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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE
APPLICATION OF ROCKY
MOUNTAIN POWER FOR
APPROVAL OF CHANGES TO ITS
ELECTRIC SERVICE SCHEDULES**

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CASE NO. PAC-E-07-05

Direct Testimony of A. Richard Walje

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-07-05

June 2007

1 **Q. Please state your name, business address and position with the Company**
2 **(doing business as Rocky Mountain Power).**

3 A. My name is A. Richard Walje. My business address is 201 South Main, Suite
4 2400, Salt Lake City, Utah 84111. I am 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. My experience includes
8 working as a journeyman lineman, field service engineer with General Electric
9 and as a substation design engineer for Utah Power. At Utah Power I held
10 numerous management and executive positions with increasing levels of
11 responsibility in the areas of engineering, construction, transmission, and
12 distribution operations, customer service, procurement, information technology
13 and community affairs. I have served on PacifiCorp's board of directors since
14 2000, and I am also currently the chairman of the board of the PacifiCorp
15 Foundation. I have a Bachelor of Science in Electrical Engineering degree (1984)
16 and a Master of Business Administration degree (1991), both from the University
17 of Utah. I have received additional executive level instruction from the
18 University of Michigan and management and electrical engineering theory from
19 General Electric's Crotonville education center.

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

21 A. As President of Rocky Mountain Power, I am responsible for all of the
22 Company's delivery service, customer service and external affairs in Idaho,
23 Wyoming and Utah, including the Company's strategy, investments and

1 operations that contribute to the delivery of safe, reliable and affordable electric
2 service to the Company's customers.

3 **Purpose and Summary of Testimony**

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

5 A. The purpose of my testimony is to provide an overview of the Company's 2007
6 Idaho general rate case application and to introduce the other Company witnesses
7 testifying in support of the proposals in this application. In outlining the
8 Company's case, and the need for the proposed revenue increase, I will cover the
9 following areas:

- 10 • External business factors that create the requirement for utility
11 investments and the increased operating expenses required to ensure the
12 Company continues to meet its statutory obligation to provide adequate,
13 efficient, just and reasonable service to our Idaho customers.
- 14 • The Company's financial strength and why the increase sought in this
15 application is essential to maintaining the financial health of the Company,
16 especially as it relates to the significant capital investment program.
- 17 • The initiatives and investments the Company has undertaken to serve
18 Idaho loads and control costs, while at the same time continuously
19 improving customer service and reliability.
- 20 • The evidence that even with the price increases proposed in this
21 application, the Company's electricity prices remain an excellent value for
22 Idaho customers and local Idaho communities.
- 23 • How commitments related to MidAmerican Energy Holdings Company's

1 (MEHC) acquisition of Rocky Mountain Power have been addressed in
2 this filing.

3 **Idaho Operations and Case Overview**

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

5 A. Rocky Mountain Power provides safe, reliable, and low-cost electric service to
6 over 67,000 Idaho customers. Rocky Mountain Power also provides nearly 200
7 jobs in the communities of southeast Idaho. The Company owns and operates 94
8 substations in Idaho plus over 2,000 miles of transmission lines and 5,600 miles
9 of distribution lines. In addition, the Company purchases the output of the
10 Wolverine Creek wind generation facility located near Idaho Falls.

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

13 A. The Company works closely with state and local government agencies on
14 economic and community development projects and is actively involved in giving
15 back to our Idaho communities. In 2006, Rocky Mountain Power Foundation
16 grants in Idaho exceeded \$15,900 for programs such as the United Way and other
17 worthwhile local programs. The Company's corporate giving also contributed
18 over \$25,000 in contributions and sponsorships for activities in Idaho
19 communities. Rocky Mountain Power's Lend-a-Hand program provides bill
20 payment assistance to low-income households and the Company has committed to
21 ensure \$40,000 from corporate funds, employee and customer donations, or other
22 sources is contributed to the program each year. The Company understands that
23 its responsibility of providing safe, reliable electric service at competitive prices

1 contributes in a positive respect to a healthy Idaho economy.

