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. 09-035-23** **DPU Exhibit No. 5.0**

Direct Testimony of

Joseph Mancinelli

For the Division of Public Utilities

Department of Commerce

State of Utah

October 8, 2009

I. INTRODUCTION

Q. Please state your name and occupation.

A. My name is Joseph Mancinelli. I am employed by R. W. Beck as Vice President of Management and Economic Consulting practice.

Q. What is your business address?

A. 1801 California Street, Suite 2800, Denver, Colorado, 80202.

Q. On whose behalf are you testifying?

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

Q. Please describe your position and duties with R. W. Beck?

A. I am a Vice President of R. W. Beck's Management and Economic Consulting Practice with more than 20 years of experience in the areas of cost-of-service and rate design for electric, water, wastewater, and natural gas utilities. I have taught numerous classes on cost-of-service and rate design methodology, including a cost of service and rate design course for Electric Utility Consultants, Inc (EUCI). I have considerable experience in approved industry methodologies adopted by the National Association of Regulatory Utility Commissioners (NARUC), the American Public Power Association (APPA), and I regularly speak at conferences across the country on cost-of-service and rate issues.

Q. Please describe your education and work experience.

A. I have a Master of Business Administration from University of Colorado, where my emphasis was in finance. Prior to this, I earned a Bachelor of Science degree from Colorado School of Mines in Geophysical Engineering.

A copy of my resume and testimony presented in various regulatory arenas is attached as DPU Exhibit 5.1.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your Testimony?

A. The purpose of my testimony is two-fold. First, to recommend functionalization and allocation adjustments to the Rocky Mountain Power (RMP) cost of service analysis, and second to propose a rate spread for each rate class taking into consideration cost of service results and the significant rate subsidy afforded to Contracts A, B, and C.

Q. Mr. Mancinelli, have you reviewed RMP's proposed cost of service analysis as sponsored by RMP's Witness Mr. Paice?

A. Yes, I have. Specifically I have reviewed the following two RMP models in Excel.

- 09-035-23 Mr. Paice Prefiled Direct Class Cost of Service Testimony for RMP – Exhibit RMP-(CCP-3) Workpaper – Tab 2-UT JAM-JU.xls
- 09-035-23 Mr. Paice Prefiled Direct Class Cost of Service Testimony for RMP – Exhibit RMP-(CCP-3) Workpaper – Tab 4 and 5-COS UT.xls

Q. Have you reviewed any other cost of service (COS) models provided in this case?

A. Yes, I have. In addition to RMP's COS model, I have reviewed a similar model developed by Dr. James Logan of the Utah Public Service Commission staff and made available in this docket. Dr. Logan's model (Logan Model) has been reviewed by RMP, and RMP has concluded that the Logan Model is an alternative model that renders the same results as the RMP cost of service model. Both models use Excel as the primary software tool, however, the advantage of the Logan Model is that it calculates class cost of service using Excel

formulae that are easy to follow and verify. Changes are easy to make in the Logan Model and error checking is more straightforward. Conversely, the RMP model relies on a complex series of macros that cut and paste calculated results into a variety of tables and exhibits. As a result, it is extremely difficult to trace cost of service results through the RMP's model to verify accuracy and soundness of logic. Also, making changes to the RMP model may create errors that are hard to find, as the logic is not transparent.

Q. Which of these two models have you relied upon in formulating and presenting your suggested changes to the RMP cost of service analysis?

A. Although I have reviewed the RMP COS model and the jurisdictional allocation model (JAM), I have relied primarily upon the Logan Model, which is much easier to understand and modify.

