Q. Please state your name and business address.

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

Q. Are you the same Steven R. McDougal who submitted prefiled direct testimony in this proceeding?

A. Yes.

PURPOSE OF TESTIMONY

Q. What is the purpose of your rebuttal testimony in this proceeding.

A. My rebuttal testimony will respond to the prefiled direct testimony filed by the intervening parties regarding the Company's use of a June 30, 2009 forecast test period and the Commission's selection of a test period for this proceeding. The intervening parties who filed testimony include the following:

- Mr. Kevin C. Higgins, representing the UAE Intervention Group (UAE).
- Ms. Donna DeRonne, representing the Committee of Consumer Services (CCS).
- Ms. Joni S. Zenger, representing the Division of Public Utilities (DPU).
- Mr. Roger J. Ball.

GENERAL RESPONSE

Q. Please describe the test year proposed by PacifiCorp in this case?

A. As discussed further in my prefiled direct testimony and the prefiled direct testimony of Company witnesses A. Richard Walje, A. Robert Lasich, G. Michael Rife, Douglas N. Bennion, and Gregory N. Duvall (adopting the prefiled written direct testimony of Mark T. Widmer), the Company has proposed a forecast test period that begins on July 1, 2008 and ends on June 30, 2009 ("Proposed Test Period"). The Proposed Test Period was chosen by the Company because this test period best reflects the conditions the Company will encounter during the rate-effective period, which is consistent with the statutory mandate set forth in Utah Code Ann. §54-4-4. Rocky Mountain Power also believes that the Proposed Test Period will provide the Company with a reasonable opportunity to recover its prudent costs of providing retail electric service to its Utah customers.

Q. Do other Company witnesses address the need for a forecast test period in this case?

A. Yes. Company witnesses A. Richard Walje, A. Robert Lasich, G. Michael Rife, Douglas N. Bennion, and Gregory N. Duvall further describe in their respective prefiled direct testimony the conditions the Company reasonably anticipates experiencing during the rate-effective period.

Q. Does the Company believe a test period determination by the Commission is necessary at this stage of this proceeding?

A. As indicated by the Company in its opposition to UAE's request for a hearing, the Company contends that a test period hearing is unnecessary at this point in time and that a more appropriate time, and a more efficient use of the Commission's resources, would be to address this issue concurrent with the revenue requirement phase of this case when the Commission is determining just and reasonable rates. However, if the Commission determines that a test period hearing is appropriate at this time, the Company implores the Commission that it enter an order following the hearing in a timely manner so that parties to this proceeding are not compelled to argue the same issues that will be presented to the Commission at the February 7, 2008 test period hearing at a subsequent hearing in this proceeding.

Q. How is the Company's Proposed Test Period different from those being proposed by intervening parties?

A. All of the parties in this case either support or do not oppose the use of a forecast test period. Mr. Higgins questions what time frame should be in place for the test period, but does not oppose the use of a forecast test period. It is unclear if Mr. Ball is a proponent of a specific test period, but instead, recommends that if the Commission selects the Company's Proposed Test Period the Company should adjust return on equity downwards.

Q. At this point in time, what options are available to those parties who oppose the Company's Proposed Test Period with respect to making adjustments to the Company's case?

A. The Company believes that in light of the testimony of all parties, the Commission should select the Company's Proposed Test Period of June 30, 2009. The reasons proffered by the parties for opposing the Proposed Test Period can be addressed simply by proposing revenue requirement adjustments to the Company's case. They can propose adjustments to the load forecast and escalation factors to reflect what they believe to be reasonable levels of costs for the Company's Proposed Test Period.

DOCKET 04-035-42

Q. What factors besides Utah Code Ann. §54-4-4 do you believe the Commission should consider when selecting a test period?

A. It appears from the testimony in this case that all parties consider §54-4-4. In addition, the DPU and UAE referred to the factors identified by the Commission in its order approving the test period stipulation in Docket No. 04-035-42 as appropriate for the Commission to consider in making its selection of a test period.

Q. What was the DPU's conclusion regarding the factors included in Docket No. 04-035-42?

A. In the testimony of Ms. Zenger, she has analyzed these factors on an individual basis and has concluded that the Company's Proposed Test Period "most closely reflects the conditions that the Company will encounter during the rate effective period." These factors help point out that only a forecast test period can fully capture the rate-making impacts of a growing customer load, the increased capital investment required to serve the customer load, and the operation and maintenance costs required to maintain a safe and reliable system.

