**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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| **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** | ) ) ) ) ) ) ) ) ) | **<u>Docket No. 09-035-23</u>**<br><br>**<u>DPU Exhibit No. 8.0</u>** |

**Direct Testimony of**

**Brenda Salter**

**For the Division of Public Utilities**

**Department of Commerce**

**State of Utah**

**October 8, 2009**

**P U B L I C**

## 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. As a Utility Analyst, among other things I examine public utility financial data for determination of rates and review applications for rate increases. I also research, examine, analyze, organize, document, and establish regulatory positions on a variety of regulatory matters, review operations reports, evaluate compliance with laws and regulations, testify in hearings before the Utah Public Service Commission ("Commission"); and assist in the 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 4.15, Environmental Settlement, PacifiCorp Environmental Remediation Company (“PERCO”) 8.4, Green Tag Revenue 3.5, and my review and adjustment to the Non-Labor Administrative and General Expense Federal Energy Regulatory Commission (“FERC”) Account 904. In addition to reviewing the above, I also reviewed Mr. McDougal’s adjustments to SO2 Emissions Allowance 3.4, Affiliate Management Fee MidAmerican Energy Holdings Company (“MEHC”) 4.8, Advertising Expense 4.10, Utah Distribution Expense 4.12, Western Electricity Coordinating Council (“WECC”) fees 4.14, Utah Automated Meter Reading Savings 4.18 and Customer Service Deposits Exhibit 8.6. Finally, I completed a review of the following FERC accounts to evaluate fluctuations in Company spending: Accounts 500 through 598, Accounts 901 through 910 and Accounts 920 through 935.

**Q. Please provide an overview of your adjustments.**

**A.** My adjustment to generation overhaul expense is based on the Commission’s decision in Docket No. 07-035-93 and decreases Mr. McDougal’s generation overhaul expense by

$3,478, 446 (total company) from its current level of $35,865,017 to $32,386,571[1]. This results in a decrease to generation overhaul expense on a Utah basis of $1,430,685. My next adjustment decreases Mr. McDougal's rate base PERCO adjustment by $3,356,423 (total company) with a Utah allocated decrease in the amount of $158,587. I propose an increase in total company revenue based on a change to Mr. McDougal's Green Tag Incremental Wind Revenue adjustment in the amount of $4,531,083. Utah's allocated adjustment results in a $1,863,658 increase in revenue. My final adjustment applies to FERC account 904, uncollectible accounts that results in a Utah uncollectible expense adjustment of $1,542,930.

## 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 4.15, 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 realize the planned capacity and reliability of those plants. The age of plant equipment, as well as the addition of more generating units to augment plant capacity, affects the calculation of this adjustment. Ideally, the overhaul expenditure adjustment should

[1] Consistent with Mr. McDougal's adjustment to the Overhaul Budget found on page 4.19.4, this 4-year average has been escalated using escalation indices from Mr. McDougal's adjustment page 4.3.8.

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?**

A. The Company's proposed generation overhaul expense is $36,040,106 (total company) for the June 2010 test year[2].

**Q. Please describe the calculation of this adjustment.**

A. The Company's calculation uses calendar year overhaul expenses for the previous four calendar years, January 2005 through December 2008 (12 months ended December 2005, 12 months ended December 2006, 12 months ended December 2007, and 12 months ended December 2008), and inflates the 2005, 2006, and 2007 data to a December 2008 level using escalation indices. Once escalated, the four years, including the 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 these plants do not have operational data dating back four years. Currant Creek has two years of actual accumulated operating data and Lake Side has one year. The adjustment for Currant Creek uses two years of actual operating data and two years of 2009 budgeted data adjusted to 2008 levels using a deflation rate. The Company escalated the 2007 Currant Creek data to a 2008 level using escalation indices, and then averaged the four years. Similar to Currant Creek, Lake Side has one year of actual data that is used along with three years of 2009 budgeted data deflated to a 2008 level that is averaged over a four year period. The Company uses a four-year average of the 2009 budgeted data for Chehalis for years 2009, 2010, 2011, and 2012,

[2] Prior to McDougal Exhibit RMP___(SRM-2) 4.3 O&M Expense Escalation.

de-escalates the expenses to 2008 dollars and then averages them.[3] Once the average has been established at a 2008 level under the above cases, Mr. McDougal's Adjustment 4.3 escalates the average to June 2010 dollars. This escalated average is one of the adjustments made to Mr. McDougal's Target Adjustment 4.19 shown on page 4.19.3. The budgeted generation overhaul expense has been removed from Mr. McDougal's target adjustment and the escalated four year average has been used as the new target amount.