Q. Mr. Mancinelli could you please elaborate on your issues with the RMP models relating to cost allocation?

A. Yes. I have three primary issues with RMP's cost of service analysis:

- First, for certain FERC Sub-Accounts, RMP uses an inconsistent approach to allocating costs to the rate classes when compared to how costs are allocated between jurisdictions in the JAM. The JAM calculates the allocated cost of service to each of the eight jurisdictional entities owned and operated by PacifiCorp. Allocation factors used in the JAM allocation have been stipulated by the Utah Public Service Commission in Docket No. 02-035-04. This stipulation specifies the appropriate allocation factor to be used by FERC cost account. The stipulation addresses both the Revised Protocol (RP) and Rolled-In (RI) cost allocation approaches. In DPU Exhibit 5.2, I have summarized these

allocation factors by FERC Account as specified in the stipulation. The allocation factors used in the JAM dictate important information related to the underlying cost drivers (or cost classification) that should be in alignment with class allocation factors used in the RMP COS analysis. When RMP allocates these costs to rate classes, in certain cases, RMP ignores the underlying cost classification set forth in the JAM allocation.

- Second, RMP has made a significant investment in wind generation resources as described in RMP Witness Mr. McDougal's testimony. However, from a cost allocation perspective, RMP treats wind resources like all other generation assets. RMP allocates all generation resources, including wind, to all customer classes using the F10-Coincident Peak, System allocation factor (F10). The F10 factor allocates wind resources based on 75% demand (calculated using a weighted 12CP approach) and 25% system energy. However, using this factor ignores the fact that wind is fundamentally a different type of resource compared to traditional fossil-fuel generation. Because of the uncertainty surrounding the dispatch of wind resources, these assets typically are a good source of energy but a poor source of firm capacity on the system. Therefore, in my opinion wind resources should be allocated entirely based on system energy, or the System Energy (SE) factor.
- Third, RMP currently allocates the rate mitigation cap by adjusting the return on rate base component of the revenue requirement. In the current filing this adjustment equals $12,471,427 and thereby lowers RMPs return from 8.54% to 8.37% based on RMP's proposed weighted average cost of capital. This $12,471,427 adjustment is allocated

to each utility function and rate class using rate base. However, in reviewing the original Commission order stipulating the rate mitigation cap and its application, it is clear that the cap is intended to protect RMP customers from higher generation costs associated with the Revised Protocol method. Therefore, I conclude that the rate mitigation cap is directly related to production and therefore should be entirely applied to the production function. Furthermore, the rate mitigation cap adjustment should be allocated to each rate class using the F10 factor.

Q. With respect to your first cost allocation issue, please describe your suggested changes that would correct for allocational inconsistencies in the RMP COS model.

A. The typical steps in a cost of service analysis include development of the revenue requirement, assigning the revenue requirement to basic utility functions, classifying each function into the key cost components, and then allocating these classified costs to the various rate classes using allocation factors that align with the underlying cost classification. In the RMP cost of service approach, the revenue requirement is calculated in the JAM. The revenue requirement represents an allocation to RMP from the larger PacifiCorp combined system. This allocated revenue requirement is then functionalized into production, transmission, distribution, customer and miscellaneous functions. Within each function, costs are allocated to each rate class using a variety of allocation factors. In the RMP COS model, the explicit classification of costs is not directly identified at the functional level and could be considered skipped. Although costs are classified elsewhere in the RMP COS model, it does not appear to be directly linked to cost allocation in the model. As a result, in certain cases, class allocation factors are inconsistent with the

underlying cost classification. This is particularly important with respect to the RMP case because of the COS model's relationship with the JAM. The RMP revenue requirement, as determined by the JAM, is largely an allocation of PacifiCorp costs and does not directly reflect costs as booked in the RMP cost accounting system. As a result, the RMP revenue requirement is a series of allocated costs which were classified in JAM and allocated to RMP based on that classification. The JAM classification identifies the underlying cost classification or driver that should be consistently applied in the COS model. With this in mind, JAM cost classification is summarized in DPU Exhibit 5.3. DPU Exhibit 5.3 identifies each allocation factor in the JAM and the underlying cost classification. DPU Exhibit 5.3 illustrates that although 42 different allocation factors are developed in the JAM, all these allocators can be boiled down to a combination of four basic cost classifications which are demand, energy, number of customers and direct assignment. In the RMP COS model, it is important to keep these underlying cost classifications consistent with the JAM.

