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March 17, 2011

***VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY***

Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Julie P. Orchard
Commission Secretary

RE: Docket No. 10-035-124
Rebuttal Test Period Testimony of David L. Taylor and Steven R. McDougal

Rocky Mountain Power hereby submits for filing an original and fifteen copies of the Rebuttal Testimony of David L. Taylor and Steven R. McDougal in the Test Period Phase in Docket No. 10-035-124. The Company will also provide an electronic version of this filing to psc@utah.gov.

Rocky Mountain Power respectfully requests that all formal correspondence and requests for additional information regarding this filing be addressed to the following:

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Informal inquiries may be directed to Dave Taylor at (801) 220-2923.

Sincerely,

Jeffrey K. Larsen
Vice President, Regulation

cc: Service List in Docket No. 10-035-124

CERTIFICATE OF SERVICE

I hereby certify that on this 17th of March, 2011, a true copy of the foregoing document was sent via email to the following:

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Rocky Mountain Power
Docket No. 10-035-124
Witness: David L. Taylor

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Test Period Rebuttal Testimony of David L. Taylor

March 2011

1 **Q. Please state your name and business address.**

2 A. My name is David L. Taylor and my business address is 201 South Main, Suite
3 2300, Salt Lake City, Utah, 84111.

4 **Q. Are you the same David L. Taylor who submitted pre-filed direct testimony**
5 **in this proceeding?**

6 A. Yes.

7 **Purpose and Summary of Testimony**

8 **Q. What is the purpose of your test period rebuttal testimony (“Testimony”) in**
9 **this proceeding?**

10 A. The purpose of my Testimony is to respond to the test period testimony of the
11 Division of Public Utilities (“DPU”), Office of Consumer Services (“OCS”), Utah
12 Association of Energy Users Intervention Group (“UAE”) and the Utah Industrial
13 Energy Consumers (“UIEC”).

14 **Q. Please summarize your Testimony.**

15 A. My Testimony explains why the Company’s proposed test period from July 1,
16 2011 to June 30, 2012 better reflects the conditions the Company will experience
17 during the rate-effective period in this case than the 2011 calendar-year test period
18 proposed by UAE and UIEC. Specifically my testimony will explain why:

- 19
- 20 • The Company’s proposed test period best aligns with the rate-effective
21 period.
 - 22 • Any potential concerns or issues regarding the accuracy of the Company’s
forecasts can be dealt with using the Company’s proposed test period.

- 23 • The fact that the Company may file annual general rate cases is no excuse
24 to set rates below the prudent costs reasonably expected during the rate-
25 effective period.
- 26 • The Company has complied with the test period statute, Utah Code § 54-
27 4-4(3), and with the Commission’s rule on test period filing, Utah
28 Administrative Code R746-700-10, in good faith.
- 29 • Other issues raised by witnesses are without merit.

30 **Test Period**

31 **Q. Do any of the parties support the test period proposed by the Company?**

32 A. Yes. The DPU recommends that the Commission adopt the test period proposed
33 by the Company. The DPU witnesses raise questions about certain areas of the
34 forecasts of the Company, but state that the DPU’s auditors and staff can
35 appropriately make adjustments to the Company’s forecasts within the test period
36 proposed by the Company.¹ The witnesses for UAE and UIEC recommend that
37 the Commission adopt a 2011 calendar-year test period. The OCS witness
38 recommends that the Commission adopt a test period earlier than that proposed by
39 the Company, but does not specify a period.

40 **Q. How do you respond to this testimony generally?**

41 A. I believe the DPU has correctly analyzed the issue. The purpose of a test period is
42 to reflect the conditions that the Company will face during the rate-effective
43 period. If other parties believe that there are problems with forecasts used for the
44 test period that most closely aligns with the rate-effective period, they should, as

¹ E.g. Zenger, lines 46-53.

45 proposed by the DPU, propose adjustments to those forecasts instead of proposing
46 a test period that does not include costs that will be incurred during the rate-
47 effective period.

