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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)	
APPLICATION OF ROCKY)	CASE NO. PAC-E-08-07
MOUNTAIN POWER FOR)	
APPROVAL OF CHANGES TO ITS)	Direct Testimony of A. Richard Walje
ELECTRIC SERVICE SCHEDULES)	
AND A PRICE INCREASE OF \$5.9)	
MILLION, OR 4.0 PERCENT)	

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-08-07

September 2008

1 **Q. Please state your name, business address and present position with Rocky**
2 **Mountain Power (the Company), a division of PacifiCorp.**

3 A. My name is A. Richard Walje. My business address is 201 South Main, Suite
4 2300, Salt Lake City, Utah 84111. I am the President of Rocky Mountain Power.

5 **Qualifications**

6 **Q. Briefly describe your educational and professional background.**

7 A. I have worked in the electric utility industry since 1972 as a journeyman lineman,
8 field service engineer with General Electric and as a substation design engineer
9 for Rocky Mountain Power. At Rocky Mountain Power I have held numerous
10 management and executive positions with increasing levels of responsibility in the
11 areas of engineering, construction, transmission and distribution operations,
12 customer service, procurement, information technology and community affairs. I
13 have served on PacifiCorp's Board of the Directors since 2000 and I am also
14 currently the Chairman of the Board of the PacifiCorp Foundation. I have a
15 Bachelor of Science in Electrical Engineering degree (1984) and a Master of
16 Business Administration degree (1991), both from the University of Utah. I have
17 received additional executive level instruction from the University of Michigan
18 and electrical engineering theory from General Electric's Crotonville education
19 center.

20 **Q. What are your responsibilities as President of Rocky Mountain Power?**

21 A. My responsibilities, as President of Rocky Mountain Power, cover all of the
22 Company's affairs in the states of Idaho, Utah and Wyoming, including assuring
23 that the Company's strategy, infrastructure investments and operations result in

1 the delivery of safe, reliable electric energy to the Company's customers at
2 reasonable prices.

3 **Q. Please describe Rocky Mountain Power's presence in Idaho.**

4 A. Rocky Mountain Power provides safe, reliable, and low-priced electric service to
5 over 69,000 Idaho customers. Rocky Mountain Power also provides nearly 200
6 jobs in the communities of southeast Idaho. The Company owns and operates 94
7 substations in Idaho plus over 2,000 miles of transmission lines and 5,600 miles
8 of distribution lines. In addition, the Company purchases the output of the
9 Wolverine Creek wind generation facility located near Idaho Falls. Later in my
10 testimony, I will describe in more detail the Company's commitment to the
11 environment, our communities and our customers.

12 **Q. In what other ways does Rocky Mountain Power support local Idaho
13 communities and the Idaho economy?**

14 A. The Company works closely with the state and local government agencies on
15 economic and community development projects and is actively involved in giving
16 back to our Idaho communities. In 2007, the Company's corporate giving
17 contributed \$136,000 in contributions and sponsorships for activities in Idaho
18 communities. Rocky Mountain Power Foundation grants in Idaho exceeded
19 \$37,000 for programs such as the Preston Senior Citizens Center, Dayton
20 Westside High School, Rigby North American Grouse partnership and other
21 worthwhile local programs. Rocky Mountain Power's Lend-a-Hand program
22 provides bill payment assistance to low-income households and the Company has
23 committed to ensure \$40,000 from corporate funds, employee and customer

1 donations, or other sources are contributed to the program each year. One of the
2 Company's core principles is exceptional customer service. We take our
3 responsibility as a good corporate citizen very seriously by providing exceptional
4 customer service through safe, reliable electric service at reasonable prices.

5 **Purpose of Testimony**

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my testimony is to provide an overview of the Company's 2008
8 Idaho rate case. Excluding the current service agreement with our two large
9 industrial customers, the Company is requesting a \$5.9 million (4 percent) rate
10 increase over Rocky Mountain Power's current rates for the remaining customers.
11 The Company's analysis indicates a revenue requirement of approximately \$217
12 million is needed to cover the cost of service for all of its customers and would
13 require an overall increase of \$16.3 million absent the rate plan with the two
14 industrial customers on tariff contracts.

15 My testimony also presents policy issues and the implications of the
16 Company's and industry's need to address rising costs and capital investment
17 requirements. Specifically, I will provide a summary of the Company's filing and
18 introduction of the witnesses that will address the Company's case. In addition, I
19 will address in more detail the following:

- 20 • The need for a price increase;
- 21 • The major cost drivers underlying the need for the price increase,
22 including load growth, capital investment, and operating costs beyond the
23 Company's control;

- 1 • The Company's efforts to control costs while maintaining reliable service
2 and customer satisfaction.

3 **Need and Cost Drivers**

4 **Q. Please explain why the Company is requesting an Idaho rate increase?**

5 A. This rate increase is driven by two key factors: first, the Company is in the midst
6 of an unprecedented, unavoidable capital investment cycle; and second, rising
7 costs of fuel and purchased power to serve our customers.

