I. Introduction

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

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 describe your educational and professional background.

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 degree in Electrical Engineering (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 is the purpose of your testimony?

A. The purpose of my testimony is to introduce for the Commission the Company's request for a revenue increase. I will give an overview of the major components of the request, the Company's obligation to serve its existing and future customers, and the efforts that are being made to manage the challenges the Company is facing. I will address how the role of Rocky Mountain Power is changing from a producer and seller of electricity to a facilitator of energy services from customers and third parties. I will explain how the changing role for the Company impacts sales in Utah and the resulting impact on this request for a rate increase and discuss rate design proposals the Company is making to mitigate this problem. Finally I introduce the witnesses that support the Company's application and the subject of their testimony.

Q. Please explain the rate increase that the Company is requesting and how it will be apportioned to the Company's customers.

A. The revenue in this case represents a 4.0 percent increase, or $76.3 million, over revenues resulting from current rates. The details of the revenue requirement and all of the adjustments made in the case to arrive at the requested increase are explained in the testimony and exhibits of Company witness Mr. Steven R. McDougal. The testimony of Company witness Ms. Joelle R. Steward, describes how different customer classes will experience different percentage increases based on their contribution to the costs of providing electric service to them.

Q. What are the main factors that create the need for the Company's request for an increase in revenues?

A. The main factors requiring a rate increase request are:

(1) Capital investments that the Company has been required to make to meet regulatory mandates and to meet the Company's obligation to serve its customers;

(2) A decline in sales and revenues results in costs being recovered through fewer metered (net) kWh than was forecast in the last general rate case;

(3) A recent reduction in renewable energy credit ("REC") revenues in comparison to REC revenues that offset costs to the benefit of our customers;

(4) An increase in depreciation expense as a result of the 2012 depreciation study settlement;

(5) A modest increase in net power costs ("NPC"); and

(6) A slight increase in the return on equity.

(7) These cost drivers are partially offset by increased wheeling revenues and savings from lower distribution, customer service and operations and maintenance expense.

II. Discussion of Individual Drivers

Q. Please generally describe the capital investments that contribute to this request for a rate increase.

A. The case includes total investments of approximately $2.4 billion in new plant investments that the Company has made or will make between June 30, 2013, (the end of the historical base period) and June 30, 2015, (the end of the test year in this case), including $660 million for Lake Side 2 and $364 million for the Sigurd to Red Butte transmission line, both of which have already received Commission approval in previous dockets. The case includes significant investment in other generation, transmission and distribution assets. In addition, the Mona-Oquirrh transmission line, which was fully described and previously found prudent in the 2012 General Rate Case, is included in this case as a fully annualized project.

The new capital investments included in this case are necessary to serve customer loads, improve transmission reliability and cost effectively meet environmental improvement requirements of the Environmental Protection Agency. These capital investments are thoroughly set out in the testimony of Company witnesses Mr. Chad A. Teply, Ms. Natalie L. Hocken, and Mr. Douglas N. Bennion, and Mr. Mark R. Tallman.

Q. Please describe how the decline in Utah sales and revenues contribute to this request for a rate increase.

A. The 2014 Utah sales forecast, on a weather adjusted basis, has decreased by approximately 2.0 percent from the sales forecast used in the 2012 general rate case. As a result of a reduction in total Utah sales, revenues in the case are $42 million lower than the test period sales in the last general rate case. The decline in revenue is partially offset by revenue requirement reductions because of the impact on net power cost and results in a lower allocation of system costs to Utah. The reason for the sales reductions are explained in the testimony of Ms. Kelcey A. Brown and the impacts of the sales reduction in the case are more fully described in the testimony of witness Ms. Steward. Later in my testimony I discuss how the decline in the sales forecast is a consequence of changes in Rocky

Mountain Power's role as an electric service provider and steps we are taking to address that changing role.

Q. Please generally describe how renewable energy credit ("REC") revenue has declined and how this contributes to the current request for a rate increase.

A. Renewable energy credit revenues are based on market conditions and provide an offset to the cost our retail customers pay for electricity. As described in the testimony of Company witness Ms. Stacey J. Kusters, the market for REC revenues has seen a significant weakening, both in price and quantity, as reflected in the Company's last three cases. The projected REC revenue is $3.7 million total company and $2.0 million on a Utah allocated basis. The Utah allocated amount represents an 80 percent reduction from the $10.0 million currently reflected in rates. This reduction in cost-offsetting revenue is an unfortunate market-based circumstance that the Company has no control over. Prospectively the Company has a REC balancing account in Utah and any variance in REC revenues will be trued-up with customers, ensuring that our customers will receive 100 percent of Utah's share of all REC revenue.

