

1 **Q. Are you the same Steven R. McDougal who has previously testified in this**  
2 **proceeding.**

3 A. Yes.

4 **Purpose of Testimony**

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

6 A. This testimony explains and supports the Company's revised overall revenue  
7 increase request of \$99.8 million, reduced from the \$161.2 million request  
8 originally filed by the Company. I sponsor the revised results of operations report  
9 supporting this increase, Exhibit RMP\_\_\_\_(SRM-1S).

10 **Summary of Test Period Compliance Filing**

11 **Q. Why is the Company revising its requested revenue increase in this case?**

12 A. On February 14, 2008 the Utah Public Service Commission issued its test period  
13 order in the current docket directing the Company to update its rate case filing  
14 using a calendar year 2008 test period (the "Test Period Order"). This  
15 supplemental filing complies with the Test Period Order by restating the test  
16 period data in this case from the twelve months ending June 30, 2009 to the  
17 twelve months ending December 31, 2008.

18 **Q. Does this filing comply with the schedule set in the Test Period Order for**  
19 **updating the case using a calendar year 2008 test period?**

20 A. Yes. The Company estimated that it would take up to four weeks to restate the  
21 projected revenue requirement using a calendar year 2008 test period. This filing  
22 is being made less than four weeks since the Commission issued its Test Period  
23 Order. The Company has committed significant resources to permit this filing to

24 be made in a timely manner.

25 **Q. The Test Period Order sets a deadline for updating the case also in reference**  
26 **to a data request response. Can you respond to this?**

27 A. The Test Period Order states that the Company's filing is due the earlier of the  
28 due date of a particular UAE data request on the calendar year 2008 test period  
29 (UAE DR 1.2) or four weeks from the date of the Test Period Order. At the time  
30 of the Test Period Order, however, the Company had already responded to UAE  
31 DR 1.2. Given these circumstances, the Company has interpreted the Test Period  
32 Order as requiring the Company to update its filing as soon as possible, but no  
33 later than March 13, 2008, four weeks from the date of the Test Period Order.

34 **Q. Has the Company calculated the revised test period consistently with the**  
35 **June 30, 2009 test period originally filed in this case?**

36 A. Yes. This filing uses the same format and methodology as the original filing.  
37 The Company calculated rate base using a thirteen-month average consistent with  
38 the original filing. This is also compliant with the Commission's Test Period  
39 Order which directs the filing to reflect average-of-year rate base.

40 **Q. Has the Company changed the base year or incorporated new data into the**  
41 **updated revenue requirement?**

42 A. No. The revenue requirement has been restated to the 12 months ending  
43 December 31, 2008, using the same base year data, the same labor and other  
44 O&M projections, and the same capital additions projections as presented in our  
45 original filing. Escalation factors, cost projections, and capital additions have  
46 been scaled back six months to reflect the new test year, but the underlying data

47 has not changed. The load and revenue forecast for the new test period draw from  
48 the relevant months from the load forecast presented in our original filing.

49 **Q. What is the financial impact to the Company of the change in the test period?**

50 A. In moving the forecast test period back by 6 months, the Commission eliminated  
51 approximately \$40 million in costs from the Company's filing, or approximately  
52 110 to 120 basis points on return on equity. This change to the filing will make it  
53 much more difficult for the Company to achieve its allowed return on equity in  
54 the rate effective period. The magnitude of the change to the filing also  
55 demonstrates the profound financial impact of regulatory lag on the Company in  
56 this time of increasing inflation, rising power costs and new capital additions.

57 **Q. What categories of costs are most affected by the change in the test period?**

58 A. Most of the \$40 million reduction in the Company's supplemental filing is  
59 attributable to net power costs and rate base.

60 **Q. Is there any reason why this supplemental filing should delay or change the  
61 schedule in this case?**

62 A. No. The schedule in this case expressly incorporates a test period phase and  
63 implicitly acknowledges the potential need for a compliance filing such as this.  
64 Additionally, this compliance filing updates numbers but does not change  
65 methodologies or add new costs or adjustments, making the investigations  
66 conducted to date in the case generally applicable to the updated filing. Finally, a  
67 schedule delay which changes the final rate order date in this case would  
68 compound the challenges created by the Test Period Order regarding timely  
69 recovery of costs.

70 **Q. Has the Company incorporated recent Commission orders in this filing?**

71 A. Yes. In addition to changing the test period to comply with the Test Period Order,  
72 the Company has also updated certain adjustments to comply with four other  
73 Commission orders issued since the case was originally filed. Specifically, the  
74 Company has updated the revenue requirement for the following four orders:

- 75       ▪ **MEHC Transition Costs** – On January 3, 2008, the Commission issued  
76 its order in docket number 07-035-04 related to change in control costs  
77 associated with the MEHC transition. In the order, the Commission  
78 denied the Company’s request for deferred accounting treatment of these  
79 MEHC transition costs. Adjustment 4.11 in Exhibit RMP\_\_(SRM-1S)  
80 has been updated to reflect the Commission order. The deferral and  
81 amortization of MEHC transition costs has been removed from this  
82 adjustment. This adjustment continues to remove the costs associated  
83 with employees leaving under the MEHC transition plan, and also  
84 removes severance costs included in the base period.
  
- 85       ▪ **Grid West Loan** – On January 3, 2008, the Commission issued its order  
86 in docket number 06-035-163 related to the Grid West loan. In the order,  
87 the Commission denied the Company’s request for deferred accounting  
88 treatment of Grid West loan write-off. Adjustment 8.6 in Exhibit  
89 RMP\_\_(SRM-1S) has been updated to reflect the Commission order.  
90 The deferral and amortization of Grid West loan has been zeroed out to  
91 eliminate all of the Grid West costs from the test period.
  
- 92       ▪ **Powerdale Hydro Facility** – On January 3, 2008, the Commission issued  
93 its order in docket number 07-035-14 related to the Powerdale hydro  
94 facility. In the order, the Commission accepted the Company’s request for  
95 an accounting order for the Powerdale plant. The original filing was  
96 consistent with this order, so no update was necessary. The accounting  
97 order related to the Powerdale hydro facility is included as adjustment  
98 8.11 in Exhibit RMP\_\_(SRM-1S).
  
- 99       ▪ **Depreciation Study** – On February 4, 2008, the Commission issued its  
100 order in docket number 07-035-13 related to the Company’s depreciation  
101 study stipulation. In the order, the Commission approved the stipulation  
102 on depreciation rate changes authorizing new depreciation rates for the  
103 Company effective January 1, 2008. Depreciation expense and the  
104 associated accumulated depreciation balances calculated in tab 6 of  
105 Exhibit RMP\_\_(SRM-1S) has been updated using the new depreciation  
106 rates.

107 **Q. How much of the change in the revenue requirement is the result of**  
108 **reflecting the final Commission decisions you just discussed?**

109 A. Approximately \$13 million of the change relates to the stipulated reduction in  
110 depreciation expense beyond the level reflected in the Company's original filing.  
111 Reflecting the Commission's orders on the deferred accounting applications  
112 discussed above account for approximately \$8 million of the change.

113 **Q. Are there other changes or corrections that have been made at this time to**  
114 **the revenue requirement?**

115 A. During preparation of the factors for this test period we noticed an incorrect  
116 application of the US Magnesium curtailment and buy through in the original  
117 filing on pages 10.2 and 10.2.1 which was corrected in this filing. This correction  
118 reduced Utah's energy and capacity used in calculating the SE and SG allocation  
119 factors.

120 **Q. Does this conclude your supplemental direct testimony?**

121 A. Yes.