8 **Q. Please provide your perspective on Rocky Mountain Power's unprecedented
9 capital investment.**

10 A. Today the Company's gross electric plant-in-service is just over \$16 billion. Over
11 the next ten years the Company expects to spend approximately \$20 billion or, on
12 average, \$2 billion of new plant investment annually, adding significant new
13 supply-side generation resources, transmission lines and distribution facilities.
14 This major construction program is necessary to meet customer demand, to
15 replace expiring power contracts and to continue to provide safe, reliable service.
16 Unfortunately, this investment cycle comes at a time when costs for fuel and
17 building materials are increasing at rates significantly greater than the rate of
18 inflation. Assuming these trends continue, the Company will need frequent price
19 increases over the next several years to allow it to recover its costs to serve
20 customers. This situation is not unique to Rocky Mountain Power as nearly all
21 utilities are attempting to deal with increasing costs and rising customer prices.
22 While no one likes increasing electric rates, it is critical that rates reflect the costs
23 expected to be incurred during the period the rates are in effect; otherwise

1 customers and elected official will not receive the price signals they need to make
2 sound economic decisions regarding efficient energy usage. Additionally, over the
3 long term, the Company cannot sustain the high levels of capital investment
4 required to meet its obligation to serve and maintain the high degree of reliability
5 and customer satisfaction without adequate relief through compensatory price
6 increases.

7 **Q. After years of relative stable investment levels, why are you experiencing**
8 **such dramatic increases now?**

9 A. Seven of the eleven Company coal plants (approximately seventy-five percent of
10 its coal generation) were built in the nineteen seventies and early eighties. For
11 over two decades these plants allowed the Company to meet its customers' energy
12 requirements and offset costs through sales into the wholesale market;
13 unfortunately, customers' demands now exceeds that capacity and requires that
14 the Company invest more in new generation facilities. The Company is now
15 faced with decisions with long term implications on how best to meet our
16 customers' ever-growing consumption of electricity. In 2006 and 2007 the
17 Company invested over \$1.1 billion, which added over 1,100 megawatts of new
18 natural gas fueled generation and 240 megawatts of wind resources. When you
19 include the investment in generation resources added in 2008, the Company has
20 added over 1,600 megawatts of natural gas and 400 megawatts of wind
21 generation. Despite this sizeable investment and power supply expansion, much
22 of our generation is fully utilized. In addition to new supply side resources, the
23 Company's transmission investments play a key role in providing affordable

1 electricity by connecting PacifiCorp's east and west control areas. These
2 investments provide access to additional supply resources and increases load-
3 serving flexibility. The Company has dramatically increased its electricity
4 demand management efforts to reduce the growth in electric energy
5 consumption and peak demand. The Company's demand-side-management
6 efforts can help reduce demand, but they won't completely offset the need for
7 new assets and purchased power. The Company must add new capacity with
8 additional generation and transmission facilities.

9 **Cost Control Efforts**

10 **Q. Explain some of the efforts the Company has made to control costs and keep**
11 **electricity prices reasonable?**

12 **A.** The first and most cost effective approach is to encourage more efficient use of
13 electricity. Electricity has been and continues to be a key resource driving the
14 economic development of this country. One of Rocky Mountain Power's six core
15 principles of business is Environmental Respect. Just as natural resources are
16 essential in the production of energy, so is protecting those resources and the
17 environment for future generations. The Environmental RESPECT policy, which
18 serves as our environmental compass in the areas of Responsibility, Efficiency,
19 Stewardship, Performance, Evaluation, Communication and Training drives our
20 energy decisions. The Company has dramatically increased its demand
21 management efforts to attempt to slow the demand for energy. Over the last ten
22 years ending December 2007, the Company's demand side management efforts
23 have saved over 1,800,000 megawatt-hours and have reduced system demand by

1 over 300 megawatts. In comparison, over the next ten years the Company seeks
2 to acquire an additional 4,600,000 megawatt-hours and reduce system demand an
3 estimated 750 megawatts, a 140 percent improvement. In addition to the energy
4 efficiency resources, the Company continues to grow its load management
5 programs. Today, the Company has over 300 megawatts of air conditioning and
6 irrigation load participating in our demand reduction programs. Again, these
7 programs can improve energy efficiency, reduce system peak demand and reduce
8 customers' costs, but the programs cannot entirely eliminate increased energy
9 usage in Idaho.

10 **Q. Please explain steps the Company has taken to mitigate increasing cost**
11 **pressures of running the business.**

12 A. Since the acquisition by MEHC in 2006, the Company has reduced administrative
13 and general expenses over \$40 million, from \$228 million to \$188 million. The
14 Company has partially mitigated health care cost increases and pension cost
15 increases with internal cost control initiatives. For example, the Company's
16 transition for health insurance premium costs was completed on January 1, 2008,
17 and now requires employees to pay a larger amount of the health insurance
18 premium. The Company has also implemented a change to a cash balance
19 pension plan for non-union employees.

