Q. Are you the same Bruce N. Williams that provided direct and rebuttal testimony in this proceeding?

A. Yes, I am. My previous testimony in this proceeding concerns capital structure and costs of debt and preferred stock.

Q. What is the purpose of this revenue requirement rebuttal testimony?

A. The purpose of this revenue requirement rebuttal testimony is to respond to the pension expense adjustments recommended by the Office of Consumer Services ("OCS") witness, Ms. Donna Ramas. The Company accepts certain of Ms. Ramas' adjustments to pension expense; however others are not supported by facts and should not be accepted by the Commission. In addition, I provide an update to the Company's pension and post retirement welfare expense based on known and measurable changes.

Q. What level of pension and post retirement welfare expense did the Company include in its direct testimony?

A. The table below summarizes the Company's initial filing in this docket:

Pension and Post Retirement Welfare Expense ($ millions)	
PacifiCorp Retirement Plan	$27.80
Local 57	13.85
SERP	2.50
Post Retirement Welfare	17.25
	$61.40

These amounts were determined by averaging projected Electric Operations expense levels during 2011 and 2012 to match the test period of 12 months ending June 30, 2012.

Pension Expense

Q. What are the OCS's recommendations on pension expense?

A. Ms. Ramas proposes several adjustments to reduce gross PacifiCorp Retirement Plan ("PRP") and Local 57 expense by $7.35 million from the Company's initial filing of $41.65 million[1] to $34.30 million.[2] The table below summarizes the Company's initial filing for those plans and what Ms. Ramas is recommending.

Pension Expense ($ millions)		
	Company	OCS
PacifiCorp Retirement Plan	$27.80	$21.50
Local 57	13.85	12.80
Total	$41.65	$34.30

Q. Please summarize Ms. Ramas adjustments to PRP expense.

A. Ms. Ramas proposes to reduce PRP expense to an annual amount of $21.50 million by updating for actual 2011 expense and then making a further reduction to expense by assuming an increase in the long-term rate of return on plan assets.

Q. Does the Company agree with Ms. Ramas' adjustments?

A. The Company accepts her adjustment to reduce the 2011 PRP expense to the actual amount of $23.4[3] million. As noted by Ms. Ramas, the 2011 PRP expense was estimated by the Company's actuaries during September 2010 as part of the Company's planning process. Subsequent to the filing of direct testimony in this proceeding the Company now has actual 2011 PRP expense (Confidential Exhibit RMP___(BNW-2R)). Updating for the $23.4 million will provide a benefit to customers and lower the proposed revenue requirement in this proceeding.

[1] Ramas direct testimony line 1543.
[2] Ramas direct testimony line 1809.
[3] While $24.0 million is the total 2011 PRP expense, the Company estimates that $23.4 million is for Electric Operations.

However, as I will explain, Ms. Ramas' other proposed adjustment to pension expense is not supported by evidence and should not be accepted by the Commission.

Q. Does the Company now also have an updated projection for 2012 PRP expense?

A. Yes. The Company has recently received from its actuary an updated projection for 2012 PRP expense of $19.2 million. The Company is proposing the use of this updated projection in determining PRP expense during the test period.

Q. Why did the actual 2011 PRP expense and projected 2012 PRP expense decrease from the earlier projections?

A. There are two main reasons why the actual 2011 and projected 2012 PRP expenses are lower than earlier projected. First, the plan assets realized a return during 2010 of 12.2 percent which was significantly more favorable than the estimate of 2010 asset return utilized in determining the prior projections.

Second, as interest rates increased during the last quarter of 2010, a corresponding increase occurred in the discount rate that was used to value plan liabilities for 2011 expense purposes. A higher discount rate has the impact of reducing the liabilities which, in turn, will decrease plan expense.

These same factors also resulted in reduced actual 2011 and projected 2012 post retirement welfare expense as I discuss later.

Q. Please describe Ms. Ramas' proposed change to the assumed long term rate of return.

A. Ms. Ramas is proposing that the long term rate of return assumption on PRP assets be increased by 0.25 percent from the 7.50 percent used by the Company to a new assumed rate of 7.75 percent.

Q. How did Ms. Ramas determine her proposed long-term rate of return?

A. Ms. Ramas states that it is her opinion the long term rate of return should be increased by 25 basis points to reflect a more appropriate and reasonable projection.[4] She attempts to support this opinion by referring to a 2009 survey of what other companies had selected for their long term rate of return assumptions.

Q. How did the Company determine the rate of 7.50 percent as the long term rate of return for its pension assets?

A. The Company performs a "bottom-up" analysis utilizing the asset allocation targets for the investment portfolio and specific return for each asset class. The return for each asset class, which is provided by an external investment consultant, is then weighted by the amount of the portfolio allocated to that asset class. The Company calculated that, based on its asset allocation targets and the external consultants' projected return for each asset class, the weighted average return is 7.50 percent. Confidential Exhibit RMP___(BNW-3R) is a copy of the workpapers that were used to develop this rate of return. In addition, the expected long term rate of return was then reviewed and found acceptable by both the Company's actuary and independent external auditors.

[4] Ramas direct testimony lines 1710 through 1713.

Q. Would the Company's independent external auditors find it acceptable if the Company selected its estimated long-term rate of return in a manner similar to Ms. Ramas' approach?

A. No. The Company's auditors would not accept the determination of the long-term rate of return based on a comparison to what other companies and utilities are doing. Generally accepted accounting principles in the United States of America require that the expected long-term rate of return on plan assets reflect the average rate of earnings expected on the funds invested for purposes of funding benefits, and require consideration of returns being earned and expected to be earned by such plan assets. During the annual financial statement audit, the Company's independent external auditors request information supporting the Company's calculation of the expected long-term rate of return. In determining the expected long-term rate of return in this manner, the Company considers asset allocation targets and asset class return expectations of the underlying portfolio of investments.