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

A. My explanation for my adjustment to the generation overhaul expense is based on a similar approach I recommended in my testimony in Rocky Mountain Power's recent rate case Docket No. 08-035-38[4] and is also in accordance with the Commission's Order in Docket No. 07-035-93.

**Q. You state that your adjustment in this case is "based on a similar approach" to your overhaul expense adjustment in the Company's 2008 rate case. Please explain any differences.**

A. In calculating the generation overhaul expense, I reviewed Mr. McDougal's adjustment page 4.15.2 and had questions on some of the costs found on the schedule "New Generation Units." It was noted that the budgeted 2009 generation overhaul costs for the Currant Creek and the Chehalis plants appeared to be high at $8.4 million and $2 million respectively. In DPU data request 5.1(3), the Division asked for the actual overhaul costs to date. In its supplemental response to DPU DR 5.1(3) received September 23, 2009, the Company estimates that actual 2009 overhaul costs for the Current Creek and the Chehalis

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[3] McDougal Exhibit RMP__(SRM-2) Generation Overhaul Expense, Page 4.15.2.
[4] See DPU Exhibit 8.0 @ line 71 where I made the adjustment to remove the Company's proposed escalation prior to averaging.

plants as of July 31, 2009 total $2.855 million and $1.769 million respectively. This amount includes actual 2009 overhaul costs up to and including July 31, 2009 along with budgeted costs to the end of the year. The Current Creek plant has budgeted costs associated with the Hot Gas Path Overhaul Project and Stop Valve/Control Valve Rebuild Project in the amount of $2.04 million. Both of these projects are scheduled to be completed in the fall of 2009. Chehalis has no further overhaul costs planned for 2009.[5]

**Q. What additional adjustments did you make to Mr. McDougal's page 4.15.2?**

A. Mr. McDougal escalated the actual Current Creek generation overhaul for the 2007 calendar year to the December 2008 level using inflation indices. Consistent with the Commission's Order in Docket No. 07-035-93, I have removed that escalation prior to averaging.

**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 $32,845,462. This decreases the total company adjustment by $3,494,644 and $1,437,362 for Utah's allocated share of the adjustment.

**Q. Generation Overhaul is one of the adjustments made to Mr. McDougal's "Adjustment O&M to 2009/2010 Target" page 4.19.3 ("Target"). Please explain the effect of your adjustment to the Target adjustment.**

A. Mr. McDougal removed the 2009/2010 Budgeted generation overhaul expenses from the "Target" adjustment and replaced it with the four year average adjusted for inflation. The

[5] DPU data request response 8.7.

Company's escalated four year average of generation overhaul costs was escalated to June 2010 dollars as follows:

**Company's Adjustment escalated**

| | McDougal 4.15.1 | Escalation rate from McDougal 4.3 | McDougal 4.19.3 |
|---|---|---|---|
| 4 year Average of Overhauls | | | |
| Steam | 28,429,273 | 0.99465745 | 28,277,388 |
| Other Generation | 7,610,833 | 0.99695122 | 7,587,629 |
| | 36,040,105 | | 35,865,017 |

The Division's four year average was escalated as follows;

**Division's Adjustment escalated**

| | Division 8.1.1 | Escalation rate from McDougal 4.3 | Division's Adjustment |
|---|---|---|---|
| 4 year Average of Overhauls | | | |
| Steam | 26,012,394 | 0.99465745 | 25,873,421 |
| Other Generation | 6,533,068 | 0.99695122 | 6,513,150 |
| | 32,545,462 | | 32,386,571 |

The effect of this adjustment on the "Target" adjustment is to decrease total company Generation Overhaul by approximately $3,478,446 and Utah's allocated share of revenue requirement by approximately $1,430,685. The Division's witness Matthew Croft in Exhibit 7.3 applies this adjustment to the Company's "Target" adjustment.

