ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

201 South Main, Suite 2300
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March 9, 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
Direct Testimony of David L. Taylor

Rocky Mountain Power hereby submits for filing an original and fifteen copies of the Direct Testimony of David L. Taylor in support of the Test Period 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 9th 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

Direct Testimony of David L. Taylor

Test Period

March 2011

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

A. My name is David L. Taylor. My business address is 201 South Main, Salt Lake City, Utah. I am employed as the Manager of Regulatory Affairs for the state of Utah.

Qualifications

Q. Please briefly describe your education and business experience.

A. I received a B.S. in Accounting from Weber State College in 1979 and a M.B.A. from Brigham Young University in 1986. I have been employed by Rocky Mountain Power or its predecessors since 1979. At the Company, I have worked in the Accounting, Budgeting, and Pricing and Regulatory areas. From 1987 to the present, I have held several supervisory and management positions in Pricing and Regulation.

Q. Have you appeared as a witness in previous regulatory proceedings?

A. Yes. I have testified on numerous occasions in Utah as well as in California, Idaho, Montana, Oregon, Washington, and Wyoming.

Purpose and Summary of Testimony

Q. What is the purpose of your testimony?

A. In my testimony I will explain why a test period that is aligned with the period when new rates will be in effect is necessary to set just and reasonable rates. I will explain why the twelve months ending June 30, 2012 test period proposed by the Company in this case (the "Test Period") is the only test period proposed in the case that can produce customer prices that will reflect the cost of providing

service to our customers during the period rates set in the case will be in effect. (I will refer to the first year of the period rates are in effect as the "Rate-Effective Period.") The Company must incur these costs to provide safe, reliable and adequate service to customers. If prices do not cover them, the Company's shareholders are in effect subsidizing customers.

In his direct testimony filed January 24, 2011 in this case, Company witness Mr. Steven R. McDougal explained how the Test Period was selected and prepared. He also explained many of the cost drivers in the case, the reasons why the Test Period proposed by the Company was chosen, and how the proposed Test Period satisfies both the statutory requirements and the Commission guidelines for selection of the test period. That testimony is also offered in support of the Company's proposed Test Period, and I will not repeat all of those justifications here. I will highlight why neither the alternative test period filed by the Company as part of the filing requirements under Commission Rule R-746-700 nor the December 2011 test period recommended by UIEC and UAE in their motions relating to the test period will satisfy the requirement to align prices with costs. Indeed, if the June 2011 alternative test period were required to be used, a portion of the revenue requirement for the Populus to Ben Lomond transmission line that is already in rates would have to be removed from rates – an illogical result. Additionally, a December 2011 test period would prohibit the consideration of investments of approximately $864 million that will be made during the first six months of 2012.

Introduction

Q. Why is a test period that matches the time period rates will be in effect necessary?

A. Robert Hahne, in his book *Accounting for Public Utilities,* states that "[T]he test period, by nature and by design, is a surrogate for conditions of the period of rate use and, to repeat, is presumed to be representative of future conditions." (7-11, Section 7.06.) This objective is captured in Section 54-4-4(3)(a) of the Utah Code which states:

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

These same references were included in Mr. McDougal's testimony. I repeat them because they provide the foundation for the selection of an appropriate test period. Based on the filing date of this case, new rates will become effective not later than September 21, 2011, and will most likely be in place for at least one year beyond that date. A forecast test period that overlaps with most of the Rate-Effective Period allows for better matching customer prices with the costs of providing service to customers. In fact, no matter what test period is used, its purpose is to reflect the probable revenue requirement for the Rate-Effective Period.

