BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Utility Service Schedules and Electric Service Regulations	)))))))))	**DOCKET NO. 08-035-38** **Exhibit No. DPU 7.0** **Direct Testimony and Exhibits** **Matthew Croft**

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Testimony of

Matthew Croft

February 12, 2009

Q. Please state your name and occupation?

A. My name is Matthew Allen Croft. I am employed by the Utah Division of Public Utilities 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 education and work experience.

A. I graduated in December of 2007 from the University of Utah with a Bachelor of Arts degree in Accounting. I am currently enrolled in the Masters of Accounting program at the University of Utah. I began working for the Division in July of 2007.

Q. Have you previously testified before the Commission?

A. Yes. I testified concerning various revenue requirement adjustments in Docket No. 07-035-93.

Q. What is the purpose of the testimony that you are now filing?

A. The purpose of my testimony is to propose and explain adjustments to Rocky Mountain Power's ("Company") filed Utah Revenue Requirement. My testimony describes adjustments to the Company's Lead Lag Study as well as adjustments to the Company's forecasted capital additions.

Q. Can you please summarize your adjustments?

A. Yes. The revised Lead Lag Study filed by the Company in their supplemental filing produces a net revenue lag of 6.24 days. After auditing the study I have computed a

net revenue lag of 5.6 days. This decrease in net revenue lag days was due to two main adjustments. The first was using calendar year 2009 expenses instead of 2007 expenses as used in the study. The second part of the adjustment came as a result of revising the payment date for the various expense lags. This adjustment is composed of several sub-adjustments to the coal, purchased power, wheeling, labor and incentive expense lag. The Garret group adjustment includes an adjustment in which interest is included in the study. When my adjustment is combined with the Garret group adjustment the resulting net revenue lag days is -3.73. This results in a $4,196,487 decrease to the Company's revenue requirement. (Effect is after all other DPU adjustments). The second adjustment reduces the Company's capital additions forecast. I updated the Company's forecasted capital additions for July 2008 through December 2008 with adjusted actual additions. I also adjusted the Company's January 2009 through December 2009 capital additions forecast. This has the net effect of reducing the Company's revenue requirement by $14,210,043. This effect on revenue requirement is after Mr. Peterson's cost of capital adjustment.

Q. Do you have any attachments that you are filing that accompany your testimony?

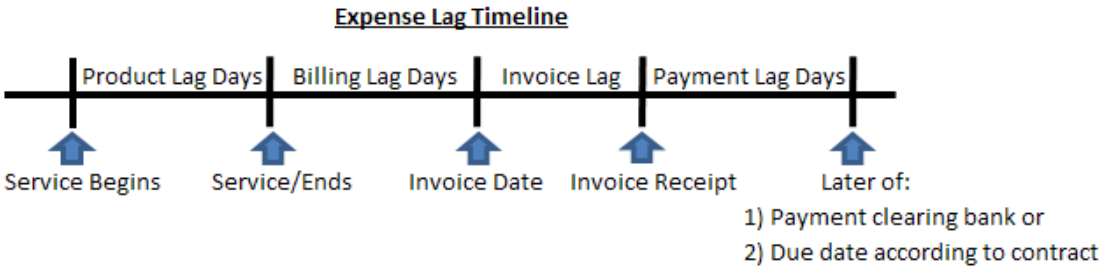
A. Yes. DPU Confidential Exhibit 7.1shows my adjustments to the lead lag study, while DPU Exhibit 7.2 shows my adjustments to the Company's capital additions forecast.

Q. Can you briefly explain cash working capital and how it is affected by a lead lag study?

A. Yes. In essence, cash working capital is the money supplied by investors to the Company to fund its daily operations. The investors then receive a return on the capital provided to the Company. The capital provided by investors is needed because the revenues received lag behind the payment of expenses used to provide service to customers. The amount of the net revenue lag (revenue lag – expense lag) is calculated using a lead lag study. This net revenue lag day is then multiplied by the daily cost of operation to arrive at the amount of capital investors must supply to the Company.