Q. Are there other cost allocation issues in the RMP COS?

A. Yes, in particular, the appropriate use of weighted allocation factors is an additional consideration. The JAM uses several allocation factors that are seasonally weighted. These seasonally weighted factors are predominately applied to cost sub-accounts related to Generation – Combustion Turbines and Generation – Cholla. These weighting factors allocate costs to each jurisdiction based on the jurisdictional contribution to the PacifiCorp load adjusted for seasonal output for Combustion Turbine and Cholla generation output. To

consistently assign these costs to the appropriate customer class, these seasonal factors should be applied within the RMP COS model at the class level.

Q Mr. Mancinelli, please provide a few examples of instances where RMP correctly and consistently applied allocation factors in the COS model, and where allocation factors were inconsistently and incorrectly applied.

A. An example of a correct and consistent approach to cost allocation between the JAM and COS models is in the area of fuel. Specifically, let's look at FERC Account 501 – Fuel Related Steam Power Production Expense, subaccount System Energy – Non -NPC. In JAM, this sub account is allocated to each PacifiCorp jurisdiction based on allocator SE. In the RMP COS model, this subaccount is directly assigned to Production, correctly reflecting that fuel is a key cost component of this function. In the production function, this subaccount is allocated to each rate class based on allocator F30 – MWh at Input (F30). In this case, RMP has properly functionalized and allocated these costs consistent with the JAM cost classification factor.

One example where costs were not consistently allocated between the JAM and the RMP COS model is FERC Account 154 – Material and Supplies (sub account System Energy). In the JAM, this cost account was allocated to each jurisdiction based on allocator SE. However in the RMP COS model, this account was functionalized using a Material and Supplies functionalization factor (MSS). The Material and Supplies factor assigns costs to the Production, Transmission and Distribution functions. In each function, these costs are then allocated to each rate class based on Gross Plant (Production, Transmission, Distribution). The cost allocation and cost causation are out of sync, as the underlying cost

driver in the JAM is system energy, which is only associated with the Production function. To correct this error, in the RMP COS model, FERC Account 154 – Material and Supplies (sub account System Energy) should be functionalized entirely to the Production function and then allocated to the rate classes using allocator F30, consistent with treatment of this cost subaccount in JAM.

Q. Mr. Mancinelli, would you expect that subaccounts within FERC Account 154 - Material and Supplies would be related to all utility functions and not just the production function?

A. Yes I would, but the JAM considers this fact by including other subaccounts under FERC Account 154. JAM identifies twelve sub categories under Material and Supplies

- Direct Assignment
- System Energy
- System Generation
- Cholla
- Combustion Turbines
- System Overhead
- Production/Steam
- Production/Hydro
- Production/Other
- Production
- Transmission
- Distribution

Each subaccount assigns costs to each of the major utility functions based on different allocation factors with different underlying cost classifications.

Q. Please continue with your discussion regarding cost allocation issues in the RMP COS model.

A. Another example of allocation factor inconsistency is related to the application of a seasonal weighting factor related to FERC Account 548 – Generation Expense (subaccount Combustion Turbine). This FERC Account is allocated to each jurisdiction in the JAM using allocator SSGCT – Seasonal System Generation, Combustion Turbine (SSGCT). This season factor is based on the seasonal demand (75%) and seasonal energy (25%) associated with Combustion Turbine (CTs) generation during the months of July, August and September. The weighting factor only considers the energy output of the CTs and the demand and energy contribution of the various jurisdictions during these months. However, in the RMP COS model, this FERC cost account is allocated to customer classes using the F10 factor. The F10 factor is based on annual demand (75% - weighted coincident peaks) and seasonal energy (25%). The demand component of the F10 factor weights class contribution to the monthly coincident peak based on the annual peak. These factors consider class contribution to system demand over all 12 months, not just the three summer months of July through September as in the JAM. The two different weighting methodologies in the JAM and COS models again result in the COS model being out of sync with the JAM. RMP's use of the F10 factor is consistent with prior Commission ruling per Docket No. 97-035-01. Although this ruling explains the current use of the F10 factor by RMP, a weighted allocation factor has been considered by RMP in the past as

RMP has developed allocation factor F14 – Seasonal System Generation Combustion Turbine (F14) in the RMP COS model. However, RMP does not use this allocation factor in either the RI or RP COS analyses. Based on my line item review of the JAM allocation factors and the corresponding allocators in the RMP COS model, I recommend revisiting the use of the F10 factor. I believe that the use of a seasonal weighted factor is more appropriate given the treatment of these costs in the JAM. Furthermore, I recommend the use of the F14 factor in place of the F10 factor throughout the COS model for CT subaccount.

