

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

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

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Direct Testimony of Steven R. McDougal

Policy/Revenue Requirement

February 2010

1 **Q. Please state your name, business address with PacifiCorp dba Rocky**  
2 **Mountain Power.**

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

5 **Qualifications**

6 **Q. What is your current position at the Company and what is your employment**  
7 **history?**

8 A. I am currently employed as the director of revenue requirements for the  
9 Company. I have been employed by Rocky Mountain Power or its predecessor  
10 companies since 1983. My experience at Rocky Mountain Power includes various  
11 positions within regulation, finance, resource planning, and internal audit.

12 **Q. What are your responsibilities as director of revenue requirements?**

13 A. My primary responsibilities include overseeing the calculation and reporting of  
14 the Company's regulated earnings or revenue requirement, assuring that the inter-  
15 jurisdictional cost allocation methodology is correctly applied, and explaining  
16 those calculations to regulators in the jurisdictions in which the Company  
17 operates.

18 **Q. What is your educational background?**

19 A. I received a Master of Accountancy from Brigham Young University with an  
20 emphasis in Management Advisory Services in 1983 and a Bachelor of Science  
21 degree in Accounting from Brigham Young University in 1982. In addition to my  
22 formal education, I have also attended various educational, professional, and  
23 electric industry-related seminars.

24 **Q. Have you testified in previous proceedings?**

25 A. Yes. I have provided testimony before the Utah Public Service Commission, the  
26 Washington Utilities and Transportation Commission, the California Public  
27 Utilities Commission, the Idaho Public Utilities Commission, the Wyoming  
28 Public Service Commission, and the Utah State Tax Commission.

29 **Purpose of Testimony**

30 **Q. What is the purpose of your direct testimony?**

31 A. My direct testimony explains and supports the Company's application to recover  
32 the increased revenue requirement of \$33.7 million for two major plant additions,  
33 namely, the Ben Lomond to Terminal transmission line and the Dave Johnston  
34 Unit 3 pollution control investments. I also explain the Company's proposal to  
35 defer these costs for later recovery as allowed by statute. In addition to my  
36 testimony, several Company witnesses provide testimony supporting the  
37 development of these projects, along with the expected costs and benefits. I will  
38 identify these Company witnesses and the subject of their respective testimony.

39 **Q. Please explain the circumstances that gave rise to this filing.**

40 A. In the Company's most recent case, Docket No. 09-035-23, the Company and  
41 intervening parties reached an agreement May 14, 2009, that specified a filing  
42 schedule for major plant addition cases in 2010 and the Company's next general  
43 rate case in 2011. The settlement agreement was approved by the Commission  
44 June 1, 2009. Paragraph 10(a) of that agreement states:

45 10. Single Item Rate Cases.

46 a. Ben Lomond to Terminal Transmission Line Segment and Dave Johnston  
47 Scrubber Projects. The Company anticipates that (i) the capital additions of  
48 scrubbers to the Dave Johnston Power Station will be completed by May 2010  
49 and (ii) the Ben Lomond to Terminal Transmission Line Segment will be

50 completed by June 2010. No projected costs or revenues associated with the  
51 foregoing projects will be included in the Company's 2009 General Rate Case.  
52 The Company intends to file an application on or after February 1, 2010 for  
53 single item rate recovery of the foregoing capital projects pursuant to Utah Code  
54 Anno. § 54-7-13.4 (the "Act"). The Parties agree not to oppose the Company's  
55 right to file or time of filing (assuming consistency with the 90 and/or 150 days  
56 stated in the Act) of the Company's application for approval of rate recovery for  
57 the foregoing projects. All Parties reserve and retain the right to take or make any  
58 and all substantive positions, claims or objections going to the merits, prudence  
59 (if a prudence review has not already been made under the Energy Resource  
60 Procurement Act) or amount of recovery in connection with such filings.

61  
62 Consistent with that agreement, the Company is filing this application to address  
63 the cost recovery of the costs associated with pollution control equipment at Dave  
64 Johnston Unit 3 and the Ben Lomond to Terminal transmission line.

65 **Q. Do the investments qualify for alternative cost recovery for major plant**  
66 **additions as outlined in Utah Code Section 54-7-13.4?**

67 A. Yes. One percent of the Company's Utah rate base approved by the Commission  
68 in Docket No. 08-035-38 was \$44.9 million. One percent of Utah's rate base  
69 included in the Company's rebuttal filing in Docket No. 09-035-23 is \$46.3  
70 million and each of the plant additions exceed this threshold. Additionally, the  
71 filing is being made within the eighteen month window required by the statute  
72 whether based on the revenue requirement or final order in Docket No. 08-035-38  
73 or on the current rate case docket.