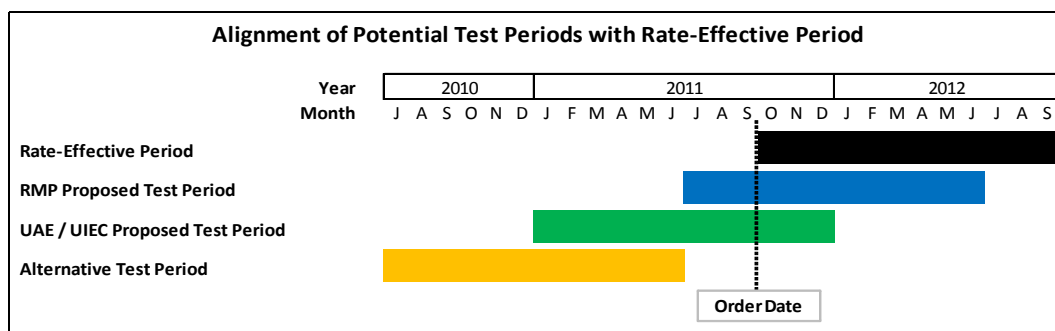
48 **Q. Mr. Kevin Higgins refers to his proposed test period starting January 1, 2011**
49 **as a fully-projected test period.² Do you agree that this is a fully-projected**
50 **test period?**

51 A. Any test period can be claimed to be fully projected if it contains pro forma or
52 known and measurable adjustments beyond the historic period. Mr. Higgins’
53 proposed test period is a fully forecast projection of costs for a period that will
54 mostly be in the past when new rates go into effect. The question is not is the test
55 period a fully-projected test period, but whether that projection is reflective of the
56 plant investment that will be in place and the costs that will be incurred to serve
57 customers during the rate-effective period that begins in September 2011 and runs
58 until September 2012 and perhaps beyond. In the case of Mr. Higgins’ proposed
59 test period, the answer to that question is no.

60 As clearly shown in Table 5 of my direct testimony, and as shown below,
61 the test period from January 1, 2011 to December 31, 2011 starts nine months
62 prior to the anticipated order date in this docket. Therefore, three-fourths of the
63 test period will be historic when the new rates become effective. However, of
64 more concern to the Company is whether the underlying costs included in the test
65 period will be reflective of costs during the rate-effective period. In the case of
66 the proposed calendar-year 2011 test period, the costs do not reflect cost during
67 the rate-effective period because they ignore the significant capital additions

² Higgins, p 16, lines 397

68 included in the Company's test period, and the known changes in power costs and
 69 contracts. On the other hand, the Company's proposed test period from July 2011
 70 through June 2012 most closely aligns with the rate-effective period and starts
 71 three months prior to the order date. The test period proposed by the UAE and
 72 UIEC only overlaps with the rate-effective period in three out of the twelve
 73 months.



74 For any test period earlier in time than the rate effective-period to best
 75 reflect the costs that will be incurred to provide service to customers during the
 76 rate-effective period at least two conditions must exist. First, operating expenses,
 77 including net power costs, must be expected to remain flat, on a unit cost basis,
 78 between the selected test period and the rate-effective period. Second, net rate
 79 base must remain flat, or in other words, new capital investment beyond the test
 80 period must not be expected to exceed depreciation expense for the same time
 81 period. If Mr. Higgins believes that his proposed calendar 2011 test period meets
 82 those conditions he should present evidence to support that claim. So far he has
 83 not done that.

84 **Q. Do you agree with Mr. Higgins that his proposed test period better aligns**
85 **with the “start of the rate-effective period that RMP has requested –**
86 **September 21, 2011?”**

87 A. Whether his proposed test period or the Company’s better aligns with the start of
88 the rate-effective period is subject to debate. By using calendar year 2011, the
89 average rate base proposed by Mr. Higgins understates the values at the start of
90 the rate-effective period. Regardless, this is the wrong comparison. Rates are not
91 being set for one day, September 21, 2011, but for the entire rate-effective period.

92 Rates should not be based on the start of the rate-effective period only.
93 The standard according to Section 54-4-4(3) of the Utah Code is “best reflects the
94 conditions that a public utility will encounter during the period when the rates
95 determined by the commission will be in effect.” The statute does not refer to the
96 date the rates will change, but to the time they will be in effect. Mr. Higgins’ use
97 of the “start of the rate-effective period” conveniently excludes the entire time in
98 which the new rates will be in effect. Rates in this case will likely be set for a
99 rate-effective period of at least one year, not for a single day.

100 **Q. The direct testimony of Mr. Dan Gimble, Mr. Higgins, and Mr. Maurice**
101 **Brubaker all refer to the test period used in the Wyoming rate case as**
102 **justification for the test period Utah should choose. How do you respond?**

103 A. I have two concerns with this line of reasoning: (1) The Utah Commission should
104 choose a test period based upon Utah laws and should not choose a test period
105 simply because that period is utilized in Wyoming or any other state; and (2) the
106 witnesses conveniently ignored Oregon and California, which also use forecast

107 test periods, because the test periods in those states do not support their position.