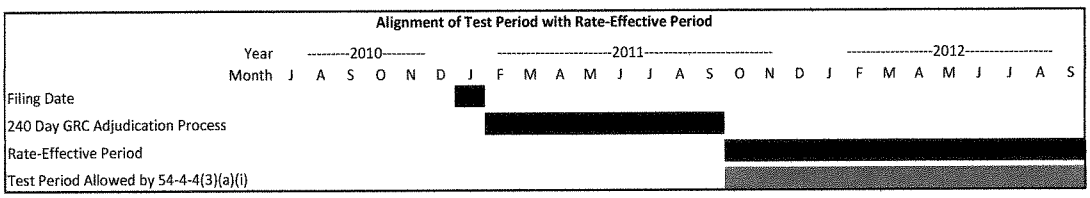
In order for rates to be fair to the Company and its customers, it is essential to have rates set on costs expected to be incurred during the Rate-Effective Period. This is particularly true in this case because of the significant

capital investment that will be put into service and the substantial increase in net power costs during the Company's proposed Test Period. A nearer term forecast test period, as proposed by other parties, cannot adequately capture the conditions that the Company will experience during the Rate-Effective Period and would understate the true cost of service.

Q. The Utah Legislature allows a test period to extend 20 months following the date a rate case is filed. How does 20 months relate to the Rate-Effective Period?

A. Section 54-7-12(3) of the Utah Code provides a 240-day time frame from the filing of an application for rate relief for the Commission to issue an order on the application, and rate cases generally consume the full 240 days. Thus, as shown in Table 1, below, new rates become effective eight months following the filing of the application, and the Rate-Effective Period starts eight months and ends 20 months following the filing of the application.

Table 1



Q. Can you provide an example of the problem that arises if a test period that does not closely align with the Rate-Effective Period is selected?

A. Yes. The Commission's direction in the 2007 rate case to use a test period ending six months earlier than that proposed by the Company resulted in an immediate $40 million reduction in the amount of the revenue increase that would be considered by the Commission. But, simply moving back the test period

obviously doesn't reduce actual expenses in the Rate-Effective Period – in fact, it creates a mismatch between the two.

In this current rate case, the mismatch in revenue requirement between the alternative test period ending June 2011 and the Company's proposed Test Period is more than $140 million, accounting for a 310 basis point reduction in ROE.

Factors in Selection of Test Period

Q. Please describe how the Company considered the factors previously identified by the Commission in choosing the Test Period in this rate case.

A. The Commission has previously identified factors that it would consider in selecting a test period. These factors include the general level of inflation, changes in the utility's investment, revenues or expenses, changes in utility services, availability and accuracy of data to the parties, ability to synchronize the utility's investment, revenues and expenses, whether the utility is in a cost increasing or cost declining status, incentives to efficient management and operation and the length of time new rates are expected to be in effect. Mr. McDougal addressed how each of these criteria was considered in the selection and development of the Company's proposed test period. I will not repeat that here.

Q. Should each of these factors be given equal weight by the Commission?

A. No. Certain factors will be more important at a given point in time than other factors. In this case, changes in utility investments and the substantial increase in net power cost should be given predominant weight. Let me address a few of these factors in more detail.

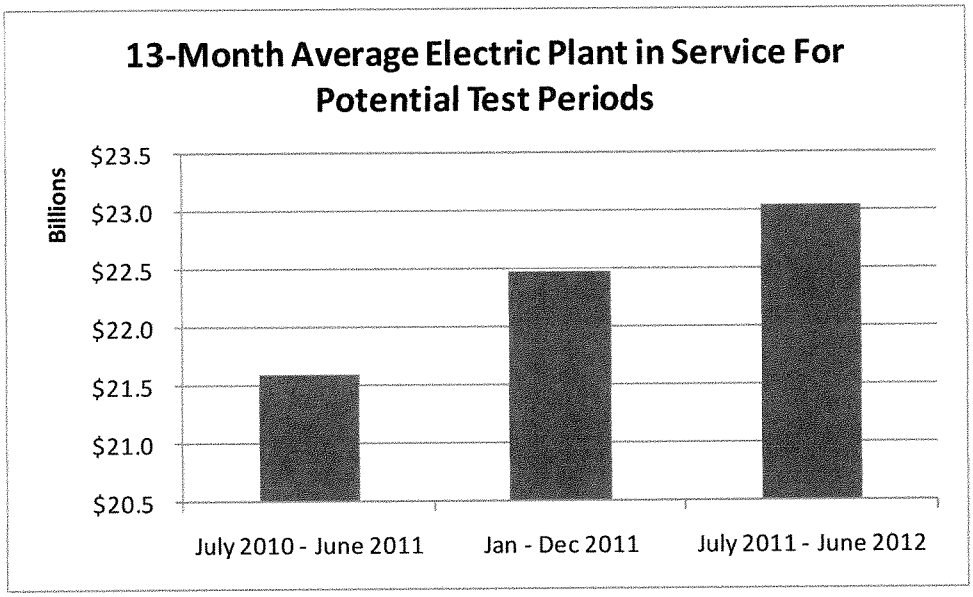
Changes in Utility Investment, Revenues, and Expenses – While the general level of inflation, one of the Commission's factors, is not a significant driver in this case, there are very specific increases on the Company's costs and investment that are the primary drivers of the rate increase proposed in this case.

