

Exhibit No.____(RPR-1T)
Docket Nos. UE-061546/UE-060817
Witness: Richard P. Reiten

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

vs.

PACIFICORP dba Pacific Power & Light
Company,

Respondent.

Docket No. UE-061546

In the Matter of the Petition of
PACIFICORP dba Pacific Power & Light
Company,

For an Accounting Order Approving Deferral
Of Certain Costs Related to the MidAmerican
Energy Holdings Company Transition.

Docket No. UE-060817

**PACIFICORP
REBUTTAL TESTIMONY
OF
RICHARD P. REITEN**

March 2007

1 **Introduction and Purpose of Testimony**

2 **Q. Please state your name, business address and present position with**
3 **PacifiCorp or “the Company”.**

4 A. My name is Richard Patrick “Pat” Reiten. My business address is 825 NE
5 Multnomah Street, Suite 2000, Portland, Oregon 97232. I am President of Pacific
6 Power.

7 **Q. Please summarize your education and business experience.**

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

20 **Q. What is the purpose of your rebuttal testimony?**

21 A. My rebuttal testimony summarizes the Company’s reaction to the overall
22 recommendations of Commission Staff and Public Counsel/Industrial Customers
23 of Northwest Utilities (ICNU). With a few notable exceptions, the

1 recommendations of the Commission Staff appear to strike a reasonable balance.
2 Indeed, the Company accepts a large number of the proposed adjustments offered
3 by Staff. In contrast, the totality of the recommendations of Public
4 Counsel/ICNU witnesses appear to result in a recommended rate decrease of
5 nearly \$25 million – a result that runs counter to well known industry cost
6 pressures and is without explanation.

7 My rebuttal testimony also responds to the serious concerns raised by
8 ICNU witness Mr. Walter Bruehl and demonstrates that PacifiCorp has:

- 9 • Worked cooperatively with Boise Cascade’s Wallula facility to identify
10 potential solutions to their reliability issues;
- 11 • Invested over \$700,000 since 2002 in reliability and power quality
12 improvements to directly benefit the Wallula facility and has plans to
13 invest approximately \$1.6 million in the near future;
- 14 • Significantly reduced interruptions to the Wallula facility in the past two
15 years; and
- 16 • Complied with the requirements of the MidAmerican transaction
17 commitment Wa25.

18 **Overall Reaction to Public Counsel/ ICNU Recommendations**

19 **Q. Please explain why the totality of the Public Counsel/ICNU recommendations**
20 **does not make sense.**

21 A. It is common knowledge that the utility industry as a whole faces increasing cost
22 pressures related to operating and capital costs necessary to maintain system
23 reliability and integrity. For example, some of the most important components of

1 PacifiCorp's costs have seen large increases since this Commission last
2 authorized rate relief for PacifiCorp:

- 3 • Higher natural gas prices: In January 2002, natural gas traded at \$2.30 per
4 MMBTU. This February the 2007-2008 winter strip averaged \$9.16 per
5 MMBTU.
- 6 • Higher coal prices: In 2000, Powder River Basin coal traded at \$4 per ton.
7 In January 2007, it averaged \$8 per ton.
- 8 • Higher wind turbine costs: A wind turbine that sold for \$1 million in 2003
9 now sells for \$1.8 million or more due to increased steel, transportation,
10 and component costs as well as more demand than supply for that turbine.
- 11 • Higher electrical equipment costs: The price of copper wire has increased
12 431% since 2002.

13 **Q. Please contrast these exogenous price pressures with the revenue**
14 **requirement decrease of at least \$25 million recommended by Public**
15 **Counsel/ICNU.**

16 A. On its face value, this recommendation must be rejected by the Commission.
17 Since the Company's rates were last reviewed in 2003, the Company's direct
18 investment in the state of Washington has risen dramatically. More recently, the
19 revenue requirement from the Company's 2005 Rate Case (Docket UE-050684)
20 reflected a test year average of \$299.4 million of Distribution Plant in the state of
21 Washington. In this filing, the Company has requested recovery on a test year
22 average of \$333.2 million, or an increase of \$34 million in distribution investment
23 in Washington alone. As of December 2006, the investment in Washington

1 distribution assets had risen to \$342.8 million. If the Commission were to ignore
2 the significant investment that PacifiCorp has made and accept Public
3 Counsel/ICNU's recommended rate decrease, it would have a dramatic, chilling
4 effect on infrastructure investment in Washington and in the region at a time
5 when investment is needed. Indeed, it is difficult for me to reconcile ICNU's
6 proposed rate adjustments which would deny us the opportunity to earn a
7 reasonable return on the considerable investment in infrastructure that we have
8 made in this state with ICNU's criticism that we should be investing more on
9 infrastructure to serve one of its clients. ICNU's positions are contradictory.

