

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Samuel C. Hadaway. I am a Principal in FINANCO, Inc., Financial
3 Analysis Consultants, 3520 Executive Center Drive, Austin, Texas 78731.

4 **Q. On whose behalf are you testifying?**

5 A. I am testifying on behalf of Rocky Mountain Power (hereinafter RMP or the
6 Company).

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

8 A. I have a Bachelor's degree in economics from Southern Methodist University, as
9 well as MBA and Ph.D. degrees with concentrations in finance and economics
10 from the University of Texas at Austin (UT Austin). I am an owner and full-time
11 employee of FINANCO, Inc. FINANCO provides financial research concerning
12 the cost of capital and financial condition for regulated companies as well as
13 financial modeling and other economic studies in litigation support. In addition to
14 my work at FINANCO, I have served as an adjunct professor in the McCombs
15 School of Business at UT Austin and in what is now the McCoy College of
16 Business at Texas State University. In my prior academic work, I taught
17 economics and finance courses and I conducted research and directed graduate
18 students in the areas of investments and capital market research. I was previously
19 Director of the Economic Research Division at the Public Utility Commission of
20 Texas (Texas Commission) where I supervised the Texas Commission's finance,
21 economics, and accounting staff, and served as the Texas Commission's chief
22 financial witness in electric and telephone rate cases. I have taught courses at
23 various utility conferences on cost of capital, capital structure, utility financial

24 condition, and cost allocation and rate design issues. I have made presentations
25 before the New York Society of Security Analysts, the National Rate of Return
26 Analysts Forum, and various other professional and legislative groups. I have
27 served as a vice president and on the board of directors of the Financial
28 Management Association.

29 A list of my publications and testimony I have given before various
30 regulatory bodies and in state and federal courts is contained in my resume, which
31 is included as Appendix A.

32 **Q. What is the purpose of your testimony?**

33 A. The purpose of my testimony is to respond to the comments of Division of Public
34 Utilities (Division) witness Mr. Charles E. Peterson and Utah Association of
35 Energy Users (UAE) witness Mr. Kevin C. Higgins concerning an alleged effect
36 on the allowed return on equity (ROE) that should result from the adoption of an
37 Energy Cost Adjustment Mechanism (ECAM).

38 **Q. What are these witnesses recommendations concerning an ECAM's effect on**
39 **allowed ROE?**

40 A. In their Phase II testimony filed August 4, 2010, they both offer brief comments
41 concerning the effect that an ECAM might have on ROE. On page 22, in footnote
42 12, Mr. Peterson says that the Division might consider accepting the Company's
43 original ECAM proposal if the Company recognized its risk-reducing effect,
44 which "...should result in a significant reduction in authorized return on
45 equity...." On pages 37-38, in his final question and answer, Mr. Higgins adds a
46 recommendation that the adoption of an ECAM should result in a lower ROE.

47 Neither witness provides any other comments concerning an ECAM's effect and
48 neither provides any analysis of what the effect would be.

49 **Q. What is your response to Mr. Peterson's and Mr. Higgins' comments?**

50 A. Their recommendations should not be accepted. I demonstrated in my Rebuttal
51 Testimony in RMP's prior rate case (Docket 09-035-23) that all the companies in
52 the comparable group that I and Office of Consumer Services (OCS) witness Mr.
53 Daniel J. Lawton used to estimate ROE already have ECAMs in place. I
54 explained in that testimony that to apply a further reduction to ROE to account for
55 an ECAM would, therefore, amount to double-counting any risk reduction that
56 might result. The comments of Mr. Peterson and Mr. Higgins in this case about
57 reducing ROE are not supported by any analysis or any other consideration for
58 how the allowed ROE is established. Based on the fact, which I will demonstrate
59 below, that all the comparable companies used by RMP and the Division to
60 estimate ROE already have ECAMs in place, Mr. Peterson's and Mr. Higgins'
61 recommendations should not be accepted.

62 **Q. Have you prepared an exhibit that shows the status of ECAMs for the**
63 **comparable companies that RMP and the Division used to estimate ROE in**
64 **the prior rate case?**

65 A. Yes. Exhibit RMP____(SCH-Phase II-2-1R) provides that comparison. The data
66 in that exhibit were taken from each individual company's 2009 Form-10K filed
67 with the U.S. Securities and Exchange Commission. The data show by operating
68 company and by state jurisdiction the ECAM status. The result is that all the
69 comparable companies used by myself on behalf of RMP or by Mr. Peterson on

70 behalf of the Division already have ECAMs in place. Under these circumstances,
71 no reduction to RMP's allowed ROE should be applied as a result of the adoption
72 of an ECAM in this docket as any ROE impact would already be accounted for in
73 the normal estimation of the ROE using the comparable company approach.

74 **Q. Is the Company providing additional evidence of the nature of the ECAMs**
75 **for the companies included in Exhibit RMP___(SCH-Phase II-2-1R)?**

76 A. Yes. Dr. Karl A. McDermott provides more information regarding the nature of
77 the ECAM for each of these companies in his Rebuttal Testimony Exhibit
78 RMP___(KAM Phase II-2-3R).

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

80 A. Yes, it does.