BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR AUTHORITY TO INCREASE ITS RETAIL ELECTRIC UTILITY SERVICE RATES IN UTAH AND FOR APPROVAL OF ITS PROPOSED ELECTRIC SERVICE SCHEDULES AND ELECTRIC SERVICE REGULATIONS, CONSISTING OF APPROXIMATELY $161.2 MILLION PER YEAR, AND FOR APPROVAL OF A NEW LARGE LOAD SURCHARGE.	DOCKET NO. 07-035-93

TRANSCRIPT OF HEARING PROCEEDINGS

TAKEN AT:	Public Service Commission 160 East 300 South, Room 403 Salt Lake City, Utah
DATE:	June 2, 2008
TIME:	9:16 a.m.
REPORTED BY:	RENEE L. STACY, CSR, RPR

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I N D E X

E X H I B I T S

June 2, 2008

9:16 a.m.

P R O C E E D I N G S

CHAIRMAN BOYER: This is the time and place duly noticed for the revenue requirement portion of the rate case in Docket 07-035-93 entitled "In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations, Consisting of a General Rate Increase of Approximately $161.2 Million per Year, and for Approval of a New Large Load Surcharge."

We discussed some preliminary matters off the record, and we'll now deal with those on the record, but first I'd like to welcome you all here. We'll be spending a little time this week together, it seems.

We anticipate following the witness schedule that the parties have negotiated among yourselves, which was again revised this morning, and we anticipate hearing from Rocky Mountain Power witnesses, Messrs. McDougal, Tallman, Eelkema, Ross, and Wilson today, and we're going to put on the

prefiled direct rebuttal and surrebuttal testimony of those witnesses and of those witnesses who have been excused, and those, I guess, for whom cross examination has been waived today.

But before we do that, let's take appearances for the record, and let's start with Mr. Proctor, and we'll just go around the room on appearances.

MR. PROCTOR: Paul Proctor, Assistant Attorney General, representing the Utah Committee of Consumer Services.

MR. GINSBERG: Michael Ginsberg and Patricia Schmid for the Division of Public Utilities.

MS. McDOWELL: Katherine McDowell, Lisa Rackner, and Daniel Solander for Rocky Mountain Power.

CHAIRMAN BOYER: Would you spell Ms. Rackner's name for the record, please?

MS. RACKNER: Yes. It's Lisa, L-I-S-A, Rackner, R-A-C-K-N-E-R.

CHAIRMAN BOYER: I'm glad I did that, because I said "Raptor," like the bird, and it's "Rackner." Okay. Very well.

Mr. Dodge?

MR. DODGE: Gary Dodge on behalf of the UAE

Intervention Group.
MR. REEDER: And my name is Bob Reeder. Good morning. I appear this morning for a group of industrial customers whose names are a part of this record, and we're known as UIEC. Thank you.
CHAIRMAN BOYER: Thank you.
MR. MATTHEIS: Mr. Chairman, may I enter mine?
CHAIRMAN BOYER: You surely may.
MR. MATTHEIS: Pete Mattheis, here on behalf of Nucor Steel.
CHAIRMAN BOYER: Welcome, Mr. Mattheis.
MR. MATTHEIS: Thank you.
MR. KELLY: Mr. Chairman, I'd like to enter my appearance as well. Ryan Kelly, Kelly & Bramwell, on behalf of Wal-Mart Stores, Inc., and co-counsel is Holly Smith, is appearing telephonically. I wanted to note her appearance as well.
CHAIRMAN BOYER: Excellent. And welcome, Ms. Holly [sic].
MS. SMITH: I'm here. Thank you very much.
CHAIRMAN BOYER: Have we missed anyone?
Okay. We have a few preliminary matters before we begin with hearing from our witnesses this morning, one of which is a notice that was filed by

Rocky Mountain Power to file sursurrebuttal, an objection by the Committee of Consumer Services through Mr. Proctor, and a response by Ms. McDowell and her colleagues.

Inasmuch as the motion to strike is Mr. Proctor's, let's hear from him first, and then, Ms. McDowell, you can respond, or whomever on your team you wish to respond.

MR. PROCTOR: Thank you, Mr. Chairman.

The procedural flaws in the Company's notice of the 27th of May, I think, are covered in the written motion, although I do have additional comments quickly about the procedure, particularly given the fact that, just moments ago, I was given a response by the Company.

But I first want to address some equally-compelling practical flaws to their request to present sursurrebuttal. This Commission has, in my experience, always expressed a preference that any testimony be written and prefiled, and I think that's a very well-reasoned preference.

First of all, the Commission also invariably emphasizes that it has read and reread the testimony before appearing for the live hearing, and there are good reasons for that. It provides the

Commission with a solid background and an understanding of not only the testimony, but the exhibits and how the exhibits tie into that testimony in support of a particular case.

It gives the Commission a chance to consider the case as a whole, and also it provides a manageable forum for what is a very complex case.

Perhaps unlike anything but an antitrust case tried in federal court, which often lasts months, this case is from beginning to end in less than 240 days. Therefore, the schedule that you set at the beginning of this proceeding in December of last year was intended to create a forum that is fair and equitable to all parties, but, more importantly, provides the Commission with the information ahead of time that it needs in order to manage those complex issues and ultimately enter a resolution of them.

The Commission has always emphasized that it's interested in the parties' cross examination to test the case and to perhaps bring out to the Commission errors or inaccuracies that have -- that lie within prefiled written testimony that you've had a chance to review.

In this case, however, they have asked not to present limited evidence, and, in fact, on Page 4

of their motion filed just moments ago, they talk in terms that they're only presenting limited evidence.

Well, one example of their limited evidence is an 18-page exhibit by Mr. Duvall which they classify as sursurrebuttal. In other words, responding to issues raised in surrebuttal by the intervenors. But that consists of a five-year historical forced outage rates on a weekday/weekend basis by unit by month through December of 2007, so it's information that they have had since certainly January of 2008 when this case first began.

Multiply five times 60 -- 60 months in five years -- times each plant they have, and calculate the forced outage rates on a weekday and weekend basis, and then expect the intervenors to cross examine on that particular piece of evidence, let alone when the fact that that evidence, that document that they propose to enter as sursurrebuttal is not in response to anything that was said in surrebuttal by the intervenors or the regulatory authorities. In fact, it goes back to the original testimony of Mr. Duvall.

Interestingly enough, their original notice of sursurrebuttal, May 27th, just stated they were going to present it. Did not try to justify it by

suggesting -- even suggesting that there was anything in surrebuttal that was new.

Now, perhaps there is. I don't know. I couldn't find it, but perhaps there is. Let's assume there is. They at least owed this Commission the courtesy of saying, "This particular issue is new, raised by the DPU or the Committee in surrebuttal. We're entitled to address that." And I don't disagree with them in that case.

But instead of providing you with some notice and some justification, they have, on Page 4 of their response, stated that if the Commission Chair determines the Company's presentation is too long or not limited to a response to surrebuttal, then the Chair has the discretion to limit the presentation.

In other words, Chairman Boyer, the Company is putting the burden to distinguish between surrebuttal and new material and the applicability of sursurrebuttal on you, not them. They have given you no road map. They've given the parties no road map as a manner in which -- in order to address that.

I don't know of any lawyer who could receive exhibits such as Mr. Duvall's at 5:36 on Friday afternoon before the Monday hearing, who,

without dropping all other preparation of the case, could begin to prepare to address that piece of evidence, let alone prepare to address evidence which has no context, because, remember, they have not filed any prefiled written testimony.

Procedurally, the main claim that they seem to make in the -- claims, I should say -- on Page 2 of their response is, one, nobody objected to the sursurrebuttal by Dr. Hadaway at the rate of return phase of the case, and, second, there was a discussion of live surrebuttal -- sursurrebuttal being presented at the time of the scheduling conference, and the Company would not have agreed to the schedule if there hadn't been an oral understanding that they were going to be allowed to do sursurrebuttal.

There's no record of that scheduling order conference, except your order, and your order is very clear. It's clear in this case; it was clear in the Questar gas case, which was set at the exact same time; and it's been clear in every case that I've been involved with. If sursurrebuttal is allowed based upon a request by a party in another case, you've put it in the order.

There are times when sursurrebuttal is

appropriate. For example, it's a highly-compressed case and there isn't time to present prefiled written testimony. That's happened even with rebuttal on occasion, but those are cases that are highly compressed, and they're not general rate cases with the complexity and the depth of the issues and the data and the information that is being presented here.

Procedurally, it's not allowed. It's not going to produce a better outcome; it's not going to inform the Commission; it's not going to result in a fair case. It is plainly unfair to allow these exhibits and this sursurrebuttal testimony to come in at this very, very late date, particularly when it's not a request, it's not a justified request, it's just a statement of what they're going to do.

Thank you.

CHAIRMAN BOYER: Thank you, Mr. Proctor.

MR. REEDER: If I might, I'd like to join in Mr. Proctor's motion for a moment.

CHAIRMAN BOYER: Yes. I was going to invite other counsel who didn't file anything in writing to participate if they wish.

Mr. Reeder?

MR. REEDER: I would join in Mr. Proctor's

motion, but I take a slightly different approach. The process that we go through here is the Company files an application, the intervenors file adjustments to that application, the Company responds to those adjustments, intervenors respond to the Company's response, and the matter is over with.

If we allow another beginning of the case, sursurrebuttal to sursurrebuttal, if you will, then I think we leave ourselves open to an allegation that gamesmanship is played in the process. The gamesmanship is that old golf scoring game of sandbagging. If the information exists at the time they filed their application or the time they filed their rebuttal case to the intervenor's case, that information should have been presented, otherwise they are simply withholding information that was available.

And you can attribute whatever kind of motives you want to attribute to it. It may be purely innocent, it may not, but there's no reason to get into that question by simply having a rule that the last round of surrebuttal, as the order suggested, was appropriate.

A second and equally-compelling argument, aside from not allowing gamesmanship to occur, is one

that Mr. Proctor cited, and that's, "How do we test the five years' worth of data on 48 hours' notice?" It's impossible to conduct the discovery necessary to determine whether that new evidence presented on the eve before hearing is, in fact, reliable, and I would submit that your receiving it without some confidence that it is reliable may put you in an uncomfortable position, knowing that we're all incapable of assisting you and reaching that reliability kind of thing.

Now, I know there are no clear rules. There are no clear rules in this jurisdiction like there are in other jurisdictions that many of us practice in that says, "There will be no testimony," so we know that it can't happen. But I think that, at least as you look at these cases, you need to apply a very high screen to what you let in at the last minute.

If it was known at the time the case was filed, then it should probably have been presented at the time the case was filed. If it's a true error, if there's been a mistake and they need to correct the mistake, as Rocky Mountain will tell us this morning with respect to one of them, then that's probably appropriate. But in the absence of one of

those kinds of things -- and you know the rule of civil procedure as well as I do that allows for those kinds of things -- we ought to have a very high screen and simply, in the name of fairness, because of the absence of a rule, say, "We won't tolerate nor condone gamesmanship by not providing the opportunity, and if it hasn't had an opportunity to be fairly discovered, we won't allow it."

CHAIRMAN BOYER: Thank you, Mr. Reeder. Does anyone else wish to --

MR. GINSBERG: I'd like to make a few comments.

CHAIRMAN BOYER: -- address the issue?

MR. GINSBERG: I think I'd like to --

CHAIRMAN BOYER: Mr. Ginsberg?

MR. GINSBERG: Yes. I think I'd like to, well, partially, go along with -- agree with the motion that's been made by Mr. Proctor, and more, in a sense, modified by Mr. Reeder. I think that it is a reasonable standard to place in effect in a proceeding like this, when new evidence is being filed at the time of the hearing, that a standard be established that if that evidence was available or reasonably available at the time earlier testimony was filed, like possibly the five years of historical

data, then that evidence should have been presented earlier.

And if it is based on new evidence that was being presented in the rebuttal testimony of the Committee or the Division or Mr. Reeder's clients, then possibly new evidence to respond to that type of evidence that was presented that is new, possibly even new data that wasn't available at the time of the earlier filing, could be allowed, but it ends up being on a case-by-case basis where you'd look at each exhibit and have to make that type of evaluation at the time.

And I also think that the -- I think it was the comment from Mr. Reeder -- the bar should be relatively high, allowing -- deciding what to allow in and what not to allow in, but the ultimate goal, I think, is to get as complete a record as possible.

CHAIRMAN BOYER: Thank you, Mr. Ginsberg.

Anyone else before we hear from Ms. McDowell?

Okay. Ms. McDowell, it's your turn.

MS. McDOWELL: Thank you, Chairman Boyer. On May 24th, the CCS submitted over a hundred pages of sursurrebuttal testimony, including eight new exhibits. Mr. Falkenberg's power cost testimony

alone was 55 pages and seven exhibits. Unlike most of the other parties in this proceeding, that testimony included almost no concessions and, in fact, raised new issues and new arguments.

Within one business day of receiving that testimony, the Company filed a notice indicating that it intended to present sursurrebuttal testimony. At that time, we had looked at the testimony sufficiently to understand there were new issues, new arguments, and for this Commission to have a full and complete record, we would need to present some additional testimony at the hearing.

So we did what we could do immediately, which was to present the notice that we would be presenting that testimony.

Within four business days of receiving the testimony, we presented a notice of which witnesses would be providing sursurrebuttal testimony, and we presented the exhibits that we intended to present in this hearing to respond to that surrebuttal testimony.

It's our view, based on the record that we have seen, that this Commission is going to have a difficult time deciding this case without hearing the Company's responses to the matters that were raised

in the surrebuttal testimony.

The Company proposes to follow generally the course it followed in the cost of capital proceeding, with the witnesses including the responses to the surrebuttal arguments in their summary, with perhaps some follow-up questions, perhaps a reference to an exhibit. The exhibits could be reviewed at the time. On a case-by-case basis, you can determine whether it is appropriate sursurrebuttal.

We think in each case our exhibits are appropriate sursurrebuttal. We don't think they are complex. We think they work off of the data presented in the surrebuttal testimony. And obviously that's going to be a situation that you'll have to judge. You'll have to hear the parties' arguments, but we think in each case they are proper sursurrebuttal.

Only three of our witnesses intend to rely on new exhibits, and we, at this point, only intended to present some question-and-answer-type testimony with Mr. Duvall, our power cost witness, simply because of the complexity of the surrebuttal testimony we received from Mr. Falkenberg.

Now, I do want to spend just a moment

talking about this exhibit that folks have used as an example of kind of unfair complexity at the end, this weekday/weekend exhibit, and just to be clear so that folks understand this, because I think it is -- you know, if you understand the sequence, you'll see why we believe this is fair sursurrebuttal.

Mr. Falkenberg, in his adjustments in his testimony, proposed to eliminate something called the monthly outage rate. In our rebuttal, we said, "Okay, but only if you also eliminate the weekday/weekend outage rate, because if you're going to just go to an annual rate, you should go to an annual rate on all things." So that was our responsive testimony.

Mr. Falkenberg came back in his surrebuttal with pages and with exhibits talking about why the weekday/weekend outage rates should not be eliminated. He has an exhibit in there that indicates weekend and weekday outage rates. We used that same testimony and just put a more -- the same facts that were a part of his exhibit and presented a more comprehensive exhibit that shows a very different look at that weekend/weekday issue.

But you can see how, sequentially, it was a natural thing for us to not have had the ability to

present that. It would not have been a relevant exhibit up until we got the surrebuttal testimony, so, notwithstanding the fact that we had the evidence, the evidence wouldn't have been responsive to anything until we got the surrebuttal testimony, and it's ultimately an exhibit that works off of data that Mr. Falkenberg presented in his surrebuttal testimony.

We think that fairness dictates that the Commission allow the Company to respond to the surrebuttal testimony in the brief and efficient way we have proposed. The CCS recognizes the fundamental principle of law implicated, which is that the party with the burden of proof is typically allowed to respond to all of the evidence presented.

CCS suggests that the Company should not be accorded the benefit of this principle in Commission proceedings, but that appears to be contradicted by your rules on the presentation of evidence, which typically allow rebuttal for the party who presents the original application.

The schedule in this case did not give us a chance to provide written sursurrebuttal testimony, and we think it's a fair reading of the schedule that, to the extent we needed to respond to the

testimony, we would do it live at the hearing. That is our understanding of the discussions that occurred at the scheduling conference, and I don't think that point has been contradicted by anybody here this morning.

In summary, the Company's proposal to present brief sursurrebuttal testimony in this case will ensure that the record before the Commission is fully developed. It will not prolong or disrupt the proceedings and will not prejudice the parties.

The Company respectfully requests that the Commission overrule the CCS's objection and allow it to present its case this morning.

Thank you.

CHAIRMAN BOYER: Thank you, Ms. McDowell. Mr. Proctor, last words?

MR. PROCTOR: Very brief, and not because I have the burden and so, therefore, I get the last word, because that is a principle that exists very much in civil courts, and it exists, certainly, in a criminal court, but the burden is very different and the issues are very different, and this is a monopoly we're talking about that wouldn't exist but for your regulatory authority, and the same with the intervenors' rights to scrutinize their case fully.

And the example they've given about the weekend and weekday forced outages is a prime example of why you should not allow this. It was raised by Mr. Falkenberg in his response -- first response to the Company's direct case. He described why he did not believe that the monthly forced outage is appropriate and he explained why the weekday/weekend is.

The Company responded by saying, "Well, if you do away with one, you have to do away with the other," but provided no information, no evidence to support the inapplicability or inappropriateness of the weekday/weekend outage schedule.

Mr. Falkenberg, in surrebuttal, responded thoroughly to their claim that the weekend/weekday should be eliminated, one that they didn't support. They chose not to support it.

Then now, Friday before the hearing, we get the data which goes back to 2007 upon which they're basing their claim which they filed months ago. I think that a civil court would find that that last word, essentially, is "surprise," and that type of evidence is not allowed, even if you do have the right to have the last word.

But as we've established in our original

motion, that is a concept that exists in the civil court, and not all of those concepts translate a hundred percent to this Commission's proceedings because of the nature of the proceeding.

All of that having been said, the fact is that last December you entered an order. The parties have lived with that, and no one has questioned that until Friday, last week on the 27th, and then providing information on the 30th. It's simply inappropriate to allow it in.

Mr. Reeder makes a fine argument. The fact is that these are matters that need to be dealt with deliberately and carefully and thoroughly, and that can only happen when there is an order to the evidence, it's prefiled, and the Commission can deal with it in that way, as can the parties.

Thank you.

CHAIRMAN BOYER: Thank you. We're going to take a couple-of-minute recess and cogitate over this, and we'll be right back.

(Recess, 9:42 a.m.)

(Reconvened, 9:48 a.m.)

CHAIRMAN BOYER: Okay. Let us go back on the record.

We may bear some responsibility for not

being more explicit in our scheduling order as to what we anticipated the -- how we anticipated the evidence to come in in this case. We thought we were clear in providing for direct, rebuttal, and surrebuttal and no sursurrebuttal.

We have a degree of discretion in how we conduct our hearings and how we take evidence in the case. In this case, we have a time-limited case. In other cases, we've allowed live sursurrebuttal or written sursurrebuttal and then given opportunity to the other parties adversely impacted to file post-hearing briefs, but in these time-limited cases where we have to get our orders out within 240 days, we really don't have that luxury.

There is the issue of fairness. You've heard me speak -- well, some of you haven't appeared before us before, or not in a long time. The fairness issue -- and when I started practicing law, we litigated by ambush before the federal rules were adopted in the '70s, and so I have sort of an anger bias against surprise data and testimony and so on, having been ambushed a couple of times myself.

There will, of course, be an opportunity to cross examine surrebuttal witnesses and poke holes in their testimony, or at least call into question the

testimony filed.

Furthermore, in this case, the Company really controls -- you know, has all the marbles. They control information; they decide when to file a case; they determine what test year they want to use and so on and so forth.

So, in view of all of that, we're going to grant the motion filed by the Committee of Consumer Services. We'll be more explicit in our future scheduling orders.

MS. McDOWELL: Chair Boyer?

CHAIRMAN BOYER: Yes, Ms. McDowell?

MS. McDOWELL: We would like to be able to proffer the exhibits that we would have brought in through our sursurrebuttal so that the record is clear that we would have provided those exhibits, so I'm not sure what the process is for doing that, but that is one thing we want to make sure that gets done. That's one piece.

Then the second piece is, we -- you know, there are situations -- even if we don't produce any exhibits, there are situations wherein the summaries the witnesses have, in order to respond fully to an issue, have incorporated some responses to the surrebuttal testimony, so I guess we would propose to

go ahead and present that testimony and the summary, if it's fairly, you know, encapsulated in the response to the issue, and I don't know if that's an acceptable place to go.

In some ways it's difficult, because the summaries -- you know, it's hard to respond to an issue without responding -- and talk about an issue without responding to all of the testimony on the issue.

CHAIRMAN BOYER: Well, if we're talking about the exhibits, I view, and I think the other commissioners view, corrections to testimony -- "I overlooked this," "I made a mistake," "My math was wrong," that sort of thing -- as a sort of a different sort of animal than bringing in brand-new testimony that other parties haven't had an opportunity to vent and test and verify.

Having said that, admission of the exhibits seems to me just a kind of a backdoor way to get them into the record. The record will reflect that you intended to and wished to provide those documents, and I suppose we could, you know, let them in and not give them any weight, but --

Mr. Proctor, what's your thinking on admitting those exhibits for that limited purpose

stated by Ms. McDowell?

MR. PROCTOR: There's no foundation for their admission because there's no testimony with respect to how they were produced, who produced them, and what the context is with -- that they're being proffered.

It is not uncommon in civil courts, again, where -- if an exhibit has been rejected, that there's a proffer of what the evidence would be for the purpose of preserving the appeal. That is not a concept that's appropriate in this particular context before this administrative body, so I -- the exhibits have no place in the record whatsoever.

MS. McDOWELL: In fact, we do think that is a concept that's appropriate in front of this body, and I guess one way to do this -- we have filed a response to the motion and we've attached the notice that we gave to folks about our sursurrebuttal testimony, and we could file those exhibits as a supplement to our response to the motion. They're in the record, then, for purposes of our legal argument, but not for purposes of the factual background.

CHAIRMAN BOYER: Well, and, in fact, they're in the record already, or will be as soon as we log them in. I guess we've logged them in. I

noticed there was something with a date of May 33rd on it that we received this morning. That was our fault.

These are the new ones that you've just proffered this morning?

MS. McDOWELL: Correct.

MR. PROCTOR: And, Mr. Chairman, note that their letter says, "This supplements the notice filed" and gives you the exact things that you have determined are inappropriate. This should -- with the cover letter, yeah, they wanted to present these witnesses, and these witnesses had some exhibits. The cover letter should remain, and I suppose if you wanted to leave the cover sheet on each exhibit to say what it is that they wanted to submit, without the actual data, that would probably be appropriate, and that would preserve the issue on appeal, but the substantive exhibit itself should not appear anywhere in this record.

CHAIRMAN BOYER: And I'm inclined to agree with Mr. Proctor. If you wish to put those cover pages in, we'll accept those and put those into the record.

MS. McDOWELL: We would offer those.

CHAIRMAN BOYER: Are there any objections

to those cover sheets being admitted into evidence for that limited purpose of protecting the rights on appeal?

MR. PROCTOR: As a limited -- for the limited purpose of explaining their motion -- or, excuse me, their request or notice of intent, I have no objection to it.

CHAIRMAN BOYER: Okay. Then they will be admitted. Thank you, Ms. McDowell.

MR. REEDER: Admitted as a proffer?

CHAIRMAN BOYER: As a proffer.

MS. McDOWELL: And I -- and we will -- I mean, I think that we will just have to sort of find our way in these summaries. As witnesses are responding generally to the issues, we will try to avoid bringing up, you know, new arguments and new issues, but I think, to some extent, to be able to respond fully to issues, it's very difficult for this Commission, I think, to understand the issues if we're not, at some point, addressing some of the issues that have come up in the surrebuttal testimony.

CHAIRMAN BOYER: Well, as skillful as your legal team is, I'm sure that, through cross examination, you'll point out the deficiencies in

other people's surrebuttal.

Now, there was another issue raised by Mr. Ginsberg, before we went on the record, relating to some accounting kinds of issues. Ms. McDowell explained how that was going to be handled. Do we need to discuss that further, or are you satisfied, Mr. Ginsberg, with the fact that certain testimony will be withdrawn?

MR. GINSBERG: Yes, I think the way that it will be handled will be fine.

CHAIRMAN BOYER: Okay. Thank you.

Some of you haven't appeared before us, or haven't appeared in a long time, so let me just give my standard little speech. We have read the testimony, so we would appreciate brief summaries. Of course, you're entitled to cross examine witnesses. The Commission will have questions. There will be an opportunity for redirect.

We tentatively will commence at nine o'clock each day. We'll go until about 10:30 to give the reporter a short break. We'll take a recess. We will break for an hour and a half for lunch and continue on until about five o'clock in the afternoon each day, with the exception of one day in which Ms. Orchard and I have been summoned up to the hill

to appear before an appropriations committee, and we'll take a longer recess that morning.

Public witnesses will be heard on Thursday of this week, the 5th of June, 4:30 to 5:30.

Any questions about that?

(Discussion off the record.)

CHAIRMAN BOYER: Aren't we going up this week? Is it next week? Oh, I beg your pardon. I've confused everybody and myself. Okay. It's sort of blending together here with -- for me. You can see the testimony on the back bench here that we have to plow through. So never mind that. On Thursday we will not take a longer recess to go on the hill. We'll go face that -- take our medicine next week on that issue.

Okay. Having said that, now are there any other issues that we need to discuss before we go to the submission of the written testimony -- the written prefiled testimony?

MR. REEDER: Is it your intention to excuse the witnesses who, on the witness list, have been indicated as excused formally on the record as we begin?

CHAIRMAN BOYER: Why don't we do that. Do you want me to read them off of the stipulated

schedule, witness schedule?

MR. REEDER: I think we all have a copy of it, and we might mark it as an exhibit or something and simply indicate that there is a list of witnesses who the parties present here today have indicated they would waive cross examination for and ask to be excused from the proceeding, and if there's no objection, I would ask you to enter an appropriate order that they're excused.

CHAIRMAN BOYER: Okay. I think that is on the record now, but let me read the names of those witnesses who have been excused. For Rocky Mountain Power, the following individuals: Mr. Richard Walje; Rob Lasich, L-A-S-I-C-H; Mark Mansfield; Doug Bennion; Jonathan Hale.

For the Division of Public Utilities, Dr. Tom Brill; Dave Thomson; Matt Croft; and Brenda Salter.

For the Committee of Consumer Services, Cheryl Murray.

For the IBEW, Byron, B-Y-R-O-N, Nielsen, with an E; and Gary Cox.

For the UAE, Kevin Higgins.

And for Maurice -- for the UIEC, Maurice Brubaker.

Did I miss any? Okay. Those witnesses, then, will be excused.

MR. REEDER: Thank you.

CHAIRMAN BOYER: Thank you, Mr. Reeder, for keeping us honest here.

All right. Well, let's proceed to the prefiled written testimony, then, and let's begin with Ms. McDowell.

MS. McDOWELL: Thank you, Chairman Boyer. We have an exhibit list which we've distributed to all the parties. Do you folks have that exhibit list of Rocky Mountain Power revenue requirement?

CHAIRMAN BOYER: Yes, we have that.

MS. McDOWELL: So would you want me to read through it or simply just note the changes and corrections to testimony that's listed on them?

CHAIRMAN BOYER: Do all the parties have this list? Maybe it would be simpler if everyone can just refer to that. Mention which corrections there are, and we'll go from there.

MS. McDOWELL: Yeah. It seemed a little painful to go and read everything on this list, so basically this is the -- all of our prefiled testimony for all of our witnesses, and if it's acceptable, we will go ahead and offer all of that

testimony now for all of our witnesses.

We have one correction, which pertains to the testimony of Jonathan Hale. That testimony is listed on Page 4 of our exhibit list. It's the rebuttal testimony of Jonathan D. Hale, which was filed on May 9th, 2008. The Company withdraws certain portions of Mr. Hale's prefiled testimony which pertained to the tax normalization issue.

Mr. McDougal, our revenue requirement witness, will explain the revenue requirement impacts of our withdrawal of that testimony.

But the testimony we are withdrawing is the following: Page 1, the sentence beginning on Line 23 -- do folks want to get that testimony out? If you want to follow along, I'm happy to stop for a moment. I'm also happy to just proceed.

CHAIRMAN BOYER: You may proceed, Ms. McDowell.

