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. Please briefly describe your education and business experience.

A. I have worked in the electric utility industry since 1972 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 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 assuring that the Company's strategy, infrastructure investments and operations result in the delivery of safe, reliable electric energy to the Company's customers at reasonable prices.

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 767,000 Utah customers, which comprise 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.

Driven by load growth in Utah and our other states, the Company is in the midst of a major construction program that will continue for several more years, adding significant new supply-side generation resources, transmission lines and Utah distribution facilities. Unfortunately, this major build cycle comes at a time when costs for fuel and building materials are increasing at rates significantly greater than the rate of inflation. Assuming these trends continue, the Company will need frequent price increases over the next several years to allow it to recover its cost to serve Utah customers. This situation is not unique to the Company as nearly all utilities are attempting to deal with increasing costs and rising customer prices. While no one likes increasing electric rates, it is critical that rates reflect the costs expected to be incurred during the period the rates are in effect;

otherwise customers will not receive the price signals they need to make sound economic decisions regarding efficient energy usage.

Purpose 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 2008 Utah rate case application requesting a revenue requirement of $1.592 billion. This represents a $160.6 million rate increase over Rocky Mountain Power's current rates, or an increase of $85.2 million (5.7 percent) over the rate request pending in docket 07-035-93.

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

- The need for a price increase even though Rocky Mountain Power just completed Phase I of its 2007 rate case and a decision on that case from the Utah Public Service Commission is still pending;
- The major cost drivers underlying the need for the price increase, including load growth, capital investment, and operating costs beyond the Company's control; and,
- The Company's efforts to control costs while maintaining reliable service and customer satisfaction.

Q. Please explain why the Company is requesting a Utah rate increase when the Company's 2007 case is still pending before the Commission?

A. In its test year order in Docket 07-035-93 the Utah Commission moved the Company's proposed test year back six months to the period ending December 2008. Because of the Commission's decision on test period in the last rate case, the Company is compelled to file more frequent cases in order to give it a reasonable opportunity to earn its allowed return during a period of rapid load growth, unprecedented capital investment, and rising costs. This was acknowledged by the Utah Commission in its test period order which stated that under current conditions more frequent rate case may be necessary.[1]

Q. Why is a forecast test period necessary for this case?

A. A forecast period allows for better matching of costs with revenues during the rate effective period. It is essential for the financial integrity of the Company to have rates set on costs that reflect the time period that the rates will be in effect. A forecast test period is exceptionally important during a period of major construction and rising power costs.

Q. How is this case different from the case filed just last December?

A. Consistent with the Commission's order in Docket 07-035-93, this case incorporates a test period that looks forward approximately 12 months from the filing date. The test period in this filing covers the twelve months ending June 30, 2009. The filed test period addresses the concerns about the uncertainty of forecasting costs for the full 20-month forward-looking period allowed by statute.

[1] In this time of expanded utility investment, potentially increasing costs, and greater uncertainty of economic conditions, more frequent rate cases may be necessary to ensure just and reasonable rates. (Docket 07-035-93 Test Period Order, page 4)

However, because of the significant level of capital investment, which is more certain and measurable within the selected test period, the case reflects end of period rate base balances as of June 30, 2009.

Q. How will the order in the pending case (Docket 07-035-93) be reflected in this filing?

A. The Company's filing in this case supports a $1.592 billion revenue requirement. That will not change with the Commission's revenue requirement order in Docket 07-035-93. The rate order in the 2007 case will change present revenues and the size of the rate increase required to reach the proposed revenue requirement; however the revenue requirement and the supporting analysis and testimony filed in this case supporting the need for an increase will not change.

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. Moreover, since the acquisition by MEHC, the Company has achieved increased efficiencies. The Company has worked hard to strike the right balance between operational expenses, customer service 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 and will not be 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 partially mitigated price increases of health care costs and pension cost increases with internal cost control initiatives. For example, the Company's transition for health insurance premium costs was completed on January 1, 2008, and now requires employees to pay a larger amount of the health insurance premium. The Company has also implemented a change to a cash balance pension plan for non-union employees. Even with these internal cost control efforts, externally driven cost increases, 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.

Rate Case Overview

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

A. As previously mentioned, the Company is requesting a $1.592 billion revenue requirement during the rate effective period beginning in March 2009. Historical data from calendar year 2007 is used as a base to develop the test period used in this case, which is the twelve-month period ending June 30, 2009. The test period used in this case is essential in providing the Company with an opportunity to recover its costs, maintain service levels, and earn a reasonable rate of return. Company witness **Mr. Steven R. McDougal**, Director, Revenue Requirement, will discuss the test period, the required revenue increase and the sources of the data used in determining the normalizing adjustments related to revenue, operations and maintenance expense, net power costs, depreciation and amortization, taxes and rate base in developing the Utah revenue requirement. Mr. McDougal will also testify on deferred accounting costs and support the Company's proposed interjurisdictional allocation of common costs.

