Q. Are you the same A. Richard Walje who has previously testified in this proceeding?

A. Yes.

Purpose of Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to:

- Explain the ramifications of the Utah Commission's test period order of February 14, 2008 (Test Period Order), on Rocky Mountain Power. (RMP).
- Reiterate the need for a reasonable rate increase at this time.
- Provide RMP's overall response to the revenue requirement proposals of the intervening parties in this docket, particularly the position of the Committee of Consumer Services (CCS).
- Address some of the proposed modifications to the rate case regulatory process proposed by the Division of Public Utilities (DPU) and the CCS.

Impact of Test Period Order

Q. Please explain the impact of the Utah Commission's Test Period Order on Rocky Mountain Power.

A. In the Test Period Order, the Commission shortened the Company's forecast test period, pointing to the potential impact of economic uncertainties on the Company's investments and load forecasts. Based upon the Company's experience in the first quarter of 2008 and its expectations for the balance of the year, however, there are no material changes in its projected investments or loads.

RMP's load continues to grow (particularly in Utah and Wyoming); RMP continues to make investments at a rate of well over $100 million per month (on average) to maintain service; and the costs of materials, equipment and generation and wholesale power continue to increase faster than the rate of inflation. Because these conditions have all remained steady and are expected to remain steady throughout the rate effective period, the Commission's Test Period Order is problematic both in terms of providing timely cost recovery to the Company and sending customers the correct price signals regarding the cost of their electric use.

Q. Please provide an update on the Company's load growth in Utah.

A. As compared to the first quarter of last year, Utah customer usage has increased in the first quarter of 2008 across all classes with industrial and residential showing the largest increases. As compared to the sales forecast included in this filing, actual customer usage in the first quarter of 2008 is higher than forecast for residential and industrial customers, and lower than forecast for commercial customers. Overall Utah load is above forecast.

Q. Please provide an update on the Company's current investment initiatives.

A. The Company remains fully committed to the system investment necessary to meet the burgeoning demand in Utah. Indeed, the size and scope of the program are such that the Company cannot readily slow it to match transitory economic or regulatory conditions and still meet its projected need for new utility infrastructure.

Q. Following up on your last response, there was testimony in the test period hearing on how short term changes in economic outlook should be factored into the Company's capital budgeting and forecasting plans. Do you believe that the capital investment plan can or should be started and stopped based on the latest economic indicators?

A. No. The planning, budgeting, design, procurement, property acquisitions, building and commission of our generation, distribution and transmission facilities can take from three to eight years, depending on the circumstances surrounding the investments. In many cases, the Company does not have feasible alternatives to the projects in the long term investment plan. Without these investments, the Company will be hard pressed to meet its obligation to provide safe and reliable power to its customers. For these reasons, it is unwise to expect the Company to recast its entire capital plan each time there is a national fluctuation in the Dow Jones Industrial Average, unemployment rate or consumer price index, especially when such indicia contrast with local conditions that counter such trends. The Company has a robust long term planning approach, which is intended to assure to match investments with current customers needs. The match will never be 100 percent but under the current business environment it is better to have marginal excess capacity than to have inadequate electric infrastructure in place to meet the Company's obligation to serve. Additionally, with the sky rocketing cost of our business inputs, shifting a new facility (such as a distribution substation) out a year strictly in response to a short-term economic dislocation, might very well result in higher prices to customers because of the extreme cost increases of steel, concrete and electrical equipment the Company and all businesses are experiencing.

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

A. Yes. Exhibit RMP___(ARW-1R-RR) includes Standard & Poor's (S&P) most recent credit report on PacifiCorp, which was issued on April 17, 2008. Page 2 of the S&P report contains the following comment:

> In 2007, the company invested $1.5 billion in capital projects that was funded with approximately $1.0 billion of debt…$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.

Q. Please provide an update on the external cost pressures the Company faces, particularly in power costs.

A. Net power costs have increased significantly since the time of the Company's initial filing. The Company's actual power costs for the first quarter of 2008 are 17 percent higher than the level projected in this case.

The Company's Need for Timely Cost Recovery in Rates

Q. How has the Company responded to these circumstances?

A. Because the Commission's Test Period Order does not allow RMP to avoid making investments or incurring increased costs, the limitation on the test period in this rate case has necessarily accelerated the filing schedule of the Company's next rate case. The Commission's Test Period Order recognized that "In this time of expanded utility investment, potentially increasing costs, and greater uncertainty of economic conditions, more frequent rate cases may be necessary to ensure just and reasonable rates." More frequent rate cases is one way to partially mitigate the cost recovery issues created by the Test Period Order, and this both explains and justifies the Company's plan to now file its next rate case as soon as practicable.