MS. McDOWELL: Thanks. So Page 1, the sentence beginning on Line 23, going to Page 2, where the sentence ends on Line 25. Then we would similarly strike Page 2, Lines 36 through 44, and then the section of Mr. Hale's testimony beginning on Page 8, Line 162, through Page 12, Line 272.

So, with that withdrawal of Mr. Hale's

testimony, the Company would offer all of the prefiled testimony listed on its exhibit list.

MR. REEDER: I have no objection.

CHAIRMAN BOYER: Mr. Dodge?

MR. DODGE: No objections.

CHAIRMAN BOYER: Mr. Ginsberg?

MR. GINSBERG: No.

CHAIRMAN BOYER: Mr. Proctor?

MR. PROCTOR: None. Thank you.

CHAIRMAN BOYER: Any of the other counsel appearing in person or on the telephone?

Very well. Then the testimony and exhibits listed on Rocky Mountain's exhibit list of Rocky Mountain Power revenue requirement, as corrected, is admitted into evidence.

Thank you, Ms. McDowell.

MS. McDOWELL: Thank you.

CHAIRMAN BOYER: Okay. Let's go now -- turn -- turn now to the Division of Public Utilities.

MR. GINSBERG: Yes. We also handed out an exhibit list, which -- a list of witnesses and exhibits of the Division. Did you want me to -- how did -- they've all been marked and provided to the court reporter. There was one confidential exhibit, which is on yellow.

CHAIRMAN BOYER: Okay. I have before me your list of exhibits.

MR. GINSBERG: Yes. Did you want me to go through these or just to --

CHAIRMAN BOYER: Just to the extent you need to correct them, Mr. Ginsberg.

MR. GINSBERG: No, I don't think -- the only correction, I think, that will possibly need to take place, and I don't know that for sure, is when Mr. McDougal provides the revenue requirement impact of the removal of the tax normalization adjustment, staying at a 40 percent tax normalization, it has a -- our estimate was that it was an approximately $9.5 million reduction in the revenue requirement, and I know that he intends to present that correction when he gets on the stand.

We don't know how he came up with that number, and we'll have some questions, and possibly there will need to be a revision to our revenue requirement exhibit that shows the effect of removing the 40 percent -- removing the hundred percent tax normalization on the Division's proposed revenue requirement.

It should likely be the same revenue requirement impact as what Mr. McDougal provides, a

reduction of 9.5 million, but I don't know that for sure.

So, with that possible correction that would need to be made in the run of the revenue requirement that we have provided in our testimony that was provided by Mr. Croft, we would ask admission to all the exhibits that have been premarked and have been provided on the list of -- that has been provided to the parties and the Commission.

CHAIRMAN BOYER: Very well. Any objection to the testimony of the witnesses, together with exhibits listed on the Division's list of exhibits, including witnesses Brill, Thomson, Garrett, Dalton, Croft, and Salter?

MR. PROCTOR: No objection.

MS. McDOWELL: No objection.

CHAIRMAN BOYER: Okay. Hearing none, that testimony is also admitted into evidence. Thank you.

Now, Mr. Proctor, you indicated that some of your witnesses are not available today and you'd prefer to submit that evidence later?

MR. PROCTOR: That's correct. And, of course, it won't delay anything on those -- each of those three days.

We can, however, offer to introduce into evidence the direct, rebuttal, and surrebuttal testimony of Cheryl Murray, for which you have an exhibit list as to the parties. There are no corrections that we would wish to make to any of those pieces of testimony.

CHAIRMAN BOYER: Are there objections to the admission of Ms. Murray's direct, rebuttal, and surrebuttal testimony? Very well. They're admitted into evidence.

MR. PROCTOR: Thank you.

CHAIRMAN BOYER: Thank you, Mr. Proctor.

MR. REEDER: Mr. Chairman, we have circulated a witness list entitled "UIEC Exhibit List" that contains the list of exhibits we would propose to offer, including Mr. Brubaker's response testimony, surrebuttal testimony. We would note there is a confidential version that has been handed out to those people that have signed the confidentiality agreement. We'd ask you that you receive those in evidence, and thank you for excusing Mr. Brubaker.

CHAIRMAN BOYER: You're welcome.

Are there objections to the testimony of Mr. Brubaker as identified in the UIEC exhibit list

dated June 2nd, 2008?

MR. PROCTOR: No objection.

CHAIRMAN BOYER: Seeing none, that testimony is also admitted into evidence.

Mr. Dodge?

MR. DODGE: Thank you, Mr. Chairman.

UAE prefiled UAE Exhibit RR-1, the direct testimony of Kevin Higgins, along with Exhibits RR-1.1 through 1.8. It includes confidential Exhibit 1.1, Pages 2 to 4. We also prefiled Exhibit RR-1SR, surrebuttal testimony of Mr. Higgins, with Exhibits 1.1 to 1.3SR, and that includes confidential Exhibit UAE 1.1SR, Pages 2 to 4. We would move the admission of those documents.

CHAIRMAN BOYER: Are there objections to the testimony of Mr. Higgins --

MR. PROCTOR: No objection.

CHAIRMAN BOYER: -- and the exhibits? Very well. That testimony is also admitted into evidence.

MR. PROCTOR: Mr. Chairman, I believe that covers all the evidence of parties who are present today, but we do have Mr. Cox and Mr. Nielsen on behalf of the IBEW, and I don't see Mr. Sandack or the witnesses. I -- so we have no exhibit list, but the Committee, in its position of assisting, will be

glad to do what it can, but I don't -- I think we're somewhat limited.

CHAIRMAN BOYER: Yeah. Well, let's hold off on that until we see counsel, Mr. Sandack, on that.

MR. PROCTOR: Okay.

CHAIRMAN BOYER: Okay. Is there other prefiled testimony that I've overlooked? Okay. Apparently not. If not, I'm sure it will be called to our attention as we proceed.

MR. GINSBERG: I just had one -- I know the testimony of Mr. Garrett had already been admitted, and I just am not sure I'm aware of whether he has any corrections or not, so when he gets here tomorrow -- I don't -- I'm not aware of any corrections to his testimony, but I just wanted to advise the Commission that I may have spoken a little quick without knowing whether he had any corrections to make.

CHAIRMAN BOYER: Okay. To the extent that becomes an issue, we'll reopen that and re-evaluate that when Mr. Garrett can be here.

Okay. Are there any other preliminary matters, now that we've been here more than an hour, going forward?

All right. Well, let's proceed with the first witness, then, who will be Mr. McDougal from Rocky Mountain Power.

MS. McDOWELL: And, Chair Boyer, I would ask your indulgence to just let us have a moment with Mr. McDougal and review his summary, just to ensure that he -- it incorporates your ruling on the sursurrebuttal testimony.

CHAIRMAN BOYER: Very well. Let's take a five-minute recess to enable that.

MS. McDOWELL: I appreciate that.

CHAIRMAN BOYER: Thank you.

MS. McDOWELL: Thank you.

(Recess, 10:11 a.m.)

(Reconvened, 10:19 a.m.)

CHAIRMAN BOYER: Okay. Let's go back on the record, and Ms. McDowell?

MS. RACKNER: Rocky Mountain Power calls Mr. Steven McDougal.

STEVEN R. McDOUGAL

called as a witness and sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MS. RACKNER:

Q Mr. McDougal, will you state your name and

spell your name for the record?

CHAIRMAN BOYER: Has Mr. McDougal been sworn in this case? I can't keep witnesses straight.

THE WITNESS: I was sworn in, I believe, in the test period --

CHAIRMAN BOYER: The test period?

THE WITNESS: -- part of this case.

CHAIRMAN BOYER: Very well. Then you remain sworn, then. Pardon the interruption. Proceed, please.

Q (BY MS. RACKNER) Would you state your name and spell your name for the record?

A Yes. My name is Steven R. McDougal, S-T-E-V-E-N, R, capital M-C, capital D-O-U-G-A-L.

Q How are you employed?

A I am employed as the director of revenue requirements for Rocky Mountain Power.

Q Are you the same Steven McDougal who prepared the testimony that was received into the record this morning?

A Yes, I am.

Q Have you prepared a summary of your testimony?

A Yes, I have.

Q Please proceed.

A Okay.

I am here today to support and explain the Company's revised rate increase of 74 and a half million dollars. This includes new costs related to capital additions in net power costs and include significant efficiencies associated with reduced labor expenses and virtually flat operation and maintenance levels.

I am also here to respond to the revenue requirement issues raised by other parties in their direct, rebuttal, and surrebuttal testimony.

Before starting, I would like to make a couple of modifications to my rebuttal filing. I think you have all been handed a revised revenue requirement exhibit.

MS. RACKNER: It would have been at the back of the packet that also included the proposed sursurrebuttal.

THE WITNESS: In my rebuttal testimony --

MS. RACKNER: Does everybody have that in hand?

MR. GINSBERG: Yes.

Q (BY MS. RACKNER) Go ahead, Mr. McDougal.

A Okay. In my rebuttal testimony, the Company had a revenue requirement of 84 and a half

million dollars. We are revising that amount to $74.45 million, as included on the Summary Page 1.0. This includes the revenue requirement impact capped for revised protocol, as revised in this test -- in this hearing.

If we go back two pages, you will see the numbers that get from the rebuttal position to the $74.5 million number I am referring to right now. It is labeled -- it says "Revised Protocol Allocation" on the left, "Surrebuttal Adjustment Summary," but it's Page 1 of 1.

The first column represents the costs that were included in the original rebuttal testimony. Then there are four columns of changes to come up with the 74.4 million.

I'll start with the last item, since that's the one that has received the most attention. Item 12.4 reduces the revenue requirement in this case by 9.7 million related to the changing -- related to changing deferred income taxes back from full normalization to 40 percent normalization, which is consistent with what has been done in prior rate cases.

The Company continues to believe that it is appropriate to move to full normalization, but

acknowledges that the Company erroneously indicated this would produce a rate reduction in this case.

The items here, I think, give the numbers which Mr. Ginsberg was requesting, showing the deferred income taxes go down on Line 27. We also adjust rate base on Line 50. That produces a total revenue requirement impact of 9.7 million, and that is adjusted for the price cap, and it's been ran through all of our models.

Items 12.2 and 12.3, those columns are minor corrections, as identified in the rebuttal testimony, surrebuttal testimony of Mr. David Thomson. Item -- the first column, labeled 12.1, because of the continuing controversy over our office reconfiguration expenses, we are offering to take those costs and amortize them over a three-year period.

There is a detailed sheet for each of these showing the inputs and how those numbers were calculated.

MR. GINSBERG: You know, with all due respect, Commissioners, it strikes me that the 12.1 adjustment is a new proposal. 12.2, twelve point -- the other three appear to be corrections. In light of your earlier rulings, it strikes me it's not

admissible.

CHAIRMAN BOYER: Ms. Rackner?

MS. RACKNER: Your Honor, these are reductions to revenue requirement that the Company is proposing in response to the surrebuttal testimony. If the parties have questions about those, Mr. McDougal is available to respond to questions. It just seems to me somewhat inefficient for us to not allow the parties the ability to look at and see how the numbers run in our revised proposals.

CHAIRMAN BOYER: Overruled. If that was a motion -- or an objection, overruled.

You may proceed, Ms. Rackner.

Q (BY MS. RACKNER) Go ahead, Mr. McDougal.

A Okay. That is all I would like to say at this point regarding the revised revenue requirement.

I would now like to address the controversial issues remaining in my testimony. I will not be addressing the transmission revenue requirement adjustment or the capital addition adjustment proposed by Mr. Brubaker, because, in response to Rocky Mountain Power Data Requests 2.1 and 2.2, UIEC indicated that they were withdrawing these adjustments for purpose of this case.

The first issue I would like to address is

the O&M escalation rate proposed by Ms. DeRonne. Ms. DeRonne continues to argue that nonlabor O&M should be escalated at 1.25 percent, significantly less than inflation. She relies on her incorrect interpretation of comments made in budget documents.

As stated in my rebuttal testimony, the Company expects costs to increase consistent with the Global Insight's indices. Since the MEHC merger, many efficiency opportunities have been identified and captured with partially-offset inflationary pressures in this case. These efficiencies are captured in this case and reduce the inflation rate effectively -- and reducing the inflation rate effectively double counts those efficiencies. On a net basis, the O&M level in this case is staying flat.

If we look at the inflation included in this rate case -- and I'm going to have to refer to my original testimony. I had prepared a summary of these numbers, but rather than using that summary, I will go back to the original testimony in this case.

The operations and maintenance expenses included in our original filing on Pages 4.0.4 and 4.0.11 in this case reflect $982 million. That is in the revised December 31st, 2008 test period and is

before any reductions related to the rebuttal issues, such as generation overhaul expenses, which reduce that amount by over 10 million to approximately 972 million.

If we look at those exact same pages and remove the net power cost components, BPA and DSM costs, the actual costs in June 2007 were 984 million, so in this rate case we are reducing O&M, non-net power cost-related O&M, by 2 million in the original filing and by over 12 million in the rebuttal position.

Ms. DeRonne is relying on comments that state, "We are going to hold O&M costs flat to drop the O&M escalation rate," but we are already holding O&M flat and decreasing it in this case.

The second issue I would like to address is cash working capital. The working capital in this case is accurate and verifiable and is not stale. The current lead lag study has been included in three rate cases in Utah and has also been included in rate cases in Wyoming, Idaho, Oregon, and California.

To propose that parties in other states, along with the parties in prior Utah cases, including the DPU, have blindly accepted the cash working capital data is misleading and unfounded.

The Company has not included interest expense on long-term debt in the cash working capital calculation, and this longstanding treatment is being challenged by Ms. DeRonne. The Company's treatment is consistent with the Commission's method adopted in Docket Number 82-035-13 and reaffirmed in more recent orders involving PacifiCorp, U S West, and Mountain Fuel.

In Mountain Fuel Docket Number 83-057-01, the Commission referred back to the original PacifiCorp docket, Number 82-035-13, dealing with depreciation, interest expense, and preferred and common dividends and clearly states, and I quote, "If this method is to be changed, a strong burden of persuasion will first have to be met, which must include a comprehensive analysis of all four of the above-mentioned items," unquote.

CCS witness DeRonne includes this quote in her testimony, but her testimony lacks a strong persuasion and does not include a comprehensive look at all of the components, as directed in this order, but is, instead, based strictly upon her opinion. Interest expense, preferred dividends, and common dividends are all part of operating income and should, as the prior Commission order indicates,

include a comprehensive analysis before any methodology change is considered.

With respect to the generation overhaul adjustment proposed in my rebuttal exhibit, Ms. DeRonne agrees that contiguous calendar year periods should be used to calculate the four-year average of overhaul costs, but disagrees with both escalating the costs in previous calendar years and with the inclusion of the Currant Creek and Lakeside overhaul costs in this adjustment.

Ms. DeRonne's primary argument is that the resulting level of overhaul expense included in the case is greater than the Company has budgeted in the test period.

The Company seeks to establish precedent for future rate proceedings, and there are two key reasons why the Company has agreed to include overhaul costs in rates using a four-year average. One, overhaul costs have historically varied from year to year, and an average acts as a smoothing mechanism; and two, the Company's grid model schedules planned outages at a four-year average rate to determine net power costs.

If a four-year average is to be used, it must be calculated correctly. Historical costs must

be escalated to test period dollars to reflect inflation, since the costs were incurred. Not escalating the inputs erroneously assumes no inflation. Limiting the Company to recovering overhaul costs based on historic dollars would result in the Company chronically underearning the costs necessary to overhaul our generation plants.

Both Currant Creek and Lakeside should be included in the adjustment. In order to receive full recovery of the overhaul costs associated with these plants and to be consistent with net power costs, the Company needs to recover a four-year average during each year of operation.

Finally, the average should be used, regardless of the level included in the budget for the test period.

Ms. DeRonne's justification is a clear example of the Committee's approach of selecting the lowest value of several years' averages, current year expense levels, or budgeted amounts. Parties should be consistent in their approach and not be allowed to choose the lower of the budget or a four-year average.

The overhaul costs proposed in my rebuttal exhibit represent a correct calculation of the

four-year average overhaul costs.

The next item I would like to address is the nonunion merit increases. Mr. Garrett proposes to adjust nonunion pay increases for two reasons. One, to adjust the increase from 2.25 percent to 1.67 percent, and two, to adjust for a change in capitalization rates. Both of these adjustments are invalid and should be rejected by the Commission.

First, the 1.67 percent adjustment was calculated by comparing July to December 2006 to January to June 2007. If we compare July to December 2006 to the corresponding period in 2007, which is a better comparison, the increase is 2.16 percent; therefore, if we look at what the escalation rate is trying to do, which is to escalate from one period to the next and look at the exact same months, our escalation rate of 2.16 percent is virtually identical to the 2.25 percent included in the case.

Second, in his rebuttal testimony, Mr. Garrett proposes to update the labor capitalization percent, but does not take into account the changes in total labor due to the MEHC transition. This issue was addressed in DPU Data Request 49.1.

At this point I would like to refer -- I

don't know how I get this in, but there is -- Data Request 49.1 is the first time capitalization rates were raised in this case. I did have an exhibit, but --

MR. PROCTOR: Mr. Chairman, I -- go ahead, Mr. Ginsberg.

MR. GINSBERG: I believe the capitalization ratios were raised directly in the rebuttal testimony of Mr. Hale, so I'm not clear what new additional testimony he's providing, other than what the Commission ruled wasn't, I guess, admissible.

CHAIRMAN BOYER: Ms. Rackner?

MS. RACKNER: Well, this does go to the Commission's ruling on sursurrebuttal, but I would point out that Mr. Garrett, in his surrebuttal testimony, raised, for the very first time, an argument that the Company ought to rely on the 2008 capitalization, the actual 2008 capitalization, if I have that correct, Mr. McDougal.

THE WITNESS: Yes.

MS. RACKNER: And that was a brand-new argument, and Mr. McDougal is simply trying to place that into perspective.

MR. GINSBERG: It was actually the 2007 capitalization ratio that would be used in the -- to

determine what the forecasted capitalization ratio should be for the test year, if I understand it correctly.

THE WITNESS: Correct. And he got that number from our semiannual results of operations, which were not filed until the end of April, and he introduced this in his surrebuttal testimony.

CHAIRMAN BOYER: Okay. Let's hear what Mr. McDougal has to say on this issue.

MR. PROCTOR: Excuse me, Mr. Chairman. I apologize, Mr. McDougal. Are we talking a summary here, or are we talking new testimony? I'm a bit confused exactly what --

CHAIRMAN BOYER: He appears to be referring to previously-filed testimony.

MR. PROCTOR: So up to this point, it would be summary?

MR. GINSBERG: Well, this certainly isn't a summary.

MR. PROCTOR: I'm just trying to determine where Mr. McDougal is within his presentation.

THE WITNESS: I was trying to summarize the outstanding issues.

MR. PROCTOR: All right. So it is summary?

THE WITNESS: Yes.

MR. PROCTOR: Thank you very much. I apologize for the interruption.

CHAIRMAN BOYER: You may proceed, Mr. McDougal.

THE WITNESS: In asking the question on Data Request 49.1, the DPU correctly looked and took our labor costs, which were calculated including the capitalization rate and then subtracted the MEHC transition adjustment and the MEHC transition savings. Those two amounts combined for $40 million in December 2008 in this forecast. They impact the capitalization rate.

In their question, they also referred to the amounts in the semiannual, which was based on a different historic period, and removed those amounts of $5.4 million, effectively reducing the total labor.

However, when he put this into his testimony, he ignored those two columns, and rather than putting that those two columns impact the capitalization and reduce the total labor in this case by over $30 million, he left those items out of his surrebuttal testimony.

If correctly included, they would have shown that the total utility labor, as currently in

the filing, is approximately $501 million. If he correctly adjusts for those two items, the total Company labor in the case -- in the December 31st, 2007 semi- -- is $506 million, or an increase of four and a half million dollars.

What he is attempting to do on his surrebuttal testimony is pull one number from that, the capitalization rate, without adjusting for the MEHC transition changes, which he acknowledged in asking his original data request. If you correctly include both components, the labor costs increase, and he is using this as justification to decrease labor.

The last item I would like to address is the Powerdale decommissioning. The Company continues to support the Powerdale decommissioning adjustment as included in my rebuttal testimony. The accrual method used in this adjustment reduces intergenerational inequities and better matches the cost of decommissioning with the customers who receive the benefits of a plant.

The Company should be allowed to recover these decommissioning costs over a three-year period, starting January 1st, 2008. If the Commission elects to move to a cash basis methodology, it is important

that a recovery mechanism also be established to reduce arguments in future cases regarding the timing and amount of projected cash spent.

All of the cash spent allocated to Utah should be accumulated between rate cases and amortized in the following rate case over a three-year period with the unamortized balance included in rate base. The Company believes the Commission should order this amortization period beginning January 1st, 2008.

In conclusion, the 74 and a half million revised request in this case is reasonable. The Company has held O&M costs constant and has included reduced labor related to the MEHC transition employee savings of approximately 40 million. The 74 and a half million dollars is necessary for the Company to continue to provide reliable power and to invest in needed capital improvements.

Thank you.

CHAIRMAN BOYER: Thank you, Mr. McDougal.

Ms. Rackner?

MS. RACKNER: Mr. McDougal is available for cross examination.

CHAIRMAN BOYER: Okay. Let's proceed in this order: The Division, the Committee, Mr. Sandack

is now with us, and --

MR. SANDACK: Thank you, Your Honor. Arthur Sandack, making his appearance on behalf of intervenor, IBEW Local 57.

CHAIRMAN BOYER: And welcome, Mr. Sandack. Mr. Dodge, Mr. Reeder, and then counsel sitting in the wings, if they wish to cross examine.

MS. RACKNER: And, excuse me, Mr. Chairman. I neglected to offer into the record the summary which shows the reductions to rate -- to revenue requirement that Mr. McDougal just testified to. I would propose that we mark it as Rocky Mountain Power RR-1 for the record.

CHAIRMAN BOYER: Are there objections to the admission of this testimony?

MR. GINSBERG: No.

MR. PROCTOR: No.

CHAIRMAN BOYER: Seeing none, it is admitted into evidence.

MS. RACKNER: Thank you, Mr. Chairman.

CHAIRMAN BOYER: Okay. Mr. Ginsberg?

MR. GINSBERG: Thank you.

CROSS EXAMINATION

BY MR. GINSBERG:

Q Mr. McDougal, can we first go to what was

marked as Rocky Mountain Power RR-1 and that Page 4 that you used as your summary? The adjustment that you show for the effect of the change in tax normalization to 40 percent, did you actually run that through, then, the model, that that's an exact number that represents the effect on all parts as changing from 100 percent to a 40 percent tax normalization?

A   That number was ran by the tax department, yes. I am not sure exactly which models, but I understand it is a detailed analysis that was ran through our power tax system.

Q   And then was that then run through your -- I think the RAM model, or whatever --

A   It was ran through our jurisdictional allocation model, which is the method used. We don't use the RAM in this case. We use a model called the JAM. But it was ran through that model, yes.

Q   Okay. With respect to the issue that you referred to as office consolidations --

A   Yes.

Q   And you're proposing to amortize the 2008 test year amount; is that correct?

A   Correct.

Q   Over a three-year period?

A That is correct.

Q Now, the 2008 test year amount was arrived at by taking the actuals from June '07 through -- June '06 through June '07 and then providing your five point, I think, seven percent escalation to it?

A That is correct.

Q And that number you are proposing to amortize because there are abnormal results for that historical period that you looked at?

A I think that account is a little bit abnormal in our historic period; however, the main reason we are proposing a three-year amortization is that we were trying to somewhat reduce the controversy on this amount because it is relatively minor, and we were hoping to get permission or at least some type of an agreement with the DPU before this hearing, and then talked to Artie Powell about a week ago on it, and we were hoping to get an agreement so that, since it was a minor issue, it would not have to be addressed in this hearing.

Q Well, here we are.

A Yes, here we are.

Q But the reason you're proposing it, regardless of all that historical background you just gave us, was -- maybe a little historical

perspective, that the original -- you had booked these office reconfiguration expenses that Mr. Croft refers to in his testimony to MEHC transition; is that right?

A They were incorrectly booked to a project that's title was "MEHC transition."

Q And then you came back and said they were incorrectly booked, but at that time you didn't propose to remove them or amortize them?

A No.

Q You still thought they were a normal expense going forward?

A I believe they are -- we always have a certain level of expenses of this nature, and we always have small $500,000 one-time type of adjustments. The only way we can recover those costs is to include them in forecasts, which we do not forecast any level for one-time-type costs.

I believe that these reconfiguration costs are an ongoing item in that, in a company of our size, because of reorganization and other items, we are continually having one of our floors somewhere reconfigured.

Q Do you agree a normal process in ratemaking when you're setting a forecasted test year is to

remove -- from the period that you created the historical period that you looked at to remove abnormal items; is that right?

A That is correct.

Q And that you would only even consider amortizing those if they were significant?

A That is correct.

Q And you've already acknowledged that you think these were insignificant and not that --

A They are significant enough I believe the Company deserves recovery of them, but they are not significant enough to file a deferred accounting order on, and so the only way the Company has to recover these types of costs is to amortize them over a period or to get them included.

Q But that was your alternative, to -- right up front in the beginning of this case, to ask for either a deferred accounting or directly to ask that -- and identify these as abnormal expenses and ask for amortization?

A That is correct.

Q Okay. Let me just ask you a few questions about this capitalization issue, this -- so, again, what we're trying to do is decide -- capitalization is sort of the -- what amount of labor expense will

be expensed as what amount of labor cost will be capitalized; is that right?

A That is correct.

Q It's not a question of whether you'll recover it; it's a question of when you'll recover it?

A That is correct.

Q And we don't know what the capitalization ratio will be for the 2008 period, do we?

A You are correct.

Q In fact, you probably don't even know what it will be -- you probably didn't even know what it will be for 2007 until the year is actually over and everything is sort of determined in which pot they were placed in; is that right?

A The actual amounts are calculated after the end of the year.

Q Now, what amount did you actually use for 2008 to split between the expensing and capital? Is that the 26 percent?

A If you look at DPU Exhibit 49.1, we used the 26.6 percent.

Q Okay.

A Which includes the impact of the MEHC transition.

Q And let's just talk about the percent first.
A Okay.
Q And that percentage is the actual capitalization ratio that was -- occurred for the June '06 through June '07 time period?
A That is correct.
Q Okay. So --
A However, I would like to point out that if you look at the question asked in DPU 49.1, they give two columns. They give a column to the left, which is the column that we used to calculate the 26.6 percent, and then they adjust for these items. If you adjust and calculate a capitalization percent excluding these items, it increases the capitalization percent, which they recognized when they asked the data request.
Q I'm just trying to decide -- get to the -- -- what percentage, though, was used in the case and what percentage -- in other words, your view is that the 26 percent is appropriate for 2008 forecasted period, regardless of what the actual changed capitalization ratio is that was reflected in a later period?
A My opinion is that if you calculate the

capitalization ratio, you must use correct numbers, and as can be seen in the response to 49.1, if you use the correct capitalization ratio and if -- well, if you update the capitalization ratio, as done by Mr. Garrett, and you include the other items, as included by Mr. Garrett in the data request, it produces a higher labor amount going to O&M.

But what Mr. Garrett is doing in his response is choosing to use the higher capitalization ratio without the other changes in both his question and in our response to try and create a mismatch of costs and show that there should be less when there should be more.

Q Okay. That percentage does change year to year?

A Yes, it does.

Q And as the Company enters a period of large capital expenditures, you would expect the percentage to change slightly where more labor would be allocated to capital?

A I haven't done a study, but I would anticipate that you would see both the capitalization percent increase and the total labor costs increase in order to complete the capital projects.

Q A few questions about cash working capital.

What we've done -- we're, again, trying to project what the lead -- cash working capital is the combination of the lead lag study applied to the cash working capital allowance; is that correct? And then it comes up with an amount that you include in rate base and then you earn a return off that amount?

A That is correct.

Q So there's really no hard asset that's in rate base, like a plant that you can grab ahold of to say, "This is the amount you should be able to earn a return off of" that supposedly provides you the necessary funds to operate; is that correct?

A That is correct. What cash working capital is, is exactly as it identifies. It is a measure of the working capital that is required by the Company to maintain its operations, because there is a period of time between when service is provided to customers and when they pay their bills, and, likewise, there's an offset between the time when we receive services and pay our bills, and so what that is trying to measure is the working capital required by the Company.

Q Now, originally, when you filed this case, you were proposing to use a June '08 to June '09 test year. In that instance, were you proposing the same

lead lag study as you are proposing to use for a 2008 test year?

