

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

Revenue Requirement Surrebuttal Testimony of Steven R. McDougal

Revenue Requirement

July 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 has previously filed testimony in**
5 **this proceeding?**

6 A. Yes.

7 **Purpose of Testimony**

8 **Q. What is the purpose of your revenue requirement surrebuttal testimony in**
9 **this proceeding?**

10 A. The purpose of my revenue requirement surrebuttal testimony is to address certain
11 items raised in the rebuttal testimony of the Office of Consumer Services
12 (“OCS”), Utah Association of Energy Users Intervention Group (“UAE”) and the
13 Utah Industrial Energy Consumers (“UIEC”). I provide surrebuttal testimony on
14 the following issues:

- 15 • Allocation of costs related to Klamath Hydroelectric Project
16 relicensing and implementation of the Klamath Hydroelectric
17 Settlement Agreement (“KHSA”).
- 18 • Treatment of deferred revenue from the sale of Renewable Energy
19 Credits (“RECs”).
- 20 • Correction to the escalation of costs used to calculate the average
21 generation overhaul expense.
- 22 • Treatment in this case of possible incremental wheeling revenue as a
23 result of the Company’s transmission rate case filed with FERC.

24 In addition, I quantify the revenue requirement impact of increasing special
25 contract revenue in the test period pursuant to the cost of service and pricing
26 stipulation that has been filed with the Commission in this docket.

27 **Q. Do any of the issues listed above impact the \$188.1 million dollar rate**
28 **increase supported in your revenue requirement rebuttal testimony?**

29 A. Yes. Both the correction to generation overhaul expense and the increased special
30 contract revenues impact the rate increase requested in this case. Below is a table
31 showing the impact of these two adjustments:

Rebuttal Results – 2010 Protocol	\$ 188,057,278
Generation Overhaul adjustment Exhibit RMP__(SRM-1SR)	(19,785)
Special Contract Revenue Update Exhibit RMP__(SRM-2SR)	(1,002,482) ¹
Surrebuttal Results – 2010 Protocol	\$ 187,035,010

32 **KLAMATH COST ALLOCATION**

33 **Q. Does the Company agree with Ms. Michele Beck’s rebuttal testimony that the**
34 **Klamath costs should not be charged to Utah?**

35 A. No. OCS witness Ms. Beck incorrectly argues that costs related to the Klamath
36 Hydroelectric Project relicensing and settlement effort and KHSA implementation
37 should not be allocated to Utah, even if rates are set based on a rolled-in cost
38 allocation. As described in company witness Mr. Dean S. Brockbank’s rebuttal
39 testimony, Ms. Beck supports this argument based on a false impression that the
40 KHSA, and the Company’s effort to relicense the Klamath Hydroelectric Project,

¹ Per the stipulation on Cost of Service, Rate Spread and Rate Design filed with the Commission in this case, special contract revenues were increased by \$1 million. Because of the impact on other components of revenue requirement such as bad debt expense, this is the impact on the requested rate increase.

41 do not relate to the ongoing operation of those facilities, apparently confusing the
42 KHSA with a separate but related Klamath basin agreement to which the
43 Company is not a party – the Klamath Basin Restoration Agreement. However,
44 the Klamath relicensing and settlement costs, and the KHSA implementation
45 costs included in the case relate to the current and future operation of the Klamath
46 facilities, as described by Mr. Brockbank. Furthermore, because the KHSA
47 represents the least cost option for customers as the Company manages the
48 Klamath assets now and in the future, these costs are prudent costs related to the
49 Klamath project system resource and are therefore appropriately allocated to Utah
50 under the Rolled-In methodology.

51 **Q. What reasons does Ms. Beck cite for not allocating Klamath related costs to**
52 **Utah under the Rolled-In Methodology?**

53 A. Ms. Beck states that: “Moving from Revised Protocol to the rolled-in
54 methodology the question becomes whether such costs are *properly* assigned
55 to Utah.”² Ms. Beck comments that since “the costs are associated with a
56 resource from which Utah customers have not received benefit for the majority of
57 its operating life It would not be fair nor would it result in just and reasonable
58 rates to now give Utah customers a full load ratio share of costs.”³ Ms. Beck also
59 criticizes Dr. William Powell because he does not “address the fact that these
60 costs were incurred and paid for a hydro resource, the benefit of which at that
61 time was reserved by the Revised Protocol for Pacific Power jurisdictions.”⁴

² Rebuttal testimony of Michele Beck, June 30, 2011, page 6, lines 119-120 and 125-127.