**ENVIRONMENTAL SETTLEMENT (PERCO)**

**Q. Please explain your reasoning for the PERCO adjustment.**

A. The Company's estimates on various PERCO projects are significantly different than the actual spending levels that have occurred in the last few rate cases. Total PERCO funds estimated to be spent in the Company's rate case Docket No. 08-035-38 filed July 2008 for the test year ending June 2009 were $6.4 million. Actual funds spent in the 18 months ended June 2009 were $3.2 million. The Company is estimating that, in the calendar year 2009, $6.3 million will be spent. However, actual spending for the period January 2009 through July 2009 is $1.2 million, or an annualized level of $2.1 million. Between the period January 1 through July 31, 2009, the Company spent 19% of its estimated 2009 PERCO pro forma allocation. In order for the Company to meet the pro forma PERCO spending targets, the remaining 81% of these funds would need to be spent in the last 5 months of the year. This does not appear to be likely given previous spending patterns.

**Q. Do you have a specific example of PERCO estimates exceeding actual costs?**

A. Yes, one example is the Bridger FGD Pond 1 Closure. In the Company's general rate case Docket No. 08-035-38 filed July 2008, the pro forma amount of $2.2 million was estimated for the Bridger FGD Pond 1 Closure. The actual dollars spent for the 12 months ended June 2009 was $118,158.[6] Actual spending was 5% of the estimated spending.

**Q. Did you investigate further the reasoning behind this difference?**

A. Yes, in the 2008 rate case the Division sent data request 26.7, which asked for environmental remediation information regarding the Bridger FGD Pond 1 Closure. In the Company's response titled DPU Data Request 26.7(2), the pond closure was conditionally approved pending a closure plan and "Chapter 3 Permit to Construct" the pond cover.

[6] McDougal 8.3.2 Docket No. 08-035-38 and DPU data request response 8.6 Docket No. 09-035-23.

Final approval had not been given to the project at that time. Subsequent to the above data request response, the Company filed its 2nd Supplemental Testimony in December 2008. In Supplemental Testimony page 8.3.2, Mr. McDougal removed the majority of the estimated costs associated with the pond closure.

**Q. Given your reasoning and the above example, what do you propose for an adjustment to the PERCO account?**

A. As shown in the table below, the Division believes a three- year average is a better representation of the costs associated with the various projects in the PERCO fund for 12 months ended June 2010.

| PERCO Spending CY 2006[7] | PERCO Spending CY 2007[8] | PERCO Spending CY 2008[9] | **3 Year Average/ June 2010** |
|---|---|---|---|
| 2,625,184 | 1,478,413 | 2,706,522 | 2,270,040 |

The Division calculated the beginning/ending average using the actual dollars remaining in the PERCO fund at June 2009[10] and the estimated dollars remaining in the fund at June 2010, DPU Exhibit 8.2, to come up with the adjustment to rate base of $3,294,088 total company. This results in a reduction to Utah revenue requirement of $158,587.

**UNCOLLECTIBLE ACCOUNTS EXPENSE - FERC ACCOUNT 904**

[7] ROCKY MOUNTAIN POWER Utah Jurisdiction Results of Operations For Period Ending December 2006.
[8] ROCKY MOUNTAIN POWER Utah Jurisdiction Results of Operations For Period Ending December 2007.
[9] ROCKY MOUNTAIN POWER Utah Jurisdiction Results of Operations For Period Ending December 2008.
[10] DPU data request response 8.6.

**Q. The Company has proposed a Utah situs expense amount of $5,178,265[11] as a reasonable and ongoing level for its FERC Account 904 Uncollectible Accounts Expense. Do you agree with this amount?**

A. No.

**Q. Please explain what adjustments are needed to bring this account to a more reasonable level.**

A. My adjustment would decrease the test year uncollectible expense by $1,542,930, Utah situs. The Company is proposing a gross-up factor of 0.352% as shown on page 1.3 Exhibit RMP__(SRM-2). This percentage is calculated using the June 2010 pro forma results for uncollectible expenses divided by the June 2010 pro forma results for general business revenues.

**Q. What does this gross-up factor not take into account?**

A. The June 2010 pro forma uncollectible expense is based on a percentage increase to the base year 2008 actual uncollectible expense. What this calculation does not adequately account for is the unforeseen events that have taken place in the economy over the last 21 months.[12]

**Q. Please explain your reasoning.**

A. Lets look at the Utah situs actual uncollectible expenses from the 2006 and 2007 calendar years. In 2006, the uncollectible rate from write-offs and recoveries was 0.216%, and in 2007 the Utah situs uncollectible rate was 0.213%.[13] Then, in 2008 the Utah situs

[11] McDougal Exhibit RMP___(SRM-2) page 2.12.
[12] National Bureau of Economic Research, http://www.nber.org/cycles/dec2008.html, Accessed September 16, 2009.
[13] Master Data Request response 2.37.

uncollectible rate jumped by 47% to an unprecedented rate of 0.312%. The Company is proposing extending this increased rate into the 2010 year.

