

1 **Q. Are you the same Richard Patrick “Pat” Reiten who previously submitted**
2 **direct testimony in this proceeding?**

3 A. Yes.

4 **Purpose of Testimony**

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

6 A. My rebuttal testimony provides an overview of the Company’s rebuttal filing and
7 the additional steps the Company has taken to mitigate its requested rate increase
8 in response to the testimony of Staff and intervenors. I also introduce the other
9 witnesses providing rebuttal testimony on behalf of PacifiCorp.

10 **Summary of PacifiCorp’s Rebuttal Filing**

11 **Q. What is the price increase requested by PacifiCorp in this rebuttal filing?**

12 A. In response to certain issues raised by Staff and intervenors, the Company
13 proposes adjustments and updates to its original filing that revise the price
14 increase downward by \$8.2 million, to \$48.5 million or 17.85 percent. The
15 Company’s original filing requested an overall price increase of \$56.7 million or
16 20.88 percent.

17 **Q. Please summarize the adjustments and updates included in the Company’s**
18 **rebuttal filing.**

19 A. The Company has reduced the revenue requirement by approximately \$5 million
20 for estimated revenues from the sale of renewable energy certificates as an offset
21 to test period costs. In addition, the Company has reduced the revenue
22 requirement impact of net power costs by approximately \$2.8 million to reflect
23 updates to electric and natural gas forward prices and other adjustments and

1 corrections. The Company has also reduced revenue requirement by
2 approximately \$200,000 for costs related to the removal of supplemental
3 executive retirement programs (SERP), MEHC management fees, and advertising
4 expenses. Finally, the Company has reduced revenue requirement by
5 approximately \$300,000 for additional revenues by accelerating the amortization
6 period for SO₂ credit sales. These proposals mitigate the requested increase.
7 However, as demonstrated in the rebuttal Exhibit No.____(RBD-6) of Company
8 witness Mr. R. Bryce Dalley, the Company's earnings are still only 3.15 percent
9 which is well below levels required to maintain a financially healthy utility.

10 **Q. What are the cost pressures facing PacifiCorp?**

11 A. As I described in my direct testimony, the Company's need for this rate increase
12 is primarily driven by cost increases in three key areas:

13 (1) Increases in net power costs primarily driven by the expiration of several
14 below-market legacy contracts – the expiration of which is completely outside the
15 control of the Company.

16 (2) Investment in the system, including an increase to Washington-allocated net
17 electric plant in service of approximately \$44 million since the Company's 2009
18 Rate Case, and

19 (3) Under-recovery of historical costs due to foregone base rate increases from the
20 last rate case resulting in a revenue deficiency in the historic test period.

21 **Q. Is the Company experiencing similar rate increases in its other states?**

22 A. Yes. In Oregon, the Company recently entered into two all-party stipulations that
23 result in a combined overall average increase of approximately 14.3 percent

1 effective January 1, 2011. In California, the Commission has approved a general
2 rate increase of 4.6 percent, and an uncontested energy cost adjustment clause
3 increase of approximately 10.7 percent is pending. Both of these increases will be
4 effective January 1, 2011.

5 **Q. Do you have any specific reactions to the proposals contained in the**
6 **testimony of Staff and intervenors?**

7 A. Yes. The Company understands that these are difficult economic times for many
8 of our customers. As a result, as described in my direct testimony, the Company
9 was very conservative in its inclusion of pro forma adjustments in this case and is
10 pleased that there is very little controversy on these issues in this proceeding. The
11 Company is, however, deeply troubled by the overall cost of capital
12 recommendations from Staff and Industrial Customers of Northwest Utilities
13 (ICNU).

