I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND YOUR BUSINESS ADDRESS.

A. My name is Daniel E. Gimble. I am a special projects manager with the Office of Consumer Services (Office). My business address is 160 E. 300 S., Salt Lake City, Utah.

Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THE DESIGN PORTION OF PHASE II OF THIS DOCKET?

A. Yes. On August 4, 2010, I filed direct testimony on ECAM design issues and presented the Office's design recommendations.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THE DESIGN PORTION OF THIS PROCEEDING?

A. My testimony responds to certain issues raised by the design witnesses for the Division (Peterson), UAE (Higgins), UIEC (Brubaker) in their respective direct testimony and two issues discussed by Company witness Duvall in his supplemental direct testimony.

II. INCENTIVE ISSUES

Response to the Division's Design Proposal

Q. WHAT IS THE OFFICE'S OVERALL RESPONSE TO THE DIVISION'S APPROACH TO DEALING WITH INCENTIVE ISSUES?

A. The Office and the Division appear to share an ECAM design objective of ensuring management is sufficiently motivated to make planning and operating decisions that benefit customers. However, there are some fundamental differences between the Office's and Division's design proposals, especially in terms of the Division's proposed treatment of the threshold issues of market reliance (FOTs) and hedging. While the Division and the Office recommend the same 70%-30% cost sharing percentages be applied to net power cost variations approved for cost recovery, the Division proposes a more elaborate cost sharing schematic that includes a 2% dead-band, sharing limits and opportunities for the Company to increase sharing percentages (more costs recovered from customers) based on meeting certain market reliance and hedging milestones.

Q. PLEASE ADDRESS THE DIVISION'S 2% DEAD-BAND PROPOSAL.

A. The Office is somewhat neutral on the issue of whether a dead-band is a necessary component in the ECAM design. Our preference is to implement a simple 70%-30% cost sharing that would be directly applied to net power cost variations approved for cost recovery. If the Commission is inclined to favor a dead-band approach, we recommend it adopt a relatively narrow dead-band (1%-3%) and apply a 70%-30% cost sharing to variations in net power costs that fall on either side of the dead-band.

Q. DOES THE OFFICE HAVE ANY CONCERNS WITH THE DIVISION'S COST SHARING FORMULA AS IT RELATES TO ITS DEAD-BAND PROPOSAL?

A. Yes. The cost sharing formula indicated on page 19 of Division witness Peterson's direct testimony is as follows:

Ea = 98% x P x [(NPCa – NPCf) – (Ra – Rf)], where

Ea is the annual ECAM adjustment
98% reflects the 2% dead-band
P reflects the 70% of costs that flow to ratepayers
NPCa is the actual annual NPC
NPCf is the base NPC forecast approved in the last general rate case
Ra is actual annual revenue
Rf is the forecast revenue

The Division's cost sharing formula appears to erroneously allow the Company to only collect or refund 68.6% (98% x 70% = 68.6%) of variations in actual net power costs that fall above and below the 2% dead-band. In addition, Mr. Peterson's testimony fails to explain how its proposed revenue credit relates to its 2% dead-band. For example, if the variation in actual net power costs exceeded the dead-band but recognition of the revenue credit pushed the actual net power cost level back within the confines of the dead-band, would the result simply be no annual ECAM adjustment? The Office recommends that, if the Commission adopts the Division's proposed dead-band, then this formula should be corrected so that the Company collects or refunds 70% of actual net power costs that fall on either side of the 2% dead-band. I will address specific recommendations regarding the revenue credit issue in the load adjustment section of my testimony.

Q. PLEASE ADDRESS THE DIVISION'S PROPOSED "30% LIMIT" ABOVE AND BELOW THE LEVEL OF NET POWER COSTS ESTABLISHED IN BASE RATES.

A. The Division proposes that cost sharing operate when actual net power costs deviate from forecast levels by between 2% and 30%. If the deviation is greater than 30%, the Division recommends that cost sharing be temporarily suspended. A 30% variation in the current net power cost baseline figure of approximately $1 billion (system) amounts to about $300 million (system.) The Office believes that a variation in net power costs of that magnitude would indeed reflect extraordinary circumstances and the Company and/or other parties would likely move quickly to suspend or modify any sharing percentages in the ECAM design well before a 30% level was reached. Consequently, the Office does not support using a 30% limit for cost sharing purposes and recommends that any proposal to suspend or modify the established cost sharing percentages should be considered by the Commission on its own merits on a case by case basis in order to ensure that the Commission and interested parties have access to all the facts and evidence surrounding any extraordinary power cost event. Since there are no statutes or rules that would prevent a party from making a filing under extraordinary circumstances, the issue does not need to be explicitly addressed in ECAM design.

