BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES IN IDAHO AND APPROVAL OF PROPOSED ELECTRIC SERVICE SCHEDULES AND REGULATIONS	))))))	**CASE NO. PAC-E-24-04** **DIRECT TESTIMONY OF RICHARD J. GARLISH**

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-24-04

May 2024

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name, business address, and current position with PacifiCorp d/b/a Rocky Mountain Power (the "Company").

A. My name is Richard J. Garlish, and my business address is 1407 West North Temple, Salt Lake City, Utah 84116. I am currently employed as President of Rocky Mountain Power.

Q. Please summarize your education and professional experience.

A. I have a Bachelor's Degree in Liberal Arts from the Evergreen State College in Washington and a Juris Doctorate Degree from the University of Montana Law School. I have provided legal counsel to various clients in the energy industry for the last 19 years. I joined PacifiCorp in 2020, and before taking my current position, I was Vice President of Government Affairs and General Counsel for Rocky Mountain Power. In that position, I was responsible for all legal and governmental affairs matters. Prior to that, I served as Senior Vice President and General Counsel at Peak Reliability and held a number of senior positions at Idaho Power Company, including Senior Attorney, Director and Senior Counsel, and General Manager. Prior to joining Idaho Power Company, I served as Senior

Corporate Counsel at NorthWestern Energy.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your direct testimony in this case?

A. My testimony provides an overview of PacifiCorp, and its Idaho service area. I also discuss the escalating wildfire risk that the Company is facing since its last filed general rate case and the steps the Company is taking to address those risks. Further, I discuss the Company's reason for filing the current rate case. Finally, I introduce the Company witnesses that provide direct testimony in support of PacifiCorp's rate request.

III. DESCRIPTION OF PACIFICORP AND IDAHO SERVICE AREA

Q. Please provide a brief description of PacifiCorp.

A. As an investor-owned, multi-jurisdictional electric utility, PacifiCorp serves approximately two million customers in six western states: California, Idaho, Oregon, Utah, Washington, and Wyoming.

The Company serves its customers with a vast, integrated system of generation and transmission that spans 10 states and connects customers and communities across the West. PacifiCorp's integrated system provides benefits to customers in all six states and includes generation, transmission, and distribution assets.

PacifiCorp owns, or has interests in thermal, hydroelectric, wind-powered, solar, and geothermal generating facilities. PacifiCorp buys and sells electricity on the wholesale market with other utilities, energy marketing companies, financial institutions, and other market participants to balance and optimize the economic benefits of electricity generation, retail customer loads, and existing wholesale transactions.

PacifiCorp provides wholesale transmission service under its open access transmission tariff approved by the Federal Energy Regulatory Commission and owns or has interests in approximately 17,700 miles of transmission lines. PacifiCorp operates two Balancing Authority Areas—PacifiCorp Balancing Authority Area East and PacifiCorp Balancing Authority Area West—that together comprise the largest privately owned and operated grid in the Western United States ("U.S.").

Q. Please describe PacifiCorp's Idaho service area.

A. In Idaho, PacifiCorp serves approximately 91,000 customers. The Company provides retail electric service in the following 14 counties: Bannock, Bear Lake, Bingham, Bonneville, Butte, Caribou, Clark, Franklin, Fremont, Jefferson, Madison, Oneida, Power, and Teton. The Company also has contracts with a number of

independent power producers in the state of Idaho that operate facilities representing over 330 megawatts of installed capacity.[1] PacifiCorp's sales and revenues are distributed among residential customers, small businesses, and large businesses served under retail tariffs subject to the jurisdiction of the Commission. Tables 1 and 2 below provide the number of retail customers and usage by customer class.

Table 1

Customer Class	Customer Count
Residential	73,216
Commercial	10,951
Industrial	587
Irrigation	5,732
Lighting	351
Total	90,837

Table 2

Customer Class	Energy Sales (MWh)
Residential	803,378
Commercial	551,078
Industrial	1,560,673
Irrigation	552,243
Lighting	2,687
Total	3,470,059

[1] PacifiCorp's 2023 Integrated Resource Plan, Table 6.5 (May 31, 2023) (available at https://www.pacificorp.com/energy/integrated-resource-plan.html); *see also, In the Matter of PacifiCorp's Application for Acknowledgement of the 2023Integrated Resource Plan,* Case No. PAC-E-23-10, Order No. 35977.