A That is correct.

Q And did the lead and lags -- maybe I should call them -- change as a result of changing the test years, or is it just the basis of those leads and lags is based on the 2003 lead lag study?

A The amount of the cash working capital does change, but the underlying days used to calculate those numbers does not change.

Q So those underlying numbers, which is the -- how long it takes you to collect, process a payment -- go out and read the meter, process payment, is one of the areas, and how long does it take you to pay your bills hasn't been altered since 2003?

A That is correct.

Q And you'd agree that those days can change, can they not, when studies -- new studies are done?

A They will change by minor measures every time a study is done, and major amounts whenever there is a change in systems.

Q If I'm correct, like -- and in answers to a data request, you indicated that you did -- do no testing to determine whether the leads or lags had

altered since the 2003 study. It's just your opinion, is it not?

A   That is correct. What we do is we look and say, "Has there been any system changes? Have we changed computer systems? Have we changed our billing cycles? Have we changed our methods?" And if we see a major change, then we would probably endeavor to do a study to update that component, but we have not seen any major changes, so we are right now in the process of updating the study. Have not completed it.

Q   You referred to a 1991 lead lag study, did you not?

A   We completed a study in '91, '98, and 2003, are our three most recent studies.

Q   Did you do the lead lag studies? You.

A   I actually did the 1991 study, but I have not helped in the preparation of either the '98 or the 2003 studies.

MR. GINSBERG: Thank you. That's all.

CHAIRMAN BOYER: Thank you, Mr. Ginsberg.

I want to give our reporter a break. I'm wondering if this would be a good time to take a ten-minute break. And then Mr. Proctor can collect his thoughts and start his cross examination at that

point. We'll be in recess for ten minutes.

(Recess, 10:57 a.m.)

(Reconvened, 11:09 a.m.)

CHAIRMAN BOYER: Okay. We're back on the record. Mr. Proctor, cross examination?

MR. PROCTOR: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. PROCTOR:

Q Mr. McDougal, in connection with your generation overhaul expense, am I correct that in your original case your request for that expense was $41.4 million?

A Let me look up the number real quick. Yes, that is correct.

Q And then in your rebuttal testimony you reduced that requested amount to 34 million nine -- or, excuse me, $34.9 million; is that correct?

A Let me bring up the adjustment.

Q I believe it appears on Page 7 of your rebuttal testimony.

A Yes, it is.

Q Now, the Company also indicated, in responses to data requests, that it has budgeted for the calendar year 2008, the test period that is being dealt with in this case, generation overhaul expense

of $27,687,000; is that correct?

A That is correct.

Q What explains the difference between your request for a test period generation overhaul expense of 34.9 million wherein you've only budgeted for the same period of time $27,687,000?

A There's several different ways to calculate the numbers, and as proposed by Ms. DeRonne, we are going to a four-year average.

Q Now, Ms. DeRonne, however, Mr. McDougal, accepted using a calendar year 2004 through 2007 as an average, did she not?

A She did, but she has not calculating that four-year average correctly.

Q She's not escalating it?

A Correct.

Q Okay. So let's just set that aside for a moment as far as what Ms. DeRonne did. Can you explain why it is -- from the Company's perspective, why you would request, for the same period of time, $34.9 million on a rate case, but you only intend to spend -- or you only budgeted to spend 27,687,000? What is the explanation for that difference?

A The generation overhaul costs vary from year to year. If you base it on historic costs, some

years will be high; some years will be low. So if you want to look at those costs, you either need to base them on historic or base them on the budget or base them on a four-year average.

We were originally basing them on the historic dollars escalated. We are now changing, in response to the rebuttal direct testimony, to using a four-year average.

Q Well, that explains the difference between the actual average and your escalated average, but that doesn't explain the difference between you anticipated spending and budgeted to spend 27, almost 28 million, and yet you're requesting ratepayers pay you 34, almost 35 million dollars. Is there an explanation that the Company has as to why, in a rate case, they would ask for 35 million, but they actually only intend to spend 28?

A I'm not sure if I completely understand where the hangup here is, because if we go to a four-year average, some years are going to be higher than budget; some years are going to be lower than budget. You are pointing out that in 2008, the four-year average will be higher than the budget, but in 2009, the budget will be higher than the four-year average, so, you know, there's a choice here. If we

want to go to budget, that is one item that we would be okay with if we go to budget whether it is higher or lower than the four-year average.

Q Thank you, Mr. McDougal. Let me ask you a couple of questions about the Powerdale decommissioning.

A Okay.

Q When does the Company anticipate decommissioning the dam?

A Starting in approximately 2010.

MR. PROCTOR: Okay. Thank you, Mr. McDougal. That's all the questions I have.

CHAIRMAN BOYER: Thank you, Mr. Proctor.

Mr. Sandack, have you questions for Mr. McDougal?

MR. SANDACK: I'm sorry. I got here a little bit late. That last line of questioning regarding the budget of the generation plants, which exhibit were you directed to --

CHAIRMAN BOYER: Would you speak into your microphone, Mr. Sandack?

MR. SANDACK: Yeah. I was just walking in the room when Mr. Proctor was examining Mr. McDougal regarding the budget for the generation plant, and I didn't catch what exhibit he was referring to. I may

have --

THE WITNESS: As far as the budget is concerned --

MR. SANDACK: Yes.

THE WITNESS: -- that was a data request. That was in response to CCS Data Request 31.6.

MR. SANDACK: Thank you.

CROSS EXAMINATION

BY MR. SANDACK:

Q I was just looking -- I guess your exhibit accompanied the rebuttal testimony. Is that marked here this morning? That's -- is that SRM-1?

A Because of the different proceedings, the rebuttal is SRM-1, rebuttal revenue requirement 1R-RR, but yes, I have a copy of that.

Q Of 1R-RR?

A Yes.

Q Could you just turn to page -- I think it's 2.5. I just would -- if I could get some clarification. You've got some FERC codes there referring to generation, do you not?

A That is correct.

Q For example, FERC Code 512 is maintenance of the boiler plant. I assume that would include -- on that page, that would include the budget for the

overhauls that you were just discussing?

A The overhauls are in a variety of FERC accounts, and I'm not sure exactly which ones. For instance, I know that that is the -- the steam are in that section, the combined cycles are in a different section, and I have not checked to see if all of the overhauls are in 512 or not.

Q All right. Well, they would -- there might be -- combined cycle wouldn't be in steam, so --

A No.

Q -- you would think it would be in --

A No. But most of the others should be in that account.

Q I was just looking at what Mr. Pace had filed for the 12 months ended December 2008, I guess when the test period was -- for the revised test period figures. Are you familiar with that -- those exhibits?

A I have seen them, but I'm not real familiar with them.

Q All right. Well, I guess they're not an exhibit here today, and there's not -- maybe they're -- they're not significant differences, but I wondered if you were maybe aware of maybe some of the smaller differences. For example, on 512, which I

was just mentioning -- excuse me. The Utah normalized figure for maintenance of boiler pans is $42,051,573, and here it's just a fraction difference. It looks like it's 42,040,317, just a modest difference.

Is there any reason that might explain the differences between those two figures?

A I don't know, off the top of my head, why there is a difference.

Q They are normalized figures?

A You would have to ask Craig Pace where he gets his numbers from. I believe they were normalized, but I have not prepared his exhibit.

Q In any event, a FERC code like that may well include labor? Is that your understanding?

A Labor goes to virtually all of the different FERC codes.

Q All right. And that could also include equipment replacement, that thing, maintenance of boiler plant?

A Yeah. Maintenance of the boiler plant would include all of those costs associated with maintenance. There's actually a FERC chart of account that defines each of these and gives a detailed explanation of exactly what costs are to go

into each account that's available both online and through a book.
Q Uh-huh.
A Explains each.
Q But this figure, say, for 512, this $42 million -- so isn't it your testimony, based on Mr. Proctor's cross, that that is the figure -- that's not the figure based on the four-year average, then. Is that the budgeted figure?
A That includes other costs, not just overhauls.
Q I understand.
A But --
Q Well, for example, you might budget for a number -- for certain numbers of employees, but it might not represent your actual costs if you don't have all -- if you don't meet the budget; is that correct?
A Could you restate that? I'm not sure --
Q Well, I'll strike that question.
But within this FERC code, there are included budgeted costs; is that correct?
A In this rate case we have taken the historical costs and escalated them, and we have done adjustments, such as the one that Mr. Proctor was

referring to where we have normalized the generation overhauls.

Q I see. So if I were to look for the adjustment for this FERC code from this supplemental surrebuttal exhibit -- is this the result of the adjustment, then?

A Yes.

Q That's your forecasted, essentially, expense for that maintenance item for 2008, essentially?

A That Utah column represents the amount that we are requesting in this test period, so it's for the 12 months ended December 31st, 2008.

Q But you're not necessarily agreeing you'll spend that much money on that item if that cost is recognized, are you?

A Every year there's variations in each individual FERC account. We are not agreeing that any individual FERC account will come in at this exact level.

MR. SANDACK: Thank you. That's all I have.

CHAIRMAN BOYER: Thank you, Mr. Sandack.

Mr. Dodge?

MR. DODGE: Thank you, Mr. Chair.

CROSS EXAMINATION

BY MR. DODGE:

Q Mr. McDougal, your rebuttal testimony references the testimony of Mr. Hale on the issue of the domestic production activities deduction?

A That is correct.

Q And Mr. Hale, I know, has been an excused witness, so I understand you are the one -- you're prepared for the Company to confirm that the Company has accepted Mr. Higgins' proposal on the domestic production activity deduction; is that correct?

A That is correct. In this case we are willing to go with Mr. Higgins' proposal.

Q Right. So for purposes of this case only, it would be the testimony in his surrebuttal, Pages 13 to 14, and just as a brief summary, as I understand it, Mr. Higgins testified that, to the extent the rate increase in this case were at or below 15.8 million, there would be no adjustment for the domestic production activity deduction. To the extent it were 84.4 million, which at that time you were requesting, it would be an adjustment of $995,604, and to the extent it's in between those two, it would be linear; is that correct?

A That is correct. And the Company is

agreeing to use that methodology for this case once the final revenue requirement is determined.

MR. DODGE: Thank you. No further questions.

CHAIRMAN BOYER: Mr. Reeder?

CROSS EXAMINATION

BY MR. REEDER:

Q Good morning, Mr. McDougal.

A Good morning.

Q Directing your attention to your exhibit marked for identification as RR-1, Page 1 of that exhibit, the jurisdictional revenue requirement, the jurisdictional revenue requirement there is the jurisdictional requirement developed for Utah from total Company figures using an interjurisdictional allocation, is it not?

A Yes, it is.

Q And this represents a revenue requirement assuming a ROE of what, Mr. McDougal?

A Assuming the 10.75 percent ROE we filed for in this case.

Q Are you the person that customarily prepares and deals with and reports on the interjurisdictional allocation numbers?

A Yes, I am.

MR. REEDER: I'd ask to be marked as Cross Examination Exhibit No. 1 pages from Mr. McDougal's testimony, simply for illustration.

Q And to expedite the matter, would you familiarize yourself with these pages while I'm handing them out?

Mr. McDougal, I will represent to you that they are pages from your testimony that I have photocopied to facilitate your examination. Will you accept that representation?

A I'm still looking at them. I believe they are. If you could give me just a moment.

Yes, they appear to match my testimony.

Q Referring to those pages, Mr. McDougal, looking at the top line of the exhibit that has been marked for identification as Number 1, do you see an SG allocation factor?

A That is correct.

Q And do you see the number attributed to Utah?

A Yes.

Q And can you read that number for me?

A 42.3769 percent.

Q And do you see a similar number for the state of Oregon?

A Yes.
Q Can you read that number for me?
A 27.0545 percent.
Q Would you turn the pages to 10.1, and, looking at 10.1, would you tell me if the usage numbers there reported are the usage numbers from which those factors are derived?
A You are referring to a --
Q 10.2. I'm sorry. 10.2 and 10.2.1.
A Okay. I thought you said 10.1, and I couldn't find that.
Q Sorry. I sometimes misread a page number.
A Yes, those are the loads which are being used.
Q And if we read across the bottom line, we see the totals on the bottom and we see a total for Oregon of 26.748 and a total for Utah of 41.864 for coincidental peak?
A Yes.
Q If we turn the page, at a similar place on that page we can read the numbers for Oregon and for Utah, can we not?
A Correct.
MR. REEDER: I'd ask to be marked as the next exhibit in order pages from the 2006

semi-jurisdictional report, and I will hand the witness the entire report so he can verify that these are extracted pages.

CHAIRMAN BOYER: Shall we mark this as UIEC Cross Exhibit 2?

MR. REEDER: If you would, please.

Q Mr. McDougal, have you had a chance to review Cross Examination Exhibit No. 2?

A Yes, I have.

Q Can you verify that those pages are pages from the semiannual report that I handed to you?

A Yes, they are.

Q Okay. Let's look at the same pages in that report that we just looked at in the report that is Exhibit No. 1. Do you see a summary that shows the percentages allocated by factor across the jurisdictions?

A Yes, I do.

Q And can you read those numbers for me?

A Okay. For the SG factor?

Q SG and SE factor, yes, sir?

A Just for Utah?

Q Utah and Oregon, please, sir.

A Okay. The Utah number is 40.3 percent, approximately. The Oregon number -- I have to --

Q Small print.
A Yes, small print.
Q I'm guilty of doing that.
A The Oregon number is 28.5984 percent.
Q Dropping down to the SE factor, please.
A The SE factor has Utah at 40.0993, and Oregon at 27.2858 percent.
Q Okay. If you'll page forward to 10.3 and 10.4 of Cross Examination Exhibit No. 2, can you identify usage numbers from which those factors are derived?
A Okay. The Utah usage was 37.577. The Oregon -- and this is on the coincident peak -- was 27.023.
Q Line 30 on that page, 10.3?
A Right. That is the line.
Q Turning to Page 10.4 of Exhibit for Cross Examination Number 2.
A Line 59, correct?
Q Line 52, maybe.
A Okay. Line 52, they are the same number. 15,296,301 for Oregon. 22,479,451 for Utah.
MR. REEDER: Okay. I'm going to ask to have marked as the next exhibit in order Cross Examination Exhibit No. 3. I'm handing the witness

the results of operation for the year 2007 so he can verify that the pages in the exhibit are indeed an excerpt from the 2007 annual report.

CHAIRMAN BOYER: We'll mark this UIEC Cross Exhibit 3.

MR. REEDER: Thank you.

Q Mr. McDougal, have you had a chance to verify that the pages that are marked as Cross Examination Exhibit No. 3 are indeed pages from the 2007 annual report?

A Yes, I have.

Q Okay. Let's go to the same pages that we've been referring to. Can you help me by looking at the page marked 10.1, and we see the Utah allocation factors, SG allocation factor?

A Yes.

Q What is that number?

A Utah is 41.6706. Oregon is 27.4404.

Q Please proceed.

A And on an SE factor, Utah is 40.7793. Oregon is twenty -- you're going to have to excuse me. I can't tell if it is a 6 or an 8. It appears to be 6.8974.

Q Would you turn to Page 10.12, and are they the usage numbers from which these various factors

are derived?

A Okay. Do you want me to read the Utah and --

Q Please.

A -- Oregon? On 10.12, Oregon is 27,812. Utah is 42,232.

Q And they represent the CP numbers?

A Correct.

Q For that -- for the year 2007?

A Correct.

Q And the kilowatt hour loads for the year 2007?

A Correct.

Q Have you read those numbers?

A Yes.

Q Kilowatt hours?

A The kilowatt hours for Oregon -- Oregon is 15,573,692. Utah is 24,249,033.

MR. REEDER: Okay. I'd like to have marked as the next exhibit in order Exhibit No. 4.

Q Mr. McDougal, I'm going to represent to you that the numbers on this exhibit are the numbers that you just read into the record. Would you check those and confirm that that indeed is the fact so we can compare three years together conveniently?

A Yes, they appear to match.
Q And would you look at the comparison of kilowatt hour numbers for the years 2006, 2007, and 2008 for Utah? It would appear that 2007 declined over 2006, would it not?
A Okay. Which number are you looking at? The coincident peak? Yes.
Q Megawatt hours.
A Yes.
Q It appears that Utah declined in 2007 over 2006, but increased over 2008.
A That is correct.
Q Okay. Let's look at the state of Oregon. Would it appear that Oregon increased, 2007 over 2006?
A That is correct.
Q But you forecasted a decrease for 2008, unlike Utah?
A That is correct.
Q What's the significance of these numbers, Mr. McPhie? McDougal, I'm sorry. Wrong day. Wrong day.
A The significance of these numbers -- I'm not sure exactly what you want to get at, but --
Q Let's start with Page 2.9 of Exhibit --

Cross Examination Exhibit No. 1 to assist you in answering that question, looking in the middle of that page at Line 526.

A Excuse me. I'm trying to figure out which one was Number --

Q Cross Examination Exhibit No. 1. This is part of your testimony.

A Okay.

Q There we see a part of your application of these factors to the costs in this case, do we not?

A That is correct.

Q And we can see that on this page, applied to production costs alone, the SG factor is applied to 1.7 -- approximately $1.7 billion.

A That is correct. These factors are used --

Q What would a 1 percent swing in that number mean in terms of costs allocated to Utah?

MS. RACKNER: Excuse me, Your Honor. I want to object. The witness wasn't finished answering the prior question.

THE WITNESS: When you ask what they mean, yes, this is part of what they mean, but it's not everything they mean.

Q (BY MR. REEDER) Okay. Let's talk about the significance of what they're meaning. Stick with

me a minute.

A Okay.

Q Let's look at Page 2.9, Line 528. We can see a number of 1.7 -- $1.7 billion, to which you've applied the SG factor, can't we?

A That is correct.

Q If that factor were to move 1 percent, what would it mean in terms of revenue impact in -- cost impact in Utah?

A Well, to answer your question -- you asked both revenue and costs.

Q I'm sorry. Cost is what I tried to ask.

A Revenue is going to offset the cost impact because of the allocations. It will impact more costs and it will give Utah more revenues.

Q Now, if we reduce -- now, you will allocate more revenues to Utah? Don't you bill in Utah and report actual revenues in Utah?

A That is correct, but to the extent that we are including more megawatt hours in Utah, we are giving Utah more revenues through the cost of service and pricing data that is used in the calculation of the revenue requirement.

Q Are you using these numbers to forecast loads in Utah?

A Yes.
Q These percentages to allocate loads in Utah?
A Not the percentages, but the megawatt hours that you are showing on your exhibit, those same megawatt hours are used coming from our load forecast to calculate factors, to calculate revenues, and also to calculate the net power cost, so there's an interrelationship between all three items that these loads are being used for, and you have to look at all three components.
Q So you're not prepared to tell me what a 1 percent swing in these numbers would mean?
A No.
MR. REEDER: Okay. I have nothing further of this witness.
CHAIRMAN BOYER: Thank you, Mr. Reeder.
Is it Mr. Mattheis?
MR. MATTHEIS: Yes, sir. No questions, Your Honor. Thank you.
CHAIRMAN BOYER: Okay. And I think Mr. Kelly has departed.
Okay. Redirect? Oh. Commission questions. I just assumed since I had none that the others wouldn't, but false assumption.

Mr. Allen?

COMMISSIONER ALLEN: Thank you, Mr. Chair. I think I had -- at one time I had the answer to this question, and now that we've gotten into the forest of the spreadsheets or the trees of the spreadsheets, I want to back up just a little bit. Remind me, when it comes to Powerdale, the matching principle. Does the creation of regulatory asset alone fulfill that matching principle, or is there a reason why we could include in the 2008 test year an asset or a -- excuse me, an expense that's out two years? Will you explain that to me once again how that matching principle is still fulfilled in an accounting sense?

THE WITNESS: It's not being exactly fulfilled. The fact is, the Powerdale facility has been shut down. It will be decommissioned starting in 2010, so the customers that have actually used the power are the customers in the past. By allocating those decommissioning costs now, we are more closely aligning the customers who receive the benefits of Powerdale with those customers who will be paying for the decommissioning.

The farther out we move those decommissioning, the more you will get that intergenerational subsidies or cross-allocations.

COMMISSIONER ALLEN: Thank you.
CHAIRMAN BOYER: Commissioner Campbell?
COMMISSIONER CAMPBELL: Let me just follow up on that Powerdale question. Do you have an example where the Commission in the past has amortized the deferred -- amounts in the deferred accounting -- from a deferred accounting order before the expenses were actually incurred?
THE WITNESS: I cannot think, right off, of any explicit examples, but I believe it has -- I would have to look into that, because I'm not aware, right off, of any examples. I know that other states have, but I'm not aware of any.
COMMISSIONER CAMPBELL: All right.
CHAIRMAN BOYER: Mr. Reeder, do you wish to move admission of UIEC Cross Exhibits 1 through 4?
MR. REEDER: I will at this time move their admission.
CHAIRMAN BOYER: Are there objections?
MR. GINSBERG: No.
CHAIRMAN BOYER: Since they're already in, they'll be in again. They are admitted. Thank you.
To you, Ms. Rackner.
MS. RACKNER: Thank you, Mr. Chairman.
//

REDIRECT EXAMINATION

BY MS. RACKNER:

Q I have just a couple questions for you on redirect, Mr. McDougal.

Mr. Ginsberg was asking you about the 2003 lead lag study that was filed in this case, and he asked you whether the expense lags had been altered since the 2003 study was first filed, and has the Company made any updates to the 2003 study?

A Yes, we have. The one change we have made is, after the MEHC transaction, there was a change in our income tax payments between monthly and quarterly, so we updated the lead lag study for that item because it was a known change and was significant.

Q Thank you. And Mr. Ginsberg also asked you a question regarding the office configuration expenses, and you agreed that those expenses were unusual. Could you explain why, given the fact that they're unusual, you advocate including them on a three-year amortization in this case?

A Well, there's a few reasons. One, the office reconfigurations were done as part of reconfiguring our offices because we had a reduced number of employees, and those employee savings have

been passed on to customers in this case of approximately $40 million annually.

We also have been reducing lease expenses, so there has been adjustments made to lease expenses that have been accepted where we have reduced the lease of several floors. That was done by moving employees around, reconfiguring, so there's a variety of benefits that are actually flowing to customers from those reconfigurations.

Q Thank you. And I have just one more question. Commissioner Campbell specifically asked you if you were aware of any situations in which the Commission approved amortization in a plant that had shut down, if I have your question correctly. Do you recall what action the Commission took with respect to the Glenrock Mine and the Condit Dam when they were shut down?

A Those were both amortized, and we did start recovering costs on those prior to the costs being incurred as part of the reclamation and the shutdown.

MS. RACKNER: Thank you. I don't have anything further on redirect.

CHAIRMAN BOYER: Thank you, Mr. McDougal. You may step down.

Shall we hear Mr. Tallman's summary before

we break for lunch? Let's do that.

MR. SANDACK: Your Honor, Commissioner Chair, before he begins, I wonder if I could offer the exhibits of -- at this time of my witnesses. I understand that cross has been waived on Mr. Cox and Mr. Byron Nielsen, and Local 57 has previously submitted prefiled -- their prefiled testimony and surrebuttal testimony, with their exhibits attached as well.

I don't have a separate exhibit list, but they're clearly marked and they are exhibits. On the direct testimony, basically marked to -- with the same number as the data response that was provided me by Rocky Mountain Power. That is, to the direct there were three exhibits, 2.2, 2.3, 2.4 and 2.06, and on our surrebuttal we had Exhibits 1 and 2, and the supplemental, 5.1-1 and -2 that has been filed, and if I could, I would like to offer those as evidence in this proceeding at this time.

CHAIRMAN BOYER: I assume there are no corrections to any of this testimony.

MR. SANDACK: Pardon me?

CHAIRMAN BOYER: There are no corrections to anything that you've --

MR. SANDACK: No.

CHAIRMAN BOYER: Are there objections to the admission of the testimony of Messrs. Nielsen and Cox?

MR. PROCTOR: No. Thank you.

CHAIRMAN BOYER: Seeing none, they are admitted into evidence. Thank you, Mr. Sandack, for bringing that to my attention.

Okay. Mr. Tallman, I don't believe you've been sworn in this case, but you have in prior cases.

THE WITNESS: Correct.

CHAIRMAN BOYER: Would you please stand and raise your right hand?

RICHARD TALLMAN

called as a witness and sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MS. McDOWELL:

Q Good morning, Mr. Tallman.

A Good morning.

Q Can you state your full name and spell it for the record?

A Mark R. Tallman, T-A-L-L-M-A-N.

Q Mr. Tallman, how are you employed?

A I'm employed by PacifiCorp, specifically PacifiCorp Energy, which is a division of PacifiCorp.

Rocky Mountain Power and PacifiCorp Energy are both divisions of PacifiCorp. I'm the vice-president of renewable resource acquisition.

Q   In that capacity, have you prepared testimony in this proceeding?

A   I have.

Q   Is that testimony the rebuttal testimony of Mark Tallman dated May 9th, accompanied by two exhibits, MRT-1R-RR and MRT-2R-RR?

A   Yes, it is.

Q   Mr. Tallman, have you prepared a summary of your testimony?

A   I have.

Q   Can you deliver that summary now, please?

A   Certainly.

Well, it's a pleasure to be back before the Commission in Utah. This is certainly an exciting time for the Company and our customers in the area of renewable resources.

As you know, a carbon initiative has been passed in the state of Utah, and I'm pleased to say the Company is taking direct actions to not only comply with the intent of that law, but to implement the IRP preferred portfolio and to meet our renewable resource commitments to this Commission and our

stakeholders.

My testimony addresses five issues with respect to wind projects and reflects the fact that no party to this proceeding has testified that PacifiCorp's investment in renewable resources are not prudent. In fact, the issues before the Commission are largely regulatory policy issues and not issues of prudence.

The Company believes that we are being proactive in adding renewable resources to the portfolio and that those actions will bring long-term benefits to our customers at the lowest reasonable cost.

I'd like to start with a capacity factor issue, which my testimony addresses. With respect to capacity factor projections, my testimony rebuts the testimony of Mr. Maurice Brubaker of UIEC where it is suggested that the Company periodically file actual generation from each wind project with the Commission. The Company objects, since this information is routinely filed already.

We also object because UIEC's stated motive is to potentially subject the Company to future revenue requirement adjustments. Indeed, Mr. Brubaker's testimony states that he believes the

Company should be, quote, "accountable for his representations." The Company objects that Mr. Brubaker would have the Commission view capacity factor estimates as binding. The fact is that generation from wind projects will vary up or down from year to year.

For these reasons, the Company to reject Mr. Brubaker's unnecessary reporting suggestion, and the Company definitely objects to Mr. Brubaker's assertion that capacity factor projections should somehow constitute a binding obligation.

Now I'd like to move to production tax credits. UIEC asserts that the Commission should impose an after-the-fact adjustment for any project not subject to the federal production tax credit. The Company's position is that there are a myriad of reasons out of the Company's control that could cause a project to be delayed. Here again, we have a fundamental difference of opinion on what constitutes sound regulatory policy.

The fact is that the Company has negotiated prudent equipment and construction contracts to meet project objectives, and there are reasonable commercial issues, such as force majeure or other unanticipated construction issues, that might

legitimately delay turbines from being placed in service. The Company continues to object to Mr. Brubaker's production tax credit recommendations on the basis that it does not constitute sound regulatory policy and is inconsistent with the fact that UIEC is not challenging prudence of the wind resources and customers are better served to be assertive in pursuing these resources now than wait and be caught short in the future when they will most certainly will be more expensive.

I'd like to address renewable energy credits now or RECs, as they're more commonly referred. First, renewable energy credits are a complicated issue, and they're made more complicated by the Company's multi-state status. This emerging issue is the subject of discussions in the Multi-State Process where parties are discussing how best to manage the inherent price risk of RECs.

UIEC has testified that Utah customers should receive a deemed REC value associated with the Goodnoe Hills wind project. The Company explained in testimony that the Goodnoe Hills investment was not made on the basis of selling RECs to the market.

Instead, the Company invested in the Goodnoe Hills project due to its reasonable cost, its

long-term value to customers, and the portfolio of risk mitigation associated with renewable resources. The Company believes it is entirely reasonable for the Commission to see the Goodnoe Hills resource in the same way.

In addition, UIEC has failed to recognize the implied price risk to customers as a result of a fair and equitable application of their own argument. The Company recommends that the Commission reject Mr. Brubaker's recommendation on the basis that it is not consistent with established regulatory precedent of placing generation in rates at cost and the implied increased REC price risk to customers.