108 Related to the first point, Utah should make a decision based upon Section

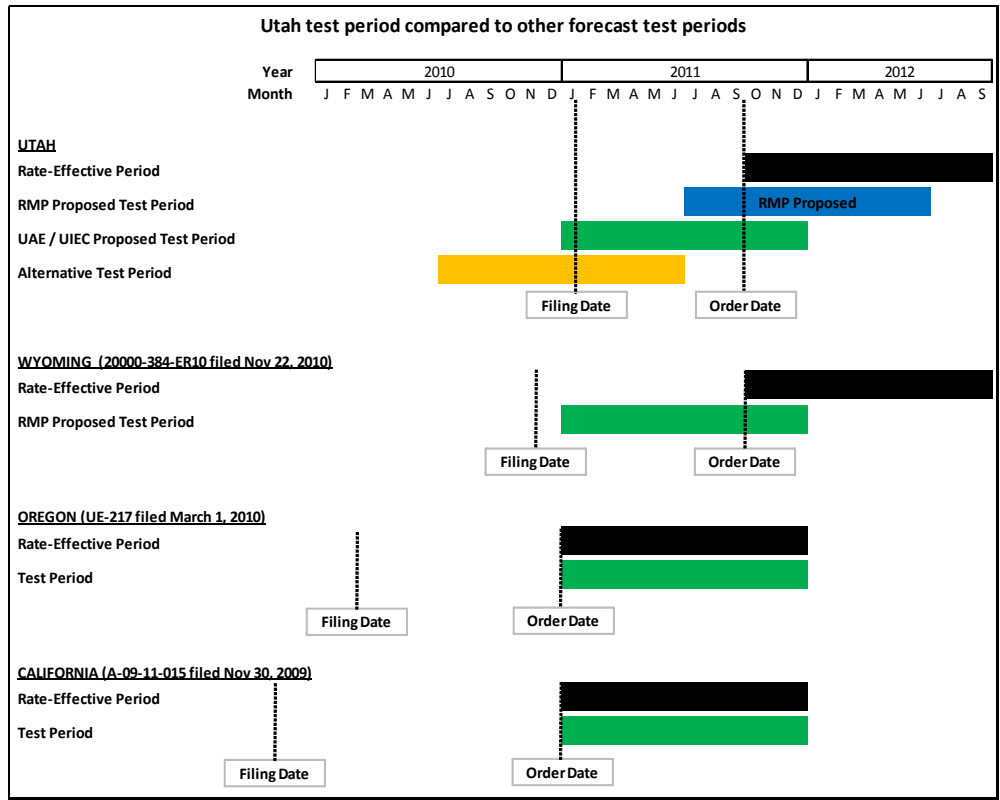
109 54-4-4(3) of the Utah Code, which clearly states:

110 (a) If in the commission's determination of just and reasonable
111 rates the commission uses a test period, the commission shall select a test
112 period that, on the basis of the evidence, the commission finds best reflects
113 the conditions that a public utility will encounter during the period when
114 the rates determined by the commission will be in effect.

115 The statute then provides three test period options to select from as long as they
116 meet the objective, stated in paragraph (a) above, that it best reflects the
117 conditions during the rate-effective period. One of those options is a fully
118 forecast test period extending twenty months from the date of filing. There is no
119 similar statutory option in Wyoming. The fact that the Company filed a general
120 rate case in Wyoming in November of 2010 based on a 2011 test period does not
121 change the Utah statute which requires use of a test period that "best reflects the
122 conditions... during the period when the rates determined by the commission will
123 be in effect." There are differences in each state with regards to power cost
124 mechanisms, forecasts, ROEs, deferrals, and inter-jurisdictional allocations. It is
125 not persuasive to claim that this Commission should adopt other states' policies
126 on one issue without consideration of all issues.

127 With regard to the second point, while the Company does not believe the
128 Utah Commission should determine the appropriate test period in this case on the
129 basis of the test period utilized in other states, it is important to set the record
130 straight related to forecast test periods used in other states. The Company has
131 three other states that use forecast test periods, Wyoming, Oregon and California.

132 While the OCS, UAE and UIEC all referred to Wyoming as a standard Utah
 133 should be compared against, they ignored Oregon and California. Both Oregon
 134 and California had rate increases go into effect on January 1, 2011 that used test
 135 periods beginning on January 1, 2011 and extending through December 31, 2011.
 136 In those cases, the test period used by the commissions aligned with the rate-
 137 effective period. In addition, the Oregon case was filed on March 1, 2010, and
 138 the California case was filed on November 30, 2009. Thus, the Oregon test period
 139 extended 22 months beyond the date of filing and the California test period
 140 extended 26 months beyond the date of filing. The figure below shows the
 141 comparison between the filing dates, proposed test periods and rate-effective
 142 periods in each of the Company's jurisdictions that use forecast test periods.