20 Effective management of power and operating costs is another of the key
21 elements of the Company's strategy to keep electricity prices as low as possible.
22 The Company is making significant investments in renewable wind generation
23 resources which have zero fuel costs. In addition, the Company has worked hard

1 to strike a balance between operational expenses, customer service and preventive
2 maintenance on the Company's transmission and distribution facilities. This
3 approach helps to achieve maximum value for each dollar spent on maintaining
4 and operating the growing electric network.

5 While these efforts provide value to customers, they are not and will not
6 be enough to offset the cost increases in these areas, let alone from capital
7 investments and increased power costs. We recognize that any rate increase is
8 significant to our customers and that some customer classes are affected more
9 than others on a percentage basis. The increase in rates that the Company is
10 requesting is necessary to allow the Company to recover its prudently incurred
11 costs and is vital to the public's long-term interest. The Company is operating in
12 a cost efficient and effective manner and takes seriously its duty to meet the
13 challenges it faces in providing reliable service at a reasonable price to customers.

14 **Q. What effort has the Company made to communicate and train customers to**
15 **be more efficient?**

16 A. The Company provides customer communication and training in multiple sources
17 utilizing media, public meetings and individual consulting. Monthly the
18 Company mails, with customers' bills, *Voices*, an information brochure with
19 energy efficiency tips, information on demand side management and other
20 Company programs, such as its Blue Sky renewable tariff. The Company also
21 runs informational and efficiency ads in the local radio and news media. Also, the
22 Company holds public meetings with our customers to inform them of issues the
23 Company is facing. This year Company representatives held information

1 meetings in many communities throughout our Idaho service territory to update
2 customers on issues from the Bonneville Power Administration residential
3 exchange, demand-side management program enhancements, the irrigation
4 dispatchable program, the proposed Populus to Terminal transmission line and a
5 Senior Executive presentation to customer and community leaders. In addition to
6 media and public meetings, the Company's customer and community managers
7 are assigned to work closely with each of our larger customers.

8 **Rate Case Overview**

9 **Q. Please explain the Company's requested rate increase in this application.**

10 **A.** As previously mentioned, the Company is requesting an increase of \$5.9 million
11 supported by an overall revenue requirement needed to cover cost of service of
12 \$217 million. Historical data from calendar year 2007 was used as a base to
13 develop the test period used in this case, with known and measurable adjustments
14 through December 2008. The test period used in this case is essential in
15 providing the Company with an opportunity to receive sufficient revenues from
16 Idaho customers to recover its costs, maintain service levels and earn a reasonable
17 rate of return. Company witness Mr. **Brian S. Dickman**, Manager, Revenue
18 Requirement, will discuss the test period, the requested revenue increase and the
19 sources of the data used in determining the normalizing adjustments related to
20 revenue, operations and maintenance expense, net power costs, depreciation and
21 amortization, taxes and rate base in developing the Idaho revenue requirement.

22 Mr. Dickman's analysis is based on a cost of capital that includes a request
23 for a return on equity of 10.75 percent, which is the Company's expected cost of

1 equity capital, and a capital structure with an equity percentage of 50.4 percent.
2 Mr. **Bruce N. Williams**, Vice President and Treasurer, will testify concerning the
3 Company's cost of debt, preferred stock and capital structure. Additionally, **Dr.**
4 **Samuel C. Hadaway**, FINANCO, Inc. will testify concerning the Company's
5 return on equity. He will also describe the unique operational risks that Rocky
6 Mountain Power faces and why the Commission should authorize a return on
7 equity that recognizes the Company's increased risks and operating challenges.

8 The financial requirements, operating challenges and risks that Dr.
9 Hadaway discusses in his testimony are demonstrably real. The Company is in a
10 period of load and capital investment growth, and the Company's required
11 ongoing level of investment far exceeds both its net operating income and
12 depreciation expense. As a result, the Company requires substantial levels of new
13 financing to fund the investment necessary to meet its customers' power needs.

14 **Q. If the requested rate increase proposed in this application is not approved,**
15 **will the Company have a reasonable opportunity to cover the costs it incurs**
16 **to serve our customers?**

17 A. No. As a consequence of the additional investments made by the Company,
18 coupled with rising operation, maintenance, depreciation and other costs, it will
19 not be possible for the Company to cover its cost to serve customers and make an
20 adequate return on its investments necessary to serve these customers.

21 Every new generation plant, every transmission line and every distribution
22 facility is significantly more costly than similar facilities currently included in
23 rates. In addition, the cost of fuel and purchased power is rising for both existing

1 and future customers. The level of capital investments that are being made by the
2 Company and the increase in energy costs cannot be entirely offset by
3 productivity gains achieved by the workforce through the effective
4 implementation of technology or through increased sales. The costs are real, and
5 the level of revenues requested in this case is necessary to enable the Company to
6 satisfy its obligation to serve its customers with safe and reliable service.

