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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	**))))))**	**Docket No. 08-035-38 Pre-filed Direct Test Year Testimony of Donna DeRonne For the Committee of Consumer Services**

October 7, 2008

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

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

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

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

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

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

Q. ON WHOSE BEHALF ARE YOU APPEARING?

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

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses RMP's proposal that the test period consist of a twelve month period coupled with an end-of-period rate base. This proposal, which utilizes an end-of-period rate base while not also annualizing other components of the revenue requirement equation, violates the "matching principle", which is a longstanding and fundamental principle in ratemaking.

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

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

> (a) If in the commission's determination of just and reasonable rates the commission uses a test period, the commission shall select a test period that, on the basis of the 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.

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

Q. IN YOUR OPINION, CAN THE COMPANY'S PROPOSAL UTILIZING AN END-OF-PERIOD RATE BASE RESULT IN RATES THAT ARE BEST REFLECTIVE OF CONDITIONS THAT WILL OCCUR DURING THE RATE EFFECTIVE PERIOD?

A. No, in my opinion it is fundamentally impossible to annualize only one component of the revenue requirement equation and have rates result that will be reflective of conditions in a rate effective period. Over time, many changes in a Company's cost structure occur. In addition to rate base increasing as new plant is added, revenue will increase as customers are added and expenses will fluctuate. Changes to individual components of the overall cost structure do not occur in a vacuum or in isolation. It is very important to be consistent with a test period approach to ensure that there is a consistent matching between investment, revenues and costs. The Commission has recognized the importance of this principle. Under RMP's proposal, there is no matching between these three primary elements of the revenue requirement equation. There is not even a matching in the investment component.

In fact, one can view the Company's filing as including two completely different test periods for different components of the revenue requirement equation. For revenues and expenses the Company has utilized a test period consisting of the twelve months ending June 30, 2009. For investments, or rate base, the Company has utilized a test period consisting of a single point in time as of June 30, 2009. In determining the overall rate of return to apply to the investments or rate base, the Company is using a capital structure and cost of debt and preferred stock based on the average test year amount, utilizing the beginning and ending points of the test period. The Company has essentially used a mix of two separate test periods in determining revenue requirement.

Q. HAS THE COMMISSION IDENTIFIED THE MATCHING PRINCIPLE AS A RELEVANT FACTOR IN DETERMINING WHETHER OR NOT A TEST PERIOD IS BEST REFLECTIVE OF CONDITIONS IN THE RATE EFFECTIVE PERIOD?

A. Yes. The Commission, in its October 20, 2004 Order Approving Test Period Stipulation in Docket No. 04-035-42 identified eight factors as guidance to be considered in evaluating whether or not a proposed test period is best reflective of the expected conditions. Included in the factors cited is the “ability to synchronize the utility’s investment, revenues, and expenses…” That same order also indicated that: “Ideally, the test period should balance the utility’s investment, revenues and expenses so that all elements of the rate case are matched on the same level of operations.” The importance of this factor was reaffirmed by the Commission in its

February 14, 2008 Order on Test Period in Docket No. 07-035-93 in which it again identified "the ability to synchronize the utility's investment, revenues, and expenses" as a relevant factor in selecting an appropriate test period. Under RMP's proposal in this case, there is no synchronization between the investment (rate base) and revenue and expenses.

Q. DOES THE COMPANY ACKNOWLEDGE THAT IT IS IMPORTANT TO SYNCHRONIZE THE UTILITY'S INVESTMENT, REVENUES AND EXPENSES?

A. Yes. At page 7 of his direct testimony, RMP witness Steven R. McDougal states at lines 165 – 166 that: "It is important to synchronize the Company's investment, revenues and expense with the level anticipated during the rate effective period." Mr. McDougal also acknowledges at line 185 that the Company's filing in which it annualizes rate base to test period end levels "…does not fully synchronize the investment, revenues and expenses with the anticipated rate effective period…" In actuality, under RMP's proposal there is no synchronization of investment with revenues and expenses.

Q. CAN YOU IDENTIFY SOME REASONS WHY THE LACK OF SYNCHRONIZATION IS A PROBLEM?

A. Yes. Many of the projected plant additions will be used to serve new customers coming on-line. While the investments used to serve those customers are included in the filing 100% as though they were in place on day-one of the test period, the revenues generated from those customers will only be reflected for the number of months that they are actually receiving service in the test period. For example, revenues to be received by a customer being added in the 11th month will only be included in revenues as though revenues were received for two months while the investment needed to serve that customer will be in for the entire twelve-month test period.

