

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp (the Company).**

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 of Pacific Power.

6 **Qualifications**

7 **Q. Briefly describe your educational and professional background.**

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
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, Oregon, 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. Senator Mark O. Hatfield, handling
17 issues associated with the U.S. Senate Energy and Natural Resources Committee.
18 I also was an official in several different capacities at the U.S. Department of
19 Interior, including serving as acting deputy director of the U.S. Bureau of Land
20 Management.

21 **Purpose of Testimony**

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

23 A. My testimony provides an overview of the Company’s request for an increase in

1 its base electric rates and the major factors driving the need for the rate increase.
2 I discuss the steps the Company has taken to mitigate the rate increase. I also
3 briefly describe the changes the Company proposes to the low-income bill
4 assistance program to help mitigate the impact of the proposed rate increase on
5 low-income customers. Finally, my testimony introduces the other witnesses
6 providing testimony on behalf of PacifiCorp.

7 **Summary of PacifiCorp's Rate Increase Request**

8 **Q. Please summarize PacifiCorp's rate increase request.**

9 A. PacifiCorp is requesting an increase to its base electric rates in Washington.
10 Based on the evidence provided in the direct testimony of Company witness R.
11 Bryce Dalley, PacifiCorp is currently earning a return on equity (ROE) in
12 Washington of 1.9 percent for the test period. This return is less than the 10.6
13 percent ROE requested by the Company, supported by Company witness Samuel
14 C. Hadaway in his testimony. An overall price increase of \$56.7 million or 20.88
15 percent is required to produce the 10.6 percent ROE necessary to maintain the
16 financial integrity of the Company.

17 **Q. Upon what test year is the rate increase request based?**

18 A. As described in the testimony of Mr. Dalley, the rate increase is based on a
19 historic test period of the twelve-months ended December 31, 2009 with limited
20 known and measurable changes. Consistent with prior rate cases and recent
21 Commission orders, the Company's net power costs are based on pro forma net
22 power costs for the twelve-months ending March 31, 2012, which is tied to the
23 rate effective period.

1 **Q. What are the primary factors driving the need for an overall rate increase?**

2 A. As a regulated utility, PacifiCorp has an obligation to provide safe, adequate and
3 reliable service to customers in its Washington service territory while balancing
4 cost, risk and state energy policy objectives on a long-term basis. The Company's
5 need for this rate increase is primarily driven by cost increases in the following
6 key areas.

7 **Increases in net power costs.** As described in the direct testimony of
8 Company witness Gregory N. Duvall, an increase in net power costs in the
9 Company's west control area is a key driver of the rate increase. When compared
10 to the net power costs filed in the Company's 2009 Rate Case, net power costs
11 have increased by \$17.5 million on a Washington-allocated basis. Unfortunately,
12 this increase is primarily driven by the expiration of several below-market legacy
13 contracts – the expiration of which is completely outside the control of the
14 Company. These contracts include: (1) the 15-year old, below-market contract
15 that supplies natural gas to the Hermiston generating plant, (2) wholesale power
16 contracts associated with Mid-Columbia hydroelectric projects and the Bonneville
17 Power Administration, and (3) third-party firm wheeling contracts. Customers
18 have benefitted from these low-cost contracts for many years but as they expire,
19 the Company needs to replace them at current market prices thereby increasing
20 net power costs.

21 The increase is partially mitigated by the reduction in net power costs
22 associated with a lower load forecast, lower market prices, and extended

1 operation of the Condit Dam. Mr. Duvall describes these changes in more detail
2 in his testimony.

3 **Investment in the system.** As presented in the revenue requirement
4 analysis of Mr. Dalley, the Company continues to have ongoing investment needs
5 in transmission and distribution in order to serve its customers safely and reliably.
6 The Company also continues to make new investments in its hydroelectric
7 generation facilities. However, unlike the Company's last two general rate cases,
8 this case does not include any major resource additions. Instead, the investments
9 are those that are ongoing in nature to maintain the Company's infrastructure.
10 Given the additional investments, as well as capturing a full year of costs for
11 investments brought into service in the last case, Washington-allocated net
12 electric plant in service has increased by approximately \$44 million since the
13 Company's 2009 Rate Case.

