

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

---

<b>In the Matter of the Application of Rocky Mountain Power for Authority to Increase Its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations, Consisting of a General Rate Increase of Approximately \$161.2 Million Per Year, and for Approval of a New Large Load Surcharge</b>	)	<b>Docket No. 07-035-93</b>
	)	<b>Pre-filed Direct</b>
	)	<b>Test Year</b>
	)	<b>Testimony of</b>
	)	<b>Donna DeRonne</b>
	)	<b>For the Committee of</b>
	)	<b>Consumer Services</b>
	)	

---

January 25, 2008

## Table of Contents

	Page
<b>INTRODUCTION .....</b>	<b>1</b>
<b>TEST YEAR ALTERNATIVES .....</b>	<b>3</b>
<b>TEST YEAR RECOMMENDATION.....</b>	<b>5</b>
<b>TIMELINESS OF TEST YEAR RESOLUTION.....</b>	<b>7</b>

1           **INTRODUCTION**

2   **Q.    WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

3   A.    My name is Donna DeRonne. I am a Certified Public Accountant licensed  
4        in the State of Michigan and a senior regulatory analyst at Larkin &  
5        Associates, PLLC, Certified Public Accountants, with offices at 15728  
6        Farmington Road, Livonia, Michigan 48154.

7

8   **Q.    PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.**

9   A.    Larkin & Associates, PLLC, is a Certified Public Accounting Firm. The firm  
10        performs independent regulatory consulting primarily for public  
11        service/utility commission staffs and consumer interest groups (public  
12        counsels, public advocates, consumer counsels, attorneys general, etc.).  
13        Larkin & Associates, PLLC has extensive experience in the utility  
14        regulatory field as expert witnesses in over 600 regulatory proceedings,  
15        including numerous electric, water and wastewater, gas and telephone  
16        utility cases.

17

18   **Q.    HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR**  
19        **QUALIFICATIONS AND EXPERIENCE?**

20   A.    Yes. I have attached Appendix I, which is a summary of my regulatory  
21        experience and qualifications.

22

23

24 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

25 A. Larkin & Associates, PLLC, was retained by the Utah Committee of  
26 Consumer Services (Committee) to review Rocky Mountain Power's (the  
27 Company or RMP) application for an increase in rates in the State of Utah.  
28 Accordingly, I am appearing on behalf of the Committee.

29

30 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

31 A. My testimony addresses: (1) the test year alternatives that the  
32 Commission can select from as set forth in the statutory provision  
33 addressing test year; (2) the Committee's position that the Company's  
34 proposed test year, if adjusted appropriately, can be reasonably reflective  
35 of the conditions RMP is likely to encounter during the rate effective  
36 period; and (3) reasons why it is imperative that the Commission resolve  
37 the test year issue in a timely manner.

38

39 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY ON THE ISSUE**  
40 **OF TEST YEAR SELECTION BEFORE THE PUBLIC SERVICE**  
41 **COMMISSION OF UTAH?**

42 A. Yes. In Rocky Mountain Power's prior rate case, Docket No. 06-035-23, I  
43 submitted testimony on behalf of the Committee of Consumer Services  
44 regarding the appropriate test year.

45

46

47

48 **TEST YEAR ALTERNATIVES**49 **Q. WHAT TEST PERIODS WERE PRESENTED BY ROCKY MOUNTAIN**  
50 **POWER IN THIS DOCKET?**51 A. Consistent with previous agreements among the parties, Rocky Mountain  
52 Power provided its adjusted Results of Operations in this case for three  
53 separate periods. The first period consists of the historical twelve months  
54 ending June 30, 2007 with normalizing adjustments, which is the "Base  
55 Period." The second period is the "Mid Period", which is the twelve  
56 months ending June 30, 2008. The third period presented is the projected  
57 twelve months ending June 30, 2009, which is the test year requested by  
58 RMP in this case.

