

1 **Q. Are you the same A. Richard Walje who submitted direct testimony in this**
2 **proceeding on behalf of PacifiCorp dba Rocky Mountain Power (“the**
3 **Company”)?**

4 A. Yes.

5 **Purpose and Summary of Rebuttal Testimony**

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of my rebuttal testimony is to provide an overview of the Company’s
8 rebuttal filing and address the overall revenue requirement recommendations of the
9 intervening parties, including the recommendations made by the Office of
10 Consumer Services (“OCS”) and by the Division of Public Utilities (“DPU”).
11 Additionally, I will provide rebuttal to the direct testimony of Utah Industrial
12 Energy Consumers witness Mr. Jonathan A. Lesser and demonstrate that his claim
13 that Rocky Mountain Power should be regulated similar to FERC’s regulation of
14 natural gas pipelines is inapplicable.¹

15 **Overview of Rebuttal Filing**

16 **Q. Please provide a general summary of the Company’s rebuttal filing.**

17 A. The Company’s rebuttal filing reduces the proposed revenue requirement increase
18 to approximately \$66.4 million, or a 3.5 percent overall increase. As indicated in
19 the rebuttal testimony of Mr. Steven R. McDougal and others, the primary driver
20 of the reduction in the Company’s filing is the update to net power costs filed April

¹ The Company filed a *Motion to Allow Parties to Respond to the Prefiled Direct Testimony of Jonathan A. Lesser in Legal Brief and in Phase II*, with the Public Service Commission of Utah May 15, 2014 which, if granted, will allow the Company to respond to much of Mr. Jonathan A. Lesser’s testimony in brief or in Phase II of the case. The rebuttal to Mr. Lesser’s testimony herein is limited to issues that can properly be addressed.

21 10, 2014, which reduced the case by approximately \$5.0 million, and the updated
22 capital structure and cost of debt which reduces the Company's requested amount
23 by an additional \$3.5 million. The Company's rebuttal filing also incorporates some
24 of the other parties' adjustments and updates to the filing, as summarized in the
25 rebuttal testimony of Mr. McDougal.

26 **Overall Response to Intervening Party Recommendations**

27 **Q. As president of the Company, what is your response to the recommendations**
28 **of the intervening parties in this case?**

29 A. Seven parties filed revenue requirement testimony. Two parties, the DPU and the
30 OCS, filed full revenue requirement proposals recommending rate decreases. As
31 president of the Company, I am charged with ensuring the Company meets its
32 obligation to serve the public interest by providing electric service that is adequate,
33 efficient, just and reasonable² while also delivering an adequate return on
34 investment for the Company's owners. As I discussed in my direct testimony, the
35 case includes approximately \$2.4 billion of new plant investments, \$661 million of
36 which was pre-approved by the Commission pursuant to the Energy Resource
37 Procurement Act.³ The rate reductions proposed by the OCS and DPU would limit
38 the Company's ability to meet its obligation to serve and would not adequately
39 compensate owners for the investments made as part of the regulatory compact.

² Utah Code Ann. § 54-3-1.

³ See *In the Matter of the Voluntary Request of Rocky Mountain Power for Approval of Resource Decision to Construct Selective Catalytic Reduction Systems on Jim Bridger Units 3 & 4*, Docket No. 12-035-92, Report and Order, May 10, 2013.

40 **Q. Please describe the purpose of the \$2.4 billion in new plant investments in the**
41 **case.**

42 A. The plant investments are necessary to promote the public interest by providing
43 facilities to serve new and growing customer loads and by providing transmission
44 reliability as well as meeting environmental regulations that are mandated by the
45 Environmental Protection Agency (“EPA”).

46 **Q. If adopted by the Commission, would the proposals of the DPU and OCS result**
47 **in rates that provide the Company sufficient revenue to meets its public**
48 **interest obligations?**

49 A. No. The revenue requirement reductions proposed by the DPU and OCS would
50 result in customer rates that are insufficient to support all of the activities the
51 Company must undertake to meet its obligations to serve the public interest while
52 also being afforded an opportunity to adequately recover those costs, including a
53 return.

54 **Q. Please explain the Company’s obligation to serve the public interest.**

55 A. Our obligation is to furnish, provide and maintain service, equipment and facilities
56 that are in all respects adequate, efficient, just and reasonable and that will promote
57 the safety, health, comfort and convenience of customers, employees and the
58 public.⁴ In order to meet this obligation, just and reasonable rates must be sufficient
59 to support the Company in meeting all aspects of its obligation to serve the public
60 interest.

