**Q. Please state your name and business address.**

A. My name is Jeffrey K. Larsen. My business address is One Utah Center, Suite 2300, 201 South Main Street, Salt Lake City, Utah, 84111.

**Q. What is your position at Rocky Mountain Power (the Company) and briefly describe your employment history with the Company?**

A. I am currently employed as Vice President of Regulatory Affairs. I joined the Company in 1985, and I have held various accounting, compliance and regulatory-related positions prior to my current position. I have testified on various matters in the states of Utah, Idaho, Wyoming, California, Washington and Oregon.

**Qualifications**

**Q. Briefly describe your educational and professional background.**

A. I received a Master of Business Administration degree from Utah State University in 1994 and a Bachelor of Science degree in Accounting from Brigham Young University in 1985. I have also participated in the Company's Business Leadership Program through the Wharton School and an Advanced Education Program through the J.L. Kellogg School of Management at Northwestern University. In addition to formal education, I have also attended various educational, professional and electric industry-related seminars during my career at the Company.

**Purpose of Testimony**

**Q. What is the purpose of your rebuttal testimony on test period?**

A. I provide the Company's general policy testimony rebutting the direct testimony of Division of Public Utilities (DPU) witness Dr. Joni Zenger, Committee of Consumer Services (CCS) witnesses Ms. Cheryl Murray and Ms. Donna DeRonne, Utah Association of Energy Users/Wal-Mart (UAE/WM) witness Mr. Kevin Higgins, and Utah Industrial Energy Consumers (UIEC) witness Mr. Maurice Brubaker. I address some of the issues raised in UIEC's Response to the Company's motion for approval of its test period, which are also addressed in the Company's concurrently filed Reply brief in support of the Company's motion for approval of its test period. Mr. Steven R. McDougal provides information on the financial impact of the Commission's decision on test year in this case and addresses how Company's proposed test year satisfies the Commission's test period factors.

**Q. What is the primary issue addressed in your rebuttal testimony on test period?**

A. From a policy perspective, the primary issue that I address is the Company's ability to receive proper cost recovery for the service that it provides to customers when they receive it. As such, the key issue of disagreement is the Company's proposal to measure rate base at the end of the test period, rather than averaging it in the test period. The Company proposed a test period with end-of-period rate base to permit use of a shorter-term forecast test period, while still ameliorating the Company's earnings attrition it is experiencing and anticipates experiencing during the rate effective period. The Company proposed this test period as a compromise, seeking to balance the concerns the Commission previously expressed about use of a longer-term forecast test period with the Company's need to reduce regulatory lag.

**Q. Do the CCS AND UIEC proposal to use a calendar year 2009 test period affect the Company's ability to get timely and sufficient cost recovery?**

A Yes. Both CCS and UIEC propose a calendar year 2009 test period as an alternative to the test period proposed by the Company, which is twelve months ending June 30, 2009, with end-of-period rate base. The Company does not object to the use of such a test period, as long as the associated compliance filing does not restart the 240-day clock for a final order in this case. Given the earnings attrition the Company is now experiencing, in no event should the Commission further delay the 240-day clock in this case without also granting interim rate relief (which, if necessary, the Company hereby requests) as a part of its order.

**End-of-Period Rate Base**

**Q. Is end-of-period rate base a well recognized methodology?**

A. Yes. The Company's Reply brief cites dozens of cases where commissions have used this approach, particularly when a utility is in a build cycle or faces an increasing cost environment, as in this case. The treatise cited by DPU witness Dr. Zenger, *Accounting for Public Utilities* by Robert L. Hahne, identifies three options for measuring rate base:

> (1) average monthly plant balances for the period used to measure test period operating income and expenses;
> (2) plant balances at the end of the test period; and
> (3) projected plant balances, either averaged into the future or measured at a specific future point in time. (4-5, Section 4.02)

The Company's proposed approach for measuring rate base in this case is captured by both the second and third options: using plant balances at the end of the test period and using projected plant balances at a specific point in time.