14 **Under-recovery of historical costs.** In a period of increasing costs, the
15 results of prior rate cases impact the need for revenue increases in future rate
16 cases. In the 2009 Rate Case, the all-party settlement achieved the Company's
17 objective to recover \$18 million in deferred costs related to the acquisition of the
18 Chehalis gas plant from September 2008 through December 2009. The
19 Company's trade-off in that settlement was to forego a higher base rate increase.
20 In this case, the foregone base rate increase from the last rate case is carried
21 forward as a revenue deficiency into the historic test period.

22 **Q. Are the costs increases facing the Company unique in the industry?**

23 A. No. Other utilities are facing the same types of cost pressures. As such, even

1 with the price increase proposed in this case, PacifiCorp's prices will remain
2 among the lowest in the region.

3 **Q. What steps has the Company taken to control cost increases in the current**
4 **business environment?**

5 A. The Company continues to proactively and aggressively control operations and
6 maintenance (O&M) and administrative and general (A&G) costs, together
7 (OMAG). As described by Mr. Dalley, OMAG has decreased by \$0.2 million
8 from the 2009 Rate Case. The Company has accomplished these cost reductions
9 by challenging its management to absorb inflationary pressures such as labor
10 escalations through productivity gains. Also contributing to this control of
11 OMAG expense is the Company's decision to hold relatively flat the number of
12 full-time equivalent employees.

13 **Q. Has the Company taken any deliberate steps to further mitigate the rate**
14 **increase requested in this case?**

15 A. Yes. Given the level of the proposed increase and the economic challenges facing
16 many of our customers, the Company has deliberately limited the pro forma
17 adjustments that it made to the historic test period results of operations. The
18 Company has also worked to incorporate its understanding of the principles
19 articulated by the Commission in its recent orders in the Puget Sound Energy and
20 Avista rate cases, although the order in the former case was issued just shortly
21 before this filing. As a result, the Company has been very conservative in its
22 inclusion of pro forma adjustments in this case.

1 **Q. Please describe how the Company approached this case.**

2 A. For elements of revenue requirement other than net power costs, the Company's
3 filing essentially represents a "make whole" filing based on a historic test period.
4 For example, the Company has not included any pro forma adjustments for capital
5 additions. Further, the Company has not proposed pro forma adjustments related
6 to wage increases other than known changes that have occurred or have been
7 agreed to in executed union contracts. In addition, the Company's case includes
8 the historic levels of incentives, employee benefits and pension expenses.

9 **Low-Income Bill Assistance**

10 **Q. Is the Company proposing changes to the low-income bill assistance**
11 **program?**

12 A. Yes. The Company proposes a number of changes to improve its low-income bill
13 assistance program. These changes focus on increasing the funding level,
14 expanding eligibility criteria, and reducing administrative overheads. Company
15 witness William R. Griffith offers additional details of the Company's proposal in
16 his direct testimony.

17 **Introduction of Witnesses**

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

20 A. **Samuel C. Hadaway**, Principal, FINANCO, Inc., testifies concerning the
21 Company's cost of equity. He will present support for the requested authorized

1 return on equity of 10.6 percent to account for the risks and operating challenges
2 that the Company faces.

3 **Bruce N. Williams**, Treasurer, describes the calculation of PacifiCorp's capital
4 structure, cost of debt and preferred stock.

5 **Gregory N. Duvall**, Director, Long-Range Planning and Net Power Costs,
6 describes the Company's net power costs. He will also explain the Company's
7 production cost model.

8 **R. Bryce Dalley**, Manager, Revenue Requirements, presents the Company's
9 overall revenue requirement based on the historic twelve-month period ended
10 December 31, 2009. He also presents the normalizing and pro-forma known and
11 measurable adjustments to historic results related to revenue, operations and
12 maintenance expense, net power costs, depreciation and amortization, taxes and
13 rate base.

14 **Ryan Fuller**, Assistant Tax Director, discusses the calculation the income tax
15 portion of the Washington-allocated revenue requirement. He also discusses a
16 recent change in the method of accounting for income tax purposes, the repairs
17 deduction, and explains the Company's proposal to move to full normalization of
18 temporary book-tax differences.

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

22 **C. Craig Paice**, Senior Analyst, Cost of Service and Pricing, presents the
23 Company's cost of service study.

1 **William R. Griffith**, Director, Pricing, Cost of Service and Regulatory
2 Operations, presents the Company's proposed rate spread and changes in price
3 design for the affected rate schedules. He also describes the changes proposed by
4 the Company to the low-income bill assistance program.

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

6 **A. Yes.**