59

60 **Q. WOULD YOU PLEASE BRIEFLY SUMMARIZE THE STATUTORY**  
61 **CHARGE TO THE COMMISSION WITH REGARDS TO THE**  
62 **SELECTION OF THE APPROPRIATE TEST PERIOD?**

63 A. Yes. Section 54-4-4(3) of the Utah Statutes specifically states:

64 (a) If in the commission's determination of just and reasonable  
65 rates the commission uses a test period, the commission shall  
66 select a test period that, on the basis of the evidence, the  
67 commission finds best reflects the conditions that a public utility will  
68 encounter during the period when the rates determined by the  
69 commission will be in effect.

70

71 **Q. DO THE UTAH STATUTES SPECIFICALLY REQUIRE THAT A FUTURE**  
72 **TEST YEAR BE USED?**

73 A. No, they do not. In addressing the establishment of the test year, the Utah  
74 Statutes in Section 54-4-4(3), specifically state:

75 (b) In establishing the test period determined in Subsection (3)(a),  
76 the commission may use:

77

78 (i) a future test period that is determined on the basis of  
79 projected data not exceeding 20 months from the date a  
80 proposed rate increase or decrease is filed with the  
81 commission under Section 54-7-12;

82

83 (ii) a test period that is:

84

85 (A) determined on the basis of historic data; and

86 (B) adjusted for known and measurable changes; or

87

88 (iii) a test period that is determined on the basis of a  
89 combination of:

90

91 (A) future projections; and

92 (B) historic data.

93

94 (c) If pursuant to this Subsection (3), the commission establishes  
95 a test period that is not determined exclusively on the basis of  
96 future projections, in determining just and reasonable rates the  
97 commission shall consider changes outside the test period that:

98

99 (i) occur during a time period that is close in time to the test  
100 period;

101

102 (ii) are known in nature; and

103

104 (iii) are measurable in amount.

105

106

107 According to the statutory language, the Commission can select from  
108 three basic test year options. These options include a historical test year  
109 adjusted for known and measurable changes, a future test year for which  
110 the end date does not exceed 20 months from the date the case is filed,  
111 and a mixed test year that is a combination of historical information and

112 future projections. While the future test year may not exceed 20 months  
113 from the date the case is filed, it may consist of almost any twelve month  
114 period prior to that 20 month limitation. A mixed test year also results in  
115 many test year options.

116 In selecting the appropriate test year, therefore, the key criteria for  
117 the Commission is that the test year, based on the evidence presented,  
118 needs to reflect the conditions that will be encountered by a utility during  
119 the rate effective period.

#### 120 **TEST YEAR RECOMMENDATION**

121 **Q. WHAT IS THE COMMITTEE'S POSITION WITH REGARDS TO THE**  
122 **TEST YEAR REQUESTED BY RMP IN THIS CASE?**

123 A. As previously indicated, RMP has requested a future test year ending  
124 June 30, 2009. The forecasted test period was presented by the  
125 Company in Exhibit RMP\_\_(SRM-1). It is the Committee's view that the  
126 information and calculations presented in Exhibit RMP\_\_(SRM-1) can be  
127 adjusted such that the requested period can be reasonably reflective of  
128 the conditions RMP will face in the rate effective period.

129 Section 54-4-4(3)(a) of the Utah Statutes requires that the  
130 Commission select a test period that, on the basis of the evidence, it finds  
131 best reflects the conditions that a utility is expected to encounter during  
132 the rate effective period. Given the degree of growth in customer levels  
133 and loads, coupled with the need for a significant amount of capital  
134 investment in RMP's system in the areas of distribution, transmission and

135 generation, the twelve month period requested by RMP can be reasonably  
136 reflective of the rate effective period if reasonable projections, forecasting  
137 methodologies, and assumptions are utilized in deriving the forecasted  
138 amounts. If the future test period is selected, appropriate ratepayer  
139 safeguards should also be put in place.