Q. Ms. Ramas states that a short history of actual return on pension assets should at least be considered when determining the long-term rate of return. Can you provide this information?

A. Yes, the table below provides this information including the actual annual rate of return.

	Year	Long Term Rate of Return Assumption	Actual PRP Return
	2006	8.75%/8.5%	12.04%
	2007	8.00%	8.97%
	2008	7.75%	-23.26%
	2009	7.75%	22.96%
	2010	7.75%	12.18%
Annualized Return (assuming 8.75% in 2006)		8.00%	5.26%
Annualized Return (assuming 8.50% in 2006)		7.95%	5.26%

For most years the pension assets earned returns greater than the corresponding assumption. However, the impact of 2008 actual results is so significant that the annualized actual return over this period of time is less than the annualized assumed return. While it might be tempting to exclude 2008 actual results as an "outlier" or "unlikely to occur again", the fact is that it did occur and over a long period of time similar results cannot simply be ruled out.

During the five years ending December 31, 2010, the pension assets earned an annualized rate of return of 5.26 percent as compared to expected long-term rate of return of 8.00 percent.[5] If the Company were to consider using the recent actual returns, such as suggested by Ms. Ramas, it would actually result in a rate significantly lower than the 7.50 percent the Company selected with the auditors concurrence.

[5] The Company had two different long-term rate of return assumptions during 2006 due to the change in fiscal year from a March 31 end date to a calendar year basis. Had the 8.50 percent assumed rate of return been used to calculate the average assumed return over the time period ending December 31, 2010 the assumed annualized return would have declined to 7.95 percent. This result would not change the conclusion that assumed returns have been greater than actual results during this period of time.

Q. How do the expense amounts proposed by the Company compare to the Company's cash contributions?

A. The Company is making cash contributions to the PacifiCorp Retirement Plan far in excess of the expense to be recovered from customers in this proceeding. For example, during the five years prior to 2012 the Company will have contributed approximately $224.4 million in excess of the aggregate amount of PRP expense.

PacifiCorp Retirement Plan ($ millions)

	2007	2008	2009	2010	2011	Average
Expense	51.5	26.2	23.3	20.9	24.0	29.2
Cash Contributions	75.8	65.6	49.6	112.8	66.5	74.1

The Company is not proposing to recover cash contributions rather than expense, as is allowed by public utility commissions in certain other state jurisdictions. Ultimately, over a long period of time, cumulative cash contributions and expense will coincide.

Q. Please summarize Ms. Ramas' proposed adjustment to Local 57 expense.

A. Ms. Ramas is proposing to double the amount of the Company's projected contributions during the six months ending June 30, 2011 of $6.4 million for a total of $12.8 million.[6]

Q. Does the Company agree with this adjustment?

A. No. While no updated projections were available at the time Ms. Ramas was developing her adjustments, the Company has now received updated projections from the Local 57 plan actuary. These revised projections are included as Exhibit RMP___(BNW-4R). As such, the Company proposes to use updated expected

[6] Ramas direct testimony lines 1792 through 1795.

cash contributions to the Local 57 plan during the test period ($18.5 million) less amounts to be subsequently reimbursed by the union ($5.9 million) for a total expense of $12.6 million. This reimbursement from the union is expected to begin in 2015. I should note that this updated expense is approximately $200,000 lower than what Ms. Ramas recommended.

Post Retirement Welfare Expense

Q. Is the Company proposing changes to the amount of post retirement welfare ("PRW") expense to be included in this proceeding?

A. Yes, the Company now has actual 2011 total PRW expense and updated projections for 2012 expense (Exhibit RMP___(BNW-2R)). For the same reasons that the PRP expense has decreased from the earlier projected levels (i.e. more favorable investment returns during 2010 and a higher discount rate used to value plan liabilities) the PRW expense levels have also decreased.

The result of updating PRW expense is a reduction of approximately $2.9 million which will provide a benefit to customers through lower proposed revenue requirements in this proceeding.

Q. Please summarize what level of expense for Pension and Post Retirement Welfare that the Company is now including in this proceeding.

A. The result of the previously described updates, as shown below, is gross pension and post retirement welfare expense of $50.85 million in this preceding which is a reduction of $10.55 million from the Company's direct testimony.

Pension and Post Retirement Welfare Expense		
PacifiCorp Retirement Plan		
Actual 2011 Expense	$ 23,400,000	
Updated Projection of 2012 Expense	$ 19,200,000	
Average		**$ 21,300,000**
Local 57		
Cash Contribution (July 2011 - June 2012)	$ 18,500,000	
Less expected union reimbursement	$ (5,900,000)	
Net Local 57 Pension Expense		**$12,600,000**
SERP		
Actual 2011 Expense	$ 2,600,000	
Updated Projection of 2012 Expense	$ 2,600,000	
Average		**$ 2,600,000**
Post Retirement Welfare		
Actual 2011 Expense	$ 15,900,000	
Updated Projection of 2012 Expense	$ 12,800,000	
Average		**$ 14,350,000**
Rebuttal Test Year Pension and PRW Expense		**$ 50,850,000**
Filed Pension and PRW Expense		$ 61,400,000
Rebuttal Pension and PRW Expense		$ 50,850,000
Incremental Change		**$ (10,550,000)**

These amounts are included in Mr. Steven R. McDougal's updated revenue requirement calculations as shown in Exhibit RMP___(SRM-2R), page 12.10.

Q. Does this conclude your rebuttal testimony?

A. Yes.