Rocky Mountain Power
Docket No. 07-
Witness: A. Richard Walje

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Direct Testimony of A. Richard Walje

Policy and Case Overview

December 2007

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

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

Qualifications

Q. Briefly describe your educational and professional background.

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

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

A. My responsibilities, as President of Rocky Mountain Power, cover all of the Company's affairs in the states of Utah, Idaho and Wyoming, including responsibility to help assure that the Company's strategy, investments and operations result in the delivery of safe, reliable and affordable electric energy to the Company's customers.

Purpose and Summary of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of the Company's 2007 Utah general rate case application, including the Company's general financial condition. In addition, I will explain why this general rate increase of $161.2 million is necessary, why a forecast test period is essential to recognize the costs that the Company will incur when the new rates become effective, and why it is important for the Commission to approve the rate increase and marginal cost tariff so customers have the correct price signal based on current and future costs. Finally, I will introduce the other Company witnesses. In addressing the need for the proposed revenue increase and outlining the Company's case, I will cover the following areas:

- An overview of the Company's business operations in Utah;
- The predicted Company load growth and steps the Company has taken to manage load growth;
- The increasing costs of fuel for our owned generation resources and for wholesale power purchases which represent a significant and necessary cost related to the Company's statutory obligation to provide safe, reliable power to our Utah customers;
- The external business factors such as health care cost increases over which the Company has little control;

- The Company's financial strength and why adoption of a forecast test period and an appropriate return on equity ("ROE"), is critical to maintaining the financial health of the Company;
- A summary of the cost control efforts implemented by the Company under MidAmerican Energy Holdings Company ("MEHC") ownership that mitigate the magnitude of rate increases needed in the face of growing customer loads, necessary investments and increasing power costs, while at the same time improving our customer service and reliability;
- A set of price comparisons demonstrating the Company's low-cost position in comparisons to utilities across the nation; and
- An overview of how the commitments related to the acquisition of PacifiCorp by MEHC have been addressed in this filing.

Utah Operations Overview

Q. Please describe Rocky Mountain Power's presence in Utah.

A. Rocky Mountain Power is the largest public utility in Utah and provides safe, reliable, and low-priced electric service to over 760,000 Utah customers, or approximately 85 percent of all electric customers in Utah. The Company is a major employer in the state of Utah with more than 2,400 employees. Within the state, the Company operates ten major generation units, produces over 3.5 million tons of coal and maintains over 17,000 miles of transmission and distribution lines. Later in my testimony I will describe in more detail the Company's commitment to the environment, our communities and our customers.

Q. Please explain why the Company is requesting a Utah revenue increase at this time.

A. The Company finds itself in a position similar to many utilities across the nation that provide electricity, natural gas and water utility services. Customer growth, increasing loads, environmental requirements and improved reliability expectations from customers are drivers for new utility plant investments which have increasing associated fuel costs, financing costs and operation and maintenance expenses. Rocky Mountain Power's need for this revenue increase is primarily driven by cost increases in:

1. New generation, transmission and distribution plant investment and
2. Power costs associated with fuel, wholesale market transactions and transmission wheeling.

In addition, the forecasted load growth in Utah is higher than PacifiCorp's forecasted system average load growth. While this is certainly good news for the Utah economy, it also results in a higher percentage of the Company's common costs being allocated to the state.

Historically, a third major component of the Company's revenue increase has been related to its operation, maintenance, administrative, and general costs ("OMAG"). Through the effective management of power costs and operating costs, increased efficiencies through new procurement practices for transmission and distribution investments, staffing reductions, and by striking a balance between operational expenses and preventative maintenance on the Company's transmission and distribution facilities, OMAG costs on a per unit basis have remained level or slightly declined since the Company's last general rate case.

The approval of this revenue increase will allow Rocky Mountain Power to meet its obligation to deliver safe and reliable power, excellent customer service at reasonable prices, and provide it with the opportunity to earn a reasonable rate of return on its investment. We recognize that the magnitude of the increase is significant and on a percentage basis it is more significant for some customer classes than others. As such, the Company has carefully prepared this application to ensure that all elements of the revenue increase request are necessary to maintain and provide safe and reliable service to our customers at a level they both expect and deserve.