#### 74 **Revenue Requirement Summary**

75 **Q. What is the revenue requirement related to the two major plant additions**  
76 **addressed in this application?**

77 A. The following table summarizes the overall requested revenue requirement of  
78 each of the projects, allocated to Utah:

*\$ millions*

Dave Johnston Unit #3 Scrubber	\$	18.3
Ben Lomond to Terminal Transmission Line	\$	15.4
Total Revenue Requirement	<u>\$</u>	<u>33.7</u>

79 Total Company revenue requirement components are allocated among the  
80 Company’s jurisdictions using the Revised Protocol allocation method, as  
81 approved by the Utah Public Service Commission (“Commission”) in Docket No.  
82 02-035-04. However, pursuant to the Stipulation reached between the Company  
83 and participants in the Multi-State Process, and approved by the Commission,  
84 Utah revenue requirement is currently limited to the lesser of the amount derived  
85 using the Revised Protocol method or the amount derived using the Rolled In  
86 method multiplied by 101 percent (the Rate Mitigation Cap).

87 The capital included in this major plant addition filing is allocated on a  
88 system generation (“SG”) factor which is the same under both revised protocol  
89 and rolled-in allocation methodologies. The rate change in Docket No. 08-035-38  
90 and the proposed rate change in Docket No. 09-035-23 were both calculated using  
91 the capped revenue requirement based on the Rolled In allocation multiplied by  
92 101 percent. Consequently, I have computed the Utah allocated revenue  
93 requirement for each project in this application consistent with the rate changes in  
94 those dockets using Rolled In multiplied by 101 percent. Exhibit RMP\_\_\_\_(SRM-  
95 1) provides further numerical details supporting the Utah-allocated revenue  
96 requirement of each project.

97 **Q. What is the return on equity (“ROE”) used in this application?**

98 A. The Company has used an ROE of 11 percent consistent with the Company’s

99 rebuttal filing in Docket No. 09-035-23. The Company anticipates submitting an  
100 updated revenue requirement model in this filing incorporating the authorized  
101 ROE and capital structure as a result of the Commission's pending order. At that  
102 time the Company would revise the net revenue requirement of the two projects  
103 included in this application.

104 **Revenue Requirement Preparation**

105 **Q. Please describe Exhibit RMP\_\_\_(SRM-1).**

106 A. Exhibit RMP\_\_\_(SRM-1) contains the numerical details and calculations  
107 supporting the revenue requirement of each project and the allocation to Utah.  
108 Page 1.0 is a summary by project of the net incremental revenue requirement, in a  
109 format similar to that used by the Company in its previous general rate cases. The  
110 first column on page 1.0 ties to the Utah Rolled In results from Docket No. 09-  
111 035-23, Exhibit RMP\_\_\_(SRM-2R), page 9.2. As mentioned above, the Rolled In  
112 amounts are used because rates in the above mentioned docket are based on 101  
113 percent of Rolled In. The next two columns show the impact of the two plant  
114 additions. The far right column shows the incremental results after the adding the  
115 two major plant additions.

116 Pages 2.0 through 2.6 contain the detailed numerical calculations for the  
117 Dave Johnston Unit 3 scrubber, and pages 3.0 through 3.5 contain the same  
118 details for the Ben Lomond to Terminal transmission line. Pages 4.1 through 4.3  
119 contain the inter-jurisdictional allocation factors used to allocate revenue  
120 requirement components to Utah.

121 **Q. Please explain how the revenue requirement of the plant additions was**  
122 **prepared.**

123 A. The revenue requirement of each plant addition was calculated using the same  
124 model and methods employed by the Company in its general rate cases. Each  
125 plant addition was treated as an incremental adjustment to a “base case” revenue  
126 requirement for the Company’s Utah jurisdiction. The Company utilized the  
127 Jurisdictional Allocation Model (“JAM”) to allocate the various individual  
128 revenue requirement components to the state of Utah and compute the net  
129 increase in revenue requirement for each project. The working model used to  
130 prepare these pages has been included in folder D.1 of the Filing Requirements  
131 CD.

