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** **DPU Exhibit No. 8.0**

Direct Testimony of

Brenda Salter

For the Division of Public Utilities

Department of Commerce

State of Utah

February 12, 2009

I. INTRODUCTION

Q. Please state your name and occupation.

A. My name is Brenda Salter. I am employed by the Division of Public Utilities of the Utah Department of Commerce as a Utility Analyst.

Q. What is your business address?

A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84114.

Q. On whose behalf are you testifying?

A. The Division of Public Utilities ("Division").

Q. Please describe your position and duties with the Division of Public Utilities?

A. I am a Utility Analyst. Among other things, I examine public utility financial data for determination of rates; review applications for rate increases; research, examine, analyze, organize, document, and establish regulatory positions on a variety of regulatory matters; review operations reports and evaluate compliance with laws and regulations; testify in hearings before the Utah Public Service Commission ("Commission"); and assist in analysis of testimony and case preparation.

Q. Please describe your education and work experience.

A. I hold a Bachelor's degree in accounting from Brigham Young University. I began working for the Division of Public Utilities in the spring of 2007. Since starting with the Division, I have attended the NARUC Annual Studies Program at Michigan State University. Prior to my employment with the Division, I was employed by the Utah State Tax Commission for six years as a Senior Auditor. I have testified on behalf of the Utah

State Tax Commission in formal and informal hearings, and also have testified in the Third District Court as an expert witness in criminal individual income tax hearings.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your Testimony?

A. My testimony addresses adjustments made by Rocky Mountain Power ("the Company") witness Mr. Steven McDougal to Generation Overhaul Expense Exhibit 4.6, Miscellaneous General Expense Exhibit 4.1 Federal Energy Regulatory Commission ("FERC") Account 557 and to the Automated Meter Reading Savings Exhibit 4.5. In addition to reviewing the above, I also reviewed Mr. McDougal's adjustments to Irrigation Load Control Program Exhibit 4.3, Blue Sky Exhibit 4.4, DSM Amortization Removal Adjustment Exhibit 4.10, Affiliate Management fee Exhibit 4.14, WECC Fees Exhibit 4.16, Solar Photovoltaic Program Exhibit 4.19, Employee Relocation Expense Exhibit 4.20, Environmental Settlement (PERCO) Adjustment 8.3 and Customer Service Deposits Exhibit 8.12. Finally, I completed a review of the following FERC accounts with respect to fluctuations in spending: Accounts 500 through 598, Accounts 901 through 910, and Accounts 920 through 935. My adjustment to generation overhaul expense is based on the Commission's 07-035-93 decision and decreases Mr. McDougal's generation overhaul expense of $35,699,948 to $33,635,948. My next adjustment decreases year ending June 2008 expenses in FERC Account 557: Other Expenses by $290,164. My final adjustment removes the labor escalation included in Mr. McDougal's Adjustment 4.11 for meter readers no longer employed by the Company. This adjustment decreases revenue requirement by $177,858.

III. ADJUSTMENTS

GENERATION OVERHAUL EXPENSE

Q. Please describe your first adjustment as it relates to generation overhaul costs in this case?

A. My first adjustment is to Mr. McDougal's Adjustment 4.6, Generation Overhaul Expense. I propose changes to the FERC account numbers 510 Generation Overhaul Expense – Steam and 553 Generation Overhaul Expense--Other. Generation overhaul expense stems from the need to refurbish, replace parts, or otherwise maintain generating units in order to continue to produce the planned capacity and reliability of those plants. The age of plant equipment and the addition of more generating units, resulting from capacity additions, also affect the calculation of this adjustment. Ideally the overhaul expenditure adjustment should represent the level of overhaul maintenance expenditures that the Company will incur during the test period in order to maintain and operate generation plants.

Q. What does the Company propose for the Generation Overhaul expense? Please describe the calculation of this adjustment?