The Company believes that, given the level of forecast load growth and the investment required to serve Utah loads, this request is both reasonable and prudent.

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

A. In order to recover the costs of providing safe, adequate and reliable electric service and to provide a reasonable opportunity for the Company to earn a fair return on its investments, the Company is requesting a revenue increase of $161.2 million, or on a percentage basis, an average increase of 11.3 percent. The revenue requirement details in this application are described in the direct testimony of Mr. Steven R. McDougal. This increase includes a request for a return on equity of 10.75 percent, which is the Company's expected cost of equity capital as explained in the direct testimony of Dr. Samuel C. Hadaway. I will show later in my testimony that the Company's rates in Utah are relatively low when measured against other utilities within the state and across the nation.

Q. Please provide a general summary of Rocky Mountain Power's revenue requirement in Utah.

A. As computed in this general rate case application, Rocky Mountain Power's total Utah revenue requirement can be summarized in six major cost categories as shown in the table below. "OMAG" in the table refers to the utility acronym for operations, maintenance, administrative and general costs.

Cost Category	Utah Revenue Requirement (million)	Percentage
Net Power Costs	$ 456.4	28%
OMAG	$ 466.3	29%
Return on Rate Base	$ 378.7	24%
Depreciation	$ 216.9	13%
Income and Other Taxes	$ 160.4	10%
Less: Other Revenues	($ 71.5)	-4%
Total Utah	$1,607.2	100%

Although the full revenue requirement, as calculated under the Revised Protocol allocation methodology, is summarized above, the total allowed revenue requirement collection from Utah customers is reduced by $22.2 million to $1,585 million as a result of the Rate Mitigation Measures contained in the stipulation in the Multi State Process.

Q. If the requested revenue increase proposed in this application is not approved, what are the prospects that the Company will earn its authorized rate of return?

A. The company will not earn it authorized return. At current rate levels, the Company's return on equity will drop to an estimated 5.8 percent by June 2009.

Without a general rate increase now, the additional investments made by the Company, coupled with rising costs for fuel, operation, maintenance, depreciation and other costs, will make it impossible for the Company to earn its allowed rate of return.

Q. What is the authorized return on equity the Company is requesting in this application?

A. The Company is requesting an authorized return on equity of 10.75 percent, which is supported by the direct testimony of Dr. Samuel C. Hadaway. In his testimony, Dr. Hadaway explains the quantitative model results, market and industry conditions and specific Company financial and operating risks that provide the basis for his recommendation. I would like to emphasize that the financial and operating challenges that Dr. Hadaway discusses are very real. As I explained earlier in my testimony, the Company is in a period in which it must make generation and transmission investments, and the Company's required ongoing level of investment far exceeds both its net operating income and depreciation expense. As a result, the Company requires substantial levels of new financing to fund the investment necessary to meet its customers' power needs. As I previously described, another significant challenge facing the Company is the combination of volatility and escalating wholesale energy prices. In Utah, Rocky Mountain Power faces these risks without any type of power cost adjustment mechanism, which coupled with rising costs exacerbates the regulatory lag effects of the current situation, unless multiple rapidly sequential rate cases are filed.

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

A. The proposed rate increase will give the Company a reasonable opportunity to earn its allowed rate of return. The additional revenues requested in this application will contribute to favorable credit ratings from the financial markets, thereby keeping debt costs at reasonable levels. In addition, the requested revenues will allow the Company to maintain and operate its system with good reliability given Utah's environmental and operating conditions. Finally, the additional revenues will permit the Company to continue its extensive investment program in generation, transmission and distribution facilities to serve the fast-growing load in Utah.

Load Growth

Q. Please explain why much of this rate increase is driven by the increased load growth in Utah.

A. The Company's Utah load growth is driven primarily by the increase in Utah's population and its associated economic activity. The Company has an obligation to serve customer loads in its certificated service territory and as load grows, it affects power costs, capital investments and interjurisdictional allocation factors. The Company's obligation to serve customer load – and the customers' demands for ever more reliable service -- requires the Company to make investments in generation, transmission, distribution and common utility plant assets. The Company's owners are entitled to a fair opportunity to earn a reasonable return commensurate with the risks involved in making these required investments. In addition, utility plant assets constructed to provide service to our customers have associated expenses related to the operation, maintenance and depreciation of these assets.