I'd also like to summarize the Energy Trust of Oregon issue since it relates directly to RECs from the Goodnoe Hills project. The Energy Trust of Oregon has granted a $4.5 million grant for the project in exchange for an over-allocation of RECs to Oregon customers.

The Company inadvertently included a portion of the trust funding in the case and felt compelled to make this known to the Commission for two reasons. First, the Company wanted the Commission to know that revenues were understated by approximately $350,000 due to this error. The

Company also wanted the Commission to know that the grant allows each jurisdiction to displace a portion of the trust grant.

Should Utah elect to displace the trust funding, it would increase the Company's revenue requirement in this case by approximately $350,000. However, since the credit was incorrectly included in the case, the Commission should remove it anyway, even if it elects not to displace a portion of the trust grant.

The CCS opposes the grant in this proceeding, and no other entity, except the Company, has taken the position.

The Company recommends that the Commission affirmatively displace a portion of the Oregon funding for the benefit of Utah customers.

Finally I'd like to -- well, now I'd like to move on to wind integration costs. While the Company and the CCS are in agreement that the Company has 1,200 megawatts of wind that should have integration costs applied to it, we are not in agreement with respect to the wind integration rate.

The CCS believes a rate of 22 cents per megawatt hour is appropriate, whereas the Company believes a rate of $1.14 is appropriate.

To add perspective to its integration cost assumptions, the Company cites a pending BPA tariff equivalent to approximately $2.82 a megawatt hour. The Company continues to believe that $1.14 per megawatt hour is a reasonable assumption because it is consistent with the IRP assumptions, and, in the absence of the 2007 IRP, the parties would likely look to a proxy such as the BPA tariff rate instead.

For these reasons, the Company continues to recommend the rate of $1.14.

And, finally, with respect to operation and maintenance costs, my testimony rebuts the testimony of CCS and UAE. Ms. DeRonne of the CCS has proposed a total Company adjustment of approximately $220,000 due to the expiration of a warranty agreement for Leaning Juniper 1.

The Company explains that, while the warranty agreement is expiring, the costs associated with the warranty agreement are not.

The Company's position remains as before, that the costs associated with the expiring warranty agreement are a reasonable estimation of the costs the Company will incur on a post-warranty basis.

And then, finally, Mr. Higgins of the UAE proposed an adjustment of approximately $620,000

associated with the Marengo and Marengo II projects. Upon review of the surrebuttal testimony given by Mr. Higgins, the Company believes this proposed adjustment is no longer an issue, as UAE has accepted the Company's explanation.

In summary, the Company believes that the renewable resources it has added to the portfolio will provide long-term value to our customers and provide the risk mitigation contemplated by the integrated resource plan and at the lowest reasonable cost. Thank you.

CHAIRMAN BOYER: Thank you, Mr. Tallman.

This is a natural place to break for lunch. We'll take a one-hour-and-30-minute recess, and then we can begin cross examination of Mr. Tallman. Thank you.

(Recess, 12:05 p.m.)

(Reconvened 1:31 p.m.)

CHAIRMAN BOYER: Let's go back on the record.

Mr. Tallman, you can resume your seat there. As I recall, we were about to embark on the cross examination of Mr. Tallman. And here's Mr. Ginsberg now.

MR. GINSBERG: I don't have any questions.

CHAIRMAN BOYER: No questions for Mr. Ginsberg.

MR. GINSBERG: There's an easy one.

CHAIRMAN BOYER: Okay. Mr. Proctor?

MR. PROCTOR: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. PROCTOR:

Q Mr. Tallman, good afternoon.

A Good afternoon.

Q I have just a few questions about the Oregon Trust and Goodnoe Hills wind plant transaction, and they're more for clarification and to hopefully resolve some confusion on the Committee's part and, I'm assuming, equal confusion on the part of the Commission.

I want to begin on Page 21 of your rebuttal testimony. Do you have it there?

A Yes, I do.

Q Oh, thank you. We understand, and correct me if I'm wrong, but this is our understanding, that the Oregon Trust essentially fronted four and a half million dollars of the Goodnoe Hills construction costs in order to acquire five years of the RECs going to the benefit of the Oregon jurisdiction. Is that a fair statement or not?

A No, it's not. I'd be happy to explain.

Q How is it unfair? Please do.

A What happened is that -- in Oregon there's a public purpose charge, and that was -- those monies are collected, and the Energy Trust of Oregon, in their contract to the Oregon Commission, administers those funds for purposes of demand site management programs, promulgating renewable resources, and a variety of other measures, such as other conservation measures.

They had budgeted funds set aside for utility-scale wind projects, and, in fact, we have one project in the portfolio that benefited from those funds in the past, is the Combine Hills wind project where we buy the output of the wind project and then the trust contribution went directly to the developer, so in that instance, there was no money involved with the Company. The Company just entered into a power purchase agreement purchasing the commodity -- purchasing the commodity only.

In this instance, however, the energy trust had four and a half million dollars available for a utility-scale project, and they were willing to make it available to the Company, and the way that they did that was through a grant agreement, and in that

grant agreement, what the trust said was that they would be willing to reimburse the Company for documented third-party operation and maintenance expenses, and so their contribution is a netting down, if you will, of O&M expenses. It is not a reduction of capital, which is an important distinction, given the issue.

What the trust also said was that, for the first five years of the operation of the project, that the renewable energy credits would be allocated to all the jurisdictions based on standard allocation methodologies, the typical allocation factors, and that, during that time period, the Company's job was to go to each jurisdiction and ask that jurisdiction if they would like to displace a portion of the trust grant, up to their allocated share in exchange for continuing to receive the full allocated share of the renewable energy credits, so that's how the transaction was structured.

Q   Okay. So what you've done, then, in your original filing in December was to take four and a half million dollars, divide it by five years, and then give -- or reduce the revenue requirement by Utah's allocated amount in O&M costs for the Goodnoe Hills project; is that correct?

A No, that's not correct.
Q Well, explain that, then, please.
A What the trust wanted was they wanted the money to be used up as fast as possible, so it can only get used up when we have documented external third-party expenses, and you can only do that when, of course, you have the expenses, so what we're predicting is that it will take about 23, 24 months, based on the nature of our external expenses, to go through that four and a half million dollars.
What we did in the case is that we projected the amount --
CHAIRMAN BOYER: Let's go off the record. I think we are getting some bleed-over from a BlackBerry or something like that, or a plasma TV or something.
(Pause.)
THE WITNESS: So what the Company did in the case is we projected the amount of money that would come in from the energy trust and we included that in our budgets, and then when we came to file the case, we inadvertently included those credits in the test period, so those credits flowed through in our filing of the case by virtue of our budgeting process.

Q (BY MR. PROCTOR) And that's where you come up with the $846,779 total Company --

A Correct. Approximately 350,000 Utah.

Q Okay. Now, you say -- was that an error, you say?

A Well, what the Company should have done is we should not have included that credit in our filing and we should have come to the Commission and said, "Here's this trust agreement." You know, "Would you like to pay an additional $350,000, affirm your displacement of the energy trust grant?" and explained to the Commission. Because of the way we filed it, and when we discovered the error, you know, we wanted to make sure that, you know, all the facts were in front of the Commission. So that's why we included it in the rebuttal testimony, to make sure that, you know, the Commission had the opportunity to fully understand the situation.

Q And then later, on Page 22 -- and by the way, thank you for that explanation. On Page 22, at the very bottom, Line 478, you stated, "The Company recommends that the Commission declare and wishes to displace a portion of the trust's $4.5 million funding and thereby increase the revenue requirement in this docket by $358,840"; is that correct?

A Correct.

Q Now, what I understand, though, of the explanation you gave just moments ago was that including the 358,000 in the revenue requirement for the test period was in error.

A Correct.

Q So that amount should be removed immediately by the Commission at this point?

A Correct.

Q And then it would be appropriate, after some consideration of the financial and operational and other benefits that Utah may receive, then and only then would you propose that the Commission consider buying, again, part of that four hundred -- of that Oregon Trust investment; is that a fair statement?

A No. I would recommend the Commission take that action now. It's kind of a self-evident amount of value for the Company's customers in Utah. $358,000 is not very much money in the context of the project as compared to the value of the renewable energy credits, so I think it's, frankly, an easy decision with no regrets.

Q But if they choose not to, you would acknowledge that $358,000 needs to be removed from

the revenue requirement request?

A Certainly, if the Commission chose not to take that additional step, then we would recommend taking it out.

MR. PROCTOR: Mr. Tallman, thank you very much. You've been very helpful.

CHAIRMAN BOYER: Thank you, Mr. Proctor.

Mr. Dodge?

MR. DODGE: I have no questions.

CHAIRMAN BOYER: Mr. Reeder?

CROSS EXAMINATION

BY MR. REEDER:

Q Good afternoon, Mr. Tallman.

A Good afternoon.

Q Let's talk about wind for a few minutes.

CHAIRMAN BOYER: Mr. Reeder, would you bring the mike a little closer, please? Thank you.

Q (BY MR. REEDER) Recognizing that the information about each of the wind projects that you provided to us is confidential, let's have a conversation that doesn't involve the disclosure of confidential information about wind, shall we?

A Okay.

Q When you conduct a wind evaluation, you determine what the revenue requirements are for a

wind project, do you not?

A We do an analysis, yes.

Q And you do an analysis that projects those revenue requirements out over a period of years, don't you?

A We do, yes.

Q And then you offset that revenue requirement by what you believe are the avoided market costs for power by having that power from windmill available?

A That's one of the components, yes.

Q And then you further reduce that capital requirement -- I'm looking at one of your exhibits, in case you'd like to look at it, too, but it is confidential, as you know. Then you reduce that revenue requirement by PTC and Green Tag benefits?

A Which exhibit are you looking at?

Q I'm looking at your response to Data Request 2.4, and particularly the Goodnoe project.

A I don't happen to have that one. Do we happen to have that data request response?

Q You're welcome to look at mine.

A That would be great.

Q And, again, we're not -- this is not an exhibit. We're just talking about the process.

A Okay. So can you repeat the question, please?

Q And then you offset the revenue requirement by deducting from that the column that's entitled "PTC and Green Tag Benefit"?

A Not exactly. In this particular analysis, we offset with PTC, but not Green Tag benefit.

Q So the column that's entitled "Green Tag" is only PTC revenue and it does not include any revenue for Green Tag?

A In this particular analysis, that was not the intent of the way we went through the process, no.

Q Uh-huh. Now, do you customarily attribute revenue to Green Tags when you're evaluating these projects?

A It depends on the project. We've had a number of projects -- obviously there's a number of projects in the case, and we've moved to a different analysis methodology with some of the later projects, and so the methodology we used for the first, I'll say, three projects that are in the case, was more of a traditional present value revenue requirements-type analysis. It was not based on the integrated resource planning model.

And then, as time progressed, we received what we believed was feedback from stakeholders that they wanted to see a stronger linkage between the decision to procure resources and the integrated resource planning process, so one of the ways we went about doing that was to come up with a methodology that took advantage of the IRP planning and risk model, and so each project has kind of a different analytical approach.

Q Now, I want you to look very carefully at the analysis on this plant and tell me, again, whether or not you included revenue at $6.82 for Green Tags on this project. Go back and look at the front pages before you answer that question.

A Right. I think I can explain what Mr. Reeder is referring to. What we did with the Goodnoe Hills project, and it just so happens that Goodnoe Hills was a project where we were in this transitional state between the previous analytical methodologies and the IRP-based methodologies that we were moving to, and with the Goodnoe Hills project, what we did is we asked ourselves, "What would the value to customers of renewable energy credits or the value of the attributes associated with the resource for either renewable portfolio standard compliance

purposes be?" and we sought for a present value of revenue requirements of zero, and it turned out that the answer to that number was $6.37.

Q So that the present value revenue requirements, assuming production tax credits and REC, renewable energy credits, at $6.87 made this plant a desirable project?

A Well, what it did is it gave us an answer that allowed us to sit back and ask ourselves, "Is this a reasonable value to customers in the long term?" And we did not look at it in terms of, "I'm going to go sell these renewable energy credits to the market." We looked at it in terms of, "What's the long-term value to customers of having a renewable resource in the portfolio?"

And in asking ourselves that question -- first of all, the answer was yes, because we thought it was a reasonable cost project compared to other renewable resource projects that were being proposed to us at that time, and we also believed the answer was yes because we reasonably expect that, in the future, the value of holding that renewable attribute in a customer's portfolio is going to be worth far more than $6.37.

Q At the time you conducted that analysis,

had PacifiCorp been in the market of selling renewable energy credits?

A Somewhat. Yes and no.

Q What prices had you been fetching for selling those credits?

A Well, we've -- the Company has been in the market in a couple different ways for renewable energy credits. First of all, prior to the point in time where it was fully understood, I think, that portfolio standards would be coming as assertively as they appear to be, the Company certainly already had renewable energy credits in its portfolio. For example, the Blundell Geothermal Plant has been in our portfolio for a long time, and so the Company worked to maximize those -- the value of those credits for customers every opportunity it got.

Typically I was in a selling position. We're typically a seller.

Since the Company has created the Blue Sky tariff program for retail customers, which is a separate and distinct renewable credit program for customers, we have been on the buy side of the equation, but we do not commingle those two activities in terms of accounting. So we've been on both sides of the equation.

In response to coming up with our filing in the case, to answer Mr. Reeder's question directly, in response to coming up with the assumption of $3.50 a megawatt hour in the case, I believe we relied on past --

Q The number was $6.50.

A In the case, the Company is assuming $3.50 per megawatt hour on average for the renewable energy credits for the entire portfolio, and the issue at hand -- of course, I'm still answering your question -- the issue at hand, of course, is that UAE would like the Company to deem that number to be higher for Goodnoe Hills.

In coming up with the $3.50 number -- I believe this was in response to UIEC Data Request 11.2 -- the Company relied on historical transactions that ranged below $6 to above $6. On the low side, I think it ranged down to about $3.50 a megawatt hour, and on the high side, up to $9.50 per megawatt hour.

Most recently -- that's on a sale basis. And then on the purchase basis, the Company has most recently entered into a renewable energy credit purchase for the Blue Sky program equal to $6.50 per megawatt hour.

MR. REEDER: I'd ask that this document be

marked the next exhibit in order.
Q This is where we ask what values you fetched in 2006 and 2007 for renewable energy credits.
CHAIRMAN BOYER: Okay. This exhibit will be identified as -- and marked as UIEC Cross Exhibit 5.
Q (BY MR. REEDER) Do you have that document in front of you, Mr. Tallman, the document marked Cross Examination Exhibit No. 5?
A I do.
Q Is this the information that you provided to us about the renewable energy credit transactions that you'd, in fact, engaged in?
A Yes. This is one of two data requests we answered with respect to renewable energy credit sales that we've made.
Q And what is the price produced for the transactions by Rocky Mountain in renewable energy credits for the years 2006 and 2007? It's a simple matter of division, isn't it? If you divide the units by the price, you develop a price actually realized.
A Well, I certainly can do the math, but that really doesn't tell you what the prices were that

were sold. This is a -- this is a sum total of revenues and sum total of volume, so it would give you an average, but it certainly would not tell you, on an individual transactional basis, what transactions have gone to and the range that they've been made at.

Q Now, in your rebuttal testimony you object to being held accountable for fetching the values for renewable energy credits that you forecasted to make these projects feasible, don't you?

A No, that's not true. We --

Q You're willing to be held accountable for achieving the level of revenue forecasted?

A I'm not finished answering your first question, if you don't mind. No, we did not object on the basis that we projected those revenue requirements. We object on the basis that UIEC would have the Commission believe that the Company's analysis was equivalent to a guarantee or a deemed value during each year of the life of the project.

The Company's perspective is that it's the project that produces the renewable energy credits. The project should go into rates at cost, and the value of those credits to the Company -- to the customer will vary over time. They'll certainly be

higher or lower in any given year, and the Company's analysis was never intended to say that during any one given year it would be exactly equal to that number.

Q To your knowledge, does this state have a requirement that you provide, on an annual basis, a certain amount of renewable energy credits to meet any statutory obligation?

A Well, at the present time, I am aware that the state passed a carbon reduction initiative which sets targets for renewable resources as part of the portfolio over time, and I'm also aware that the standards underneath that legislation is one of reasonable costs, risk, and long-term considerations, and so the Company's perspective is that that's exactly what we brought to the decision-making process for this renewable resource.

The Company believes that there's good reason to be assertive in adding these types of resources to our portfolio. Not only do they reduce the risk of the portfolio inherently -- we've demonstrated that through the integrated resource planning process -- but the costs of these resources are escalating at multiples of inflation, so, in our opinion, doing nothing is not the right answer. In

our opinion, taking assertive actions to steadily add these types of resources to the portfolio over time is prudent. We believe we've done that.

And, again, we also believe that, in making the analysis, especially with respect to the Goodnoe Hills project, that it's a conservative analysis. There's no additional consideration in the analysis for the risk reduction to the portfolio for which some entities would say is worth upwards to $5 per megawatt hour. Certainly Lawrence Livermore Berkeley would say that through a study they performed.

And we also did not give consideration or credit in the analysis to the fact that when the Company owns an asset like this, at the end of the asset's life, the Company has the option of repowering it for the benefit of customers, and we believe that's an important consideration, because once a wind project is installed in a windy place, it will probably be windy there for a long time and it's reasonable to assume that that type of resource will exist at that location.

So, you know, again, we believe we stepped back, made the right choice for customers in the long term, and, in fact, if I were to build that same project today, it would cost considerably more money,

and if I were to build that same project today at the price we paid for it, which is a good price, and did that analysis today, it would look significantly different and to the benefit of customers.

Q That, however, is not the evidence you presented in this case, is it? But thank you for that opinion.

Is it your opinion, then, going back to accountability, that you should or should not be held accountable for the REC revenue that you've attributed to make this project commercially viable?

A Well, again -- and I apologize if this is repetitive, but the Company did not make the investment in the project because we thought that the REC revenue was necessary to make the resource viable for customers. We invested in the project because we believed it would be valuable to customers of the long term.

Q Then you'd have no objection to be accountable for this REC revenue, would you?

A I think we're on the record as saying that we do object to that notion, that, in our opinion, UIEC's view of the world is akin to saying to the Commission that it should always and forever attribute a single value to the renewable energy

credit from this project to customers. What that means is that UIEC is asking the customer -- the Commission to deem a value associated with it -- I believe they're asking for $6.05 -- and that over the life of the project that's all the value the customer should ever get from it.

That is, in effect, transferring a large amount of price risk to customers, because what that means is that the Commission, in order to fairly apply that argument, should ask the Company to go out and sell their renewable energy credits, as long as they can get $6.05, pass the revenues to customers, and that the Company will go out in the future, buy renewable energy credits at whatever the market is at the time to apply the renewable energy credits to the customers to match up with the revenues and then pass the costs through.

Q This is a problem you face in Oregon, isn't it? You need the renewable energy credits in Oregon to meet your RPS statute, don't you?

A I don't understand the question. Could you --

Q Isn't there an RPS statute in Oregon that requires you to have, on an annual basis, a certain amount of renewable energy or unbundled credits to

meet their portfolio standard?

A   There's a -- that's correct. There's a renewable portfolio standard in Oregon, Washington, California. And Utah has the carbon reduction initiative.

Q   And when the occasion arises that you do not have sufficient renewable energy credits from your unbundled production -- or from your bundled production, you go out and buy unbundled credits to meet that requirement, don't you?

A   That's incorrect, at least under the -- each statute is different, but at least under the Oregon RPS requirement, you're only allowed to have so many renewable energy credits bought from the market on a stand-alone basis, so this is an issue that, of course, is a timely issue. I mentioned to you during my summary that it's an emerging issue, and the multi-state process is having discussions so that jurisdictions that are long renewable energy credits, if you will, can sell them to jurisdictions that are short or that would like more in their portfolio, and then do the payments on an interjurisdictional allocation basis.

It's been the subject of a lot of discussion, but it's just one more way that it's a

little more complicating for PacifiCorp when you're a multi-state utility.

Q Take a minute and explain to this Commission why Utah ratepayers should take any risk at all with respect to the purchase or sale of renewable credits when our statutory scheme and legislative policy doesn't include them.

A Well, I -- and, again, if this is repetitive, I apologize, but what the Company is proposing would be the lowest price risk approach, and that is to have the renewable energy credits from this resource available to customers to manage as they will, and what that means is that, for example, under Senate Bill 202, the carbon reduction initiative, banking is allowed. There's no requirement to go sell renewable energy credits.

Again, every jurisdiction has some sort of either initiative or law and handles it differently, but it would be up to Utah customers, through their representatives, to help guide the Company in terms of managing this price risk. It's there to sell now. If there's a desire to have the revenues now, those renewable energy credits are also there to be banked for the future.

Q Let's talk about production tax credit for

a minute. The production tax credit or the availability of the production tax credit was essential to your analysis to determine whether or not this project was feasible, was it not?

A Production tax credit was definitely a consideration, yes.

Q If the production tax credit were not available, would this project be feasible?

A I'm sorry. I didn't hear the last part of your question.

Q If the production tax credit were not available, would this project be deemed feasible?

A Well, I wasn't faced with that decision at the time we made the decision to move forward for this resource. At the time, there was every reason to believe that the Goodnoe Hills project would be in service by the end of the expiration of the federal production tax credit, and, indeed, that is the case. The project is in service at this point in time.

Q So you have no objection to being held accountable for the credit from the production tax credit being available to evaluate this project, then, do you?

A Well, I think I answered the question directly, but I'll try to answer it again. At the

time the Company made the decision to construct the Goodnoe Hills resource, it had every reason to believe that our contractor would place every source in service by the end of 2008, and that, indeed, has happened. That was not a decision we were faced with, and here we sit.

Q Now, in addition to buying projects, Rocky Mountain or PacifiCorp buys renewable wind as an energy source, don't they?

A I'm sorry. I don't understand the question.

Q Do you buy wind energy?

A Could you be a little more specific?

Q Do you buy wind energy?

A Is your -- I'm trying to be helpful here. Is your question whether we --

Q And I'm trying to clarify, because I may be ambiguous. Does Rocky Mountain or Pacific Power buy wind energy, energy from a windmill, electric energy from a windmill?

A The Company does enter into power purchase agreements, if that was your question.

Q That's what I'm trying to ask. Thank you.

And you do buy, pursuant to a power purchase agreement, the output of wind projects?

A We have. We have several such agreements.
Q When you buy from those projects, is it customary for you to require that the seller of that output take the risk on production tax credits?
A Well, we certainly attempt to negotiate the best transaction possible for customers, and we enter into commercial contracts that are typical for power purchase agreements, and yes, we do attempt to shed that risk to our counterparties as much as possible, which is the same approach we take in contracting for constructing projects, but in all cases, most of our -- I'm, frankly, not aware of very many, or if any, commercial agreements that don't contain force majeure clauses.
Q And in contracting for wind, do you also push to the contracting party some guarantees about the availability of wind from those projects?
A Well, we certainly would like to. We would like to have counterparties guarantee the weather, but we've, to date, been unsuccessful with that strategy.
Q Do you have a standard form contract that you present to people to buy wind?
A Well, standard might be maybe not the correct way to say it. We have forms of agreements

that we put forward. Certainly there's forms of power purchase agreements that are put forward in certain procurement processes and such.

Q In fact, we asked you to provide that agreement, didn't we?

A I'm aware that you asked us to provide an agreement.

Q Mr. Tallman, I'm going to hand you a document that you've represented to us is your sample form contract in a data request. Would you look at that and see if the pages in this document that I'm handing you are true and correct pages from that document?

Have you completed your review, Mr. Tallman?

A Pardon me?

Q Have you completed your review?

A No, I haven't. I haven't started.

They look -- yes, they look like excerpts of the document.

MR. REEDER: I'd ask that the document that I've handed out be marked as Cross Examination Exhibit No. 6, representing pages from the sample contract of Rocky Mountain for the purchase of wind power.

Q Do you have the document in front of you, Mr. Tallman?

A I do.

Q Isn't it true that on those pages contains the language that PacifiCorp presents to its sellers about the risks it expects to take with respect to capacity, availability, and production tax credits?

A I see an availability provision. Where can you reference me to production tax credits?

Q Look at 2.7, please.

A Correct.

Q Again, back to my favorite theme: accountability. If it is your expectation of the persons who sell to you that they remain responsible for production tax credits and availability, then why should this Commission hold you to any lesser standard?

A Is your question only with respect to PTCs or was it a question with respect to both --

Q Both.

A -- PTCs and availability?

Q Both.

A We'll start with availability. First of all, what's been presented here is not a production guarantee, so this is not a guarantee of how often

the wind will blow or how much energy the facility will produce. This is a guarantee by the seller on how often the project will be available, should the wind happen to blow, and this has a very direct parallel in our construction activities in that we have agreements in place now in our wind projects for operation and maintenance services that provide similar availability guarantees.

So, in concept, it's very similar, although I would, I guess, further add that the percentages that we're able to get on a power purchase agreement are far lower than the percentages we're able to get from our service providers for our wind projects. And we provided that information in response to a data request. I don't know which number it was. I don't have it in front of me, but it's a significant difference in terms of percentage basis. That's the first item.

The second item is that the PTC reference in Section 2.7 is the functional equivalent on a power purchase agreement of what we do on the construction side of the equation, and that is, when we're constructing a project, we enter into construction agreements with a contractor to wrap, as much as possible, the engineering procurement and

construction of the project, and we subject that entity to a certain schedule and damages for nonoccurrence.

What's happening here in the power purchase agreement, it's kind of the functional equivalent of that. We are saying to the seller, you know, "It's your job to get that built on time." Notwithstanding that, I'm fairly certain that if I were to peruse this, I don't know, 80-, 90-page contract here, I'd probably find some provisions on force majeure that, at the end of the day, need to keep in mind that when you're contracting with a counterparty, especially in the wind business, it most typically is a limited liability corporation, and so counterparty default is a typical concern of the Company, and at the end of the day, if they just mess up bad enough, they just default and they take their lumps.

And so, you know, as much as we try to protect the interests of our customers to the best of our abilities, entering into power purchase agreements is just -- it's a fundamentally different type of commercial transaction than constructing a project yourself.

Q Isn't it the case that you require credit enhancement or credit guarantees on power purchase

agreements and construction agreements?

A We do, but you can never -- you can never get it as high as you would like to get it for customers. Certainly the companies endeavor to always counteract -- transact business with counterparties that are credit worthy, and, you know, frankly, I don't think the Company should be faulted for that. We're doing the best we can for customers in terms of our commercial dealings.

Q One more area of questions, and we'll try to make it really quick rather than really long. I have your 2007 results of operation in front of me and I have your 2007 FERC Form 1 in front of me. In your testimony earlier today, you said there is no obligation -- should be no additional obligation imposed by this Commission to require reporting on your wind projects where those projects are already reported.

Without putting these in front of you and asking me to show you where they are, before this record closes, would you be so kind as to tell me the pages where those wind projects performance are reported? And I'll be happy to loan you my copy so you can find them. I will represent to you I just simply can't.

A Which years did you say?

Q 2007, the most recent years for which you completed reporting. But you're welcome to take them and look, and let's -- but we won't examine further. I'll just ask you to put the page numbers on, where they are, before the end of this record.

A Well, I would be certainly happy to tell you from memory which page number they're on, but I think what the Company said -- what I said in my testimony is that we do include the volumes that are produced by these projects in our reporting. If it's not in the FERC Form 1 -- if Leaning Juniper, for example, wasn't in the FERC Form 1, I'd be surprised, because that project was commercial during the latter part of 2006, and if it was, it was an oversight on the part of the Company.

But what we also said is that this is routine information. What UIEC is saying is, "Tell me how much energy one of our generating units produced," and, for some reason, maybe obvious reasons, they're extremely interested in wind projects.

The fact is that every time we have a proceeding, certainly, if it's a rate proceeding using the grid model, for example, that information

is inherently in the model, and, secondly, to the extent any entity wants it, they simply have to ask. And, indeed, in this proceeding we provided that information in a data request.

So the Company still is baffled as to the reasoning or the reason for carving out a certain resource type and asking us to file a separate stand-alone report with the Commission for reasons for which we, frankly, don't understand. If UIEC was sincere in this request, I think they would be asking for the Company to file a stand-alone report for every generation resource, not just wind resources.

Q I can find solar, I can find thermal, I can find hydro. I cannot find wind. Is it unreasonable to hold you accountable for your significant investments in wind?

A I think we've already addressed that question.

MR. REEDER: I have nothing further. He and I can argue all day on this one. Thank you.