Q. PLEASE EXPLAIN THE DIVISION'S PROPOSAL TO ALTER ITS 70-30 COST SHARING PERCENTAGE BASED ON THE COMPANY'S COMPLIANCE TO MARKET RELIANCE AND HEDGING REQUIREMENTS.

A. The Division proposes increasing the sharing percentage to 80%-20%, if the Company meets two requirements: a pre-specified market reliance level of 7.0% by 2015; and a Commission-approved hedging program in place by 2015. Further, the sharing percentage could be increased to 90%-10%, if the Company reduces its market reliance to a level no higher than 5.5% by 2020.[1]

Q. ARE THE DIVISION'S PROPOSED MARKET RELIANCE TARGETS IN THE PUBLIC INTEREST?

A. No. While the Office shares the Division's concern about the relatively high levels of market reliance in the Company's 2008 IRP Update, this aspect of the Division's proposal does little to advance or protect the interests of Utah customers. The Office has consistently argued at each stage in this proceeding that the threshold issues of market reliance and hedging need to be thoroughly analyzed and resolved by the Commission prior to the implementation of an ECAM pilot. Market analysis should demonstrate one of three things - the Company's reliance levels are too high, low, or within a range of reasonableness.

[1]The proposal also allows any party an opportunity to recommend increases to the sharing percentage at higher FOT levels than the target levels.

By contrast, the Division proposes to proceed with the ECAM pilot, arbitrarily establish market reliance targets, and postpone analysis of the western market to 2015.[2] This approach is fundamentally flawed because it essentially requires the Commission to set FOT targets that are not analytically supported and delays a market study by the Company to the last year (2015) of the Division's recommended four-year, ECAM pilot period. The appropriate action for the Commission to take is to direct the Company to provide its market analysis in the near-term so that it can make an informed decision on market reliance issues in the context of the ECAM docket.

Q. IN ITS TESTIMONY, DID THE DIVISION FURNISH ANY MARKET ANALYSIS OR OTHER EVIDENCE TO SUPPORT ITS RECOMMENDED FOT TARGETS?

A. No. In lieu of market analysis, the Division relied on the FOT levels for certain years associated with the Company's 2008 IRP Update as proxy targets for 2015 and 2020.[3]

Q. IS THERE A PROBLEM WITH USING THE FOT LEVELS IN THE 2008 IRP UPDATE AS PROXY TARGETS FOR 2015 AND 2020?

A. Yes. In the 2008 IRP Update, a number of significant changes were made to the 2008 IRP "preferred portfolio" (5B CCCT Wet) in order to comport with PacifiCorp's 2010 Business Plan. This updated portfolio is actually referred to as the "2010 Business Plan Portfolio." It is important to note that the 2010 Business Plan Portfolio was not subjected to rigorous

[2] "The Division recommends that the Company complete a study of the risks and benefits of FOTs and file the study with the Commission at least 90 days prior to the application for a percentage increase in the sharing percentage in 2015." [Peterson Direct, pg. 15, lines 327-329] The Office would further note that the Commission recently directed the Company, as part of its 2011 IRP, to provide an analysis of the depth and liquidity of the western market to support the Company's proposed market purchase levels. [Commission's April 1, 2010 Order on PacifiCorp's 2008 IRP] The Division does not discuss how it's proposed "by 2015" timetable for a market study squares with the Commission's previous direction to the Company.

[3] See Peterson Direct, pg 15, lines 309-317.

deterministic and stochastic "case analysis," as normally occurs in a full IRP cycle to find a resource portfolio that best balances cost, risk and uncertainty.[4] Despite its ongoing concern about the high level of FOTs in PacifiCorp's resource mix[5], the Division simply accepts the unexamined FOT levels in the 2008 IRP Update for purposes of setting proxy targets for 2015 and 2020 in the ECAM design. This approach falls far short of evidentiary requirements that the Commission must rely on in determining whether the Division's proposed market reliance targets, and the potential adjustments to cost sharing levels associated with complying with those targets, are in the public interest.