As discussed by Mr. McDougal, this case includes Utah's portion of more than three billion dollars in new plant investments the Company has made or will make between July 1, 2010, the start of the period following the base historical period in this case, and June 30, 2012, the end of the Test Period. The following tables show the impact of the projected capital investment on total Company electric plant in service. Table 2 shows, in six-month increments, the capital investment currently planned during this two-year time frame. Table 3 shows how these investments will increase total Company 13-month average electric plant in service balances for each of the potential test periods discussed in this testimony.

Table 2

PacifiCorp Projected Capital Investment	
July - December 2010 *	$1,531 million
January - June 2011	$ 717 million
July - December 2011	$ 575 million
January - June 2012	$ 864 Million
Total	**$3,687 million**
*Includes $800 million already included in rates from MPA 2	

Table 3



As Table 2 shows, the Company has made and plans to make over $3.6 billion in investments between July 1, 2010 and June 30, 2012 to serve its customers. The proposed Test Period will ensure that customer rates will more fully reflect the costs associated with these investments. In contrast, if a June 2011 alternative test period with average rate base is used, rates would not reflect any of the $1.4 billion investment made after June 2011 and would only reflect approximately half of the $2.2 billion investment made to serve customers between July 2010 and June 2011, most of which is already in service today and all of which is projected to be in service when rates go into effect.

In fact, if the June 2011 alternative test period is used, the Populus to Ben Lomond transmission line that has already been approved for recovery and included in current rates will only be partially reflected in future rates. This result is inconsistent with the purpose of section 54-7-13.4 of the Utah Code and makes no sense. The Legislature could not have conceivably intended for a major plant

addition to receive alternate cost recovery in a major plant addition case and then have that cost recovery reduced in a subsequent general rate case.

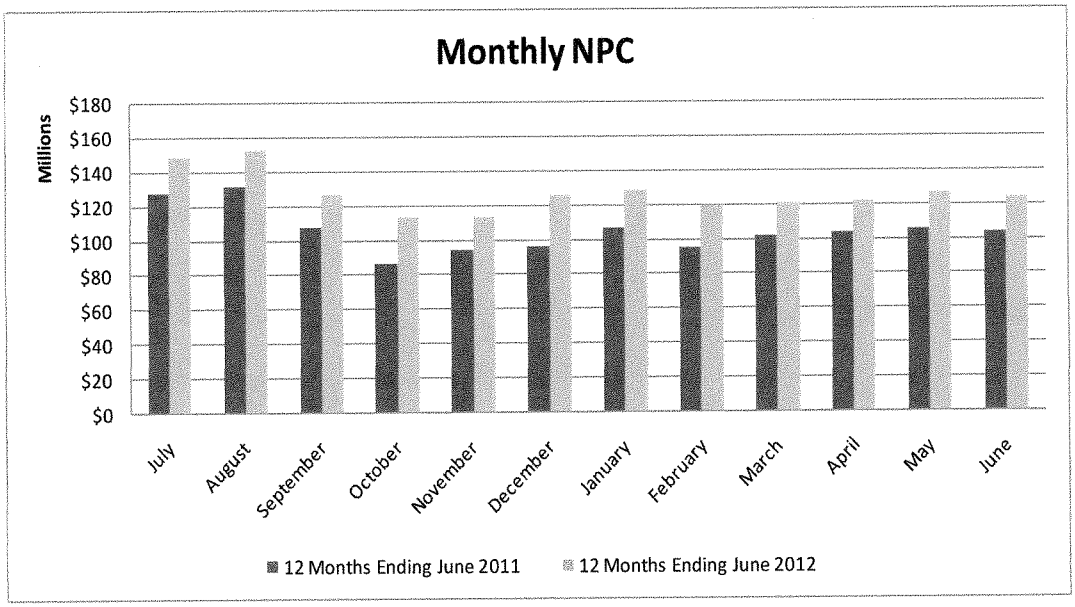
The same type of problem exists with the UIEC and UAE proposed December 2011 test period. Customer rates based on that test period would reflect none of the $864 million in investment the Company plans to make during the first six months of 2012, a period when rates set in this case will be in effect and customers will be receiving service from those investments. They will also reflect only approximately one half of the $1.2 million in investments made during 2011, most of which will be in service before the start of the Rate-Effective Period.