CHAIRMAN BOYER: Thank you, Mr. Reeder.

Mr. Mattheis?

MR. MATTHEIS: No questions. Thank you.

CHAIRMAN BOYER: Okay. Let's turn now to the commissioners.

Commissioner Allen, do you have any questions?

Commissioner Campbell?

COMMISSIONER CAMPBELL: Understanding that renewable resources are more expensive and that when we look at the IRP, that we include them to have a diversified portfolio, how do you all determine when something is commercially viable?

THE WITNESS: Well, as I said, we've been evolving our analysis procedures. What we've heard from stakeholders is that they like to see the linkage between the process that creates the preferred portfolio and the decision that's made to acquire resources to satisfy the preferred portfolio. And with due respect, sir, our renewable resources aren't inherently more expensive. It's just that every resource needs to be analyzed for what -- for the value it brings to customers.

There's a number of the renewable resources, the wind projects that are in this proceeding, for which we have not discussed, which are significantly below market, if you will, in our analysis, and so, you know, what the Company does is we look at each one, a stand-alone basis. We believe we've taken a conservative approach, but in the end

we do look at them individually, and we -- there are times when we are left with making an assessment, a business assessment, an assessment for what we think is the best interests of customers long term.

COMMISSIONER CAMPBELL: Okay. I understand if they're below market. That's probably a no-brainer and you go out and do it, but at what point -- what is your standard as far as -- I mean, you say a case-by-case basis. What are the factors that drive the decision?

THE WITNESS: Well, there's a number of factors. First of all, this is a very quick-moving industry, as you've probably gathered. The costs to construct these types of projects are escalating rapidly. I mentioned multiple times inflation, but 75 percent of the cost of these projects is the wind turbines themselves. Wind turbine prices have been escalating dramatically, and, in fact, in our experience in the last year, approximately 5 percent quarter on quarter, which is a significant escalation.

So, you know, again, it's a fair question. You know, how much is too much?

But the other thing that's emerging and moving quickly is the status of renewable portfolio

standards. I mentioned in my testimony how many states across the nation have those types of standards. We've certainly seen the initiative passed in Utah, and by most people's estimation, a federal renewable portfolio standard is just around the corner.

In my testimony you'll see a reference to a federal RPS standard that was passed during 2007 but was not ratified by the federal government, and in there, the cost for noncompliance was on the order of $30 a megawatt hour, if you will, so when we look at a project like Goodnoe Hills at $6.37 and we look at a reasonable estimation of the future and we take into consideration some of the things that we did not put pen to paper on but we know, intuitively, that there's value to this hedging the portfolio, because that's the result of the IRP, we have to make -- they are not easy decisions, but we take them seriously, obviously, but we make those decisions.

Right now, there is no predetermined -- I don't have a number that says, you know, "We'll never go above a certain amount." We're using our best -- our judgment to make prudent decisions, and then we come to you and explain them and demonstrate why they're prudent.

CHAIRMAN BOYER: I do have one question, Mr. Tallman, but first I'm going to ask Mr. Reeder his intentions regarding UIEC Cross Exhibits 5 and 6.

MR. REEDER: I'll offer them now.

CHAIRMAN BOYER: Any objection to the admission of UIEC Cross Exhibits 5 and 6?

MR. PROCTOR: No.

CHAIRMAN BOYER: Seeing none, they are admitted into evidence, and thank you.

My question, Mr. Tallman, occurred to me last evening as I reread your testimony, and it relates to your rebuttal testimony to Ms. DeRonne regarding the expiration of that warranty contract on a particular resource.

THE WITNESS: Yes, sir.

CHAIRMAN BOYER: As I understand the way insurance companies and warranty companies make money, is they charge premiums that, in their expectation, exceed the amount of claims to be paid out in the future, and they call that profit. Is my understanding correct?

THE WITNESS: Well, I'm not very familiar with the insurance industry, as a general state, but I can certainly describe to you the circumstances that led to this particular transaction.

CHAIRMAN BOYER: Well, let me refine my question and save you that effort. Basically your position is that, while the warranty has expired, the continuing OEM expenses continue, and I'm just wondering if the premiums for that warranty are an appropriate proxy for the actual costs you anticipate, or would they be higher? That is to say, would the warranty costs be higher than actual O&M?

THE WITNESS: Well, in this instance -- and this is my understanding of the chain of events in terms of Leaning Juniper and the costs that are in the case, but, as I understand it, the Company originally made its estimate of operation and maintenance expense, and then it had revised its estimate upwards, so I think we originally estimate 3.2 million, and I believe Ms. DeRonne references a number -- I'm going to say 3.8 million, but the number -- exact number escapes me. Maybe it's 3.6 million.

And then she saw this warranty agreement that was expiring late in the year -- I believe it expires in September -- and so she prorated the costs associated with that and made her adjustment, and all the Company is really saying is that when we made our revised estimate of O&M expenses for this particular

wind project, we took that into account.

In terms of whether or not the actual costs we'll incur will be more or less than what we were paying the counterparty, we can't tell you, because we haven't been operating the plant and so we don't have the direct, I guess, technical history we'd like. But, in any event, that was our estimate, so I'm sure it's debatable as to whether or not, you know, that will be the right number or not. You pretty much have the -- Ms. DeRonne's view of the world, our view of the world, and, you know, they're two different numbers. $200,000 apart.

CHAIRMAN BOYER: Okay. Thank you, Mr. Tallman.

Redirect, Ms. McDowell?

MS. McDOWELL: Thank you, Chairman Boyer.

REDIRECT EXAMINATION

BY MS. McDOWELL:

Q Mr. Tallman, has UIEC challenged the prudence of any of the wind projects in this case based on capacity factor issues?

A No, they have not.

Q Has UIEC challenged the prudence of any of the wind projects in this case based on the Company's failure to meet the production tax credit?

A No, they have not.
Q Is it fair to summarize Mr. Reeder's arguments as really addressing policy issues?
A Yes, in my opinion, that's fair.
Q From a policy perspective, what would be the effect of this Commission adopting UIEC's proposals on the Company's efforts to meet its renewable targets and goals?
A Well, in my view, it would have a pretty significant effect. The way I interpret UIEC's position is that it only wants the Company to undertake activities when there's a guaranteed outcome, and I think that would have a significantly chilling effect.
As I mentioned to you earlier, the costs for these projects are escalating tremendously, and setting aside the policy issue at play here, I think if you just step back and looked at these resources on the underlying fundamental cost basis, bus bar costs, if you will, they're attractive resources in the long term, and so to wait and do nothing is not intuitive to me. It doesn't sound like good policy, and it's certainly not any way that the Company is going to build this portfolio over time, which is the only practical way you can add this large number of

megawatts to the portfolio.

So, in our view, this is a marathon. It's not a race. In our view, renewable resources are not a fad. They're not going away. The laws aren't going to be changing, and, in fact, if anything, they're going to remain. And so, you know, it's our -- it's our goal to do this in the best, smartest way we can, which means when we have an opportunity that we think is in the best interest of customers, the question is, "How fast can we get it done?" It's not, "Can I get it done with a guaranteed outcome because I'm worried about some sort of regulatory result?"

Q Mr. Tallman, I just wanted to ask you a couple of questions about the area that Mr. Proctor asked you about, which is the Goodnoe Hills REC energy trust issue, so -- and I just want to do this to make sure that the record is absolutely clear in terms of the choices that are -- this Commission is faced, based on your testimony.

So let me ask you this: What happens to the current revenue requirement in this case if the Commission does elect to displace the ETO grant?

A Well, in my view, the -- probably the fairest way to make that -- the application of that

decision or the result of that decision would be to remove the $350,000 credit and really increase the revenue requirement by another $350,000. That would probably be the most demonstrative way for the Commission to make an affirmative decision in this matter.

Q   And if the Commission rejects that option and chooses not to displace the ETO grant, does the revenue requirement in the case stay the same?

A   No. In that event, I would just simply remove the $350,000 credit and put it back the way it should have been in the first place.

Q   The removal of the credit increases the revenue requirement?

A   Yes.

MS. McDOWELL: That's all I have. Thank you.

CHAIRMAN BOYER: Thank you, Ms. McDowell.

Thank you, Mr. Tallman.

Oh. Commissioner Campbell has one last question.

THE WITNESS: Certainly.

COMMISSIONER CAMPBELL: Could you just briefly summarize what value the Utah jurisdiction has for displacing the amount from the trust?

THE WITNESS: Well, I haven't done the exact calculation, so this will be my estimate based on my familiarity with how much Utah's portion of the four and a half million dollars would really result in, but, you know, I think if you took 40 percent of the four and a half million, what would you end up with? 1.2 million or so? That's probably not right. I shouldn't say that. 1.8 million. You know, that would probably only move the cost of the -- bus bar costs of the project by, say, 25 to 35 cents a megawatt hour.

I think you'd have to compare the value of that cost against the value of the rateable energy credits that will be remanded back to Utah. And, you know, as I told you earlier, that once we get into a federal RPS, that number could be 20, 30, higher. The cost for noncompliance in other states is as high as 50, so we think there's significant value.

CHAIRMAN BOYER: Okay. Thank you, Mr. Tallman. Now you may take your seat.

Shall we proceed now to the next Company witness? And I will probably butcher this name as well. Mr. "eel-KEEM-a"?

MS. McDOWELL: "EL-kem-a."

CHAIRMAN BOYER: "EL-kem-a." Okay. It had

no "accento" on the "sil-LAW-bel." Eelkema. Thank you.

Mr. Eelkema, have you been sworn -- you have not been sworn in this case, have you?

THE WITNESS: No, I have not.

CHAIRMAN BOYER: Would you please raise your right hand?

PETER EELKEMA

called as a witness and sworn, was examined and testified as follows:

CHAIRMAN BOYER: Thank you. Please be seated.

Ms. McDowell or Ms. Rackner?

MS. McDOWELL: It's actually Mr. Solander.

CHAIRMAN BOYER: Oh, okay. Excellent.

MR. SOLANDER: Thank you.

CHAIRMAN BOYER: Looking forward to hearing from you.

DIRECT EXAMINATION

BY MR. SOLANDER:

Q Good afternoon, Mr. Eelkema. Could you please state and spell your name for the record?

A Peter Eelkema, and the last name is spelled E-E-L-K-E-M-A.

Q And what is your current employment?

A I am employed as senior lead consultant, load and revenue forecasting.

Q And are you here today to adopt the prefiled testimony of Michael Wright and the accompanying exhibits?

A Yes, I am.

Q And have you prepared a summary of that testimony that you'd like to share with the Commission?

A Yes, I have.

Q Please proceed.

A Good afternoon. In this case, I am adopting the prefiled testimony of Dr. Michael Wright and the Company's load forecast. I understand that my counsel has previously filed a notice of my adoption of this testimony, which includes my qualifications.

The purpose of my testimony is to explain the Company's load and sales forecast in this rate case. I describe how the Company developed forecasts of the number of customers, bills, sales, and system load. I also discuss how the Company's past forecasted sales have tracked closely with the weather-normalized actual sales with only about a half a percent average difference from 1991 to 2004.

I describe how the Company is experiencing load growth driven by an increase in the number of customers and higher energy use per customer.

As a result of load growth, the Company expects its energy requirements to grow by approximately 2.3 percent per year, with the summer peak rising at an even faster rate.

In his testimony, Mr. Brubaker states that the Company's weather-normalized sales in the first quarter of 2008 were lower than forecasted and that Utah sales as a percentage of total Company sales are lower than forecasted. It is important to note that, on a temperature-normalized basis, the Company's current 2008 Utah loads are above 2007 loads by 5.4 percent. Current loads for Utah industrial customers are up 12 percent from 2007.

While the Company's sales for the first quarter are slightly below the forecast on a temperature-normalized basis, they are up 1 percent on an actual basis. Given the consistent upward trend in Utah sales, the Company expects its loads for the 2008 summer peak season to be at or above its forecast.

Thank you.

Q Does that conclude your testimony?

A Yes, it does.

MR. SOLANDER: Mr. Eelkema is available for cross examination.

CHAIRMAN BOYER: Thank you, Mr. Eelkema and Mr. Solander.

Let's begin with Mr. Ginsberg.

MR. GINSBERG: No.

CHAIRMAN BOYER: No questions.

Mr. Proctor?

MR. PROCTOR: No questions.

CHAIRMAN BOYER: Okay. Mr. Dodge?

MR. DODGE: No questions.

CHAIRMAN BOYER: Mr. Reeder?

CROSS EXAMINATION

BY MR. REEDER:

Q Dr. Eelkema, welcome to Utah.

A Thank you.

MR. REEDER: Dr. Eelkema and I have crossed paths a time or two before.

Q Dr. Eelkema, you've testified in your -- in the testimony that you've adopted that the Company begins by forecasting new customers in the state. I'm going to hand you an exhibit that was prepared in response to a data request that shows that forecast, indeed, and ask you to familiarize yourself with it

for a moment.

Sorry to have so much paper.

CHAIRMAN BOYER: Let's mark this Exhibit as UIEC Cross Exhibit 7.

MR. REEDER: Thank you.

Q Dr. Eelkema, do you have a document in front of you that's been marked for identification as UIEC Exhibit -- Cross Examination Exhibit No. 7?

A Yes, I do.

Q Dr. Eelkema, does that document represent, as you understand it, the forecast of the Company for new connections in Utah for the year 2008?

A Yes, that is correct.

Q Let's move to reality from the forecast reality. I hand you a document marked for -- and ask to have it marked as the next exhibit in order, which would be Number 8.

CHAIRMAN BOYER: Yes. We'll mark that as UIEC Cross Exhibit 8.

Q (BY MR. REEDER) Would you examine that document, Dr. Eelkema? Referring to the document that's been marked as UIEC Exhibit No. 8 --

MR. REEDER: Let's do one more exhibit here at the same time, if we might, Number 9. Can we have this document marked as Exhibit No. 9?

CHAIRMAN BOYER: Did you deliberately minimize that font size, Mr. Reeder, on 8?

MR. REEDER: That's the way the e-mail came.

CHAIRMAN BOYER: Okay. This -- the one that's being circulated currently will be UIEC Cross Exhibit 9.

Q (BY MR. REEDER) All right. Dr. Eelkema, let's look at Exhibit No. 9 first, if we might. Exhibit No. 9 asks you for the actual new connections for the year 2008?

A Yes. It asks for the number of Utah new connections for 2008.

Q And would you compare the information that you've provided there about the actual new connections for 2008 with your forecasted information that was disclosed in the earlier exhibit? Have you had a chance to compare them?

A I am looking at them now.

Q Okay.

A I have done just a brief comparison.

Q Is it fair to say, Dr. Eelkema, as you look at the comparison of Exhibit No. 7 and Exhibit No. 9, that at least your residential new connects are about half what you'd forecast?

A It is approximately correct to say that. New connects forecasts are less than what was forecasted. However, we also want to look at commercial and then realize that commercial new connects are above the forecast.

Also, in terms of sales, the -- which is the final product, there's other factors that go into the sales other than just simply new connects, and that is the use per customer, driven by home size and air-conditioning load and things like that.

Q That's a good segue to Exhibit No. 8. Would you turn to Exhibit No. 8? And I apologize for the small print, but I did get it all on one page and all on one screen. Do you have that document in front of you?

A Yes. I didn't realize there was an eye test with this.

Q Come to Utah, we give eye tests. Other places we give other tests.

Have you had a chance to look at that document?

A Yes, I do.

Q The first -- first row is the total sales, weather adjusted, is it not?

A That is correct, yes.

Q And it shows, for the 2007, Utah departed downward from the forecasted sales, while Oregon departed upward from the forecasted sales, does it not, for 2007 weather-adjusted sales?
A Again, if you could repeat, please. You were saying Oregon?
Q Oregon -- I was comparing Oregon and Utah. Utah is minus .7 percent; Oregon is plus 2 percent. Do you see those numbers?
A Yes, I do.
Q All right. Now let's go down to the next line that is the peak load, weather adjusted, and a percentage of departure from forecast. Do you see there the percentage departure for the state of Utah for the year 2007 was 1.8 percent?
A And you said not weather adjusted, correct?
Q I'm looking at the peak forecast weather adjusted. I've skipped down to kilowatts. I've gone from kilowatt hours to kilowatts.
A Okay. I'm sorry. I'm with you.
Q Okay. Oregon is a plus 23 percent. Utah is a plus 1.8 percent, correct?
A That is correct for that one hour.
Q Okay. Let's go back up and look at the forecast for energy for 2008, January, February,

March. See the 2008 results above? It's true that Oregon is exceeding forecast, Utah is falling behind forecast in energy for 2008, leastwise for the months that you provided to us, isn't it?

MR. SOLANDER: I'm sorry, Mr. Reeder. Can you tell us where you are now in this --

MR. REEDER: I'm back up at the top of the exhibit entitled "Forecast, Total Sales Forecast, Weather Adjusted, Kilowatt Hours, Percentage Departure," reading the columns under Oregon and Utah.

THE WITNESS: I see that for January, February, but not for March. Oregon exceeds its forecast.

Q (BY MR. REEDER) Okay. Let's go down, now, and look at kilowatts. Looking at kilowatts for Utah for the period January and February and kilowatts for Oregon for January and February 2008, what do we observe?

A We observe that, for that one peak hour for each month, it is above the forecast.

Q Oregon is substantially exceeding the forecast? By 24 percent, in fact, didn't they?

A By approximately, for that one month.

Q Now, let's go back to the conversation that

Mr. McDowell [sic] and I had this morning. What is the significance of understating Oregon's load and overstating Utah's load in terms of the revenue impact to Utah customers?

A That is beyond the scope of my expertise.

Q Oh, Dr. Eelkema, come now. You are a PhD economist. Nothing exceeds your expertise.

A Maybe you overestimate my -- or overforecasted my expertise.

MR. REEDER: Thank you, Dr. Eelkema. Welcome to Utah. I have nothing further.

CHAIRMAN BOYER: Thank you, Mr. Reeder.

Mr. Mattheis?

MR. MATTHEIS: No questions. Thank you.

CHAIRMAN BOYER: Is it "ma-THY-es" or "ma-THEE-is"?

MR. MATTHEIS: "Ma-THY-is."

CHAIRMAN BOYER: Okay. I'm good on that one.

And I apologize for not recognizing your title, Dr. Eelkema.

Let's see. Let's turn to the commissioners. No questions from Commissioner Allen. None from me. Well, actually, I do --

MR. REEDER: May I offer those exhibits,

then, if you have no questions?

CHAIRMAN BOYER: Okay. Are there any objections to UIEC Cross Exhibits 7, 8, and 9?

MR. GINSBERG: No.

CHAIRMAN BOYER: Seeing none, they will be admitted into evidence.

MR. REEDER: Thank you.

CHAIRMAN BOYER: I do have sort of a general question, and I don't know how to frame this, because I don't have any expertise in this matter, and the knowledge that I have is anecdotal through builder friends and what I read in the news accounts, but it appears that what has historically driven the load growth is, of course, usage per customer, switching from swamp cooling to central air-conditioning and the larger-scale houses; however, in your opinion, are there economic factors at work here that may change those expectations if we -- you know, if we're just forecasting from past experience, for example, I hear -- and as I say, this is not evidence or testimony before us, but that it's -- that large houses are languishing and smaller houses are still selling. Are you familiar enough with the Utah market to comment on that?

THE WITNESS: I know from history that

homes in Utah are becoming larger. Also, there's a trend, as you mentioned, to switch from swamp coolers to air-conditioners, which, obviously, air-conditioners use a lot more energy; however, we're going to reach a saturation point in terms of switching from swamp coolers to air-conditioners, and that has been taken into account in the forecast.

But whether larger homes are selling faster than smaller homes, I'm sorry, I cannot address that.

CHAIRMAN BOYER: Okay. Thank you.

Let's see. Mr. Solander, redirect?

MR. SOLANDER: We have no redirect of Mr. Eelkema.

CHAIRMAN BOYER: Very well.

Thank you, Dr. Eelkema.

Okay. Shall we move on to the next Company witness, Mr. Ross? Unless he's a doctor, and in that case, we'll call him Dr. Ross.

MS. McDOWELL: Commissioner Boyer, I do want to say that we have located the information that Mr. Reeder asked Mr. Tallman in terms of the reporting, the location of the reporting of wind plants, and we'd be happy to call Mr. Tallman and put that on at the appropriate moment.

MR. REEDER: Let me see it at a break and

maybe we can stipulate to it.

CHAIRMAN BOYER: Yeah. Maybe you could just handle that informally, inasmuch as he's only calling out pages in a contract.

MS. McDOWELL: Excellent.

CHAIRMAN BOYER: Thank you. Or annual report, I guess it is.

Okay. Mr. Ross, have you been sworn in this proceeding?

THE WITNESS: No, I have not.

CHAIRMAN BOYER: Would you please stand and raise your right hand?

NORMAN K. ROSS

called as a witness and sworn, was examined and testified as follows:

CHAIRMAN BOYER: Thank you very much. Please be seated.

Ms. -- Rackner? Okay.

DIRECT EXAMINATION

BY MS. RACKNER:

Q Good afternoon, Mr. Ross. Will you please state your name and spell your name for the record?

A Yes. My name is Norman K. Ross, N-O-R-M-A-N, K, R-O-S-S.

Q How are you employed?

A I'm employed as a tax director within the corporate tax department at PacifiCorp.

Q And are you the same Norman Ross who prepared and caused to be filed the rebuttal testimony and exhibits that were offered and accepted into the record earlier this morning?

A Yes.

Q And have you prepared a summary of your testimony?

A I have.

Q Please proceed.

A Thank you.

Chairman and Commissioners, I would like to begin my summary by just reviewing the central numbers that were under consideration in this matter. Initially, the Company's filing reflected a property tax estimate for 2008 of $82.4 million. That estimate was subsequently revised downward to $79.7 million.

The Company does recognize that the $79.7 million is a sharp rise over the property tax expense recorded for calendar year 2007, but that expense rise is a direct function of higher levels of taxable property.

I would like to now review a few of my

comments that I submitted as part of my rebuttal testimony concerning Ms. DeRonne's testimony. Ms. DeRonne, as you may recall, submitted an alternative calculation for property tax expense for calendar year 2008. That expense number produced by her methodology was $70.7 million, so essentially $9 million lower than the Company's estimate.

That estimate was prepared by reference or was based exclusively on a percentage change methodology. In other words, she relied on the percentage change in property tax expense recorded for calendar year 2006 to 2007, and that was a 2.36 percent percentage change, and, thus, she utilized that percentage change in estimating 2008 property tax expense at $70.7 million.

This approach, as utilized by Ms. DeRonne, is flawed for numerous reasons. To begin with, it does not reflect how property is, in fact, valued. Property is valued based on the use of appraisal methodologies which state assessment personnel utilize based on their judgment as to the applicability to the given property.

I have not witnessed, in the 21 years that I've been involved in this type of work, an appraiser actually using a percentage change method in setting

the value of property.

Secondly, Ms. DeRonne's methodology assumes that the factors that affected each prior year's tax estimate or expense will impact the current year's tax expense in precisely the same way, and I believe this assumption is unreliable for several reasons. I'll list a couple of those reasons.

One, we have experienced, over the past several years, a reduction in property tax rates. I believe it's unreasonable to expect that to continue, and I would note for the record that the Company's estimate is -- relies on an assumption that property tax rates will remain level with last year's tax rates. I believe that's the most reasonable assumption, given the absence of any information to the contrary.

Secondly, Ms. DeRonne's estimate fails to take into account statutory provisions which cause certain types of property to escape taxation, and, thus, her estimate is problematic from that perspective.

Third item I would note is that there are certain instances where the Company has challenged state-assessed values and the methodology used by Ms. DeRonne of a percentage method fails to recognize

that some of those efforts to reduce the assessed value or to challenge assessed values were not considered.

Finally, I would note that Ms. DeRonne's methodology fails to take into account the substantial rise in property tax -- excuse me, the substantial rise in property that is subject to tax. The year-over-year change in property that I and my staff reported to state appraisers increased by roughly $1.1 billion from the end of 2006 to the end of 2007.

By way of explanation, I might note that the property tax process occurs on a calendar-year basis in a typically orderly fashion. My department files property tax returns during the early part of the year, generally beginning from March through the end of May. Once those returns are filed, we begin receiving property tax assessments from each of the ten states in which those reports are filed, and then finally, toward the end of the year, we actually begin receiving property tax bills, which are based on those assessed values determined earlier.

So it is over the course of that time that we receive more clarity as to the actual amount of property tax expense that will, in fact, be tied to

that given property that was owned as of the January 1st lien date.

At this point in time, we have received property tax assessments from a number of the states. We haven't received all of them, but those property tax assessments are considerably higher. They are consistent with the higher level of projected property tax expense. Specifically, I would note that the state of Utah assessment for the 2008 tax year is $301 million. The state of Wyoming's property tax assessment is $172 million higher. The state of Montana's assessment is $10 million higher --

MR. PROCTOR: Excuse me. Mr. Chairman, I apologize for interrupting Mr. Ross, but now we're getting into sursurrebuttal. This is May. He gets these bills the first of the year, he just testified, and now he's beginning to provide you with new information that has not been available to the Committee or any other party now since this thing began.

I would object to his furthering this line of testifying. It's not a summary of what his earlier testimony was. And I would also move that it be stricken.

CHAIRMAN BOYER: Ms. Rackner?

MS. RACKNER: Yes. My understanding is that Mr. Ross is speaking to tax bills that were received either immediately before in one case or after the time that he prepared his rebuttal testimony, so these are tax bills that were not received at the first of the year. They were received after he had an opportunity to prepare his rebuttal testimony, and, frankly, we believed that this was just the kind of update information that the Commission would find useful and helpful.

CHAIRMAN BOYER: Overruled.

THE WITNESS: I would note that the amounts I'm referring to are the assessed values, so we're not referring to tax bills. And these assessments were received just within the last couple of weeks. In fact, the last state that I'll mention is the state of Oregon, which has submitted an assessment which is $418 million higher than the 2007 assessed value.

The increase across just these four states -- and keep in mind that we have ten states to take into account. These capture the three largest of those states, so we still have some significant states to take into account -- are roughly $900

million. If one simply applies a 1.2 percent property tax rate to a $900 million increase year over year, that translates into $10.8 million of increased property tax.

Now, I will admit that there are still uncertainties as to how all of these figures will wash out. As I mentioned, property tax rates have been declining. We have made the assumption in preparing the Company's estimate of property taxes that those rates will not continue to decline. There's certain macroeconomic factors occurring that I think would lead to that result.

Also, I would note that I do intend to challenge the Oregon assessment and very much hope that I will be able to bring that $418 million increase down to something in a more reasonable range.

Finally, in summary, I would note that Ms. DeRonne's estimate leaves no room -- leaves room for only a $1.6 million increase in property tax expense year over year, as her estimate of $70.7 million is only $1.6 million higher than the $69.1 million reported for calendar year 2007. The $300 million increase in Utah value alone would cause taxes to rise by roughly double that amount.

I believe that the Company's $79.7 million estimate has been developed with actual valuation practices in mind and is validated by the substantial year-over-year increases in 2008 tax assessments.

MS. RACKNER: Thank you, Mr. Ross.

Mr. Ross is available for cross examination.

CHAIRMAN BOYER: Very well. Thank you, Mr. Ross.

Let's begin with Mr. Ginsberg.

MR. GINSBERG: No questions.

CHAIRMAN BOYER: No questions.

Mr. Proctor?

MR. PROCTOR: Thank you.

CROSS EXAMINATION

BY MR. PROCTOR:

Q Good afternoon, Mr. Ross.

A Good afternoon.

Q Did the Company challenge the 2006 Utah State tax assessment?

A Yes.

Q And the outcome of that appeal or challenge was announced in February of 2008; is that correct?

A The Commission's decision came out in February, yes.

Q What was that decision?
A The decision was to accept recommended changes to certain valuation methods that the Tax Commission began employing in 2006.
Q And did that increase or decrease the amount of the assessment?
A It decreased it.
Q Did that decrease the amount of your property tax?
A No.
Q What was the amount of the 2006 tax?
A I don't recall specifically.
Q So there was no refund associated with it?
A A refund has not been formally settled. The -- one of the parties to that matter has filed an appeal of that decision to the Utah District Court.
Q What type of refund did the Company request in its challenge of the assessment?
A I don't recall the specific number.
Q Is that challenge something for which you are responsible, sir?
A Yes.
Q Did you participate in the hearing?
A I did.
Q Did you present evidence to the Utah State

Tax Commission about the amount of the assessment?