7 Reflecting the actual cost of providing electric service in rates is also necessary to
8 provide customers with accurate price signals regarding the cost of their usage so
9 they can better manage their electricity consumption.

10 **Q. How will the proposed rate increase sought in this application contribute to**
11 **Rocky Mountain Power's financial health in Idaho?**

12 A. The proposed rate increase will give the Company a reasonable opportunity to
13 earn its allowed rate of return. The increased revenues requested in this
14 application will contribute to favorable credit ratings from the financial markets,
15 thereby keeping debt costs for customers at reasonable levels. In addition, the
16 requested revenues will allow the Company to maintain and operate its system
17 reliably. Finally, the revenues requested will permit the Company to continue its
18 extensive investment program in generation, transmission and distribution
19 facilities to serve Idaho customers.

20 **Cost Drivers**

21 **Q. Please provide details on the major cost drivers necessitating the requested**
22 **additional rate relief.**

23 A. As previously noted, the growth in customer demand for energy and peak load

1 growth drives the company's capital investment plan. The Company's obligation
2 to serve necessitates that its Idaho revenues are sufficient to cover its rapidly
3 increasing costs and necessary investments. The Company's fundamental
4 business inputs are not within its direct control. These cost increases cannot be
5 entirely offset by the Company's efficiency measures. I will explain each of these
6 cost drivers in more detail.

7 **Load Growth**

8 **Q. Please explain the load growth in Rocky Mountain Power's service territory.**

9 A. The economy and related electrical load in Rocky Mountain Power's service
10 territory has been booming. Growth has exceeded the national average and is
11 expected to continue. North American Energy Reliability Corporation (NERC)
12 forecasts that electric energy consumption growth in the Rocky Mountain region
13 through 2016 will be higher than any other region of the nation.

14 While this high rate of growth is good for the local economy, it contributes
15 to the rising cost of electric service, as the marginal cost of new generation and
16 power delivery resources are double the average cost of existing generation
17 resources.

18 **Capital Investment**

19 **Q. What is Rocky Mountain Power's current projection of total capital
20 investment?**

21 A. The Company's most recent Form 10-K, filed with the Securities and Exchange
22 Commission on February 29, 2008, indicates that the Company's unavoidable
23 capital expenditure program exceeded \$1.5 billion in 2007 and will reach at least

1 \$20 billion over the next ten years. This case includes over one billion dollars in
2 new plant investment the Company has made or will make between December 31,
3 2007, and December 31, 2008, including the investment in two new wind
4 facilities, Goodnoe Hills and Marengo, and the costs of the recently purchased
5 Chehalis natural gas power plant. This level of investment necessitates Rocky
6 Mountain Power's request for additional revenues.

7 **Q. How would a failure to address these issues affect Rocky Mountain Power's**
8 **ability to attract new capital required to serve new load and maintain its**
9 **system?**

10 A. Absent supportive regulatory treatment in this, and future rate cases, the
11 combination of: 1) the Company's current capital investment program; 2) rising
12 labor, equipment, materials and fuel costs; and 3) risks involving resource
13 coordination among the six states served by the Company could adversely affect
14 the Company's credit ratings, which would make it more difficult for the
15 Company to obtain the cost effective capital it needs. Credit ratings are
16 particularly critical when companies are in a "build" cycle and challenging credit
17 market as Rocky Mountain Power now is. Low costs of debt and equity help keep
18 customer prices low.

19 The Company has greatly benefited from its ownership by MEHC, which
20 has invested a total of \$615 million in cash contributions and has returned \$900
21 million in retained earnings to the business to support its service to customers.
22 PacifiCorp has not paid one dollar in dividends since the acquisition on March 21,
23 2006. The Company's parent will provide an additional cash equity contribution

1 of \$150 million before the end of the test period. However, the Company still
2 relies on external parties for its significant debt financing needs. The debt
3 securities markets are competitive, and to the extent investors perceive higher risk
4 in Rocky Mountain Power because of regulatory uncertainty or unfavorable
5 regulatory decisions, they will require higher interest rates from the Company's
6 borrowings. Higher interest rates on debt will result in higher rates for our
7 customers.

8 **Q. Has the Company's recent rating agency report taken note of the large**
9 **capital expenditure program?**

10 A. Yes. Exhibit No. 1 is Standard & Poor's (S&P) recent credit report on
11 PacifiCorp, which was issued on April 17, 2008. Page 2 of the S&P report
12 contains the following comment:

13 "In 2007, the company invested \$1.5 billion in capital projects that
14 was funded with approximately \$1.0 billion of debt...\$200 million
15 in MEHC equity infusions, and the balance with operating cash
16 flow. The company is embarking on a 10-year, \$20 billion capital
17 program, of which an estimated \$14 billion will be incurred in the
18 next five years."