140

141 **Q. WHAT TYPES OF POTENTIAL RATEPAYER SAFEGUARDS DO YOU**  
142 **ENVISION AT THIS TIME?**

143 A. While the Committee is still in the process of analyzing the Company's  
144 recent responses to discovery regarding projected capital and O&M/A&G  
145 expenditures and a significant amount of analysis and discovery remains  
146 to be conducted, there is a concern that the substantial level of projected  
147 expenditures contained in the filing may not be achieved. If a future test  
148 year is adopted by the Commission, the Committee believes that  
149 safeguards should be established in this case to protect ratepayers in the  
150 event that actual capital spending falls substantially short of projected  
151 levels and actual costs in the areas of O&M/A&G fall short of budgeted  
152 levels. Safeguards could take various forms. Three types of potential  
153 safeguards to protect customers include: (1) the phasing-in of rate  
154 recovery of costs ascribed to particular major projects in the outer months  
155 of the future test year based on achieved project milestones; (2) the  
156 establishment of deferral mechanisms (perhaps in the form of a regulatory  
157 liability) to mitigate future cost increases; or (3) customer credits (refunds)



158 on bills essentially reflecting the difference between amounts collected in  
159 rates and actual spend levels in certain areas. As the Committee  
160 continues its analysis, potential safeguards will be developed and further  
161 addressed in its revenue requirement testimony.

162 **TIMELINESS OF TEST YEAR RESOLUTION**

163 **Q. IN YOUR EXPERIENCE ADDRESSING REVENUE REQUIREMENTS IN**  
164 **UTILITY RATE CASE PROCEEDINGS, WHAT TYPES OF TEST YEARS**  
165 **HAVE YOU ADDRESSED?**

166 A. As regulatory policies and practices can differ somewhat between the  
167 various state jurisdictions, I have addressed many different test periods.  
168 These have included historic test years, historic test years with limited  
169 post-test year adjustments, mixed test years consisting of part actual and  
170 part forecasted information, and future test periods. However, in each of  
171 the proceedings, the test year that is being utilized for the development of  
172 the revenue requirement is typically known at the on-set of the case or  
173 close thereto. This gives some certainty as to the direction of the review  
174 process. Parties know what test period to use for their review, analysis  
175 and adjustments in making an appropriate revenue requirement  
176 determination. Certainty with regards to the test period is imperative to  
177 the review process.

178

179 **Q. WHY IS IT IMPERATIVE THAT THE ISSUE OF TEST YEAR BE**  
180 **RESOLVED EARLY IN THE CASE?**

181 A. There are many factors making it imperative that the resolution of the test  
182 period be determined early in the rate case schedule. An unresolved test  
183 period will result in a very inefficient audit and review process, greatly  
184 increasing the costs associated with the review of the rate case filing.  
185 Parties would need to perform a detailed audit and review of all potential  
186 test periods. While each of the periods used in building-up to the future  
187 test period would need to be reviewed regardless, different periods will  
188 incorporate differing assumptions and forecasts. It would not be possible  
189 for parties to quantify and present each and every recommended  
190 adjustment or revision in each and every potential twelve-month test  
191 period option available.

192 Additionally, if a twelve-month period is selected for the test year  
193 which differs from the three test periods presented by the Company in its  
194 filing in Exhibits RMP\_\_(SRM-1) and (SRM-2), a great deal of revisions  
195 and calculations in many areas must be made to present a complete  
196 twelve-month period with all of the aspects of the revenue requirement  
197 calculation being coordinated and matched.