132 **Q. What did the Company use for the “base case” mentioned above?**

133 A. The starting point in this case is the Company’s rebuttal filing from Docket No.  
134 09-035-23. This is the most recent general rate case filed by the Company, and the  
135 rebuttal results represent the most current filing by the Company for which  
136 complete model runs were filed for revenue requirement and net power costs.  
137 These base scenarios are needed as the starting point from which to calculate the  
138 incremental impacts of the individual plant additions.

139 **Q. How were the major plant additions incorporated into the “base case”**  
140 **results?**

141 A. As mentioned, each project was treated as an incremental adjustment to the “base  
142 case” and entered into the JAM similar to adjustments in past Company filings.  
143 Adjustment lead sheets and supporting calculations are provided on pages 2.0

144 through 2.6 and pages 3.0 through 3.5 of Exhibit RMP\_\_\_\_(SRM-1). Each  
145 adjustment includes the incremental change to rate base, depreciation expense,  
146 operation and maintenance expenses (including any impact on system net power  
147 costs), and other items such as property taxes, miscellaneous revenue, and income  
148 taxes. Incremental rate base was computed using average balances, with electric  
149 plant in service and accumulated depreciation reserve on a 13-month average.

150 **Q. Do your calculations include the impact on overall revenue requirement of**  
151 **any changes in inter-jurisdictional allocation factors resulting from these**  
152 **plant additions?**

153 A. Yes. Consistent with Filing Requirement C.5 of Utah Code Section 54-7-13.4,  
154 allocation factors were allowed to remain dynamic in the JAM, and were updated  
155 coincident with the inclusion of each plant addition in the JAM. Page 4.3 of  
156 Exhibit RMP\_\_\_\_(SRM-1) details the change in allocation factors compared to the  
157 Company's rebuttal filing in Docket 09-035-23.

158 The one exception to the above is the "IBT" factor, which has been held  
159 consistent with the values included in the Company's rebuttal position in Docket  
160 No. 09-035-23. It was necessary to hold this factor constant since not all  
161 components in the case, including expected revenue from other states, were  
162 updated.

### 163 **Dave Johnston Unit 3 Pollution Control Equipment**

164 **Q. Please describe the various components comprising the revenue requirement**  
165 **calculation for the Dave Johnston Unit 3 pollution control investment.**

166 A. The following data inputs were used to calculate the revenue requirement for the

167 Dave Johnston Unit 3 investment:

168 • In-service date of May 31, 2010.

169 • Capital additions totaling \$293.4 million on a 13-month average basis

170 from June 30, 2010 through June 30, 2011.

171 • Capital retirements totaling \$19.9 million are removed from results as

172 of the May 2010 in-service date.

173 • Depreciation expense totaling \$7.8 million is included in results for the

174 12-month period ending June 2011 by applying a Dave Johnston plant

175 specific composite depreciation rate of 2.86 percent to projected net

176 capital additions.

177 • Depreciation reserve totaling \$14.7 million is also included on a 13-

178 month average basis consistent with net capital additions.

179 • Incremental O&M expense totaling \$1.45 million is included in for the

180 first year of operation. These expenses represent incremental costs the

181 Company will incur during the first year to operate the newly installed

182 scrubber. These incremental costs include maintenance, re-agent

183 (chemicals), and waste disposal.

184 • Incremental revenue from the sale of SO<sub>2</sub> emission allowances

185 totaling \$1.04 million is included in results on a monthly basis which

186 includes sales of 6,600 tons priced at \$157/ton and amortized over a

187 four year period consistent with the Commission order in Docket No.

188 97-035-01. Please see the direct testimony of Mr. Chad A. Teply for a

189 more detailed discussion on SO<sub>2</sub> emissions.

- 190                   • Incremental net power costs totaling \$1.6 million are included based  
191                   on the degradation of plant output related to the scrubber. Please see  
192                   the direct testimony of Dr. Hui Shu for a more detailed discussion  
193                   regarding net power costs.
- 194                   • All tax-related entries necessary to include the capital additions and  
195                   related book and tax depreciation adjustments were calculated  
196                   consistent with the methodology used in Utah Docket No. 09-035-23.