143 **Q. Mr. Brubaker states that the Commission should use the 2011 test period**
144 **because the Company has contracts that have expired or will expire during**
145 **2011.³ How do you respond?**

146 A. Mr. Brubaker would have the Commission believe it is better to set rates using
147 contract values that he knows are wrong because the contracts will have expired
148 prior to new rates going into effect, rather than using the best estimates available.
149 The purpose of the test period is to set rates for the period extending
150 approximately twelve months from September 21, 2011. In establishing rates that
151 best reflect the conditions when rates will be in effect, as required by statute, the
152 Commission and intervenors cannot ignore the fact that these contracts will have
153 expired. In addition, using a test period from July 1, 2011 to June 30, 2012 does
154 not prohibit any party from offering evidence of what it believes is a better
155 estimate of the costs during the rate-effective period.

156 **Q. Mr. Higgins uses the possibility of forecast errors in loads and other**
157 **projections as further justification for his recommendation of a calendar**
158 **year 2011 test period.⁴ Do you believe potential forecasting errors justify the**
159 **use of a calendar 2011 test period?**

160 A. No. The Commission is setting rates for the period starting September 21, 2011.
161 The test period in this case should align the rate-effective period with the data
162 used to set rates. As an example, the rate-effective period will include January
163 2012. Although January 2011 load and net power cost (“NPC”) forecasts might
164 be closer to actual January 2011 data, they are clearly not the most accurate

³ Brubaker, p 13, lines 18 – 24.

⁴ Higgins, lines 316 – 317.

165 forecast of January 2012 loads and NPC unless you believe that January 2012 will
166 be just like January 2011. The evidence presented by other Company witnesses
167 demonstrates that January 2012 will not be like January 2011. Furthermore, the
168 use of a test period that includes January 2012 does not preclude Mr. Higgins
169 from offering evidence in the revenue requirement phase of this case if he
170 believes he has a better forecast for any component of revenue requirement.

171 **Q. Mr. Gimble states that if the Company is planning to file annual rate cases it**
172 **is more appropriate to use a closer in time test period.⁵ Does filing annual**
173 **rate cases justify choosing a test period that does not reflect conditions**
174 **during the rate-effective period?**

175 A. No. The Company determines the frequency and timing of rate cases based on the
176 need for rate relief to cover its costs, and does not make these decisions lightly.
177 Frequent rate cases are a result of the Company's need to meet its obligation to
178 serve customers' rising energy needs, and do not diminish the need for the
179 Company to have the opportunity to recover its prudently incurred costs. Mr.
180 Gimble's approach would justify unjust and unreasonable rates simply because
181 they will only be in effect for about one year.

182 What we can surmise from closer in time test periods is that they lead to
183 the need for more frequent rate cases and contribute to the Company earning less
184 than its authorized rate of return because rates do not reflect costs during the rate-
185 effective period.

⁵ Gimble, lines 77-78.

186 **Q. Mr. Brubaker suggests that rate cases should always use a calendar-year test**
187 **period because this will allow them to be dealt with more confidently and**
188 **expeditiously.⁶ Do you agree?**

189 A. No. Mr. Brubaker’s suggestion is made in the context of his discussion of the
190 Energy Balancing Account (“EBA”) recently approved by the Commission. Mr.
191 Steven R. McDougal will discuss the impact of the EBA on test-period selection
192 in his rebuttal testimony. However, more generally, in Utah the Company has
193 used a variety of test periods ending in March, June, September and December. I
194 have not noticed that any test period is easier to file, or can be dealt with more
195 expeditiously or confidently than any other. In addition, nowhere in Utah statute
196 or rules does it refer to calendar-year test periods, and the Utah rules specifically
197 call out that the alternative test period the utility is required to file if it proposes a
198 future test period in its application need not be a calendar-year period, but should
199 be “the 12-month period ending on the last day of June or December, whichever
200 is closer, following the filing date of the application.” Thus, the Commission has
201 already directed that non-calendar-year test periods can be filed. In addition, even
202 if test periods were to be limited to calendar years, rates will not necessarily be in
203 effect for calendar years. Unless every general rate case is filed on May 1 with
204 new rates going into effect the following January 1, the rate-effective period will
205 not be a calendar year.

206 Trying to limit test periods to calendar years is a new argument introduced
207 in this rate case and appears to be tied to the specific timing of this case.

⁶ Brubaker, p. 6, lines 11-13.

