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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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	Docket No. 07-035-93 CLOSING ARGUMENT OF THE UTAH DIVISION OF PUBLIC UTILITIES REGARDING TEST YEAR

The following is the Closing Argument of the Division of Public Utilities (DPU) regarding the test year to be used in the above entitled rate case.

The goal of this proceeding is to establish a test year "that on the basis of evidence, the Commission finds best reflects the conditions that a public utility will encounter during the period when the rates determined by the Commission will be in effect."[1] After looking at the conditions Rocky Mountain Power (RMP or the Company) will face after August 2008, the DPU concluded that it had no objections to using the test year proposed by the Company. The DPU felt confident that it could appropriately and adequately adjust revenues, expenses,

[1] 54-4-4(3)(a).

or rate base to take into account an erroneous forecast or to make other needed adjustments to make the test year proposed by the Company reflect the conditions that the DPU believes the Company will encounter during the rate effective period.

The DPU decided not to oppose the June 2009 test year after reviewing the factors the Commission cited in its October 20, 2004 Order approving a test year stipulation in RMP's predecessor's rate case in Docket No. 04-035-42. These factors are:

The general level of inflation;

Changes in the utilities investments, revenues or expenses;

Changes in utility services;

Availability and accuracy of data for the parties;

Ability to synchronize the utilities revenues, expenses and investments;

Whether the utility is in a cost increasing or cost decreasing mode;

Incentives in efficient management and operations; and

Length of time the new rates are expected to be in effect;[2]

Review DPU witness Dr. Zenger's testimony for her analysis of these factors.

From the record in this docket, general conclusions can be reached that inevitably lead to the conclusion that a forecasted test year is appropriate for this rate case, and that the only real question for the Commission is if the test year should end in June 2009 or December 2008. Some of the conclusions that appear to be in general agreement include: a large construction program of

[2] DPU Ex. 1.0 p. 6.

generation, transmission, and distribution that encompasses the period through June 2009; higher levels of inflation in both the general economy and specifically in the materials needed to support the large construction program; continued high growth in demand for utility services in Utah that is in part driving the construction program; adequate availability of data for all parties; a reasonable past forecasting effort of demand and energy; and the fact that the use of a forecasted test year does not diminish the Company's incentives for efficient management and operations. UAE witness Mr. Higgins acknowledged the need for a forecasted test year because of the construction program the company is going through.

Two alternative test years are being presented that both reflect the period after August 2008 when rates are expected to become effective. The difference in the test years is the additional six months included in the Company's proposed test year. A number of considerations should be kept in mind in deciding between these two alternative test years. A significant amount of investment is scheduled to take place in the January 2009 to June 2009 time period that would automatically be eliminated by ending the test year in December 2008. Also, even if the Company filed a new rate case by September 2008, the earliest new rates could be in effect would be May 2009. Therefore, a test year ending in June 2009 covers more of the rate effective period than ending the test year in December 2008. The main reasons that UAE witness Mr. Higgins proposes to end the test year in December 2008 is that it is closer in time to current conditions and that this is the first case the Commission is asked to decide test year under the new statute; thus Mr. Higgins proposes the Commission should move cautiously in using forecasted test years. The use of the June 2009 test year is almost the most aggressive test year possible, UAE argues, and, therefore, the Commission should be more conservative until it has more experience with forecasted test years.

Although this is the first test year the Commission is asked to decide, the parties have operated under this statute for the last two RMP rate cases. Even though those two cases were settled, the auditors for all parties had to review the Company's forecast and had to make adjustments off of that data. Because of the significant investments that are occurring after December 2008, the DPU believes it is more reasonable to allow the Company to demonstrate the reasonableness of its forecast after December 2008 and not to automatically eliminate its opportunity to meet its burden to show that its forecast is reasonable. Both the DPU and CCS are confident they can adequately adjust off of the June 2009 forecast and do not need six months automatically eliminated by the selection of the test year.

Finally, although the DPU does not oppose the use of the June 2009 test year, it can adequately make its adjustments off of either the test year ending June 2009 or the one ending December 2008. The advantage of the June 2009 test year is that it is already filed. Although, the Company seems to think it can produce a 2008 test year in four weeks it is not at all clear what effect a new filing will have on the overall schedule and the audits being done by both the DPU and CCS. It is hoped that the case could proceed smoothly under either test year.

In conclusion, based on these factors, the DPU believes the Commission should reject the mid period test year proposed by UIEC and proposed as the alternative choice of UAE. In addition, the DPU believes the Commission, based on the evidence, can reject a historical test year with known and measurable changes. The mid year test period or a historical test year with known and measurable changes do not reflect the conditions the Company will face during the rate effective period. Although it is not clear if any party is recommending a historical test year with known and measurable changes, the Commission should reject this test year not only because it does not reflect the rate effective period, but also because it suffers from the non-synchronization of revenues, expenses, and rate base that has historically been a problem with known and measurable adjustments.

The DPU also believes that the choice between the June 2009 or December 2008 periods is essentially a policy decision of the Commission. Although the decision needs to be based on the record, the Commission is free to emphasize certain factors over others. The emphasis given may drive the test year decision. The DPU urges the Commission to make its decision quickly and
when it writes its Order on these issues to provide guidance to the parties so that test years and test year disputes can be more efficiently managed.

Respectfully filed this 13th day of February, 2008.

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CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the CLOSING ARGUMENT OF THE UTAH DIVISION OF PUBLIC UTILITIES REGARDING TEST YEAR was sent by electronic mail or mailed by U.S. Mail, postage prepaid, to the following on February 13th, 2008:

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