19 **Q. Please explain the major generation additions in Rocky Mountain Power's**
20 **capital investment strategy that are included in this case.**

21 A. To address load growth challenges the Company is in the process of completing
22 or adding significant new generation resources. Mr. **A. Robert Lasich**, President
23 of PacifiCorp Energy, explains in his direct testimony the prudent steps taken by
24 the Company in meeting its obligation to serve customers through adding new
25 generation resources. The Company's new generation investments include the
26 Marengo II and Goodnoe Hills wind projects and the Blundell Bottoming Cycle

1 geothermal plant addition. In addition, the Company is adding over 500
2 megawatts including the purchase of the Chehalis natural gas fueled power plant.
3 This plant will be acquired at a cost that is less than half the Company's estimate
4 of what it would cost to build a similar facility. This acquisition provides an
5 extraordinary benefit to Idaho customers. Mr. **Stefan A. Bird**, Senior Vice
6 President, Commercial and Trading will testify in support of the proposed
7 Chehalis acquisition, including investment and prudence information.

8 **Q. Please explain the other major additions in Rocky Mountain Power's capital**
9 **investment strategy that are included in this case?**

10 A. The Company continues to make significant transmission, distribution and other
11 investments which have been included in this case. Mr. Dickman has included
12 exhibits in his direct testimony supporting the plant additions, all of which are
13 necessary to provide service to our Idaho customers.

14 In addition, on May 30, 2007, the Company announced the construction of
15 two major 500 kilovolt transmission projects of approximately 600 miles each
16 that will originate in Wyoming and connect into Utah, Idaho, Oregon and the
17 desert southwest. Siting, permitting and other initial work for the various
18 segments of the projects are underway. None of the costs of these proposed
19 projects are in this case as they are scheduled for completion between 2010 and
20 2014, but these costs will add additional upward pressure on rates when they
21 begin to show up in future rate cases.

1 **Externally Influenced Costs**

2 **Q. Please explain external business factors that are driving cost increases.**

3 A. In addition to general inflation, the Company is experiencing significant upward
4 cost pressures in several areas including construction material and equipment,
5 property, rights of way and easements, net power costs, and certain labor-related
6 costs.

7 **Q. Please explain the cost pressures on the Company and its customers related
8 to net power costs.**

9 A. Net power costs consist of fuel, net wholesale transactions (purchases from and
10 sales to other utilities and power marketers) and transmission wheeling expenses.
11 In total these costs represent nearly 30 percent of the Idaho revenue requirement.
12 Even with the addition of more than 2,000 MW of new generation capacity over
13 the last six years, the Company does not currently own sufficient resources to
14 meet customers' peak power needs on its own. Therefore, we must buy and sell
15 power in the wholesale market to meet our load requirement and to balance
16 hourly, daily and seasonal load fluctuations. Net power costs continue to trend
17 upward, remain volatile, and are one of the primary cost drivers in this general
18 rate case. The majority of the 2,000 MW added is fueled by natural gas, the
19 combination of higher fuel prices and wholesale market volatility has produced a
20 more volatile environment for all participants in the wholesale energy markets,
21 including regulated utilities.

22 On a total-Company basis, net power costs are expected to be
23 approximately \$982 million during the test year, an increase of more than \$120

1 million above the level supported by the Company in the 2007 general rate case.
2 The use of historic test periods for ratemaking under current economic conditions
3 results in persistent under-recovery of the actual level of power costs incurred
4 during the period that rates are in effect. For example, the Company expects that
5 actual net power costs will be about \$1.109 billion for the period through June
6 2009, not the \$982 million sought in this case. Mr. **Gregory N. Duvall**, Director,
7 Long Range Planning and Net Power Costs, will testify in support of the
8 Company's net power costs and describe this in more detail in his direct
9 testimony.

10 As opposed to most other investor-owned utilities, including those in
11 Idaho, Rocky Mountain Power does not have a mechanism for more timely
12 reflection in rates of the changing costs of power. Given the current conditions
13 described in Mr. Duvall's testimony, the Company believes that the absence of
14 such a mechanism creates greater risks for it than for those utilities that have such
15 mechanisms. But, the Company understands that compensating the Company in
16 its allowed regulatory return on common equity for this incremental risk can be
17 difficult. As a result, the Company has concluded that prudent operation of its
18 business necessitates that it seek to implement ratemaking mechanisms that allow
19 the Company a reasonable opportunity to reflect in rates the costs of power that it
20 incurs while those rates are in effect. The Company expects to propose a power
21 cost mechanism to the Commission within thirty days after filing this case. That
22 timing will permit the Commission to consolidate that filing with this case, if it
23 concludes that consolidation is appropriate.

