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

PREFILED TESTIMONY OF MICHAEL MENDELSOHN

ON BEHALF OF

WESTERN RESOURCE ADVOCATES

July 21, 2008

Q. Please state your name, occupation, and business address.

A. My name is Michael Mendelsohn. I am Senior Policy Advisor for Western Resource Advocates (WRA). My business address is 2260 Baseline Road, Suite 200, Boulder, CO 80302.

Q. Please describe WRA.

A. WRA is a non-profit, public interest, entity with members, donors and supporters who are Utah residents and ratepayers of Rocky Mountain Power ("the Company" or "RMP"). WRA's primary mission is to preserve the environmental quality of the Interior West by, among other things, promoting the expanded use of renewable energy, energy efficiency, and other clean energy resources throughout the region in an economically sound manner.

Q. Please describe your professional background and experience.

A. I have 17 years of experience in the energy industry. Upon graduating with a Master's in Energy Management and Policy from the University of Pennsylvania in 1991, I worked as an economist for the Massachusetts Department of Public Utilities. In that capacity, I evaluated integrated resource portfolio (IRP) and demand-side management (DSM) filings made by the state's jurisdictional utilities. I also assessed the early implementation of competitive markets.

From 1996 through 2007, I worked for the Boston-based consulting firm of Levitan and Associates, Inc. (LAI). I eventually held the title of Executive Consultant. In my years as a consultant, I worked on a wide range of market and regulatory analyses. Among other things, my experience at LAI included the financial evaluation of numerous capital projects and purchased power agreements; analysis and forecasting of fuel and electricity markets; and qualitative and quantitative evaluation of an array of regulatory and court proceedings.

I joined WRA in July 2007. My resume is provided as Attachment A.

Q. Have you previously testified as an expert witness in electric utility proceedings?

A. Yes. I have prepared testimony and testified in the Sierra Pacific Power Integrated Resource Planning proceeding, 07-06049, in Public Service of New Mexico's 2007 Electric Rate Case, Docket 07-00077-UT, and in Public Service Company of Colorado's Renewable Energy Supply Compliance docket, 07A-462E, and Electric Resource Plan docket, 07A-447E.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of Western Resource Advocates.

Q. Please summarize your testimony in this proceeding.

A. In this testimony, I will explain that (1) I generally endorse the Company's proposed Schedule 500 which adjusts otherwise applicable industrial rates to incorporate marginal

cost principles to large new loads; (2) I generally endorse the Company's proposed New Large Customer Contract (NLCC) to new large-load customers to ensure higher potential for recovery of investments made on behalf of such customers; (3) Schedule 500 and the NLCC should apply to incremental loads starting at 5 MW and possibly lower, not 10 MW as proposed, to protect native load customers from unnecessary price increases and/or stranded investment; and (4) RMP should be exploring combined heat and power (CHP) options with these large new loads, particularly extraction industry entities in order to take advantage of potential operational and tranportation efficiencies.

Q. Please explain Schedule 500.

A. As I understand it, Schedule 500 represents the cost differential between the average or embedded rates represented in Schedule 9 and the Company's projected marginal cost. In support of Schedule 500, the Company's witness Mr. Griffith stated "marginal-cost based pricing will… minimize rate impacts on our existing customers driven by both the cost of acquiring new resources to meet new large loads and the risk of stranded resources built to serve these new large load customers. It will also provide the proper price signals to new large load customers helping to assure that they make economically efficient fuel choices when obtaining service for their new facilities."

Q. Do you support the Company's proposal to apply Schedule 500 to large new incremental loads?

A. Yes. Schedule 500 will allow the Company to recover the actual costs incurred to meet these new loads. I believe the application of Schedule 500 is necessary to minimize

rate increases to the remaining customers served by RMP. Further, by applying marginal cost principles to large new loads, RMP is sending an important price signal enabling the efficient economic use of electric generation and transmission resources. WRA and Utah Clean Energy witness Richard Collins describes the need for accurate price signals in setting electricity rates in greater detail in his pre-filed testimony.

Q. Do you support the Company's proposal to implement a New Large Customer Contract?

A. Yes. The Company will need to make significant investments in generation and transmission assets to meet large incremental loads. It is critical to know the recovery of these investments will be protected through contractual arrangements. The NLCC essentially protects the remaining ratepayers from paying for stranded investments should these large new customers decide to terminate operations due to altered business environments or other circumstances which would cause them to alter their energy requirements. This is especially important for extractive industries that have a history of fluctuating business activity and boom-bust cycles.

Q. Do you have an opinion of the type of contract conditions that you would recommend be applied to new large customer contracts?

A. Yes. I recommend that the Company's tariffs be revised to provide that any new customers, or existing customers seeking to add 5 MWs or more, be required to enter into contracts for a minimum of 7 years, and pay liquidated damages in the event that they terminate or significantly curtail service before the seven years expire. I would also note

that the Company's Service Regulations might need to be revised to accommodate this type of tariff requirement and contract provision.