197   **Ben Lomond to Terminal Transmission Line**

198   **Q.    Please describe the various components comprising the revenue requirement**  
199   **calculation for the Ben Lomond to Terminal transmission line.**

200   A.    The following data inputs were used in calculating the revenue requirement for  
201   the Ben Lomond to Terminal transmission line segment investment:

- 202                   • In-service date of June 30, 2010.
- 203                   • Capital additions of \$49.3 million are included in results as of December  
204                   2009 and an additional \$218.9 million through June 30, 2010 on a 13-  
205                   month average basis through June 30, 2011 for a total capital addition  
206                   investment of \$268.2 million. Consistent with the language in the test  
207                   period stipulation mentioned above, none of the costs of this project were  
208                   included in the revenue requirement in Docket No. 09-035-23.
- 209                   • Capital retirements totaling \$1.7 million are removed from results as of  
210                   December 2009 with an additional \$700 thousand in June 2010.
- 211                   • Depreciation expense totaling \$5.2 million is included in results for the  
212                   12-month period ending June 2011 by applying a transmission-specific

213 composite depreciation rate of 2.03 percent to projected net capital  
214 additions.

215 • Depreciation reserve totaling \$1.3 million is also included on a 13-month  
216 average basis consistent with net capital additions. An additional \$3.3  
217 million of removal costs associated with the December 2009 retirements  
218 are included as an offset to depreciation reserve.

219 • Incremental O&M expense is included in results totaling \$16,500. These  
220 expenses represent incremental costs the Company will incur during the  
221 first year of operation, including two fly-over inspections and one ground  
222 patrol inspection.

223 • Property tax expense totaling \$1.4 million is included in results by taking  
224 into account the anticipated increase in assessed value and tax expense  
225 through June 30, 2011. Property tax expense was estimated by applying  
226 historical jurisdictional specific tax rates and assessment ratios to each  
227 project's total capital costs.

228 • All tax related entries necessary to include the capital additions and related  
229 book and tax depreciation adjustments were calculated consistent with the  
230 methodology used in Utah Docket No. 09-035-23.

231 **Method of Cost Recovery**

232 **Q. Is the Company requesting approval to change retail rates as a result of this**  
233 **application?**

234 A. No, not at this time. The Company is requesting authority to defer for later cost  
235 recovery the revenue requirement resulting from these two major plant

236 investments, effective July 1, 2010.

237 **Q. Please explain the deferred accounting treatment.**

238 A. The Company is requesting to defer the incremental revenue requirement for the  
239 Dave Johnston Unit 3 investment and the Ben Lomond to Terminal transmission  
240 line investment for inclusion in retail rates at a later time. The deferral will be  
241 booked monthly, beginning with the effective date of a Commission order, which  
242 is anticipated to be effective July 1, 2010. Interest at the rate of return on rate base  
243 most recently approved by the Commission will be added to the deferral monthly  
244 based on the beginning balance for that month. The deferred revenue requirement  
245 would be accumulated as a regulatory asset on the Company's books until it is  
246 amortized in rates in a future rate change proceeding. The Company proposes that  
247 rates be adjusted in the future following a second application for cost recovery for  
248 major plant additions. Currently, the Company anticipates filing a second major  
249 plant additions filing in August 2010, and would likely propose that retail rates be  
250 adjusted effective January 1, 2011. That rate adjustment could be set to begin  
251 recovering the revenue requirement from both major plant addition applications  
252 and any associated carrying charges at that time.

253 **Witnesses**

254 **Q. Please identify the other Company witnesses in this application and the**  
255 **purpose of their direct testimony.**

256 A. The following Company personnel have provided direct testimony addressing  
257 various issues in this application:

258 • Mr. John A. Cupparo, vice president of transmission for PacifiCorp,

259 provides an overview of the Ben Lomond to Terminal transmission line  
260 and the Company's transmission system and expansion plan, and  
261 demonstrates how the Ben Lomond to Terminal transmission line is  
262 beneficial to customers.

263 • Mr. Darrell T. Gerrard, vice president of transmission system planning for  
264 PacifiCorp, provides additional details and technical information on the  
265 Company's decision to build the double-circuit 345kv Populus to  
266 Terminal transmission line and on the construction of the line.

267 • Mr. Chad A. Teply, vice president of resource development and  
268 construction for PacifiCorp Energy, provides information on the necessity  
269 and prudence of environmental improvements made to the Dave Johnston  
270 Unit 3 power plant and describes the impacts this investment will have on  
271 plant.

272 • Dr. Hui Shu, manager of net power costs, presents the net power cost  
273 impact of the major plant additions.

274 • Mr. Bruce N. Williams, vice president and treasurer of PacifiCorp,  
275 describes how the Company financed the construction of the major plant  
276 additions.

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

278 A. Yes.