1	1,643.3	1,771.6	(9.6)	11.6	7.8		1,478.8	1,555.5	1,594.5	1,630.9	1,658.1	1,689.7	1,720.2	1,755.6		
1,827.4	2,019.3	2,147.8	(13.9)	10.5	6.4		1,836.2	1,902.7	1,964.5	2,008.1	2,035.7	2,069.1	2,096.2	2,130.2		
**Income & Profits																
\$12,030.3	\$12,395.8	\$12,987.6	(1.7)	3.0	4.8		\$12,005.2	\$12,114.3	\$12,185.0	\$12,323.3	\$12,469.1	\$12,605.8	\$12,762.0	\$12,904.0		
10,928.9	11,234.9	11,641.4	1.1	2.8	3.6		10,934.3	11,049.7	11,052.7	11,174.4	11,309.2	11,403.5	11,445.1	11,568.5		
4.3	3.5	2.9	-	-	-		4.0	4.1	3.3	3.7	3.7	3.5	2.9	2.9		
1,423.8	1,677.0	1,866.6	(2.7)	17.8	11.3		1,495.0	1,616.7	1,710.9	1,622.0	1,659.1	1,715.9	1,845.5	1,863.5		
1,109.4	1,291.0	1,330.0	(5.2)	16.4	3.0		1,173.9	1,256.3	1,317.4	1,246.1	1,277.8	1,322.6	1,317.7	1,326.8		
51.31	62.09	72.10	244.8	21.0	16.1		12.64	51.31	59.60	61.10	61.70	62.09	64.95	68.05		
†Prices & Interest Rates																
(0.3)	2.0	1.9	-	-	-		3.7	2.6	1.6	0.6	2.4	1.6	2.0	2.2		
0.2	0.3	2.0	-	-	-		0.2	0.1	0.1	0.2	0.4	0.8	1.3	1.8		
3.3	4.1	5.2	-	-	-		3.5	3.5	3.7	3.9	4.2	4.5	4.8	5.1		
4.1	5.0	5.8	-	-	-		4.3	4.3	4.6	4.8	5.1	5.3	5.6	5.8		
5.3	5.7	6.8	-	-	-		5.3	5.2	5.3	5.5	5.8	6.1	6.4	6.7		
Other Key Indicators																
553.4	688.4	1,148.7	(38.5)	24.4	66.9		586.7	559.3	582.9	646.7	717.7	806.2	964.8	1,081.7		
10.3	11.6	13.7	(21.6)	12.2	17.8		11.5	10.8	10.9	11.4	11.8	12.4	12.8	13.3		
9.3	9.8	9.2	-	-	-		9.6	10.0	9.7	9.9	9.9	9.8	9.6	9.3		
4.5	(3.3)	(5.8)	-	-	-		(18.6)	(9.5)	14.5	7.1	(16.4)	(3.9)	(7.0)	(4.4)		

Note: Annual changes are from prior year and quarterly changes are from prior quarter. Figures may not add to totals because of rounding. A—Advance data. P—Preliminary. E—Estimated. R—Revised.
 *2005 Chain-weighted dollars. **Current dollars. †Trailing 4 quarters. ‡Average for period. §Quarterly % changes at quarterly rates. This forecast prepared by Standard & Poor's.

Docket No. UE-217
CONFIDENTIAL
Exhibit PPL/209
Witness: Samuel C. Hadaway

**BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON**

PACIFICORP

CONFIDENTIAL
Exhibit Accompanying Supplemental Testimony of Samuel C. Hadaway

Regulatory Focus, Regulatory Research Associates
April 1, 2010

April 2010

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