61 **Q. Do you have further comments with regard to the proposal of the OCS?**

⁴ Utah Code Ann. §54-3-1.

62 A. As a consumer advocate, the policy of the OCS is to advocate positions and take
63 “... appropriate actions that will result in public utilities providing reliable service
64 to Utah consumers at the lowest reasonable cost, while considering risk factors.”⁵
65 The OCS seems to have been overly focused on ensuring low costs on behalf of its
66 constituents with its recommendations in this case. However, the counter balancing
67 OCS policy considerations of reasonableness and the assessment of risk factors
68 appear to have been undervalued.

69 **Q. Please explain.**

70 A. While focusing on low rates is a fundamental element of consumer advocacy,
71 particularly in the short-term, the public interest should also balance the focus on
72 low rates with the risk that service could deteriorate if maintenance and operations
73 activities receive insufficient funding through insufficient revenue. This short term
74 focus could actually result in higher rates for customers in the future if maintenance
75 and operations activities are affected for the sake of maintaining low rates today. A
76 responsible consideration of adequate rates must give full consideration to the costs
77 of properly operating and maintaining a system as large as RMP’s in Utah.

78 **Q. What is your response to the rate reduction proposed by the Division of Public
79 Utilities (DPU)?**

80 A. As part of the obligation to promote just and reasonable rates, the DPU has an
81 additional obligation to evaluate the adequacy of rates such that the financial
82 integrity of the Company is maintained while assuring a sufficient and fair rate of
83 return for the Company.⁶ In recommending a rate reduction, the DPU has focused

⁵ See <http://ocs.utah.gov/objectives.html>.

⁶ Utah Code Ann. §54-4a-6.

84 on low rates with inadequate attention to its obligation to consider the financial
85 integrity of the Company. The reduction in rates recommended by the DPU makes
86 achievement of a reasonable rate of return, which the Company believes is 10.0
87 percent, nearly impossible without making draconian cuts in other parts of the
88 Company's business. I can only conclude that the DPU overlooks the significant,
89 evolving risks and challenges facing the Company, especially in light of its
90 acknowledgement that "PacifiCorp's business suggests a slightly riskier investment
91 profile than Questar's,"⁷ which is currently allowed a higher authorized return than
92 PacifiCorp.

93 **Q. What are the evolving risks and increased uncertainties the Company is**
94 **currently facing?**

95 A. I have mentioned some of them in my direct testimony, but I will reiterate them
96 here. The Company is facing EPA compliance requirements that will impose strict
97 standards on the operation of the Company's coal fleet, which makes up the highest
98 percentage of the Company's current generation capacity. This is discussed in
99 further detail in Company witness Mr. Chad A. Teply's rebuttal testimony.

100 The Company faces challenges related to loads and the usage patterns of
101 residential customers. As reflected in the Company's initial filing, use per
102 residential customer is declining. When certain costs that are not directly related to
103 the amount of energy consumed by a customer but are recovered through the
104 amount of energy used, as is the case in the Company's current residential rate
105 structure, the Company will not receive adequate revenues if energy consumption

⁷ Charles Peterson, Direct Testimony, p. 19, l. 376.

106 declines due to weather, economic conditions, or other changes that vary from the
107 level used to set rates. These issues are discussed in more detail in Company witness
108 Ms. Joelle R. Steward's direct testimony in this case.

109 Finally, in the face of all of these challenges, the Company has been, *and*
110 *will continue to be* [emphasis added], a leader in encouraging energy conservation
111 and supporting energy efficiency, which makes it incrementally difficult for the
112 Company to recover all of its fixed costs without frequent rate cases.

113 **Q. How has the Company met its obligation to serve the public interest by**
114 **providing electric service that is adequate, efficient, just and reasonable?**

115 A. Since Berkshire Hathaway Energy⁸ acquired RMP, total labor expenses and other
116 costs for which RMP has control, have been held relatively constant or are just
117 slightly higher, even as medical costs continue to rise significantly from year to
118 year. We are efficient and effective operators of our generation plants, compared to
119 the industry average, as demonstrated in Mr. Gregory N. Duvall's rebuttal
120 testimony. The Company is currently being managed as efficiently as it has ever
121 been. We have reflected these efficiency savings in the case. And though we have
122 analyzed the Company's operations thoroughly to identify opportunities to reduce
123 costs, and have been very effective in reducing costs, we continue to look at ways
124 to increase the level of outputs we achieve at the same or lower costs. Increased
125 efficiency is in the forefront of all our planning. At the same time, RMP had its best
126 safety record in 2013, as shown in Exhibit RMP___(ARW-1R). The Company's
127 service reliability continues to improve, and our customer service statistics,

⁸ Formerly known as "MidAmerican Energy Holdings Company".

