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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)	
APPLICATION OF ROCKY)	CASE NO. PAC-E-11-12
MOUNTAIN POWER FOR)	
APPROVAL OF CHANGES TO ITS)	Direct Testimony of A. Richard Walje
ELECTRIC SERVICE SCHEDULES)	
AND A PRICE INCREASE OF \$32.7)	
MILLION, OR APPROXIMATELY)	
15.0 PERCENT)	

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-11-12

May 2011

1 **Q. Please state your name, business address and present position with Rocky**
2 **Mountain Power (“the 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 **Qualifications**

6 **Q. Please describe your educational and professional background.**

7 A. I have worked in the electric utility industry since 1972 as a journeyman lineman,
8 field service engineer with General Electric and as a substation design engineer
9 for Rocky Mountain Power. At Rocky Mountain Power I have held numerous
10 management and executive positions with increasing levels of responsibility in the
11 areas of engineering, construction, transmission and distribution operations,
12 customer service, procurement, information technology and community affairs. I
13 have served on PacifiCorp’s Board of the Directors since 2000 and I am also
14 currently the Chairman of the Board of the PacifiCorp Foundation. I have a
15 Bachelor of Science in Electrical Engineering degree (1984) and a Master of
16 Business Administration degree (1991), both from the University of Utah. I have
17 received additional executive level instruction from the University of Michigan
18 and electrical engineering theory from General Electric’s Crotonville education
19 center.

20 **Q. Please describe your present duties.**

21 A. My responsibilities, as President of Rocky Mountain Power, cover all of the
22 Company’s affairs in the states of Idaho, Utah, and Wyoming, including ensuring
23 that the Company’s strategy, infrastructure investments and operations result in

1 the delivery of safe, reliable electric energy to the Company's customers at
2 reasonable prices and which provides reasonable returns to investors.

3 **Q. Please describe Rocky Mountain Power's presence in Idaho.**

4 A. Rocky Mountain Power provides safe, reliable, and low-priced electric service to
5 over 72,400 customers in Idaho. Rocky Mountain Power provides nearly 200
6 jobs in the communities of southeast Idaho. The Company owns and operates 94
7 substations in Idaho plus over 2,000 miles of transmission lines and 5,600 miles
8 of distribution lines. In addition, the Company purchases the output of the
9 Wolverine Creek wind generation facility located near Idaho Falls.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to introduce our case requesting an increase in
12 base electric rates in Idaho. Based on testimony of Company witness Mr. Steven
13 R. McDougal, Rocky Mountain Power expects to earn a return on equity ("ROE")
14 in Idaho of 5.3 percent during the 2011 test period.¹ This filing supports an
15 overall revenue increase of \$32.7 million, which includes an ROE of 10.5 percent
16 as supported in the testimony of Dr. Samuel C. Hadaway.

17 **Q. What are the major components contributing to the request for this**
18 **increase?**

19 A. The major factor creating the need for the requested revenue increase is an
20 increase in net power costs which represents 51 percent of the requested increase.
21 Total Company net power costs have increased \$287 million above the costs
22 currently included in customers' rates. As described in Mr. Gregory N. Duvall's

¹As described in the testimony of Mr. McDougal, the rate increase request is based on a test year that covers the period of January 1, 2010, through December 31, 2010, with known and measurable adjustments through calendar year 2011.

1 testimony, the increase is driven by a range of factors, including increased load,
2 changes in the Company's portfolio of wholesale purchase and sales contracts,
3 and increases in coal costs.

4 Capital additions are also a significant factor in the need for an increase in
5 revenues. They represent 31 percent of the increase. The details of the capital
6 investments included in the case are presented by Mr. Chad A. Teply and Mr.
7 Darrell T. Gerrard. In addition, Mr. McDougal's testimony supports the capital
8 additions and associated revenue requirement impacts.

9 Incremental operating costs associated with added generation and
10 environmental facilities require an increase in O&M to assure proper plant
11 operations and represent approximately 17 percent of the requested price increase.

12 **Q. What are the Company's major capital investments included in the case?**

13 A. This case includes investments in required pollution control equipment, essential
14 for the continued operation of our low cost generation fleet, as well as local, and
15 system wide, transmission investments. All of these capital investments are
16 necessary to support increased power production to meet customer demands and
17 to provide delivery and improve reliability. The details of these investments are
18 presented in the testimony of witnesses Mr. Teply and Mr. Gerrard.