In this case RMP has projected that it will place seven (7) wind plants into service during the test period. One of these is projected to be in place for eleven months of the test period, five (5) are anticipated to be in service for six months of the test period, and one is anticipated to be in service for only one month of the test period. For example, the High Plains I Wind Project is projected to go into service in June 2009, the last month of the test period, with a total plant cost of $245.5 million. Under the Company's proposal, the full $245.5 million cost associated with this facility will be included in investments in determining revenue requirement even though it will only be in service for one month of the Company's selected test period.

Even though these wind facilities are projected to be placed into service in the months of August 2008, December 2008 and June 2009, they are included in rate base as though they were placed in service as of the first day of the test period, or on July 1, 2008. One of the benefits of installing wind plants is that they produce power at a lower cost than other power options. Another benefit is caused by the renewable energy tax credits produced with the generation of energy from the wind plants. In its filing, while 100% of the investment is in rate base, the offsetting reduction to higher cost power with the power projected to be generated from the wind farms and the renewable energy tax credits that will result are only reflected based on the level the Company projects to realize in the test period. The Company did not include the lower cost power in the GRID model as though the wind plants were on-line the entire year, nor did it annualize the tax benefits as though the wind plants were used the entire year. Thus, while the substantial investment costs are included in the filing as though in place the entire year, the benefits associated with those plants (i.e., reduced power costs and additional renewable energy tax credits) are not.

Every capital investment and addition to plant in service impacts operations in some way. The investment may result in increased revenues due to the ability to serve additional customers. The investment may result in a reduction to or change to power costs due to factors such as increased plant output or increased efficiencies. The investment will impact income taxes. The investment may result in reduced maintenance costs due to replacing obsolete equipment. As previously indicated, changes to the individual components of a utility's overall cost of service do not occur in a vacuum or in isolation. It is very important to be consistent with a test period approach to ensure that there is a consistent matching between investment, revenues and costs.

Q. DID YOU INQUIRE WHETHER THE COMPANY HAS DONE ANY REVIEW OR ANALYSIS TO DETERMINE THE IMPACT OF THE END OF PERIOD ANNUALIZATION OF OTHER REVENUE REQUIREMENT COMPONENTS?

A. Yes. CCS Data Request 4.6 asked the Company if its regulatory department or any other department prepared or caused to be prepared "…calculations that estimated or shows the impact on revenue requirement if other components of the revenue requirement calculation were also annualized, such as: reflection of year end customer counts and usage levels, reflection of full years worth of renewable energy tax credits as though the wind facilities had been on for the entire test year, impacts on power costs if the new generation assets in rate base at year end, such as the wind facilities and Chehalis had been on line for the entire 12 month period, or other items." The Company responded that "No such analysis was conducted." The parties in this proceeding do not have the information or the models that would be needed to annualize the other components of the revenue requirement equation, such as the annualization of revenues at year end and customer levels. While I do not recommend that individual items be annualized at end of test period levels (due to the mismatch I described earlier), the annualized impact of certain items would provide a useful illustration. For example, examining the annualization of items such as renewable energy tax credits or reduced purchased power costs associated with the addition of the wind facilities would further point out the problems associated with annualizing only rate base as proposed by the Company. Examining the annualization of other rate making components would clearly demonstrate that many items will not be synchronized under the Company's proposal.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S PROPOSAL TO ANNUALIZE RATE BASE TO THE TEST YEAR END?

A. The Company's request should be denied. It is a complete violation of the matching principle in that investments are not matched with the revenues and expenses. It essentially results in two separate test periods being used for the different components of the rate requirement equation. The result is a test period that is not and can not be reflective of the rate effective period.

I also recommend that the Commission require RMP to file revised versions of Exhibit RMP__(SRM-1S) and Exhibit__(SRM-2S) along with a revised Jurisdictional Allocation Model reflecting the removal of its end-of-period rate base annualization adjustments. This should not be difficult or time consuming for the Company to do and it will ensure that each of the parties are using the same starting numbers going forward in the case.

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

A. Yes.