Q. COULD HARDCODING MARKET RELIANCE TARGETS AT THIS TIME BE A STEP IN THE WRONG DIRECTION?

A. Yes. The Division's proposal to establish market reliance targets without performing the due diligence necessary to determine whether these FOT levels are reasonable may produce resource planning and procurement decisions that are not in the public interest. A comprehensive analysis of the depth and liquidity of the western market may demonstrate that the Company's market reliance levels fall within an acceptable range based on cost and risk considerations. The Office strongly urges the Commission to take an analytical approach to the market reliance issue in order to avoid resource outcomes that may not benefit Utah customers.

Q. THE DIVISION INDICATES THAT ITS PROPOSAL ADDRESSED ITS PUBLIC INTEREST CRITERION TO INCLUDE INCENTIVES TO BUILD PLANT RATHER THAN PURCHASE FOT POWER. DO YOU AGREE WITH THEIR ASSESSMENT?

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[4] According to the Company, the development of the 2010 Business Plan Portfolio was supported by the capacity expansion optimization model (System Optimizer) to determine timing and type of gas and FOT resources. [2008 IRP Update, pg. 5] For purposes of the 2008 IRP Update, the Office understands that no alternative cases were developed by the Company and subjected to deterministic and stochastic analysis.

[5] See page 5 of the Division's comments on PacifiCorp's 2008 IRP Update.

A. While the Division's proposal would incent the Company to build plant rather than purchase FOT power, the Office does not agree that such an incentive would be in the public interest. The Office has been concerned for some time that the Company may be over-reliant on market purchases, but we do not suggest that fewer FOTs is by definition better. The Office's position has consistently been that the Company should be required to support its market reliance strategy with adequate evidence. Requiring that FOTs be limited to arbitrary levels is just as likely to be contrary to the public interest as the Company having an over-reliance on market purchases. If the evidence shows a liquid and low-cost market, then the recommendations of the Division to meet specific FOT targets could unnecessarily raise rates.

Q. ARE THERE OTHER PROBLEMS WITH THE DIVISION'S PROPOSAL?

A. Yes. The Office is concerned about any proposal that significantly reduces the cost sharing mechanism. A sharing mechanism of 80-20 or 90-10 does not assign an adequate level of costs to the Company to address the incentive issues that have been raised by many parties in this proceeding. Those incentive issues are ongoing and must continue to be addressed by maintaining an adequate sharing mechanism, preferably 70 – 30, throughout the time that any ECAM is in place to provide some level of protection to ratepayers.

Q. WHAT KIND OF INCENTIVES SHOULD BE IN PLACE THROUGH AN ECAM?

A. The design should include incentives that don't bias for or against either market purchases or acquisition of resources. The Office believes that incentives should be in place for long-term planning that result in a least cost, least risk portfolio. However, as we have already explained, the Office does not believe that ECAM design can provide those types of incentives; these issues must be addressed through other processes.

This is why the Office has proposed that the appropriate level of market purchases be determined in a proceeding focused on such issues prior to the implementation of an ECAM.

Q. PLEASE ADDRESS THE DIVISION'S SECOND REQUIREMENT OF HAVING THE COMPANY'S HEDGING PROGRAM APPROVED BY THE COMMISSION BY 2015.

A. The Office strongly disagrees with the Division's approach of allowing hedging costs in an ECAM without first undertaking a comprehensive review of the reasonableness of the Company's hedging practices and obtaining guidance from the Commission. This second requirement implies that the Division is comfortable with delaying Commission guidance on or endorsement of the Company's hedging program for a number of years.

In Phase II, Part 1 of this proceeding, the Office recommended, based on the analysis and conclusions of its two hedging experts, that the Company's hedging practices required further investigation in a focused proceeding. Moreover, cross-examination of certain witnesses at the recent August 17, 2010 hearing clearly demonstrated that the Company had not provided regulators with a full picture of its overall hedging program and the impact of the Company's hedging practices on rates. This prompted the Division to file a post-hearing discovery set (DR Set 10) to the Company to acquire additional information on physical hedges and swap transactions for 2006-2010.[6] The Office submits the Division's proposal to allow hedging costs in an ECAM without first determining the costs and benefits of the Company's hedging practices and obtaining Commission guidance on the Company's hedging program, is contrary to sound public policy.