1 **Customer Satisfaction**

2 **Q. Has the Company continued to improve customer service and power quality**
3 **while undertaking cost containment initiatives?**

4 A. Yes. As acknowledged by TQS Research and J.D. Power & Associates, the
5 Company's overall satisfaction continues to improve across all sectors.
6 Improvement to customer service performance is demonstrated by the continuous
7 reductions in both customer complaints and customer guarantee failures since the
8 service quality commitments were implemented.

9 **Q. Has the Company made improvements in service reliability?**

10 A. Yes. The Company has improved service reliability in Idaho, via replacement
11 and reinforcement of transmission and distribution assets to reliably serve new
12 and existing customers. These investments have resulted in improvements in
13 reliability performance as measured by key performance metrics. Specifically,
14 during the period between April 1, 2005, and March 31, 2008, the Company
15 delivered on its Service Standards Performance Standards Commitments, which
16 are direct measurements of some of these key performance metrics.

17 **Q. What other actions has the Company taken to advance service reliability?**

18 A. Beginning in 2007, the Company has further refined its maintenance approach to
19 incorporate the outage history of individual customers and circuits, while
20 evaluating overall electric system and circuit level performance. This program is
21 known as "Customers Experiencing Multiple Interruptions" (CEMI). It further
22 refines the Company's maintenance and reliability improvement plans to target
23 those areas that need the most attention. In conjunction with the CEMI approach,

1 Rocky Mountain Power now uses a central scheduling approach and reliability
2 work plans to more efficiently and effectively target its distribution maintenance
3 expenditures.

4 **Q. What has the Company done to reduce the impact of this rate increase on**
5 **Idaho customers?**

6 A. To help mitigate increases, the Company has made intensive efforts to manage
7 peak growth in Idaho with our existing demand side management (DSM)
8 programs. Participation in the Irrigation Load Control Credit Rider Dispatch
9 program in Idaho increased from approximately 50 MW to over 200 MW during
10 2008. The objective of these programs is to help educate our customers to be as
11 efficient as possible with our electric resources to reduce electricity use and peak
12 demand. The programs that target reductions in peak demand help to reduce
13 stress on the existing electrical infrastructure and reduce expensive power
14 purchased on the wholesale market at peak times.

15 Mr. Jeffery W. Bumgarner, Director of Demand Side Management will
16 present testimony explaining the various programs the Company offers and
17 respond to the Commission's order from Case No. PAC-E-08-01, directing the
18 Company to provide the information necessary for a prudency determination in its
19 next general rate case, as well as explain the development of DSM strategy and
20 management of DSM programs, implementation and delivery.

21 Additionally, Rocky Mountain Power supports low-income households by
22 joining in partnership with our customers and other agencies through the HELP
23 and the Low Income Weatherization programs.

1 **Pricing**

2 **Q. How do the Company's rates compare to other electric rates in the country?**

3 A. Rocky Mountain Power's current overall average price (5.72 cents per kWh)
4 places Idaho's rate in the lowest quartile among U.S. investor-owned utilities
5 according to the Edison Electric Institute. Since 1986, the Company's overall
6 Idaho base rates collected from the rate schedule classes (i.e., standard tariff
7 customers excluding special contracts) have increased only three times, and the
8 overall base rates for these rate schedule classes have increased less than one
9 percent. Including the effects of the full increase proposed in this case, overall
10 base rates for the major rate schedule customers excluding special contract tariff
11 customers in Idaho will have increased less than five percent since 1986. Over
12 that same 22-year period, the Consumer Price Index has increased by over 96
13 percent. The Company's rates in Idaho have historically been and will remain
14 among the lowest in the nation, even after incorporating the price increase
15 proposed in this application. Mr. **Michael J. Zimmerman**, Regulatory
16 Consultant, Pricing and Cost of Service will present the Company's rate spread
17 and rate design proposals that determine the ultimate prices customers will see.
18 Mr. **Mark E. Tucker**, Regulatory Analyst in the Pricing and Cost of Service
19 Department will present the Company's class cost of service study.

20 **Conclusion**

21 **Q. Please provide a conclusion to your testimony.**

22 A. The electric utility industry is entering a period where the only certain thing is
23 uncertainty. In the midst of the rapidly evolving landscape related to climate

1 change, state and federal energy policies, rapidly increasing raw material costs,
2 and generation and transmission shortages; Rocky Mountain Power continues to
3 effectively plan to meet our customers' energy needs.

4 The Company manages its business according to six core values which
5 are: 1) customer service; 2) employee commitment; 3) financial strength; 4)
6 environmental respect; 5) regulatory integrity; and 6) operational excellence. I
7 believe Rocky Mountain Power is an excellent company that cares about its
8 customers, employees and the communities it serves. The proposed increase
9 will allow us to continue to be a provider of excellent energy services to Idaho.

