

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

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

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

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

6 **A.** ICNU.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

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

12 **Q. PLEASE DESCRIBE ICNU.**

13 **A.** ICNU is an incorporated, non-profit association of large industrial electric customers in
14 the Pacific Northwest, with offices in Portland, Oregon. ICNU’s PacifiCorp Washington
15 members include companies in the pulp and paper, and food processing industries. These
16 industries have been hit very hard by the current economic recession, and are often
17 suffering to a greater extent than the economy as a whole. Although I am not familiar
18 with all of the details, I am aware that many of ICNU’s members have taken dramatic
19 and significant efforts keep their facilities operational during the current economic
20 conditions, including the consolidation of operations, lowering their operational costs,
21 reducing medical benefits, eliminating pension programs, filing for bankruptcy
22 protections, and even closing certain operations. Many of these facilities have been taking
23 difficult steps to reduce costs, and some facilities have few other areas in which they can
24 make savings. The additional closures or reduced operations of industry could have

1 devastating impacts on their local communities. Closure of facilities will also harm all
2 other ratepayers, because PacifiCorp will then seek to recover many of the costs related
3 to serving the closed facilities from its remaining customers.

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

5 **A.** Yes, this is a very important case for ICNU and industrial customers in PacifiCorp's
6 Washington service territory. PacifiCorp has proposed a very large a \$56.7 million, or
7 21% rate increase during a significant economic recession in which industry is struggling
8 to operate. I believe this constitutes "rate shock." This rate increase follows up on near
9 annual rate filings by PacifiCorp, which appears to have been precipitated in part by the
10 Company's purchase by the Mid-American Energy Holdings Company ("MEHC").

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

16 **Q. DO YOU SUPPORT PACIFICORP'S NEW APPROACH OF FILING ANNUAL**
17 **RATE CASES IN WASHINGTON?**

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

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

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

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

16 **Q. PLEASE SUMMARIZE THE TESTIMONY OF THE ICNU WITNESSES?**

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

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

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

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

17 Mr. Falkenberg also explains some flaws in the Company's implementation of the
18 WCA, which shows that Washington is paying more than its fair share of the Company's
19 total costs. The merger of Utah Power & Light Co. and Pacific Power & Light Co.,
20 appears to have benefited Utah, and resulted in cost shifts to states like Washington. For
21 example, the average industrial rate in Washington at the time of the merger was 3.77
22 cents/kWh while in Utah it was 4.27 cents/kWh.^{1/} Despite a reliance on cheap hydro and
23 no need to invest in huge capital projects to address load growth, Washington's industrial

^{1/} Exhibit No. __ (RJF-5) at 9

1 rates are almost the same as Utah's (the average 2009 Washington industrial rate is 4.81
2 cents/kWh and the average 2009 Utah industrial rate is 4.89 cents/kWh).^{2/} This rate case
3 could result in Washington rates being higher than Utah, a fundamentally counter-
4 intuitive and erroneous result especially since Utah has been one of the Company's high
5 growth states.

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

12 Mr. Gorman's testimony explains how the Company has overstated its requested
13 rate of return and capital structure. PacifiCorp overreaches on rate of return issues in all
14 of its general rate proceedings, but the Company's request in this case is particularly
15 excessive and outrageous given the current economic situation, low interest rates and
16 state of the capital markets. Mr. Gorman recommends a 9.5% return on equity, and
17 49.1% common equity ratio resulting a \$9.4 million adjustment. ICNU is aware that
18 Staff is sponsoring testimony on cost of capital issues, and ICNU will review Staff's
19 proposals and potentially revise its recommendation in cross answering testimony.

20 Mr. Meyer's testimony addresses a number of miscellaneous A&G related
21 revenue requirement issues, and recommends that PacifiCorp's costs be reduced by at
22 least \$5.5 million. Mr. Meyer's testimony takes a conservative approach to many
23 revenue requirement issues. For example, Mr. Meyer recommends that cash working

^{2/} Id.

1 capital be reduced to zero, but notes that negative cash working capital might be
2 appropriate for PacifiCorp. Mr. Meyer will also review Staff's and any other parties'
3 filing and may propose additional adjustments or modify his proposals in cross answering
4 testimony.

5 **Q. PLEASE SUMMARIZE ICNU'S PROPOSED ADJUSTMENTS TO**
6 **PACIFICORP'S PROPOSED REQUIREMENT INCREASE**

7 **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 |

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

9 **A.** Yes.