³ Rebuttal testimony of Michele Beck, June 30, 2011, page 6, lines 133-137.

⁴ Rebuttal testimony of Michele Beck, June 30, 2011, page 5, lines 101-103.

62 **Q. Is it appropriate to alter the allocation of Klamath project related costs in**
63 **this case based on past allocation of hydro resources?**

64 A. No. Allocation of the Company's revenue requirement across its various
65 jurisdictions is the subject of much discussion and debate. However, consistent
66 with past direction from the Utah Public Service Commission ("Commission")
67 related to inter-jurisdictional allocations, allocation of the Klamath costs should
68 be linked to current usage and benefits and should not be based on historical cost
69 allocations as proposed by Ms. Beck. This issue was addressed by the
70 Commission in Docket No. 97-035-04. Its April 16, 1998, order states:

71 We conclude that the basis of cost apportionment is cost causation
72 reflecting the characteristics of current rather than historical usage.
73 This is the traditional meaning given the cost-causation principle.
74 In the 1990 Order, the Commission affirmed that principle by
75 rejecting a proposal to partition plant on a historical basis.⁵

76 The Commission went on to say:

77 An historical-use-based cost apportionment method results in a
78 form of vintage pricing. Vintage pricing has not been accepted in
79 this jurisdiction ...⁶

80 **Q. Was the issue of using historical cost allocations addressed in other**
81 **Commission orders?**

82 A. Yes. The issue of using historical cost allocations was also raised in Docket No.
83 99-2035-03, the Company's application for approval to sell the Centralia
84 generating plant. In that docket, the Commission addressed how the gain from the
85 transaction should be shared among state jurisdictions, and whether it should be
86 based on the current allocations or the allocation methods used during the course

⁵ Docket No. 97-035-04 Report and Order, April 16, 1998, page 13.

⁶ Docket No. 97-035-04 Report and Order, April 16, 1998, page 14.

87 of the plant's life. The Commission stated in its March 14, 2000, Report and
88 Order:

89 As we have repeatedly held, historical cost causation is an
90 improper basis for interjurisdictional allocation of system revenue
91 requirement. In the April 1998 Order, we reaffirmed that current,
92 not historical, characteristics of cost causation are what count.⁷

93 The Commission also stated in its May 3, 2000, order in the same docket:

94 Our last allocation order makes clear that we are now past the
95 transition period and now allocating costs on a rolled-in basis....
96 At times it has not been to Utah's advantage to do so, but that is
97 our regulatory principal.⁸

98 **Q. Please describe the 'current characteristics' of the Klamath resource.**

99 A. Ms. Beck and other parties have argued in this case that inter-jurisdictional cost
100 allocation should be based on a rolled-in method. In my rebuttal testimony I
101 described the newly-signed agreement related to the Company's application to
102 implement the 2010 Protocol, the results of which were incorporated in the
103 Company's rebuttal revenue requirement and which produce Utah revenue
104 requirement at the economic equivalent of the Rolled-In method. The costs and
105 benefits of the Klamath resources, as well as all other hydro resources on the
106 Company's system, are allocated to Utah in proportion to the peak and energy
107 requirements of the state. Under the 2010 Protocol agreement, and the Rolled-In
108 allocation method, the full benefits during the test period related to all of the
109 Company's hydro facilities are reflected in Utah revenue requirement, including
110 facilities which have been in service and depreciated on the books for many
111 decades prior to their inclusion in Utah rates.

⁷ Docket No. 99-2035-03 Report and Order, March 14, 2000.

⁸ Docket No. 99-2035-03 Order, March 14, 2000.

112 Company witness Mr. Brockbank provided extensive support of the
113 KHSA in his direct and rebuttal testimony. I also provided an analysis in my
114 Exhibit RMP___(SRM-5R) supporting that the KHSA is the least cost option for
115 the future operation and/or disposition of the Klamath resources.