Q. What factors did the Commission identify in Docket No. 04-035-42?

The Commission identified eight factors that need to be considered when selecting a test period. These factors are:

(1) the general level of inflation;
(2) changes in the utility's investment, revenues, or expenses;
(3) changes in utility services;
(4) availability and accuracy of data to the parties;
(5) ability to synchronize the utility's investment, revenues, and expenses;
(6) whether the utility is in a cost increasing or cost declining status;
(7) incentives to efficient management and operation; and
(8) the length of time the new rates are expected to be in effect.

Q. Did the Company consider these eight factors when it selected June 30, 2009 as its Proposed Test Period?

A. Yes. The Company fully supports the Commissions findings and believes these factors are important to consider and have utilized them in the selection of its proposed Test Period.

- **Level of Inflation –** The Company is facing inflationary pressure and needs to adjust amounts in the case to account for inflation. This was supported in the testimony of Ms. Zenger, wherein she states that the U.S. Department of Labor reported that consumer prices rose by 4.1 percent in 2007. Inflation is expected to continue in the future as can be seen in the Global Insights non-labor inflation factors included on page 4.16 of Exhibit SRM-1. The Company also has price increases included in many of its union contracts. In addition, as discussed by Mr. Widmer (Duvall) and Mr. Lasich, the Company is experiencing and expects to continue to experience significant increases in net power costs.
- **Changes in Utility Investment, Revenues, and Expenses –** As stated in Mr. Walje's testimony, the Company expects a considerable amount of new load in the Utah service territory. Because of this load growth the Company will have to acquire new resources to serve this increased load, which will cause changes in the Company's investment, revenue, and expenses. Increases in load are impacting not only investment, but also revenues and expenses. The load growth will increase both retail revenues and will also increase net power costs and operation and maintenance costs of the Company.
- **Changes in Utility Services –** The Company has included in its filings anticipated changes in utility services, such as changes in Utah related to the

automated meter reading project. In excess of eighty percent of the anticipated four million dollar savings related to this program do not occur until the proposed test period.

- **Availability and Accuracy of Data to Parties –** The Company has been very open and willing to share information with the parties involved in the case. Mr. Higgins states in his testimony that the Company has done a commendable job at making data available to the parties. The Company has provided data for the periods ending June 2007, June 2008 and June 2009 with plant detail supporting these periods provided by month. Additionally, the Company has provided two sets of master data requests. Finally, the parties have asked over four hundred data requests that the Company has either responded to or is in the process of responding to.
- **Ability to Synchronize the Utility's Investment, Revenues, and Expenses –** The Company has synchronized the investment, revenues and expenses in the Proposed Test Period. The investment, net power costs, revenues and expenses are all based on the same load growth assumptions as described by Dr. Rife, and all are synchronized to reflect the anticipated conditions for the twelve months ending June 30, 2009.
- **Whether the Utility Is in a Cost Increasing or Cost Declining Status –** As discussed in the direct testimony of the Company, the Company is in a time of increasing costs. The Company is experiencing significant increases in net power costs and investments. These increases are partially offset by increases in revenues associated with load growth.

- **Incentives to Efficient Management and Operation –** The Company management is continually looking for ways to increase the efficiency of the Company. The Company has reduced many costs related to employees, and the overall number of employees. Adjustments for these savings are included in the proposed test year. The Company is adding investment to serve load growth and improve reliability and needs the level of investment included in the proposed test period. To not allow the proposed test period would be a disincentive to the Company.
- **Length of Time New Rates Are Expected To Be in Effect –** The Company has not made any decision on the length of time the new rates are expected to be in effect. Future rate cases will be filed based on Utah jurisdictional earnings as well as the Company's ability to get timely recovery of its costs.

RESPONSE TO MR. HIGGINS

Q. What test year does Mr. Higgins support in this rate case?

A. Mr. Higgins claims that the best test year to use in this case is calendar year 2008, consisting of the period January 1, 2008 through December 31, 2008.

Q. What arguments does Mr. Higgins use to support his proposed test year?

A. Mr. Higgins argues that a projected test period that is closer in time than Rocky Mountain Power's Proposed Test Period is a more reasonable choice. He further argues that using the Company's Proposed Test Period would require customers to pay for capital investments, equity infusions, and cost increases before they occur, and that this is a violation of the rate making principle of plant being used and useful.

Q. Does the Company agree with Mr. Higgins' suggestion that the use of a forecast test period ending in June 2009 results in payment for inflation, labor increases, and equity infusions prior to their occurrence?

A. No. The Company proposes the use of a twelve month period ending June 30, 2009 as the Proposed Test Period to set just and reasonable rates. All costs during those twelve months are averaged to determine the appropriate customer rates. During any period of time, costs change due to inflation and new capital additions. This has been accounted for by using the average costs during the Proposed Test Period. The averaging principle that is used for capital additions is also used for other costs. The customers are only paying the costs associated with the months the price change or plant will have occurred during the proposed test period, and are not paying the annualized amount. For example, inflation uses monthly indices, labor increases are effective on contractually determined dates, and cost of capital takes into account the dates of equity infusions. Customers do not pay the full amount of these costs until they are incurred.