10 Furthermore, as described in the direct testimony of Mr. Griffith, if the full
11 revenue requirement requested in the Company's direct case had been
12 implemented, on a real basis residential customer bills would be 23 percent lower
13 than they were in 1989. Even with the requested increase, PacifiCorp's
14 Washington customers will have rates that are the lowest of all the regulated
15 utilities in the state and among the lowest rates in the country. Moreover, we
16 have tried to be reasonable and recognize the potential impact of the rate increase
17 on our customers. For example, the return on equity that we are requesting is
18 lower than the returns granted by the Commission to other regulated utilities in
19 the state, as indicated in the testimony of PacifiCorp witness Dr. Hadaway.

20 To summarize, the Company is facing external commodity price increases
21 typical of other utilities across the region, increasing its direct investment in
22 Washington rate base, and remaining a low-cost provider in a low-cost region.
23 Yet, Public Counsel/ICNU recommend a \$25 million decrease without any

1 explanation as to how this recommendation comports with fundamental fairness
2 and reasonableness test. I will readily admit that I am not an expert in the arcane
3 art of regulatory ratemaking, but as an experienced utility professional, I cannot
4 accept that their recommended rate decrease would be in the long-run best interest
5 of my customers. I urge the Commission to authorize a revenue requirement
6 increase to PacifiCorp consistent with the testimony of my colleagues.

7 **PacifiCorp Investments for Boise**

8 **Q. Do you agree with ICNU witness Mr. Bruehl that PacifiCorp has not taken**
9 **appropriate action to remedy Boise's reliability problems?**

10 A. No. The Company has invested over \$700,000 since 2002 to improve reliability
11 and power quality for the Wallula facility. In addition, as discussed below the
12 Company stands ready to invest over \$600,000 to install four transruters in the
13 Cascade Kraft substation to replace the high side fuses on each transformer in the
14 substation. The Company has also hired an outside consulting firm to complete
15 the design work to replace the PacifiCorp fixed capacitor banks located in the
16 Cascade Kraft substation with units that do not cause voltage transients when
17 switched on and mitigate harmonic currents and voltage distortion. We have
18 estimated the capital investment for this project to be \$1,000,000.

19 In addition a further \$3.4 million has been invested in energy efficiency
20 measures at the facility since 2006.

21 **Q. How much of this investment is included in the test period?**

22 A. The \$700,000 capital investment was made before March 31, 2006, and Mr.
23 Wrigley informs me this figure is included in the rate base in this case. To date,

1 approximately 75 percent of the \$600,000 and the costs of the engineering studies
2 were spent after March 31, 2006 and were not included in this test period.

3 **Q. Has the projected \$1.6 million investment been included for recovery in this**
4 **general rate case?**

5 A. No. Consistent with my concerns regarding the totality of ICNU's
6 recommendations, I find it disturbing that ICNU would simultaneously propose a
7 significant rate decrease in this rate case while submitting testimony lamenting
8 the Company's alleged "under" investment in the system. It is difficult to
9 understand how ICNU can reconcile a requirement that the Company continue to
10 increase its investment in the system when it has opposed all rate relief for
11 PacifiCorp since a 1.0 percent rate increase allowed in January 2003 under the
12 Rate Plan approved in the 1999 rate proceeding (Docket UE-991832) In fact,
13 ICNU went so far in its opposition to rate relief for the Company that it sought
14 judicial review of the last two rate decisions in which the Commission granted the
15 Company regulatory relief (Dockets UE-020417 and UE-032065).

16 **Improvements in Reliability at Boise**

17 **Q. What improvements in reliability and power quality have been realized since**
18 **the 2005 Joint Study?**

19 A. In 2004, prior to the completion of the Cascade Kraft Substation Outage and
20 Power Quality Study, Boise Paper Wallula Plant experienced five process
21 interruptions (three outages and two voltage sags) associated with their electric
22 service. The three outages were caused by a substation transformer failure in the
23 Cascade Kraft substation, a circuit breaker mis-operation, and an operator error.

1 The two voltage sags were caused by a lightning strike on the 69 kV transmission
2 line serving the Cascade Kraft substation and an operator error.

3 In 2005, the Boise Paper Wallula plant did not experience a single process
4 interruption associated with its electric service. The plant did experience one
5 voltage sag, but that did not interrupt its process. This voltage sag was caused by
6 a bird contacting the bus of our nearby Nine Mile Substation.

7 In 2006, Pacific Power experienced two lightning strikes on the 69 kV
8 transmission lines serving the Cascade Kraft substation causing voltage sags to
9 the Boise Paper plant. Neither caused any interruption to the plant process.
10 During the storm on December 14 and 15, 2006, Cascade Kraft and the Boise
11 Paper plant experienced a few voltage sags. I am not aware if any of these
12 voltage sags caused any disruption to the Boise operation. In addition, there have
13 been no disturbances to the Boise Paper Wallula plant associated with operator
14 error since 2004.