A I don't think my testimony went to the amount of the assessment. I spoke about several matters, but I don't believe the amount of the assessment was my -- the subject of my testimony.

Q Did your testimony quantify the amount of the refund you were looking for or you wanted?

A No.

Q Did any of the other people who testified on behalf of the Company quantify the amount of the refund you were requesting?

A Well, during the tax proceeding, the amount of the refund is not the subject of the proceeding. It's the amount of the assessed value.

Q Was there any testimony presented by the Company as to the impact upon the tax and, therefore, calculation of the refund from the reduction in the assessment?

A I don't believe there was.

Q So, in fact, this refund could substantially reduce your income tax liability -- or your property tax liability for 2006?

A I'm not entirely sure what you mean by "substantially," but certainly the matter is still subject to appeal, and so the ultimate outcome of

that effort has yet to be resolved.

Q What is the current status of the Company's appeal of its 2007 Utah tax assessment?

A We have appealed that year's assessment pending the outcome of the 2006 appeal.

Q And will the modifications to the methods of assessment in 2006 benefit the Company's appeal of the 2007 assessment?

A It is likely that they will, and, in fact, those methodology changes have been reflected in the revised estimate for 2008, because the tax Commission, in fact, modified those -- modified its valuation methods to take those changes into account.

Q On Page 5 of your rebuttal testimony, Mr. Ross -- and if you could turn to that, I would appreciate it -- in the middle of the page, between Lines 99 and 100, you have presented a table, and on the fourth column from the left -- the heading is "Property Subject to Assessment" -- you note the assessment -- assessed value of the utility property between December 31st, 2002 and December 31st, 2007. Do you see that?

A Yes.

Q And you're claiming there that the increase in the total assessment was some $3 billion; is that

correct?

A No.

Q What number am I looking at? What number have I got wrong?

A Well, this is the amount of total property that would be reported to state taxing authorities and potentially subject to assessment based on each state's laws.

Q For each of those years, what was the assessed value?

A I don't have that on this schedule.

Q And taxes are a subject -- are a product of the assessed value, are they not?

A Property taxes are a product of the assessed value, multiplied by the tax rate.

Q Now, you have testified that there's a certain assessment methodology that, in your experience, is applied to determining the value of property. You said that in your summary, correct?

A There are generally-accepted appraisal methods, yes.

Q And those appraisal methods are the ones that have been used, in your experience, for the Company property from December 31st, 2002 and through December 31st, 2007, have they not?

A Each state applies their own version of those generally-accepted methods, yes.

Q And they are consistently applied in the state of Utah, are they not?

A No. As a matter of fact, they were not. And that's one of the reasons why we chose to appeal the 2006 assessment.

Q When was the last year that PacifiCorp or Rocky Mountain Power did not challenge a property tax assessment?

A Well, I should indicate that "challenge" is a fairly broad term. We review each state's assessment every year, first for mathematical or clerical-type items. We look for consistency with theoretical appraisal concepts, we look for changes in appraisal methods from year to year, because states do change their methods, often without much notice, and it keeps us on our guard, so we review and we are, on an annual basis, in constant discussions with state appraisal personnel about their methods, so we do challenge essentially all assessments to one degree or another.

Q Let me put it in legal terms, then. When is the last time that Rocky Mountain Power or PacifiCorp did not appeal a property tax assessment?

A I don't know that there's been many years that we haven't appealed at one level or another, either at an administrative level or formally.

Q So as we look at the table on Page 5 to your rebuttal testimony, we see that the property subject to assessment has gone up, by your numbers, 38 percent in that six-year period of time, correct?

A Yes.

Q And -- but one of the things that's missing from this table is the amount of the property tax in each of those years. Did you consider including that amount on this table?

A I saw no need when I presented this information, no.

Q Didn't Ms. DeRonne add that particular column to your table?

A I believe her surrebuttal testimony added a column for property tax expense reflected in each of those years.

MR. PROCTOR: If I may approach.

CHAIRMAN BOYER: You may.

Q (BY MR. PROCTOR) What I've handed you is a -- the Company's response to CCS Data Request 32.3. Did you assist or oversee the preparation of this response?

A I did.
Q And have you reviewed Ms. DeRonne's testimony -- surrebuttal testimony?
A I have.
Q And on Page 31 of her testimony, she lists the actual property tax expense for each of the years 2002 through 2007. Do you have that testimony before you? If you don't, I'll be glad to provide one to you.
A I have. Thank you.
Q It's on Page 31, correct?
A Yes.
Q For everyone's reference.
Now, comparing the property subject to assessment of a 38 percent increase, from your numbers, as found on the response to 32.3, the increase over that same period of time was only 3 percent. Do you see that?
A I see your calculations, yes.
Q Do you have any reason to doubt the accuracy of the property tax expense that she incorporated on Page 31 of her surrebuttal testimony?
A Yes.
Q Did it not come from -- directly from your own response to 32.3?

A Yes, it did, but it appears that Ms. DeRonne fails to understand the starting point for property tax expense for each of those calendar years. Consider, for instance -- and I would ask, if you have Page 31, to review the schedule at the top of that page. You'll note that, for 2007, Ms. DeRonne has listed the amount of 69,102,427. That amount is the amount recorded as property tax expense for calendar year 2007, but it is erroneous in the sense that it is lined up alongside the amounts that will drive property tax expense for January -- for the 2008 calendar year.

Q So in the -- it was -- their 2006 property taxes are paid in 2007?

A No. This is not that simple. The expense amount that Ms. DeRonne has listed for the sixty-nine-one-oh-two corresponds to the property owned as of the end of 2006 and, as a consequence, Ms. DeRonne has put that amount on the wrong line.

Q So it would actually be the property tax due on 2006 property?

A The $69 million corresponds to the property owned and subject to assessment as of January 1st, 2007, which actually is the property listed on the year end 12-31-06 line.

Q So her column, in fact, instead of leaving a blank on the very top line for 2002, it ought to be moved up, and there would be the blank at the 2007? Is that what you're saying?
A That's correct.
Q All right. I appreciate it. Thanks very much for that clarification.
Well, let's just go back up, then, and look at the numbers as they still -- as they exist. Then from 2002 through 2006, the amount of the increase of actual property tax is still only 3 percent?
A From those years, yes.
Q Okay. You have yet to receive a tax assessment for 2007? Or have you received that assessment?
A We have received all of our tax assessments for 2007.
Q Have you received --
A I've received a portion of our tax assessments for calendar year 2008.
Q Have you received the tax bill for 2007 from the State of Utah?
A Yes. Those amounts were paid last November.
Q And how much is that?

A I don't recall specifically.

Q Is it your responsibility to make those payments?

A Yes.

Q And would it be in the neighborhood of the 60 or 70 million dollars that you list as the expense in the other years?

A No, it would not. The sixty-some million dollars, as reflected on that column, represents the sum total of expense reported for all of the ten states in which the Company owns property, plus property tax that we pay to six tribal governments.

Q Do you remember the total amount of the tax bill?

A No, I do not.

Q And it would be somewhere in the neighborhood of 60 to 70 million dollars?

A Well, I would note that the amount that is reflected in response to CCS Data Request 32.3 (a) lists the total actual property taxes, and it was our intent, based on the nature of that question, to provide an amount representing the total tax paid with reference to each of those years, so, as you can see, the amounts paid are above the amounts expensed.

Q Okay. On the second page to 32.3 there

was -- you provided information pertaining to your budgeted property tax expense, and I noted, in particular, that the amount budgeted for the years 2002 through 2006, in my judgment, appeared to be reasonably close to the amount of the tax in that year as it actually was reported or -- or actually paid, I should say -- and certainly in relationship to the year before or the year after.

Is that a fair conclusion that one could draw with respect to your budgeted amount between 2002 and 2006?

A I'm not sure if I understood your comments clear enough. Could you restate that, please?

Q It was not a clear question, and I apologize.

As I looked at the amount of your budgeted property tax expense in comparison to the actual property tax expense in the years 2002 through 2006, there was a reasonable relationship or correlation between the amount of your budget and the amount that you actually did pay. It varied 2 or 3 million dollars, perhaps. Is that a fair assessment of those numbers?

A Those amounts were within a reasonable range, yes.

Q But then when I come to 2007, your budgeted property tax expense is $85 million, some $15 million more than you had budgeted in 2006, correct?
A Yes.
Q And then I look at your original filing in this case and you were asking for $84 million, $14 million more than you had budgeted for in 2006, correct?
A Yes. Actually, I think, to correct my answer on that, 2006 was $70 million, and I believe our initial estimate was 82, so it's roughly a $12 million difference.
Q Thank you. You also explained the difference in your prior year's budgeted and actual taxes paid, and you provide in your summary, too, among other things, that there has been, over time, a reduction in the property tax rate and that you believe that reduction is going to end.
A Well, I believe that the factors that have contributed to those lowering of property taxes are more likely to cease, yes.
Q Do you have some empirical evidence or some documentary evidence that would reflect that your assessment that the reductions are going to come to an end is, in fact, the case for 2008?

A Well, as I indicated, we will not know the actual property tax rates until we actually receive the bills later this year, but it must be understood that property tax rates are simply a mathematical formula, if you think of them in general terms. The numerator of that formula is the amount of governmental expenditures that must be paid out of property taxes revenues. The denominator is the assessed value amounts that are distributed or that are assigned to various types of commercial and residential properties.

Now, in the last four or five years, residential property values have been escalating at a considerable pace, and that has fueled, meaning the denominator has been growing in that formula for many jurisdictions, has been growing at a pace that exceeded the pace of growth in local government expenditures. It's, in my view, reasonable to conclude that that is likely to discontinue.

We've seen property tax values shrink in a number of states, Utah included. There was an article just a month and a half ago in The Salt Lake Tribune talking about Utah property values actually declining during the first quarter, so if -- by empirical evidence, I believe that that represents

some of that.

Q Well, that empirical evidence you cite to in a newspaper article was, in fact, not that property values had declined, but merely they are growing at a slower rate. Wasn't that the tenor of that particular article?

A No. The title of the article, "Home Prices Down 1.2 Percent in Utah in the First Quarter."

Q New homes or all homes?

A I'd have to reread the article. Would you like me to take time to do that?

Q No, I would not, but thank you for offering.

So do you expect there to be a significant reduction in the assessed value in -- well, let me -- strike that.

You stated, however, that the property tax assessments and the ultimate amount of property tax are going to be a function, also, of the government expenditures and their budgets that may be coming in the next -- in the following year. That's a very global statewide assessment, though, and it's a very global statewide look at government expenses, correct?

A I'm not sure what your question is right

now.

Q Well, my question is, you're not talking about a particular assessment of utility property for Rocky Mountain Power. You're assuming that the government is going to have greater expenses or the tax revenue is going to be reduced statewide and, therefore, your tax bill will go up. What evidence would reflect in the state of Utah that, indeed, there's going to be such a shift between assessed values and government need that your property tax in this state is going to go up 14 or 15 percent?

A Well, we seem to have jumped from a discussion of property tax rates to -- back to assessed values, and perhaps I can go back to property tax rates. It was not my intention to suggest that property tax rates were going to increase, necessarily. It's my intention to suggest that I believe that the factors contributing to the decline in property tax rates over the last several years are unlikely to contribute to those -- a similar decline going forward.

So we have prepared an estimate of property tax expense based on a use of the same tax rates that impacted property tax expense in 2007. We believe that that's a reasonable approach, lacking other

evidence to the contrary.

Now, as far as changes in assessed value, I know without any question that the assessed value of the Company's property has risen considerably year over year, as I explained in my summary comments.

Q The other factor that you referred to as justifying that -- your projected tax assessment and, therefore, tax rate for 2008 was that there were statutory provisions that allowed certain property to escape the tax. What statutory provisions were you referring to?

A Well, an example of that would be -- and perhaps the use of the term "escape" is poorly chosen.

Q What other term would you use now, upon reflection?

A Certain statutes provide for certain property to be exempt from taxation for certain periods of time. An example of that would be for the Company's Leaning Juniper plant in Oregon. The plant is located within an enterprise zone and, as a consequence, it is treated as exempt for the first three years of its -- first three tax years.

And so, in that instance, we have been able to add roughly $170 million of investment with very

little in the way of property tax, so that was what I was getting at. And there are similar provisions in other jurisdictions.

Q Isn't your testimony, then, that at some point those tax exemptions will disappear and so your tax bill is going to go up?

A Yes. And once that goes up, we will reflect that in our property tax estimates.

Q For the Leaning Juniper, how long does that tax exemption last?

A I believe it's through 2010.

Q And do you know of any tax exempt property that, in the test period, the calendar year 2008, will lose its exemption and then be assessed at its full value for Rocky Mountain Power?

A No. That was not the point of my comments on that subject. My point -- the point of my comments was to illustrate how property, the gross amount of taxable -- or gross amount of investment in property can rise without a corresponding rise in property tax expense.

Q Well, with respect to the test period that has been -- that is being used in this case, you know of no such case where the exemption will disappear and the property will now be assessed?

A I cannot think of any at this moment.

MR. PROCTOR: Mr. Ross, thank you very much.

CHAIRMAN BOYER: Let's take a ten-minute recess and we'll continue with cross examination at 3:30.

(Recess, 3:20 p.m.)

(Reconvened, 3:32 p.m.)

CHAIRMAN BOYER: Okay. Let's go back on the record.

Mr. Proctor, did you have one more question?

MR. PROCTOR: No, but I neglected to offer as a cross exhibit the responses to CCS Data Request 32.3 that I've handed out, and I would so move.

CHAIRMAN BOYER: And I've marked that as CCS Cross Exhibit 1.

MR. PROCTOR. Great.

CHAIRMAN BOYER: Is that okay?

MR. PROCTOR: Yes.

CHAIRMAN BOYER: Any objections to the admission of that exhibit?

MS. McDOWELL: No.

CHAIRMAN BOYER: Seeing none, it's admitted into evidence.

Okay. Let's move now to Mr. Sandack. Have you questions for Mr. Ross?

MR. SANDACK: No, sir.

CHAIRMAN BOYER: Mr. Dodge?

MR. DODGE: No questions. Thank you.

CHAIRMAN BOYER: Mr. Reeder?

MR. REEDER: No questions.

CHAIRMAN BOYER: Mr. Mattheis?

MR. MATTHEIS: No questions. Thank you.

CHAIRMAN BOYER: Commissioner Campbell? Allen. I'm looking at Allen, saying "Campbell." Commissioner Allen?

COMMISSIONER ALLEN: No.

CHAIRMAN BOYER: Commissioner Campbell?

COMMISSIONER CAMPBELL: No.

CHAIRMAN BOYER: Nor do I. I've had quite enough experience with property taxes over the years. Very well.

Redirect?

MS. RACKNER: Yes. Thank you, Mr. Chairman.

REDIRECT EXAMINATION

BY MS. RACKNER:

Q Mr. Ross, Mr. Proctor asked you questions about how often the Company appeals tax assessments.

Isn't it true that counties often appeal in Utah when the Company doesn't have any intention of appealing so that the Company needs to appeal just to protect its position in the case?

A Yes. That is, in fact, true in Utah and in certain other jurisdictions. County governments or representatives of county governments will often intervene in property tax assessment matters and file an appeal, and so we're compelled to file an appeal simply to protect the assessment from going higher.

Q Mr. Proctor also asked you some questions about the 2007 Company budgeted amount for property taxes, and asked you some questions as to why that came in above actual expense, and do you have any further explanation as to how that occurred and whether it's likely to occur in the future?

A Yes. I'd like to perhaps provide some clarification. The 2007 year was the January 1st, 2007 assessment, which gave rise to the 2007 taxes, was the first year during which we had added such a substantial amount of property year over year. Again, it was roughly a billion dollars of increase in property that would then be recorded to each of the states and subject to their assessment jurisdiction, so I had expected, at that point in

time, that our assessed values would rise appreciably, knowing that there was -- knowing how the state assessment processes worked.

Clearly, I was off the mark for budgetary purposes during 2007, but I would note that, for purposes of estimating the 2008 budget, we started from scratch and we built up models replicating each particular state's appraisal methodologies in Excel, and then we modified each of those appraisal models.

We first got each of those models to tie to each of the state's 2007 assessment -- assessed values and then modified those models for known and measurable differences in the factors that those states would take into account for 2008 valuation purposes. So we started from scratch and we built that up on a state-by-state basis and, thus, the whole process is considerably more robust.

And, furthermore, the final outcome, I believe, is consistent with the substantial increases in assessed values that we've seen in 2008.

Q And with respect to those substantial increases in assessed values that you testified to earlier, you mentioned that you were going to attempt to renegotiate with the taxing authorities to reduce those assessments, and my question is, in your

wildest dreams, do you expect to be able to reduce those assessments down to the level to produce a tax expense similar to what Ms. DeRonne has recommended in this case?

A No. There's no -- not even a remote possibility of getting down to that level.

MS. RACKNER: I have nothing further.

CHAIRMAN BOYER: Okay. Thank you, Mr. Ross. You may step down.

And that brings us to our last, but not least, witness, Mr. Wilson.

MR. REEDER: (Inaudible.)

CHAIRMAN BOYER: Thank you. Did you get that, Madame Reporter?

THE REPORTER: No. I'm having a hard time --

CHAIRMAN BOYER: Could you repeat that in to the mike, please, Mr. Reeder?

MR. REEDER: Let me report that during the break, the Company called to my attention that on Pages 410 and 411 of Form 1, wind resources are reported on Lines 38 and 39 and 40, on those pages. I've got the report in front of me and have been able to find them. Thank you.

CHAIRMAN BOYER: Thank you. Thank you for

repeating that.

Mr. Wilson, have you been sworn in this proceeding?

THE WITNESS: I have not.

CHAIRMAN BOYER: Would you please stand and raise your right hand?

ERICH D. WILSON

called as a witness and sworn, was examined and testified as follows:

CHAIRMAN BOYER: Thank you very much. Please be seated.

Ms. Rackner. Okay.

MS. RACKNER: Thank you.

DIRECT EXAMINATION

BY MS. RACKNER:

Q Good afternoon, Mr. Wilson.

A Good afternoon.

Q Would you please state your full name and spell your name for the record?

A Sure. My name is Erich, E-R-I-C-H, D, Wilson, W-I-L-S-O-N.

Q And are you the same Erich Wilson who prepared and caused to be filed direct and rebuttal testimony and exhibits in this case?

A I am.

Q Oh. And I neglected to ask you, how are you employed?

A I'm employed by the Company as the director of human resources.

Q And have you prepared a summary of your testimony?

A I have.

Q Please proceed.

A Thank you.

Good afternoon. My testimony provides an overview of the compensation and benefit plans provided to Company employees and supports the labor costs included in the Company's filing.

In particular, my testimony focuses on the Company's base pay, annual incentive, and severance pension, and healthcare plans.

At the outset, it is important to keep the labor costs in this case in perspective. Total labor costs included in this case are nearly $30 million less than those presented by the Company in its 2006 rate case, exclusive of any nonrecurring-related severance.

This is at a time when the Company's load has increased and the Company has been investing heavily in capital projects and during a time of

steep rises in medical costs and union-negotiated wage increases.

Overall, on a cents-per-kilowatt-per-hour basis, wages and benefits have declined by 9 percent since the last filing, even while the Company is subject to external business pressures that should be driving up labor costs, and we have achieved these savings without compromising on safety, reliability, and customer service.

In my testimony I discuss two fundamental principles of the Company's compensation philosophy, the first being the Company's primary goal in setting employee pay is to provide employees with compensation at the market average. Secondarily, the Company believes that, in order to encourage superior performance, a certain percentage of market compensation must be at risk; therefore, each employee's compensation consists of base pay, plus a target incentive element, which, combined, equal the market average for the employee's duties and experience.

Accordingly, when an employee's performance is at expected levels, he or she receives his or her base compensation, plus target incentive. When an employee's performance is below expected levels, he

or she will receive less or no incentive pay, and conversely, when an employee delivers truly superior performance, he or she will earn incentive above the targeted level.

In determining the amount of incentive pay earned, each employee is judged against goals that are set for the employee at the beginning of the year. The goals include both specific goals for individual and group goals. All of the goals are designed to motivate employees to improve the safety, reliability, and customer service of the Company and, thus, provide direct benefits to the customers.

I want to emphasize that goals set for employees under the plan are not directly corporate financially related. It is true there is a separate plan for Company executives that is based on financial results; however, that plan and the expenses associated with that plan are not incorporated into this filing.

CCS and DPU both recommended downward adjustments to the incentive expenses, arguing that the plan goals are not appropriate. In his surrebuttal testimony, Mr. Garrett states that a 70-30 split is a reasonable sharing of incentive costs between the Company and the customers because

the goal sheets provided by the Company only account for 70 percent of the individual goals.

The remaining 30 percent, however, which we did not include in the response to the data request, is not unique to a specific individual. That's comprised of six behavioral or performance goals that each and every employee is responsible for, examples being customer service, job knowledge, delivery, leadership. Those are not unique to a certain employee or specific employee. Each and every employee has those six objectives and those six goals that they're measured against by their manager.

Combining those two elements, and as a result of that, 100 percent of the incentive plan is recoverable as costs that benefit the customers.

In his surrebuttal testimony, Mr. Schultz argues that the incentive compensation is not at risk because it is assumed that the budgeted amount will be paid out each and every year. This argument ignores the incentive compensation is indeed at risk for each individual employee. The fact that the total amount of compensation will be paid out every year does not decrease the incentive for each individual employee to perform at or above his or her acceptable performance levels, given that the

incentive pay will go to other workers if he or she does not.

In addition, the incentive compensation budget allows the Company to anticipate and control these costs. Mr. Schultz also argues in his surrebuttal testimony that incentive pay should never be paid out for expected performance. This comment just highlights that Mr. Schultz does not understand our program, which has been structured to provide target incentive pay for expected performance for many years and for which the Commission has always allowed recovery.

In my testimony I also explain how the Company sets base salaries to ensure those salaries are high enough to attract qualified talent, but not higher than the Company's competitors. In particular, I explain how, in setting compensation for any particular position in the Company, we take the Company's job description and map it to a like job description within the variety of salary surveys in which we participate in order to judge the average pay, appreciating again, as I mentioned earlier, that the Company's pay and benefit philosophy is to deliver at the market average.

The Company then sets a range of pay for

each job and a midpoint that is intended to approximate the market average. Mr. Schultz has argued that the Company's average pay is significantly above market and that the Company's average pay is significantly above the midpoint; however, Mr. Schultz's analyses were based on extremely artificial and limited information, and I have looked at both of these issues and have found that, as I said in my direct testimony, if Mr. Schultz's analyses were to include surveys of not just one, and if he were to look at more than a handful of positions, he would find that the Company pay for some positions would be slightly above market and for some individuals' pay, it would be slightly below.

Mr. Schultz criticizes the Company for informing him on rebuttal, rather than when he visited the Company, that it relied most heavily on certain studies and uses an online search tool, marketpay.com, to set its compensation. He is correct that I did not mention market pay when he visited the Company. I do take issue, though, with the suggestion that it was my intent to limit the scope of his review or that I purposely withheld information from him.

Since 2001, I have regularly fielded requests to review the compensation surveys that we use to set salaries. Because we subscribe to many salary resources on hard copy form, my response in the past has been to invite the requester to come to our office and review them in person.

The Company had only recently subscribed to marketpay.com, at the end of 2007, and I -- in simple terms, I overlooked it.

It was only after reviewing Mr. Schultz's direct testimony that I realized my error, which is why I then corrected the information in my rebuttal testimony.

Mr. Schultz also argues that the overtime pay included in the case should be reduced; however, the increase in overtime pay is at least, in significant part, a product of our overall labor efficiencies. As I've explained, the Company has decreased its overall employee complement, which produces significant savings. We also are in a build cycle. Accordingly, over the past two years, we have regularly experienced spikes in work.

In these cases, rather than expanding the necessary -- or -- I apologize -- expending the necessary funds to increase the number of employees,

which results in an additional long-term expense or higher contract workers, which requires us to pay a premium, the Company responds to the demands of the build cycle and the storm outages by increasing overtime for select employee groups during times of critical need.

In his surrebuttal testimony, Mr. Schultz proposes that the overtime expense be reduced and held constant to the 2003 through 2005 level, allowing for a 3 percent inflation. This suggestion entirely ignores the reality of the Company's situation.

My testimony on employee health benefits describes the changes the Company has made to its health plan in an attempt to stabilize the cost of the plan. These changes are not enough, however, to counteract the straight significant upward trend in healthcare costs which the Company estimates will be between 8 and 12 percent in 2008. The Company has requested in this filing a 9.8 percent increase in healthcare benefit expenses, so within the realm of reasonableness per that 8 to 12 percent increase.

Mr. Garrett uses a Towers Perrin report that includes 500 companies across all sectors of the economy to argue that the Company's predicted

increase in healthcare costs is too high. From the listing, there is a sampling of 250 of those 500. There were two comparably-sized utilities. The Company does not point out the lack of utilities in the study cited by Mr. Garrett to argue that utilities should be held to a lower standard.

The aggressive measures the Company is taking to control rising healthcare costs is evidenced by the opposite. The Company sets high cost control standards. The fact that Mr. Garrett is comparing the Company's healthcare costs to businesses across all sectors is important because our workforce -- because the workforce of the utility is different. Our workforce is approximately 60 percent union, 40 percent nonunion, and of those union employees, they oftentimes have jobs that are very demanding physically and serve to increase healthcare costs.

As described in my testimony, the survey relied upon by the Company in support of its healthcare costs in this filing is specific to the Company demographics, the Company's experience, and it is conducted by a third-party organization that the Company has utilized for a number of years.

We believe that that survey, based upon

those multiple sources, is a better predictor of what our expense should be as an organization, based upon our workforce and the type of work that our workforce undertakes.

The Company has been successful in holding the line on labor costs and in increasing productivity in a time of escalating healthcare costs and increased capital investment by the Company; however, there is only so far the Company can decrease labor costs before the cuts put the Company and its customers at risk.

The Company is at a tipping point where further decreases in costs will mean it will not be able to attract the qualified personnel necessary to maintain the Company's high standards on safety, reliability, and customer service. As a result, the disallowance that's present by the Division and CCS will be detrimental to the customers -- or to the Company's customers if accepted by the Commission.

MS. RACKNER: Thank you, Mr. Wilson. Mr. Wilson is available for cross examination.

CHAIRMAN BOYER: Thank you, Mr. Wilson.

Mr. Ginsberg?

MR. GINSBERG: Thank you.

//

CROSS EXAMINATION

BY MR. GINSBERG:

Q Good afternoon, Mr. Wilson.

A Good afternoon.

Q Let me first ask you a very brief question about -- I think it's on Line 166 of your rebuttal testimony. You refer to the capitalization ratio that was discussed a little bit this morning.

A I'm sorry. Did you say -- which page number?

Q Line 166, I believe.

A On capitalization percentages?

Q Yes. Do you actually have anything to do with developing those figures?

A No. Those, I believe, were addressed by Mr. McDougal.

Q So you don't really even have -- you said the capitalization ratio shouldn't be changed in this case, but you have nothing to do with actually determining what that capitalization ratio is. It just falls out depending what the amount of labor is that's allocated to expense or capital?

A Correct. And, again, I believe that that was addressed by Mr. McDougal.

Q Let me ask you a few questions about

productivity. Start at the end of -- I think you referred to it in your testimony beginning on Line 581 in your rebuttal.

A   I'm there. Thank you.

Q   Now, what we're trying to do in this case -- and I'll ask you this, I guess, when we get to the other areas -- is -- we don't know what the actual labor cost will be in 2008. We're trying to create an estimate of what that will be; is that right?

A   That is correct.

Q   And productivity is a factor that goes into determining -- if we had -- if we were using 2007, we'd actually know what the labor cost are -- is and the productivities are to be built in; is that right?

A   Well, the labor costs are established based upon what we anticipate being our productivity and performance requirement. We have a number of exercises, one of which is AMR, that we are undertaking, a number of things that Mr. Tallman alluded to, so those will drive our overall labor costs.

Q   Sorry. My question, though, was, in 2007, whatever productivity happened would already be in the results of that -- your labor costs?

A I believe that would be correct.

Q And what we're trying to do is say, "What improvements in productivity will take place in 2008?" You don't deny that there will be a productivity factor that will occur in reducing your labor cost; is that right?

A Oh, we strive, on a regular basis, to make improvements, so I guess the answer would be, we would anticipate that there would be labor improvements going forward year on year.

Q But you didn't actually apply a productivity factor to your forecasted 2008 labor cost. You, in response to your -- or testimony said, "We've taken into account," and you listed three items?

