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**

Direct Testimony of

Maurice Brubaker

On behalf of

Utah Industrial Energy Consumers

October 7, 2008
Project 9033

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

4829-3275-8787.1

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<u>Direct Testimony of Maurice Brubaker</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and president of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of the Utah Industrial Energy Consumers (UIEC). Members of UIEC purchase substantial quantities of electricity from Rocky Mountain Power Company (RMP) in Utah, and are vitally interested in the outcome of this proceeding.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A The purpose of this testimony is to oppose RMP's proposed Adjustment 9.2, its request to selectively update its revenue requirement calculation to include end-of-period rate base balances.

First, although RMP proposes to update the rate base balance to year end, it has failed to annualize revenues for year-end customers and consumption levels. This results in a distortion of the relationships among the elements of the revenue requirement and acceptance of this modification would be adverse to customers.

Second, use of a forecasted year-end rate base places substantial risk on the customer with respect to cancellation of planned investments or slippage in construction schedules. If an investment is not in-service at year end, the customer is faced with paying a full year's worth of revenue requirement on that investment, even though it is not in-service and used and useful. In contrast, with a 13-month average, an investment scheduled to go in-service toward the end of the test year might have only one, two or three month's worth of costs included in the revenue requirement. Thus, the risk to the customer of schedule slippages and project cancellations is much higher in the case of the year-end rate base.

Q DID RMP PROVIDE ANY RATIONALE FOR PROPOSING TO INCLUDE END-OF-PERIOD RATE BASE BALANCES IN ITS REVENUE REQUIREMENT CALCULATION?

A Yes. Company witness Steven McDougal filed testimony supporting this updating. Mr. McDougal's testimony cited the Commission Order from Docket No. 04-035-42 wherein the Commission identified eight factors which should be considered when selecting a test year. Mr. McDougal then addresses each factor and explained how he believes RMP has met that standard.

Q DO YOU HAVE ANY COMMENTS ON MR. MCDOUGAL'S DISCUSSION OF RMP'S CONFORMANCE WITH THESE FACTORS?

A Yes. One of the eight standards listed by the Commission is the ability to synchronize the utility's investment, revenues and expenses. I believe RMP's request to update the rate base to end-of-period balances (in addition to the already annualized costs such as wage expense and depreciation) clearly violates this standard. Synchronization of the revenues, expenses, and investments is clearly one of the most critical standards for assuring that a test year contains the proper relationships and therefore portrays the correct cost of service. In addition, the synchronization of revenues, expenses, and investments must be maintained to assure that customer rates are just and reasonable. In the Order in Docket No. 04-035-42, the Commission stated:

> "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."

These relationships must be observed regardless of the particular 12 months selected as the test period, and regardless of whether the test period is historic or forecasted.

Clearly, RMP's failure to adjust revenues to year-end levels to correspond to its year-end investments and year-end expense levels violates this synchronization principle.

Q PLEASE ELABORATE.

A Mr. Walje argues that the Rocky Mountain region will experience higher electric energy consumption growth than any other region in the nation. He maintains that Rocky Mountain connects and serves approximately 20,000 new customers in Utah each year. In fact, to serve load RMP's case includes the addition of approximately 760 MW of new generation to be added to RMP's generating fleet. The clear inconsistency in RMP's position is the fact that it testifies to the continued growth in energy sales and the need for additional generation in order to support the end-of-period rate base adjustment, yet fails to include revenues annualized at year end. RMP requests the recognition of new base load capacity to recognize increased customer demands, yet does not request that revenues be synchronized with that investment.

Q HOW DOES RMP'S TREATMENT OF REVENUE DIFFER FROM A YEAR-END STATEMENT?

A As I understand RMP's revenue levels and adjustments, sales volumes are estimated for the actual test year, and priced at current rates. However, with growth, the number of customers as well as usage per customer increases through time. Thus, taking into account customers expected to be on the system at the end of the test year, as well as their annualized level of sales, would produce revenues in excess of those produced by RMP's statement of revenues. To the extent that the additional revenues exceed any additional incremental costs, accounting for additional revenues reduces the dollar amount of revenue deficiency and reduces the level of the rates that are required to meet the revenue requirement.

Q ARE THERE OTHER REASONS WHY THE COMMISSION SHOULD NOT GRANT RMP'S REQUEST TO UPDATE ITS RATE BASE BALANCES TO TEST YEAR END?

A Yes. An end-of-period rate base shifts more risk to ratepayers. An end-of-period adjustment as proposed by RMP places on the ratepayers all of the risk that the forecasted additions won't actually be "in-service." If there is a delay in the construction of plant or a slippage in the construction schedule occurs, the ratepayers are the ones most affected. The ratepayers will be required to pay in rates for investment which is not "in-service." The averaging technique used for a forecasted rate base diminishes this problem since the month-end plant balances are each given 1/13 weight for inclusion in rate base. If there is a construction schedule slippage or delay, the rate base balance is not affected as much as if the investment were fully included for 12 months of revenue requirement as with the proposed end-of-period rate base adjustment.