116 **Q. Should the revenue requirement impact of Klamath project costs be included**
117 **in rates in Utah?**

118 A. Yes. As shown in the Company's direct and rebuttal filings, costs related to the
119 Klamath project are prudent, and are in the best interest of current customers
120 across the Company's system, including customers in Utah. The KHSA is the
121 least cost option for resolving the issues related to the relicensing of the Klamath
122 facilities and managing the Klamath hydro system now and in the future, and the
123 corresponding revenue requirement is appropriately allocated to Utah for
124 inclusion in rates. Previous Commission orders support the Company's position
125 that current application of the 2010 Protocol and Rolled-In allocation methods
126 require system allocation of Klamath project costs. The current characteristics of
127 the Klamath resource provide benefits to Utah customers, and the costs related to
128 the Klamath project relicensing and settlement efforts and KHSA implementation
129 should also be allocated to Utah consistent with the 2010 Protocol agreement and
130 a Rolled-In allocation.

131 **REC Revenue Deferral**

132 **Q. Did any parties discuss the issue of REC deferrals in their rebuttal**
133 **testimony?**

134 A. Yes. Ms. Beck and Ms. Donna Ramas for the OCS and Ms. Brenda Salter for

135 DPU addressed various issues regarding REC revenues.

136 **Q. What is your position on their rebuttal testimony?**

137 A. Most of the issues raised in rebuttal were clarifications of direct testimony. The
138 Company agrees that the refund (or recovery) of REC revenue deferred since
139 February 22, 2010, should be separate from the base revenue requirement and
140 rates determined in the current rate case. Furthermore, the Company believes that
141 it would be most appropriate for the Commission to determine the rate making
142 treatment of both the deferred REC revenue and deferred net power costs, which
143 have been accruing since approximately the same time as the deferred REC
144 revenue, in the same docket to avoid decreasing customer rates for one and then
145 subsequently increasing customer rates for the other.

146 **Q. Does the Company have a preferred approach for truing up REC revenue**
147 **forecasted in the current case with actual REC revenue?**

148 A. The Company believes a mechanism should be established coincident with the
149 effective date of new rates from this case to track actual REC revenue versus the
150 level forecast in this case, and to true up 100 percent of this difference. We
151 believe that would be best handled using the approach put forth by Ms. Salter in
152 her direct testimony. As described in my rebuttal testimony, the Company
153 believes both the DPU and OCS proposals have merit and are acceptable,
154 however, the Company would prefer the DPU approach because it outlines the
155 timing of REC filings and aligns rate changes with those of the Energy Balancing
156 Account (“EBA”). The reason for this preference is because when the Company
157 files its next rate case it may only have actual REC revenue data for a few

158 months, and would need to provide an estimate for the remaining time until the
159 new rates from the next case go into effect. Although some of the estimates could
160 be trued up during the case, the ultimate true up would need to be in a later rate
161 case filing. For this reason, the Company would prefer the DPU approach using
162 the same filing dates as the EBA. After the time rates from this case become
163 effective, the difference between Utah's allocated REC revenue included in rates,
164 and actual Utah allocated REC revenue, will be accumulated on a calendar year
165 basis. The Company will file a report on March 15th of subsequent year, and
166 100% of the difference will be refunded to customers over a 12 month period
167 upon Commission approval. Interest will be accrued at the same rate as the EBA,
168 and any remaining balance at the end of the 12 months will be included in the
169 following REC filing.

170 **Generation Overhaul Expense**

171 **Q. Do you agree with Ms. Ramas that the escalation factors used by the DPU**
172 **were not specific to the period it was escalating?**

173 A. Yes. In converting the historic dollars to real dollars to make a valid comparison,
174 Dr. Powell used the average inflation factors for 2010 through 2012. These factors
175 were provided with the Company's original filing. Instead of using this average
176 inflation rate, it would be more appropriate to use actual inflation factors for
177 restating the historic amounts. In addition, projected expenses for new generating
178 plants should be deflated back to base period dollars prior to being included in the
179 average.