A Uh-huh.

Q Is that right?

A That's correct. And those three items were the severance --

Q AMR?

A -- AMR, and, subject to check, I can see what the third item was. Would you like me to locate that?

Q No, that's not necessary.

A Okay.

Q You would agree that, historically, the electric utility industry and business generally have achieved productivity levels above 1 percent?

A I'm not an expert in productivity, and I would just be speculating to answer the question.

Q You don't review the Bureau of Labor statistics, productivity statistics?

A I do not. No, I do not.

Q The items that you included, then, CIS -- what is that, again?

A CIC?

Q CIC.

A It's change in control. It refers to the severance program that was enacted as part of the sale of PacifiCorp to MidAmerican Holdings Company.

Q And when did that take place?

A That took place in 2000 through 2006 and 2007. And I believe the overall Company savings associated with that was an estimate of $40 million.

Q So those savings are built into the 2006 and 2007 results of operation?

A That would be my understanding, correct.

Q So how does that affect the improvements in productivity that would occur in 2008? They're already built into your 2007 results.

A Well, we've, as part of that outcome of the reorganization, which really drove the severance program, which -- we have restructured the organization to be more efficient and effective with fewer resources, and we anticipate that, based upon that direction and that structuring that occurred in '06 and '07, that will continue on through '08, '09 and '10.

Q The reduction, though, in employee levels and payroll, healthcare costs, all associated with the employees that left, were already built into your result?

A I apologize. It doesn't appear I'm answering your question, so I may not be following your question. Will you restate it, please?

Q All of the reductions and labor costs associated with those employees leaving were already built into your results of operation for 2007?

A Well, I think there -- a portion of it is built into 2007. I think it continues beyond. It's a byproduct of a long-term decision that we made as an organization.

Q The other example you gave was the AMR. What is that?

A The automated meter reading project. It's

where we are undertaking an exercise to automate metering, which will allow fewer individuals to perform the same number or same types of task that is currently required of a nonautomated meter reading procedure.

Q And that did result in about a half a percent savings?

A I don't know the exact percentage. I believe the savings is roughly about $1.2 million.

Q Again, for -- we're attempting to forecast the healthcare costs, are we not? I'm changing subjects.

A Sure.

Q For 2008. And if I understand it correctly, you applied a 9.8 percent increase in your healthcare costs over the base period; is that right?

A That is correct. And how we go about determining that percentage, I think, is very important. As I believe that I referenced in my opening, we utilize an organization called the Hewitt & Associates, and what we do is we provide them a variety of different data points, our claims experience for the prior year, our demographics.

They then take that information, appreciating the concrete knowledge of our industry

and our organization, formulate a recommendation on what they anticipate we should budget based upon our experience of the previous year, our demographics, and what they're seeing in the marketplace for plan design relative to our plans.

As a byproduct of that, before we actually enter into the budget process, we also then take their advice and consultation to look at the redesign of our medical plans to try and mitigate that rising healthcare cost. So the 9.8 that we're seeing here in the case has actually been mitigated through the process of valuation by Hewitt & Associates, as well as significant plan design changes that were passed on to the employees. It's more of a shift in cost sharing, and more costs shifted to the employee for healthcare experiences such as doctor visits and certain procedures, all of which is to continue to maintain our competitive position within the marketplace.

Q The base period that you calculate your increase off of is the June 2006 through June 2007 period?

A For the 2008 medical plan, we again used experience from 2007 and our demographics in working with Hewitt & Associates, so it's not a straight

calculation off of our 2007 budget.

Q Now, the difference that's occurring here is a difference in forecasted between at least the Division and you, is what the estimated increase in healthcare costs will be for 2008; is that right?

A That's correct. I believe that Mr. Garrett, in citing the Towers Perrin study, believes that a more appropriate increased percentage would be in the realm of 5 to 6 percent, based upon the Towers Perrin study.

Q Towers Perrin does basically the same thing as Hewitt does in the market, is provide advice to companies on healthcare costs?

A Towers Perrin may provide that advice as Hewitt does; however, the more important factor for the Commission to appreciate is the Towers Perrin study is more of a general study. It does not take into account the experience of the organization that we incurred in 2007 and our specific demographics, so albeit a very credible, as I -- there's a great deal of credibility of the Towers Perrin, it is more of a general study and not one that we feel is appropriate to base our expenses on, because it doesn't factor in or account for, again, the demographics and our experience of our workforce.

Q In your testimony, in your direct, you indicated there's been, over the last few years, a significant upward pressure on increases in healthcare costs; is that right?
A That is correct.
Q You haven't experienced a decline in the increase of healthcare costs?
A You mean has the organization experienced a decline in costs?
Q Yes.
A No, we have not.
Q I'd like to ask you a few questions about Hewitt.
MR. GINSBERG: Can we have that marked as DPU Cross Exhibit 1?
CHAIRMAN BOYER: Yes.
Q (BY MR. GINSBERG) Do you have in front of you what we've marked as --
A I do. Thank you.
Q Are you familiar with the reports that you've looked at?
A I have not read this report before, no.
Q Are you familiar with the -- that they report that, for 2007, it was a nine-year low in the increase in healthcare costs?

MS. RACKNER: Mr. Chairman, I'm going to object just to the extent that I believe that Mr. Ginsberg is embarking on some questions regarding an article that none of us have had the opportunity to read, so I'd like to give the witness an opportunity to read the article fully, if Mr. Ginsberg is going to be asking him questions about it.

CHAIRMAN BOYER: I think that's a fair request.

Would you like to take a moment to read through this?

THE WITNESS: Sure, if that's what you'd prefer.

Q (BY MR. GINSBERG) If you want. The only areas that I was really going to ask about is -- they reported a healthcare cost increase of 5.3 percent for 2007, at a nine-year low, and an estimate for healthcare increases for 2008 different than what you report of the 9 to 12 percent, so I was asking you about those two items.

A Sure.

MS. RACKNER: Well, I would object again, only to the extent that we don't have any context. I'm not sure if Hewitt is talking about the increases

that are going to be experienced by utilities or generally in the market.

Also, I have to say I note that the title of this does not say that they're going to be healthcare cost decline, but only, rather, that the rate of increases is going to slow down, which suggests to me that we're still going to be experiencing increases, so, you know --

MR. GINSBERG: I certainly didn't -- I'm sorry.

MS. RACKNER: So, again, unless the questions are fairly narrow -- I have no reason to want to slow us down here, but unless the questions are fairly narrow and simple, I think we're going to need to take the time off the record to read the article.

CHAIRMAN BOYER: We're either -- I mean, he has answered the question as to whether or not he read the article, and he has not, and so if you're going to ask him some specifics about whether or not he's familiar with that particular projection or if it comports with his information, we need to give him the opportunity to read it.

MR. GINSBERG: That's essentially what I was going to ask him.

CHAIRMAN BOYER: Let's give Mr. Ross a moment to read this and --

MS. RACKNER: Mr. Wilson.

CHAIRMAN BOYER: Wilson. I'm very sorry. And converse with Ms. Rackner.

MS. RACKNER: Mr. Chairman, are we off the record?

CHAIRMAN BOYER: We can go off the record, but I'm assuming it's only going to take a minute or two.

(Recess, 4:04 p.m.)

(Reconvened, 4:07 p.m.)

CHAIRMAN BOYER: Okay. Let's go back on the record.

Mr. Wilson indicates he's read the article.

Ms. Rackner, do you need to speak with your witness in private before we start asking about this?

MS. RACKNER: I actually don't need to speak to my witness, but I have not completed thoroughly reading the article. Perhaps what we should do is go ahead, and I'll only make an objection to a question if it involves some area of the article I haven't gotten to yet.

CHAIRMAN BOYER: Okay. Mr. Ginsberg, recognizing that Mr. Wilson did not draft the

article, nor does he know anything about the context or background, go ahead.

Q (BY MR. GINSBERG) But Hewitt is your consultant, is it not?

A Hewitt Associates is our medical plan advisor, yes.

Q And you've been using them for quite a few years?

A Yeah. More years than I've been with the Company, yes.

Q You said that they -- you estimated a healthcare cost increase of 9.8 percent, and I think you said that they gave you a range of 8 to 12 percent?

A Uh-huh.

Q Is that right?

A That's correct.

Q So for your Company itself, they said your healthcare costs would go up 8 to 12 percent?

A That we would anticipate 8 to 12 percent, correct, for 2008.

Q And how did you arrive at that 9.8 percent?

A Again, as I described earlier, that was a percentage that was derived and advised on by Hewitt based on our experience and the demographics of our

workforce specific to our industry.

So, as I read through this article, you know, my perspective, again, just through a quick glance, is this is similar in context to the Towers Perrin. It's more of a general survey. It talks in terms of the average healthcare cost per person. It doesn't factor in the specifics of our workforce.

Q So that's -- your workforce results in you being above the average of all companies in the country, the average, the 500 that --

MS. RACKNER: I'm going to object. I don't think the witness has adopted this article as revealing what the national average is.

Q (BY MR. GINSBERG) Well, the average of the companies reported by Hewitt.

MS. RACKNER: Same objection.

CHAIRMAN BOYER: Okay. Let's sustain that objection. Do you want to ask it another way or a different question, Mr. Ginsberg?

MR. GINSBERG: No. I'll just move on.

Q Now, in 2008, I believe that you have completed a phase-in of changing your amount of healthcare cost that is picked up by employees versus the employer. Is that right?

A That is correct. Beginning January 1,

2008, we changed the cost sharing structure of our healthcare plans. We offer traditional healthcare plans, a point of service, an HMO. That cost sharing is now at 76, company expense; 24, employee expense, whereas in the past that has ranged -- it's actually tiered down over the last few years from 90-10 down to this 76-24 percent.

Q That also applied to other of your healthcare plans that were now all at 80 percent-20 percent?

A I'm not sure I understand the question.

Q The other -- the other sharing between employer and employee, as I understand it, shifted to an 80 percent employer pays, 20 percent the employee pays?

A No. As I mentioned, all of the plans, except for our high-deductible plan, have shifted to 76-24 percent. Our high-deductible plan, which is -- actually, if you read through the article, it references a health spending account or health savings account towards the back end of the article. That is a cost sharing at 90-10. Those are plans that have a very high deductible. Employers, you're seeing more and more going to that. It's placing more of the risk and responsibility and

accountability on the employee to manage their healthcare -- in an attempt to have them manage their healthcare, lower the expenses going forward, because it will lower the experiences, but with it being a high deductible, it puts more pressure on the individual as well to accept or be accountable for those increases in costs for increased healthcare, so -- I'm not sure if that necessarily was addressing your question, but those are the two cost-sharing structures for our nonunion workforce, and I should say, with the caveat that each of our bargaining units, through the collective bargaining process, will have varying cost sharing based upon the negotiations that are undertaken through those terms.

Q I'd like to ask you a few questions about incentive compensation.

A Okay.

Q I think you indicated that there are three levels of pay, basically, for the employees: base pay, merit pay, and incentive compensation. Is that right?

A Each employee has a set base pay. It's based on the position in which they are performing, based upon the analysis that we conduct, and their scope and responsibility, as well as their overall

performance.

Merit pay is a form of an annual program. It occurs once a year based upon the individual's performance against the set goals, and then incentive compensation, again, is a one-time annual assessment of performance against goals established for that individual.

Q The merit pay, is there a certain percentage or level that each employee has an ability to receive each year?

A What the Company does on an annual basis, similar to its overall assessment of employee jobs, is we go out to the market and we conduct a survey to look at what our competitors are forecasting to provide as merit pay adjustments for the following year. We then take that percentage -- so, for instance, in 2007, that percentage turned out to be what the Company chose to use as a 3.5 percent merit pool. That is a pool of dollars that then, in turn, it allocated to management in the organization to use at their discretion based upon the individual's performance, their internal equity, i.e., where they're positioned relative to their peers, and their position relative to market. The manager then allocates those dollars to the individuals.

Q Now, the amount of -- that 3.5 percent, is that determined before -- for example, it's already been determined what it will be for 2008?

A For 2008 it's been determined at 3.25 percent.

Q So you determine that number sometime -- the employee is awarded that on his annual review?

A No. I apologize. I was forward-thinking about -- for instance, we go through a ten-year planning exercise. What we do is we evaluate the market in July and August. That's when employers provide what they're planning to provide for the following year, and that drives what the percentage is. So, for instance, if you were to look at, I believe in my rebuttal testimony, Exhibit 3 -- I'm sorry. Exhibit EDW-3R-RR. This exhibit depicts the information that the Company ascertained in 2007 for the overall market study to determine that the 3.5 percent was the merit allocation percentage that was going to establish the pool that management could use to provide merit increases for employees in 2007.

So I think what's imperative to view here is that the 3.5 percent was actually a very conservative merit increase percentage relative to the other increased percentages that we were seeing

from our competitors.

Q And is that number announced to employees so they know that's the potential raise that is available to them on their merit for the next year?

A It's announced through their management that that is the percentage that the Company is working towards.

Q Now, what about incentive compensation? When is that amount determined?

A It's determined through an annual performance review process -- well, let me back up here. The actual percentage or target amount is determined at the beginning of the year based upon the job that the individual is in. Each job has an assigned percentage. That percentage is of their base, so that is what establishes the budget at the beginning of the year.

Then at the end of the year, they're managed -- or they're assessed or measured against their performance against their individual goals that are set at the beginning of the year, goals of their business and also the -- anything that they do out of the ordinary or performance that they undertake. So, for instance, if we incurred a storm, that may not have been part of their overall anticipated

individual goals at the beginning of the year, so they performed above and beyond to help restore customers in a more timely fashion.

Management assesses their performance and then determines, based upon those goals and the measurement against those goals, what amount of that targeted award that was set at the beginning of the year should be allocated to them, and it's then, in turn, awarded in December of that fiscal year.

Q Now, in your testimony you say that that's at risk, meaning it's at risk for the employee to receive some or --

A That is correct. It is at risk for each employee. So each employee, again, has a set of goals, and in order for them to achieve that target incentive amount, they must perform against those goals. It is at risk if they underperform. Then their manager will assess their underperformance and not award them that incentive. If they overperform, then the manager has the opportunity to award them incentive above their target level.

Q I think you also indicated that in some years, because of poor performance by the Company, there was no incentive award, and some years it would be greater than expected because of good performance;

is that right?

A Well, again, based on the individual. Each individual is assessed against those measurable goals that are set at the beginning of the year, and their award level, zero to above target, is based upon performance against each of those objectives. I think it's -- it's, from my perspective, relevant. I have not had the opportunity to be before this Commission, but I have been before other Commissions, and this incentive plan design that we're talking about here today, all that we are seeking today in going forward is the competitive target level amount.

In historical years, historic being before, prior to the MidAmerican ownership, we were seeing performance and awards significantly above the target level. Part of that was a byproduct of the structure which was a formulaic approach, which I think has a very important factor that we don't necessarily appreciate -- or we do appreciate now, and we don't like the idea of a formulaic approach, because once that objective is achieved, there's no incentive for that individual to continue to perform at a higher level to provide better customer service, more sustainable and reliable services.

An incentive structure such as the one that

we see today, which we embarked on April 1st, 2006, is one that really affords the employee the opportunity to continue to strive to be better at all of those individual goals, because there's more opportunity for them to receive their target incentive level.

Q   My question went more to the total amount of incentive amount that's available and then distributed out to the various management levels to --

A   Okay. In -- so if I'm understanding where you're going with your question -- I apologize. Correct me if I'm not -- is, in an organization of this size with as many individuals that participate, there will always be, throughout the year, individuals that underperform based upon their overall performance and circumstances within their business, and there will be employees that overperform that you want to recognize that have taken on and helped the business be successful.

All, again, we're asking for here is the targeted level of compensation.

Q   The targeted level is the amount of incentive compensation you assume that will be distributed in 2008 in total?

A In total. To each employee.

Q And is that amount determined by -- subject to management's decision on whether the target total amount is to be above or below the target based on the performance of any of the business units?

A Sure. Again, the target level is established at the beginning of the year. The target dollar amount is established at the beginning of the year based upon the percentage tied to each employee's job and their base pay. That establishes the budgeted amount or the total targeted amount.

At the end of the year, management evaluates performance against individual goals, as well as the goals of the business, and I think we've included here, as example, Rich Walje's goals for Rocky Mountain Power, and those are cascaded throughout each employee within that organization.

Management assesses their performance against all of those quantifiable and measurable factors to determine what level of incentive they should be receiving relative to target.

Q I think you're still missing my question. Could the amount of the target vary from year to year depending on the overall performance on a financial basis of any of the business units?

A I would say that the target amount could vary year on year, not based on financial, because that's not a product of the measurements that we use to evaluate performance, so there may be years where -- oh. Go ahead.
Q The total amount of money that's available to hand out to employees for incentive compensation, is that determined in any way based on the financial performance of the business units?
A It is not.
Q In your surrebuttal exhibit -- I think it's EDW-4R --
A Uh-huh.
Q -- you provide a variety of examples of incentive plans of employees; is that right?
A No. We provide one and only one incentive plan to our employee population.
Q No, no, no.
A What you're referencing here, I believe, is the copy of the 2007 annual incentive plan.
Q I'm sorry. Exhibit 5R.
A Oh. Sorry. And your question on this exhibit?
Q The various factors that go into making up the performance plan that these employees have put

together and are evaluated on adds up to the 70 percent?

A That's correct. But this exhibit represents -- and I did reference it in my opening summary. These are the individual goals that are set at the beginning of the year by the employee manager. This comprises 70 percent of the assessment that's conducted at the end of the year.

The 30 percent that I referenced earlier that is relative to behaviors that is not unique to each and every employee but is applicable to each and every employee makes up the balance of that percentage to equate to a hundred percent.

Q So each employee is evaluated on the additional elements that you mentioned to arrive at the total amount of incentive award that he receives?

A That's correct. So, for instance, if an individual has, at the beginning of the year, established individual goals, it comprises 70 percent of their incentive. There are six additional objectives that each and every employee is responsible for performing against and it's measured against, and that equates to 30 percent, which makes up the balance, equating to 100 percent of their opportunity to achieve their target incentive level.

MR. GINSBERG: I don't think I have any more questions. Thank you.

CHAIRMAN BOYER: Thank you, Mr. Ginsberg.

Mr. Sandack, questions for this witness?

Oh. Mr. Proctor, I beg your pardon. You're so quiet over there, I forgot you were there.

MR. SANDACK: I'll defer to Mr. Proctor at this time, and then you can call on me after that.

CHAIRMAN BOYER: Very well. I assume you will have questions, Mr. Sandack.

Let's go to Mr. Proctor first, then, and keep the sequence going.

MR. PROCTOR: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. PROCTOR:

Q Mr. Wilson, one of the exhibits that you supplied in your rebuttal testimony was EDW-1R-RR, and it's -- appears to be a report about the Company's progress towards meeting of the 2008 goals. Do you --

A I do.

Q Is that correct?

A What this represents is -- this is the Q1 assessment of the goals that are established for Mr. Walje for Rocky Mountain Power, and what we do on a

quarterly basis is we evaluate --
Q Okay. I -- pardon me for interrupting.
A That's fine.
Q That's what it is. It's -- it outlines the goals that have been set for the Company as a whole?
A For 2008.
Q 2008.
A Correct.
Q Are these the goals that comprise 30 percent of the incentive pay?
A No. These are the business goals that are a factor when management considers the overall incentive award at the end of the year. What I was referencing with the 30 percent was the individual performance against their individual objectives, which made up 70 percent, and what we define as the behavioral objectives, which make up the balance, the 30 percent.
Q So the behavioral objectives would be such things as --
A I can read those to you, if you'd like.
Q Well, no. Just -- attending a weekly staff meeting or a monthly staff meeting, are those the type of behavioral goals that you expect?
A No, that would not be correct.

Q That would go towards what part of pay? If that was a performance goal that an individual employee had set, would that relate to merit pay or incentive pay?
A Will you cite the examples that you used? I heard something about weekly meetings, but I didn't catch the --
Q Well, it's on Page 9 of 26 of your Exhibit 5R.
A Okay.
Q And it's a performance management document for 2007, and it's apparently the manager of engineering and environmental, and I'm assuming that.
A Yes, that would be correct. That is the title of this position.
Q Section 1, objectives, are those -- do those have -- play a role, pardon me, in the incentive pay?
A They do. They make up 70 percent of the assessment by the manager.
Q So if this -- one of the elements that this manager is expected to perform to is attend weekly staff meetings and monthly engineering management monthly staff meetings?
A That is one measurement mechanism of the

overall objective, which is management of the transmission design group.

Q Mr. Schultz pointed out that some of these incentive performance measures sounded to Mr. Schultz as, "Well, it's just sort of expected to do that as part of your base job." Wouldn't going to a meeting be just something that you -- that's what you do for your base pay that you get every two weeks, isn't it?

A Well, I think if I understood where Mr. Schultz was going, he was basing his assessment on the incentive component and whether or not the objectives and goals were things that were of normal course of business and should be expected, and I think what's important to take away from that is our overall total compensation that we provide -- that we set and provide to our employees is comprised of two factors, a base pay component and a target incentive component, and combining both of those factors, we're basing the individual objectives and performance of those individuals, and if they do what is expected of them in those jobs, then they will receive the base pay that's competitive and the target incentive that is competitive.

Q Well, if -- but incentive pay is paid once a year?

A Incentive pay is once a year.
Q Bonus? I mean, you get it the same check?
A You do.
Q And for the other part of the year, you get paid your base pay?
A Correct.
Q And -- but you can get that one-time bonus if you just go to a meeting on a regular basis, so is that the system that the Company is using to determine incentive pay?
A I think that's a fairly generic statement. I --
Q Well, let's go on to the next part of that. Again, back to your EDW-1R.
A Okay.
Q And you said these are Company-wide goals that are used to determine the incentive pay amount; is that -- did I hear you correctly?
A What I stated is these are the factors, from a business perspective, that are considered by the manager when assessing and delivering the overall incentive at the year end.
Q Now, by delivering the overall incentive, you're looking at the Company as a whole and saying, "Has the Company, as a whole, complied with these

performance standards?"

A Let me try it with an example and see if that helps. I'm an employee of yours, Mr. Proctor. I will have, at the beginning of the year -- I work -- we both work within Rocky Mountain Power. We will establish individual goals for me at the beginning of the year.

You will assess my performance against those goals at the end of the year, assess how we did relative to Rocky Mountain Power's goals, and then, in turn, determine what level of incentive to award to me relative to the target level that is set at the beginning of the year.

Q Individual target level or Company-wide target level?

A Individual target level.

Q Where does the Company-wide goals come into play when I'm determining your incentive pay? And by the way, I think you're doing a very good job, Mr. Wilson.

A They come into play at the end of the year when the management assesses individual performance and the performance of this business to determine the level of incentive to award to me.

Q Okay. So Page 2 of your Exhibit 1R -- it's

Page 2 of 22 --

A Okay.

Q -- number 6. It's under the general classification "Environmental."

A This is with, "Meet U.S. Fish and Wildlife Service," starting with?

Q That's right.

A Okay.

Q So one of the Company --

MS. RACKNER: I'm sorry. Could you repeat which page you're on?

MR. PROCTOR: Oh. Page 2 of 22. It's EDW-1R-RR.

MS. RACKNER: Thank you.

MR. PROCTOR: You're welcome.

Q So one of the Company-wide goals that the Company is going to take into account when assessing individual incentive pay is going to be whether or not the Company, as a whole, has complied with federal law with respect to U.S. Fish and Wildlife Service requirements on avian and raptor protection; is that right?

A This is a goal for Rocky Mountain Power.

Q Okay. And so one of the goals for -- that you look at for incentive pay is whether or not the

Company, as a whole, has complied with federal law, correct?

A Well, at the end of the -- what you're seeing in this exhibit is the first quarter assessment. At the end of the year, we have a Q4 assessment and an overall measurement of how Rocky Mountain Power performed against these goals. That overall performance, coupled with, again, the assessment of the individual performance, will determine the level of target incentive that each employee receives.

Q Well, going back to Mr. Schultz's criticism of your incentive program, wouldn't complying with federal law governing avian and raptor protection be sort of a basic requirement for which you are paid base pay?

A Well, again, as I alluded to earlier, and I apologize if I wasn't clear, I think what Mr. Schultz is missing here is our compensation program that we provide to our employees is comprised of two elements, base pay and target incentive. When we evaluate a job, we evaluate a job relative to what the market is delivering for that job. What we have seen in the marketplace is compensation provided for those jobs is comprised of two elements now, base pay

and target incentive.

So maybe to your point, achieving performance against these objectives would deliver target incentive level for that individual. That would maintain their competitive position within the marketplace.

Q Well, Mr. Wilson, that's kind of like saying that one of the requirements for getting incentive pay is to show up to work and don't steal, and that's -- that doesn't seem to make sense in the sense of incentive pay.

MS. RACKNER: I'll object. The question is argumentative.

MR. PROCTOR: I'll withdraw it and go on.

Q Would you be the person to answer questions with respect to the pension program and, in particular, the actual experience that the Company received on asset performance in 2007?

A I would not be in a position to answer that question, no.

MR. PROCTOR: Okay. Thank you, Mr. Wilson, very much.

Thank you.

CHAIRMAN BOYER: Now, Mr. Sandack, it's your turn.

MR. SANDACK: Thank you.

CROSS EXAMINATION

BY MR. SANDACK:

Q Sir, I represent IBEW Local 57. I don't think we've had the opportunity to meet.

A We have not.

Q Just picking up on the line of questioning with respect to the incentive program, that -- whatever that incentive is, that doesn't apply to represented -- union represented employees, does it?

A That's correct. The incentive compensation that we were -- have been discussing is for the nonunion population. There is no union employee that participates in an annual incentive plan.

Q All right. I'm just looking at Mr. Walje's exhibit that you put here, 1R-RR, and I gather, based on just this very first page addressing safety issues under Paragraph 2 -- has he set these goals personally, or was this set for -- or is this one of these generic goals that all the employees are supposed to meet?

A He has a very heavy hand in establishing the safety goals for this business, and it's based on an expectation of trending and improving upon safety, which I think you'll see here we have done so.

Q   Well, his goal, if I'm reading this correct, "Develop and implement a safety" -- "2008 safety improvement plan and improve Rocky Mountain Power safety performance by reducing near misses to no more than 18, reportable incident rate to no more than 2.19," et cetera, et cetera, "lost time accident rate of .17." What does that mean, .17? Is that -- can you explain what that means?

A   .17 percent of lost time rating, so it's a reduction from the prior year.

Q   The recordable incident rate is 2.19. Does that mean 2.19 accidents, or is that a reduction as well from the prior year?

A   I think it would probably be more appropriate for me to defer those questions. I'm not the expert in the safety programs, nor do I participate in the establishment of the goals that Rocky Mountain Power sets for safety.

Q   Well, I was looking at your Exhibit 1 to your direct testimony, and it describes the 2007 goals a little more explicitly. It said, "Reduce lost time accidents to five or fewer." Are you familiar with that?

A   Uh-huh.

Q   So that's five or fewer accidents; is that

correct?

A That's correct.

Q And is that his goal?

A That's the goal for Rocky Mountain Power.

Q For Rocky Mountain Power?

A Right. That's not his personal goal.

Q So Rocky Mountain Power employs approximately how many people?

A Boy, I don't know the answer to that question.

Q Couple thousand?

A Are you including union and nonunion in that?

Q No. Union.

A Union only?

Q Uh-huh.

A Then that would -- I would say it's probably in the ballpark of 1,500, but, again, subject to check. That's not something I'm aware of.

Q Now -- so each manager under him essentially shares that same goal; is that right?

A That's correct.

Q And if -- I think you mentioned that there are some goals that are not subject to control. Wouldn't that be one of them? I mean, if an accident

happened in power delivery, say, at a substation and -- or perhaps somebody in customer service across town or up in -- slipped and fell, that could -- that could result in a lost time accident, could it not?

A That could, most definitely. However, the Company has taken great strides -- I think that's one of the key elements and one of the takeaways that we've seen as part of the ownership of MidAmerican, is the strong focus on safety. We have, over the first two years of this joining of MidAmerican, have seen significant efforts towards improvement of safety.

There are safety step -- or safety stand-downs where there's an emphasis on safety discussion. We've made significant improvements in safety as it relates to the vehicles, the requirements of coning versus magnets on the vehicles to make sure we don't have accidents with those vehicles. So I do appreciate that the terminology of "accident" is hard to influence and control, but we believe that we are taking efforts to mitigate that based upon our safety actions.

