

1 Q. Please state your name and business address

2 A. My name is Richard T. O'Brien. My business address is 825 NE Multnomah Street,  
3 Suite 1600, Portland, Oregon 97232.

4 Q. By whom are you employed, and in what position?

5 A. I am employed by PacifiCorp (Company) as Executive Vice President and Chief  
6 Operating Officer.

7 **Qualifications**

8 Q. Please summarize your education and business experience.

9 A. I received a bachelor's degree in economics from the University of Chicago and a law  
10 degree from Lewis and Clark College, Northwestern School of Law. From 1983 to 1993  
11 I served in various financial positions at NERCO, a former mining and resource  
12 development subsidiary of PacifiCorp. In 1993 I was appointed Vice President of  
13 Corporate Finance of PacifiCorp and in 1995 was appointed Senior Vice President and  
14 Chief Financial Officer. I was appointed to my current positions in 1998.

15 **Purpose of Testimony**

16 Q. What is the purpose of your testimony?

17 ~~R. —~~

18 A. The purpose of my testimony is to provide an overview of the Company's application and  
19 establish the context of the case for the Company witnesses who will testify regarding our  
20 specific proposals. I will also discuss the relationship between this filing and the pending  
21 merger application. Finally, I will also introduce the other Company witnesses with a  
22 brief discussion of the issues they will address.:-

1 **Overview**

2 Q. Please describe the Company's objectives in this ~~rate~~-application.

3 A. Currently, the Company's level of earnings in the Utah jurisdiction is inadequate  
4 ~~unacceptable in order~~ to continue to provide safe and reliable electrical service to our  
5 Utah customers and to provide a fair return to our shareholders. The objective of this  
6 application is to seek a ~~rate-price~~ increase that will improve PacifiCorp's earnings in  
7 Utah.

8 Q. What is PacifiCorp's current earnings level in the state of Utah?

9 A. PacifiCorp is currently earning a normalized rate of return of 7.82% in Utah, as described  
10 in Jeffrey K. Larsen's testimony. This return is considerably less than the return ~~currently~~  
11 ~~recently~~ authorized by the Utah Public Service Commission (Commission).

12 Q. Why is the Company not earning its allowed rate of return in Utah?

13 A. Perhaps the most significant factor is that the growth in the Utah customer base has  
14 resulted in an enormous need for new facilities in the state. Over the past 5 years,  
15 PacifiCorp has invested nearly \$1 billion in capital expenditures for the benefit of its Utah  
16 customers. Despite this considerable investment in the state, Utah customers have not  
17 had an increase in their electric ~~rates-prices~~ in well over a decade. Indeed, electric ~~rates~~  
18 ~~prices~~ have fallen considerably over the last 15 years; including the recent ~~rate-price~~  
19 reduction in Docket No. 97-035-01, PacifiCorp's customers have received ~~rate-price~~  
20 reductions totaling approximately 30% during this period. The combination of rising  
21 expenditures, due in part to the increasing Utah customer base, and falling ~~rates-prices~~ has  
22 resulted in the Company earning less than its allowed rate of return in Utah.

23 Q. What ~~rate-price~~ increase is PacifiCorp seeking in this ~~rate~~-application?

1 A. As described in the testimony of Jeffrey K. Larsen, the Company is seeking a ~~rate-price~~  
2 increase of \$67 (9.9% overall) million. This application reflects the ~~Commission's~~  
3 ~~decisions~~. ~~Our filing is in compliance with the directives of the Commission~~ in the last  
4 rate case (Docket No. 97-035-01). In an effort to limit controversy in this proceeding,  
5 ~~and to mitigate the impact on Utah customers~~, we are not seeking recovery of increased  
6 depreciation rates, which are presently under review by the Commission in a separate  
7 proceeding.

8 Q. ~~\_\_\_\_\_~~ Has the Company made efforts to reduce costs to mitigate the need for a rate  
9 increase in the state of Utah?

10 A. Yes, the most significant effort was the early retirement program implemented in 1998.  
11 More than 900 qualified employees opted to take advantage of this program. The savings  
12 and related revenue requirement impacts of the program are discussed in detail in Robert  
13 R. Dalley's testimony.

14 Q. PacifiCorp's last rate case was decided just a few months ago. Why is the Company  
15 filing a new rate case so soon?

16 A. While the order in Docket 97-035-01 was issued slightly over six months ago, the price  
17 change was retroactive to March 14, 1997. The effective period of the price change has,  
18 therefore, been much longer than the six months since the case was decided. If an order  
19 in the current case is issued in the spring of 2000, the effective period of the last price  
20 change will have been greater than three years.

21 Also, ~~in~~ addition to the need to improve earnings in Utah as referenced  
22 previously, the Commission ~~in the last rate case (Docket No. 97-035-01)~~ deferred a  
23 decision on the merits of several key issues raised by PacifiCorp in the last case. The

1 Company believes that it needs a resolution of these issues sooner rather than later, in  
2 order to insure a reasonable return on its investment.

