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IDAHO PUBLIC
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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

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| **IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR APPROVAL OF CHANGES TO ITS ELECTRIC SERVICE SCHEDULES AND A PRICE INCREASE OF $27.7 MILLION, OR APPROXIMATELY 13.7 PERCENT** | ) | **CASE NO. PAC-E-10-07**<br><br>**Rebuttal Testimony of A. Richard Walje** |

**ROCKY MOUNTAIN POWER**

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**CASE NO. PAC-E-10-07**

**November 2010**

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp dba Rocky Mountain Power ("Company").**
3 A. My name is A. Richard Walje. My business address is 201 South Main, Suite
4 2300, Salt Lake City, Utah 84111. I am the President of Rocky Mountain Power
5 (or "Company").
6 **Q. Are you the same A. Richard Walje that submitted direct testimony in this**
7 **proceeding?**
8 A. Yes.
9 **Q. What is the purpose of your testimony?**
10 A. The purpose of my testimony is to provide a summary of the Company's rebuttal
11 position for the 2010 Idaho general rate case ("Application"), address certain
12 policy issues raised by intervening parties and the implications those issues would
13 have to the Company if implemented, and finally, I will provide an introduction
14 of the Company witnesses rebutting the intervening parties positions in this case.
15 Specifically, I will address in more detail the following issues:
16 • A summary of the Company's rebuttal position;
17 • Overview of parties positions;
18 • The Company's efforts to control costs while maintaining reliable service and
19 customer satisfaction; and
20 • Monsanto's service.

1 **Summary**

2 **Q. What is the revised revenue increase the Company is requesting in this**

3 **Application?**

4 A. The Company's rebuttal position is $24.9 million or a 12.3 percent average

5 increase over Rocky Mountain Power's current rates. This is a reduction of $2.8

6 million from the Company's original request. On May 28, 2010, the Company

7 filed its Application with this Commission requesting a revenue increase in the

8 amount of $27.7 million, or a 13.7 percent average increase over Rocky Mountain

9 Power's current rates. The single largest reduction to the Company's original

10 Application was the inclusion of bonus depreciation, which reduces the original

11 request approximately $1.8 million. When the Company filed this Application it

12 was not certain whether Congress would extend bonus depreciation through 2010.

13 Since the Application was filed legislation passed that did extend bonus

14 depreciation and the Company has reflected that in its rebuttal filing.

15 **Q. Did any of the parties to this case raise this issue?**

16 A. No. However, one of the Company's core principles is regulatory integrity, and

17 with the extension of this law the Company will receive tax benefits on the new

18 capital investment that we are obligated to pass on to our customers. As a

19 regulated utility it is our obligation to our customer to control costs in every way

20 we can and to continually identify cost reduction opportunities such as this tax

21 benefit. Although the percentage increase requested in this rate case is

22 significant, the Company has made extraordinary efforts to control its costs. It is

23 worthwhile noting that percentage increases do appear large when applied to rates

1 that are very low.

2 **Q. Why is the company seeking a rate increase in a difficult economy?**

3 A. We do not take lightly this request to raise customer's rates; however, it is critical
4 that rates reflect the current actual costs of serving our customers. With the
5 statutory obligation to serve, utilities must make investments regardless of the
6 economy. And, these investments are years in planning and execution, meaning
7 that the investments often start in strong economic times but are completed when
8 the economy is not as robust. This same pattern has occurred before, such as in
9 the late 1970s and early 1980s.

10 Absent the increase requested in this case, the Company will be denied
11 the prudent costs of providing service and an opportunity to earn a reasonable
12 return on those investments. That would violate the most basic of regulated
13 ratemaking principles. It is important to emphasize that these are investments the
14 Company has already made to serve our customers. Our ability to provide safe,
15 reliable service to our customers is dependent on the revenues we receive from
16 them.

