**BEFORE THE**

**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

|  |  |  |
| --- | --- | --- |
| WASHINGTON UTILITIES AND  TRANSPORTATION COMMISSION,  Complainant,  v.  PACIFICORP d/b/a PACIFIC POWER  AND LIGHT COMPANY,  Respondent.    \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | )  )  )  )  )  )  )  )  )  )  )  )  )  ) | Docket No. UE-100749 |

**RESPONSIVE TESTIMONY OF MICHAEL EARLY**

## ON BEHALF OF

**THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

**October 5, 2010**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

**A.** My name is Michael B. Early and I am the Executive Director of Industrial Customers of Northwest Utilities (“ICNU”). My business address is 1300 SW 5th Ave, Suite 1750 Portland, OR 97201.

**Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

**A.** ICNU.

### Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony provides the Washington Utilities and Transportation Commission (“WUTC” or the “Commission”) with an overview of the ICNU proposed adjustments to PacifiCorp’s proposed revenue requirement increase and a summary of the testimony of the witnesses sponsored by ICNU.

**Q.** **PLEASE DESCRIBE ICNU.**

**A.** ICNU is an incorporated, non-profit association of large industrial electric customers in the Pacific Northwest, with offices in Portland, Oregon. ICNU’s PacifiCorp Washington members include companies in the pulp and paper, and food processing industries. These industries have been hit very hard by the current economic recession, and are often suffering to a greater extent than the economy as a whole. Although I am not familiar with all of the details, I am aware that many of ICNU’s members have taken dramatic and significant efforts keep their facilities operational during the current economic conditions, including the consolidation of operations, lowering their operational costs, reducing medical benefits, eliminating pension programs, filing for bankruptcy protections, and even closing certain operations. Many of these facilities have been taking difficult steps to reduce costs, and some facilities have few other areas in which they can make savings. The additional closures or reduced operations of industry could have devastating impacts on their local communities. Closure of facilities will also harm all other ratepayers, because PacifiCorp will then seek to recover many of the costs related to serving the closed facilities from its remaining customers.

Q. IS THIS AN IMPORTANT CASE FOR ICNU AND ITS MEMBERS?

**A.** Yes, this is a very important case for ICNU and industrial customers in PacifiCorp’s Washington service territory. PacifiCorp has proposed a very large a $56.7 million, or 21% rate increase during a significant economic recession in which industry is struggling to operate. I believe this constitutes “rate shock.” This rate increase follows up on near annual rate filings by PacifiCorp, which appears to have been precipitated in part by the Company’s purchase by the Mid-American Energy Holdings Company (“MEHC”).

The importance and seriousness of this case is demonstrated by the fact that ICNU is submitting testimony of an unprecedented six witnesses, three of which are focusing on revenue requirement issues. ICNU recommends that the Commission carefully review every aspect of PacifiCorp’s rate filing, and ensure that rates are not increased unless absolutely necessary.

Q. DO YOU SUPPORT PACIFICORP’S NEW APPROACH OF FILING ANNUAL RATE CASES IN WASHINGTON?

**A.** No. Since PacifiCorp was acquired by MEHC on March 22, 2006, the Company has engaged in a new plan of filing for annual rate increases in Washington. PacifiCorp has proposed rate increases in each year, and the Company’s industrial customer rates have increased every year (about a 6.7% increase in 2007, an 8.8% increase in 2008, and a 5.3% increase in 2009). The Commission should send PacifiCorp a strong signal that this approach should stop.

The annual rate case approach is directly contradictory to what MEHC promised ICNU when it was in the process of purchasing PacifiCorp. We were told that MEHC’s approach is to “get the rates correct” and then leave them in place for a long period of time (at least five years). MEHC has taken the exactly opposite approach, which is quite remarkable given the current economy and the fact that MEHC has significantly reduced many of the costs at PacifiCorp.

Q. WHAT ACTION DO YOU RECOMMEND THAT THE COMMISSION TAKE IN THIS PROCEEDING?

**A.** The Commission should not treat this as a typical general rate case proceeding. PacifiCorp has had three years of significant rate increases well above the annual rate of inflation, most of which were pursuant to settlements in which the Company agreed that its rates were sufficient to cover its costs. These past rate increases and the current state of the economy warrant the Commission taking a very hard look at all of the Company’s costs. In addition, there may be certain discretionary programs that may be appropriate in good economic times that the Company should not be making now.