19 **Q. Has the Company adjusted its investment plans based on load projections?**

20 A. Yes. The Company biennially undertakes a rigorous and extensive capital and
21 resource planning process that results in its integrated resource plan. This plan
22 provides the basis for making both near term and long term investment decisions.
23 The plan takes into account the expected load increases and existing and future

1 electricity resources necessary to meet customer needs. Those projects that can be
2 delayed, primarily local transmission and distribution projects have been delayed
3 to reflect current planning requirements.

4 **Q. Is the Company's load growing in its Idaho service territory and are the**
5 **power cost expenses and capital investments necessary to serve Idaho?**

6 A. Yes. Idaho's load has grown from 2.2 million megawatt-hours ("MWh") in 1982
7 to over 3.3 million MWhs in 2010, a fifty percent increase over twenty-eight
8 years. The Company has been contacted by and is currently working with a large
9 industrial customer with plans to locate in Idaho that will add 40 megawatts
10 ("MW") of additional load. Monsanto recently announced plans to add a thermal
11 optimizer to scrub emission output at its Soda Springs plant which will most
12 likely increase energy consumption. Idaho has been and continues to be the third
13 fastest growing jurisdiction in the Company's service territory. The Company has
14 two options to serve this additional load; build new generation facilities or
15 purchase power from the market. The Company utilizes both options to serve its
16 customers in the least cost, least risk approach.

17 **Q. What has created the need for the increase in operations and maintenance**
18 **expenses ("O&M") in this case?**

19 A. As described in Mr. Teply's testimony, the Company has added generation and
20 environmental facilities that require an incremental increase in O&M to assure
21 proper plant operations. However, even with these increases the Company's
22 O&M and administrative and general expenses (together, "OMAG") on a cost per
23 MWh generated have essentially stayed flat over the past four years. In Case No.

1 PAC-E-07-05 Idaho's allocated OMAG was \$61.7 million or \$16.74 per MWh.
2 Idaho allocated OMAG in this application is \$62.7 million or \$16.98 per MWh,
3 an increase of 1.3 percent over a four year period when the Company added two
4 new gas plants and 10 wind sites which increased generation capacity over 1,800
5 megawatts.

6 **Q. What steps has the Company taken to mitigate the cost increases affecting**
7 **customers?**

8 A. The Company has been able to keep overall expenses low by aggressively
9 pursuing efficiency gains that have allowed the Company to largely offset the
10 O&M expense for new generation. The Company continues to proactively and
11 aggressively control OMAG. As a result of the Company's cost-control efforts,
12 the Idaho-allocated OMAG costs, while higher on a total dollars basis than the
13 costs included in the last rate case, have slightly declined on a cost per kilowatt-
14 hour from the level currently included in customer rates.

15 Contributing to this on-going low level of OMAG expense is the
16 Company's decision to hold flat the number of full-time equivalent employees
17 ("FTEs") since 2006. At December 2006 PacifiCorp's FTE count was 5,658 as of
18 December 2010 the FTE count was 5,558, a reduction of 100 FTEs even with
19 addition of FTEs related to new generation facilities. In addition, as discussed in
20 the testimony of Mr. Erich D. Wilson, the Company has followed the practice of
21 keeping wage increases at historically low levels and made adjustments to health
22 care benefits and to employee cost sharing to reduce costs. This significant cost
23 control effort has been very effective as evidenced by comparing the Company's

1 total wage and benefits from December 2006 of \$765.5 million to December 2010
2 wage and benefits of \$710.8 million, a seven percent overall decrease during that
3 period.

4 **Q. Does the Company acknowledge the impact that rising electricity prices has**
5 **on Idaho businesses, governmental entities, schools and residential**
6 **customers?**

7 A. One of the most difficult decisions any company has to make is the one to raise
8 prices. The Company understands and appreciates the concerns of our customers
9 regarding utility rate increases when the economy is just beginning to recover.
10 The price increases requested in this case allow the Company an opportunity to
11 recover its actual costs of serving customers and a reasonable return on its
12 investment.