17 **Overview of Rebuttal Positions**

18 **Q. What is your response to the overall position of the parties to this case?**

19 A. Quite honestly, disappointment. As I noted in my direct testimony, the
20 Company's current rates are based on rate base balances as of December 31,
21 2007. Since 2007 the Company has invested over $4 billion of capital in
22 absolutely necessary new plant investment, and net power costs have increased by
23 $87 million to serve our customers. In order to keep our customers' lights on, we

1 have to generate or procure electric energy, and the Company deserves the ability
2 to recover the costs of providing that service. Despite these facts, and the basic
3 fairness of customers paying for what they use, the cumulative recommendations
4 of the other parties would have the Commission reduce our revenue requirement
5 by approximately $17 million. As the Company's witnesses have indisputably
6 demonstrated and will continue to demonstrate, the investments and cost increases
7 in this case were necessary and prudent to serve customers now and in the future.
8 **Q. If these costs are already incurred how can there be a $45 million difference**
9 **between the Company's position and the intervening parties' cumulative**
10 **position?**
11 A. Some parties argue that $800 million of prudently incurred costs for the Populus
12 to Terminal transmission line should not be included in rates at this time. Some
13 parties would have the Commission ignore the Company's actual capital structure
14 and substitute a hypothetical capital structure for the purpose of reducing the
15 revenue increase request. Some parties want the Commission to allow a return on
16 investment that would be among the lowest level in the nation and threaten the
17 Company's investment ratings. Others have ignored the outstanding cost control
18 efforts of the Company and request that the Commission deny recovery of
19 employee's salaries and benefits. Others acknowledged that net power costs are
20 one of the Company's single largest expenses yet they would have you believe it
21 is okay to ignore issues because if they are wrong the Company can collect the
22 difference through the Company's ECAM with only a one-year lag and 10 percent
23 haircut. Finally, despite the Herculean efforts of the Company and regulatory

1 staff from four states, including Idaho, to arrive at a mutually acceptable
2 allocation methodology among the states, some parties have proposed different
3 allocation methods that would strand investments and costs among jurisdictions.

4 **Cost Control Efforts**

5 **Q. Explain the efforts the Company has made to control costs and keep**
6 **electricity prices reasonable.**

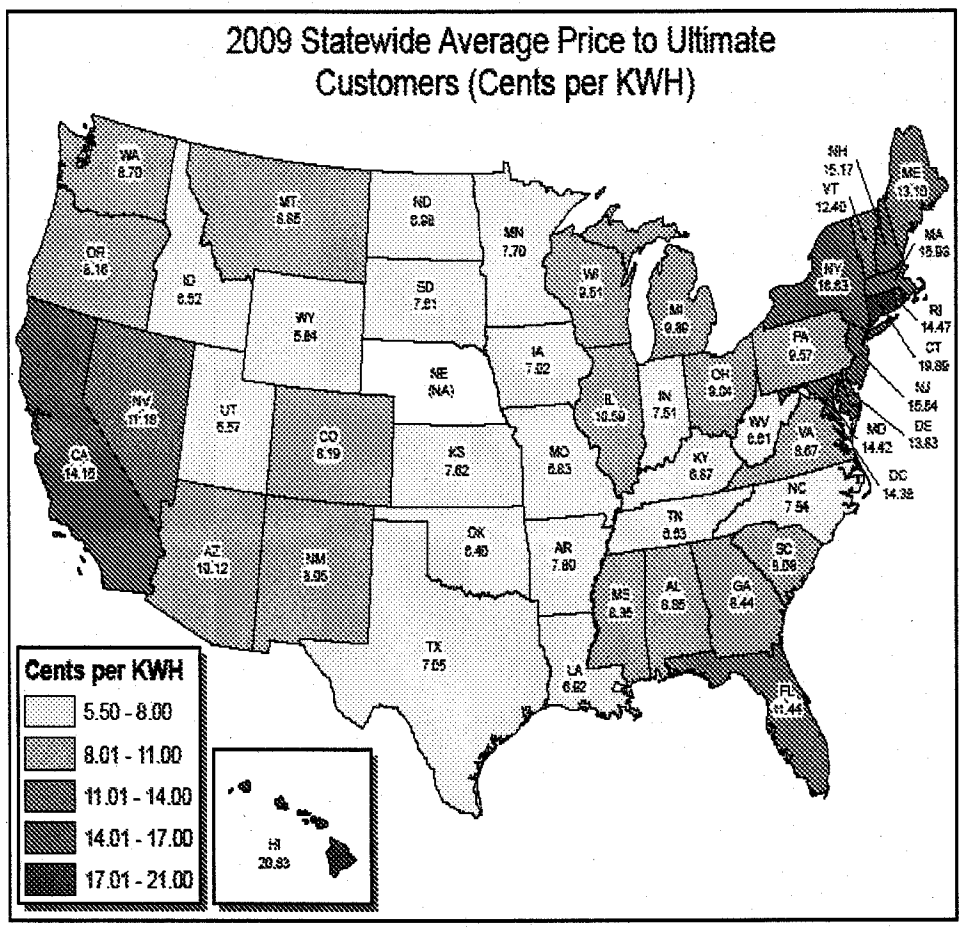
7 A. Rocky Mountain Power has an obligation to our customers to provide safe and
8 reliable service, while keeping electricity prices as low as reasonably possible.
9 Effective management of power costs and operating costs is one of the key
10 elements of the Company's strategy to meet this obligation. Since its acquisition
11 by MidAmerican Energy Holdings Company ("MEHC") in 2006, the Company
12 has continued to increase the efficiency of its operations. This is demonstrated by
13 a comparison of the Company's administrative and general ("A&G") costs in
14 Case No. PAC-E-07-05, which was based on Calendar year 2006, to the current
15 Application. In 2006, A&G costs were $239 million, compared to $163 million in
16 the current application. That is a 32 percent decrease in A&G expenditures over a
17 four year period. The Company has worked hard to strike the right balance
18 between operational expenses, customer service, and preventive maintenance. In
19 addition, the Company has focused on controlling labor costs. At the time of
20 MEHC ownership in March 2006 the Company's employee headcount was 5,997
21 full-time equivalents ("FTEs"), as of the end of December 2009 there were 5,650
22 FTEs. This is a reduction of almost six percent of the Company's workforce.
23 Over that same period of time the Company has added three new gas plants and