Mr. McDougal's analysis is based on a cost of capital that includes a request for a return on equity of 10.75 percent, which is the Company's expected cost of equity capital, and a capital structure with an equity percentage of 51.9 percent. **Mr. Bruce N. Williams**, Vice President and Treasurer, will testify concerning the Company's cost of debt, preferred stock and capital structure. Additionally, **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.

The financial and operating challenges and risks that Dr. Hadaway discusses in his testimony are demonstrably real. The Company is in a period of load and capital investment growth, 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.

We recognize that the magnitude of the rate increase is significant and affects some customer classes more than others, on a percentage basis. The increase in rates that the Company is requesting is necessary to permit the Company to recover its prudently incurred costs and is in the public interest. The Company is operating in a cost efficient and effective manner and takes seriously the challenges it faces in providing reliable service at a reasonable price to customers.

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

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

Every new generation plant, every transmission line, and nearly every distribution facility is significantly more costly than similar facilities currently included in rates. In addition, the cost of fuel and purchased power is rising for both existing and future customers. The level of capital investments that are being made by the Company and the increase in energy costs cannot be entirely offset by productivity gains achieved by the workforce and through the implementation of technology, or through increased sales. The costs are real, and this level of expenditures is necessary to provide customers with the level of service that they expect. Reflecting this level of costs in rates is also necessary to send customers the correct price signals regarding the cost of their usage.

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 reliably 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.

Cost Drivers

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

A. As previously mentioned, the growth in customer demand for energy and peak load growth, coupled with the capital investment necessary to meet this demand and satisfy the Company's obligation to serve, are the primary drivers behind the need for price increases. Additionally, significant increases in the Company's business inputs are fundamentally beyond its control and increase the cost of service. These cost increases cannot be entirely offset by the Company's efficiency measures. I will explain each of these cost drivers in more detail.

Load Growth

Q. Please explain the load growth in Utah.

A. The Utah economy and related electrical load have been booming. Growth has exceeded the national average and is expected to continue. North American Energy Reliability Corporation (NERC) forecasts that electric energy consumption growth in the Rocky Mountain region through 2016 will be higher than any other region of the nation. Efforts by the Economic Development Corporation of Utah and other entities in the state have proven effective at bringing new business to Utah. The 2008 Economic Report to the Governor projects Utah economic growth is expected to continue to outpace the rest of the nation. In its report to the Governor, the State Office of Planning and Budget projected employment growth of 3.2 percent during 2008, near historic growth rates.

Since 2000, the customer base grew 20 percent, which mirrors the state's population growth from 2.2 million to 2.7 million. Several respected economists and groups are predicting that Utah's population will reach nearly 3 million by 2010 and exceed 4 million by the year 2030 or approximately a two percent per year increase. In contrast national population growth is projected in the one percent range.

This high rate of growth contributes to the rising cost of electric service, as the marginal cost of new generation and power delivery resources are double the average embedded cost of generation currently in rates. Our load forecasts are aligned with the state economic forecasts, and we anticipate our megawatt hour energy requirements will grow by 2.3 percent per year with summer peak demand rising at an even faster rate. **Dr. Peter C. Eelkema**, Senior Planner in the Load Forecasting Department, will provide further details on growing electrical load in Utah.

Capital Investment

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 February 29, 2008, indicates that the Company's increasing capital expenditure program exceeded $1.5 billion in 2007 and will reach $20 billion over the next ten years. This case includes over three billion dollars in new plant investments the Company has made or will make between the December 31, 2007, historical base year and June 30, 2009, the end of the test year. This level of investment puts significant financial pressure on Rocky Mountain Power.

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

A. Absent supportive regulatory treatment in this, and future rate cases, the combination of: 1) the Company's current construction program; 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 of our customers. Credit ratings are particularly critical when companies are in a "build" cycle and challenging credit market as Rocky Mountain Power now is.

The Company has greatly benefited from its ownership by MEHC, which has invested a total of $615 million in cash contributions while not receiving any dividends from PacifiCorp since the acquisition on March 21, 2006. The Company's budget includes additional cash equity contributions of $150 million before the end of the test period. However, 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 or unfavorable regulatory decisions, they will require a greater return through higher interest rates. Higher interest rates on debt will result in higher rates for our retail customers.