A similar case can be made for the FERC subaccount items that are identified in the JAM and COS as being related to Cholla. In the JAM the items are allocated using the SSGCH – Seasonal System Generation, Cholla factor (SSGCH). In the RMP COS model these same items are allocated to the rate class using the F10 factor. In place of the F10 factor, I recommend using the F16 - Seasonal System Generation-Cholla (F16) in its place. By using these factors, the RMP COS model is in better alignment with the corresponding JAM allocation.

Q. Mr. Mancinelli, do you have any other comments regarding the calculation of allocators incorporating seasonality in the JAM model and the COS model?

A. Yes, I do. As I stated above, certain FERC accounts have been allocated to each jurisdiction in the JAM using allocator SSGCH and the SSGCT. Both of these allocators (SSGCH and SSGCT) are subsequently allocated to each customer class in the RMP COS Model using the F10 factor. In addition to my recommendation above, with respect to using allocators F16 and F14 rather than allocator F10, I am also recommending a change

in the method in which F16 and F14 are calculated so that these allocators are consistent with the calculation of the SSGCH and SSGCT allocators in the JAM model.

In RMP JAM model, SSGCH is based on 75% demand (contribution to system peak weighted by Cholla and APS) and 25% energy (contribution to system energy weighted by Cholla and APS). The associated F16 allocator in RMP's COS model, is based on 75% demand (contribution to monthly system peak-weighted 12 CP's) and 25% energy (monthly contribution to system energy - weighted by Cholla and APS). In order to align the F16 factor in the COS consistent with the SSGCH allocation factor in the JAM, I recommend applying the Cholla and APS weighting to the demand portion of the F16 factor. By doing so, the F16 factor matches the seasonal Cholla demand weightings used in the JAM. Once the JAM demand weightings are incorporated in the calculation, an additional company weighting is applied reflecting the seasonal weighting approach used in the COS model. In total, the demand component of the F16 allocator is weighted twice, once at the JAM level (Cholla) and once at the COS level (seasonal weighted class contribution of system peak). Similarly, in the JAM, SSGCT is based on 75% demand (contribution to monthly system peak weighted by Combustion Turbines) and 25% energy (monthly contribution to system energy weighted by Combustion Turbines). Allocator F14, in RMP's COS model, is based on 75% demand (contribution to monthly system peak – weighted 12 CP's) and 25% energy (monthly contribution to system energy - weighted by Combustion Turbines). In the JAM, the demand component of Allocator SSGCT is based solely on the jurisdictional demand during the month of July, August and September. However, in the RMP COS, the corresponding F14 factor is based on weighted demands

over the entire 12-month period. In order to correct the F14 allocator in the COS model so that it is consistent with the SSGCT allocator in the JAM, I recommend applying a two-tier weighting factor to the demand component of this allocator similar to that previously described for allocation factor F16. The demand component of this allocator would first be weighted by the seasonal CT factor used in the JAM and then secondly by the seasonal weighted class contribution of system peak. The end result of the adjustments are shown in the following table.

Allocation of Seasonal CT Costs

Schedule No.	Class	F10 Allocator, Coincident Peak System	F14 Allocator, Seasonal System Generation Combustion Turbine	Adjusted F14 Allocator, Seasonal System Generation Combustion Turbine
1	Residential	30.768%	33.164%	33.283%
6	General Service - Large	30.949%	30.928%	30.874%
8	General Service - Over 1 MW	9.201%	8.921%	8.902%
7,11,12,13	Street & Area Lighting	0.171%	0.087%	0.087%
9	General Service - High Voltage	15.457%	13.732%	13.698%
10	Irrigation	0.761%	1.387%	1.392%
12TS	Traffic Signals	0.022%	0.018%	0.018%
12OL	Outdoor Lighting	0.027%	0.014%	0.014%
23	General Service - Small	6.675%	7.547%	7.534%
25	Mobile Home Parks	0.056%	0.055%	0.055%
SpC	Customer A - SpC	0.980%	0.852%	0.848%
SpC	Customer B - SpC	2.316%	0.879%	0.879%
SpC	Customer C - SpC	2.617%	2.417%	2.416%
	Total	100.0%	100.0%	100.0%