The Company's proposed June 2012 Test Period is the only proposed test period that will reflect the full cost of the generation, transmission and distribution facilities currently serving customers today or projected to be in service by June 30, 2011, well before these new rates will go into effect. It is also the only proposed test period that will reasonably reflect an appropriate level of the costs associated with the approximately $1.4 billion of total Company investments to be made between July 2011 and June 2012, a period of time included in the Rate-Effective Period.

As discussed in the direct testimony of Company witnesses Mr. A. Richard Walje, Mr. Gregory N. Duvall and Ms. Cindy A. Crane, the increase in net power costs accounts for the largest portion of the proposed rate increase in this case. Table 4 below shows the projected net power costs for each month of the alternative test period compared against the same month in the Company's proposed Test Period. As can be seen below, on average net power costs are more

than $21 million higher on a total Company basis in each month of the Company's proposed Test Period than in the same month from the previous year. The selection of a test period earlier in time than the Company proposal will understate total Company net power costs by approximately $21 million for each month the test period is pulled back. Prices set on that basis would not "best reflect[] the conditions that a public utility will encounter during the period when the rates determined by the commission will be in effect" (Section 54-4-4(3)(a) of the Utah Code).

Table 4



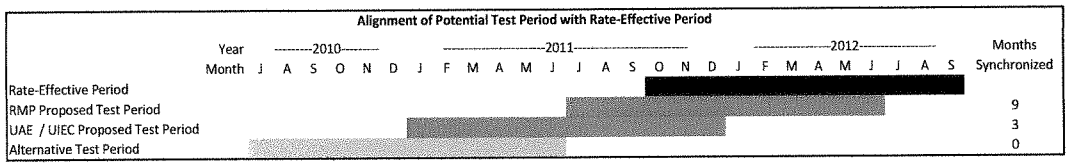
Mr. Duvall and Ms. Crane identify several of the drivers of the increases to net power costs in this case. Among those drivers is the expiration of several long term coal supply and power purchase contracts that are at relatively lower prices, and several wholesale sales contracts that are at relatively higher prices. The prices of the replacements will reflect current market prices that will be less favorable than those in the expiring contracts, and net power costs will increase as

a result of replacement of these contracts. Thus, expiration of these contracts presents changes to the Company's expense and revenue levels which will occur. The selection of a test period that ends closer in time than the June 2012 Test Period proposed by the Company will knowingly build the cost of these expiring contracts into customer rates and exclude the increased net power costs associated with the expiration and replacement of these contracts. In addition, a test period that ends closer in time than the Company's proposed Test Period will exacerbate the mismatch between the resource portfolio that the Company will use to serve its customers during the Rate-Effective Period.

Ability to Synchronize the Utility's Investment, Revenues, and Expenses – The synchronization or "matching" of a utility's revenues, expenses and investments in setting rates is a traditional rate-making concept. Any test period where loads, revenues, expenses and investment are based on the same time period will satisfy the matching principle. The synchronization objective, however, cannot be viewed in isolation without taking into consideration synchronization with the Rate-Effective Period. As stated above, section 54-4-4(3)(a) requires the Commission to select a test period that best reflects the conditions that a utility will encounter during the Rate-Effective Period. The purpose of using any test period is simply to attempt to predict the costs that the utility will incur during the Rate-Effective Period. Synchronization of revenues, expense and rate base is only helpful if it achieves that end. If the Rate-Effective Period is not considered, then the process of matching revenues, expense and investments may capture interdependent impacts, but the result may not reflect the

costs to be incurred during the Rate-Effective Period.