Q. What is the Company's core principle in providing service to customers?

A. The Company's core principle is to provide energy solutions in the form of safe, reliable, and affordable energy to customers in Idaho and throughout the West. The Company has upheld this ideal for over 110 years and remains steadfast in this commitment even as the electricity sector transforms through changing economics and public policies, emerging and maturing technologies, and the rise of a regional energy market.

This energy sector transformation has the Company operating under tremendous cost pressures as it addresses a number of issues, including increased severity and frequency of wildfires, large load growth, and the need for new investments. Despite these challenges, the Company has continued to deliver safe and reliable electric service at low-cost. PacifiCorp's efficient operations for customers have resulted in the Company's average price of 8.38 cents per kilowatt-hour ("kWh") being approximately 39 percent lower than the national average for investor-owned utilities of 13.63 cents per kWh for the 12 months ending June 30, 2023, as reported by the Edison Electric Institute Summer 2023 Typical Bills and Average Rates Report.

As I discuss further below, in this proceeding, the Company is requesting a rate increase that is driven by the increasing costs of operations, such as net power costs ("NPC"), capital investments needed to serve customers, and costs associated with the growing financial pressures due to the escalating wildfire risks in the West. In response to the latter, the Company is setting forth proposals to address this risk and support the financial stability of the utility.

IV. THE COMPANY'S CURRENT RATE FILING

Q. Since PacifiCorp last filed a general rate case in May 2021 ("2021 GRC"),[2] what risks have increased with respect to operations?

A. The Company has experienced and continues to experience escalating wildfire risk, which has impacted costs of operations, such as insurance, and financing. Escalating extreme weather events have become a challenge for all industries and are being felt acutely by utilities in the Western U.S., where wildfires are becoming more frequent, longer lasting and more intense. Driving the growth of wildfires in the Western U.S. are prolonged droughts, heatwaves, high wind events, challenging

[2] *In the Matter of Rocky Mountain Power's Application for Authority to Increase its Rates and Charges in Idaho and Approval of Proposed Electric Service Schedules and Regulations,* Case No. PAC-E-21-07, Order No. 35277 at 1 (Dec. 30, 2021).

forest management and population growth in the wildland-urban interface. These extreme weather events pose a long-term practical and financial challenge to PacifiCorp's ability to serve customers, jeopardizing affordability and customer reliability. For further discussion of the escalating wildfire risk to utilities in the West, please see the testimony of Company witness Frank Graves.

Q. How have the Company's costs been impacted by the escalating wildfire risks?

A. Setting aside the Company's increasing costs associated with wildfire mitigation, the Company's costs for insurance and financing are two notable examples of how PacifiCorp's costs have been impacted.

First, the insurance industry is facing significant challenges due to wildfires, as it must contend with property damage, business interruptions and liability claims. Increased payouts for wildfire-related claims are resulting in significantly rising insurance premiums, making coverage less affordable and in some cases, insurers are pulling out of the market, for individuals and businesses.[3] Company witness Mariya V.

[3] For example, four western U.S. utilities are facing wildfire-related class action lawsuits: Avista Corporation in Washington, Xcel Energy in Colorado, Hawaiian Electric Company in Hawaii, and PacifiCorp in Oregon.

Coleman further addresses increasing insurance premium costs.

Second, ratings agencies are reacting to the increased wildfire risks being faced by utilities which is threatening utilities' access to markets. For example, Standard & Poor's currently has PacifiCorp at a BBB+ rating but has PacifiCorp on negative outlook indicating the potential for a further one or more notch downgrade over the next 24 months. If downgraded two more notches, it would put PacifiCorp at BBB-, the last level of investment grade. Moody's downgraded PacifiCorp's senior unsecured issuer rating to Baa1 from A3. Both rating agencies have indicated regulatory support will play a major role in their ongoing ratings assessments and actions. Company witness Nikki L. Kobliha provides further details on the rating agencies and discusses details concerning the Company's plan to provide financial support for PacifiCorp at this time.