208 **Other Issues**

209 **Q. Do you have any response to the testimony of Mr. Matthew Croft and Mr.**
210 **Douglas Wheelwright?**

211 A. Yes. Mr. Croft and Mr. Wheelwright have both raised questions regarding the
212 accuracy of Company's forecasts, but conclude that they can deal with those
213 questions in the context of the test year proposed by the Company. While the
214 Company does not agree that the issues they raise indicate problems with the
215 Company's forecasts, it does agree with their conclusion that issues regarding
216 forecasts can be addressed in the context of the Company's proposed test period.
217 Therefore, the Company will reserve its response to their forecasting issues for
218 rebuttal testimony in the revenue requirement phase of this case.

219 **Q. Why didn't the Company seek pre-approval of the test period, as suggested**
220 **by Mr. Higgins?**

221 A. Since the Company's last general rate case, the Commission has adopted new
222 filing requirements. After reviewing the filing requirements, the Company
223 determined that filing for a test period determination would likely require the
224 same or similar work as filing the general rate case, and would delay the filing of
225 the general rate case. In addition, the filing requirements do not state any definite
226 time within which a decision would be reached in a test period filing. Based on
227 the Company's rate case projections and the serious shortfall between the
228 incurrence of prudent costs and rate recovery, the Company determined that there
229 was a need to file the rate case as soon as possible.

230 **Q. Do you agree with Mr. Higgins' statement that the Company can manage**
231 **forecast risks by "delaying or cancelling investment?"**⁷

232 A. Mr. Higgins is obviously not considering the test periods he is proposing when
233 making this statement. For the alternative test period ending June 30, 2011 all of
234 the data will be historic prior to the order, and for his proposed test year starting
235 January 1, 2011, nine months will be historic prior to the order. Because the vast
236 majority of the investments will already be finished, and the majority of the
237 remainder already started, it will be impossible to delay and cancel investments in
238 the test period because of forecast differences.

239 In addition, Mr. Higgins' statement ignores the fact that the projects
240 included in this rate case have been determined on the basis of information
241 currently available to the Company to be necessary to provide safe, reliable and
242 adequate service to customers. Therefore, unless circumstances change,
243 management cannot elect to delay or cancel these projects just because a test
244 period is selected that does not cover them.

245 **Q. What about the inflammatory statements from Mr. Higgins about the**
246 **Company's intent in choosing a test period?**

247 A. Mr. Higgins uses a lot of inflammatory words such as "gamesmanship", "form
248 over substance", "brinkmanship" and "audacious"⁸ in trying to influence the
249 Commission's decision on test period. I strongly disagree with Mr. Higgins'
250 assertions. Based on statutory authority, the Company chose the test period it has
251 proposed because it believes it is the most reasonable test period that best reflects

⁷ Higgins, lines 142-144

⁸ Higgins, lines 432, 535, 539, 543

252 the conditions that the Company will encounter during the rate-effective period.
253 In choosing that test period, the Company has complied with the statute and the
254 Commission's rules. The Company simply wants an opportunity to recover its
255 prudently incurred costs during the rate-effective period. That is only possible if
256 the test period provides the best forecast of those costs during the rate-effective
257 period. The Company's proposed test period accomplishes that valid goal.

258 **Q. Does this conclude your Testimony?**

259 A. Yes.

Rocky Mountain Power
Docket No. 10-035-124
Witness: Steven R. McDougal

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Test Period Rebuttal Testimony of Steven R. McDougal

March 2011

1 **Q. Please state your name and business address.**

2 A. My name is Steven R. McDougal and my business address is 201 South Main,
3 Suite 2300, Salt Lake City, Utah, 84111.

4 **Q. Are you the same Steven R. McDougal who submitted pre-filed direct**
5 **testimony in this proceeding?**

6 A. Yes.

7 **Purpose and Summary of Testimony**

8 **Q. What is the purpose of your test year rebuttal testimony (“Testimony”) in**
9 **this proceeding?**

10 A. The purpose of my Testimony is to respond to the test period testimony of the
11 Office of Consumer Services (“OCS”), Utah Association of Energy Users
12 Intervention Group (“UAE”) and the Utah Industrial Energy Consumers
13 (“UIEC”).

14 **Q. Please summarize your Testimony.**

15 A. My Testimony explains why the Company’s proposed test period from July 1,
16 2011 to June 30, 2012 better reflects the conditions the Company will experience
17 during the rate-effective period in this case than the 2011 calendar-year test period
18 proposed by UAE and UIEC. Specifically my testimony will explain why:

- 19
- 20 • The Commission’s adoption of the Energy Balancing Account (“EBA”) and the Major Plant Addition (“MPA”) statute, Utah Code § 54-7-13.4, do
21 not eliminate the need to use a test period that best reflects the rate-
22 effective period.
 - 23 • The selection of an appropriate test period is important to assure that

24 dynamic allocation factors are appropriately reflected in rates.

