

Rocky Mountain Power  
Docket No. 10-035-124  
Witness: A. Richard Walje

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

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Direct Testimony of A. Richard Walje

Policy and Case Overview

January 2011

1 **Q. Please state your name, business address and present position with Rocky**  
2 **Mountain Power (the Company), a division of PacifiCorp.**

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. Briefly describe your educational and professional background.**

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

20 **Q. What are your responsibilities as President of Rocky Mountain Power?**

21 A. My responsibilities, as President of Rocky Mountain Power, cover all of the  
22 Company's affairs in the states of Utah, Idaho and Wyoming. These  
23 responsibilities include helping to ensure that the Company's strategy,

24 investments and operations result in the delivery of safe, reliable and affordable  
25 electric energy to the Company's customers.

26 **Purpose and Summary of Testimony**

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

28 A. The purpose of my testimony is to introduce our case requesting an increase in  
29 base electric rates in Utah. Based on testimony of Company witness Mr. Steven  
30 R. McDougal, Rocky Mountain Power is currently forecast to earn a return on  
31 equity ("ROE") in Utah of 5.5 percent for the test period. This filing supports an  
32 overall price increase of \$232.4 million, as adjusted by the Rate Mitigation  
33 Premium (defined in Mr. McDougal's testimony), or 13.7 percent, required to  
34 produce the 10.5 percent ROE requested by the Company, and is necessary to  
35 support the financial integrity of the Company. The requested 10.5 percent ROE  
36 is lower than the 10.6 percent last authorized by the Commission and is below the  
37 top of the range of the current cost of common equity for the Company as  
38 demonstrated in evidence proffered by cost of equity expert, Dr. Samuel C.  
39 Hadaway.

40 **Q. Upon what test year is the rate increase request based?**

41 A. As described in the testimony of Mr. McDougal, the rate increase request is based  
42 on a test year that covers the period of July 1, 2011 through June 30, 2012.

43 **Q. What are the major components contributing to the request for this  
44 increase?**

45 A. The major factor outside of capital projects and creating the need for the  
46 requested revenue increase is the increase in net power costs which represents 64

47 percent of the requested increase. Total Company net power costs have increased  
48 \$527.1 million above the costs currently included in customers' rates. As  
49 described in Witnesses Mr. Gregory N. Duvall's and Ms. Cindy A. Crane's  
50 testimony, the primary contributors to the increase are

51 Item a – load growth

52 Item b – increases in coal costs

53 Item c – reduction in wholesale sales revenue

54 In addition to power costs, the cost of capital additions are a significant  
55 driver in the need for this case and represents 21 percent of the increase. The  
56 details of items included in the request are presented by Mr. Chad A. Teply, Mr.  
57 Douglas N. Bennion and Mr. Darrell T. Gerrard. Mr. McDougal's testimony also  
58 supports the cost of capital additions.

59 **Q. What actions has the Company taken to mitigate the magnitude of the new**  
60 **power cost increase?**

61 A. As described in the testimony of Company witnesses the Company has taken the  
62 following actions to mitigate the increases in net power costs:

- 63 • Pursued a diversified coal supply strategy, relying on fixed contracts,  
64 indexed contracts and affiliate-owned coal mines to meet the fuel needs of  
65 its coal fired power plants.
- 66 • Aggressively negotiated with Chevron Mining to limit the price increase  
67 associated with the contract reopener for the Naughton plant. Negotiated  
68 lower coal trucking rates in Utah.
- 69 • Successfully pursued reconstruction/replacement of the longwall system at

70 Deer Creek rather than acquisition of a new longwall system.

71 • Investment in wind projects which are projected to generate over three  
72 million MWh in the test period with no fuel costs, while providing  
73 millions of dollars in Renewable Energy Credit revenues.

74 • Generation plant turbine upgrades at the Huntington, Hunter, and Jim  
75 Bridger plants allow more efficient turbine performance without  
76 increasing emissions while increasing the Company's overall generation  
77 capacity by over 50 MW when aggregated with the Company's pollution  
78 control investments.

79 However, despite these efforts net power costs are primarily outside of the  
80 Company's control and that is why the Company has asked for an energy cost  
81 adjustment mechanism in Docket No. 09-035-15.

82 **Q. What has led to the Company's capital investments included in the case?**

83 A. This case includes investments in all facets of the system, including required  
84 pollution control equipment which is essential to ensure the continued operation  
85 of our low cost generation fleet, as well as local transmission and distribution  
86 investments, and transmission grid investments. All of these capital investments  
87 help to improve reliability, support power delivery and help to assure safe  
88 operations. As mentioned above, the details of these investments are presented in  
89 the testimony of witnesses Mr. Teply, Mr. Gerrard and Mr. Bennion.

90 **Q. Has the Company adjusted its investment plans based on current economic**  
91 **conditions?**

92 A. Yes. The Company biennially undertakes a rigorous and extensive capital and

93 resource planning process that results in its integrated resource plan. This plan  
94 provides the basis for making both near term and long term investment decisions.  
95 The plan takes into account the expected load increases and resources necessary  
96 to meet customer needs. Those projects that can be delayed, primarily local  
97 transmission and distribution projects, have been delayed to reflect current  
98 economic conditions and temporarily suppressed electricity consumption. The  
99 Commission acknowledged the 2008 IRP in Docket No. 09-2035-01 on April 1,  
100 2010.