Q. Please generally explain how depreciation expense contributes to this request for a rate increase.

A. The case includes the impacts of the 2013 Depreciation Study approved by the Commission in Docket No. 13-035-02. The new depreciation rates approved by the Commission result in a net increase to Utah allocated depreciation expense. This is addressed in more detail in the testimony of Company witness Mr. McDougal.

Q. Please generally explain how net power costs contribute to this request for a rate increase.

A. Net power costs ("NPC") are not a significant cost driver in this case. On a total Company basis, the steep incline of NPC experienced over the past several years is moderating, but nevertheless, NPC are still increasing by approximately $43 million or 2.9 percent from the previous case. Because of a lower allocation to Utah in this case, the Utah allocated increase in net power costs is only $5.1 million. NPC is more fully described in the testimony of Company witness Mr. Gregory N. Duvall.

Q. Please explain how the requested rate increase is influenced by the Company's requested return on equity ("ROE").

A. Approximately $10 million of the requested increase is to allow the Company to change its authorized ROE from 9.8 percent to 10.0 percent, which we believe more accurately reflects the current utility returns required by the market for vertically integrated utility companies comparable to Rocky Mountain Power. The capital structure we are proposing in the case more closely matches the actual structure anticipated during the effective date of the rates proposed in the case and includes a slight reduction in the equity component from 52.1 percent currently in rates to 51.6 percent. Although merely 2/10th's of one percent in increase in ROE, we believe the request for this small amount appropriately reflects the risks the Company faces and is the appropriate return necessary to attract capital from the market. This requested increase is supported by the testimony of Company witnesses Dr. Samuel C. Hadaway and Mr. Bruce N. Williams.

III. General Need and Impact of the Requested Increase

Q. Please generally explain why this increase is necessary in light of the Company's recent rate increases.

A. Because of the recent rate increases the Company has been granted, we are very sensitive to asking for increases on a regular basis. A significant aspect of those past increases was related to the fact that the cost of the electricity required to supply adequate and reliable power had risen substantially in the five past years. The other major contributor to past increases was the need to invest in assets that allow us to cost effectively meet our obligation to serve.

In spite of these recent price increases and our focused efforts to manage costs increases throughout the business, the Company has been unable to meet its authorized return on equity. The increase in rates proposed in this case will allow us to have a reasonable chance to make its authorized return.

Q. Do you understand the impact that rising electricity prices have on Utah businesses, governmental entities, schools and residential customers?

A. Yes, we understand the vital role electric service has in our economy and society. We do not ask for price increases cavalierly or without assuring ourselves that the items included in the request are in the best near- and long-term interests of our customers. Even though the Utah economy is doing better than in most states, and is forecast to continue to improve, we recognize the impact that electric price increases have on businesses, individuals on fixed incomes, and the economy at large.

Q. Has the Company adjusted its investment plans based on load projections and in response to overall economic conditions?

A. Yes. The Company completes a comprehensive review of our generation and transmission investment needs on a biannual basis through its integrated resource plan ("IRP"). This plan starts with projected load increases (or decreases) over the next 10 years, looks at the resources available to meet that load, includes an examination of external conditions that are likely to occur (such as environmental regulations) and generates multiple scenarios to help guide our decision making. Preparation of the IRP is a rigorous process with comprehensive stakeholder input.

At the local transmission and distribution level projects are directly aligned with customer needs repeatedly during the course of the year. As an example, even though energy efficiency or local economic factors might reduce overall load increases, there can be local pockets of growth or areas of inadequate reliability that still must be addressed by distribution system investments; and conversely, in cases where local load growth has slowed, projects are delayed, modified or cancelled.

Q. What actions has the Company taken to assist those customers most impacted by the current economy?

A. We are very cognizant of the impact electric prices have on our customers and strive to find ways to minimize the impacts. We strive to make our customers aware of options to get help through LIHEAP and the Company's low income contribution, payment plans that relieve near term obligations, focus on net writeoffs and bad debt expense, and explain the broad array of effective energy efficiency programs the Company offers. We have actively lobbied Congress to expand the funding for the LIHEAP program because of the safety net it provides customers. In addition, as described in the testimony of Ms. Steward, we are directly addressing this need by proposing a $1.60 increase in the Low Income Lifeline Credit. This will increase the current credit from $11.00 per month to $12.60 per month.