180 **Q. Has the Company revised its rebuttal generation overhaul adjustment using**
181 **the correct factors?**

182 A. Yes. Exhibit RMP__(SRM-1SR) provides a corrected generation overhaul
183 adjustment, correctly applying the escalation factors to calculate the average
184 generation overhaul expense. The correction reduces the Company's rebuttal
185 revenue requirement by \$19,785.

186 As discussed in the direct testimony of Dr. Powell and in my rebuttal
187 testimony, the main issue is not the escalation factor used, it is the necessity of
188 converting nominal amounts to real dollars to make them comparable prior to
189 averaging. If the amounts are not first converted to real dollars, the average
190 becomes meaningless because it is averaging dollars from multiple years without
191 adjusting to a common base.

192 **FERC Rate Case**

193 **Q. What is the magnitude of the Company's transmission rate case recently**
194 **filed with FERC?**

195 A. The Company's transmission rate case, filed with FERC on May 26, 2011, under
196 docket number ER11-3643, proposes updated wholesale rates for transmission
197 and other ancillary services provided under the Company's Open Access
198 Transmission Tariff ("OATT"). As detailed in the surrebuttal testimony of Mr.
199 John A. Cupparo in Exhibit RMP__(JAC-1SR), the impact statement indicates the
200 Company is requesting approximately \$3 million in incremental third party
201 revenues under the proposed rates. Assuming the full requested increase is
202 granted and new rates are approved on an interim basis effective January 2012,

203 Utah-allocated revenue credits in the test period would only increase
204 approximately \$650,000.

205 **Q. Are the \$85 million and \$20 million dollar amounts quoted by Mr. Dennis E.**
206 **Peseau for the requested FERC rate increase misleading?**

207 A. Yes. Although the amounts quoted by Mr. Peseau are literally correct, they are
208 very misleading. As shown on Exhibit RMP__(JAC-1SR), over 97 percent of the
209 requested increase is allocated to PacifiCorp. Therefore, the vast majority of the
210 amounts referenced do not impact retail revenue requirement because it represents
211 an internal transfer of dollars within PacifiCorp and not a third party revenue
212 credit.

213 **Q. Are wheeling revenues included in the Utah EBA?**

214 A. Yes. Going forward, any difference between wheeling revenues in the current
215 case and actual wheeling revenues received will be trued-up through the EBA.

216 **Q. Please clarify the Company's proposal with regard to incremental wheeling**
217 **revenue resulting from the FERC transmission rate case?**

218 A. As stated in my rebuttal testimony, since the exact timing and amount of any
219 increase is unknown at this time, the Company proposes to defer any additional
220 wheeling revenues resulting from the FERC transmission rate case that will not
221 already be reflected in the EBA (i.e., the 30 percent sharing) for the period that
222 new FERC rates are in effect through the end of the test period at June 30, 2012.
223 Any difference after the test period will be trued-up through the EBA at the
224 normal 70 percent sharing level. The Company proposes that this amount be
225 deferred and credited to customers through the 2013 EBA annual filing.

226 **Special Contract Revenues**

227 **Q. A stipulation on Cost of Service, Rate Spread and Rate Design has been**
228 **reached in the case and filed with the Commission. Are there any revenue**
229 **requirement impacts associated with that stipulation?**

230 A. Yes. The stipulation provides for an additional \$1.0 million in Utah present
231 revenue associated with two special contracts. Paragraph nine of the stipulation
232 states:

233 Special Contract Revenue Adjustment. In addition to all other
234 revenue requirement adjustments accepted by the Company or
235 ordered by the Commission in this docket, the Parties agree that
236 the Company's Revenue Requirement should be reduced by \$1
237 million to reflect an assumed impact of additional contractual
238 increases in test period revenues from special contract customers 1
239 and 2, for whom test period revenues in this case were assumed in
240 Exhibit A to remain at 2011 levels.

241 **Q. How should the stipulation be incorporated into this rate case?**

242 A. Exhibit RMP__(SRM-2SR) is a lead sheet that incorporates the additional
243 revenues into this case. Any revenue requirement approved by the Commission
244 should include the \$1 million in additional current revenues referenced in the
245 stipulation. I have included the revenue requirement impact in the Company's
246 surrebuttal revenue requirement position referenced earlier in my testimony.

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

248 A. Yes.