128 according to TQS, are some of the best in the country, particularly in regard to
129 residential customer service, as shown in Exhibit RMP___(ARW-2R). In addition,
130 we continue to deliver at 99.99 percent on our customer guarantee program while
131 showing an improving trend in reducing the number of commission complaints, as
132 shown in Exhibit RMP___(ARW-3R).

133 **Response to Utah Industrial Energy Consumers witness Mr. Lesser**

134 **Q. In response to your discussion of the Company’s transition from that of a**
135 **typical utility to one of an “energy services company,” Utah Industrial Energy**
136 **Consumers witness Mr. Lesser claims that RMP should be regulated similar**
137 **to Federal Energy Regulatory Commission’s (“FERC”) regulation of natural**
138 **gas pipelines. How do you respond?**

139 A. Mr. Lesser takes my context-setting reference to the transition in the natural gas
140 industry where local gas distribution utilities evolved their businesses solely to the
141 distribution of gas to end-use customers and inexplicably launches into a discussion
142 about regulation of interstate natural gas pipelines’ transportation services. In his
143 testimony, Mr. Lesser raises a number of issues that are either legal arguments,
144 which I cannot properly rebut or address in testimony because I am not an attorney,
145 or his arguments are rate design issues that the Commission has ordered be
146 addressed in the cost of service phase (Phase II) of this docket. The Company will
147 respond to those issues specifically and in more detail either through legal brief or
148 by our witnesses in Phase II.

149 I will, however, respond to his overall comparison of PacifiCorp's vertically
150 integrated electric utility with an interstate natural gas pipeline. The regulatory and
151 commercial models for the two businesses are not totally comparable.

152 First, RMP's primary obligation is to provide electric service to retail
153 customers and while our business may be experiencing a transformation into one
154 of providing additional energy services, enhanced energy efficiency and demand
155 reduction programs, and providing opportunities for the integration of an increasing
156 number of customer generation sources, those services are still provided to retail
157 customers under the purview of the Public Service Commission of Utah.

158 Second, unlike an interstate natural gas pipeline whose rates, tariffs and
159 certificates are solely regulated by the FERC, RMP is regulated by six state utility
160 commissions, and some aspects of its transmission and generation activities
161 through FERC.

162 Third, unlike the interstate gas pipelines which are not required to undertake
163 new capacity investments to serve a new transportation customer, unless that
164 customer funds the capacity increase, RMP has an obligation to provide adequate
165 infrastructure to serve every retail customer requesting service in its certificated
166 service territory. Depending on the specific circumstances and customer class, new
167 electricity customers pay some to none of the costs of new facilities.

168 Finally, today, electricity is generated and delivered instantaneously
169 through the company's transmission and generation infrastructure (with a few
170 expensive local storage exceptions). This means that the size of those facilities
171 provided by the Company have to meet customers' peak demand, even if that

172 demand only occurs a few hours in a year. These obligations determine the level of
173 investments the Company has to make and the volume and type of services it must
174 deliver. As presented in my testimony above, we take pride in doing this affordably,
175 reliably and safely.

176 For the foregoing reasons, I think Mr. Lesser's overall comparison of
177 PacifiCorp's vertically integrated electric utility with an interstate natural gas
178 pipeline is not applicable.

179 **Q. Do you have final comments relative to the intervenors testimony?**

180 A. As demonstrated by the exhibits in my testimony above, RMP's employees take
181 justified pride in how well we meet our obligation to serve the public interest. Our
182 electric service is demonstrably superior based on industry indices, and our rates
183 are efficient and economical, when compared to those in other states, nationally
184 and in the region. We do not expect undue financial rewards for fulfilling our
185 obligations in a measurably superior fashion, but we do expect a realistic
186 opportunity to achieve a reasonable rate of return. The rate reductions proposed by
187 parties in this case not only make it nearly impossible for the Company to earn a
188 reasonable return for its investors; it shows little or no appreciation for the
189 Company's exemplary customer and operational performance. In order for us to
190 continue to meet our obligation to the public interest in ways that our customers
191 expect and deserve, and that we want to provide, now and in the future, we must
192 receive adequate rates as we have proposed in our rate request in this proceeding.

193 I therefore respectfully urge the Commission to authorize a revenue
194 requirement increase to RMP consistent with the testimony of the Company's
195 witnesses.

196 **Q. Does this conclude your rebuttal testimony?**

197 A. Yes.