Q. Will you please describe in general how an expense lag is calculated?

A. Yes. The expense lag begins when the service to the customer is performed and ends on the later of when the Company's payment clears the bank or the due date of the payment according to contract. This total expense lag can be broken down into various parts as shown below.



The terminology or combination of lags in the diagram may be changed around but the main idea is that the expense lag begins with service and ends with payment at the appropriate time. In a perfect world, each of these individual lags would be calculated and the sum of them would be the total expense lag. It is difficult, however, to calculate precise individual lags. The Company, for example, has many suppliers and

receives thousands of invoices from those suppliers over the course of a year. Each invoice contains specific information as to the length of the service or delivery period. Because of the difficulty and time that would be needed to examine each invoice for this information, certain assumptions are made concerning the service period based on how often the Company is invoiced. If the Company is invoiced on a monthly basis a service lag of 15.2 (= 365/12 *.5) days can be used as a proxy for the length of delivery or service period. The Company has included this line of reasoning in much of its filing. One problem associated with this method is in determining the billing lag. Does the billing lag begin at the end of the month of service or at the mid-point during the month? In many cases the invoice date is before the end of the month and therefore would result in a negative billing lag if a monthly invoice frequency is assumed.

Q. Is there a second option for determining the total expense lag?

A. Yes. A second, more simplified method involves taking the difference between the appropriate payment date and the midpoint of the service period. This difference would be considered the total expense lag. The Company has used this method in calculating the tax payment lag.

Q. How did the Division conduct its audit of the lead lag study?

A. The Division requested bank statements, a sample of coal, natural gas, purchased power and other invoices as well as their corresponding contracts with suppliers to test the Company's lead lag day assumptions. In comparing the contract terms to the payment dates used by the Company, it was found that many times the Company was

paying earlier than what the contract specifies. DPU Exhibit 7.1 recalculates the appropriate payment date for each invoice in the sample chosen and is based on the contract terms applicable to the test period[AP1]. The payment date used was the later the due date in the contract or when the payment cleared the bank. I calculated the midpoint of the service period based on the invoice frequency as described in the contract payment terms from the Company's confidential response to DPU 20.1 and DPU 70.1[AP2]. I then took the difference between the midpoint of the service period the revised payment date to arrive at a new total expense lag. These revisions had the effect of lengthening the overall expense lag which decreases cash working capital.

Q. Were there any problems in the information provided by the Company to support what was in their study?

A. Yes**.** The Division requested the invoices to support specific coal line items on page 4.2.1-3 of the filed study. With one exception, the amounts taken from the invoices received from the Company did not match the line item amounts on page 4.2.1-3. [AP3] the filed study. In calculating the revised expense lags I could only use the invoices that were supplied to the Division. Based on those invoices I revised the Company's assumed payment date with the later of the payment date indicated by the contract or when the payment actually cleared the bank. For the natural gas, purchased power, Energy West, and Bridger lags I requested a sample of specific invoices, which the Company did provide. I recalculated the lag days using the midpoint method for just those specific invoices and did not apply a revised lag to the total population of

invoices for natural gas, purchase power, Energy West and Bridger. This should also be understood to be a conservative lengthening of the expense lag.

Q. Will you please summarize your lag day revisions?

A. Yes. The table below summarizes the expense lag revisions.

	DPU Revised	RMP
Coal	27.75	25.33
Natural Gas	42.13	42.04
Purchased Power	39.98	39.25
Wheeling	39.98	39.25

The specifics as to how these lags were calculated can be found in DPU Exhibit 7.1. A diagram of the flow of the information through the spreadsheet can be found on the "Expense Lag Flow" tab of DPU Exhibit 7.1.

Q. Are there other changes you would like make to the Company's expense lag?

A. Yes. After calculating the lag days for the several expense categories, the Company applied calendar year 2007 expenses and revenues to those lag days rather than calendar year 2009 forecasted expenses and revenues. Once the Commission rules and these revenues and expenses they should be applied to the study.