2 **Q. Please explain why the Company is filing a request to increase its rates in**
3 **Idaho at this time.**

4 A. The Company finds itself in a position similar to that of many utilities across the
5 nation—increasing loads, environmental requirements and improved reliability
6 expectations from customers are driving the need for new utility plant investments
7 which have associated fuel costs, financing costs and operation and maintenance
8 expenses. Rocky Mountain Power's need for the revenue increase in this
9 application is primarily caused by cost increases in the following areas:

- 10 1. Fuel, wholesale market and transmission wheeling price increases,
11 which contribute to significant increases in net power costs.
- 12 2. New generation, transmission and distribution plant investments.
- 13 3. Labor-related cost increases.

14 If approved in its entirety, this filing will assist Rocky Mountain Power in
15 meeting its goals of delivering safe and reliable electric service, and of providing
16 excellent customer service, while setting reasonable prices that provide the
17 Company a fair opportunity to recover the cost to serve customers and to earn a
18 reasonable return on its investment.

19 We recognize that our Idaho residential, irrigation and small agricultural
20 customers are in a period of electric cost uncertainty with the loss of the
21 Bonneville Power Administration residential exchange credit. Under the
22 ownership of MEHC, it is our objective to be conservative in the amount of our
23 requests for rate increases. Consistent with that objective, the Company has

1 carefully prepared this application to ensure that all elements of the rate request
2 are necessary to maintain and provide safe and reliable service to our customers at
3 a level they both expect and deserve.

4 **Q. Please explain the Company's requested revenue increase in this application.**

5 A. In order to recover the costs of providing safe and reliable electric service and to
6 provide a reasonable opportunity for the Company to earn a fair return on its
7 investments, the Company is requesting an increase of \$18.5 million, or 10.3
8 percent, to Idaho revenue. The revenue requirement is described in detail in the
9 direct testimony of Company witness Steven R. McDougal. This increase
10 includes a request for a return on equity of 10.75 percent, which is Rocky
11 Mountain Power's cost of equity capital as explained in the direct testimony of
12 Dr. Samuel C. Hadaway. Later in my testimony I discuss efforts the Company is
13 making to keep controllable costs down and how the Company's rates today
14 remain reasonable even with the price increases proposed in this application.

15 **Externally Influenced Costs and Marginal Cost Pressure**

16 **Q. Please explain external business factors and cost drivers that impact the**
17 **Company.**

18 A. The Company is experiencing significant cost increases to its business inputs,
19 such as certain labor-related costs and net power costs. I will provide an overview
20 of these cost pressures, and subsequent witnesses will provide additional detail
21 and thorough explanations of the impacts these and other areas have on the Idaho
22 revenue requirement.

1 **Q. Please explain the cost pressures associated with labor-related issues?**

2 A. The Company continues to incur cost increases in employee health insurance and
3 pension benefits. Although the Company has mitigated some of the impact of
4 these cost increases with internal control initiatives, such as an increase in
5 employee contributions to these benefits, those that are externally driven are
6 largely unavoidable. For example, the Company has implemented a transition
7 plan for health insurance premium costs that, when completed on January 1, 2008,
8 will require all employees to pay 20 percent of the premium. With regard to the
9 pension program, the Company has implemented a change effective June 1, 2007,
10 to a cash balance pension plan for non-union employees. The cost of employee
11 benefits and recent changes to the Company's program are discussed further by
12 Company witness Erich D. Wilson. Company witness Wilson will also discuss
13 Rocky Mountain Power's success in achieving long-term cost savings for our
14 customers, the operating efficiencies that have been obtained through a work-
15 force restructuring program, and the Company's effort to manage costs and
16 remain competitive with other companies in the energy industry. Even with these
17 internal cost control efforts, externally driven cost pressures, particularly in the
18 health care area, are largely unavoidable, and the Company continues to incur cost
19 increases that need to be included in the Idaho revenue requirement.

20 **Q. Please explain the cost pressures on Rocky Mountain Power and its**
21 **customers related to net power costs.**

22 A. Net power costs consist of all fuel costs, net wholesale transactions and wheeling
23 costs, which in total represent approximately 30 percent of the Idaho revenue

1 requirement. The Company does not own sufficient generating resources to meet
2 our customers' peak power needs; therefore, we must buy and sell power in the
3 wholesale market to meet our load requirement and to balance hourly, daily and
4 seasonal load fluctuations. Net power costs continue to trend upward and remain
5 volatile. The combination of higher fuel prices and wholesale market volatility
6 has produced a much riskier environment for all participants in the wholesale
7 energy markets, including regulated utilities. Company witness Mark T. Widmer
8 will testify regarding the details of the net power costs included in this
9 application.