[6] The Company provided responses to DPU Set 10 (10.1 – 10.4) on August 27, 2010.

Q. ARE THERE FUNDAMENTAL PROBLEMS WITH THE PROPOSAL TO BEGIN THE EVALUATION OF THE HEDGING PROGRAM AFTER AN ECAM BEGINS?

A. Yes. Because of the nature of the Company's hedging program, it will take at least three years to see the impact from any changes to the program. Thus, if the current hedging program is found to be contrary to the public interest or inappropriate in a regime that includes an ECAM, then customers will incur hedging-related costs and risks in an ECAM without being able to realize any potential benefits from a change to the hedging for a number of years. Another potential problem could arise if the Company abruptly changed its hedging policies if and when it is granted an ECAM. In that situation, the increased volatility to customers would not be seen for a number of years and then would take additional time to remedy. The appropriate course of action is for the Commission to review the Company's hedging program at this time and provide the Company guidance regarding acceptable hedging parameters.

Q. PLEASE SUMMARIZE THE OFFICE'S PRIMARY CONCERNS WITH THE DIVISION'S ECAM DESIGN PROPOSAL AS IT RELATES TO THE THRESHOLD ISSUES OF MARKET RELIANCE AND HEDGING.

A. The Division proposes to hardcode market reliance targets for 2015 and 2020 without first providing the necessary market analysis and evidence for the Commission to determine whether or not such targets, and the proposed ECAM cost sharing levels ascribed to meeting those targets, are reasonable. By its proposal to allow hedging costs in the ECAM at this time, the Division also is asking Utah customers to assume the risks associated with hedging losses and gains in the Company's "trading book" absent a determination by the Commission of whether the Company's past hedging practices have benefited customers and what constitutes a reasonable hedging program going forward. Finally, the 70-30 cost sharing should not be modified over time for any reason to a level that reduces the Company's share of net power cost variations such that cost sharing is no longer an effective remedy to the incentive problems inherent to an ECAM.

Response to UIEC's Performance Standards Proposal

Q. PLEASE DESCRIBE UIEC'S PROPOSAL TO ESTABLISH PERFORMANCE STANDARDS.

A. In direct testimony, UIEC witness Brubaker proposes to set minimum performance standards associated with the operation of PacifiCorp's coal fleet, wind resources and coal mines. UIEC's objective is to guard against deterioration in the operating performance of relatively low cost resources under a regulatory regime that includes an ECAM.

Q. DOES THE OFFICE SHARE UIEC'S CONCERN THAT APPROPRIATE INCENTIVES SHOULD BE MAINTAINED UNDER A REGULATORY FRAMEWORK THAT INCLUDES AN ECAM?

A. Yes. As part of ECAM design, the Office considers it important to develop appropriate incentives to motivate management to operate and maintain resources in a least cost and reliable manner. That is precisely why the Office proposes the Commission adopt a 70%-30% sharing of net power costs approved for recovery through an ECAM. By having an economic stake in the outcomes of decisions to dispatch, maintain or upgrade plant, management should be focused on avoiding declines in plant performance levels.

Q. DOES THE OFFICE SUPPORT UIEC'S PROPOSAL TO ESTABLISH PERFORMANCE STANDARDS FOR A SELECT SET OF THE COMPANY'S RESOURCES?

A. Not at this time. UIEC's proposal is premature and may produce unintended consequences. For example, the Company could elect to run more expensive coal plants to meet performance targets during a year when relatively cheap hydro power is available or use excessive amounts of cost-of-service coal from its mines when market (spot) coal is less expensive. These kinds of decisions would not benefit Utah ratepayers.

Q. DOES THE OFFICE HAVE AN ALTERNATIVE TO UIEC'S PROPOSAL TO ESTABLISH PERFORMANCE STANDARDS?

A. Yes. As an alternative to UIEC's proposal, the Office suggests the Commission monitor key plant performance indicators and set a specific time within the pilot period to evaluate whether there has been a pattern of decline in plant efficiency, availability and maintenance under an ECAM compared to historical levels. With the input of interested parties, the Commission could establish specific data requirements and track the information required for a pre- and post-ECAM comparison. If the data indicate deterioration in plant performance that is contrary to the public interest, the Commission could consider implementing performance standards in the ECAM design.