Q. In your opinion, are there better alternatives to serial, overlapping rate cases to address and ameliorate the serious lag in cost recovery now faced by the Company?

A. Yes, both in the long term (i.e. the next rate case) and short term (i.e. this rate case). In the long-term, because the Commission's and interveners' concerns about loads and forecasts in this case have not been substantiated, the Company hopes the Commission will further extend the test period in its next filing to help slow the cycle of repeat, overlapping rate cases in Utah during the Company's investment plan.

If the Commission's concern is to ensure that rates and changes in costs are more closely synchronized, there are much better regulatory mechanisms to accomplish that than to revert to use of an historical or foreshortened test period. Power cost adjustment mechanisms can ensure that rates precisely track positive and negative changes in net power costs. Generation investment adjustments mechanisms, such as authorized by Utah Senate Bill 202, allow customers to receive the benefits of new generation at the same time as they begin paying the costs. The Company may explore such mechanisms in its next rate filing.

Q. How can the Commission address these issues in this rate case?

A. Most importantly, by approving an overall rate increase at or near the level requested by the Company. As discussed in my opening testimony, Rocky Mountain Power's need for this revenue increase is primarily driven by cost increases related to new plant investment and power costs. As discussed above, the Company's investment levels remain high and its power costs are now trending at an even higher level than when the filing was made. This, coupled with the fact that the $40 million in costs removed from this case as a result of the Test Period Order were predominantly new investment and power costs, makes a good outcome in this case critical to the Company's financial position, its opportunity to achieve its allowed rate of return, and its ability to attract new capital.

Q. Are there specific issues in this case where the Commission's discretion over the Company's rates can be exercised in a manner that better aligns the Company's rates with its rapidly rising costs?

A. Yes. There are several critical issues in the case where the mismatch between the Company's actual and projected costs and its rate levels is potentially relevant. I previously submitted testimony on the Company's cost of capital addressing how the Company's business risk supported its 10.75 percent return on equity recommendation. A Commission decision recognizing this business risk and adopting the Company's return on equity recommendation would help strengthen the Company's financial position in the face of its large capital investment program.

Additionally, the Company's rebuttal filing has reduced its requested system net power costs number to $1.044 billion, a level that is in line with the

DPU's recommendation. CCS has proposed system NPC of $986 million, which is $57 million less than the Company and DPU recommendation. The Company's most recent actual power costs for 12 months ending March 31, 2008 were $1.024 billion; CCS's recommendation is $38 million below this number. In reviewing the reasonableness of the Company and DPU position, on the one hand, and the CCS position, on the other, the Commission should check the positions against relevant benchmarks such as this. The Commission should set power costs in this case at a level that recognizes the realities of increasing loads and rising costs.

Finally, the Company has proposed recovery of its incentive compensation costs and other labor costs, pointing to the improved, more customer-oriented performance of the Company under MidAmerican Energy Holdings Company (MEHC) ownership. The Commission can support, reward and encourage these performance improvements through full allowance of the Company's labor costs. I discuss this particular issue in more detail below. As represented by the MEHC acquisition commitments the Commission and interveners have signaled their desire to take this broader view of the Company's performance.

Q. Did the recent credit report from S&P note the connection between the Company's large capital program and its need for rate increases?

A. Yes. The report states that the Company's "capital program underscores the need for what is expected to be sizable rate relief in the coming years." The report also noted that the Company has "below average regulatory protection from fuel and purchased power cost escalation," due to "an absence of PSAs in Utah, Washington and Idaho."

Q. Did the S&P credit report also note the importance of the relationship between the Company and the Utah Commission?

A. Yes. Much of the Company's load growth and the investment to serve load is incurring in Utah. The S&P report notes that "Utah will be an important state to monitor," in terms of the regulatory support the Company will receive for its capital investment program.

Q. Does the Company Agree with S&P's observation in this regard?

A. Yes. RMP is focused on providing reliable, reasonably priced electric service to its Utah customers. We are also dedicated to meeting increased demand from our Utah customers while maintaining high levels of customer service, a challenging proposition in today's energy markets coupled with the need to make large infrastructure investments. We need support from the Utah Commission to continue to meet this challenge and hope to receive it in this case.

Q. What recommendations have certain interveners made in response to Rocky Mountain Power's announced intention to file another general rate case?

A. Both the DPU and CCS propose modifications to the amount of required information for filing a general rate case and the time period in which a general rate case must be completed.