10 **Q. How does the marginal cost to serve customers today compare to the average**
11 **embedded cost currently reflected in rates?**

12 **A. Providing power in today's environment is more expensive than it has been in the**
13 **past. Because the incremental cost to serve our customer base is much higher**
14 **than the embedded costs currently reflected in rates, upward pressure is placed on**
15 **rates for all of our customers. For example, the marginal cost of generation to**
16 **serve load is in excess of 6.5 cents per kWh if based on a traditional gas**
17 **combined-cycle turbine facility or in excess of 5.5 cents per kWh if based on a**
18 **supercritical pulverized coal plant, and these are exclusive of carbon taxes that**
19 **could add another cent per kWh or more. A new integrated gasification combined**
20 **cycle (IGCC) plant that does not capture nor sequester carbon dioxide will cost**
21 **approximately 9 cents per kWh. Additionally, current market prices for wholesale**
22 **power purchases can be higher than 8 cents per kWh for on-peak energy. In**
23 **contrast, based on current rates the Company is recovering 4 cents per kWh on**

1 average for generation-related costs, with rates for large industrial customers
2 recovering about 3.6 cents per kWh.

3 **Financial Strength**

4 **Q. If the requested revenue increase proposed in this application is not**
5 **approved will the Company have a reasonable opportunity to earn its**
6 **authorized rate of return?**

7 A. No. At current rate levels, the Company's return on equity will drop to an
8 estimated 5.3 percent by December 2007. Without a general rate increase now,
9 the additional investments made by the Company, coupled with rising costs for
10 fuel, operation, maintenance, depreciation and other costs, will make it impossible
11 for the Company to earn anywhere near its authorized rate of return.

12 **Q. Will the Company's significant investments in production, transmission and**
13 **distribution plant impact its financial strength?**

14 A. Yes. PacifiCorp's most recent Form 10-K, filed with the Securities and Exchange
15 Commission on March 2, 2007, indicates that the Company's increasing capital
16 expenditure program already exceeds one billion dollars per year and will
17 increase to as much as \$16 billion over the next ten years.

18 **Q. What are the major components of Rocky Mountain Power's capital**
19 **investment strategy?**

20 A. To address the demand for electricity across the Company's system, the Company
21 is in the process of adding significant new generation, transmission, and
22 environmental resources. A few of these new resources are specifically addressed
23 in this application, including the Company's Lake Side gas-fired generation

1 facility and several new wind resources, including the Leaning Juniper, Marengo,
2 and Goodnoe Hills projects. These generation investments are described in more
3 detail in the direct testimony of Company witness William J. Fehrman. Further,
4 the Company is investing in maintaining its aging thermal fleet and fulfilling its
5 environmental obligations with respect to hydroelectric facility relicensing and
6 emissions control requirements.

7 Additionally, the Company plans significant investment in its power
8 delivery system over the next several years. Company witness Douglas N.
9 Bennion will describe three large projects included in this application, including
10 two large transmission projects required to integrate new generation resources and
11 one large distribution substation project needed to improve reliability in the
12 Company's service territory near Idaho Falls, Idaho. Rocky Mountain Power
13 recently announced plans to construct transmission lines originating in Wyoming
14 and connecting into Utah, Idaho, Oregon, and the desert southwest to deliver
15 needed resources to key load centers and to integrate multiple resource types.
16 These lines coupled with other transmission investments will exceed \$4 billion
17 over the next several years.

18 **Q. How would a failure to address these issues affect Rocky Mountain Power's**
19 **ability to attract the capital it requires to maintain its system and to continue**
20 **to provide safe and reliable service to its customers?**

21 **A.** Absent supportive and appropriate regulatory treatment in this general rate case
22 and with the attendant improved earnings, the combination of the Company's
23 current construction cycle, rising labor, materials and fuel costs and risks

1 involving resource coordination among the six states served by PacifiCorp (Rocky
2 Mountain Power and Pacific Power), could affect the Company's credit ratings
3 position, making it difficult for the Company to obtain the capital it needs at
4 competitive prices. While the Company has benefited from its ownership by
5 MEHC, which has invested approximately \$215 million¹ in cash capital
6 contributions into the Company since the acquisition, without the return of any
7 dividends to MEHC, the Company continues to rely on external parties for its
8 significant debt financing needs. The debt securities markets are competitive, and
9 to the extent investors perceive higher risk in Rocky Mountain Power because of
10 regulatory uncertainty, they will require a greater return through higher interest
11 rates. Higher interest rates on debt will result in higher retail rates for our retail
12 customers. Company witness Bruce N. Williams provides testimony regarding the
13 debt financing and the capital structure of the Company.