10 **Q. Does this conclude your direct testimony?**

11 **A. Yes.**

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Case No. PAC-E-08-07
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Witness: A. Richard Walje

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ROCKY MOUNTAIN POWER

Exhibit Accompanying Direct Testimony of A. Richard Walje

Standard & Poors – PacifiCorp Review

September 2008

The McGraw-Hill Companies

**STANDARD
& POOR'S**

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RESEARCH

Summary:

PacifiCorp

Publication date:

22-Apr-2008

Primary Credit Analyst:

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Credit Rating: A-/Stable/A-1

Rationale

The 'A-' corporate credit rating (CCR) on PacifiCorp reflects the consolidated credit profile of parent, MidAmerican Energy Holdings Company (MEHC; 'A-/Stable'). The rating incorporates MEHC's 'excellent' business risk position, an 'aggressive' financial profile, and the explicit and implicit support from Berkshire Hathaway ('AAA/Stable/A-1+'), which is the majority owner of MEHC. Explicit support from Berkshire Hathaway is in the form of a \$3.5 billion equity commitment agreement, which, in Standard & Poor's Ratings Services' view, would be called on -- if necessary -- to support MEHC's rating or that of its regulated subsidiaries, including PacifiCorp. Consolidated MEHC debt, including current maturities and short-term debt, totaled \$19.8 billion as of Dec. 31, 2007.

PacifiCorp serves 1.7 million customers in portions of the six western states of Utah, Oregon, Wyoming, Washington, Idaho, and California, operating as Pacific Power (Oregon, Washington, and California) and Rocky Mountain Power (Utah, Wyoming, and Idaho). The company's two largest markets, Utah and Oregon, comprise about 70% of the company's retail electric operating revenues. As of Dec. 31, 2007, the utility's standalone debt, including current maturities and preferred stock, was approximately \$5.2 billion.

MEHC purchased PacifiCorp from Scottish Power Plc. in March 2006 and owns the utility via PPW Holdings LLC, a special-purpose, nonrated entity with no debt outstanding. Through ring-fencing, PacifiCorp's CCR could potentially be as high as three notches above MEHC's rating, provided its standalone credit quality supported such an elevation. However, on a standalone basis, PacifiCorp currently has credit metrics that are in the 'BBB' category.

Funds from operations (FFO) rose modestly in 2007 to \$995 million from \$928 million in 2006. As of Dec. 31, 2007, PacifiCorp's adjusted FFO to total debt was 16.7%, and FFO interest coverage was 3.7x. Adjusted debt to total capitalization stood at about 54%, which includes adjustments to reflect debt-like obligations, the largest of which is the inclusion of \$450 million in power purchase payments. As part of the acquisition, PacifiCorp is limited in making dividends to MEHC unless it maintains a common equity ratio of 48.25% through 2008, decreasing annually to 44% by 2012. (These requirements exclude current maturities and short-term debt in the calculation of leverage.)

Key drivers of performance for the year included the 2006 settlement of rate cases in all six states it serves, which provided about \$270 million in rate relief (of which \$187 million flowed to the company in 2007); a 3% increase in energy sales driven by weather; customer growth of 2%; and improved plant availability. Revenues from wholesale sales were slightly down for the year at about \$1 billion.

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Major challenges facing the utility include managing six separate regulatory environments to ensure timely recovery of costs, controlling fuel costs given the absence of power supply adjusters (PSAs) in Utah, Washington and Idaho, and executing on its large capital program.

In 2007, the company invested \$1.5 billion in capital projects that was funded with approximately \$1.0 billion of debt (total issuance in 2007, net of \$165 million in maturing debt and preferred stock), \$200 million in MEHC equity infusions, and the balance with operating cash flow. The company is embarking on a 10-year, \$20 billion capital program, of which an estimated \$14 billion will be incurred in the next five years. The largest component of investment is an estimated \$4.1 billion to build Energy Gateway, a 1,200-mile multistate transmission project that will be energized in phases from 2010 to 2014.

Other projects include investment in renewable generation to meet renewable portfolio standards. In 2007, the company placed into service the 140 MW Marengo wind project. Another seven projects, totaling 520 MW, are planned. As part of the company's integrated resource plan (IRP) filed in May 2007, the company has identified 3,870 MW needed by summer 2016. Utah has acknowledged the IRP, and Oregon, Idaho, and Washington regulators are expected to respond in 2008. The company's IRP does not contemplate any new coal-fired resources. Capital investment also includes environmental work; the company pledged \$812 million for emission reductions as part of MEHC's acquisition. About 64% of the company's power supply in 2007 was coal fired.

The company last week announced it has reached an agreement to buy a 500 MW plant. Details of the acquisition have not been disclosed. Its 2007 IRP identified a need for two approximately 500 MW gas plants in the 2012 timeframe. As a result, the transaction would require the company to close the purchase an estimated four years in advance of requiring the capacity. The company is currently seeking regulatory approval needed in Utah and Oregon to bypass the request for proposals process, which would allow it to purchase the plant without a formal bid solicitation process. In Utah state statute also permits preapproval of the acquisition.