Q. Does Rocky Mountain Power agree with their proposed modifications to the regulatory process?

A. No. As presented, these proposed modifications to the amount of required filing information for a general rate case and the time period in which a general rate case must be completed would further delay recovery of costs, create even less opportunity for the Company to achieve its authorized rate of return and provide poor price signals to customers. These modifications are inconsistent with the Utah State Legislature's direction that the Commission use a forward looking test period when appropriate.

The Commission should be particularly concerned that RMP rates are not sending accurate price signals to customers. The political and popular sentiment is to criticize utilities for not doing enough to control peak demand and encourage energy efficiency; yet, it is not reasonable to expect customers to make proper economic decisions regarding electricity use when we don't expect or ask them to pay what it actually costs to provide them with electric service.

Overall Reaction to Intervening Party Recommendations

Q. As president of Rocky Mountain Power, what is your reaction to the recommendations of the intervening parties in this case?

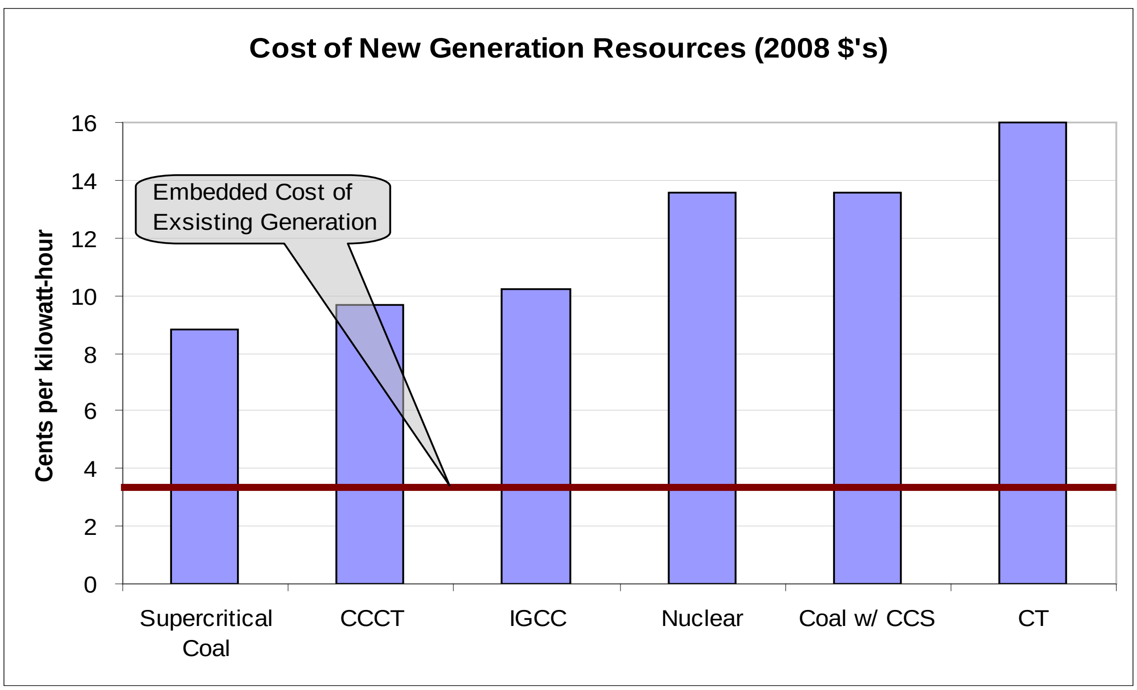
A. While five parties filed revenue requirement testimony, only two, the DPU and the CCS, filed full revenue requirement proposals. With a few notable exceptions, the recommendations of the DPU appear to be a good faith attempt to set a reasonable revenue requirement. Indeed, the Company accepts a number of the proposed adjustments offered by the DPU and has worked with the DPU to modify several others of their proposed adjustments. The Company does disagree with several of their proposed adjustments, and other Company witnesses will address those adjustments in their rebuttal testimony.

In contrast, I am disappointed with the recommendations made by the CCS. RMP has made $420 million of investment (over $192 million allocable to

Utah) in the six months since the September 2007 end of the test period in our last settled rate case. These actual investments over a period of only six months support an increase in revenue requirement for that item alone of over $30 million; more than three times the total increase proposed by the CCS. Yet, the CCS witnesses have recommended a rate increase of less than 1 percent – a result that simply cannot be reconciled with RMP's actual experience.