14 **Q. What is the Company's requested return on equity in this application?**

15 **A.** Rocky Mountain Power is requesting an authorized return on equity (ROE) of
16 10.75 percent in this application, which is supported in the direct testimony of Dr.
17 Samuel C. Hadaway. In his testimony, Dr. Hadaway explains the quantitative
18 model results, market and industry conditions, and specific Company financial
19 and operating risks that provide the basis for his recommendation. I must
20 emphasize that the financial and operating challenges that Dr. Hadaway discusses
21 are genuine. Rocky Mountain Power is in an extensive, both in size and duration,
22 construction cycle and the Company's ongoing level of investment far exceeds

¹ MEHC plans on investing an additional \$150 million in the Company in 2007. Refer to the direct testimony of Company witness Bruce Williams.

1 both its net operating income and depreciation expense. As a result, the Company
2 requires substantial levels of new financing to fund the investment necessary to
3 meet its customers' electric energy needs.

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

6 A. The proposed rate increases will provide the Company a reasonable opportunity
7 to earn its Commission authorized rate of return. The Commission authorized
8 revenues will contribute to favorable credit ratings from the financial markets,
9 thereby keeping debt costs at levels commensurate with the needs of the business
10 and the best interests of customers. The authorized revenues will also permit the
11 Company to maintain and operate its system with good reliability given the
12 environmental and operating conditions it faces. In addition, the authorized
13 revenues will permit the Company to continue its extensive investment program
14 in generation, transmission and distribution facilities to serve load in Idaho.

15 **Regulatory Lag**

16 **Q. Does the test year in this application capture some of the significant capital**
17 **additions mentioned previously?**

18 A. Yes. Consistent with past Commission practice, the Company used a historical
19 test year ending December 31, 2006, for this application. Certain known and
20 measurable adjustments have been applied to the base year to capture changes in
21 cost and investment levels through December 31, 2007. The Company is
22 including over \$1.1 billion in system-wide investments that will be made during
23 2007, some of the incremental costs of doing business, and any known and

1 measurable benefits that flow through to customers. These adjustments are
2 explained in further detail by Company witness Steven R. McDougal.

3 **Q. Is this adjusted test year sufficient to allow the Company the opportunity to**
4 **recover its prudently incurred costs?**

5 A. No. Even with the addition of major capital investments, approved rates will not
6 be reflective of the true cost of business in the rate-effective period because of the
7 delay in the recognition and recovery of prudent costs or return on investment due
8 to the lengthy regulatory process. For example, rates resulting from this
9 application will likely not take effect until 2008. Costs included in the revenue
10 requirement calculation, on the other hand, are based on expenditures incurred
11 during 2006, adjusted for limited changes known to occur during 2007. This
12 delay is inherent in the regulatory process and in effect prevents the Company
13 from earning its authorized rate of return during a period of rapidly rising costs or
14 when significant levels of capital investment are required. In the current case the
15 Company is responding to both situations, and given the business conditions
16 facing the Company in the foreseeable future, a historical test year does not
17 adequately provide the Company with the opportunity to earn its authorized rate
18 of return. Conversely, a forecast test year approach reduces this "regulatory lag"
19 because it better reflects a utility's financial needs during the rate-effective period.
20 To reemphasize, this is especially the case during the extensive build cycle the
21 Company is currently experiencing. Thus, a forecast test year allows for results
22 that maintain a utility's financial strength during such periods. The Company
23 respectfully requests that the Commission consider fully forecasted test periods

1 for use in future Rocky Mountain Power proceedings to match costs and revenues
2 during the rate-effective period.

