

1 Q. Please state your name, business address and present position with PacifiCorp (the  
2 Company)?

3 A. My name is Richard T. O'Brien. My business address is 825 N.E. Multnomah,  
4 Suite 2000, Portland, Oregon 97232, and I am employed as Executive Vice  
5 President and Chief Operating Officer.

6 **Qualifications**

7 Q. Please summarize your education and business experience.

8 A. I received a bachelor's degree in economics from the University of Chicago and a  
9 law degree from Lewis and Clark College, Northwestern School of Law. From  
10 1983 to 1993 I served in various financial positions at NERCO, a former mining  
11 and resource development subsidiary of PacifiCorp. In 1993 I was appointed Vice  
12 President of Corporate Finance of PacifiCorp and in 1995 was appointed Senior  
13 Vice President and Chief Financial Officer. I was appointed to my current  
14 positions in 1998.

15 **Purpose of Testimony**

16 Q. What is the purpose of your testimony?

17 A. The purpose of my testimony is to provide an overview of the Company's  
18 application and establish the context of the case for the Company witnesses who  
19 will testify regarding our specific proposals. I will also introduce the other  
20 Company witnesses with a summary of the issues they will address.

21 **Overview**

22 Q. Please describe the Company's objectives in this application.

1 A. The primary objective of this application is to seek a price increase that will  
2 enable the Company to continue to provide safe and reliable electrical service to  
3 our Washington customers and to provide a fair return to our shareholders.

4 Q. What is PacifiCorp's current earnings level in the State of Washington?

5 A. PacifiCorp is currently earning a normalized rate of return of 6.5 percent in  
6 Washington, as described in Mr. Larsen's testimony.

7 Q. What are the key factors driving the Company's need for a price increase at this  
8 time?

9 A. PacifiCorp makes significant expenditures for the benefit of its customers. As an  
10 example, over the past five years PacifiCorp has invested nearly \$2.9 billion in  
11 capital expenditures for the benefit of its customers system-wide. Despite this  
12 considerable investment, Washington customers have not had an increase in their  
13 base electric prices in well over a decade. Indeed, Washington customer's overall  
14 average base electric prices, which exclude the impact of BPA exchange benefits,  
15 have been decreased on four separate occasions since 1986. During that same  
16 period, inflation has increased general price levels over 60 percent. The  
17 combination of rising expenditures, falling prices, and inflationary pressure on  
18 costs has resulted in the Company earning less than its allowed rate of return in  
19 Washington.

20 Q. Has the Company made efforts to reduce costs to mitigate the need for a price  
21 increase in the State of Washington?

22 A. Yes. The most significant recent effort was the early retirement program  
23 implemented in 1998. More than 950 qualified employees opted to take

1 advantage of this program. The savings and related revenue requirement impacts  
2 of the program are included in our filed Results of Operations.

3 Historically, the Company has pursued strategies to obviate the need to  
4 increase prices. These strategies included creating benefits through cost  
5 efficiencies associated with the 1989 merger of Pacific Power and Utah Power,  
6 fostering a strong Company commitment to aggressive cost control and increasing  
7 revenues through wholesale sales activities. These efforts have benefited our  
8 customers. For example, after the price increase is fully implemented,  
9 PacifiCorp's Washington overall average base prices, which exclude the impact of  
10 BPA exchange benefits, will be no greater than they were in 1986. Although the  
11 Company has been able to avoid base price increases for a considerable period,  
12 the time has come when rate relief is necessary.

13 Q. Please describe the price increase PacifiCorp is seeking in this application.

14 A. As described in the testimony of Mr. Larsen, PacifiCorp can justify an overall  
15 price increase of approximately \$25.8 million. As part of this filing, the Company  
16 is also requesting implementation of a System Benefits Charge of \$2.8 million (or  
17 1.5 percent) through which it would recover the costs of conservation and the  
18 above market costs of new renewables otherwise collected through base rates.  
19 That proposal is explained in the testimony of Mr. Hedman. The Company is  
20 proposing that the Commission review, in this current proceeding, the  
21 reasonableness of the overall price increase sponsored by Mr. Larsen as well as  
22 the proposed System Benefits Charge. However, to mitigate the customer price  
23 impact which would occur if the Company implemented the price change at one

1 time, the Company is proposing a two-phase approach under which it would  
2 implement the resulting price increase and System Benefits Charge over roughly a  
3 two year period.

4 PacifiCorp's application does not include the effect of new depreciation  
5 rates which are currently under review in multiple PacifiCorp jurisdictions. Once  
6 those proceedings have been resolved, PacifiCorp will include the effects of the  
7 new depreciation rates in this filing.