Q. Is the Company sensitive to its role as a publicly regulated monopoly?

A. Yes. One of the most difficult decisions any company makes is the one to increase prices. We are particularly sensitive to our role in the economy and people's lives, and to the fact that we currently provide a monopoly energy service to our customers. I stress to our employees a message, which they readily embrace, that our monopoly position actually places a higher standard of care in asking for a price increase and providing customer service because our customers can't "vote with their feet or pocket book" to do business with another electricity provider. We clearly understand that we are regulated by a *public service* commission and endeavor always to remember that in all we do.

IV. Changing Role of Rocky Mountain Power

Q. Is the role of Rocky Mountain Power as an electric service provider changing?

A. Yes, it is. Although the Company remains a vertically integrated electric utility and a producer and provider of electricity our role is changing to also include being a facilitator of energy services provided by other entities. Customer self-generation and distributed generation is becoming increasingly popular, as is net metering for customers interested in generating some percentage of their own electricity use. In addition Utah Senate Bill 12 allows customers to receive the output of off-site customer or third-party owned renewable generation by paying for delivery of the electricity to their facility. Also, demand-side management and energy efficiency opportunities are reducing the Company's retail sales, which while reducing the cost or electricity, reduces the number of kWh that fixed costs are paid through.

The transition that we are experiencing is somewhat similar to what happened in the natural gas industry beginning almost 30 years ago as large vertically integrated natural gas utilities underwent structural changes driven by Federal Energy Regulatory Commission orders to open access to markets which ultimately resulted gas utilities restructuring with the distribution function narrowly focused on facilitation the distribution of gas to end-use customers. Market forces and technological advancements are inducing many electricity customers to look at and implement third party energy efficiency services, non-subsidized energy efficiency investments, and take advantage of self-generation and renewable energy opportunities. We understand that to some degree these changes are inevitable but we need to assure that we receive the funding that will be necessary to provide the electric infrastructure that enables these opportunities. The next sections describe the Company's proposal to address its changing business environment.

Q. Please generally explain how the changing role for the Company impacts sales in Utah and the resulting impact on this request for a rate increase.

A. As our Utah customers increasingly pursue self-generation and energy efficiency, retail sales and revenues will continue to decline. As discussed earlier in my testimony, the weather-adjusted 2014 Utah sales forecast has decreased by approximately 2.0 percent from the sales forecast used in the 2012 general rate case. This is the second rate case in a row where forecasted sales are lower than those presented in the previous rate case. In contrast, the total PacifiCorp sales forecast is for an increase in sales of 0.1 percent. In Utah, commercial customer sales have increased slightly, primarily reflecting the planned expansion of data centers in Utah. However, sales declines in the residential and industrial classes reflect growth in regulated energy efficiency programs, customer initiated conservation programs, and self-generation elections by some of the Company's large industrial Utah customers as well as changes in their operations. As a result of a reduction in total Utah sales, revenues in the case are $42 million lower than the test period sales in the last general rate case. Lower per customer residential sales accounts for approximately $30 million of that reduction.

Q. Do you believe the current Utah residential rate design requires atypically hot weather to provide the Company the opportunity to receive the revenues it needs to provide the service our customers expect and its ability to earn a reasonable return on its investment?

A. Utah residential customers represent over 25 percent of the kWh sold and over 35 percent of the revenues the Company receives annually in Utah. The currently authorized residential monthly "basic" or "customer" charge is only $5.00 per month. This is much lower than the total fixed costs of service, costs which exist every month whether or not a customer uses *any* energy. In contrast, the Company's basic charge for residential service in Wyoming, which is currently $20.00 per month, recovers a much larger percentage of the fixed customer related cost of service and lowers the risk of weather unduly affecting the Company's earnings one way or the other. As a result, recovery of much of the fixed distribution and customer service related costs for the residential class in Utah is shifted to the third block of the energy component of the residential rate. The result is that the Company is dependent upon hot summers and high tail block sales to residential customers to recover its customer related fixed cost of providing basic electric service to residential customers.

At $5.00 per month, Utah has the lowest monthly customer charge of all surrounding states. When coupled with the third tier of pricing, this rate structure results in a disincentive for the Company to even more aggressively pursue energy efficiency based sales reductions. Perhaps illogically we continue to provide an award-winning portfolio of energy efficiency programs to meet our customers' and policymakers' expectations; even though when the insufficient monthly charge is coupled with the Company's changing role, increased energy efficiency investments, an increasing number of residential net metering installations with the resulting lower sales, our ability to earn our authorized return becomes highly weather dependent.