III. LOAD ADJUSTMENT PROPOSALS

Q. PLEASE DESCRIBE THE LOAD ADJUSTMENT PROPOSALS OFFERED BY THE UAE AND THE DIVISION

A. UAE has developed a load adjustment factor ($/MWh) that reflects revenue margins related to generation and transmission. UAE calculates this factor to be $28.43/MWh and recommends applying it as a credit against net power costs, subject to a 70-30 sharing proposal. The Division proposes an incremental revenue adjustment that essentially reflects revenue margins associated with generation, transmission and distribution since the last rate case. Although the Division does not explicitly address its proposal in testimony, it presents a formula that appears to indicate a recommendation for a full incremental revenue offset to net power costs, subject to its 2% dead-band and 70-30 sharing proposal.

Q. DOES THE OFFICE SUPPORT EITHER APPROACH?

A. Conceptually, increases in Utah jurisdictional loads will drive increases in both sales revenue and net power costs. Since the increased revenues are providing additional contribution to rate base, it is entirely appropriate, to offset incremental net power costs with at least a portion of incremental sales revenue to produce a reasonable outcome for Utah customers. The Office submits that the $/MWh load adjustment factor proposed by UAE better matches the variations in net power costs that would possibly be recovered in an ECAM. The Office does not support the Division's approach which appears too broad, has not been well explained, and may have unintended consequences.[7]

Q. IS THE LOAD ADJUSTMENT FACTOR PROPOSED BY UAE SIMILAR TO AN APPROACH USED IN ANY OF THE COMPANY'S OTHER STATES?

A. Yes. UAE's proposal is patterned after the Idaho methodology.[8] In Idaho, the Commission recognizes a credit for generation revenue margins as an offset to net power costs included in the Company's ECAM. UAE's proposal expands the credit to include generation and transmission revenue margins.

IV. <u>REC REVENUE</u>

Q. PLEASE SUMMARIZE PARTY POSITIONS RELATING TO THE TREATMENT OF RENEWABLE ENERGY CREDIT (REC) SALES REVENUE.

A. In supplemental direct testimony, Company witness Duvall indicates that REC sales revenue has recently been large, volatile and difficult to predict.

[7] For example, in his direct testimony at page 19, Mr. Peterson sets forth the Division's design proposal in a formula but provides minimal explanation of his proposed revenue credit that is included in the formula. In addition, Mr. Peterson provides no examples to show potential impacts of variations in net power costs and revenues to test the validity of the formula.

[8] Higgins Direct, pg 20, lines 415-435.

Consequently, the Company proposes to include incremental REC sales revenue[9] in the ECAM dating back to February 18, 2010. Witnesses for the DPU and WRA-UCE recommend leaving REC sales revenue in general rates and not include incremental REC sales revenue in an ECAM. UAE witness Higgins appears to mainly focus on the incremental REC sales revenue for 2010 that is currently being booked in a REC deferral account. UAE states a preference to consider the incremental revenue accrued in the REC deferred account on its own merit in a ratemaking proceeding, regardless of whether or not an ECAM is adopted. However, UAE further recognizes that it is better to include incremental REC sales revenue as a credit in an ECAM (if one is ordered by the Commission) rather than not include any revenue contribution at all.

Q. BASED ON THE ABOVE OVERVIEW OF PARTY POSITIONS, IS IT THE OFFICE'S UNDERSTANDING THAT THERE ARE TWO ISSUES INVOLVING INCREMENTAL REC SALES REVENUE?

A. Yes, there are two distinct issues related to the treatment of incremental REC sales revenue in rates. First, there is the issue how to treat the REC sales revenue currently being tracked in the REC deferred account. This is the incremental revenue associated with the significant difference between the $18.5 million included in the last Utah rate case (09-035-23) and the $84.4 million stipulated to by the Company in Wyoming shortly after the Utah Commission issued its 2009 rate case order. Second, there is the issue of whether future incremental REC sales revenue should be included in an ECAM, if the Commission decides to proceed with an ECAM pilot.

[9] Incremental REC sales revenue refers to the variation in REC sale revenue from levels set in base rates.