Q The incentive is personal to the management? I mean, if there's an accident, it could cost him money in loss of the bonus, then; is that

correct?

A As a manager and as an employee.

Q As an employee?

A As an employee. So if you have an employee -- if I'm -- Mr. Proctor is an employee and I have a safety violation during the year, that's going to be a very measurable action and outcome, and dependent upon the severity of that, I may not receive my target incentive, based upon that safety violation during the year.

Q Well, a bargaining employee wouldn't have a target incentive?

A That's correct.

Q But he could be disciplined because he reported that he was involved in an accident, could he not?

A That would go through the grievance process as a bargaining unit employee.

Q And, in fact, there has been an increase in those types of discipline, has there not, in the last year or two?

A I'm not the expert to answer that question. I'm not a labor expert.

Q You're vice-president of human resources; is that correct?

A I'm director of human resources.
Q I'm sorry. And of what? Rocky Mountain Power or PacifiCorp or Pacific Energy? Which entity do you actually work for?
A I'm the director of human resources for the Company, so I have responsibility for human resources across all three business units. The labor function is -- actually reports directly up under each of the three businesses, so within Rocky Mountain Power, there is a labor team that reports directly to Rich Walje.
Q But is that the -- is that human resources that reports to Mr. Walje?
A No. That's the labor relations function that does the labor negotiations for Local -- for instance, Local 57 that you referenced earlier, and handles all the grievances and arbitrations of the union workforce.
Q But you have human resource personnel that are assigned to Rocky Mountain Power that report to you; is that correct?
A I do. And those individuals are responsible for managing the nonunion population.
Q The human resources? They're not involved in -- because I believe -- was it -- who is the

director of human resources for Rocky Mountain Power? Do you know?

A I'm the director of human resources for the Company. There is not a director of human resources for Rocky Mountain Power. There is a director of labor relations who has responsibility for Local 57.

Q What's his name?

A Bob Clemens.

Q And does he report to you?

A He does not report to me. He reports to Carol Hunter who reports directly to Rich Walje.

Q Okay. So the personnel experts report to Mr. Walje, then, and they handle matters like discipline for an accident -- lost time accident; is that correct?

A Again, the way in which we're structured, taking union and nonunion into account, I have responsibility for the nonunion population, so all employee relations matters are handled by the individuals that report to me.

If it's a labor relations matter of one under a collective bargaining agreement, for Rocky Mountain Power, those are overseen by Bob Clemens and his team, who then, in turn, report up through Rich Walje.

Q Have you -- did you participate in the setting of Mr. Walje's goals?

A No, I did not.

Q Who did that?

A That is an agreement that Rich Walje has with Greg Abel, who he reports to.

Q Would you admit, sir, that disciplining an employee may have a chilling effect on his ability to report that accident, if he was involved in an accident or a near miss?

A I guess I would say that that's speculating based upon the individual. We are trying to breed a culture that safety is important and that safety should be recognized and addressed and people should come forward and feel comfortable coming forward expressing what has occurred so we can then, in turn, make sure that we avoid that safety infraction for all the individuals, their peers, and others, and specifically that individual in the future.

Q I'm just saying if an employee knew that his manager's incentive pay was going to be based on whether I report this accident or not and he might terminate me, he may think twice about reporting that accident, may he not?

A That's not our expectations. That's not

all the communication and effort we take as an organization.

Q You don't see that as a chilling effect on him, then? Or have you considered that?

A That's -- I think, from my perspective, that's an assumption you're making. It's not one that we intend to have happen in our organization.

Q You're saying these safety goals don't result in financial -- well, they do have financial consequences, do they not? They're not based on financial targets, per se, but they obviously have financial consequences that are beneficial, to the extent that people meet these goals; is that correct?

A For the nonunion population, it is a factor that the manager considers when measuring their performance and determining their incentive at the year end.

Q In your testimony -- I guess it's your rebuttal testimony, and it begins on Page 27 -- you're discussing the overtime adjustment that Mr. Schultz had suggested adjustments on, which you disagreed with on Page 28, and there you say, beginning on Line 612, that the -- referring to the staff reductions that will result in significant savings.

I think on the prior page, on Line 595, you've indicated that the Company's proposed lost -- proposed labor cost assumes no increased manpower except for new plants brought online, and so the rationale of your argument on overtime is you've held the line on staff, but you expect there to be -- employees will be working longer hours, do you not?

A The position I take on overtime is the fact that we, as an organization, have reduced our staffing in the context of the MidAmerican reorganization. We believe it's a more effective and efficient staff ratio. And that we, in turn, will offer overtime to our employees in a number of different settings. We're in a build cycle, and I think I opened with my summary that we believe that, with the staff complement that we have today and offering overtime, is a more effective approach for each of our states and -- for a variety of reasons that I alluded to, one being that it costs less than adding staff and the labor associated with that.

We would have to pay contractors a premium, and we don't want to do that, plus we are also in a position where we're striving to provide opportunity for employees, and oftentimes overtime provides them that opportunity to do different things, do more of

the things that will enable them to progress in their career more expediently, which may provide promotional opportunity for them down the road.

Q In particular, on Page 28, then, you said there's a need for employees to work overtime, in particular, to restore services and to ensure safety. Wouldn't working overtime actually make it more likely that there would be an accident, with fewer employees?

A Again, from my perspective, that's speculative. The way in which we've structured our efforts during overtime outages, we believe that we're not positioning our employees in a situation where they are unsafe for themselves or the customers or their peers that they're working towards and working with.

Q But it's because of these staff reductions that the employees are more productive; is that correct?

A That's one byproduct.

Q Have you evaluated the extent that -- where the overtime is going to be incurred and how much more you'll need?

A Well, we have factored in this case an expectation of the overtime for 2008.

Q In terms of hours?
A I don't have that in terms of hours. Each of the businesses establish that, but I don't have that information.
Q Well, when you talk about the staffing level, basically you're indicating that they're the same, essentially, as they were in 2007; is that correct?
A Subject to check, I believe it is in close proximity to the 2007 levels.
Q And 2007 was fewer than 2006, was it not?
A That would be correct.
Q I was just looking at Mr. McDougal's testimony -- rebuttal testimony. I guess it's called 1R-RR, and on Page 11.57 there's a kind of a history of manpower from July 2006 to June 2007, indicating, in July '06, 5,898.5 employees; in June '07, 5,589. That's a decrease of about 300 employees. Does that conform with your understanding of the decrease in personnel for the Company?
A I think it would be more appropriate to have that responded to by Mr. McDougal.
Q Okay. Well, the figure that he comes up with, as an average, is 5,704 employees for Rocky Mountain Power. That would include -- what is it,

Pacific Energy? Is that correct?
A Subject to check, that number should be inclusive of PacifiCorp Energy, Rocky Mountain Power, Pacific Power, so all of the employees under PacifiCorp of the Company.
Q PacifiCorp Energy really -- that's where the power supply basically is generated and produced, is it not?
A Yeah. That would be how the Company defined that entity previously, as power supply. It's all of our thermal operations. Our wind, our hydro all falls within that.
Q We kind of used Rocky Mountain Power as the applicant, but, really, they're applying -- what they get here will affect PacifiCorp Energy as well and the staffing and their operations, because it's based -- the revenues and costs are based on PacifiCorp Energy, as well as just Rocky Mountain Power, right?
A That's not my area of expertise. I would not be the best person to answer that question.
Q Well, but you are involved in -- you are the director of human resources for all three companies, are you not?
A That's correct.

Q Now, with those reductions of about 300 employees over the last several years, a number of those came as a result of the severance program; is that correct?

A There was an element of severance reduction. There were a number of employees that left from 2006 through 2007.

Q And I'm looking at your testimony --

MS. RACKNER: Mr. Chairman -- and I don't mean to cut Mr. Sandack off, but I'm wondering if -- he appears to be looking towards questions that would have been better directed to Mr. McDougal. Now, Mr. McDougal has been on and off the stand. I've waited quite some time to object to a lot of matters that weren't contained and weren't the subject of Mr. Wilson's testimony.

I guess I'd like to ask if counsel could at least expedite his examination of Mr. Wilson.

MR. SANDACK: This line of questioning refers directly to his testimony.

Q At Page 17 of your direct testimony, you've referred to the restructuring by MEHC in the severed positions and the number of positions that essentially have been severed as a result of the CIC severance program.

A Can you point to -- was it Page 16 or 17 of my direct testimony?

Q I've got it on Page 17.

A And which line is that?

Q Well, beginning with Line 373, the questioning discussing restructuring.

A All right.

Q The question you were asked, "Have those positions been backfilled?" And in your testimony you indicated, "Basically, to a small extent," and you attached Exhibits 5 and 6, indicating the number of positions that have or have not been backfilled. Are you familiar with that testimony?

A I am.

Q I was looking at those exhibits, Number 5. I didn't make a count of those, but it's a sizable number of positions. I did make a rough count of the number in generation that were severed. It was about 18 of them, and two of the 18 had been backfilled.

A If you don't mind, I'll stop you there. You're looking at Exhibit 5, which has the heading of "Nonexecutive CIC Severance"?

Q Yes.

A And you're referring to whether or not the position was backfilled.

Q Right.
A Okay. Then it would be appropriate to look at the far right column, "Replaced, yes/no," and the answer is, "No, not replaced" for the first five pages.
Q All right. There were two in generation on the last page that I found that --
A And there were a total of 17 out of five pages that have been backfilled, and you're referencing two within generation?
Q I'm just referring to generation. I'm taking that as an example.
A All right.
Q Now, first of all, what is CIC? Who is subject to CIC severance?
A I believe that I answered that slightly earlier. Change in control is what CIC stands for, and it was a program -- it was a policy that was provided to, from an eligibility perspective, all nonunion employees.
Q Okay. So none of this -- these figures, then, have to -- these adjustments that you've made in terms of manpower, have to do with employees -- bargaining unit employees that have been severed or who have left their position for one reason or

another, by attrition or retirement, since MEH took ownership?

A I'm not sure I understand your question, sir.

Q I guess what I'm trying to do is -- in your discussion of the testimony, for example, on the very next page, you talk about when employee -- when positions have been backfilled, you state three things essentially must occur. The human resources must approve it with the president or the head of the business unit --

A And you're referring to Page 18, Lines 385 through 391.

Q Right. Right. Those three tests -- and the people that are involved had to make the determination whether to backfill those nonbargaining unit positions; is that correct?

A That is correct.

Q Do those also apply to backfilling bargaining unit positions?

A No, those do not.

Q And is there such a test?

A Not that I'm aware of, no.

Q Is it up to the vice-president of --

CHAIRMAN BOYER: Mr. Sandack, I think he's

testified a couple of times that he really has no oversight over the union workers and that there's another person directed to do that.

MR. SANDACK: All right.

Q But you do testify to the staffing levels that you're asking for the revenue determination being made upon. Are you not familiar with what the need for the staffing level outside of nonbargaining unit personnel, then?

A Well, it's the business's responsibility to determine the number of employees to support their business need. It's not my responsibility to set those staffing levels.

Q I didn't ask you if it was your responsibility. I'm just -- are you familiar with what their requests have been for staffing? Are you involved in putting those figures together for purposes of this proceeding?

A For the union employees, I'm not responsible for that. I'm not part of that that makes up the determination of those levels.

Q Okay. Who is that?

A That would be the responsibility of the business leadership.

Q Do you know if that personnel -- is that --

do you know if it's the vice-president of the particular company or business unit that they answer to that's involved in those decisions?

A Well, those decisions would be made, again, by the management over those positions and determined based upon their justification and their discussions, I would speculate, with the vice-president and then, in turn, with the business unit president over that area.

Q Well, I guess what concerns me somewhat is you've given testimony here about how you've established these goals. You've held manpower costs down, and you've done all this with the idea of still meeting safety standards and providing reliable service, but you, frankly, don't have any idea if that's the case or not because you're not involved in the bargaining unit, and that's like 60 percent of the workforce, is it not?

MS. RACKNER: I'm going to object. I think the question is argumentative and it mischaracterizes what Mr. Wilson has said.

MR. SANDACK: Well, I just -- his testimony is they've done all this ensuring safety and reliability, and if he doesn't have the foundation from which to base that testimony, then it should be

stricken.

CHAIRMAN BOYER: Okay. Why don't we try to ask a simple question of Mr. Wilson, if we can. Is the nature -- I don't -- I'm not sure how this questioning relates to the revenue requirement, but are you asking him if the reduction in force through CIC and other means, through attrition, is increasing safety problems? Is that what you're trying to ask?

MR. SANDACK: Well, I think it does go --it basically goes to prudence, and we're trying to probe -- I'm trying to probe whether the Company is being prudently managed. We think that there are serious areas of deficiency in that respect. And here's a gentleman who, on his direct testimony, indicates his primary responsibility includes managing the Company's human resource function, including compensation benefits, compliance, staffing, training, development, employee and labor relations, and payroll, and "I focus on attracting and obtaining, motivating qualified employees," and he goes on to continue making testimony about how they are able to hold the line on these costs, in spite of all these employee reductions over the year without compromising safety or reliability, and now he's telling us, "Well, I don't really know the answer to

that, because I just handle nonbargaining, and you would have to defer to someone else," in terms of these manpower questions that I've raised.

If he's not the witness to do it, that's fine, but, on the other hand, I don't think they can have it both ways. It appears to me that his testimony, the foundation for it, leaves quite a bit in question. That's my point. I'm not going to be able to get anywhere with my questions because he doesn't know how these plants are staffed, apparently, and that's the witness I think they're offering for the staffing levels.

He's testified, in response to Mr. Schultz's -- in rebuttal of Mr. Schultz's -- about how vacancies come and go and how we'll fill them from time to time, but, frankly, he doesn't seem to have much of a clue.

CHAIRMAN BOYER: Well, you know, he did testify earlier about the emphasis on safety under the new ownership, how safety-related incidents, he thought, were lower than in the past. Do you have any reason to doubt those statistics? Is that where you're going?

MR. SANDACK: Well, my -- I've lost my mike.

CHAIRMAN BOYER: You probably touched the button.

MR. SANDACK: Okay. Am I on?

CHAIRMAN BOYER: You are on now.

MR. SANDACK: I'm not challenging those figures, per se. I look at Mr. -- he doesn't appear to know about those, either. I mean, he said -- I asked him about the -- what the reportable lost time accident rate was of .17 and the reportable incident rate of 2.19. He didn't know what that was.

I know that Mr. Walje, in his testimony -- excuse me. He put in Mr. Walje's 2007 goals, which says that they're supposed to have fewer than five lost time accidents. And I think that, again, if you're considering incentive pay, I do think it important to consider that -- what goes into time and incentive and making it personal between a disciplinary decision of a manager, which may well be unrealistic goals. Five for Rocky Mountain Power is something to consider in terms of the proprietary of these incentive payments at all, yes.

MS. RACKNER: Mr. Chairman, if I could, I'd like to respond to some of the comments that Mr. Sandack just made. I'd first like to point out that the Company sponsored testimony and offered for

cross examination two witnesses who do have direct responsibility for organized labor, both Mr. Walje and Mr. Bennion, and my understanding is Mr. Sandack waived cross examination of those witnesses, which is why they haven't appeared here today.

Mr. Wilson's testimony does refer to safety and reliability, but only for quite limited purposes, and I don't think that it's quite fair to suggest that, as vice-president of -- excuse me, as manager of --

CHAIRMAN BOYER: Director.

MS. RACKNER: Director of human resources, thank you, that Mr. Wilson ought to be asked the questions, that if Mr. Sandack wanted to be answered -- wanted answers to, that he should have directed to either Mr. Walje or Mr. Bennion.

And I'd also like to point out that, as far as I know, Mr. Sandack is not proposing a particular adjustment to revenue requirement. I'm not really sure where this line of testimony is going with respect to the live issues in the case.

MR. SANDACK: Well, Mr. Wilson's testimony was referred to by Mr. Walje in terms of these issues, and Mr. McDougal, as well, referred to Mr. Wilson in terms of these issues. And I think

I've made my points. I'm not going to pursue the examination any further, because I think he does lack foundation, apparently, to some of these very critical areas.

Mr. Bennion was testifying to areas of service, performance, and reliability, which is totally another thing, so I thought it was fair to raise these questions with him. I assumed that he had the knowledge, based on the testimony that I just read, and if he doesn't, fine. Maybe I will have to call those other witnesses.

CHAIRMAN BOYER: Okay. Thank you, Mr. Sandack.

Before we proceed, we'll need to take some inventory here, but, Mr. Ginsberg, did you wish to move admission of DPU Cross Exhibit 1? That was the Hewitt --

MR. GINSBERG: Yes.

CHAIRMAN BOYER: Any objection to the admission of DPU Cross Exhibit 1?

MR. PROCTOR: No.

MR. DODGE: No objection.

CHAIRMAN BOYER: Thank you. It's admitted into evidence, then.

Okay. Are we within striking distance of

completing our cross examination this afternoon?
Mr. Mattheis nods yes.

MR. DODGE: I have no questions.

MR. MATTHEIS: No questions.

CHAIRMAN BOYER: And Mr. Reeder has --

Madame Reporter, are you okay to go for a few more minutes and see if we can --

THE REPORTER: Only if Mr. Reeder speaks into his mike and speaks slowly, yes.

CHAIRMAN BOYER: You have conditional approval there, Mr. Reeder.

(Discussion off the record.)

CHAIRMAN BOYER: Do you need a break at this moment or --

THE REPORTER: That would be good. Yeah.

CHAIRMAN BOYER: All right. Let's take a five-minute break and come back, and then we'll go to Mr. Reeder's cross examination.

(Recess, 5:08 p.m.)

(Reconvened, 5:16 p.m.)

CHAIRMAN BOYER: Okay. Let's go back on the record.

Now we've come to the point in the day when we're going to hear cross examination from Mr. Reeder of Mr. Wilson.

CROSS EXAMINATION

BY MR. REEDER:

Q Mr. Wilson, is the Company self-insured or do you buy commercial insurance?

A The Company is self-insured.

Q Mr. Wilson, have you had occasion to examine the Utah-only per capita costs of health insurance?

A No, I have not.

Q Mr. Wilson, have you had occasion to examine the Utah-only growth rates on the cost of health insurance?

A No, I have not.

MR. REEDER: I have nothing further.

CHAIRMAN BOYER: Nicely done, Mr. Reeder.

Mr. Mattheis?

MR. MATTHEIS: No questions. Thank you, Your Honor.

CHAIRMAN BOYER: Okay. Well, let's turn to the commissioners.

COMMISSIONER CAMPBELL: Just one.

CHAIRMAN BOYER: Commissioner Campbell has a question.

COMMISSIONER CAMPBELL: Just one, just to make sure I understand the Company's position, and

I'm going to use the word -- I'm going to try to avoid the word "base," but the basic pay -- I'll use "basic." The basic pay of your competitors, you equate that to what you call your base and incentive?

THE WITNESS: That is correct.

COMMISSIONER CAMPBELL: And so if one of your competitor's employees didn't go to a meeting or didn't comply with a federal law, I mean, that would just be considered part of the basic duties they have, right?

THE WITNESS: That is correct.

COMMISSIONER CAMPBELL: And all your program does is take some of those basic duties and puts them at risk so -- for your employees?

THE WITNESS: That would be correct.

COMMISSIONER CAMPBELL: Okay.

CHAIRMAN BOYER: I have a question related to the line of questioning that Mr. Proctor did earlier. Is it fair to say that your base salary -- the base salary of your employees covers ordinary work responsibilities? For example, if I work for the Company and I were an accountant, which I'm not, and I were assigned to do, you know, some kind of cost accounting, and I did that, I get my base salary. Do the incentives, the 70 percent and the 30

percent -- would it be fair to say that those cover extraordinary kinds of services or performance --

THE WITNESS: No, because --

CHAIRMAN BOYER: -- or not?

THE WITNESS: No. I apologize. No, because when we look at your position externally to the marketplace, our competitors are delivering a base and a target incentive for the scope and responsibilities as an accountant, which would encompass those responsibilities, so the element of your pay that is at risk is if you underperform relative to those key responsibilities.

CHAIRMAN BOYER: Okay. All right. I think I understand that. It's sort of a deduction if you don't perform well, rather than an add-on if you do perform well?

THE WITNESS: That would be correct.

CHAIRMAN BOYER: Okay. That helps me. Thank you very much.

Ms. Rackner?

MS. RACKNER: Thank you. I have just a few questions.

REDIRECT EXAMINATION

BY MS. RACKNER:

Q Mr. Wilson, you said -- I want to go back

to the question about merit pay, and you said that at the beginning of the year merit pay is set and that there's a pool of dollars, so, for instance, if there's going to be a 2.25 percent merit increase that year, there's a pool of dollars equal to 2.25 percent of the employees' salaries and that that will be allocated at the manager's discretion. Do you have that in mind?

A   I do.

Q   Is the entire pool of dollars going to be distributed under the Company's policy?

A   Not necessarily. Actually, I believe that just slightly below the overall pool was spent in 2007, but the expectation is, on average, that those funds would be allocated to the employees based on performance.

Q   And I have the same question with respect to the entire pool of incentive pay dollars that are allocated. Is it the Company's intent that year after year the entire target amount of incentive pay will be distributed to employees?

A   It is the Company's intent.

Q   And in the event that the Company has a lean year where, let's say, expenses are down and they expect lower profits, would the Company then

decide to give employees less incentive pay in order to make up for what might otherwise be a loss?

A I believe, as I was trying to describe earlier, that, based on the size of our employee population, there will be times where certain businesses or certain departments will be underperforming and individuals will be underperforming, and those individuals will see less incentive during those periods of time; however, again, based on the size, there will be parts of our organization that over- or outperform, but then, in turn, have the ability to be recognized above target for their above-target performance.

Q So, regardless of the financial performance of the overall Company, the goal is to pay the entire pool of target incentive pay dollars to employees year after year?

A That is correct.

Q I want to stay with incentive pay and just perhaps clear up some confusion that I think may have been occurring in your colloquy with Mr. Ginsberg. You talked about two types of sets of goals on which employees are judged under the incentive pay program, and you referred to individual goals and you referred to Company goals. Do you have that testimony in

mind?

A I do.

Q And if I have you correctly -- I just want to clarify that the exhibit that was attached to your rebuttal testimony, which would have been Exhibit 5, EDW-5R-RR, those are examples of the individual goals; is that correct?

A That is correct.

Q And those individual goals are called individual goals because each individual employee has their own separate set of goals; is that correct?

A Right. These are unique to each individual.

Q And when you referred to Company goals -- and I believe it was actually Mr. Proctor who was questioning you, and it appeared to me, at least, that there was some confusion, that Mr. Proctor may have been assuming that the goals set in Mr. Walje's goal sheet were the Company goals. Now, my understanding is that those aren't the Company goals that you were referring to, are they?

A No. The Company goals that I was attempting to refer to were the six goals that each employee is responsible for. It's not unique to each individual. And the example of those six -- I would

be more than happy to read those six to you, if you --

Q Yes, I think that you should, because I think it will clarify the record.

A Okay. In addition to the individual goals that each employee has, they also are responsible for performing against six performance factors, or behaviors, as we're defining them, one being customer focus; two, job knowledge; three, planning and decision making; four, productivity; five, building relationships; and six, leadership.

Q Thank you. Mr. Ginsberg also asked you whether you applied a productivity factor to arrive at labor costs in this case, and you said that you did not, but that there were efficiencies assumed in the case, and I wanted to ask you a little bit more about that. Haven't you also testified that the Company employees are doing more work, due to load growth, with the same amount of employees?

A That's correct.

Q Would you consider that a productivity factor?

A I would define that as a productivity factor, yes.

MS. RACKNER: I have no other questions.

CHAIRMAN BOYER: Thank you.

I'm going to take the prerogative to ask another question, because I may have muddied the waters with my series of questions.

In a given year, let's assume that the incentive pool of monies is fixed at 3.5 percent of total salaries.

THE WITNESS: That would be the merit amount?

CHAIRMAN BOYER: The merit amount.

THE WITNESS: Okay.

CHAIRMAN BOYER: In that same given year, it's possible, then, that some employees could get 5 percent or 10 percent or 20 percent, or something like that, others less, thereby exhausting the pool of merit money?

THE WITNESS: That would be correct. And oftentimes individuals may see a higher than the 3.5 percent in that example due to not only performance but their position relative to the midpoint, so it provides management the opportunity to address internal equity issues based on performance and move them closer to the market level of compensation in the event that they actually are below.

CHAIRMAN BOYER: Okay. Thank you.

Mr. Ginsberg?

MR. GINSBERG: Can I ask one more question?

CHAIRMAN BOYER: Well, you're a little out of time, but --

MR. GINSBERG: It will be quick.

CHAIRMAN BOYER: Okay. Let's do that, and then we'll give Ms. Rackner an opportunity to redirect.

MS. RACKNER: Thank you.

RECROSS EXAMINATION

BY MR. GINSBERG:

Q When you look at Mr. Walje's list of goals --

A This would be the 2008 or 2007, sir?

Q EDW-1.

MS. RACKNER: That would be the goals that were attached to your direct testimony.

Q (BY MR. GINSBERG) Yeah, your direct testimony.

A Okay.

Q And you look at the fifth goal -- and maybe -- and some of the questions that were asked -- the amount that is determined to be available for the incentive awards for each business unit, is that decided separately?

A Can you restate the question, please?
Q Is the amount for Rocky Mountain Power the percentage or Pacific Power or the other one, the third one, decided separately, or is it the same for all units together?
A Each business has, for the incentive, a dollar amount based upon all the employees in that organization that participated in the incentive, their target incentive times their base pay.
Q Does the total amount of money available to make the incentives relate to the Goal Number 5 here, achieving targeted Rocky Mountain Power net income?
A Well, that is one of, it appears, eight sub-elements of that overall financial goal for Rocky Mountain Power.
Q If Rocky Mountain Power did not achieve their targeted net income, would the incentive awards available to Rocky Mountain Power be less than if they did?
A That would be a factor that's considered as part of the overall assessment at the end of the year.
Q So the answer is yes?
A That is a factor of the Performance Factor Number 5.

Q And that's how the overall amount is achieved, determining whether these various factors are met?

A Based on assessment of each factor, correct.

MR. GINSBERG: Thank you.

CHAIRMAN BOYER: Ms. Rackner, any redirect?

RE-REDIRECT EXAMINATION

BY MS. RACKNER:

Q Mr. Wilson, I want to follow up on a question that Mr. Ginsberg asked you. When you set the target incentive for any particular business unit, that's based on an attempt to achieve market average compensation; is that not correct?

A We set it for each employee.

Q Correct.

A Okay.

Q And the total number of dollars that is available to a business unit to incentivize their employees, that's based on -- I suppose it would be the sum of those target incentive pay amounts of employees in that business unit; is that correct?

A That would be correct.

Q So would it be fair to say that the target incentive pay available to a business unit is not

based on the financial performance of that business unit, but, rather, is based on an attempt to achieve market average compensation?

A And based on individual performance of that individual.

Q Right. So that if an individual within that business unit is judged to have not performed as expected, that particular employee would receive less than the target amount, correct?

A That is correct.

Q But isn't it true that the business unit itself, regardless of its financial performance in a particular year, would distribute -- or at least attempt to distribute -- the target amount of incentive pay?

A The total amount per that business unit, yes.

MS. RACKNER: Thank you.

CHAIRMAN BOYER: Two quick matters of housekeeping. First of all, may I compliment counsel and the parties for working together cooperatively to come up with this witness schedule, and the related housekeeping matter is that we intend to follow the schedule to help accommodate travel schedules and so on, so tomorrow we will reconvene at nine o'clock in

the morning and we will hear from witnesses Mark Garrett, Helmuth Schultz, and Roger Ball, and with that, we're in recess, then, until nine o'clock tomorrow morning.

(Whereupon the taking of the hearing was concluded at 5:30 p.m.)

* * * *

STATE OF UTAH) ss.
COUNTY OF SALT LAKE)

I, RENEE L. STACY, Certified Shorthand Reporter, Registered Professional Reporter and Notary Public for the State of Utah, certify:

That the foregoing transcript, consisting of Pages 1 to 273, was stenographically reported by me at the time and place hereinbefore set forth; that the same was thereafter reduced to typewritten form, and that the foregoing is a true and correct transcript of those proceedings.

I further certify that I am neither counsel for nor related to any party to said action nor in anywise interested in the outcome thereof.

IN WITNESS WHEREOF, I have subscribed my name and affixed my seal this 9th day of June, 2008.

____
RENEE L. STACY, CSR, RPR
Notary Public in and for the
County of Salt Lake, State of Utah

My Commission Expires:

November 9, 2011