Q CAN YOU ILLUSTRATE?

A Yes. Assume that RMP had included in its year-end rate base an investment of $78 million that it expected to be placed in-service close to the end of the test year. With a year-end rate base, RMP would include $78 million in rate base and calculate the revenue requirement accordingly. Assume now that the plant slips and does not go in-service until after the end of the test year. Customers will be charged with the annual revenue requirements on this entire $78 million of investment, even though it did not go into service and is not used and useful.

Consider now an average rate base. Under an averaging approach, the amount of investment included would be approximately $6 million, so the error and impact on customers of the slippage would be only about 1/13 as much as is the case with the year-end rate base.

Q PLEASE SUMMARIZE YOUR TESTIMONY.

A I believe a properly constructed test year develops the correct relationship among revenues, expenses, and investment. To achieve that goal, the time period used for those components should match. RMP's failure to recognize an annualization of sales and revenues consistent with its proposed annualization of expenses and its year-end rate base is inappropriate and should be rejected.

In addition, use of a year-end rate base places an unacceptable amount of risk on the customer for schedule delays and project cancellations.

For these reasons, I recommend that the request to update the rate base balances to an end-of-period status be rejected by this Commission.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Qualifications of Maurice Brubaker

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and President of the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I was graduated from the University of Missouri in 1965, with a Bachelor's Degree in Electrical Engineering. Subsequent to graduation I was employed by the Utilities Section of the Engineering and Technology Division of Esso Research and Engineering Corporation of Morristown, New Jersey, a subsidiary of Standard Oil of New Jersey.

In the Fall of 1965, I enrolled in the Graduate School of Business at Washington University in St. Louis, Missouri. I was graduated in June of 1967 with the Degree of Master of Business Administration. My major field was finance.

From March of 1966 until March of 1970, I was employed by Emerson Electric Company in St. Louis. During this time I pursued the Degree of Master of Science in Engineering at Washington University, which I received in June, 1970.

In March of 1970, I joined the firm of Drazen Associates, Inc., of St. Louis, Missouri. Since that time I have been engaged in the preparation of numerous studies relating to electric, gas, and water utilities. These studies have included analyses of the cost to serve various types of customers, the design of rates for utility services, cost forecasts, cogeneration rates and determinations of rate base and operating income. I have also addressed utility resource planning principles and plans, reviewed capacity additions to determine whether or not they were used and useful, addressed demand-side management issues independently and as part of least cost planning, and have reviewed utility determinations of the need for capacity additions and/or purchased power to determine the consistency of such plans with least cost planning principles. I have also testified about the prudency of the actions undertaken by utilities to meet the needs of their customers in the wholesale power markets and have recommended disallowances of costs where such actions were deemed imprudent.

I have testified before the Federal Energy Regulatory Commission (FERC), various courts and legislatures, and the state regulatory commissions of Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Guam, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Missouri, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Utah, Virginia, West Virginia, Wisconsin and Wyoming.

The firm of Drazen-Brubaker & Associates, Inc. was incorporated in 1972 and assumed the utility rate and economic consulting activities of Drazen Associates, Inc., founded in 1937. In April, 1995 the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and staff. Our staff includes consultants with backgrounds in accounting, engineering, economics, mathematics, computer science and business.

During the past ten years, Brubaker & Associates, Inc. and its predecessor firm has participated in over 700 major utility rate and other cases and statewide generic investigations before utility regulatory commissions in 40 states, involving electric, gas, water, and steam rates and other issues. Cases in which the firm has been involved have included more than 80 of the 100 largest electric utilities and over 30 gas distribution companies and pipelines.

An increasing portion of the firm's activities is concentrated in the areas of competitive procurement. While the firm has always assisted its clients in negotiating contracts for utility services in the regulated environment, increasingly there are opportunities for certain customers to acquire power on a competitive basis from a supplier other than its traditional electric utility. The firm assists clients in identifying and evaluating purchased power options, conducts RFPs and negotiates with suppliers for the acquisition and delivery of supplies. We have prepared option studies and/or conducted RFPs for competitive acquisition of power supply for industrial and other end-use customers throughout the Unites States and in Canada, involving total needs in excess of 3,000 megawatts. The firm is also an associate member of the Electric Reliability Council of Texas and a licensed electricity aggregator in the State of Texas.

In addition to our main office in St. Louis, the firm has branch offices in Phoenix, Arizona and Corpus Christi, Texas.