Q. DOES THE OFFICE HAVE A POSITION AT THIS TIME ON HOW THE INCREMENTAL REC SALES REVENUE BOOKED IN THE DEFERRED ACCOUNT SHOULD BE TREATED?

A. The Office's view is that these revenues stem from a misstep in the regulatory process. As UAE witness Higgins explains in his direct testimony, the Company was aware of the substantial increase in REC sales revenue in 2009 that spilled over into 2010. By March 18, 2010 the Company had stipulated to a revenue estimate of $84.4 million in a Wyoming case, which was substantially higher than the forecasted amount in 2009 Utah rate case. Consequently, the revenue currently being accrued in the REC deferred account should be returned in a way that <u>maximizes</u> the benefit to Utah customers, <u>independent</u> of whether or not an ECAM pilot is ordered by the Commission.

Q. WHAT IS THE OFFICE'S POSITION ON THE TREATMENT OF FUTURE INCREMENTAL REC SALES REVENUE?

A. The Office recommends that future variations in REC sales revenue from levels set in base rates should be included in an ECAM, if a pilot is ordered by the Commission. Based on the magnitude of the "missed revenue forecast" in the last rate case, the Commission should include incremental REC revenue in an ECAM pilot and determine over the course of the pilot if REC sales revenue going forward appears to be relatively stable and predictable.

V. <u>WHEELING REVENUES</u>

Q. PLEASE SUMMARIZE THE OFFICE'S POSITION IN ITS DIRECT CASE ON WHETHER WHEELING REVENUES SHOULD BE INCLUDED IN AN ECAM.

A. The Office recommended that variations in wheeling revenues and costs should be treated consistently and should be included in an ECAM. With the ongoing expansion of PacifiCorp's transmission system through the

Gateway Project, the Company may be presented with new opportunities to wheel power and garner incremental revenue.

Q. DID ANY OTHER PARTY TAKE A POSITION ON THE TREATMENT OF WHEELING COSTS AND REVENUES AS PART OF THEIR DIRECT CASE?

A. Yes. In direct testimony, the Division takes the position that variations in wheeling revenues should not be included in an ECAM because they have historically been treated as separate from net power costs. In supplemental direct testimony, Company witness Duvall states the Company is not opposed to including variations in transmission wheeling revenues in an ECAM and that there would be no difficulty including wheeling revenues in the deferred net power cost account dating back to February 18, 2010.

Q. PLEASE RESPOND TO THE DIVISION AND COMPANY POSITIONS.

A. The Office opposes the Division's position on wheeling revenues and supports the inclusion of variations in wheeling revenues and costs in an ECAM. From a matching standpoint, it would be inconsistent to pass through only variations in wheeling costs to customers. Regarding the Company's position, the Office and the Company appear to be in agreement that it is reasonable to include incremental wheeling revenues in an ECAM for consistency purposes. The Office also supports the Company's proposal to recognize incremental wheeling revenues in the net power cost deferred account, which has entries dating back to February 18, 2010.

VI. OTHER ISSUES

Implementation of the Rolled-In Method

Q. ON LINES 549-583 OF DIRECT HIS TESTIMONY, UAE WITNESS HIGGINS DISCUSSES THREE ALTERNATIVE METHODS FOR IMPLEMENTING A ROLLED IN METHOD FOR DETERMINING UTAH REVENUE REQUIREMENT. DOES THE OFFICE HAVE ANY COMMENTS ON THESE ALTERNATIVES?

A. Yes. The Office views alternatives one and two as acceptable ways to implement a change to a rolled-in method for determining Utah revenue requirement because these approaches ensure that system hydro benefits match the system hydro risk allocated to Utah via an ECAM. However, the Office would agree with UAE that the third approach is sub-optimal and would result in a mismatch of hydro benefits with hydro risks for possibly an extended period of time.[10] Therefore, the Office opposes the third approach and recommends the Commission adopt an implementation approach that ensures Utah customers simultaneously receive the benefits and risks of the hydro system.

Return on Equity

Q. UAE AND WRA-UCE BOTH RECOMMEND THAT, IF AN ECAM IS IMPLEMENTED, THE RESULTING REDUCTION IN SHAREHOLDER RISK SHOULD BE RECOGNIZED BY THE COMMISSION IN SETTING THE LEVEL OF ROE IN FUTURE RATE CASES. DOES THE OFFICE AGREE WITH THIS RECOMMENDATION?