1 10 new wind facilities. Employee contributions for medical and other benefits
2 have gone from modest amounts to 16 - 30 percent of the cost. Personal time-off
3 has been reduced and the defined benefit plan for pensions was frozen and a new
4 cash contribution plan implemented. The success of these cost control efforts are
5 demonstrated by the reduction in A&G costs.
6 Additionally, the Company has reduced or deferred its capital investments
7 where feasible, implemented reviews of tax matters and coal stripping issues to
8 identify accounting changes, and made changes to its renewable energy credit
9 portfolio to the significant benefit of customers. Despite this focused effort to
10 control cost, parties propose disallowance of employee salary and benefits, even
11 though per employee benefit costs have been reduced since the MEHC purchase
12 and wage increases for our employees are well within reason.
13 **Monsanto's Rate Impact**
14 **Q. As President of Rocky Mountain Power what is your response to Monsanto's**
15 **testimony?**
16 A. First, I would like to stress that Rocky Mountain Power has been able to provide
17 Monsanto among the lowest, if not the lowest price of electricity in the world for
18 over 60 years. We are proud that we have been able to do that. In 2003
19 Monsanto stated that its rate was $18.50 per MWH,[1] which is less than two cents
20 per kWh. Ms. Kathryn E. Iverson states that Monsanto currently pays an "overall
21 average price of $30.64 per MWH"[2] which is still less than four cents per KWh.

[1] IPUC Final Order No. 29157 Commission Findings page 6.
[2] Iverson direct page 4 lines 18-19.

1 **Q. What is your response to Mr. Kevin P. Lawrence's testimony?**

2 A. While I appreciate Mr. Lawrence's efforts to control costs for Monsanto I
3 completely disagree with his claim that electricity is the reason that Monsanto
4 can't compete against the Chinese market. Mr. Lawrence acknowledges that
5 Monsanto's operation in Soda Springs is competitive. Yet, like most businesses
6 and households there is a concern over rising costs. As a low-cost energy
7 producer, Rocky Mountain Power is extremely cost conscious and our prices
8 prove it. Idaho has the benefit of some of the lowest electricity prices in the
9 nation. Rocky Mountain Power prices figure prominently in that result. Among
10 Idaho electricity consumers, Monsanto has the lowest priced electricity in the
11 state. See the following map of electricity prices (source SNL Financial).