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

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

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

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

A. To address load growth challenges the Company is in the process of completing or adding significant new generation resources. **Mr. A. Robert Lasich**, President of PacifiCorp Energy, explains in his direct testimony the prudent steps taken by the Company in meeting its obligation to serve customers through adding new generation resources. New generation resources, in addition to those included in Docket (07-035-93), a Commission decision on which is currently pending, include the remaining investment in the Marengo II and Goodnoe Hills wind projects and the Blundell Bottom Cycle geothermal plant, each of which were was only partially included in the Company's revenue requirement in the pending general rate case. In addition, the Company is adding over 250 MW of new wind resources plus the Chehalis gas plant.

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

A. The Company continues to make significant transmission and Utah distribution and other investments which have been included in this case. Mr. McDougal has included exhibits in his direct testimony supporting the plant additions, all of which are necessary to provide service to our Utah customers. Company witness **Mr. Douglas N. Bennion**, Vice President, Network Reliability, will describe the Company's transmission and distribution investments in this case including a Static VAR Compensator at Camp Williams, the Oquirrh 345 to 138 kV, 700 MVA substation project and the Herriman distribution substation, as well as the facilities necessary to connect and serve approximately 20,000 new customers in Utah each year.

In addition, 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. Siting, permitting and other initial work for the various segments of the projects are underway. None of the costs of these proposed projects are in this case as they are scheduled for completion between 2010 and 2014, but these costs will add additional upward pressure on rates when they begin to show up in future rate cases.

Externally Influenced Costs

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

A. In addition to general inflation, the Company is experiencing significant upward cost pressures in several areas including construction material and equipment, property, rights of way and easements, net power costs, and certain labor-related costs. Mr. Bennion addresses the impact of escalating materials costs on capital projects. Additionally, **Mr. Erich D. Wilson**, Director, Human Resources, will explain the impact of rising costs on workforce related costs including compensation, pension, and benefits programs and related costs.

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 revenues and costs, which in total represent nearly 30 percent of the Utah revenue requirement. Even with the addition of more than 1,600 MW of new generation capacity over the last six years, the Company does not currently own adequate resources to meet our customers' peak power needs. 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 $1.129 billion in the test year in this case, an increase of more than $85 million above the level supported by the Company in the 2007 general rate case. **Mr. Gregory N. Duvall**, Director, Long Range Planning and Net Power Costs, will describe this in more detail in his direct testimony

Customer Satisfaction

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

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

Q. Has the Company made improvements in service reliability?

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

Q. **What other actions has the Company taken to advance 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. In conjunction with the CEMI approach, Rocky Mountain Power now uses a central scheduling approach and reliability work plans to more efficiently and effectively target its distribution maintenance expenditures.

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

A. I have already outlined the significant impact that load growth has on the overall revenue requirement for Utah. To help mitigate increases, the Company has made intensive efforts to manage peak growth in Utah with our existing demand side management (DSM) programs and the introduction of the Irrigation Load Control Credit Rider program in Utah during 2007. The objectives of these programs are to further reduce electricity use and peak demand. The programs that target reductions in peak demand help to reduce stress on the existing electrical infrastructure and reduce expensive power purchased on the wholesale market at peak times. In 2007, over 85,000 customers participated in energy efficiency programs and reduced the Utah's system load by nearly 134,000 MWH. Almost 74,000 customers participated in Utah's two load management programs and reduced system peak loads by over 89 MW in 2007. 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. Rocky Mountain Power's current overall average price (6.19 cents per kWh) places Utah's rate in the lowest quartile among U.S. investor-owned utilities according to the Edison Electric Institute. The Company's rates in Utah have historically been and will remain among the lowest in the nation, even after incorporating the price increase proposed in this application. **Mr. William R. Griffith**, Director of Pricing and Cost of Service will present the Company's rate spread and rate design proposals that determine the ultimate prices customers will see. **Mr. C. Craig Paice**, Regulatory Consultant in the Pricing and Cost of Service Department will present the Company's class cost of service study.

Regulatory Mechanisms

Q. In your rebuttal testimony in Docket 07-035-93 you indicated that the Company may explore a power cost or generation costs adjustment mechanisms in its next rate filing. Is the Company proposing such a mechanism in this case?

A. The Company still believes that power cost adjustment mechanisms and generation investment adjustments mechanisms, such as authorized by Utah Senate Bill 202, are fair and effective regulatory tools. The Company may pursue one of those alternatives in the future; however, the Company is not proposing any such mechanism in this case.

Conclusion

Q. Please provide a conclusion to your testimony?

A. The electric utility industry is entering a period where the only certain thing is uncertainty. In the midst of the rapidly evolving landscape related to climate change, state and federal energy policies, rapidly increasing raw material costs, and generation and transmission shortages; Rocky Mountain Power continues to effectively plan to meet our customers' energy needs.

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

Q. Does this conclude your direct testimony?

A. Yes.