A. The Company's proposed generation overhaul expense is $35,699,948 total Company for the 2009 test year. The Company's calculation uses fiscal year overhaul expenses for three years, 12 months ended June 2005, 12 months ended June 2006 and 12 months ended June 2007 then escalates them to a June 2008 level using escalation indices. Once escalated, the four years, including 12 months ended June 2008, are averaged. For new generating units, including Currant Creek, Lake Side and Chehalis, the Company treats the adjustment differently since those plants do not have operational data dating back four years. In this case the Company uses a four-year average of the 2009 budgeted amounts for years 2009, 2010, 2011 and 2012, de-escalates the expenses to 2008 dollars and then averages them. Once the average has been established under both of the above cases, Mr. McDougal's Adjustment 4.15 escalates the average to December 2009 dollars.

Q. Please explain the rationale for your calculation of the generation and overhaul expense.

A. The Commission, in its Order in Docket No. 07-035-93, approved an amount for generation overhaul using a four-year historical average of generation and overhaul expenses, as well as approving the generation overhaul expense associated with the new generating plants. It makes sense to use a four-year average, since the GRID models planned outages to determine net power costs also use a four-year average in order to smooth out the annual variations in net power costs. It is important to begin with historical accounting information to determine a realistic foundation for expected costs. Each successive year's expense takes into account the inflationary effects that occur from year to year, as well as normalizes any out-of-the-ordinary expense items. Therefore, inflationary pressures are already taken into account using the averaging methodology. I agree with the Commission's Order that escalation within averaging is not an appropriate approach. The more appropriate approach is to use a four-year historical average of the generation overhaul expense and then escalate it to the test period. My change (DPU Exhibit 8.1.1) to Mr. McDougal's Adjustment 4.6 removes the escalation to 2008 dollars prior to averaging.

Q. With respect to the new plants that have not been in operation for four years, how do you treat the overhaul and generation adjustment?

A. I agree with the Company’s position on the new generation units. The Company proposed using the historical data that are available along with the Company’s budgeted data for these particular plants and escalating those expenses forward to the test period. Since the Company’s budgeted data is based on 2009 dollars, a restatement to 2008 dollars has been made prior to averaging the four years data. As more operational data come in, I would recommend continuing to use all available historical expenses and budgeted information (as proposed by the Company) until the plant has been operational for four or more years. Then I recommend treating it as I have recommended above, as with the other generation and overhaul expense adjustment.

Q. What is the effect of your adjustment to the generation overhaul expense?

A. My adjustment (DPU Exhibit 8.1.1) decreases generation overhaul expense to $33,635,948. This decreases the total Company Adjustment by $2,064,000 and $832,321 for Utah’s allocated share of the adjustment. The effect of this adjustment on the JAM model is a decrease to Utah’s allocated share of revenue requirement by approximately $904,686.

Q. Have you reviewed the Company’s generation overhaul expense for the 2008 calendar year and, if so, how does it compare with its budgeted costs?

A. Yes I have reviewed the Company’s generation overhaul expense for the 2008 calendar year. The Committee requested in Data Request CCS 27.18 the Company’s actual spending for generation overhaul expense for the calendar year 2008. The Company’s response was $23,142,000 for total generation overhaul expense. The Company’s budget for generation overhaul for the calendar year 2008 was $27,687,000 (CCS Data Request 9.23, Docket 07-035-93). The actual spending was 16 percent below the Company's budgeted amount.