Allocation of Seasonal Cholla

Schedule No.	Class	F10 Allocator, Coincident Peak System	F16 Allocator, Seasonal System Generation Cholla	Adjusted F16 Allocator, Seasonal System Generation Cholla
1	Residential	30.768%	30.818%	31.062%
6	General Service - Large	30.949%	30.465%	30.359%
8	General Service - Over 1 MW	9.201%	9.251%	9.235%
7,11,12,13	Street & Area Lighting	0.171%	0.222%	0.224%
9	General Service - High Voltage	15.457%	16.079%	16.031%
10	Irrigation	0.761%	0.488%	0.493%
12TS	Traffic Signals	0.022%	0.023%	0.023%
12OL	Outdoor Lighting	0.027%	0.035%	0.035%
23	General Service - Small	6.675%	6.311%	6.327%
25	Mobile Home Parks	0.056%	0.058%	0.058%
SpC	Customer A - SpC	0.980%	1.013%	1.012%
SpC	Customer B - SpC	2.316%	2.631%	2.543%
SpC	Customer C - SpC	2.617%	2.606%	2.597%
	Total	100.0%	100.0%	100.0%

In DPU Exhibit 5.4, I've summarized the calculations associated with these modified weighting factors.

Q. Mr. Mancinelli, given your testimony above, have you summarized your recommended changes to the COS model that would improve the consistency of the cost allocation with that used in the JAM?

A. Yes. In DPU Exhibit 5.5, I've summarized several recommended adjustments that would improve the consistency of the cost allocation between JAM and the RMP COS model. The recommended changes include those agreed to by RMP in their response to Discovery Request 44.55 plus additional changes as described in my testimony.

Q. In Discovery Request 44.55, did RMP agree to use seasonal allocation factors rather then the F10 factor in the COS model?

A. No, RMP has indicated that the use of the F10 factor has been ordered by the Commission in Docket 97-035-01. Furthermore, RMP has responded that the F10 factor was based on Proposal #9 in the 2005 Utah Cost of Service and Rate Design Taskforce Report, dated December 15, 2005 and later used in the cost of service study filed in Docket No. 06-035-21.

Q. Can you provide any details on the Taskforce Proposal #9?

A. Yes. Review of the Taskforce Report shows that RMP developed this proposal to use a weighted F10 factor to improve on its previous use of an unweighted F10 factor. This weighted F10 factor was proposed at the very last meeting of the Taskforce and several comments from other parties on the Taskforce indicated they would have wished for time to review RMP's proposal. Although several parties considered the weighted F10 factor as a step in the right direction, there were several objections to it. In addition to objections to the design of the F10 factor itself, the Committee of Consumer Services (now the Office of Consumer Services (OCS)) referred to the same issue on which I am focused – the incompatibility between the allocation methods used in the JAM vs. the COS model. OCS stated that "… the establishment of any type of proposal that allocates costs differently than comes to Utah from the IJA [Inter-Jurisdictional Allocation process] (other than stipulated agreements) presents a disconnect between cost causation (the IJA) and what Utah may think of as theoretical cost drivers."

Q. Considering the unresolved issues with the use of the current F10 factor, what recommendations do you have?

A. I think the various functionalization, classification and allocation factors used in the JAM and COS models should be compared, as I have done, and the incompatibility issues surrounding them should be finally resolved.

Q. Mr. Mancinelli, assuming RMP would provide additional information supporting specific functional factors and cost of service allocators, would you be open to revising your testimony in this regard?

A. Yes, I would. Also, I would add that during the three recent rate training sessions surrounding the RMP COS model as stipulated by the Utah Commission, it was suggested by parties in attendance that a cost of service working group be formed to review and discuss the specific allocation of all items in the model. I strongly support such an effort.