Table 5



As shown in Table 5, the Rate-Effective Period for this case begins in late September 2011 and runs through September 2012. By adopting a June 2012 Test Period, the Commission would be adopting a test period in which approximately 9 months are synchronized or aligned with the Rate-Effective Period. In contrast, by adopting a December 2011 test period, the Commission would be adopting a test period in which only three months and a few days would be aligned. If a June 2011 test period is selected none of the test period would align with the Rate-Effective Period.

As discussed by Mr. Walje and Mr. McDougal, the revenue requirement for the Company's proposed June 2012 Test Period supports a rate increase of $232.4 million. The projected revenue requirement for the June 2011 alternative test period supports a rate increase of $90.7 million. This $141.7 million difference in revenue requirement clearly shows that the selection of a test period earlier in time than the Company's proposed Test Period would not synchronize revenues with the costs of providing service when new rates will be in effect.

Accuracy of Data – There is no good reason to assume that a forecast for a test period ending 12 months in the future would be any more likely to be accurate than a forecast for a period ending 18 months in the future. The time periods are not significantly different in terms of forecasting. While a case might be made

that a one-year forecast would likely be more accurate than a five- or 10-year forecast, the case for 12 months versus 18 months is weak.

Even assuming that forecasts for a period closer in time by six months may be slightly more accurate than those for a later test period, the Commission must recognize that it is not trying to determine a test period that is most accurate for the period covered by the test period, it is trying to determine test period costs that most accurately reflect future conditions that will occur during the Rate-Effective Period.

In any event, if parties believe the Company's forecasts for components of revenue requirement for the Test Period proposed by the Company are unreasonable, they are free to raise those issues in their revenue requirement testimony. Accuracy of forecasts is an issue in the case regardless of the test period used. Whether a test period is historical or extends six, 12 or 18 months from the date an application is filed, the Company's experience indicates that parties will still propose adjustments based on claims that the test period does not accurately forecast conditions during the Rate-Effective Period. Therefore, it makes sense to use a test period that aligns as much as possible with the Rate-Effective Period and address claims regarding accuracy of forecasts in the proper context.

Q. In prior cases, parties have argued that a test period ending approximately 12 months from the filing is a fully forecasted test period and, therefore, should be acceptable to the Company. How do you respond?

A. By definition, any test period is a forecast because a test period is an attempt to

determine the level of cost of service for a future period, the Rate Effective Period. A test period that extends only 12 months from the filing, such as the December 2011 test period proposed by UAE and UIEC in this case, may be based on forecasted information, but it is not reflective of the costs the Company will incur during the Rate-Effective Period. In addition, by the time rates go into effect, most of the period they propose will be in the past. Furthermore, because the test period extending 12 months in the future must be forecast, it has the potential uncertainty of any test period that relies on forecasts without the benefit of aligning the test period with the Rate-Effective Period as proposed by the Company. While some parties might argue that using a closer forecast period would allow the forecast for that period to be more accurate, as stated above, such an argument, even if correct, would miss the point. The point is not to more accurately forecast a period prior to the Rate-Effective Period or one that is more in line with historical data, the point is to make as accurate a forecast as possible of the Rate-Effective Period.

Impact of Major Plant Addition Cases on Selection of the Test Period

Q. Does the opportunity to file for cost recovery of major plant additions outside of a general rate case remove the need to select a test period that reflects as much of the Rate-Effective Period as possible?

A. No. Section 54-7-13.4 of the Utah Code provides an alternative cost recovery mechanism which allows a utility to start recovering the cost of a major plant addition at the time it is placed into service. The statute defines a major plant addition as "any single capital investment project of a gas corporation or an

electrical corporation that in total exceeds 1 percent of the gas corporation's or electrical corporation's rate base." For Rocky Mountain Power, the current threshold investment level is over $110 million.