3 **Cost Control Efforts**

4 **Q. Explain the efforts the Company has made to control costs in an effort to**
5 **maintain electricity prices at reasonable levels?**

6 A. Effective management of power costs and operating costs is one of the key
7 elements of the Company's strategy to keep electricity prices as low as possible.
8 Since MEHC's acquisition of PacifiCorp, Rocky Mountain Power has achieved
9 increased efficiencies through a wide range of productivity based initiatives,
10 including improved call center operations, new procurement cost savings, internal
11 process improvements and staffing reductions. The Company has also made an
12 effort to strike a balance between operational expenses and preventative
13 maintenance on the Company's transmission and distribution facilities to achieve
14 maximum value for each dollar spent on maintaining and operating our growing
15 system. This effort is discussed in detail in the testimony sponsored by Company
16 witness Douglas N. Bennion. While these and other initiatives are essential, they
17 are unfortunately not enough to offset the significant cost increases discussed
18 earlier.

19 **Q. Has the Company continued improvements in customer service and service**
20 **quality while undertaking cost management initiatives?**

21 A. Yes. As operational efficiencies are achieved, customer service performance
22 levels have also improved. Many of the commitments made at the time of the
23 merger with Scottish Power addressed improved customer service, and Rocky

1 Mountain Power has met or exceeded each of these promises as demonstrated by
2 the recent recognition the Company has received for its excellent customer
3 service. For example, in both 2005 and 2006, Rocky Mountain Power ranked
4 number one out of 60 United States utilities in overall satisfaction for large
5 commercial and industrial customers in the report prepared by TQS Research, an
6 independent survey group. This back-to-back accomplishment as the top utility in
7 the nation is unprecedented in TQS history. In both studies, 94 percent of
8 customers with at least one megawatt of demand reported they are "very satisfied"
9 with the level of service provided to them by the Company.² Additionally, Rocky
10 Mountain Power's call centers received the 2005 Call Center of the Year award
11 from the International Call Management Institute. Finally, J.D. Power &
12 Associates recently released the results of its 2007 small and mid-sized business
13 customer satisfaction survey. Overall, customer satisfaction scores increased 32
14 points for Rocky Mountain Power, but the Company's ranking in the Western
15 region stayed the same at 9th place, suggesting that several other utilities in the
16 West outperformed the Company. We are not satisfied with this level of
17 performance and are working on measures to improve customer satisfaction for
18 all classes of service.

19 **Q. What changes has the Company made to its maintenance and reliability**
20 **improvement investment programs to continue its focus on service**
21 **reliability?**

22 A. Beginning in 2007, the Company refined its maintenance approach to incorporate
23 the outage history of individual customers and circuits. This program, known as

² The 2007 TQS report and ranking results will be released in August 2007.

1 “customers experiencing multiple interruptions” (CEMI), is meant to further
2 refine the Company’s maintenance and reliability improvement investments in
3 those areas that have the worst reliability.

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

5 A. Yes. Rocky Mountain Power has continued to implement an investment strategy
6 that is focused on both transmission and distribution asset replacement and
7 reinforcement as a consequence of load growth and the need to replace assets
8 close to the end of their operational lives. As a result, Rocky Mountain Power has
9 successfully delivered its System Average Interruption Frequency Index (SAIFI)
10 target during the period January 1 through December 31, 2006 and is on track to
11 deliver its System Average Interruption Duration Index (SAIDI) during the period
12 September 1, 2006 through August 31, 2007.

13 **Q. What network performance commitments has the Company made and how
14 do the actual results compare to the commitments?**

15 A. Within the three year period ending March 31, 2008, the Company has committed
16 to deliver no more than 167.4 minutes of average customer interruption and no
17 more than 2.07 average interruptions per year. During the period January 1
18 through December 31, 2006, the Company delivered an actual average customer
19 interruption of 206 minutes and a system average frequency of 1.99 interruptions.

20 **Q. What additional efforts has the Company undertaken and when does the
21 Company anticipate that it will achieve its outage duration commitments?**

22 A. In the latter part of 2005 the Company observed its distribution reliability was
23 continuing to improve; however, it was experiencing more frequent loss of supply

1 events than historically, due to both transmission and substation outages. As a
2 result the Company initiated investigation and corrective plans to turn around this
3 performance. During 2006 the beginning of these results were seen with the
4 successful achievement of the company's frequency commitment target. At this
5 time, the Company is on track to deliver its outage duration commitment target of
6 no more than 167.4 minutes of average customer interruption during 2007.