Applying Mr. Higgins philosophy, the only way the Company could recover increased costs associated with wage increases, inflation and new capital projects occurring after the first day of the rate effective period would be to have monthly price changes, which would be confusing to customers and unduly burdensome on the Company. Furthermore, if Mr. Higgins proposed test period is selected it would result in the Company receiving less than fifty percent recovery on capital additions and inflation increases that will have occurred by June 2008 in rates that go into effect in August, 2008. In addition any capital investments or cost increases occurring after January 1, 2009, just four months into the rate effective period, would be completely excluded from customers' rates.

Q. In his testimony Mr. Higgins states that, "under the Company's proposal, customers in August 2008 would be paying for some capital investments that will not occur for another 10 months." Does the Company agree with this statement?

A. No. As stated in my direct testimony, the Company has used a 13-month average method of calculating rate base in this case so capital additions are not included in rate base until the month they are placed into service. The result is that rates at the beginning of the test period only reflect a prorated portion of plant that is introduced into rate base part way through the year. If future capital additions are not in rates, customers are not bearing the cost of assets that will provide service to them during the rate effective period. It is important in the current environment of energy resource debates that customers know the true cost of serving them and that tariffs reflect these costs.

Q. Do you believe that the 13-month average approach used by the Company to forecast test year rate base is conservative and beneficial to customers?

A. Yes. During the first year the new rates are in effect, customers will bear the cost of new assets only for the period of time they are actually in service during that period. After the first year, these assets will be fully in service, but cost recovery will continue to be based on their partial inclusion in the test year until the Company files a new rate case.

Q. Are budget targets rather than specific projects used in the Proposed Test Period as asserted by Mr. Higgins?

A. Projects under construction and other planned capital expenditures necessary to meet the Company's obligations to serve its customers are included in the Proposed Test Period. The Company's process for determining Proposed Test Period capital expenditures is largely project driven. Projects greater than $1 million are identified individually in Exhibit SRM-1. The budgets of the business units and the Company managers who will be constructing the capital projects and operating and maintaining the system are the source of the costs that are included in the case.

Q. Do you agree with Mr. Higgins assertion that an overstatement of allocation factors led to "higher-than-warranted Utah rates"?

A. No. The accuracy of allocation factors is always an area of concern as the Company operates in six different states. However, allocation factors are only one element of the revenue requirement calculation. A comparison of actual results to the forecast for the same time period must be based on all elements of revenue requirement, not a single element. If, as Mr. Higgins implies, the Company had been charging higher-than-warranted rates in Utah, this should be apparent in the Utah jurisdictional earnings. For the twelve months ending June 30, 2007 the Company's actual return on equity in Utah was 6.2%, and the fully normalized return on equity was 7.3%. Both of these amounts are significantly below the 10.25% return on equity presently authorized by the Commission.

The Company is committed to filing Utah Results of Operations semi-annually so parties can review the Company's earnings to verify that the Company is not over-earning its allowed rate of return.

Q. What is your response to Mr. Higgins' concern with the Lake Side generating plant?

A. Mr. Higgins expresses concern that the Lake Side generating plant came online in September, 2007 rather than its projected May 2007 date as a reason why the Commission should not select the Company's Proposed Test Period. The Company does acknowledge that while the plant came online and was dispatchable during the summer, "acceptance" did not occur under the terms of the contract until September, 2007. The big issue is if the delay had a material effect on the total Electric Plant in Service (EPIS), which it did not. If you look in the CCS-DPU Reporting Commitment tab (in the Utah Results of Operation June 2007 book) you will find an EPIS comparison that was completed for the October 2006 – September 2007 test period used in the last general rate case. The variance for overall EPIS on September 30, 2007 was $93 million which is less than 1% of the total actual EPIS number for that period in time. Furthermore, the Company's actual plant in service on September 30, 2007 was larger than the forecasted plant in service in the last general rate case. Please see Exhibit SRM-1R.

Mr. Higgins' focus on one or two components (Lake Side and the SG allocation factor) out of hundreds of variables that go into a general rate case and setting just and reasonable rates is misplaced. Both of these items had offsetting impacts such as increased NPC and revenue changes. These items cannot be viewed in isolation. The proper focus should be on the totality of the conditions that the utility anticipates experiencing during the rate effective period, including the total prudent outlay of capital and expenses to be incurred by the Company during the rate effective period. As noted above, focusing on the Company's prudent outlay demonstrates the reasonableness and conservative nature of the Company's forecasts.