101 **Q. What has created the need for the increase in operations and maintenance**  
102 **expenses (“O&M”) in this case?**

103 A. As described in Mr. Teply’s testimony, the Company has added generation and  
104 environmental facilities that require an incremental increase in O&M to assure  
105 proper plant operations. However, even with these increases the Company’s  
106 OMAG (as defined below) costs per kWh generated have essentially stayed flat  
107 over the past five years.

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

110 A. The Company has been able to keep overall expenses low by aggressively  
111 pursuing efficiency gains that have allowed the Company to largely offset the  
112 O&M expense for new generation. The Company continues to proactively and  
113 aggressively control O&M and administrative and general expenses (together,  
114 “OMAG”). As a result of the Company’s cost-control efforts, the Utah-allocated  
115 OMAG costs, while higher on a total dollars basis than the costs included in the

116 last rate case, have actually slightly declined on a cost per kWh from the level  
117 currently included in customer rates.

118 Contributing to this on-going low level of OMAG expense is the  
119 Company's decision to hold flat the number of full-time equivalent employees  
120 ("FTEs") since 2009, with the exception of a small number of FTEs related to  
121 new generation facilities. In addition, as discussed in the testimony of Mr. Erich  
122 D. Wilson, the Company has followed the market practice of keeping wage  
123 increases at historically low levels and made adjustments to the health care  
124 benefits plan design and to employee cost sharing to reduce costs.

125 **Introduction of Witnesses**

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

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

130 **Steven R. McDougal**, Director, Revenue Requirement, will explain why the  
131 forecast test year that begins on July 1, 2011 and ends on June 30, 2012 best  
132 reflects the conditions that the Company expects to experience in the rate-  
133 effective period. In addition, Mr. McDougal will present the Company's overall  
134 revenue requirement based on the forecasted results of operations for the test year.

135 **Bruce N. Williams**, Vice President and Treasurer, will testify concerning the  
136 Company's cost of debt, preferred stock and capital structure.

137 **Dr. Samuel C. Hadaway**, FINANCO, Inc. will testify concerning the market  
138 required rate of return on equity capital (ROE) for Rocky Mountain Power.

139 **Peter C. Eelkema**, Lead/Senior Consultant, Load and Revenue Forecasting, will  
140 present the load forecast for the case. He describes how the Company developed  
141 the forecasts of the number of customers, kilowatt-hour sales at the meter, and  
142 system loads and system peak loads at the system input level, and number of bills  
143 for the test period.

144 **Gregory N. Duvall**, Director, Long Range Planning and Net Power Costs, will  
145 present the Company's proposed net power costs ("NPC") for the test period. He  
146 describes the major cost drivers in the test period NPC and addresses the specific  
147 issues related to the GRID model described in the Commission order in the  
148 Company's 2009 general rate case.

149 **Cindy A. Crane**, Vice President, Interwest Mining Company and Fuel Resources  
150 for PacifiCorp Energy, will explain the Company's overall approach to providing  
151 the coal supply for the Company's coal plants and support the level of coal costs  
152 included in fuel expense in this case.

153 **Stefan A. Bird**, Senior Vice President, Commercial and Trading, for PacifiCorp  
154 Energy, will support the test period REC revenue forecast and explain the basis  
155 for that forecast. He will also demonstrate the prudence of the Top of the World  
156 Wind Energy, LLC power purchase agreement, for which the Company is seeking  
157 cost recovery in this proceeding.

158 **Chad A. Teply**, Vice President of Resource Development and Construction for  
159 PacifiCorp Energy, will support the prudence of capital investments in pollution  
160 control equipment, generation plant, and hydro projects being placed in service  
161 during the test period. His testimony also supports the prudence of incremental

162 generation operations and maintenance costs associated with certain new  
163 resources, new pollution control equipment, and other generation fleet operational  
164 changes impacting this case.

165 **Darrell T. Gerrard**, Vice President of Transmission System Planning, will  
166 explain and support the major capital investments in the Company's main  
167 transmission grid. He explains the primary driver(s) creating the need for these  
168 projects, and describes the benefits to customers and the electrical system overall.

169 **Douglas N. Bennion**, Vice President of Engineering Services and Capital  
170 Investment, will explain and support the Company's local T&D capital  
171 investment plan and plant additions.

172 **Dean S. Brockbank**, Vice President and General Counsel of PacifiCorp Energy,  
173 explains the process that has been followed for relicensing the Klamath  
174 Hydroelectric Project ("Project") and settlement of issues related to the  
175 relicensing proceeding. He also explains how the expenses and costs for  
176 relicensing and settlement for the Project are prudent expenditures that have been  
177 incurred in the best interest of Rocky Mountain Power's customers.

178 **Erich D. Wilson**, Director, Human Resources, will provide an overview of the  
179 compensation and benefit plans provided to employees at the Company and  
180 support the costs related to these areas included in the test period.

181 **Scott D. Thornton**, Manager, Metered Data Management, will give an overview  
182 of load research and the processes surrounding the development of load estimates  
183 used in the Company's rate filing.

184 **C. Craig Paice**, Regulatory Consultant in Pricing and Cost of Service, will

185 present the Company's class cost of service study.

186 **William R. Griffith**, Director of Pricing and Cost of Service, will present the

187 Company's rate spread and rate design proposals.

188 **Jeffrey M. Kent**, Director Distribution, will propose changes to the Company's

189 pole attachment rate to reflect the administrative support cost for managing the

190 joint use of the Company's poles and to include a fee schedule of non-recurring

191 charges as part of Schedule 4.

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

193 **A. Yes.**