Q. Is the Company proposing in this case a residential rate design to mitigate this problem?

A. Yes, Company witness Ms. Steward will discuss the details of the proposed residential rate design that will help mitigate the business impacts we currently face caused by the current residential rate design. One of the goals claimed by advocates of a low basic charge for residential service in Utah coupled with a high tail block has been achieved; that goal being to have customers react to the economic impact of a high tail block energy rate by reducing the amount of electricity they use. However, this situation creates the increasingly likely outcome that some customers are not fully paying for the costs of serving them that are unrelated to the amount of electricity they use. It will also require us to request future kWh price increases from all customers to address the need for sufficient revenues for the company to fund its fixed costs of providing service. We are proposing to increase the residential basic charge rate and the residential minimum bill to somewhat mitigate these effects. If the customer charges and minimum bill charges in Utah collected a larger portion of the fixed distribution and customer service cost of service as it does in other states, the impact of the rate increase in this case would be smaller. And, in the future, will more closely align the costs of serving all customers irrespective of their individual electricity related choices.

Q. How is the role of the Company impacted by Net Metering?

A. The Company's net metering program in Utah is offered consistent with Utah Code Ann. § 54-15-101 to 106 and R746-312. Under net metering, customers who install distributed generation facilities can offset all or part of their electricity requirements and feed back to the electric grid the electricity the customer's facility generates in excess of the customer's needs at that moment. This excess generation is then used to offset the customer's charges for energy usage and a different time in that month or subsequent months. In effect, under net metering the customer receives a bill credit for the cost of electricity that the company did not have to provide to the customer, but also gets credit for the part of the kWh charge that is in place to provide the company with revenues to pay for its fixed costs. All of the costs of providing poles and wires to these customers are not reduced when they take advantage of net metering. Because photovoltaic solar generation peak output poorly matches the peak demand on the distribution system, the same electrical facilities are required to serve a customer during the peak demand period, regardless of how many kWh the customer offsets.

The rate at which customers in Utah are choosing to participate in net metering has grown dramatically over the last three years; the number of customers installing facilities and participating in net metering has increased by over 30 percent annually. As of November 30, 2013, there were 2,139 customers participating in the net metering program. With the continued reduction in costs of solar equipment and the existence of the Utah Solar Incentive Program, the Company expects this trend of increased net metering activity to continue.

Q. Are the impacts of net metering limited to the utility?

A. No. The operational and economic impacts of the net metering may affect the Company in the near term. However, as a result of the current residential rate structures discussed above, the more immediate larger impact of net metering is on other customers through the shift of costs from net metering customers to non-net metering customers.

Q. How does the current net metering rate structure shift costs from net metering customers to other customers.

A. Net metering customers continue to have energy requirements during times when their facility is not generating electricity or when their facility is not generating enough electricity to offset their usage. Through the net billing process of crediting every kWh generated by the customer facility during the billing period (or even future periods), the customer may not pay for the reliance they placed on the distribution system during the periods that they are taking energy from the Company or when they are putting excess generation onto the distribution system. Since the full retail rate that the customer is able to offset recovers both variable energy costs along with a significant portion of fixed costs, the net metering customer is not fully contributing to fixed cost recovery during these periods. Since these fixed costs are not recovered from net metering customers, they increase the amount of costs borne by other customers. Because the regulatory compact provides the company with the opportunity to recover its prudently incurred costs to serve, we are in the unenviable position of asking for incrementally larger rate increases from non-participating customers to make a contribution to our cost of serving net metering customers.

Q. How does Rocky Mountain Power propose to address the cost shifting issue in this case?

A. As described in the testimony of Ms. Steward, we are proposing to implement a modest monthly facilities charge on Schedule 135, Net Metering Service, for residential customers participating in net metering. The facilities charge is a fixed monthly charge that is in addition to the customer charge on the applicable electric service schedule. The net metering facilities charge will recover the fixed distribution and retail costs that are incurred and necessary to serve net metering customers.

Q. Is Rocky Mountain Power opposed to customer owned generation or net metering?

A. No. Through the Company’s Solar Incentive Program, the Company and our customers are providing $50 million to assist individual customers purchase and install solar generation facilities on their own property. The Company’s focus is to ensure that customers, including net metering customers, pay the cost the Company incurs to serve them.