7 **Q. What other commitments has the Company made to continue its focus on**
8 **service reliability?**

9 A. The MEHC transaction stipulation commits the Company to continue investment
10 in the "Saving SAIDI Initiative" and the "Fusing Improvement Program" (MEHC
11 Commitment No. 35(d)). In setting prices for a public utility, the Commission
12 must keep in mind the balance between the cost of utility service and an
13 appropriate level of service reliability. Rocky Mountain Power has achieved a
14 reasonable balance of cost and reliability and the Company continues to seek
15 improvements. Due to weather conditions, vandalism, mechanical failure or other
16 events beyond our control, we will experience service outages, which
17 unfortunately sometimes result in added costs and inconvenience for our
18 customers. Most of the Company's facilities are exposed to unavoidable risk, but
19 we work with our customers to identify and mitigate these risks in the most cost-
20 effective manner possible.

21 **Q. Please describe Rocky Mountain Power's current and proposed prices in an**
22 **historical context.**

23 A. Rocky Mountain Power's present and proposed base rates, when adjusted for

1 inflation, are significantly lower than they were 20 years ago. As described in
2 detail by Company witness William R. Griffith, including the effects of the full
3 increase proposed in this application, overall base rates for the Company's major
4 rate schedule customers in Idaho will have increased only 2 percent since 1986 on
5 a nominal basis. Over that same 21-year period, the Consumer Price Index has
6 increased by over 89 percent. In light of the significant investment that the
7 Company is making to ensure that the electrical infrastructure can cope with the
8 demands placed on it in Idaho and elsewhere in our system, as well as to ensure
9 that aging assets can be replaced and environmental obligations met, the rate
10 increase proposed in this application is both necessary and reasonable.

11 **MEHC Acquisition of PacifiCorp**

12 **Q. Please generally describe the terms of the Commission's approval of**
13 **acquisition of PacifiCorp by MidAmerican Energy Holdings Company.**

14 **A.** On July 15, 2005, the Company filed an application seeking approval of the
15 proposed acquisition of PacifiCorp by MEHC (Case No. PAC-E-05-08). The
16 Company along with the Commission Staff, Idaho Irrigation Pumpers
17 Association, Community Action Partnership Association of Idaho, Monsanto, and
18 J.R. Simplot Company negotiated a settlement stipulation resulting in 52 general
19 commitments and 41 Idaho-specific commitments. The commitments cover a
20 broad range of benefits including customer service, financial protection,
21 Commission access to information, affiliate transactions, generation (including
22 renewable and environmental issues), transmission projects, low income and
23 community programs, and corporate presence. The stipulation and commitments

1 were ultimately approved by the Commission on March 14, 2006.

2 **Q. Please describe how the MEHC commitments are reflected in this**
3 **application.**

4 A. The commitments identified in the stipulation cover a broad range of benefits,
5 including customer service, financial protection, Commission access to
6 information, affiliate transactions, generation (including renewable resource and
7 environmental issues), transmission projects, low-income and community
8 programs, and corporate presence. Adjustments were made to the revenue
9 requirement to include impacts of the commitments made in the merger
10 agreement as well as known changes to operational expenses implemented after
11 the acquisition. For example, the Company committed to \$142.5 million (total
12 Company) of off-settable rate credits in Commitment I26 (detailed in
13 Commitments I27 through I31) that reduce the revenue requirement and would
14 not otherwise be available without the transaction. Company witness Steven R.
15 McDougal testifies about how the commitments impacting the calculation of
16 revenue requirement are included in the application, including the deferred
17 accounting treatment for certain commitments as approved in Commission Order
18 No. 30076.

19 As previously mentioned, the Company has undertaken a workforce
20 restructuring program resulting in long-term cost savings and operating
21 efficiencies that will benefit customers. Company witness Erich D. Wilson
22 further describes the details of this program, and Company witness McDougal
23 explains how the related costs and benefits of this program have been included in

1 this filing, including the deferred accounting treatment approved in Commission
2 Order No. 30225.

3 In summary, all applicable cost saving measures, efficiencies, investments
4 and improvements in the MEHC commitments have been properly included in
5 this application, can be supported by the appropriate Company witness, and are
6 the result of MEHC's ownership and stewardship of Rocky Mountain Power.