Q. Earlier in your testimony you indicated that wind resources were improperly allocated in the RMP COS model. Please describe your recommendations in this area.

A. Using revenue requirement information provided to me by Mr. Croft of the Utah Division of Public Utilities, we have identified and separated operation and maintenance expenses, depreciation and rate base items associated with PacifiCorp's wind resource investments. In the JAM, these investments have been allocated to each jurisdiction based on the SG factor. Similarly, in the RMP COS model, all these costs have been allocated to each rate classes using the F10 factor which is 75% demand related and 25% energy related. Given the unpredictable dispatch of wind resources, I recommend allocating these costs based on

energy only. However, using energy to allocate wind resources in the JAM would alter the jurisdictional revenue requirement. Recognizing that such an adjustment impacts the revenue requirements for all jurisdictions within PacifiCorp, I recommend, that for this case, that wind assets be separated in JAM yet remain allocated based on the SG – System Generation Allocation factor. This approach will identify costs associated with wind resources but will not change the RMP revenue requirement as determined in the JAM. However, in the RMP COS model these costs should be assigned to the production function and allocated to the rate classes based allocator F30.

In the next rate case, wind resources should be allocated based on system energy in both the JAM and the RMP COS model. The impact of this adjustment on the cost of service calculation is summarized in DPU Exhibit 5.6.

Q. Please describe your recommendation with respect to the proper allocation of the Revised Protocol with Rate Mitigation Cap (RPRMC) revenue requirements to the customer classes.

A. The Revised Protocol, in conjunction with rate mitigation measures, was approved for use in determining Utah's jurisdictional revenue requirement in the Commission order in Docket No. 02-035-04, dated December 14, 2004. Utah's revenue requirements will be the lesser of that calculated using the Rolled-In method multiplied by the applicable percentage Rate Mitigation Cap or that calculated using the Revised Protocol method multiplied by the applicable percentage Rate Mitigation Premium. The Rate Mitigation Cap applied to the results of the Rolled-In method is 101.50 percent through RMP's fiscal year 2007, 101.25 percent for fiscal years 2008 and 2009 and 101.00 percent for fiscal years 2010 through

2014. The Rate Mitigation Premium applied to the results of the Revised Protocol method is 100.25 percent for RMP's fiscal years 2010 through 2012. For all other fiscal years, the Rate Mitigation Premium is 100.00 percent.

I have reviewed the testimony on this issue by Mr. Higgins, who represented the Utah Association of Energy Users, and Mr. Paice, who represented RMP, in past rate case dockets. Based on my review, I agree with Mr. Higgins that the reduction in the revenue requirements due to the Rate Mitigation Cap should be applied solely to the Production function because adjustments to the Utah revenue requirements to arrive at the Revised Protocol revenue requirements are all made to the Production function. Consequently, any reductions to revenue requirements should also be applied solely to the Production function. Although Mr. Paice in his rebuttal testimony in Docket 07-035-93, stated that an alternative approach to RMP's current method would be to lower the target return for the generation function only, RMP has not changed its method in the current rate case, Docket 09-035-23. RMP continues to apply the results of the Rate Mitigation Cap across all functions. I have used the Logan Model to apply the results of the Rate Mitigation Cap to the individual rate classes in a manner more appropriate to the cause of the lowered revenue requirement. In the Logan model I have allocated the $12,471,427 Rate Mitigation Cap reduction to the individual rate classes using the F10 factor. The F10 factor spreads the rate mitigation cap to each rate class in accordance with each class' benefit associated with these generation resources.

Q. What is the impact of this adjustment on RMP's rate of return?

A. Directly assigning the rate mitigation cap reduction to the production function lowers the production function return compared to the other utility functions. Within the production function, using the F10 factor to allocate the rate mitigation cap reduction to each rate class, the class contribution to return on rate base varies. However, this variation is appropriate, given that the cap limits return related to each classes cost responsibility associated with the production function.