1 **Q. Do you agree that Monsanto is challenged by Chinese competitors?**

2 A. Yes, competition is a challenge. Yet, the Commission should be aware of some
3 additional points not mentioned by Mr. Lawrence. Monsanto's patent on
4 Roundup expired in 2000 and yet it maintained an 80 percent (or more) market
5 share of the glyphosate herbicides sold in the United States until it began to see
6 competition from China after the sharp rise in Round Up prices. It is estimated
7 that global consumption of weed killer will grow over 12 percent annually.[3]
8 While current market pressures are challenging, Monsanto appears to have solidly

[3] Glyphosate Competitiveness Analysis in China, M2 Presswire, M2 Communications Ltd, 2009, HighBeam Research, November 8, 2010, http://www.highbeam.com

1 low costs of production. Morningstar says "we believe that Monsanto will hold
2 its relatively attractive low-cost position in this business."[4]

3 **Q. How do Rocky Mountain Power's electric rates compare to Chinese rates?**

4 A. Based on publicly available data it appears that electricity in China is
5 considerably more expensive than the prices Monsanto pays Rocky Mountain
6 Power. We are unlikely to learn the exact price paid by Monsanto competitors in
7 China. According to Beijing Electric Power Corporation the price of electricity
8 for industrial use is 76 fens per kilowatt-hour, or 11 U.S. cents.[5] In contrast as
9 noted by Ms. Iverson, Monsanto pays RMP less than four cents per kilowatt-hour.
10 Thus, China has no competitive advantage in terms of electricity cost. Mr.
11 Lawrence noted that there are two primary reasons for the insurgence of the
12 Chinese into the market; technology and the price of electricity. Contrary to Mr.
13 Lawrence's claim it appears Monsanto has the clear advantage on electric prices.

14 **Q. Do you agree with Mr. Lawrence's assertion that electricity is the only input**
15 **over which Monsanto has no control?**

16 A. No. Mr. Lawrence's claim can be shown to be without merit. Kennecott Utah
17 Copper, which is actually the largest load on Rocky Mountain Power's system,
18 and many other large industrial customers have built their own generation or
19 combined heat and power resources to help control their electric costs. Mr.
20 Lawrence notes that some of the Chinese glyphosate plants have their own
21 generation resources. Monsanto certainly has the industrial and financial
22 capability and load that would justify this type of investment. It is my

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[4] Roundup Weighing on Monsanto, Ben Johnson, Morningstar, May 27, 2009.
[5] http://news.xinhuanet.com/english/2009-11/19/content_12492364.htm

1 understanding that in the Company's ECAM discussions Mr. James R. Smith
2 contested that he could control the natural gas budget at the Soda plant and
3 thought it unreasonable that the Company couldn't control its natural gas costs. If
4 that is the case it seems investment in a generation facility certainly would
5 provide Monsanto with the price certainty it needs.
6 Further, Mr. Lawrence acknowledges that technology is one of the key
7 cost drivers, yet in Mr. Smith's testimony Monsanto acknowledges that it
8 constructed two furnaces in 1952 and the third in 1966 which are still in
9 operation.[6] I'm certain that there have been significant technology advancements
10 that have occurred since then that would disadvantage Monsanto with its
11 competitors. I'm not presumptuous enough to believe that I know what the state
12 of the art in furnace efficiency is today, but it is not an unreasonable observation
13 that Monsanto has chosen not to implement capital solutions because of the low
14 cost of electricity. Now they would have the Commission believe that paying the
15 actual cost of the electricity Rocky Mountain Power provides is the sole
16 competitive threat that makes their economic future uncertain.
17 **Q. Ms. Iverson states repeatedly throughout her testimony that; "Monsanto's**
18 **loads are served at a lower quality of service."[7] What is your response to this**
19 **claim?**
20 A. This is absolutely false. To use Ms. Iverson's verbiage this "in fact is a fiction that
21 does not reflect reality."[8] Monsanto receives exactly the same service as any
22 other customer on the Company's system. In fact it is just the opposite, the recent

[6] Smith direct page 4, lines 6-14.
[7] Iverson, direct page 7 lines 18-19, page 10 lines 3-4, and page 12 lines 14-15, page 16 lines 6-19.
[8] Iverson, direct page 3 line 10-13.