25 • Other claims by the parties are inaccurate.

26 **Impact of MPA and EBA**

27 **Q. Messrs. Kevin Higgins, Maurice Brubaker and Daniel Gimble suggest that**
28 **the EBA and MPA statute, Utah Code § 54-7-13.4, eliminate the need for the**
29 **June 30, 2012 test period. Do you agree?**

30 A. No. As shown in pages 8.8.22 through 8.8.33 of Exhibit RMP____(SRM-3) and
31 summarized in Table 6 in the direct testimony of Mr. David L. Taylor, the
32 Company is adding approximately \$3.7 billion in new capital expenditures from
33 July 1, 2010 through June 30, 2012. Of these, only \$1.1 billion, or less than 30
34 percent of the total, qualifies for alternate rate recovery under the MPA statute.
35 Of the amount that qualifies for filing under the MPA statute, \$800 million was
36 already included in the Company's MPA Docket No. 10-035-89 and is currently
37 reflected in rates. Of the remaining \$2.9 billion not in rates only \$300 million, or
38 approximately 10 percent, qualifies for filing under the MPA statute. That leaves
39 over \$2.6 billion of plant additions for which the only recourse the Company has
40 to achieve cost recovery is through a general rate case.

41 **Q. Are there any other reasons why the MPA statute may not eliminate**
42 **regulatory lag associated with new MPA capital additions?**

43 A. While the Company believes that an MPA case can be filed simultaneously with a
44 general rate case, the Company requests that the Commission clarify that this
45 option exists. Absent the ability to have overlapping or simultaneous MPA and
46 general rate case filings, the Company's ability to recover a fair return on major

47 plant additions is reduced, especially if a test period that does not align with the
48 time rates will be in effect is used in a rate case.

49 An example of this is the Naughton Unit 2 flue gas desulfurization system,
50 the largest project in this case which has not already been included in an MPA
51 filing. This project is scheduled to go into service in November 2011 at a cost of
52 approximately \$157 million. It is unclear whether the Company could elect to
53 remove this from the rate case, and seek cost recovery under the MPA statute. If
54 the Company cannot file simultaneously for MPA treatment of this investment
55 during the pendency of this rate case, then the use of any test period other than a
56 test period from July 1, 2011 to June 30, 2012 would result in the Company
57 significantly under-earning on this project. Below is a comparison of the rate
58 base associated with this project under the MPA statute, and using the two test
59 periods proposed in this case. This investment will be in service for ten months of
60 the rate-effective period. Seeking recovery under the MPA statute would allow
61 the Company the opportunity to fully recover costs for the ten months, resulting in
62 an impact on average rate base of \$131 million. In addition, the plant would be
63 completely included in rates on an ongoing basis. Using the test period proposed
64 by the Company, the Company will include this investment in rates at \$97 million
65 for the entire rate-effective period, resulting in 26 percent less than total recovery
66 on this investment. Using the test period proposed by UAE and UIEC the
67 Company will only be allowed to include this amount in rate base for 2/13 of the
68 test period, resulting in an under-recovery of over 80 percent. In addition, seeking
69 cost recovery in a rate case will result in this investment being only partially in

70 rate base because of the 13 month average until the Company’s next general rate
71 case.

	Amount Included in Rate Base	Months included in rates during Rate-Effective Period	Average Rate Base during the Rate-Effective Period
MPA filing	\$157 m	November 2011 through September 2012 – aligns with the months actually in-service.	\$131 m
July 1, 2011 – June 30, 2012 test period	\$97 m	8/13 included using 13 month avg. rate base, starting with rate-effective date of this case.	\$96 m
Jan 1, 2011 – Dec. 31, 2011 test period	\$24 m	2/13 included using 13 month avg. rate base, starting with rate-effective date of this case.	\$23 m

72 **Q. Doesn’t the EBA eliminate the need for the July 1, 2011 through June 30,**
73 **2012 test period?**

74 A. No. The biggest reason the EBA does not eliminate the need for the Company’s
75 proposed test period is the 30 percent disallowance, or sharing band, that would
76 result if actual NPC exceed forecast NPC as a result of using a test period that is
77 not aligned with the rate-effective period. This represents an amount the
78 Company will never be able to recover. This point is acknowledged in the
79 testimony of other parties, who make comments such as the Company can “seek
80 to recover up to 70 percent of any deferred net power cost balance.”¹ These
81 parties seem to think that recovery of 70 percent of prudent costs is appropriate
82 and that the Company doesn’t deserve the opportunity to recover all of the costs
83 prudently incurred to serve its customers. Given that only 70 percent of
84 differences between forecast and actual NPC will be recovered, it is essential that

¹ Gimble, lines 55-56

85 NPC forecasts reflect the NPC that will be incurred during the rate-effective
 86 period, not a period that is closer in time that does not correspond to the rate-
 87 effective period.

