Q. Are you the same Steven R. McDougal that previously filed direct and supplemental testimony in the docket?

A. Yes.

Purpose of Testimony

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

A. The purpose of my rebuttal testimony is to provide information on the financial impact of the Commission's decision on test year in this case and address how Company's proposed test year satisfies the Commission's test period factors. This testimony rebuts issues raised in 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.

Impact of End-of-Period Rate Base

Q. Was the recovery of capital costs associated with new generation plants a major driver of this rate case?

A. A principal reason the Company filed this case was to reflect the costs of many new generation resources in rates, including the Chehalis gas plant and seven new wind projects. While the Company plans to remove one of these wind projects, High Plains, from the case because of a change in construction schedule, all other generation plants are scheduled to be on line before 2009.

Q. How does the removal of the High Plains wind project impact revenue requirement in this case?

A. It reduces revenue requirement by approximately $11 million (Utah).

Q. What level of capital cost under-recovery does the Company face in the rate effective period if average-of-year rate base is substituted for end-of-period rate base?

A. Measuring rate base using an average-of-period approach would result in an under-recovery of the Company's capital investment during the rate effective period of approximately $37 million (Utah).

Q. Dr. Zenger prepared a hypothetical example to show that the Company's filed revenue requirement would produce a 12 percent ROE if an average rate base test year had been used. Is this a meaningful calculation?

A. No, the DPU's calculation is wrong because it assumes that the rate effective period is aligned with the test period. End-of-period rate base is necessary for the Company to have an opportunity to earn the 10.75 percent return on equity it has requested. Without end-of-period rate base, even if the Commission granted the full 10.75 percent return on equity requested, the Company's effective return on equity in the rate effective period would be reduced to approximately 9.50 percent.

Q. Mr. Higgins makes some calculations on the impact of using end-of-period rate base and the MSP cap. Are his calculations correct?

A. No. Mr. Higgins suggests that using end-of-period rate base causes the Company's ROE calculation to be reduced by about 900 basis points on ROE and that reflecting the implication of the MSP cap lowers ROE by 600 basis points. Both of these calculations are overstated by a factor of 7 to 8 times. As shown in Exhibit RMP___(SRM-2S) the rate base adjustment is less than $50 million (with the removal of High Plains it becomes less than $40 million). Mr. Higgins' 900 basis point reduction suggests an adjustment of approximately $366 million. His MSP cap calculation is incorrect by a similar magnitude.

Test Year Factors

Q. Do the Commission's test year factors support approval of the Company's proposed test period with end-of-period rate base?

A. Yes. I addressed these factors in detail in my direct testimony. It is important to note that several of the factors such as inflation, changes in the utility's investment and whether the utility is in a cost increasing or cost declining status, are the factors commissions typically invoke in using end-of-period rate base.

Q. One of the Commission's factors is the availability and accuracy of data to the parties. Does the Company's end-of-period rate base satisfy this factor?

A. Yes. A primary reason Rocky Mountain Power chose to use a twelve-month forecast with end-of-period rate base rather than looking out the full twenty months for all revenue requirement elements was to reduce concerns about the accuracy and length of the forecast. Company investment is the most predictable of all costs, especially when, as in this case, the test period is ending as the rate effective period is beginning. By the beginning of the rate effective period in this case, all of the major investments projected in the case will be complete, very near completion or will have been removed from the case. Indeed, with the removal of the High Plains project, there are no generation plants in this case with scheduled on-line dates in 2009.

Q. In objecting to the Company's proposal for end-of-period rate base, do the parties point to the Commission's test year factor on matching?

A. Yes. The parties assert that using end-of-period rate base violates one of the eight factors the Commission considers in selecting a test period: the synchronization of investment, expenses and revenues. The parties claim that under the Company's proposal, investment does not match expenses and revenues.

Q. Do you agree that the Commission should reject the proposed test period on this basis?

A. No. In the context of test year selection, the over-arching application of the matching principle is to match revenues, expenses and investment to the period of time customers will be served by those investments. Thus, when using a historical test year, the Commission has allowed known and measurable adjustments to better match conditions in the rate effective period, even if these adjustments result in a mismatch of investment, revenues and expenses in the test period. In this case, the end-of-period approach proposed by the Company is necessary to achieve appropriate synchronization of the test period and the rate effective period.

Q. How do you address the parties' concerns about the Company's annualization of investment, but not expenses or revenues?

A. The Company acknowledges that not all of the elements of the test period are fully aligned (including wage expense and depreciation expense which Mr.

Brubaker mistakenly assumes were annualized). However, without the end-of-period rate base adjustment, there would be a more significant misalignment between revenues and the cost of providing service to our customers in the rate effective period. In addition, the parties fail to recognize that synchronization is only one of the eight factors the Commission considers when determining which test period best reflects the conditions that are expected in the rate effective period. The majority of the other factors argue in favor of the use of end-of-period rate base.

Q. Why has the Company failed to bring other revenue requirement elements to end-of-period values consistent with the rate base?

A. The use of end-of-period rate base in this case makes one step toward the over-arching matching objective identified in statute: matching rates to the conditions, costs, and investments concurrent with the period in which those rates will be in effect. While annualizing sales for year-end customers and consumption levels would increase revenues and lower the revenue deficiency, the concomitant increase in net power costs would offset this reduction in revenue deficiency.

Dr. Zenger suggests that the practical effect of the Company's proposed end-of-period rate base is to produce an average rate base with a 2009 calendar year test period, without matching other expenses and revenues that the calendar year would provide. As I stated in my direct testimony, a test period ending December 31, 2009 using average rate base with full inclusion of revenues and expenses through that period would result in a rate increase that is approximately $11 million higher than what is proposed in this case. Thus, the lack of comprehensive matching of all revenue and expense items to calendar year end 2009 is not prejudicial to customers.

Other Issues

Q. Mr. Higgins observes that plant that is projected to come on line during the first half of 2009 is treated more favorably under a June 30 test period with end-of-period rate base than it would be treated under a calendar year 2009 test period with average rate base. Please respond.

A. While mathematically accurate as far as it goes, Mr. Higgins' observation is incomplete. If the Company were to use a calendar 2009 test period with average rate base, then it would recognize the additional investment being placed in service in the last half of 2009. The Company's June 2009 test period does not do so. Contrary to Mr. Higgins' assertion, the Company's proposal to use end-of-period rate base is the most fair and equitable approach, particularly when the Commission has indicated a reluctance to use a forecast longer than 12 months after the filing date.

Q. The UIEC motion makes a number of alleged comparisons of net power costs. Are these comparisons relevant to the test period questions before the Commission at this time?

A. No. In addition to being irrelevant to the test period issue in this case, the net power costs referenced in the UIEC motion reflect different time periods, were prepared using different forward price curves, and represent both normalized and actual net power costs calculations, so they are not comparable. In addition, the Company's forecasts of normalized net power costs for the 12 months ending

June 2009 have been different because each reflects the best available information at the time of filing in natural gas and wholesale power markets marked by significant volatility. For example, from the time the Company filed its direct testimony in the 2008 rate case to the time it filed its supplemental direct testimony in the 2008 rate case, the forecasts went down from $1.129 billion to $1.109 billion, to the benefit of the ratepayers.

Q. Does this conclude your rebuttal testimony?

A. Yes.