A. Yes. All other things equal, the advent of an ECAM should reduce shareholder risk. This reduction in risk should be considered by the Commission in awarding ROE in future rate cases.

[10]The period could possibly amount to 20 months, starting with the ECAM deferral on February 19, 2010 to the conclusion of the next rate case in September 2011.

Timing of General Rate Cases

Q. AS AN ADMINISTRATIVE MATTER, THE DIVISION RECOMMENDS THE BASE LEVEL OF NET POWER COSTS BE RE-SET AT LEAST EVERY THREE YEARS IN A GENERAL RATE CASE. DOES THE OFFICE AGREE WITH THE CONCEPT OF PERIODIC RATE CASES TO EXAMINE AND RE-SET THE BASE LEVEL OF NET POWER COSTS?

A. Yes. The categories that comprise net power costs (e.g., fuel, purchased power, wheeling, etc.) make up a significant portion of the Company's cost of doing business. With the approval of an ECAM, variations in net power costs from base levels will potentially flow through a pass-through account. Therefore, it makes sense to examine and re-set net power costs every three years to maintain a relatively current base level.

VII. RECOMMENDATIONS

Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS.

A. The Office continues to recommend that an ECAM not be adopted as it has not been demonstrated to be in the public interest. In particular, the two issues of market reliance and hedging must be resolved prior to evaluating whether any ECAM design is in the public interest. However, the Office has also provided recommendations on certain design elements that would need to be included to ensure that an ECAM design overcomes some of the incentive problems inherent to any ECAM. In this rebuttal testimony, the Office addresses several of the design recommendations of the other parties as follows:

1) The Office is somewhat neutral on the Division's proposal to include a dead band. However, if the Commission approves such a design element, it must make certain that the design formula used results in the intended outcome.
2) The Office opposes the Division's proposal to cap the sharing mechanism at 30% deviation from forecast. If an extraordinary power

cost event occurs, recovery should not automatically be granted to the Company. Rather, such situations should require a separate filing and consideration of all facts and evidence on a case by case basis.

3) The Office opposes the Division's proposal to set targets for reducing the Company's reliance on FOT purchases. Such targets are arbitrary and may not be in the public interest. Instead, the Commission should require a comprehensive analysis and evaluation of the appropriate level of market reliance.

4) The Office opposes the Division's proposal to begin evaluation of the Company's hedging program after an ECAM is implemented. Because the impacts of changes to the hedging program would not be realized for at least three years, this could result in increases in risk being borne by customers without any potential for increases in benefits for a significant time period.

5) The Office opposes the Division's proposal to ramp down the cost sharing percentages, irrespective of our opposition to the specific market reliance and hedging milestones proposed by the Division. A significant cost sharing (preferably 70 – 30) must remain in place to ensure proper incentives for the Company.

6) The Office opposes UIEC's proposal to establish performance standards at this time. Alternatively, the Office suggests the Commission monitor plant performance and set a specific time within the pilot period to evaluate whether there has been a pattern of decline in plant performance levels. If the data indicate deterioration in plant performance that is contrary to the public interest, the Commission could consider implementing performance standards in the ECAM design.

7) The Office agrees with the Company's proposal to include future variations in REC sales revenue in an ECAM. Further, the REC sale revenue currently being accrued in the REC deferred account should be returned in a way that maximizes the benefit to Utah customers,

independent of whether or not an ECAM pilot is ordered by the Commission.

8) The Office agrees with the Company's proposal to include transmission wheeling revenues in an ECAM. Variations in wheeling revenues and costs should be treated consistently for ratemaking purposes.

9) The Office agrees with UAE's primary proposal that the transition to a rolled-in determination of Utah revenue requirement should occur on the same timeline as ECAM balances are collected from customers in a pass-through charge. This ensures the benefits of the hydro system match the risks of the hydro system as reflected in an ECAM.

10) The Office agrees with UAE and WRA-UCE that future ROE awards should reflect the reduced risk to shareholders resulting from implementation of an ECAM.

11) The Office agrees with the Division's proposal that the base level of net power costs be re-set at least every three years in a general rate case.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THE DESIGN PORTION OF THE CASE?

A. Yes it does.