88 The EBA approved by the Commission uses a monthly formula to
 89 compare actual costs to the base amount approved in the last general rate case.
 90 Under this formula, it is important the test period match as many months as
 91 possible in the rate-effective period to get the best possible results from the EBA.
 92 The chart below shows the monthly calculation of the EBA, and that the test
 93 period proposed by the Company aligns with the EBA in nine out of the twelve
 94 months in the rate-effective period.

Actual Month	Jan 1, 2011 – Dec 31, 2011 Test Period		Jul 1, 2011 – Jun 31, 2012 Test Period	
	Base Month	EBA Comparison	Base Month	EBA Comparison
Oct 2011	Oct 2011	Actual and Base Match	Oct 2011	Actual and Base Match
Nov 2011	Nov 2011		Nov 2011	
Dec 2011	Dec 2011		Dec 2011	
Jan 2012	Jan 2011	Jan 2012		
Feb 2012	Feb 2011	Feb 2012		
Mar 2012	Mar 2011	Mar 2012		
Apr 2012	Apr 2011	Mismatch - Base Month is 12 Months before Actual	Apr 2012	
May 2012	May 2011		May 2012	
Jun 2012	Jun 2011		Jun 2012	
Jul 2012	Jul 2011		Jul 2011	Mismatch - Base Month is 12 Months before Actual
Aug 2012	Aug 2011		Aug 2011	
Sep 2012	Sep 2011		Sep 2011	

95 For Utah NPC by month, we should use total Company NPC multiplied by Utah
 96 actual factors. If we use the factors from this case, it is important that they reflect
 97 the rate-effective period.

98 **Q. Do you agree with Mr. Brubaker’s claim that a calendar-year test period**
99 **would be easier to reconcile as part of the EBA?**²

100 A. No. The EBA formula is based on comparing the *monthly* base net power costs
101 with *monthly* actual net power costs. Since the comparison is done on a monthly
102 basis, it is important to align as many months as possible to reduce the
103 reconciliation issues and to make the forecasts as accurate as possible. Using
104 monthly data from a model run on a calendar-year test period versus a July
105 through June test period will not make a difference. The Company has experience
106 dealing with non-calendar year data sets without problem. And because rates will
107 not necessarily be in effect for calendar years, there would be no reconciliation
108 benefit to calendar year test period. Therefore, Mr. Brubaker’s point has no
109 validity.

110 **Q. What do you think of Mr. Brubaker’s quote from the Company that “RMP**
111 **... is willing to abandon forecasts of net power costs?”**³

112 A. Mr. Brubaker is taking this quote out of context. As Mr. Brubaker knows, the
113 above quote was part of the ECAM docket wherein the Company was requesting
114 an ECAM with no sharing mechanism. If the EBA order had allowed the
115 Company to recover 100 percent of its prudently incurred NPC as requested in the
116 Company’s filing, then the NPC forecast in this case would not be as big of an
117 issue and the only real issue would be that of cash flow impacts. However, the
118 EBA as ordered by the Commission only allows for 70 percent recovery of the
119 variance between actual and base NPC. Therefore, the quote used by Mr.

² Brubaker , p. 3, lines 10 - 12

³ Brubaker, p. 5, lines 5-6

120 Brubaker is irrelevant and does not accurately state the Company's position.

121 **Factors**

122 **Q. Are there additional reasons why using an earlier test period is**
123 **inappropriate?**

124 A. Yes. Rate base and other costs in this case are impacted by the allocation factors
125 used. Using factors from January 1, 2011 to December 31, 2011 is inherently
126 wrong and will not reflect the dynamic nature of the Company's inter-
127 jurisdictional allocations. Given that inter-jurisdictional allocation factors are
128 constantly changing, the Commission should set rates using factors that best
129 reflect the period when rates will be in effect.