198

199 **Q. COULD YOU PLEASE GIVE SOME EXAMPLES OF HOW**  
200 **ADJUSTMENTS WOULD HAVE DIFFERENT IMPACTS IN DIFFERENT**  
201 **TEST PERIODS?**

202 A. Yes. For example, the sales forecast differs depending upon the period  
203 selected. According to the Direct Testimony of RMP witness G. Michael

204 Rife, in order to forecast sales to Industrial and Other Sales to Public  
205 Authorities customer classes, the Company consults with the account  
206 managers assigned to each of the large power users regarding the  
207 customer's projected energy consumption. The forecasts of monthly sales  
208 and consumers may also be adjusted by the Company forecaster. The  
209 number of industrial customers and level of sales will vary depending upon  
210 the 12-month period selected. Additionally, the level of sales will impact  
211 the power costs incorporated in the filing. It also impacts the system loads  
212 and system peaks which thereby impacts the jurisdictional cost allocation  
213 factors.

214 Another example is the addition of generation sources. The  
215 Company is adding new wind facilities in different months in this case.  
216 The addition of a wind facility impacts plant in service, accumulated  
217 depreciation, depreciation expense, income taxes, OMAG, power costs  
218 and labor costs. Depending upon the twelve month period selected, the  
219 impact of the addition of the plant will differ. As an average rate base is  
220 used, analysts must know how many months the addition should be  
221 included in plant in service, accumulated depreciation and depreciation  
222 expense, among other factors. If parties recommend adjustments to any  
223 of the generation source additions, such as revised cost estimates or  
224 revised in-service dates, the impact on revenue requirement will be  
225 different for each distinct twelve-month period selected.

226 Almost every adjustment made in the filing and every forecast will  
227 vary in differing test periods. Some adjustments will differ more  
228 substantially than others depending upon the nature of the forecast and  
229 the differing conditions between periods. Some differences may be as  
230 simple as incorporating alternate escalation factors, but some will be much  
231 more complex. If parties advocate different test periods in the case, the  
232 adjustments will not be comparable making the hearing process and final  
233 revenue requirement calculation unwieldy.

234

235 **Q. WOULD PARTIES BE PUT AT A DISADVANTAGE SHOULD THE TEST**  
236 **PERIOD THEY ARE ADVOCATING NOT BE SELECTED?**

237 A. If the Commission does not resolve the test year issue early in the case,  
238 parties that utilize a test period that differs from the one ultimately utilized  
239 by the Commission in reaching its final decision would be put at a great  
240 disadvantage. The quantification of adjustments or revisions they are  
241 advocating may differ substantially between potential test periods. Under  
242 the existing legislation, an almost endless number of potential test periods  
243 exist. It is not feasible or practical for parties to present their  
244 recommended adjustments in numerous potential undetermined twelve-  
245 month periods.

246

247 **Q. WOULD FAILURE TO RESOLVE THE ISSUE OF TEST YEAR EARLY**  
248 **IN THE PROCEEDING ALSO MAKE THE COMMISSION'S**

249           **OBLIGATION TO DETERMINE A FAIR AND REASONABLE REVENUE**  
250           **REQUIREMENT MORE DIFFICULT?**

251    A.    Yes, substantially so.  If parties present their recommended adjustments  
252           and revenue requirements based on different test periods, the  
253           Commission may not have all of the facts and evidence necessary in the  
254           record to incorporate all of the adjustments it determines are necessary  
255           and appropriate in the test period it ultimately determines is best reflective  
256           of the conditions in the rate effective period.  The quantification of almost  
257           every aspect considered in a rate case proceeding will be different  
258           depending on the test period.  It will also be much more difficult to ensure  
259           that there is a matching of the different components of the ratemaking  
260           formula.  For example, the addition of a generation source impacts rate  
261           base, labor costs, operation and maintenance costs, potential income tax  
262           benefits or tax credits, purchased power and fuel costs.  The impact will  
263           vary depending upon the twelve-month period selected and where the  
264           addition would fall within the twelve-month period given an average test  
265           year.

266

267    **Q.    DOES THIS COMPLETE YOUR PREFILED TESTIMONY ON TEST**  
268           **YEAR ISSUES?**

269    A.    Yes.