Q. Have you filed a revised lead lag study in its entirety?

A. No. DPU Exhibit 7.1 is a single excel file that only shows the specific revised portions of the study and their effect on the study as a whole. The "Page 2.1 Utah Summary" tab in DPU Exhibit 7.1 shows a summary of the effect on the cash working capital balance of changing the lead lag days and applying 2009 forecasted numbers. In summary, the revised expense lags are slightly longer because of the

revised payment dates. These dates were revised based on the terms of the contract and when the payments actually cleared the bank.

Q. Will you please describe your adjustment to the Company's forecasted capital additions?

A. Yes. The Company's rate base includes an electric plant in service (EPIS) component. This component is calculated using a 13 month average (December 2008 – December 2009). December 2008's EPIS balance is dependent on the capital additions and retirements, in the months before it. In order to arrive at a December 2008 EPIS balance, the Company used 6 months (July 2008 – December 2008) of forecasted capital additions. The Division requested and received the actual capital additions and retirements for that time period and has revised the Company's plant additions, plant retirements, depreciation expense, and accumulated depreciation adjustments for the test period. The inputs used for the capital additions, depreciation, amortization and retirements

Q. Do you use the exact actual capital additions the Company provided?

A. No. Dr. Powell has testified concerning the reduction of the Goodnoe Hills project. Accordingly, I adjusted the June 2008 wind generation plant balance by the $12 million proposed by Dr. Powell. In addition, I have also adjusted the Chehalis plant addition in September 2008. DPU Exhibit 7.2 shows how this adjustment to Chehalis was calculated. I have revised the plant acquisition discount by removing the Agreement from the purchase price. The Company has not demonstrated that these costs are not operation and maintenance expense related. The Division proposes to

amortize these costs over a 20-year period. I am also removing the proposed $13.7 million for Chehalis prepaid maintenance costs from rate base. The Company's response to DPU data request 65.1 states the following:

> The payment to Suez for $13.7 million is for amounts paid by Suez to the turbine manufacturer for services yet to be performed under a contractual services agreement for planned maintenance. Capital additions are associated with the fall 2008 and spring 2009 combustion inspection and hot gas path overhauls on units 1 and 2. Roughly $9.3 million was removed from the prepaid balance and capitalized in October 2008 for the fall overhaul. The remaining prepaid expense will carry forward and be applied to future planned maintenance.

This response indicates that $9.3 million was capitalized but does not state the specific capital additions involved. In addition, the Company's response to DPU data request to 47.1 contradicts the response above:

> In September approximately $316 million was booked for Chehalis and is pending FERC approval of final accounting. $10.2 million that was related to a prepaid overhaul, was booked to Account 101 in Dec.08.

It is not clear when the overhaul amount was capitalized and if it was or was not related to normal operation and maintenance expense. I also propose to amortize these costs over 20 years. In response to DPU data request 47.1, the Company also mentions there was $23,709,619 of unclassified plant at Chehalis from June 2008 through December 2008 that was not included in the actual plant additions to FERC account 101. I have included these unclassified plant items in the December 2008 balances as they are providing service to customers.

Q. Do you have any adjustments to the Company's January 2009 through December 2009 capital additions?

A. Yes. Both the Rolling Hills and Glenrock III wind plant did not come into service

until January 2009. In response to DPU data request 61.10, the Company provided a schedule indicating the actual wind additions for December 2008 and a revised forecast for the first 4 months of 2009. My calculations concerning this revised schedule are contained in DPU Exhibit 7.2. In response to DPU data request 68.2 the Company provided a response that indicated capital addition projects that came in earlier than expected. For example, the "Threemile Knoll Sub" project was anticipated to be placed in service in April 2009. Through December 2008 $48,613,023 of the $56,549,297 cost were already in service. I have therefore adjusted the Company's transmission addition forecast for April 2009. The response to DPU 68.2 indicates ten other projects that had costs placed in service earlier than expected. I have reduced the Company's January 2009 – December 2009 capital additions accordingly. These adjustments are explained in DPU exhibit 7.2 and are further represented in DPU Exhibits 3.11-3.14.

Q. Is there a tax effect of this adjustment to the capital additions?

A. There is a tax effect of this adjustment but only the Company's tax department would be able to provide it accurately. It is anticipated that the Company will provide this effect later.

Q. Does this conclude your testimony?

A. Yes.