1 completion of the Threemile Hill substation and the Populus to Terminal line will
2 enhance their already good reliability. Ironically Monsanto worked very closely
3 with the Company on this project because they understood its value to them.

4 **Q. How do you respond to Ms. Iverson's claim that Monsanto is forced to sell its**
5 **curtailment product?**[9]

6 A. Rocky Mountain Power cannot force Monsanto to do anything. I've read through
7 Mr. Lawrence, Mr. Smith and Ms. Iverson's testimony and detected a central
8 theme. They would like you to believe that Monsanto is a poor defenseless victim
9 at the mercy of utility cost increases to which they have no alternatives or ability
10 to mitigate. That is absolutely false. As a utility Company we have the obligation
11 to provide electric service to everyone in our service territory--the exact same
12 service and have no legal or regulatory authority to curtail Monsanto's service,
13 other than those rights mutually agreed to and approved by the Commission. The
14 rates we charge our customers are established by this Commission after careful
15 review and determination that they are prudent, cost-based and fair. The service
16 provided in Idaho is defined and governed by the state's Electric Service
17 Regulations. Regulation No. 2;

18 "Service as used herein, usually refers to the availability of electric
19 power and energy at the point of delivery for use by the Customer
20 irrespective of whether power or energy is actually utilized. The
21 word "Service" may also be used to refer to the wires between the
22 Company's supply and the customer's entrance conductors."

23 Rocky Mountain Power has the obligation to provide electric service.
24 There is no obligation to provide non-firm or interruptible service – that type of
25 service is arranged through a separate agreement between the Company and

[9] Iverson, direct page 14 line 8-12.

1 Monsanto or other businesses that are willing to allow the Company to interrupt
2 their service and receive just financial consideration for that interruption.
3 **Q. Do you believe Ms. Iverson's statement; "Monsanto desires first and**
4 **foremost to be a non-firm customer of a regulated utility"?**[10]
5 A. I believe Monsanto wants to receive electric service at well below market price, I
6 don't believe Monsanto wants or believes that they should receive non-firm
7 service.
8 **Q. Why do you say that?**
9 A. If Monsanto was truly a non-firm customer as they claim and would like you
10 believe, Rocky Mountain Power's dispatch office would be calling Monsanto
11 each day to let them know which hours of that day they could run their furnaces,
12 because we need the electric capacity for customers who do pay for firm service,
13 which obviously is not the case. Company witness Mr. Gregory N. Duvall will
14 further address Monsanto's appropriate treatment for jurisdictional allocations in
15 his testimony.
16 **Q. Historically, has Monsanto paid its true cost of service?**
17 A. No. The Company has been working for over two decades to bring Monsanto to
18 full cost of service. In Order No. 30197 the Staff stated: "The proposed increase
19 continues the principle of cost cost-based service by moving Monsanto more than
20 halfway toward full cost of service."[11] In Commission Order 30783, from the
21 Company's 2008 general rate case (PAC-E-08-07) the results indicated that
22 Monsanto was paying only 87 percent of its cost of service, which was a $6.9

[10] Iverson, page 3 lines 10-11.
[11] Order No. 30197 page 4.

1 million shortfall per year. The price increases requested in this case represent the
2 Company's actual costs of serving Monsanto
3 **Q. Do you have any concluding remarks?**
4 A. Yes. I urge the Commission to grant the Company the rate increase it has
5 requested. The Company has significantly underperformed relative to its
6 authorized rate of return in Idaho for a long period of time and it is time to correct
7 that situation. The Company continues to build infrastructure to serve customers'
8 energy needs and to provide the reliability that they demand and deserve. In
9 meeting its obligations to customers, the Company should be treated fairly and
10 receive adequate cost recovery and cash flows to allow it to attract financing so it
11 can continue to meet its obligation to serve customers at reasonable prices.
12 **Q. Does this conclude your rebuttal testimony?**
13 A. Yes.