Q. PLEASE SUMMARIZE THE TESTIMONY OF THE ICNU WITNESSES?

**A.** In addition to myself, ICNU is sponsoring five witnesses. Nicholas Nachbar addresses the harmful impacts of the rate increase on the Boise, Inc. Wallula mill, which is an important PacifiCorp industrial customer. Randall Falkenberg addresses power costs, the West Control Area (“WCA”) inter-state cost allocation methodology, and the Company’s renewable energy credit (“REC”) sales. Donald Schoenbeck addresses rate spread and rate design. Michael Gorman addresses return on equity, rate of return, and capital structure. Greg Meyer, who is jointly sponsored by Public Counsel, addresses administration and general (“A&G”) and operations and maintenance (“O&M”) costs.

These ICNU sponsored revenue requirement adjustments total $28.6. I would like to emphasize that this does not represent ICNU’s final litigation position. ICNU has not reviewed all aspects of the Company’s proposal, and there are many other areas of the Company’s filing which are likely overstated. ICNU will review the responsive testimony of Staff and any other parties, and may adopt other parties’ proposals or modify our own proposals in later testimony or briefing.

Mr. Nachbar is the Boise Wallula mill manager and his testimony explains the harmful impacts the rate increase would have on this specific facility. Mr. Nachbar’s testimony explains that the mill is very important to the local community, and how PacifiCorp’s rate increase could have far ranging damage to the economy in southwestern Washington.

Mr. Falkenberg demonstrates that PacifiCorp has significantly overstated its power costs in this proceeding, and inappropriately removed revenues related to the sales of RECs. Overall, Mr. Falkenberg recommends about $13.7 million in revenue requirement reductions (on a Washington basis), which is nearly one fourth of the Company’s rate increase proposal.

Mr. Falkenberg also explains some flaws in the Company’s implementation of the WCA, which shows that Washington is paying more than its fair share of the Company’s total costs. The merger of Utah Power & Light Co. and Pacific Power & Light Co., appears to have benefited Utah, and resulted in cost shifts to states like Washington. For example, the average industrial rate in Washington at the time of the merger was 3.77 cents/kWh while in Utah it was 4.27 cents/kWh.[[1]](#footnote-2)/ Despite a reliance on cheap hydro and no need to invest in huge capital projects to address load growth, Washington’s industrial rates are almost the same as Utah’s (the average 2009 Washington industrial rate is 4.81 cents/kWh and the average 2009 Utah industrial rate is 4.89 cents/kWh).[[2]](#footnote-3)/ This rate case could result in Washington rates being higher than Utah, a fundamentally counter-intuitive and erroneous result especially since Utah has been one of the Company’s high growth states.

Mr. Schoenbeck’s testimony addresses flaws in the Company’s rate spread and rate design approach for schedule 48T. Mr. Schoenbeck’s analysis and the Company’s analysis, however, both support the Company’s recommended equal percentage increase for all major classes. Mr. Schoenbeck recommends that a rate design change be made for industrial customers regarding the amount of the increase that is attributed to energy versus demand.

Mr. Gorman’s testimony explains how the Company has overstated its requested rate of return and capital structure. PacifiCorp overreaches on rate of return issues in all of its general rate proceedings, but the Company’s request in this case is particularly excessive and outrageous given the current economic situation, low interest rates and state of the capital markets. Mr. Gorman recommends a 9.5% return on equity, and 49.1% common equity ratio resulting a $9.4 million adjustment. ICNU is aware that Staff is sponsoring testimony on cost of capital issues, and ICNU will review Staff’s proposals and potentially revise its recommendation in cross answering testimony.

Mr. Meyer’s testimony addresses a number of miscellaneous A&G related revenue requirement issues, and recommends that PacifiCorp’s costs be reduced by at least $5.5 million. Mr. Meyer’s testimony takes a conservative approach to many revenue requirement issues. For example, Mr. Meyer recommends that cash working capital be reduced to zero, but notes that negative cash working capital might be appropriate for PacifiCorp. Mr. Meyer will also review Staff’s and any other parties’ filing and may propose additional adjustments or modify his proposals in cross answering testimony.

**Q. PLEASE SUMMARIZE ICNU’S PROPOSED ADJUSTMENTS TO PACIFICORP’S PROPOSEDREQUIREMENT INCREASE**

**A.**

|  |  |
| --- | --- |
| Issue | Adjustment (Millions) |
| Cost of Capital | $9.4 |
| Power Costs | $8.3 |
| A&G | $5.5 |
| RECs | $4.9 |
| Power Cost O&M | $0.5 |
| Total | $28.6 |

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

**A.** Yes.

1. / Exhibit No. \_\_(RJF-5) at 9 [↑](#footnote-ref-2)
2. / Id. [↑](#footnote-ref-3)