Q. How does your adjustment to the generation overhaul expense compare with the Company's budgeted 2009 expense?

A. The Company indicated that generation overhaul expense would increase in 2009 due to the addition of the new generation plants to the maintenance schedule. This is shown in the Company's budget for 2009 generation overhaul costs in the amount of $39,382,000, which is an increase from the 2008 budget by $11,695,000. However, in arriving at this budgeted amount, the Company used an escalation rate equal to 4.91 percent for FERC account 510 and 5.8 percent for FERC account 553, which is the Global Insights index value as of October 27, 2008. As explained in Dr. Brill's testimony, the Division is making an adjustment to the Global Insight indices. For this category of expenses, the Division is using Global Insight's April 17, 2008 escalation factor of 2.39 percent for FERC account 510 and 2.64 percent for FERC account 553. As a result of this change to the escalation rate, my adjustment is 12 percent below the Company's budget for the calendar year 2009. Considering the fact that the Company's actual generation overhaul costs were below the budgeted costs in 2008 by approximately 16 percent, my adjustment of 12 percent is reasonable and may even be conservative given the downturn in the economy.

MISCELLANEOUS GENERAL EXPENSE

Q. Please explain your adjustment to Miscellaneous General Expense FERC account 557.

A. My adjustment removes $184,704 of Legal Consulting Fees and Services (DPU Exhibit 8.2.1) from FERC account 557 that are out-of-period expenses. My second adjustment removes $64,960 of Legal Consulting Fees and Services (DPU Exhibit 8.2.2) from FERC account 557 due to the lack of supporting documentation from the Company. My third adjustment (DPU Exhibit 8.2.3) to FERC account 557 is based on the Company's response to DPU Data Request 26.10 that indicates $40,500 of Legal Consulting Fees and Services that were found to be below-the-line costs. The total of these adjustments decreases Miscellaneous General Expense total Company by $290,164 and $117,017 Utah allocated, as shown on DPU Exhibit 8.2. The effect of these adjustments on the JAM model is a decrease to Utah's allocated share of revenue requirement by approximately $119,438.

Q. Your first adjustment to Miscellaneous General Expense shows that you removed costs included in the base period that are out-of-period expenses. Please explain.

A. The Company operates on an accrual accounting basis, not on a cash basis. Cash basis is a method of accounting where a company recognizes revenues when cash is received and recognizes expenses when cash is paid out. Under the accrual method, a company records business income when it is earned, whether it is the delivery of a product or the rendering of a service, regardless of when it is paid. The expense is recorded when the goods or services are received or performed, even though they may not be paid for until later. Accrual accounting is required by GAAP (Generally Accepted Accounting Principles), and the U.S. Securities and Exchange Commission requires publicly traded companies follow

GAAP. My review of the Company's accounts disclosed that certain legal service invoices provided by the Company had invoice dates that were not within the base period. The SAP[1] documentation provided with the invoices showed the Company recognized the expense when the invoices were paid rather than when the services were rendered, which is not in accordance with GAAP. Also, the SAP account detail provided did not demonstrate a reversal of an accrual of the expense that would correct the out-of period accounting.

Q. You show in your second adjustment to Miscellaneous General Expense costs that were removed due to lack of supporting documentation. Please explain.

A. DPU Data Request 26.10 was sent to the Company on October 23, 2008 requesting the Company provide supporting documentation for the expenses listed on the accompanying Excel spreadsheet. Three sets of documentation were provided by the Company, and in each case no invoice was provided to verify the expense in DPU Exhibit 8.2.2.

Q. What, in your opinion, should be the outcome in the rate case regarding the missing invoice?

A. The expense should be disallowed from revenue requirement based on lack of supporting documentation. If the Company can provide the invoice for the above reference document that shows the expense was incurred in the base period, the Division would consider allowing the expense. However, the missing invoices have not yet been provided.

Q. Please explain your third adjustment to FERC account 557.

A. In response to DPU Data Request 26.10, the Company explained that an expense in the amount of $40,500 for nuclear power development was a below-the-line expense. Below-

[1] SAP is PacifiCorp's electronic accounting program.

the-line expenses are traditionally not included in determining the appropriate revenue requirement for regulated utility. I am removing the expense from the revenue requirement of the case. This adjustment results in a decrease to revenue requirement of $40,500 total Company and $16,333 Utah allocated.