The capital program underscores the need for what is expected to be sizable rate relief in the coming years. To date, PacifiCorp's new owners have been only modestly tested in their ability to manage rate case outcomes, as most of the rate cases resolved in 2007 were all initiated by ScottishPower. Utah will be an important state to monitor. By this summer, the company is expected to file its third rate case in less than three years. Cumulative rate increases over this period could be 17% or more. (A 10% retail rate increase was approved in late 2006, and the company's revised current request is for a 7% increase. It has not made public the amount it will seek in a proposed June 2008 filing.)

The case currently pending before the Utah Public Service Commission (UPSC) was originally filed in December 2007, and was based on a forecast, 12-month test year ending June 30, 2009. The company sought a \$161 million general request, or about an 11% rate increase. But in February 2008, the UPSC ruled that the test period should end on Dec. 31, 2008, which lowered the company's request to about \$100 million (a 7% increase). The revenue requirement portion of the case should be completed in early June with initial rates, if approved, going into effect August 2008. This month, PacifiCorp notified the UPSC that it expects to file another rate request around June 6, 2008. This implies that two cases may be pending before the UPSC at the same time.

In other states, PacifiCorp also has an active \$35 million rate case (a 15% increase) in Washington. Filed in February 2008, rates are expected to be in place no later than January 2009. The company was last granted a 6% increase in June 2007 as part of a fall 2006 filing.

In Wyoming, a final order is pending that codifies an oral ruling last month by the Wyoming Public Service Commission approving a \$23 million settlement. The settlement represents a 5% increase, relative to the original \$36 million PacifiCorp sought. New rates are expected to go into effect in May 2008. The last rate increase in the state was for 7%, granted to PacifiCorp in March 2006. PacifiCorp has no other active cases in the three other states it serves. (In Oregon, the company last had a rate increase of 5% in September 2006. In Idaho, a \$6 million rate increase, or 8%, authorized in late 2007 began on Jan. 1, 2008. In California, a \$5 million increase, or 7%, was approved in association with increases in energy and power costs and went into effect January 2008.)

Through an absence of PSAs in Utah, Washington, and Idaho (about 56% of its retail electric revenues in 2007), the company has below-average regulatory protection from fuel and purchased power cost escalation. In 2008, Wyoming regulators approved a PSA through April 2011, and in California the company benefits from PSA-like mechanisms that up costs ex-post to adjust for changes in operating costs. In Oregon there is also no true PSA, but the company does benefit from an annual proceeding that updates fuel and purchased power costs based on forecast costs, which mitigates the potential for sizable mismatch between actual fuel and purchased power costs and costs authorized in retail rates. In California, the company receives dollar-for-dollar recovery of costs in excess of rates, with some restrictions. The absence of PSAs is somewhat mitigated by the company's heavy reliance on coal, which exhibits reasonable cost stability, but the company's dependence on gas is expected to grow.

Short-term credit factors

PacifiCorp's 'A-1' short-term rating considers the equity commitment of MEHC's ultimate parent, Berkshire Hathaway, to which it has strong ties. Without these ties, the short-term rating on the company would be 'A-2'. Berkshire Hathaway's extremely strong liquidity position is assumed to be available to PacifiCorp via MEHC in the unlikely event that PacifiCorp could not repay its CP obligations. Explicit support exists in the form of a \$3.5 billion equity commitment agreement between Berkshire Hathaway and MEHC that could be called upon to support the liquidity requirements of MEHC's regulated subsidiaries, including PacifiCorp.

PacifiCorp cash and cash equivalents totaled \$228 million as of Dec. 31, 2007, in addition to an unsecured revolving credit agreement for \$800 million through July 2011, reduced to \$760 million in ending July 2012. The company also has a second credit agreement for \$700 million that is through October 2012. Both support the company's CP program and were undrawn at Dec. 31, 2007. CP balances were zero as of the same date. PacifiCorp is limited by regulators to having no more than \$1.5 billion in short-term debt.

The company also has \$518 million of standby letters of credit and standby bond purchase agreements available to support variable-rate pollution control bonds that were fully available at year-end 2007.

The company has two significant maturities in May and September 2008 of \$200 million each, with total maturities for the year at \$414 million, which includes capital lease obligations. PacifiCorp's large capital expenditure program will require substantial external funding, including equity contributions from MEHC. We expect that PacifiCorp will not be in a position to make distributions to its parent while it is executing its capital program.

Outlook

The stable outlook reflects our expectation that MEHC will deleverage PacifiCorp through equity infusions, as needed, and reinvest cash flow into its extensive capital expenditure program, as well as maintain regulatory relationships sufficient to support needed rate increases. It is also assumed that via MEHC Berkshire Hathaway will provide credit support and future investment capital, as needed, to PacifiCorp. PacifiCorp's rating could fall to a level commensurate with its standalone credit quality if MEHC's rating is lowered. PacifiCorp's rating has limited near-term upside, as its credit metrics on a standalone basis fall well short of the 'A' category.

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