Q. Can you provide an example of the type of provision you would like to see added to RMP's tariffs to accomplish this recommendation?

A. Yes. I believe language along the following lines would be appropriate to add to the Company's tariffs:

"NEW SERVICE WITH DEMAND OF 5,000 KW OR MORE:

Any new Customer with an anticipated demand of 5,000 kW or more shall be required to enter into a service contract with the Company for a period of not less than seven (7) years. That contract shall include a provision that requires the Customer's power charge to be calculated based upon the higher of its monthly kW demand or 75% of the highest kW level achieved by the Customer at any time during the contract term. If the customer terminates service with the Company before the end of the contract term, that Customer shall immediately be liable for liquidated damages to the Company equal to the nominal value of all future customer, facilities and power charges that the Customer would have paid for the remainder of the contract term had it continued to take service at 75% of the highest monthly demand level achieved by the Customer during the time the Customer did take service."

Q. Please explain the need to recover fixed charges for at least 7 years from incremental loads.

A. I believe recovery of fixed charges over a 7 year period represents a reasonably minimum period by which customer growth can fulfill the cost recovery of assets developed to meet relatively volatile industrial customers, most likely those in the oil and gas extraction business. That is, I believe a 7 year minimum contract period, or basis for liquidated damages, reasonably limits risk of stranded investment falling on existing ratepayers if new loads disappear due to unfavorable business economics.

Q. Would the new tariff be more or less restrictive than the Company's proposed NLCC?

A. At this juncture, its not clear what period of time or to what extent customers are protected from stranded investment from the NLCC proposal. The Company has not yet provided the necessary details to allow proper evaluation of their NLCC concept. I believe my suggested tariff language is a reasonable provision to accomplish the NLCC recommendation which the Company describes.

Q. Which customers does RMP propose to apply Schedule 500 and the NLCC to?

A. To all new incremental loads with a peak load 10 MW or larger.

Q. Do you support the Company's suggested load levels to apply Schedule 500 and the NLCC to?

A. No. I believe the Company should apply Schedule 500 and the NLCC to incremental loads starting at 5 MW, possibly less. Mr. Griffith indicated that existing and potential Utah industrial customers advised the Company of their expectation to add approximately 264 MW of new load by 2012. Mr. Griffith further stated most of this new load will be in facilities with annual customer demand exceeding 10 MW (pp. 9-10). One concern I have is that customers will be able to escape the regulations by differentiating operations in name only (i.e., creating two gas exploration entities instead of one). I am also concerned that customers might grow their loads over several years and negate the applicability of Schedule 500 and the NLCC but still cause the Company to invest significantly on their behalf and place other customers at risk of paying for stranded

investment. Finally, the establishment of even 5 MW loads – if repeated by numerous customers – will be significant, causing the Company to invest in substantial generation and transmission plant to meet this new load. Today's baseload generation is often fossil fueled. Having to add more fossil resources for loads that don't pay there own way is not in the public interest.

Importantly, the Company has provided minimal data on the expected load increases of its industrial customers, so at this juncture it is difficult to understand the impacts of the proposed 10 MW threshold and the ability of industrial customers to find loopholes to the Schedule 500 and NLCC regulations.

Q. Will lowering the threshold to 5 MWs be administratively burdensome?

A. I do not believe that it will. According to Company witness Griffith, there are currently less that 80 customers with demand of less than 5 MWs. This indicates that a 5 MW or greater threshold would be manageable for Schedule 500 or NLCC treatment.

Q. Is there a potentially more cost-effective alternative method of meeting these new large incremental loads?

A. Yes, I believe there is. Much of the incremental load growth on the RMP system is associated with the oil and gas extraction industry. Often, these customers require both electric power and steam to operate their facilities, or can utilize alternative compression or other equipment which utilizes natural gas or oil instead of electricity. It may be more efficient and less costly – on a societal basis - for these industrial customers to utilize the

oil or gas hydrocarbons at the point of extraction to produce electricity and/or heat to run their operations. In doing so, the Company could avoid the costs of building central station plants which operate at relatively low efficiencies and incremental transmission facilities to bring the power out to the customer's facilities.

Q. Does this complete your testimony?

A. Yes it does.

RESUME OF MICHAEL MENDELSOHN

EMPLOYMENT

July, 2007 **WESTERN RESOURCE ADVOCATES** Boulder, CO
Senior Policy Advisor

- Responsibilities include the analysis and development of energy policies consistent with WRA's goal of reduced environmental impact and lowest total-cost energy resources;
- Developed and presented of expert testimony in resource planning, rate case, and renewable resource cost proceedings;
- Developed efficiency program concept to reduce air conditioning loads.

