

Exhibit No.____(RPR-1T)
Docket UE-14____
Witness: Richard P. Reiten

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT COMPANY,
a division of PacifiCorp

Respondent.

Docket UE-14____

**PACIFIC POWER & LIGHT COMPANY
DIRECT TESTIMONY OF RICHARD P. REITEN**

May 2014

1 **Q. Please state your name, business address, and present position with Pacific**
2 **Power & Light Company (Pacific Power or Company), a division of PacifiCorp.**

3 A. My name is Richard Patrick “Pat” Reiten. My business address is 825 NE
4 Multnomah Street, Suite 2000, Portland, Oregon 97232. My present position is
5 President and Chief Executive Officer (CEO) of Pacific Power.

6 **QUALIFICATIONS**

7 **Q. Please describe your education and professional experience.**

8 A. I received a bachelor’s degree in political science with an emphasis in economics
9 from the University of Washington and completed executive training at the Wharton
10 School of Business, University of Pennsylvania. Before joining PacifiCorp in
11 September 2006, I was president and CEO of PNGC Power, an energy cooperative
12 located in Portland, Oregon, that provides power management services to electric
13 distribution utilities serving parts of seven western states. I was appointed to that
14 position in May 2002. I joined PNGC Power in 1993, advancing through positions of
15 increasing responsibility. Before PNGC Power, I served as an aide to U.S. Senator
16 Mark O. Hatfield, handling issues associated with the U.S. Senate Energy and Natural
17 Resources Committee. I also was an official in several different capacities at the U.S.
18 Department of Interior, including serving as acting deputy director of the U.S. Bureau
19 of Land Management.

20 **PURPOSE OF TESTIMONY**

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

22 A. My testimony provides an overview of the Company’s request for an increase in its
23 base electric prices, describes the major factors driving the need for the price

1 increase, and discusses the steps taken by the Company to mitigate the price increase.
2 My testimony also introduces the other witnesses providing testimony on behalf of
3 the Company.

4 **Q. Please provide a brief introduction to PacifiCorp.**

5 A. PacifiCorp is a regulated electric utility company comprised of three business units:
6 Pacific Power, Rocky Mountain Power, and PacifiCorp Energy. Pacific Power,
7 headquartered in Portland, Oregon, serves customers in Washington, California, and
8 Oregon. Rocky Mountain Power, headquartered in Salt Lake City, Utah, serves
9 customers in Idaho, Utah, and Wyoming. PacifiCorp Energy, containing the electric
10 generation, commercial, energy trading, and coal mining operations of the Company,
11 is also headquartered in Salt Lake City.

12 In 2006, PacifiCorp was acquired by MidAmerican Energy Holdings
13 Company. Today, PacifiCorp serves more than 1.7 million customers across
14 136,000 square miles of service territory in six states. A map of the Company's
15 service territories is provided in Exhibit No.__(RPR-2).

16 In Washington, the Company proudly serves approximately 132,000 retail
17 customers in Columbia, Garfield, Kittitas, Walla Walla, and Yakima counties.

18 **SUMMARY OF PACIFIC POWER'S PRICE INCREASE REQUEST**

19 **Q. Please summarize the Company's price increase request.**

20 A. The Company is requesting an increase to its base electric prices in Washington of
21 \$27.2 million or 8.5 percent overall. The details of the revenue requirement and the
22 adjustments made in this case to arrive at the requested increase are explained in the

1 testimony and exhibits of Ms. Natasha C. Siores. The testimony of Ms. Joelle R.
2 Steward describes the impact of the requested increase on specific customer classes.

3 **Q. Please explain why this increase is necessary given the Company's recent rate**
4 **increase.**

5 A. The Company recognizes that the Washington Utilities and Transportation
6 Commission (Commission) recently approved a rate increase for the Company and is
7 sensitive to asking for increases on a regular basis. But, as discussed in more detail in
8 the direct testimony of Mr. R. Bryce Dalley, despite this recent increase—and the
9 Company's continuing efforts to manage costs throughout the business—the
10 Company's approved rates have not provided the opportunity to earn its authorized
11 return on equity (ROE). Based on the evidence provided in the direct testimony of
12 Ms. Siores, the Company is currently earning an ROE in Washington of 6.16 percent
13 for the test period.¹ This return is significantly less than the Company's authorized
14 ROE in Washington and less than the 10.0 percent ROE requested by the Company
15 and supported by Mr. Kurt G. Strunk in his testimony. The requested price increase
16 is required to maintain the financial integrity of the Company and to provide an
17 adequate opportunity to earn its authorized return.

18 **Q. What is the test period in this case?**

19 A. As described in the testimony of Ms. Siores, the requested price increase is based on a
20 historical test period of the 12 months ended December 31, 2013, with known and
21 measurable changes. Consistent with prior rate cases and recent Commission orders,
22 the Company's net power costs (NPC) are based on pro forma net power costs for the
23 12 months ending March 31, 2016, which is the rate effective period in this case.

¹ Exhibit No.____(NCS-3) at 1.1, line 60, column 1.

1 **Q. What are the primary factors driving the need for a price increase?**

2 A. As a regulated utility, the Company must provide safe, adequate, and reliable service
3 to customers in its Washington service territory while balancing cost and risk and
4 meeting state energy policy objectives. The Company's need for this price increase is
5 primarily driven by cost increases in the following key areas:

6 **Investment in the System**—This filing includes investments in the
7 Company's generation, distribution, and transmission assets. These investments
8 include upgrades to distribution and transmission facilities located in Washington and
9 Oregon that are needed to comply with reliability standards mandated by the North
10 American Electric Reliability Corporation. These upgrades are discussed in the direct
11 testimony of Mr. Richard A. Vail.