**Q. What is your understanding of what the Company believes is an appropriate uncollectible rate?**

A. The Office of Consumer Services Data Request 16.10(b) requested of the Company its targeted uncollectibles rate. The Company's response is as follows:

> *Rocky Mountain Power has a targeted uncollectible rate of 0.27% of retail revenue. The targets are set for Rocky Mountain Power and not at the state level.* Chartwell recently released their benchmarking results for net write-off percentage compared to retail revenue. The benchmarking result showed that the electrical industry average for 2008 uncollectible rate was 0.68% of retail revenue. [Emphasis added]

Rocky Mountain Power's actual uncollectible rate (write-offs and recoveries divided by retail sales revenue) for the following years were: 2006 = 0.288%; 2007 = 0.272%; and 2008 = 0.353%. The first two years are in line with the Company's target uncollectible rate whereas 2008 is 31% above the target.

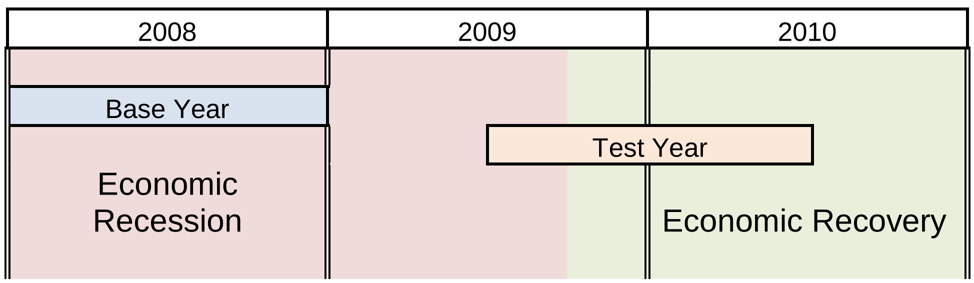
**Q. Do you believe the Company's proposed Utah situs rate of 0.356% is appropriate for the June 2010 test year?**

A. No.

**Q. Please explain.**

A. In his testimony Exhibit 1.0 beginning on page 7, Division Witness Mr. Charles Peterson gives a review of the current economic situation. In his review he cites many factors that point to the beginning of a recovery both in Utah and the country as a whole, although caution is given that the recovery could be sluggish. While a full recovery may not be fully realized at this date, the economy for the test year is not predicted to be in the same state as it was during the base year.

The U.S. economy officially entered a recession in December 2007.[14] As you can see from the graphic below, the base year is encompassed by the recession. The third quarter of 2009 shows a slight recovery and predictions for a recovery in the 2010 year are favorable. As shown, the Company's test year is included in this recovery period.