Q. What actions has PacifiCorp taken to address these escalating risks?

A. To continue the Company's core principles of service in light of these escalating risks, the Company is taking action now to ensure continued provision of safe and reliable service to customers and financial stability. Addressing this threat will require a multi-pronged

approach to ensure the Company's financial stability and affordability and reliability for customers:

- Wildfire Mitigation: The Company has filed its first Wildfire Mitigation Plan in Idaho.[4] The Company's mitigation efforts across its six state service territory include (1) investments in meteorology for increased situational awareness;[5] (2) asset hardening;[6] (3) installing additional field reclosers with upgraded fault detection (similar to relays) and remote setting capability that reduces wildfire risk while minimizing outage impacts to customers; (4) enhanced processes supporting pro-active risk mitigation – Public Safety Power Shutoff, Encroachment and others; and (5) rebuilding overhead lines with covered conductor or converting to underground reducing exposure to interference from trees or other objects.

- Cash management: The Company is suspending annual dividends for five years, and has prioritized capital investments, for example, it has canceled its 2022 All-Source Request for Proposal and is reviewing and revisiting its capital deployment over the coming five years.

- Limitation of Liability: The Company is pursuing tariff changes regarding limitation of liability.[7]

- Insurance proposals: The Company is adapting its insurance coverage options to meet the challenges of the times, which includes two new mechanisms—an

[4] *In re the Application of Rocky Mountain Power Requesting Approval of the 2024 Idaho Wildfire Mitigation Plan,* Case No. PAC-E-24-09, filed Apr. 15, 2024.

[5] This includes weather stations (454) providing 24/7 weather data for forecasting of wildfire conditions across our six-state territory down to the circuit level. This information also facilitates operational management as well as risk mitigation planning.

[6] Such as replacing electro-mechanical relays with microprocessor relays throughout the fire high consequence areas to provide quicker fault detection that limits the amount of arc-energy (heat) present in a fault event.

[7] In Idaho, the Commission denied the Company's application. See, *In the Matter of Rocky Mountain Power's Application to Revise Electric Service Regulation No. 3 - Electric Service Agreements*, Case No. PAC-E-23-22, Order No. 36175 (May 14, 2024).

Insurance Cost Adjustment that will enable the Company to annually procure insurance for third-party liability using the most economical combination of commercial insurance and insurance through a new Insurance Mechanism and a Catastrophic Fire fund. Company witness Joelle R. Steward's direct testimony discusses these mechanisms.

These measures acting alone are insufficient; without regulatory support, greater customer cost increases, reliability issues and state policy implementation impacts are inevitable. For example, the state of Utah has recognized this risk and recently enacted Senate Bill ("SB") 224. Through SB 224, Utah has authorized large-scale electric utilities, like PacifiCorp, to create a fire fund to supplement other forms of wildfire insurance. The fire fund will provide financial stability to the Company as a source of liquidity and facilitate payment of claims in the event of a catastrophic fire event in Utah. SB 224 also caps noneconomic losses on wildfire claims.

Although the wildfire risks are larger than one company, an industry and any single government, timely actions by both the Company and regulatory jurisdictions are critical to ensure the Company's ability to serve customers reliably and affordably and financial stability of the Company.

Q. Why is the Company filing a rate case at this time?

A. The Company's costs have increased since the 2021 GRC. Drivers of the requested overall rate change include NPC, significant capital investments in transmission, such as the Gateway South and Gateway West Segment D-1 projects, and renewable resources, such as the Rock Creek I project, and increased insurance costs due to wildfire risk. Company witness Joelle R. Steward addresses the rate case drivers in her testimony. Additionally, the Company is proposing an Insurance Cost Adjustment and Catastrophic Fire Fund that are aimed to address insurance costs, including premiums and claims, that are rising as a result of wildfire risk and that will position the Company to support its financial stability and continued service of safe and reliable service at low cost. Company witness Steward supports these proposals.