13 **Q. How do Rocky Mountain Power's rates compare nationally and in the state**
14 **of Idaho?**

15 A. Based on Edison Electric Institute's ("EEI") summer 2010 report Idaho's average
16 residential rates were fifth lowest in the nation. Of the 20 largest utilities in Idaho
17 as reported in the Energy Information Administration (EIA) 2009 report, Rocky
18 Mountain Power ranked lowest of all investor owned utilities and ninth lowest
19 overall, Idaho Power ranks 12th and Avista is 15th.

20 **Introduction of Witnesses**

21 **Q. Please identify the witnesses that the Company will offer to support the**
22 **application and the subject of their testimony.**

23 A. The Company witnesses that have filed direct testimony in support of the

1 application and the subjects of their testimony are:

2 **Steven R. McDougal**, Director, Revenue Requirement, explains why the test year
3 that begins on January 1, 2010, and ends on December 31, 2010, with known and
4 measurable adjustments through calendar year 2011 best reflects the conditions
5 that the Company expects to experience in the rate-effective period. In addition,
6 Mr. McDougal will present the Company's overall revenue requirement based on
7 the forecasted results of operations for the test year.

8 **Bruce N. Williams**, Vice President and Treasurer, testifies concerning the
9 Company's cost of debt, preferred stock and capital structure.

10 **Dr. Samuel C. Hadaway**, FINANCO, Inc. testifies concerning the market
11 required rate of return on equity capital (ROE) for Rocky Mountain Power.

12 **Cathy S. Woollums**, Senior Vice President of Environmental Services and chief
13 environmental counsel for MidAmerican Energy Holdings Company (MEHC),
14 testifies to the prudence of the Company's pollution control expenditures for coal-
15 fired power generation plants and the Company's processes to identify
16 environmental policy and compliance drivers that influenced the installation of
17 the emissions controls necessary to assure compliance with state and national
18 laws.

19 **Chad A. Teply**, Vice President of Resource Development and Construction for
20 PacifiCorp Energy, supports the prudence of capital investments in pollution
21 control equipment, generation plant, and hydro projects being placed in service
22 during the test period. His testimony also supports the prudence of incremental
23 generation operations and maintenance costs associated with certain new

1 resources, new pollution control equipment, and other generation fleet operational
2 changes impacting this case.

3 **Darrell T. Gerrard**, Vice President of Transmission System Planning, explains
4 and supports the major capital investments in the Company's transmission grid.
5 He explains the primary driver(s) creating the need for these projects, and
6 describes the benefits to customers and the electrical system overall. He will also
7 provides additional information supporting rate recovery of all of the Populus to
8 Terminal transmission line.

9 **Gregory N. Duvall**, Director, Long Range Planning and Net Power Costs,
10 presents the Company's proposed net power costs ("NPC") for the test period. He
11 describes the major cost drivers in the test period NPC and addresses the specific
12 issues related to the GRID model described in the Commission order in the
13 Company's 2010 general rate case.

14 **Cindy A. Crane**, Vice President, Interwest Mining Company and Fuel Resources
15 for PacifiCorp Energy, explains the Company's overall approach to providing the
16 coal supply for the Company's coal plants and supports the level of coal costs
17 included in fuel expense in this case.

18 **Erich D. Wilson**, Director, Human Resources, provides an overview of the
19 compensation and benefit plans provided to employees at the Company and
20 supports the costs related to these areas included in the test period.

21 **Paul H. Clements**, Originator/Power Marketer for PacifiCorp Energy,
22 summarizes the status of the Company's efforts to enter into a long-term contract
23 with Monsanto for curtailment products and offers an update to the curtailment

1 valuation based on current conditions.

2 **Barbara A. Coughlin**, Director of Customer and Regulatory Liaison, summarizes
3 the progress the Company has made working with Commission staff on the
4 miscellaneous consumer and customer service issues and presents the Company's
5 position on low income weatherization assistance as directed by the Commission
6 in Case No. PAC-E-10-07.

7 **C. Craig Paice**, Regulatory Consultant in Pricing and Cost of Service, will
8 presents the Company's class cost of service study.

9 **William R. Griffith**, Director of Pricing and Cost of Service, will present the
10 Company's rate spread and rate design proposals.

11 **Q. Does this conclude your direct testimony?**

12 **A. Yes.**