14 **Q. Please explain.**

15 A. Although Dr. Samuel C. Hadaway and Mr. Bruce N. Williams address these
16 issues in detail in their rebuttal testimony, I believe it is important for the
17 Commission to understand how these cost of capital recommendations compare to
18 the Company's authorized cost of capital in its other jurisdictions. In the three
19 cases that have been decided in 2010, the weighted average cost of capital for the
20 Company is:

- 21 • 8.34 percent in Utah, adopted in February 2010
- 22 • 8.33 percent in Wyoming, adopted in July 2010, and
- 23 • 8.37 percent in California, adopted in September 2010

1 In comparison, Staff witness Mr. Kenneth L. Elgin recommends a weighted
2 average cost of capital approximately 90 basis points below these levels. Given
3 that Staff is charged with balancing the interests of customers and shareholders, it
4 is also particularly troubling that Mr. Elgin's recommendation is nearly 20 basis
5 points below that of ICNU, a customer advocacy group.

6 As discussed in detail by Mr. Williams, adoption of such extreme cost of
7 capital recommendations would undermine the financial integrity of PacifiCorp at
8 a time when access to capital is critical.

9 **Q. Are the cost of capital recommendations of Staff and ICNU also far-below**
10 **the Company's current authorized cost of capital in Washington?**

11 A. Yes. The Company's current allowed rate of return in Washington is 8.06
12 percent, based upon a 10.2 percent return on equity. This cost of capital was
13 established in PacifiCorp's 2006 general rate case, UE-061546, before the major
14 financial issues of the last several years. The financial crisis increased the
15 Company's cost of capital and made its financial integrity even more critical for
16 continued access to capital markets. It is therefore unreasonable to lower the
17 Company's cost of capital from its current authorized levels as proposed by Staff
18 and ICNU.

19 **Introduction of Witnesses**

20 **Q. Please list the Company witnesses and provide a brief description of their**
21 **testimony.**

22 A. **Samuel C. Hadaway**, Principal, FINANCO, Inc., presents analysis which
23 continues to support the Company's request for a 10.6 percent return on equity

1 and responds to the testimony of Mr. Kenneth L. Elgin for Staff and Mr. Michael
2 P. Gorman for ICNU.

3 **Bruce N. Williams**, Treasurer, reaffirms the proposed actual capital structure in
4 the Company's initial filing and responds to the testimony of Mr. Kenneth L.
5 Elgin for Staff and Mr. Michael P. Gorman for ICNU.

6 **Gregory N. Duvall**, Director, Long Range Planning and Net Power Costs,
7 sponsors testimony in three areas – revenues from the sales of renewable energy
8 certificates, retail revenues and associated loads, and net power costs.

9 **R. Bryce Dalley**, Manager, Revenue Requirements, presents the revised revenue
10 requirement calculation and responds to testimony related to cash working capital
11 and other miscellaneous adjustments.

12 **Ryan R. Fuller**, Tax Director, presents additional testimony in support of the
13 Company's proposal to move to full normalization of temporary book-tax
14 difference and responds to the adjustments proposed by Ms. Kathryn H. Breda for
15 Staff.

16 **Erich D. Wilson**, Director, Human Resources, responds to adjustments proposed
17 by Mr. Greg R. Meyer for ICNU/Public Counsel related to wage increases and
18 incentives.

19 **Douglas K. Stuver**, Chief Financial Officer, provides background information
20 related to MidAmerican Energy Holdings Company management cross charges
21 and explains the benefits the Company and customers receive from these services.

22 **Rebecca M. Eberle**, Low Income Program Manager, responds to the low-income
23 program changes proposed by Mr. Thomas E. Schooley for Staff and Mr. Charles

1 M. Eberdt for the Energy Project.

2 **C. Craig Paice**, Regulatory Consultant, Cost of Service, presents the updated
3 results of the cost of service study and responds to the testimony of Mr. Donald
4 W. Schoenbeck for ICNU.

5 **William R. Griffith**, Director, Pricing, Cost of Service and Regulatory
6 Operations discusses the Company's proposed revised rate spread, rate design
7 revisions, and responds to the testimony of Mr. Thomas E. Schooley for Staff, Mr.
8 Steve W. Chriss for Wal-Mart, and Mr. Charles M. Eberdt for The Energy
9 Project.

10 **Q. Does this conclude your rebuttal testimony?**

11 A. Yes.