PacifiCorp recognizes that its requested increase comes at a time when customers are facing increasing prices for all necessities. The Company's proposals in this proceeding are aimed at minimizing the frequency of rate cases. Further, the Company proactively and aggressively controls the costs that it can. These efforts are demonstrated by the Company successfully minimizing the frequency of general rate cases. In the

last 10 years, the Company has filed only one general rate case in 2021.[8] The Company is also managing its controllable costs in a prudent manner, which is evident in that they are not a material driver in this case despite inflationary pressures.

PacifiCorp is, and will remain, actively engaged in finding additional ways to leverage our vast, integrated system for the benefit of our customers.

V. INTRODUCTION OF COMPANY WITNESSES

Q. How is PacifiCorp presenting this case?

A. PacifiCorp is presenting the following direct testimony in support of its rate case filing:

- **Joelle R. Steward**, Senior Vice President, Regulation, will describe PacifiCorp's request in this proceeding and summarize the regulatory policy of the Company. She also supports an Insurance Cost Adjustment that will support a new insurance mechanism in development and a Catastrophic Fire Fund. Finally, Company witness Steward supports a rate mitigation proposal to phase in the requested increase over two steps.

- **Nikki L. Kobliha**, Senior Vice President, Chief Financial Officer and Treasurer, will provide the Company's overall cost of capital recommendation for the Company, including a capital structure to maximize value and minimize risk and the current cost of debt.

- **Ann E. Bulkley**, Principal at The Brattle Group, provides a comparison of PacifiCorp's business and financial risk compared to peer utilities,

[8] *See* Case No. PAC-E-21-07.

recommends a cost of equity, and provides supporting analyses.

- **Frank Graves**, Principal at The Brattle Group, discusses the increased wildfire risk and financial exposure faced by utilities in the Western U.S. and explains how PacifiCorp's proposed remedies are reasonable to manage this growing risk.

- **Mariya V. Coleman**, Vice President of Corporate Insurance and Claims for Berkshire Hathaway Energy Company, supports the Company's updated costs associated with insurance premiums.

- **Ramon J. Mitchell**, Manager, Net Power Costs, supports the Company's proposed NPC for the 12-month forecast period ending December 31, 2025. He also supports the Company's modification to its Energy Cost Adjustment Mechanism ("ECAM") and rate mitigation proposal.

- **John Tsoukalis**, Principal at the Brattle Group, supports the Company's proposal to modify its ECAM.

- **Rick T. Link**, Senior Vice President of Resource Planning and Procurement, provides the economic analyses of the Gateway South and Gateway West Segment D.1 transmission projects.

- **Thomas R. Burns**, Vice President of Resource Planning and Acquisitions, provides the economic analyses of the Rock Creek I wind facility, and the Foote Creek II-IV and Rock River I repowering projects.

- **Richard A. Vail**, Vice President of Transmission Services, discusses important transmission and distribution system upgrades that will be completed to serve customers, including the Gateway South and Gateway West Segment D.1 transmission projects.

- **Timothy J. Hemstreet**, Vice President of Renewable Energy Development, supports the Company's Foote Creek II-IV and Rock River I repowering projects.

- **Jeffrey M. Wagner**, Renewable Development Manager, provides support of the prudency of the Rock Creek I wind project.

- **Craig M. Eller**, Senior Vice President, Resource Strategy and Development, supports the proposed voluntary renewable energy credit option tariff ("REC Option Program").

- **Shelley E. McCoy**, Director of Revenue Requirement, summarizes the overall test year revenue requirement, pro forma adjustments, and the rate base calculation methodology.

- **Robert M. Meredith**, Director of Pricing and Tariff Policy, provides PacifiCorp's cost of service study and rate design, and discusses how the proposed tariff changes recover the proposed revenue requirement to achieve fair, just, and reasonable prices for customers.

Q. Does this conclude your direct testimony?

A. Yes.