15 **Q. Please comment on Mr. Buehl's concerns regarding the implications of**
16 **outages and voltage sags for Boise's processes.**

17 A. We understand the importance of reliability to our customers and try to address
18 the increasing sensitivity to power quality issues that our customers face. At the
19 same time, we have the responsibility to ensure that the investments that we seek
20 to recover from our customers meet the required cost-effectiveness criteria as
21 expected by the Commission. The language of the transaction commitment was
22 designed to accommodate the possible outcome that engineering studies may
23 suggest solutions that are not cost-effective and therefore would not be reasonable

1 to expect our general customer population to finance. In that case, we would
2 work with the customer to evaluate their willingness to support the investment.

3 **Compliance with MEHC Transaction Commitment Wa25**

4 **Q. When did you first learn that Boise had concerns regarding PacifiCorp's**
5 **compliance with the transaction commitment Wa25?**

6 A. I first learned of Boise's position at a January 12, 2007 settlement conference in
7 this proceeding. ICNU's attorney notified us of the concern.

8 **Q. What actions did you take once you learned of these concerns?**

9 A. I immediately called the employees responsible for delivering the transaction
10 commitment to determine the status. I then asked my staff to contact Boise
11 directly and arrange a visit to their headquarters in Boise, Idaho.

12 **Q. Did that visit occur?**

13 A. We scheduled visits with their plant managers on two separate occasions, and on
14 both occasions, they had to cancel. Understandably, the plant has been pressed
15 for time in preparation for the April outage, but we have been anxious to visit or
16 meet with them face-to-face to discuss these commitments. In lieu of the visit, I
17 have had a follow-up conversation with Boise's Senior Vice President of the
18 Paper Division and a face-to-face meeting with Boise's General Counsel.

19 **Q. Has any other contact occurred recently with Boise?**

20 A. Yes. On February 26, 2007, I delivered a letter providing additional detail on the
21 status of the implementation of the commitments and the actions that PacifiCorp
22 intends to take to fulfill the requirements consistent with the time frames specified
23 in the commitment. I also emphasized my personal commitment to customer

1 satisfaction and a desire to effectively communicate to enhance mutual
2 understanding and benefit.

3 **Q. Please summarize MEHC transaction commitment Wa25.**

4 A. MEHC and PacifiCorp committed to take specific actions described in the
5 Cascade Kraft Substation Outage and Power Quality Study dated January 10,
6 2005 in order to increase power quality and improve reliability to the Boise
7 Cascade facility in Wallula, Washington. The commitment required that the
8 certain actions be taken within twelve months of the transaction close. Given that
9 the transaction closed on March 21, 2006, this twelve month period has not yet
10 expired as of the time this testimony was prepared and filed.

11 **Q. Please summarize the action steps in Wa25 and their current status.**

12 A. The actions steps in commitment Wa25 and their status are:

- 13 1) *Complete the installation of upgraded transformer primary protection for*
14 *PacifiCorp transformers located in the "Kraft substation." Installing*
15 *"transruptors" in place of fuses. This \$600,000 project requires*
16 *PacifiCorp to install four transrupters in the Cascade Kraft substation to*
17 *replace the high side fuses on each transformer in the substation. This*
18 *project is underway with a scheduled completion date of April 2007 to*
19 *coincide with Boise Paper Wallula plant's planned shutdown.*
- 20 2) *Replace the PacifiCorp fixed capacitor banks located in the "Kraft*
21 *Substation" with units that do not cause voltage transients when switched*
22 *on and in addition mitigate harmonic currents and voltage distortion.*
23 Pacific Power has hired an outside consulting firm to complete the design

1 work on this project. The design will be completed by March 5, 2007.

2 The design will be reviewed with Boise Cascade for final approval with a
3 planned in-service date of March 1, 2008 and an estimated cost to
4 PacifiCorp of \$1,000,000.

- 5 3) *Prepare an engineering study analyzing the cost of installation of*
6 *adequate lightning protection to the 69 kV sub-transmission system that is*
7 *interconnected to the "Kraft Substation".* A draft study prepared by an
8 outside consultant was provided to Boise Cascade in November 2006.
9 The final study will be completed in early March. By March 21, 2007 –
10 the date prescribed in the commitment – PacifiCorp will provide a report
11 to Boise and Commission Staff. This report will specify the actions that
12 PacifiCorp intends to take with respect to such items and the timing of
13 completion thereof and the means of financing such work.