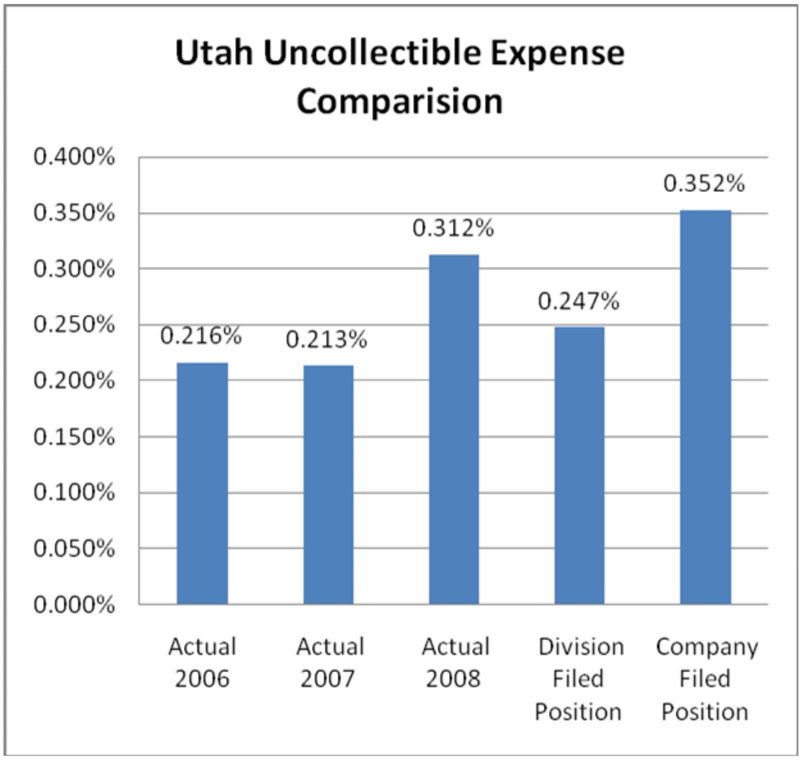



**Q. What is your proposed level of Utah uncollectible expense for the test year?**

A. Because the base year was considered abnormal, the Division is proposing to normalize the uncollectible expense by taking a 3-year average of the actual Utah uncollectible expense as a percentage of general business revenues. This results in a Utah uncollectible expense of 0.247%. Applying this percent to the Company's June 2010 general business revenues gives an uncollectible expense for the test year of $3,635,335. My adjustment results in a decrease to Utah uncollectible expense in the amount of $1,542,930.

As shown in the graphic below, the Division's position is more in line with the actual uncollectible percentages for the years 2006 and 2007 and is a better representation of the expected expense for the test period.

[14] National Bureau of Economic Research, http://www.nber.org/cycles/dec2008.html Accessed September 16, 2009.




**GREEN TAG REVENUE**

**Q. Please describe your adjustment to green tag revenue.**

A. My adjustment to green tag revenue stems from Mr. McDougal's adjustment 3.5, green tag revenue. I propose an adjustment to the sales price of green tags per MWH sold as presented in Mr. McDougal's Testimony RMP__(SRM-2) page 3.5.2. Renewable Energy Certificates (REC), also known as green tags, are tradable environmental commodities that represent proof that energy was generated from an eligible renewable source. RECs can be sold separately from the energy generated or they can be retained to meet renewable portfolio standards (RPS). My adjustment to the green tag revenue specifically addresses the incremental wind green tag revenue from the base period to the test period June 2010.

**Q. What does the Company propose for the green tag revenue for the June 2010 period?**

A. The Company proposes a green tag sales price per MWH of $3.50. This results in an incremental adjustment in the amount of $3,650,388 with a re-allocation adjustment of $1,479,896 consistent with the Multi-State Process (MSP) Agreement (total company).

**Q. Please describe how the Company calculated the green tag sales price of $3.50.**

A. The Office of Consumer Services asked in data request 5.6(c) for details of the Company's calculation of the green tag price used in this case [redacted]

**Q. Do you agree with the green tag sales price as proposed by the Company?**

A. I do not agree with the Company's proposed green tag sales price for a couple of reasons. The first and foremost reason is the period for which the Company's data cover. Both sources cited in response to OCS 5.6(c) are historic trade information from 2006 and 2007. The data are prior to the Company's base period, and given the Company's choice of a forecasted test period, makes the estimate for June 2010 even more out of line. These data do not give a good estimate of what the Company will experience in the test period. The second reason for disagreeing with the Company's proposed price is its choice to use "market" information. Instead of using actual Company sales of Green Tags, the Company has calculated the Green Tag Sales price using industry averages. The actual data provides a more accurate picture of sales experienced by the Company.

**Q. Please explain how you calculated the green tag sale price**.

A. The Division believes it is more appropriate to use 2008 actual REC purchases for the green tag sales price. A good representation of actual 2008 REC purchases is the annual filing of the Rocky Mountain Power's 2008 Annual Report of the Blue Sky Program. The 2008 filing includes data on actual REC purchases and the REC purchase price for areas in the Northwest. The Amendment to Rocky Mountain Power's 2008 Annual Report of Blue Sky Program provided an additional source of REC purchases and purchase price, the Spanish Fork Wind Park located in Utah, for the 2008 program. A weighted average of the REC sales and sales price found in both the Annual Report and the Amendment to the Annual Report was calculated to get an average sales price for green tags of $5.27.[15]

**Q. Is there support showing the average sale price of green tags is increasing?**

A. Yes. A review of the Company's September 2006 through August 2007 Annual Report of the Blue Sky Program shows a weighted average for REC sales priced at $4.39. The calendar year 2007 had a weighted average of $4.51.

**Q. What is the effect of your adjustment to green tag revenue?**

A. My adjustment (DPU Exhibit 8.4) to the green tag revenue increases revenues in the amount of $4,531,093 (total company) and $1,863,658 for Utah's allocated share.

**Q. Does this complete your testimony?**

A. Yes.

[15] See DPU Exhibit 8.4.2 for the prices that went into the average.