Since 2000, the state's population has grown by 450,000 from 2.2 million to 2.7 million, and our customer base has grown by 16 percent. Several respected economists and groups are predicting that Utah's population will exceed four million by the year 2030 or approximately a two percent per year increase. The majority of these residents will be Rocky Mountain Power customers. Additionally, Utah's economy has experienced strong growth since 2004. In its report to the Governor, the State Office of Planning and Budget projected employment growth of 4.4 percent during 2007. Each of Utah's major employment sectors grew during 2007. As a consequence of these economic drivers, the Company must plan to respond to significant continuing load growth in Utah. Our load forecasts are aligned with the state economic forecasts and we anticipate our energy requirements will grow by 2.3 percent per year with our summer peak rising at an even faster rate. Dr. G. Michael Rife explains in more detail the background to the growth in loads, and the basis for the expectation that, going forward, the growth trend will continue.

Capital Investment

Q. Does the Company's requirement to serve rapidly growing Utah load create the need to invest in additional electric generation, transmission and distribution assets?

A. Yes.

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

A. The Company's most recent Form 10-K, filed with the Securities and Exchange Commission on March 2, 2007, indicates that the Company's increasing capital expenditure program already exceeds one billion dollars per year and will include as much as $16 billion over the next ten years. We have included in this application $3.3 billion in new plant investments the Company has made or will make between June 30, 2007 and the end of the test year June 30, 2009. This level of investment puts significant financial pressure on Rocky Mountain Power. If this investment and its associated operations and maintenance expense is not included in the Utah revenue requirement, the Company's financial position and its ability to attract new capital will be negatively affected.

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

A. Absent supportive regulatory treatment in this general rate case and improved earnings, the combination of: 1) the Company's current construction cycle; 2) rising labor, equipment, materials and fuel costs, and; 3) risks involving resource coordination among the six states served by the Company could affect the Company's credit ratings position making it difficult for the Company to obtain the capital it needs at competitively low prices for the benefit our customers. Credit ratings are particularly critical when companies are in a "build" cycle as Rocky Mountain Power.

While the Company has benefited from its ownership by MEHC, which has invested a total of $415 million in cash contributions while not receiving any dividends from PacifiCorp since the acquisition on March 21, 2006, the Company relies on external parties for its significant debt financing needs. The debt securities markets are competitive, and to the extent investors perceive higher risk in Rocky Mountain Power because of regulatory uncertainty, they will require a greater return through higher interest rates. Higher interest rates on debt will result in higher rates for our retail customers. Mr. Bruce N. Williams testifies regarding debt financing and capital structure issues in this application.

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

A. To address the load growth challenges outlined above, as well as load growth in the other states we serve, the Company is in the process of completing or adding significant new generation, transmission and environmental resources. Mr. A. Robert Lasich, president of PacifiCorp Energy, explains in his direct testimony the prudent steps taken by the Company when it decided to invest in a new gas-fired generation resource at our Lake Side project; new wind resources at Leaning Juniper, Marengo, Marengo II, Goodnoe Hills, Glenrock, Seven Mile Hills and Rolling Hills; and the addition of capacity at the Blundell geothermal plant. Mr. McDougal includes detailed exhibits in his direct testimony showing test year capital additions for generation plant resources included in this filing.

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

A. On May 30, 2007, the Company announced the construction of two major 500 kV transmission projects of approximately 600 miles each that will originate in Wyoming and connect into Utah, Idaho, Oregon and the desert southwest. None of the costs of these proposed projects are in this case as they are scheduled for completion between 2010 and 2014; however, the Company has restructured internally to create a transmission organization that will allow the Company to efficiently move forward with the critical transmission infrastructure necessary to deliver safe and reliable power to our customers. Some of the start-up labor costs of this enhanced organization are included in this case for management and engineering positions.