- 14 4) *Prepare an engineering study analyzing the cost of installation of*
15 *adequate lightning protection to the 230 kV transmission system that is*
16 *interconnected to the "Wallula Substation."* The draft study prepared by
17 the outside consultant and provided to Boise Cascade in November 2006
18 was a combined study of both the 69 kV and 230 kV transmission systems
19 serving the Cascade Kraft substation.

- 20 5) *Control the vegetation near the 230 kV structures to prevent range fire*
21 *damage to the structures.* PacifiCorp spent \$15,000 in July 2005 on
22 vegetation management on all of the transmission facilities serving the
23 Cascade Kraft substation and will complete same vegetation management

1 on those facilities again this year.

2 6) *Complete and continue the training of system operators to mitigate human*
 3 *errors.* Primary training was completed in April 2005 with follow-up
 4 training to be conducted annually. We have experienced no process
 5 interruptions at the Boise Paper Wallula plant associated with operator
 6 error since 2004.

7 7) *Upgrade Dodd Road substation facilities to reduce the potential for faults*
 8 *on the secondary that pull the voltage down on the primary for extended*
 9 *time periods.* PacifiCorp insulated the bus at Dodd Road substation to
 10 prevent bus faults at the substation caused by animals and birds in the
 11 station. This work was completed in January 2006 with a total capital
 12 investment of \$100,000.

13 **Q. Please summarize the other requirements of Wa25 and their current status.**

14 A. There are three other pieces related to Engineering Review and Approval,
 15 Completion Dates, and Cost Responsibility. Specifically:

16 *Engineering Review and Approval. The engineering and detailed designs*
 17 *for items 1, 2, and 7 shall be completed by PacifiCorp and provided to*
 18 *Boise for its approval no later than twelve (12) months after the close of*
 19 *the transaction [March 21, 2007]. If a dispute arises between the parties*
 20 *in respect of any engineering approval required by the preceding sentence*
 21 *either party may apply to the Commission for an order resolving the*
 22 *dispute on the basis of whether the disputed aspect of PacifiCorp's design*
 23 *provides a cost effective design that complies with good industrial*
 24 *electrical practices.*

25 *Completion Dates. Items 1, 2, and 7 shall be completed no later than 12*
 26 *months after Boise's approval of PacifiCorp's engineering and detailed*
 27 *design or the Commission's resolution of any disputes that arise out of*
 28 *such review and approval process. The engineering studies required by*
 29 *items 3 and 4 shall be completed within 12 months after the close of the*
 30 *transaction and a report specifying the actions that PacifiCorp intends to*

1 *take with respect to such items and the timing of completion thereof and*
2 *the means of financing such work shall be supplied at such time to each of*
3 *Boise and the Commission Staff.*

4 *Cost Responsibility.* *All work described in paragraph (a) above shall be*
5 *completed by PacifiCorp at its sole cost and expense and without*
6 *additional charge to Boise. The cost of such actions may be included in*
7 *base rates by PacifiCorp in PacifiCorp's next filed rate case applicable to*
8 *its Washington service area; provided that the cost of the studies provided*
9 *for in items 3 and 4 shall not be added to base rates until a solution to the*
10 *problem reasonably acceptable to Boise and the Commission Staff has*
11 *been implemented.*

12 **Q. Is there a risk that any of these commitments will not be fulfilled?**

13 A. No. However, upon review of the cover letter accompanying the draft study for
14 items 3 and 4 above, it is clear that we did not effectively communicate the
15 additional actions that PacifiCorp intended to take to fulfill the requirements of
16 the commitment. It is also important to note that PacifiCorp's analysis of the
17 findings of the lightning studies raise cost-effectiveness concerns vis-à-vis the
18 significant cost of installing lightning protection when compared to the potential
19 benefit. We will be conferring with Boise on these concerns before the March 21,
20 2007 report deadline.

21 **Q. Please summarize your testimony regarding PacifiCorp's fulfillment of the**
22 **transaction commitment.**

23 A. PacifiCorp has or will meet all of the requirements set forth in the commitment.
24 If a future dispute between Boise and PacifiCorp arises, the commitment provides
25 for two avenues to resolve this dispute – one to apply to the Commission for an
26 order resolving any disputes related to engineering approval and one to work with
27 Commission Staff to assist in defining a reasonable solution to the lightning
28 protection issues.

1 **Q. Should the Commission take any action in this proceeding?**

2 A. No. I am committed to continuing to work with Boise to resolve their concerns.

3 None of the deadlines in the commitment has expired (as of the time this

4 testimony was filed) and I am confident that they will all be met. Furthermore,

5 the commitment provides for avenues to resolve disputes and future disputes.

6 This rate case is not the appropriate forum for doing so.

7 **Q. Does that conclude your testimony?**

8 A. Yes.