1997 - 2007 **LEVITAN & ASSOCIATES, INC.** Boston, MA
Executive Consultant

- Professional duties include the provision of financial, market, litigation and regulatory consulting services to the electric and natural gas industries, merchant power plant developers, large energy consumers, financial institutions and legal representatives;
- On behalf of Southwest Gas, the natural gas local distribution company serving the Phoenix metro area, led the development of expert testimony in large regulatory proceeding before FERC regarding proposed changes in tariff structure and cost allocation by the El Paso Natural Gas interstate pipeline. Effort included the quantitative and qualitative analyses of a wide range of tariff issues and proposal options and evaluation of regional supply and transport options;
- On behalf of Long Island Power Authority, conducted financial and non-financial due diligence on offers of capacity and energy solicited by formal RFP. Detailed analysis included assessment of inter-regional energy scheduling, capacity and transmission issues;
- On behalf of eCORP, led the development of an expert report to support litigation regarding management and valuation of several natural gas storage facilities in New York State.
- On behalf of Long Island Power Authority, assessed interstate and local natural gas transportation options to fire planned regional generation units, including the forecasting of direct and indirect cost components, reliability, and arbitrage opportunities;
- On behalf of various parties, provided litigation and regulatory support services including evaluation of case material, development of discovery, expert testimony, and legal briefs;
- On behalf of numerous parties assessed and forecasted electric and gas tariffs, including monthly, demand, and volumetric bill components, taxes, and ancillary charges;
- On behalf of several large consumers, provided energy procurement consulting and advocacy services including analysis of energy consumption and load profile, RFP development, evaluation of responding bids, and negotiation support;

- On behalf of Institute for Sustainable Energy, a Connecticut-based think tank, reported on energy efficiency and renewable energy initiatives in Northeast U.S., electricity and natural gas usage trends, and customer response to price volatility;
- On behalf of various investor groups, performed financial valuations of electric generating stations throughout Northeast U.S. including assessment of fuel, pollution control and plant improvement options, location-specific power and ancillary service market-clearing prices, regulatory environment, transmission access, tax considerations, etc.;
- On behalf of numerous large customers including universities, hospitals, and heavy industry, evaluated benefits of various cogeneration technologies and energy procurement practices through *pro forma* financial analyses incorporating projections of electricity and fuel consumption, load shape, market electric, gas, and liquid fuel prices, tariff rates, environmental restrictions, and transmission access for incoming and outgoing power deliveries;

1995-1996 **DRI/McGRAW-HILL** Lexington, MA
Senior Associate

- Forecasted electricity price, production and demand by economic sector, fuel source, electric generating technology, and region of the country employing sophisticated computer model;
- Analyzed trends in the electricity industry including Federal and state regulatory decisions, deregulation initiatives, mergers and acquisitions, technology improvements, and fuel supply;
- Developed multi-client study of regional electricity prices based on relevant effects of Federal and State electric and gas deregulation initiatives, trends in technology cost and efficiency, inter-regional transfers of power, and current and proposed environmental regulations.

1991-1995 **MASSACHUSETTS DEPARTMENT OF PUBLIC UTILITIES** Boston, MA
(currently referred to as the Department of Telecommunications and Energy)
ELECTRIC POWER DIVISION
Economist III

- Analyzed a variety of electric and gas utility filings, developed and presented recommendations to Commission, and wrote orders articulating legal and technical basis for decisions;
- Supervised project teams and held lead analyst role in multiple Department cases;
- Evaluated electric utility DSM filings including program design, kW and kWh savings estimates, financing, cost recovery, incentives, and monitoring and evaluation procedures.
- Investigated electric utility restructuring and related issues including stranded assets, transmission access, power pools, and other aspects of wholesale and retail competition;
- Investigated filings and participated in multi-party settlements in the Department's Integrated Resource Management process including review

of existing resources and request for proposals targeting new supply-side and demand-side management resources;

1989 **SOLAR ENERGY INDUSTRIES ASSOCIATION** Washington, D.C.
Research Assistant

- Provided supporting analyses to national lobbying effort, including evaluation of cost-effectiveness and technology employed at various international solar and renewable energy facilities.

EDUCATION

2000 **SUFFOLK UNIVERSITY** Boston, MA
Advanced Certificate in Finance

1990 **UNIVERSITY OF PENNSYLVANIA** Philadelphia, PA
Masters of Science in Energy Management and Policy

1987 **ITHACA COLLEGE** Ithaca, NY
Bachelor of Arts in Computer Science

TESTIMONY EXPERIENCE

2008 **Public Service Company of Colorado -** Renewable Energy Supply Compliance docket, 07A-462E

2007 **Sierra Pacific Power Company** - Integrated Resource Planning proceeding, 07-06049

2007 **Public Service of New Mexico** - 2007 Electric Rate Case, 07-00077-UT

PUBLICATIONS

The New Energy Economy: Jump In or Lose Out, Presented to: SGM Energy Forum, January 2008, Carbondale, CO

Build vs. Buy: Meeting End-User Requirements, Power Economics, July/August, 2001, with Richard Levitan

Comprehending the Retail Markets: An Analysis of Costs to Serve Retail Loads, Presented to: IDEA, June 2001, Las Vegas, NV