Other transmission and distribution investments included in the case, including on-going reliability investments, local load growth projects and new customer connections in Utah are described in the testimony of Mr. Douglas N. Bennion. Mr. McDougal includes detailed exhibits in his direct testimony showing forecasted transmission, distribution, mining, general and intangible plant additions, all of which are necessary to provide service to our Utah customers.

Externally Influenced Costs

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

A. In addition to general inflation, the Company is experiencing significant upward cost pressures in several areas including construction material costs, the cost of industrial equipment, property, rights of way and easements, net power costs, and certain labor-related costs. While I will provide an overview of these cost drivers, subsequent witnesses will provide additional detail and thorough explanations of the impacts these areas have on the Utah cost of service and revenue requirement.

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

A. Net power costs consist of fuel, net wholesale transactions (purchases from and sales to other utilities and power marketers) and transmission wheeling costs, which in total represent approximately 28 percent of the Utah revenue requirement. The Company does not currently own sufficient resources to meet our customers' peak power needs and, therefore, we must buy and sell power in the wholesale market to meet our load requirement and to balance hourly, daily and seasonal load fluctuations. Net power costs continue to trend upward, remain volatile and are one of the primary cost drivers in this general rate case. The combination of higher fuel prices and wholesale market volatility has produced a more volatile environment for all participants in the wholesale energy markets, including regulated utilities.

On a total-Company basis net power costs are expected to be approximately $ 1.091 billion in the test year in this case. Current rates were established based on a global settlement without specific findings on the net power cost level; therefore, it is not possible to identify the exact magnitude of the cost increase from the prior case. The projected level of net power costs in this case, however, is more than 34 percent higher than the $811 million filed with the last case. Mr. Widmer will describe this in more detail in his direct testimony.

Test Period

Q. What is Rocky Mountain Power proposing in this application to address the risks of operating a major utility under the anticipated load growth conditions?

A. There are several proposals in this application intended to reduce the Company's financial risk to acceptable levels while operating the Company during a major construction program. We are asking the Commission to approve the use of a forecast test year in setting the Utah revenue requirement. The forecast period allows for better matching of costs with revenues during the rate effective period. The company is expected to experience both of these conditions in the future.

Q. Please explain what you mean by the term "regulatory lag."

A. Regulatory lag is the delay between the incurrence of a cost and the commencement of recovery of that cost through retail rates. Mr. McDougal explains in his testimony that in the Company's current business environment, when an historic test period is used to set rates, it is not provided with a reasonable opportunity to earn its allowed return on equity. Mr. McDougal also explains how the forecast test period is incorporated in this application.

Cost Control Efforts

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

A. Effective management of power costs and operating costs is one of the key elements of the Company's strategy to keep electricity prices as low as possible. As I mentioned earlier, the Company is making significant investments in renewable wind generation resources which have zero fuel costs. Since the acquisition by MEHC, the Company has achieved increased efficiencies. Two examples of cost control measures are the new procurement practices for transmission and distribution investments that Mr. Bennion testifies to and the staffing reductions that Mr. Erich D. Wilson testifies to. The Company has also worked hard to strike the right balance between operational expenses and preventive maintenance on the Company's transmission and distribution facilities. This approach helps to achieve maximum value for each dollar spent on maintaining and operating the growing electric network. Unfortunately these efforts are not enough to offset the cost increases in other areas included in this application.

Q. Please explain steps the Company has taken to mitigate the cost pressures associated with labor-related issues?

A. The Company has mitigated some of the impacts of health care costs and pension cost increases with internal cost control initiatives. For example, the Company has implemented a transition plan for health insurance premium costs that, when completed on January 1, 2008, will require employees to pay a larger amount of the health insurance premium. With regard to the pension program, the Company has implemented a change effective June 1, 2007, to a cash balance pension plan for non-union employees. These and other program changes are explained by Mr. Wilson, who testifies on the Company's effort to manage labor costs while remaining competitive with other companies in the energy industry and other companies we compete with for qualified, capable employees. Mr. Wilson also explains the Company's success in achieving long-term cost savings for our customers and operating efficiencies through a work force restructuring program. Even with these internal cost control efforts, externally driven cost pressures, particularly in the health care area, are largely unavoidable, and the Company continues to incur cost increases that need to be included in the Utah revenue requirement.