The major plant addition alternative was used in 2010 to incorporate the cost recovery of three major projects into customer rates. Although the Company was allowed to add the Dave Johnston Unit 3 Scrubber, Dunlap I wind plant and the Populus to Terminal transmission line (Phases I and II) in rates as major plant additions, the Company has made and will make a significant amount of smaller capital additions between July 1, 2010 and June 30, 2012 that are not included in customer rates. Failure to include these investments in rates understates the cost of serving customers and puts significant financial pressure on Rocky Mountain Power.

Table 6 below shows the plant additions placed in service or scheduled to be in service between July 2010 and June 2012 that are not included in current rates:

Table 6

PacifiCorp Capital Additions			
MPA Filing Projects	**In Service Date**	**July 2010 to June 2012 Plant Additions ***	**% of Total**
Dunlap Phase I Wind Project	Oct-10	246,458,258	
Dunlap Ranch Land Purchase	Oct-10	5,741,872	
Populus to Ben Lomond: Dbl Ckt 345 kV TransLn - ph 6-9	Nov-10	402,938,994	
Populus to Ben Lomond: Dbl Ckt 345 kV TransLn - ph 4+5	Oct-10	145,199,007	
		$ 800,338,130	**22%**
Projects Over $20m Each			
NAU U2 Flue Gas Desulfurization Sys	Nov-11	157,473,399	
NAU U1 Flue Gas Desulfurization Sys	May-12	120,326,577	
WDK U1 SO2 and PM Emiss Control Upgrade	Apr-11	103,192,481	
DJ U4 SO2 & PM Emission Cntrl Upgrades	Apr-12	100,808,061	
Huntington U1 Clean Air - PM	Nov-10	92,879,236	
Hunter 302 Clean Air - PM	May-11	55,035,231	
HTN U1 SO2 & PM Em Cntrl Upgrades	Dec.10/Mar.11	40,578,698	
302 - Hunter U2 SO2 Project	May11/Mar.12	33,931,681	
HTN U1 Turbine Upgrade HP/IP/LP	Nov-10	29,146,857	
303 Turbine Upgrade HP/IP/LP	Apr-12	28,661,553	
U1 - Air Cooled Condenser Replacement	May-11	22,239,400	
302 Turbine Upgrade HP/IP/LP	Apr-11	21,559,278	
Klamath Relicensing and Settlement	Dec-10	73,685,107	
INU 4.1.1/4.1.2 Soda Springs Fish Passag	Jan-12	65,426,136	
Red Butte Static Var Compensator and 345 kV Shunt Capacitor	May-11	48,931,770	
Camp Williams - 90th South Double Circuit 345 kV line	Dec-10	42,489,257	
Terminal Substation - Replace 345/138 kV Transformers breakers	May-12	40,465,467	
Wallula - McNary 230 kV Line	Jun-12	36,352,360	
Deer Creek-Reconstruct Longwall System	Dec.10/May11	31,898,257	
		$ 1,145,080,805	**31%**
Other Projects less than $20m Each			
Steam		417,275,222	
Hydro		69,068,088	
Other		32,130,890	
Transmission		466,022,718	
Distribution - UT		240,456,155	
Distribution - Other States		274,849,524	
General/Intangible		186,293,739	
Mining		55,642,989	
		$ 1,741,739,324	**47%**
Total Capital Additions in GRC		**$ 3,687,158,259**	**100%**

The major plant addition projects already included in the Company's major plant addition filings account for only 22 percent of the projected over $3.6 billion investment during this time period. The Company's application in this case includes other capital investments that are not as significant individually, but that together make up 78 percent of the investment that will be incurred prior to the end of June 2012 in providing safe, reliable and adequate service to the Company's customers. In fact, only two of these projects meet the current $110

million threshold for a major plant addition filing, and one of them is only slightly in excess of that threshold.

Q. Given these capital investments, what would be the impact of choosing a test period that ends significantly earlier than the Test Period proposed by the Company in this case?

A. Using a test period that ends significantly earlier than June 2012 would assure that customers will not pay and that the Company will not recover its actual costs of providing service during the Rate-Effective Period.

Impact of Energy Cost Adjustment Mechanism on Selection of the Test Period

Q. On March 2, 2011, the Commission approved an Energy Cost Adjustment Mechanism (ECAM). Does the ECAM remove the need to select a test period that covers as much of the Rate-Effective Period as reasonably possible?