130 Utah is continuing to grow faster than the system average, increasing its
131 allocation of system costs. In the test period, Utah's SG factor is 43.3 percent and
132 the SE factor is 42.6 percent. In the alternative period, Utah's SG is 42.8 percent
133 and the SE is 42.1 percent. Not only do these allocation factors determine Utah's
134 share of the vast majority of the Company's revenue requirement, but they also
135 impact the base NPC amount used in the EBA. Ignoring all other changes, using
136 factors that don't adequately reflect the rate-effective period will result in Utah
137 customers not paying their share of system costs.

138 In addition to correctly calculating allocation factors for the general rate
139 case, the use of a forecast period correctly sets factors for use in major plant
140 addition case and billing components for the current GRC. It also sets the correct
141 load for use in calculating projected revenues and net power costs.

142 **Other Items**

143 **Q. Mr. Higgins states he has concerns with “pricing formulations that reinforce**
144 **inflation”.**⁴ **What is your opinion of Mr. Higgins’ concerns with using**
145 **inflation in forecasts?**

146 A. The Company has two concerns with this issue. First, this is not an issue the
147 Commission needs to consider as part of selecting a test period. Regardless of the
148 test period chosen, Mr. Higgins can propose an adjustment to the level of inflation
149 included in the case. Second, while we understand his concerns, ignoring
150 inflation in any type of forecast is bad practice and does not reflect reality.
151 Whether it is forecasting a rate case, or forecasting the money needed for
152 retirement, inflation is a factor that needs to be considered and included. I am not
153 aware of any projection that claims inflation will not occur in the future, and since
154 we know it will occur it needs to be considered in a forecasted test period.

155 In addition, the inflation rate the Company used in this rate case is very
156 moderate. In fact, as noted in Mr. A. Richard Walje’s testimony, even including
157 modest inflation, our operation and maintenance costs on a per unit of power basis
158 are not projected to increase, and our administrative and general expenses are
159 expected to decrease. Including such levels of inflation in forecasting will not
160 impact the national inflation numbers, but choosing to ignore inflation will
161 guarantee that the Company’s rates will not recover its prudent costs. The self
162 fulfilling prophecy is not that including inflation in our case will cause inflation,
163 but that excluding inflation will set prices that will understate the cost of
164 providing service.

⁴ Higgins, p. 18, lines 445 – 454.

165 **Q. Is Mr. Brubaker’s statement that the Company has not provided a**
166 **quantification of capital investments that do not qualify as major plant**
167 **additions correct?**

168 A. No. Mr. Brubaker states that the Company “alleges it has made significant other
169 ‘smaller’ capital additions since July 1, 2010” but that the Company “offers no
170 quantification of the amounts of these investments.”⁵ He then restates later in his
171 testimony RMP has claimed there are capital additions that were not included in
172 the MPA but “there is no explanation as to what those projects are.”⁶ Mr.
173 Brubaker has apparently not read the Company’s filing and exhibits. Pages 8.8
174 through 8.8.47 of exhibit RMP____(SRM-3) provide 48 pages of details on capital
175 additions, the vast majority of which do not qualify for major plant additions
176 filings as described above.

177 **Q. Do you have any other concerns with Mr. Brubaker’s testimony?**

178 A. Yes. Mr. Brubaker mischaracterizes or misinterprets my testimony on two main
179 issues by referring to comments out of context.

180 First, Mr. Brubaker claims that regarding “whether the utility is in a cost
181 increasing or cost declining status,” I admit that “this is not an issue.”⁷ What I
182 actually stated is there is minimal pressure associated with increasing O&M costs.
183 However, I go on to say “as a result of its capital investment program and changes
184 in net power costs the Company is in a rising cost environment.”⁸

185 Second, Mr. Brubaker misinterprets my testimony stating that

⁵ Brubaker, p. 10, lines 15-17

⁶ Brubaker, p. 14, lines 11 - 16

⁷ Brubaker, p. 11, lines 16-17

⁸ McDougal Direct, page 14, lines 317 – 318.

186 “management has no control over the cost of capital additions.”⁹ I did not mean
187 to imply by this statement as assumed by Mr. Brubaker that management cannot
188 control costs or prioritize capital additions. What I meant was that the capital
189 additions included in the test period in this rate case have gone through various
190 management reviews, and are necessary and prudent to provide reliable and safe
191 service for our customers. Management has projected the costs of these projects
192 based on careful analysis and budgeting processes. There is no way management
193 can compensate for the use of an inappropriate test period selection by cutting the
194 capital in this case. This is especially true because the capital additions in this
195 rate case are largely fixed, and most will be in-service or already started prior to
196 an order in this rate case.

197 **Q. Does this conclude your Testimony?**

198 **A. Yes.**

⁹ Brubaker, p 11, line 25 through p 12, line 1.