**Q. What is the Utah Commission's approach to this issue?**

A. While the Utah Commission has generally used average-of-period rate base, the leading case on the issue makes clear that the Commission "will decide issues concerning test year, rate base, out-of-period adjustments, and related matters, prior to the onset of hearings and ***based on the then existing conditions of the utility and the economy in which it is operating***." *See Re Mtn. Fuel Supply Co.*, Docket 89-057-15, Order (Nov. 21, 1990) (emphasis added.) After the Utah Legislature passed the current version of the test period statute, Utah Code § 54-4-4(3), the Commission articulated a set of eight factors to consider in selecting a test period designed to facilitate this case-by-case review. As discussed in Mr. McDougal's direct and rebuttal testimony, these factors militate in favor of end-of-period rate base in this case.

**Q. Do the Company's other jurisdictions use end-of-period rate base?**

A. Yes. End-of-period rate base has typically been the standard for many years in Wyoming. The Washington and Idaho Commissions have also used this approach in previous cases.

**Q. Why is end-of-period rate base so important in this case?**

A. One of the main objectives of regulation is to set just and reasonable rates that reflect the costs that a utility will prudently incur to serve its customers during the rate effective period. Section 54-4-4(3)(a) of the Utah Statutes specifically states:

> [T]he 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.

As Dr. Zenger points out in her testimony, *Accounting for Public Utilities* states that "The selection of the timing of the test year may be the most significant single factor in the rate-making process." (7-4, Section 7.03).

The Company based its filing on a 12-month forecast test period, 8 months short of the full 20-month forecast allowed by statute. The Company shortened the forecast test period in deference to the test period order in the Company's 2007 rate case, where the Commission substituted a 13-month forecast test period for the 19-month forecast test period filed. However, with the shorter-term forecast, the test period does not extend meaningfully into the rate effective period. To mitigate the associated attrition, the Company proposed to measure rate base at the end of the test period. Measuring rate base in this way means that rates will more closely reflect the costs of new capital projects in service in the rate effective period, instead of reflecting only a fraction of these costs. Without end-of-period rate base, the proposed test period will not have any chance of reflecting conditions in the rate effective period as required by Section 54-4-4(3).

**Q. Dr. Zenger quotes extensively from *Accounting for Public Utilities* by Robert L. Hahne. What is the primary test period message from this treatise?**

A. The primary message is that "The test period, by nature and by design, is a surrogate for conditions of the period of rate use and, to repeat, is presumed to be representative of future conditions." (7-11, Section 7.06.) This message is repeated over and over in the text. End-of-period rate base is designed to do just as Hahne suggests, to make the test period more representative of future conditions. The approach helps but does not fully address the need for a test period that more fully covers the rate effective period.

**Q. Please explain Dr. Zenger's citation to *Accounting for Public Utilities* by Robert L. Hahne in support of average rate base.**

A. In arguing for average rate base, Dr. Zenger relies on the following citation:

> This averaging concept produces a matching of the rate base investment with the revenues generated by the investment and the costs incurred in the process. If the period forecasted coincides with the period in which the new rates will be in effect, the matching of investment levels to operating results should produce the earnings levels authorized. Any deviation should be solely due to the inability to forecast with perfect foresight. (Hahne 7-5, Section 7.04)

This reference actually supports moving away from using average rate base in this case. Hahne clearly points out that averaging produces matching "If the period forecasted coincides with the period in which the new rates will be in effect…" This shows why end of period rate base is necessary. The forecasted period in this case does not coincide with the rate effective period because the test period ends just as the rate effective period begins.

**Q. Dr. Zenger argues that there is no reason to include end-of-period adjustments because the effects of regulatory lag are mitigated by the use of a forecasted test year. Is that an accurate representation of this case?**

A. No. Her argument may be true if the test period in this case extended through the rate effective period. The forecast test period in this case, however, ends on June 30, 2009, just a few weeks after the May 8, 2009, beginning of the rate effective period. This significantly reduces any regulatory lag mitigation that a forecast test period may generally provide.

**Q. How is this specific issue addressed in *Accounting for Public Utilities* by Robert L. Hahne?**

A, In addressing test periods with partial year forecasts Hahne states:

> In most cases, however, the rates do not begin until after the test year's end even though it is based partly on forecasted data. As a result, unless the current test year data are adjusted to recognize changing conditions, the rates will not be properly established. When conditions are rapidly changing, substantial pro forma adjustments (i.e., the restatement of test year events or conditions to measure future conditions more accurately) may be required to current test year operating results. (7-6, Section 7.04)

This is essentially the case we have here. While this case was prepared using forecast data, the test period coincides almost entirely with the current period. Rates will go into effect only a few weeks before the end of the test period. The use of period end rate base is necessary to "measure future conditions more accurately," and to include in our customers' rates the costs of the plant investment from which they are taking service.

