

Rocky Mountain Power
Docket No. 07-035-93
Witness: A. Richard Walje

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Rebuttal Testimony of A. Richard Walje

Rate of Return Phase - Policy

April 2008

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

3 A. My name is A. Richard Walje and my business address is 201 South Main, Suite
4 2300, Salt Lake City, Utah, 84111. I am President of Rocky Mountain Power.

5 **Q. Are you the same A. Richard Walje who previously submitted Direct**
6 **Testimony in this proceeding?**

7 A. Yes.

8 **Purpose of Testimony**

9 **Q. What is the purpose of your rebuttal testimony in the cost of capital phase of**
10 **this case?**

11 A. I respond to the testimony of Mr. Charles Peterson from the Division of Public
12 Utilities and Mr. Daniel Lawton from the Committee of Consumer Services,
13 proposing a lower return on equity than the 10.75 percent return recommended by
14 the Company. I explain that the recommendations of Messrs. Peterson and
15 Lawton fail to account for the business risk faced by the Company. I urge the
16 Commission to consider the Company's business risk in qualitatively assessing
17 and accepting the Company's 10.75 percent return on equity recommendation.

18 **The Company's Business Risk Supports Its Recommended Return on Equity**

19 **Q. In this context, how do you define the Company's business risk?**

20 A. The Commission, as I understand it, has distinguished business risk from financial
21 or capital structure risk, and explained that business risk arises from the
22 operational environment of a company. All operational aspects of supply and
23 demand are relevant to it, as is the regulated status of a company. The

24 Commission has previously referred to business risk as the possibility that actual
25 returns will deviate from expected returns.

26 **Q. Did Mr. Peterson or Mr. Lawton address the Company's business risk in**
27 **their recommendations on return on equity?**

28 A. No.

29 **Q. What are the business risks currently faced by the Company?**

30 A. The Company's business risks arise from a particular convergence of factors,
31 including shortages in and escalating costs of labor, fuel and wholesale energy
32 costs, new load growth revenues that only partially offsets costs increases, and an
33 investment rate in excess of \$1 billion annually for new plant to serve growing
34 loads. Taking these factors into account, the Company currently estimates that its
35 revenue requirement is increasing at a level of approximately \$6 million to \$7
36 million monthly in Utah.

37 **Q. Are these risk factors exacerbated by other circumstances specific to the**
38 **Company?**

39 A. Yes. Rocky Mountain Power is a division of PacifiCorp, which operates in six
40 states. Multi-state resource planning and cost recovery issues have always been
41 challenging, but are even more so now as individual states increasingly chart their
42 own energy policies on renewable energy, greenhouse gas regulation and
43 environmental issues related to the production and transmission of electric power.

44 **Q. What other business risks does the Company now face?**

45 A. The Company's major construction program requires capital, a skilled workforce
46 and access to construction materials and equipment. Unfortunately, the

47 Company's workforce is aging, creating concerns about potential staffing
48 shortages, and construction materials and equipment prices are rising.

49 **Q. Amidst the risks facing Rocky Mountain Power, how has the Company**
50 **responded to the operating challenges and the commitments it has made in**
51 **Utah?**

52 A. Under MidAmerican ownership, the Company has increased its local presence
53 and decision-making, permitting it to become more responsive to the needs and
54 concerns of its Utah customers. We think the Company's capital investment
55 program, which includes significant new utility infrastructure in Utah, reflects this
56 increased responsiveness to the state of Utah. The Company's focus on safety
57 and reliability has also sharpened at a time when customers' interest in power
58 quality has increased. Together, these efforts have produced the high customer
59 satisfaction levels detailed in my direct testimony.

60 **Q. Did the Commission acknowledge some of these challenges in the Company's**
61 **current business circumstances in its order setting the test year for this case?**

62 A. Yes. The Commission stated that: "In this time of expanded utility investment,
63 potentially increasing costs, and greater uncertainty of economic conditions, more
64 frequent rate cases may be necessary to ensure just and reasonable rates." Order
65 on Test Period (February 14, 2008.)

66 **Q. Should the Commission consider the Company's business risk in setting**
67 **return on equity in this case?**

68 A. Yes. ,The Commission should consider the Company's business risk as a
69 qualitative factor in setting return on equity. The Commission has made it clear

70 that setting return on equity involves not just a mechanical application of model
71 results, but also a qualitative assessment. In this case, the Company's business
72 risk supports and corroborates the reasonableness of the Company's
73 recommended 10.75 percent return on equity.

74 **Q. Does this conclude your testimony?**

75 A. Yes.