Customer Satisfaction

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

A. Yes. As the Company’s operational efficiencies are achieved, customer service performance levels have also improved.

For example, the Company was recently recognized for its excellent customer service. In 2004, 2005 and 2006, PacifiCorp ranked number one out of 60 United States electric utilities in overall satisfaction for large commercial and industrial customers as determined by TQS Research, an independent survey group. This back-to-back-to-back accomplishment as the top utility in the nation is unprecedented in TQS history. In 2007, Rocky Mountain Power placed 4th in the nation with 88.2 percent of our customers saying they are "very satisfied" with our service. This was Rocky Mountain Power’s second highest absolute rating, which placed as 0.2 percent behind the second highest rated utility.

MidAmerican Energy Company and Pacific Power also received ratings in the top four utilities in the nation. This unprecedented accomplishment is an indication of how focused the MidAmerican Energy Holdings Company is on customer service quality. We are particularly pleased with these scores because we recently reduced spending in this area by about 20 percent through the execution of efficiency measures

In the 2007 J.D. Power & Associates residential customer satisfaction survey, Rocky Mountain Power improved by 20 points, placing in the second quartile among 13 west region utilities. This improved score follows the Company's call centers receipt of the 2005 Call Center of the Year award from the International Call Management Institute.

The J.D. Power & Associates results for its 2007 small and mid-sized business customer satisfaction survey showed that Rocky Mountain Power's customer satisfaction scores increased 32 points.

Finally, another important improvement to customer service performance is demonstrated by the reductions in both commission complaints and customer guarantee failures since the service quality commitments were implemented. Specifically, commission complaints in 2006 were only 201 compared to 319 commission complaints in 2000. In addition, customer guarantee failures in 2006 were only 143 compared to 281 customer guarantee failures in 2001, the first full year of this program.

Finally, for the Company to continue to improve its customer service, it is important that the forward projection of the costs meant to improve our service be included in the revenue requirement in the rate case.

Q. Has the Company made improvements in service reliability?

A. Yes. As described in Mr. Bennion's testimony, Rocky Mountain Power has continued to implement an investment strategy that is focused on both transmission and distribution asset replacement and reinforcement as a consequence of load growth and the need to replace assets close to the end of their operational lives.

Q. Please explain the network performance commitments and how the Company's actual results compare to the commitments?

A. In its Service Standards Program, the Company committed to improve its electric system reliability. Mr. Bennion describes the objectives and our performance against those objectives.

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

A. Beginning in 2007, the Company has further refined its maintenance approach to incorporate the outage history of individual customers and circuits, while evaluating overall electric system and circuit level performance. This program is known as "customers experiencing multiple interruptions" (CEMI). It further refines the Company's maintenance and reliability improvement plans to target those areas that need the most attention.

Impact of New Investment and Rising Net Power Costs on Rates

Q. What has the Company done to lessen the impact of this rate increase on its customers?

A. I have already outlined the significant impact that load growth has on the overall level of revenue requirement for Utah. To help mitigate these increases, the Company has made intensive efforts to manage peak growth in Utah with continuation of our existing demand side management (DSM) programs and the introduction of the Irrigation Load Control Credit Rider program in Utah during 2007. These programs have the objective of further reducing electricity use and reducing peak demand. The programs target those periods of time when it is most expensive to meet peak demand; thereby, relieving the demand on the existing infrastructure and limiting the need to purchase expensive peak power on the wholesale market.

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

Pricing

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

A. The overall average price proposed in this case (6.9 cents per kWh) is equal to our overall average price twenty years ago. In inflation adjusted dollars our Utah prices are significantly lower than they were 20 years ago. The Company's rates in Utah have historically been and we believe will remain among the lowest in the nation, even after incorporating the price increase proposed in this application. We understand that electricity is one of the major costs for many of the Company's largest customers in Utah, and that relatively low electricity prices permit current and new customers to expand or begin new operations in Utah.

The Company recognizes the impact of electricity costs on the economic health of the state and its economic development goals; so, it diligently strives to keep its rates as low as possible while meeting its obligation to provide safe and reliable service.