A. No. The ECAM allows the Company to defer and later (over the next year) collect or refund 70 percent of the difference between certain actual net power costs and the level included in base rates with a carry charge of six percent.

As shown by Mr. Duvall in this case, the system net power costs are projected to be $1.52 billion during the 12 months ending June 2012 compared to $1.26 billion during the 12 months ending June 2011. If a test period earlier that the one proposed by the Company is selected, system net power costs in base rates will be understated by up to $260 million depending on the test period used. The ECAM will only provide for recovery of Utah's share of 70 percent of some aspects of that amount. Utah's share of the remaining 30 percent (up to $78 million on a total Company basis) that would not be recovered even with an

ECAM is substantial and results solely from the selection of a nearer-term test period and not from the accuracy of the Company's forecast of net power costs.

Other Test Periods

Q. Rocky Mountain Power has requested a test period that extends close to the full 20 months from the filing date on previous occasions. Why should the Commission approve the Company's proposed test period in this case when it has rejected similar requests in the past?

A. In the Company's 2007 general rate case, the Company, the Division of Public Utilities and the Office of Consumer Services all supported use of a test period that extended approximately 18.5 months from the date the case was filed. UAE proposed a test period that extended 12.5 months and UIEC proposed a historic test period. One of the principal reasons UAE argued that the closer-in-time test period should be used was that the Commission should proceed cautiously in moving from use of historical test periods to a forecast test period. The Commission accepted UAE's position, which, as mentioned above, had the effect of immediately reducing the revenue requirement by $40 million.

The Company has filed two general rate cases since that time. In the first case, it proposed a test period ending approximately 12 months in the future with an end-of-period rate base to reflect investments through the end of the test period. In that case, the Commission ordered the Company to refile using a test period ending approximately 18 months following the original filing (15.5 months from the revised revenue requirement filing date) but with an average test period rate base. In the second, the Company initially proposed a test period ending

approximately 18 months following the proposed revenue requirement filing. In that case, pursuant to stipulation in the prior case, the Company was required to file for determination of test period in advance of filing its rate case application. Following the request for a test period determination, the Company entered into a stipulation with other parties to avoid delay in filing its application. In the stipulation, the Company agreed to use a test period ending approximately 12.5 months from the date the application would be filed, and in exchange parties to the stipulation agreed not to oppose the timing of anticipated major plant addition filings expected to occur during 2010.

The Commission and parties have now had experience using a variety of forecast test periods extending from 12.5 to 15.5 months from the date the revenue requirement was filed in three rate cases. This experience has demonstrated that it is no more difficult to utilize a test period projected more than a year into the future than a test period that is limited to one year in the future. It has also demonstrated that use of a test period ending closer in time reduces the revenue requirement simply by excluding from the test period costs that will be incurred during the Rate-Effective Period.

In summary, it is apparent that the issue in determining a fair and reasonable revenue requirement is the accuracy of forecasts for the Rate-Effective Period. It is also apparent that use of a test period that ignores most of the Rate-Effective Period assures that rates will not reflect the costs that will be incurred during the Rate-Effective Period. This will effectively require the Company's shareholders to subsidize service to customers. Given the experience of the

Commission and the parties during these three rate cases, the Commission may now comfortably allow the Company to use a test period that generally corresponds with the Rate-Effective Period so that rates may be set based on costs that will be incurred during the Rate-Effective Period.

Conclusion

Q. What do you conclude?

A. The purpose of using a test period, whatever test period is chosen, is to forecast conditions that will be encountered during the Rate-Effective Period. The Company's proposed twelve months ending June 30, 2012 Test Period is the most reasonable test period proposed in this case to represent conditions during the period the rates set in this case will be in effect. The major drivers of the Company's need for a rate increase are rising net power costs and the capital investments the Company has made since June 2010 and will make through June 2012 to serve customers. This higher level of net power costs and additional capital investments must be included in customer rates if the Company is to have a reasonable opportunity to recover its costs of providing service to customers including a reasonable return on its investments.

Q. Does this conclude your direct testimony?

A. Yes.