Q. Please explain why the overall result CCS recommends does not make sense.

A. It is common knowledge that the utility industry faces increasing operating costs and capital investment costs. This is illustrated in the following table that compares the cost of new resources with current embedded generation costs. The supporting data for this table is found in Exhibit RMP___(ARW-2R-RR).



(Source: Resource costs are based upon the costs used from the NWPPE region as configured in the IPM® model. The NWPPE region includes Nevada, Utah, southeast Idaho, and western Wyoming. Updated resource costs for use in PacifiCorp's IRP and business plan have not yet been finalized and may differ from the costs presented in this table.)

I'm personally unaware of one fundamental input to our business that has increased by less than 1 percent over the past two years, let alone for the totality of our fuel, metals, concrete, wages, equipment, etc. The global demand for energy and world-wide competition for scarce resources affect supply and demand; this has driven the cost of our inputs well beyond the consumer price index. We believe we do a very good job of controlling our costs but we should not pretend that Utah is immune from what is happening in the world regarding fuel and commodity costs.

As a direct result of growth in the state of Utah, the Company is undertaking the most significant capital investment initiative in its history. Every new generation plant, every transmission line, and nearly every distribution facility costs significantly more than the cost of similar facilities included in current rates. In addition, the cost of fuel and purchased power is rising for both existing and future customers. It seems unreasonable that anyone could expect that in this environment the cost of serving our customers would increase by less than one percent over a period of nearly two years.

Q. What is your reaction to the various labor cost disallowances the DPU and CCS propose?

A. In some ways, these are the most distressing disallowances of all. There is a shortage of qualified utility personnel available in the market. As explained by RMP witness Wilson, the Company attempts to provide a total compensation and benefits package that is near the average for the businesses we compete against to hire and retain good employees. We have already lost several employees to other businesses, especially in the Northwest. If the Commission disallows a portion of the costs of that market average package and the Company understandably responds by adjusting that package downward, we will be forced to compete for employees with a below average compensation and benefits package. I urge the Commission to recognize that in assessing the reasonableness of the Company's salary and benefits costs, it should not limit its focus to just one element of the total compensation package.

As a long time employee and manager of the company, I can emphatically state that now, more than ever, the performance management approach that has been instituted by MEHC is focused on encouraging and motivating outcomes that have a direct benefit for customers, including but not limited to: reliability, safety, customer service, operating efficiencies, environmental stewardship and good corporate citizenship. The performance plan for which RMP is seeking cost recovery in rates is based upon employees achieving or exceeding their individual goals; it is not based upon or contingent upon return to shareholders. MEHC has another incentive plan for executives that have that objective, and RMP is not seeking recovery of the costs of that plan.

Pay for performance with bonus opportunities, though rarely applied in the public sector, is common, if not pervasive, in the private sector. And since our base pay and benefits are average for similar jobs in our labor market, the cost of the total package cannot be said to be excessive.

It is important to note that over 2,400 of the employees affected by the DPU's and CCS's recommendation live and work in Utah. They are directly affected by these penurious adjustments proposed by these interveners. The Commission's consideration should be upon the reasonableness of the cost of the total package and the package's positive impact on customers.

Q. In summary, what would be the consequences of rates based on the revenue requirement proposed by the Committee?

A. The Company has the obligation to serve its customers dependably and reliably. RMP has made significant progress to improve industrial customer service, improve reliability, enhance dedication to the communities we serve, deliver cost efficiencies, and satisfy transaction commitments to elevate local decision-making. While RMP's efforts seem to have been appreciated or at least expected, RMP is now confronted with rate proposals that would make it impossible to continue with those efforts and still maintain its credit quality. RMP cannot reasonably be expected to continue to make investments and incur costs if rates do not reflect these investments and costs.

Summary

Q. Please summarize your rebuttal testimony.

A. In the Company's current circumstances, absent compensating actions by the Commission, the Test Period Order will deprive RMP of the opportunity to earn anything close to its authorized return. The interveners' proposed disallowance of costs, particularly those of CCS, would further increase the shortfall. To mitigate this result, it is absolutely essential that the Commission recognize the reality of the Company's cost increases and the investments required to meet its obligation to serve an ever increasing number of customers. The Company's employees have served its customers well for nearly 100 years and take pride in the opportunity to do so, as they know they provide a vital service to their friends, families and communities. We are only asking for a revenue requirement that allows us to meet growing demand, growing customer expectations and growing costs, so we can continue to deliver safe, reliable and affordable electric energy to our customers.

Q. Does this conclude your rebuttal testimony?

A. Yes.