12 This filing also includes the Merwin Fish Collector, a fish passage project
13 required by the Federal Energy Regulatory Commission (FERC) license issued for
14 the Lewis River hydroelectric projects. The project is described in more detail in the
15 direct testimony of Mr. Mark R. Tallman.

16 Also included in this filing is the replacement of a cooling tower at Unit 1 of
17 the Jim Bridger generating plant. The new cooling tower replaces an existing tower
18 that has been in service since 1990. This project is described in more detail in the
19 direct testimony of Mr. Dana M. Ralston.

20 **Increases in NPC**—As described in the direct testimony of Mr. Gregory N.
21 Duvall, one driver of this price increase is higher NPC in the Company's west control
22 area. The increase is partially mitigated by the reduction in NPC associated with
23 lower natural gas expense.

1 **Q. Are the cost increases facing the Company unique in the industry?**

2 A. No. These types of cost pressures are being experienced throughout the industry.

3 Even with the price increase proposed in this case, the Company's prices will remain
4 among the lowest in the region.

5 **Q. Has the Company taken steps to mitigate cost increases in the current business
6 environment?**

7 A. Yes. First, the Company proactively and aggressively seeks to control its costs and
8 minimize rate pressure for its customers, as discussed further in Mr. Dalley's direct
9 testimony. Second, the Company has been able to reduce its cost of long-term debt
10 from 5.29 percent, reflected in the Company's 2013 rate case, Docket UE-130043
11 (the 2013 Rate Case), to the 5.19 percent proposed in this case. This reduction
12 directly benefits customers by contributing to a lower overall rate of return and lower
13 revenue requirement. This is discussed in more detail in the direct testimony of
14 Mr. Bruce N. Williams. Third, Mr. Erich D. Wilson discusses how the Company has
15 prudently contained increases to labor costs since the 2013 Rate Case and, in
16 particular, has kept increases in benefit costs at a reasonable level that reflect the
17 economic conditions and market. Health-care costs have continued to rise at a steep
18 rate, and the Company has made adjustments to cost sharing and plan design to
19 control costs and align with market practices.

20 **Q. Does the Company's filing include any proposals to minimize the impact on low
21 income customers?**

22 A. Yes. As the Commission noted in Order 05 in the 2013 Rate Case, low income

1 assistance is “critically important and deserves close attention.”² To help minimize
2 impacts on low income customers, the Company proposes a smaller increase to the
3 basic charge for customers in the Low Income Bill Assistance program. This benefit
4 is in addition to the increase in program benefits outlined in the five-year plan for low
5 income assistance that the Commission approved in the Company’s 2011 general rate
6 case.³ Low income benefits are discussed further in Ms. Steward’s testimony.

7 **INTRODUCTION OF WITNESSES**

8 **Q. Please list the Company witnesses in this case and provide a brief description of**
9 **their testimonies.**

10 A. **R. Bryce Dalley**, Vice President, Regulation, discusses regulatory policy issues
11 including the regulatory environment in Washington and the proposals in this case
12 that are designed to provide the Company a reasonable opportunity to earn its
13 authorized rate of return and recover the prudent costs to serve Washington
14 customers.

15 **Kurt G. Strunk**, Vice President, National Economic Research Associates, Inc.,
16 testifies concerning the Company’s cost of equity. He presents support for the
17 requested authorized ROE of 10.0 percent to account for the risks and operating
18 challenges facing the Company.

19 **Bruce N. Williams**, Vice President and Treasurer, describes the calculation of the
20 Company’s capital structure, cost of debt, and cost of preferred stock.

² *Wash. Utils. and Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-130043, Order 05, ¶256 (Dec. 4, 2013).

³ *Wash. Utils. and Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-111190, Order 07, ¶¶17-18 (Mar. 30, 2012).

1 **Richard A. Vail**, Vice President of Transmission, describes upgrades at the
2 Company's distribution and transmission facilities in Washington and Oregon.

3 **Mark R. Tallman**, Vice President of Renewable Resources, discusses the Merwin
4 fish passage project required by the FERC license issued for the Lewis River
5 hydroelectric system.

6 **Dana M. Ralston**, Vice President of Thermal Generation, provides information
7 supporting the prudence of a cooling tower replacement project at Jim Bridger Unit 1.

8 **Erich D. Wilson**, Director, Human Resources, presents an overview of
9 compensation, incentive, and benefit plans and supports the costs related to these
10 areas included in the test period.

11 **Gregory N. Duvall**, Director, Net Power Costs, describes the Company's NPC, load
12 forecasting methodologies, and coal costs and presents the Company's proposal for
13 an adjustment mechanism for the prudently incurred costs of compliance with
14 Washington's renewable portfolio standard.

15 **Natasha C. Siores**, Director, Regulatory Affairs and Revenue Requirement, presents
16 the Company's overall revenue requirement based on the historical 12-month period
17 ended December 31, 2013. She also presents the normalizing and pro forma known
18 and measurable adjustments to historical results related to revenue, operations and
19 maintenance expense, NPC, depreciation and amortization, taxes, and rate base.

20 **Barbara A. Coughlin**, Director, Customer Service, describes the Company's
21 proposed changes to its tariff rules and Schedule 300.

22 **Joelle R. Steward**, Director, Pricing, Cost of Service and Regulatory Operations,
23 presents the Company's cost of service study, the proposed allocation of the price

1 increase across rate schedules, and the proposed changes in rate design for the
2 affected rate schedules.

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

4 A. Yes.