3 Q. What issues did the Commission defer in the last rate case?

4 A. The Commission deferred deciding on the merits of several adjustments proposed by the  
5 Company, finding that they constituted post-test year adjustments which should be

6 re-examined at a later date. There were five main adjustments that the Commission  
7 declined to adopt, while noting that it was not denying recovery of the costs involved:

8 While those adjustments will be addressed by Robert R. Dalley, briefly stated, they  
9 included: Glenrock Mine Closure Costs (also referred to as Dave Johnston Mine  
10 Closure); In January of 1998, PacifiCorp announced that it would close the Glenrock  
11 Mine in July of 1999. Because the Company had been able to negotiate a new rail  
12 contract, purchasing coal from the market has become more economical than continuing  
13 to operate the mine. PacifiCorp consequently recorded a write-down of most of the  
14 remaining value of the mine assets, and well as accruals for estimated reclamation costs  
15 and employee severance costs. The Company proposed amortizing these costs over a  
16 three-year period, thus allowing PacifiCorp to recover these costs over 3 years. The  
17 Commission declined to adopt the proposal on the ground that the mine had yet to close,  
18 and that the expected benefits from the closure of the mine had yet to be realized. The  
19 benefits of the Glenrock Mine closure have begun, therefore recovery of the Utah portion  
20 of the associated expenses is appropriate.

21 Software Obsolescence Costs, Hardware Obsolescence Costs, Process Re-  
22 engineering Costs, and Condit Dam Removal Costs. ~~As part of the Business Systems~~  
23 ~~Integration Project (BSIP) program begun in 1997, PacifiCorp has installed a new system~~

1 ~~called Systems Applications and Products (SAP). The system is designed to replace~~  
2 ~~numerous other software systems. In the last case, the Company proposed amortizing the~~  
3 ~~costs of the old software over a three year period, thus allowing PacifiCorp to recover~~  
4 ~~these costs over three years. The Commission declined to adopt this adjustment on the~~  
5 ~~grounds that the old software was still in service during the test period, resulting in a~~  
6 ~~mismatch of costs and benefits. The new SAP software is now in service, therefore~~  
7 ~~amortization of the old software is appropriate.~~

8 Q. Does the Company have additional objectives in this filing?

9 A. Yes, in addition to our proposed rate increase, we are also proposing revisions to Electric  
10 Service Regulation No. 12 – Line Extensions and related changes to Electric Service  
11 Regulation No. 2 – General Definitions, and Electric Service Schedule No. 300.

## 12 **Relationship to Pending Merger Application**

13 Q. Does PacifiCorp currently have an application pending before the Commission seeking  
14 approval of the proposed merger with Scottish Power?

15 A. Yes.

16 Q. What is the relationship between that merger application and this rate case?

17 A. There is no connection between the two proceedings. This rate application is being  
18 driven by the Company's need to improve its earnings in the state of Utah, not by the  
19 merger proceeding. Because of its inadequate earnings in Utah, PacifiCorp would be  
20 before this Commission requesting ~~a~~ price increase regardless of whether or not the  
21 merger application was pending.

## 22 **Introduction of Witnesses**

1 Q. Please list the other Company witnesses and provide a brief description of their subject  
2 matter.

3 A. The Company witnesses in this case will appear in the following order:

4 **William E. Peressini**, Vice-President and Treasurer, will testify concerning the  
5 Company's cost of debt and preferred stock. Mr. Peressini will show the Company's  
6 overall cost of capital to be 9.15%, embedded cost of long-term debt to be 7.231% and  
7 the embedded cost of preferred stock to be 6.017%. He will also present PacifiCorp's  
8 proposed capital structure of 47.4% long-term debt, 3.8% preferred stock, and 48.8%  
9 common equity.

10 **Dr. Samuel C. Hadaway**, FINANCO, Inc., will testify concerning the  
11 Company's Return on Equity. Based on a combination of DCF (Discounted Cash Flow)  
12 and Risk Premium analysis, as well as a review of the current market, the electric utility  
13 industry, and company-specific factors, Dr. Hadaway proposes a point value for  
14 PacifiCorp's cost of equity of 11.25%.

15 **Jeffrey K. Larsen**, Director of Revenue Requirements, will present the  
16 Company's normalized 1998 results of operations in the state of Utah. Mr. Larsen will  
17 also present and support PacifiCorp's revenue requirement.

18 **Robert R. Dalley**, Corporate Controller, will testify concerning the following  
19 specific issues: Glenrock closure costs, software and hardware writedowns, process re-  
20 engineering costs, Condit Dam removal costs, 1998 workforce reduction costs and  
21 savings, and SAP software costs.

22 **Mark T. Widmer**, Principal System Planner, will testify regarding PacifiCorp's  
23 net power costs. Mr. Widmer will describe the calculation of net power costs and discuss

1 the Company's production cost model. Mr. Widmer will also discuss the Wyoming Wind  
2 Project.

3 **David L. Taylor**, Manager, Cost of Service, Regulation Department, sponsors the  
4 Company's testimony on class cost of service and functional revenue requirement. He  
5 provides analysis of how the Utah customer classes are performing in recovering their  
6 allocated costs.

7 **William R. Griffith**, Manager of Pricing, Regulation Department, ~~addresses~~  
8 ~~presents the Company's rate spread and rate design proposals in this case. He also offers~~  
9 ~~a proposal to mitigate customer impacts while moving customer price levels toward cost~~  
10 ~~of service, three primary areas: 1) description of the Company's pricing objectives, 2) the~~  
11 ~~Company's proposed rate spread, and 3) the Company's proposed changes in price design~~  
12 ~~for the affected rate schedules.~~

13 **Royal Drager**, Senior Tariff Policy Analyst, Tariff Administration, Regulation  
14 Department, describes proposed changes to the Company's Electric Service Regulation  
15 No. 12 – Line Extensions and related changes to Electric Service Regulation No. 2 –  
16 General Definitions, and Electric Service Schedule No. 300.

17 Q. Does this conclude your testimony?

18 A. Yes.