7 **Q. Please briefly describe how the Company's organization has changed and**
8 **how these changes will benefit customers.**

9 A. The Company has been reorganized to enable it to respond quickly and decisively
10 to the needs of its customers in the Rocky Mountain Power service area. In the
11 past, the Company had a single president and numerous executive and senior vice
12 presidents and directors who were responsible for activities and issues across the
13 six-state service territory. That former single president's role is now largely filled
14 by Mr. Greg Abel, the Company's chief executive officer. In addition, numerous
15 positions have been eliminated across the spectrum of responsibility at the
16 Company, including many directors, managing directors, and vice presidents. The
17 three president positions that exist today have been created to oversee the
18 operations of Rocky Mountain Power, Pacific Power, and PacifiCorp Energy and
19 to focus responsibility, accountability, and leadership on more defined
20 components of the business. This allows employees to focus on a smaller set of
21 goals and issues and, as a result, to be more responsive to our customers' service
22 needs.

1 **Q. In what other ways has MEHC ownership impacted the Company?**

2 A. MEHC's acquisition of the Company brought with it enhanced leadership and a
3 superior commitment to operational excellence and integrity. The business has
4 been refocused on local responsibility and accountability with a renewed
5 emphasis on prudent long-term business planning. MEHC is determined to deliver
6 on every commitment made as a condition of the transaction which will bring
7 improved customer service, greater system reliability, more open communication
8 of business planning and direction, and other protective measures benefiting our
9 Idaho customers.

10 The Company is making every effort to control its costs while at the same
11 time providing safe and reliable service to our customers; in fact, expenses that
12 the Company can control have been kept at the same level existing at the time of
13 the MEHC transaction in March 2006. While the Company's initiatives are
14 essential, they are unfortunately not enough to offset the steeply rising costs
15 experienced by the Company in today's business environment, which gives rise to
16 the rate increase requested in this application.

17 **Introduction of Witnesses**

18 **Q. Please identify the witnesses that the Company will offer to support the**
19 **application and the subject of their testimony.**

20 A. The Company witnesses that have filed direct testimony in support of this
21 application and a brief summary of their testimony are as follows:
22 **Samuel C. Hadaway**, of FINANCO, Inc., will testify in support of the
23 Company's ROE. He will also describe the unique operational risks that Rocky

1 Mountain Power faces and why the Commission should authorize a ROE that will
2 account for Rocky Mountain Power's higher risks and operating challenges.

3 **Bruce N. Williams**, vice president and treasurer, will testify in support of the
4 Company's cost of debt, preferred stock and capital structure.

5 **Steven R. McDougal**, director, revenue requirements, will testify in support of
6 the Company's overall revenue requirement based on the results of operations for
7 the test year and describe the normalizing adjustments related to revenue,
8 operation and maintenance expense, net power costs, depreciation and
9 amortization, taxes and rate base. Company witness McDougal will also testify on
10 deferred accounting costs and support the Company's proposed inter-
11 jurisdictional cost allocation.

12 **Mark T. Widmer**, director of net power cost, will testify in support of the
13 Company's net power costs. Company witness Widmer will also describe the
14 Company's production cost model and explain how input data is normalized.

15 **William J. Fehrman**, president, PacifiCorp Energy, will testify in support of the
16 Company's major new generation resource acquisitions, and will provide
17 investment information on and prudence justification for these items, including
18 the increased generation related overhaul and maintenance expenses for the test
19 period.

20 **Doug N. Bennion**, managing director of network reliability, will testify in support
21 of the capital investments that the Company is making in transmission and
22 distribution facilities to serve customer loads and deliver reliable power where it
23 is needed in Idaho.

1 **Erich D. Wilson**, director, human resources, will testify in support of the
2 Company's new compensation, pension, and benefits program and related costs.
3 In addition, Company witness Wilson will support the severance costs incurred by
4 the Company in reshaping its corporate workforce.

5 **Mark E. Tucker**, regulatory analyst, will testify in support of the Company's
6 class cost of service study.

7 **William R. Griffith**, director of pricing, cost of service, and regulatory
8 operations, will testify in support of the Company's rate spread and rate design
9 proposals. Company witness Griffith will also present an analysis of the
10 residential time-of-use schedule structure as ordered by the Commission in Order
11 No. 30229.

12 **Carole A. Rockney**, director, customer and regulatory liaison, will testify in
13 support of proposed housekeeping and needed operational changes to the
14 Company's electric service regulations.

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

16 **A. Yes.**