Q. Describe in general Rocky Mountain Power's pricing proposal for new large loads in this application.

A. Given this large difference between the average embedded cost of generation and the marginal cost of generation, coupled with the experienced and anticipated Utah load growth, the Company believes the Commission should consider an alternative to traditional average embedded cost of service pricing for new customer loads that are 10 MW or greater.

In the coming years, it is anticipated that much of Utah's significant growth will be driven by new large loads in excess of 10 MW. If generation remains priced at embedded cost, these new large loads will put upward price pressure on the rates of all our customers. To minimize the impact on our other customers of these new large loads, the Company has proposed a supplemental charge for generation for these customers that reflects a portion of the difference between embedded generation costs and marginal generation costs.

We are also asking the commission to commence a separate proceeding, to be completed by June 2009, that will allow all parties to present evidence as to whether marginal cost pricing concepts should be used in Utah and, if so, for which customer classes. Importantly, we are not suggesting that revenue requirements be measured by marginal cost, only that marginal cost concepts be considered to send better price signals to our customers to assure that they make economically efficient fuel choices when obtaining service for their new facilities and to minimize rate impacts on our existing customers driven by both the cost of acquiring new resources to meet new large loads and the risk of stranded resources built to serve these new large load customers. .

Q. Please generally describe how Rocky Mountain Power's new pricing option will work.

A. Proposed Schedule 500 is a supplemental charge for service provided under other applicable tariffs for all new load service agreements 10 MW or greater and for existing customers, if the customer's load grows by 10 MW or more in a 12-month period. Mr. Griffith describes this proposal in detail in his testimony.

Q. Even though the Company has among the lowest rates in the nation, is the Company still able to support local Utah communities and the Utah economy?

A. Yes. The Company works closely with state and local government agencies on economic and community development projects and is actively involved in giving back to our Utah communities. In 2006, Rocky Mountain Power Foundation grants in Utah exceeded $773,000 for programs such as the United Way. In addition, the Company's corporate giving in 2006 to Utah community programs exceeded $1.1 million. The Company also understands that its responsibility to provide safe, reliable electric service at relatively low prices contributes to a healthy Utah economy.

MEHC Acquisition of PacifiCorp

Q. Please generally describe the terms of the Commission's approval of MEHC's acquisition of PacifiCorp.

A. On July 15, 2005, MEHC and PacifiCorp filed an application with the Commission requesting authority for MEHC to acquire all of the outstanding common stock of PacifiCorp, who would thereafter become an indirect wholly owned subsidiary of MEHC. On January 20, 2006, the Company, the Division of Public Utilities, the Committee of Consumer Services, the Utah Industrial Energy Consumers, Utah Association of Energy Users and other parties filed a stipulation (Stipulation) as a comprehensive settlement of the proposed reorganization. The Stipulation supported approval of the transaction, subject to 53 general commitments and 34 specific Utah commitments. On February 28, 2006, the Commission approved the transaction, including the terms of the Stipulation.

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

A. The MEHC commitments identified in the Stipulation cover a broad range of benefits, including those related to: customer service, financial protection, Commission access to information, affiliate transactions, generation (including renewable resource and environmental issues), transmission projects, low-income and community programs, local decision making and corporate presence. As an example of some of the financial benefits to customers, Commitment 37 anticipates the cost of long-term debt issued by the Company to decrease by at least 10 basis points after the transaction from what it would have been absent the transaction. General Commitment 44 pertains to a Company-wide DSM study, with MEHC shareholders absorbing the first $1 million of study costs, and the evaluation of a Utah specific DSM program which has already been proposed and is awaiting a Commission decision. In addition, General Commitment 52 has been accomplished in which the Company completed the 25 MW resource expansion feasibility study and increased the Blundell geothermal facility output by 11 MW through the previously mentioned bottoming cycle enhancement. Additional resource analysis indicates that a 30 to 35 MW expansion of the resource may be operationally and economically viable subject to confirmation of reservoir production capacity and availability of the federal production tax credit. The list post transaction commitment success goes on and is well-documented in the Commission's final order approving the transaction. In summary, all of the cost-saving measures, efficiencies, investments and improvements in the MEHC commitments have properly been included in this application, can be supported by the appropriate Company witnesses and are the result of MEHC's ownership and stewardship of Rocky Mountain Power.