Q. Even with the rapid growth in participation, net metering customers still only make up a very small fraction of Rocky Mountain Power's customer base. Why are you addressing this issue now?

A. We feel that it is important to address the issue of appropriate price structures for net metering customers before the issue of cost shifting becomes a much larger impact on non-participating customers, as it has in other states. Also, it is important that the customers making the significant economic decision to invest in customer owned generation understand the full cost implications they will see with self-generation ownership.

Introduction of Witnesses

Q. Please identify the witnesses that support the Company's application and the subject of their testimony.

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

Steven R. McDougal, Director, Revenue Requirement, will present the Company's overall revenue requirement based on the forecasted results of operations for the Test Period. He will describe the sources of the forecast data and present certain normalizing adjustments related to revenue, operations and maintenance expense, depreciation and amortization, taxes, and rate base.

Bruce N. Williams, Vice President and Treasurer, will testify concerning the Company's cost of debt, preferred stock and capital structure including the Company's overall return on rate base requested in this case.

Dr. Samuel C. Hadaway, FINANCO, Inc., will testify concerning the Company's return on equity.

Kelcey A. Brown, Manager, Load Forecasting, will testify on the forecast test period loads and sales in Utah. She will explain how she computed Utah sales during the Test Period in this case, the changes in methodology, how the forecast compares to historical results and the time period used in the 2012 General Rate Case upon which existing rates are based.

Gregory N. Duvall, Director, Long Range Planning and Net Power Costs, will describe the Company's total NPC and the influences that are driving up total NPC beyond the level approved in the 2012 General Rate Case. He will also describe Energy Imbalance Market ("EIM") and how it will affect NPC in this case.

Cindy A. Crane, Vice President of Inter-West Mining, will specifically address the issue of rising coal costs and the cost drivers associated with fuel.

Stacey J. Kusters, Director of Origination in Commercial and Trading, PacifiCorp Energy, will provide testimony describing the reduction in REC revenues.

Chad A. Teply, Vice President of Resource Development and Construction, PacifiCorp Energy, will provide testimony in support of the capital investments in the new Lake Side 2 combined cycle combustion turbine natural gas fueled resource, certain pollution control equipment retrofits on existing coal fueled resources, and other significant generation plant projects being placed in service during the test period.

Dana M. Ralston, Vice President of Thermal Generation, will testify on the operations and maintenance expenses related to the thermal generation fleet.

Mark R. Tallman, Vice President of Renewable Resources, will testify on an addition to the Company's Lewis River hydro generation plant required to comply with the license issued by FERC.

Natalie L. Hocken, Senior Vice President of Transmission and System Operations, will testify on capital investments in the Company's main grid transmission system.

Douglas N. Bennion, Vice President, Engineering Services and Capital Investment, will explain the Company's capital investments in transmission and distribution facilities to serve customer loads and deliver reliable power in Utah.

Erich D. Wilson, Director, Human Resources, will describe the Company's compensation and benefit plans, and explain why the Company's incentive and base compensation, retirement and healthcare costs should be included in rates.

Douglas K. Stuver, Senior Vice President and Chief Financial Officer, addresses the Company's treatment of costs related to pensions and other post-retirement benefits.

Joelle R. Steward, Director, Pricing, Cost of Service, & Regulatory Operations, will present the Company's rate spread and rate design proposals and the Company's class cost of service study.

Jeffrey M. Kent, Director Distribution, will present a proposed reduction to the Company's pole attachment rate.

Q. Would you please summarize your testimony?

A. In summary, our request for this price increase is driven by Utah's allocated share of $2.4 billion of total-Company capital investments, lower projected Utah electricity consumption, lower REC revenues, mandatory investments required by federal regulations, investments required by the Company's obligation to serve, and some inflationary operating costs pressures in the business. Our ability to mitigate the cost impacts of these requirements is limited. Though we have done much to mitigate our costs, it is not much comfort for customers when prices have gone up and are forecasted to go up even more in the future. Nevertheless, with this request, our customers will retain their relatively low priced electricity compared to other states, whose already higher prices are increasing too. Our electricity is and will remain a great value, as demonstrated by the preceding graphs and examples. But, because of the impact electricity prices have on the economy and our customers, we are committed to continue to make prudent near- and long-term decisions that are in the best interests of our customers' needs and desires.

Q. Does this conclude your direct testimony?

A. Yes.