RESPONSE TO MS. DERONNE

Q. What is Ms. DeRonne's position with regard to the Company's Proposed Test Period in this case?

A. Ms. DeRonne's position is that the Company's proposed test year can be reasonably reflective of the conditions the Company is likely to encounter during the rate effective period, if adjusted appropriately, by implementing certain safeguards for customers.

Q. Do you believe additional customer safeguards are necessary?

A. No. The Company is presently committed to filing Utah Results of Operations semi-annually with the Commission, DPU, and CCS. This allows parties a chance to review the Company's earnings and verify that the Company is not over-earning on its allowed rate of return. Furthermore, through the utilization of the averaging principle both customers and the utility equally share risks that might be associated with the use of forecast test periods.

Q. If the Commission implements additional safeguards what should the Commission take into account?

A. If the Commission is inclined to implement additional safeguards, the safeguards should be symmetrical to customers and the Company. For example, if the expense is less than projected and the Company is required to refund that amount back to customers, then when the expense is more than projected the Company should get recovery for that expense. Ms. DeRonne's recommendation to implement safeguards focuses solely on the customer side of the equation.

RESPONSE TO MS. JONI S. ZENGER

Q. What is Ms. Zenger's position with regard to the Company's Proposed Test Period in this case?

A. Ms. Zenger states that, "Based on the principles and statutes, analysis to date, and the changes the Company is currently facing as described above, the July 2008-June 2009 forecast test period most closely reflects the conditions that the Company will encounter during the rate effective period." Ms. Zenger does not have any objections to the use of the Company's Proposed Test Period.

Q. Please comment on Ms. Zenger's view of the accuracy of the Company's Demand and Energy load projections and how that compares with Mr. Higgins' view?

A. During her analysis of the case, Ms. Zenger determined that the accuracy of the Company's projections of Energy and Demand is acceptable. Using the June 2007 Utah Semi-Annual Report Tab 11 (CCS-DPU Reporting Commitments) and the response from DPU Data Request #5, Ms. Zenger has compared the actual Demand and Energy for both Utah and the whole system. Ms. Zenger has concluded that the Company's forecasts in its last general rate case proved to be accurate within three percent in all instances, except when weather related issues caused the variance to be larger than predicted. The Company agrees with this analysis.

RESPONSE TO MR. BALL

Q. What is Mr. Ball's position with regard to the Proposed Test Period in this case?

A. It does not appear that Mr. Ball recommends selection of a specific test period, but rather recommends that if the Test Period proposed by the Company is selected, the Company's return on equity should be adjusted downwards by about $89 million to account for the difference between the historic and Proposed Test Period revenue requirement amount.

Q. Why do you disagree with Mr. Ball's position?

A. Mr. Ball calculated the $89 million by looking at the difference between the Company's Proposed Test Period in this case and the base period. Mr. Ball does not provide any analysis on why this $89 million adjustment is appropriate. Mr. Ball's recommendation also incorrectly assumes that the return on equity proposed by the Company includes a risk adder that can be eliminated if the Commission does not use the Proposed Test Period. To follow Mr. Ball's logic, if the Proposed Test Period is not selected, then the Company should include a risk adder of $89 million to its return on equity proposal, as one does not presently exist. This demonstrates the inappropriateness of with such a recommendation.

Q. Is the assertion of Mr. Ball that the Company relies on a forecast period rather than actual data to determine whether it is over or under earning correct?

A. No. The Company relies on historic data to determine whether it is over or under earning. However, the Company believes rates should be set using a forecasted test period, as this test period best reflects the conditions that will be experienced by the Company during the rate-effective period. As mentioned above, the Company files with the Commission, DPU and CCS on a semi-annual basis its actual and normalized results of operations allowing them to verify that the Company is not over earning its authorized return on equity.

CONCLUSION

Q. Please summarize your rebuttal testimony.

A. Based upon the foregoing, my prefiled direct testimony, and the prefiled testimony of Company witnesses A. Richard Walje, A. Robert Lasich, G. Michael Rife, Douglas N. Bennion, and Gregory N. Duvall (adopting the prefiled written direct testimony of Mark T. Widmer), the Company determined that the Proposed Test Period best reflects the conditions it will experience during the rate-effective period, as well as provides the Company with a reasonable opportunity to recover its prudently incurred costs and earn its authorized rate of return. In this testimony I have addressed Mr. Higgins' issues regarding payment for capital additions and expenses prior to their occurrence. I have also explained how the rate making principle of averaging diffuses the concerns expressed by Mr. Higgins. I have also demonstrated that there are additional safeguards for customers that are in place to ensure that customers only pay for costs when they are actually incurred by the Company.

Q. Does this conclude your testimony?

A. Yes.