Q. Please describe how the Company's organization has changed since MEHC's acquisition of PacifiCorp and how these changes will affect customers.

A. The restructured Company enables it to respond quickly and decisively to the needs of its customers in the Rocky Mountain Power service area. Prior to the

MEHC acquisition, the Company had a single president and numerous executive and senior vice presidents and directors who were responsible for activities and issues across the six-state service territory. That former single president's role is now largely filled by Mr. Greg Abel, the Chief Executive Officer. In addition, several directors, managing directors and vice president positions have been eliminated. The three president positions that exist today have been created to oversee the operations of the Rocky Mountain Power, Pacific Power, and PacifiCorp Energy operating units and to focus responsibility, accountability and leadership on more defined components of the business. This allows me and my colleagues to focus on goals, concerns and issues important to the Rocky Mountain Power states (Idaho, Utah and Wyoming) and as a result, to be more responsive to our customers' service needs and regulatory obligations.

Introduction of Witnesses

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

A. The Company witnesses that have filed direct testimony in support of this application and the subjects of their testimony are:

A. Robert Lasich, President**,** PacifiCorp Energy, will provide investment information on and prudence justification for the Company's major new generation and environmental resource acquisitions, including the increased generation-related overhaul and maintenance expenses for the test period.

Bruce N. Williams, Vice President and Treasurer, will testify concerning the Company's cost of debt, preferred stock and capital structure.

Dr. Samuel C. Hadaway, FINANCO, Inc., will testify concerning the Company's return on equity. He will also describe the unique operational risks that Rocky Mountain Power faces and why the Commission should authorize a return on equity that will account for the Company's higher risks and operating challenges.

Dr. G. Michael Rife, Director, Planning, will testify on the changing loads and revenues in Utah. He will explain how Utah's load growth relates to previous years and to the other states in the Company's system, and how the changing peak demand in Utah is contributing to a relative shift in the interjurisdictional allocation of common costs. He will also provide a view of future system growth in Utah relative to the other states.

Mark T. Widmer, Director of Net Power Costs, will describe the Company's net power costs. Mr. Widmer will also explain the Company's production cost model and normalization of input data.

Douglas N. Bennion, Managing Director of Network Reliability, will explain the Company's capital investments in transmission and distribution facilities to serve growing customer loads and deliver reliable power in Utah.

Erich D. Wilson, Director, Human Resources, will explain the Company's new compensation, pension, and benefits program and related costs. In addition, Mr. Wilson will support the costs incurred by the Company in reshaping its corporate workforce.

Steven R. McDougal, Director, Revenue Requirement, will explain why the forecast test year that begins on July 1, 2008 and ends on June 30, 2009 best reflects the conditions that the Company expects to experience in the rate-effective period. In addition, Mr. McDougal will present the Company's overall revenue requirement based on the forecasted results of operations for the test year. He will describe the sources of the forecast data and present certain normalizing adjustments related to revenue, operations and maintenance expense, net power costs, depreciation and amortization, taxes and rate base. Mr. McDougal will also testify on deferred accounting costs and support the Company's proposed interjurisdictional allocation of common costs.

C. Craig Paice, Regulatory Consultant in Pricing and Cost of Service, will present the Company's class cost of service study.

William R. Griffith, Director of Pricing and Cost of Service, will present the Company's rate spread and rate design proposals.

Dr. Karl A. McDermott, Vice-President at NERA Economic Consulting, will testify on the marginal cost pricing principles underlying the Company's pricing proposal for large industrial customers..

F. Robert Stewart, Regulatory Consultant, Customer Services & Regulatory Liaison, will propose housekeeping and needed operational changes to Utah Electric Service Schedules and Regulations.

Daren H. Dixon, Manager of Street Lighting Policy, will present proposed changes to the Company's street lighting tariffs.

Q. Does this conclude your direct testimony?

A. Yes.