UTAH AUTOMATED METER READER SAVINGS

Q. What is your next adjustment?

A. I am proposing an adjustment to the Utah Automated Meter Reader (AMR) Savings found in Company witness Mr. McDougal's Exhibit 4.5 in the amount of $177,458 (DPU Exhibit 8.3).

Q. Please explain your adjustment.

A. The Committee submitted Data Request 27.23 to the Company requesting an explanation of how the AMR Savings is reflected in Mr. McDougal's Adjustment 4.11 (Wages and Employee Benefit Adjustment). The Company, in its response, provided a table indicating that the Wage and Employee Benefit Adjustment incorrectly escalated the labor costs in the Company's AMR Savings Adjustment 4.5

Q. Please explain the Company's AMR Savings Adjustment.

A. The Company's AMR Savings Adjustment results from removing the 90 meter reading employees who are no longer required due to the automation capabilities of the new meters that were installed in 2007 and 2008. In the Company's Second Supplemental filing, in Mr. McDougal's Adjustment 4.5, these employees and their overhead costs are removed from the base period.

Q. Please explain the Company's Wages and Employee Benefit Adjustment.

A. This adjustment included in Mr. McDougal's testimony 4.11 escalates the base period, actual June 2008, wage and employee benefits through contract renewals and negotiations to the calendar year December 2009. It also adds the escalated amounts to the operation and maintenance accounts.

Q. Please discuss how the Company's Response to Committee's Data Request 27.23 can be applied to the Mr. McDougal's AMR Savings Adjustment?

A. The wage and benefits for the 90 meter readers were removed from the base period with the AMR Savings Adjustment 4.5. When the Wage and Employee Benefit Adjustment 4.11 was calculated, the labor costs for the meter readers no longer employed were not removed prior to escalation to December 2009. An adjustment to the AMR Savings Exhibit 4.5 is required to remove this escalation error.

Q. You are proposing an adjustment to remove the escalation on the labor of the meter readers no longer employed by the Company. How does your adjustment differ from the Company's Response to CCS Data Request 27.23?

A. I do not agree with the labor escalation rate used in the Company's Response.

Q. Please explain.

A. In its Response to CCS 27.23 the Company uses an escalation rate of 3 percent to escalate the meter reader labor. This escalation rate is inconsistent with the actual escalation used in the filing. Mr. McDougal's Testimony on page 4.11.12 shows the labor increase calculated through December 2009 to be 5.3496 percent. In my Exhibit 8.3.1 I present three calculations: the calculation as included in the Company's response to CCS 27.23

(first column), the calculation based on Mr. McDougal's page 4.11.12 overall labor adjustment (second column), and the calculation that I am proposing based on Division witness Mr. Mark Garrett's adjustment to labor costs (third column).

Q. Please explain the adjustment shown in the third column of your Exhibit 8.3.1.

A. Mr. Garrett is using the Company's base year labor numbers to begin his calculation of labor escalation for the 2009 test year. Therefore his escalation, like the Company's, includes labor for the meter readers no longer with the Company. Mr. Garrett is decreasing the Wage and Employee Benefit Adjustment proposed by Mr. McDougal in his Adjustment 4.11. Please refer to Mr. Garrett's Testimony for an explanation on the labor adjustment. Based on the Division's proposal to escalate labor at the rate of 4.120006 percent, I am removing the escalation of the meter readers no longer employed by the Company at the Division's proposed rate. This adjustment results in a decrease to revenue requirement of $177,858 both total Company and Utah allocated. The effect of this adjustment on the JAM model is a decrease to Utah's allocated share of revenue requirement by approximately $173,241.

Q. If the Commission does not accept Mr. Garrett's labor adjustment, how will this affect your change to the AMR Savings Adjustment?

A. My adjustment to the AMR Savings Exhibit 8.3 is based on the Commission's determination of what the appropriate labor escalation rate is in this case. Based on the Commission's decision my adjustment should be modified accordingly.

Q. Does this complete your Testimony?

A. Yes.