8 Q. Please describe the price change requested in the first phase of the Company's  
9 proposal.

10 A. At the end of this proceeding, the Company proposes to implement an overall  
11 price change (the Year 1 price change) which the Company will limit to 9.6  
12 percent. That price change would consist of an 8.1 percent increase in base rates  
13 and implementation of the system benefits charge of 1.5 percent.

14 Q. Please describe the price change the Company is requesting in the second phase of  
15 its proposal.

16 A. One year after the Year 1 price change is implemented, the Company proposes a  
17 second price change (the Year 2 price change) through which it would implement  
18 the remainder of the increase authorized by the Commission but not reflected in  
19 the Year 1 price change.

20 Q. What action do you believe the Commission must take regarding implementation  
21 of the Year 2 price change?

22 A. Once this current proceeding is completed I believe no additional action will be  
23 required to implement the Year 2 price change. As I described earlier, the

1 Company is requesting that the Commission review, in this proceeding, the  
2 reasonableness of the overall \$25.8 million price increase sponsored by Mr.  
3 Larsen as well as the implementation of the System Benefits Charge. With those  
4 Commission findings in this proceeding, no further action will be required by the  
5 Commission prior to implementation of the Year 2 price change.

6 Q. Why is the Company proposing a two-phase approach to implement the price  
7 changes requested in this proceeding?

8 A. As I described earlier, the Company is now in a position where it must increase its  
9 prices. Despite the fact that PacifiCorp hasn't increased its Washington prices for  
10 sometime, price increases are never easy for customers. The phased-in approach  
11 proposed by the Company is designed, in part, to mitigate the impact customers  
12 would feel if the price increase was implemented at one time. However, in  
13 developing this approach the Company needed to balance a number of  
14 considerations, including the potential price impacts, the Company's requirement  
15 to provide safe and reliable electric service to our Washington customers, and the  
16 requirement to provide a fair return to our shareholders. I believe the phase-in  
17 proposal is a solution which reasonably balances all these considerations.

18 Q. Does the Company have additional objectives in this filing?

19 A. Yes. We are proposing to:

- 20 • reduce existing inter-class subsidies;
- 21 • implement a system benefits charge in the State of Washington; and
- 22 • modify our general rules and Electric Service Schedule No. 300.

23 **Introduction of Witnesses**

1 Q. Please list the other Company witnesses and provide a brief description of their  
2 subject matter.

3 A. The Company witnesses' testimony in this case appears in the following order:

4 **William E. Peressini**, Vice-President and Treasurer, will testify  
5 concerning the Company's cost of debt and preferred stock. Mr. Peressini will  
6 show the Company's overall cost of capital to be 9.1 percent, embedded cost of  
7 long-term debt to be 7.134% and the embedded cost of preferred stock to be  
8 6.017%. He will also present PacifiCorp's proposed capital structure of 47.4  
9 percent long-term debt, 3.8 percent preferred stock, and 48.8 percent common  
10 equity.

11 **Samuel C. Hadaway**, a Principal in FINANCO, Inc. Financial Analysis  
12 Consultants, will testify concerning the Company's return on equity. Based on his  
13 analysis using the discounted cash flow model and the risk premium model as  
14 well as a review of the current market, the electric utility industry, and Company-  
15 specific factors, Dr. Hadaway supports a point value for PacifiCorp's cost of  
16 equity of 11.25 percent.

17 **Jeffrey K. Larsen**, Director of Revenue Requirements, will present the  
18 Company's normalized 1998 Results of Operations in the State of Washington.  
19 Mr. Larsen will also present and support PacifiCorp's revenue requirement.

20 **Mark T. Widmer**, Principal System Planner, will testify regarding  
21 PacifiCorp's net power costs. Mr. Widmer will describe the calculation of net  
22 power costs and discuss the Company's production cost model.

1                   **David L. Taylor**, Manager of Cost of Service, sponsors the Company’s  
2 testimony on class cost of service. He also provides analysis of how the  
3 Washington customer classes are performing in recovering their allocated costs.

4                   **William R. Griffith**, Manager of Pricing, presents the Company’s rate  
5 spread and rate design proposals in this case. He offers a proposal to mitigate  
6 customer impacts while moving customer price levels toward cost of service  
7 based on the principles of removing subsidization across customer classes to the  
8 extent possible.

9                   **Carole A. Rockney**, Manager of Tariff Policy, describes proposed  
10 changes to the Electric Service Regulations and Electric Service Schedule No.  
11 300.

12                   **Brian Hedman**, Manager of DSM Policy, presents the Company’s  
13 proposal to implement a System Benefits Charge for our Washington customers as  
14 the cost recovery mechanism for our investment in cost-effective demand side  
15 management programs in the State.

16 Q.     Does this conclude your testimony?

17 A.     Yes.