**Q. Do you agree with Dr. Zenger's assertion that the use of end-of-period rate base is a distortion in the balance of risks to all parties?**

A. No. Setting rates that reflect the rate base investment that will be in place serving customers is the correct balance of risk. In fact it is not a risk issue at all; it is a basic element of the regulatory objective of customers paying the cost of serving them.

**Q. The UIEC motion suggests that regulatory lag associated with average rate base is an inducement to management efficiency. Do you agree?**

A. No. The theory is that delay in cost recovery provides an incentive for the utility to contain its costs. The theory is questionable, at best, for a regulated utility's operating expenses, but it is totally illogical for a regulated utility's investments. The Company needs to have control over a cost before there is an opportunity to manage it more efficiently. But, new investment is primarily, if not totally, driven by load and customer growth. That load growth cost driver is under the control of our customers not the Company. Thus, the only control the Company has is the means to serve (or not serve) that load.

Moreover, with the exception of the end-of-period rate base adjustment, the Company's filing continues to reflect regulatory lag, even in the net power cost area where we have little control over market forces. Suggesting that the Company can mitigate the effect of non-recovered plant investment through efficiencies in controllable operation and maintenance expenses is not realistic. Dr. Zenger's testimony correctly acknowledges that many of the cost increases the Company now faces are outside of the Company's control.

**Calendar Year 2009 Test Period**

**Q. Which parties recommend use of an alternative test period?**

A. CCS and UIEC both recommend that the Commission reject the Company's proposed test period and approve a new test period of twelve months ending December 31, 2009. In addition, CCS and UIEC recommend that the Commission order the Company to refile the case based upon their proposed test period and restart the 240 day clock upon that filing.

**Q. Why do CCS and UIEC propose to change the test period?**

A. CCS and UIEC oppose the use of the Company's proposed test period because it overlaps the last six months of the test period in Docket No. 07-035-93. I will address why their concerns are misguided. The legal issues are addressed in the Company's Reply brief.

**Q. Do you agree with the CCS that seeking to relitigate certain issues that were decided by the Commission in the 2007 rate case is justification to reject the test period?**

A. No**.** It is not uncommon for a party to propose an adjustment or treatment of costs in a way different from a previous commission order. CCS did just this in the last case when it proposed including the expense lag associated with payment of interest on long term debt.

**Q. CCS argues that because there is a six month overlap in the test periods, the Company is seeking a second opportunity to recover 2008 costs. Is this correct?**

A. No. The Company is not asking to recover costs twice. While an annual revenue requirement is determined in a rate case, the end result is tariff rates implemented on a prospective basis with unit prices that are billed each month. At the conclusion of a subsequent rate case new rates are set using a new test period. At that time, even if the test periods overlap, the collection of old rates stops and new rates reflecting cost for ongoing period become effective. In the 2007 case, the Commission determined rates that it believed were just and reasonable for the period commencing August 13, 2008. In this case, the Commission will be determining just and reasonable rates for the period commencing May 8, 2009. There is no double recovery.

**Q. UIEC argues that the Commission cannot consider any changes outside a forecast test period. Has the Company made such a proposal?**

A. No. The Company is proposing a forecast test period that runs from July 2008 through June 2009. All of the costs reflected in the revenue requirement in this case are contained in that test period. There are no changes outside this test period.

**Q. Does Rocky Mountain Power oppose using a calendar year 2009 test period?**

A. No, but only if the associated compliance filing does not restart the 240-day clock in this case. As outlined in the Company's Reply, there is no basis for restarting the 240-day clock if the Commission selects a 2009 calendar year test period in this case. A decision to restart the 240-day clock would be antithetical to addressing the attrition the Company is now experiencing associated with new investment and increasing costs. For this reason, in no event should the Commission further delay the 240-day clock in this case without also granting a request for an interim rate increase (which, if necessary, the Company hereby requests) as a part of its order. An interim rate increase in this case could be based upon the Company's filing, but use the results of the 2007 rate case for disputed issues such as return on equity and property taxes.

That being said, this is just another attempt from CCS and UIEC to delay the Company's ability to recover its costs.

**Q. Does this conclude your rebuttal testimony?**

A. Yes.