Q. Mr. Mancinelli have you made any other adjustments to the COS model?

A. Yes. I have included the adjustments to the RMP revenue requirement as described by Dr. Brill in his testimony on behalf of the Division. These adjustments reduce RMP's requested revenue increase from $66.9 million to $8.5 million as summarized in the table below.

RMP Revenue Requirement as Adjusted by the Division

Item	Adjusted Utah Jurisdiction	Utah Jurisdiction	Difference
Operation & Maintenance Expense	$1,136,136,520	$1,160,620,455	($24,483,935)
Depreciation & Amortization	$211,176,121	$212,075,299	($899,178)
Taxes and Miscellaneous Expenses	$135,042,395	$126,323,830	$8,718,564
Total Expenses	$1,482,355,036	$1,499,019,585	($16,664,549)
Allowable Return on Ratebase	$391,743,758	$430,818,048	($39,074,290)
Less Other Revenues	($379,721,261)	($378,391,460)	($1,329,801)
MSP Adjustment	($10,825,364)	($12,471,427)	$1,646,062
Net Revenue Requirement	$1,483,552,169	$1,538,974,747	($55,422,577)
Retail Revenues	$1,475,091,082	$1,472,091,082	$3,000,000
AGA/Residual Adjustment	($31,063,906)	($31,063,906)	$0
Net Retail Revenues	$1,444,027,176	$1,441,027,176	$3,000,000
Retail Rate Adjustment	$8,461,088	$66,883,665	($58,422,577)
Percent Adjustment	0.59%	4.64%	(4.06%)
Ratebase	$4,653,189,479	$4,690,862,116	($37,672,637)

Q. Have you calculated a revised cost of service taking into consideration your recommended adjustments with respect to consistency of cost allocation, allocation of wind resources, allocation of the rate mitigation cap adjustment and the revenue requirement adjustments as described above?

A. Yes I have. These adjustments were made in the Logan Model and are shown in DPU Exhibit 5.7a through 5.7d. Exhibit 5.7a summarizes the revenue requirement adjustments as presented by Dr. Brill. Exhibit 5.7b summarizes the jurisdictional allocation model (the PacifiCorp system revenue requirement allocated to each jurisdiction). Exhibit 5.7c summarizes the functional allocation model (the RMP jurisdictional allocation to functions). Finally, Exhibit 5.7d summarizes the schedule allocation model (the RMP functional allocation to classes).

Q. What was the impact of these adjustments compared to the RMP cost of service?

A. In total, these adjustments impacted all customer classes and significantly impacted the cost of service. A comparison of my revised cost of service compared to that filed by RMP is shown below.

Cost of Service Reflecting Proposed Allocation Adjustments Compared to RMP COS as Filed

		(A)	(B)	(A-B)	(A/B-1)
Schedule No.	**Rate Class**	**Adjusted COS**	**RMP COS**	**Difference**	**% Diff**
1	Residential	$553,721,605	$574,354,318	($20,632,712)	(3.59%)
6	General Service-Large	$404,192,681	$424,169,618	($19,976,937)	(4.71%)
8	General Service–Over 1 MW	$119,585,951	$124,504,320	($4,918,370)	(3.95%)
7,11,12,13	Street & Area Lighting	$11,296,555	$11,350,679	($54,124)	(0.48%)
9	General Service-High Voltage	$171,922,029	$178,651,468	($6,729,439)	(3.77%)
10	Irrigation	$12,954,855	$13,339,264	($384,409)	(2.88%)
12TS	Traffic Signals	$495,548	$510,391	($14,843)	(2.91%)
12OL	Outdoor Lighting	$548,123	$531,688	$16,435	3.09%
23	General Service-Small	$102,265,364	$106,935,711	($4,670,347)	(4.37%)
25	Mobile Home Parks	$824,302	$854,517	($30,215)	(3.54%)
SpC	Customer A	$11,322,063	$11,648,572	($326,509)	(2.80%)
SpC	Customer B	$34,785,499	$34,296,895	$488,603	1.42%
SpC	Customer C	$28,573,689	$29,763,399	($1,189,710)	(4.00%)
	Total	$1,452,488,263	$1,510,910,841	($58,422,577)	(3.87%)

The adjusted cost of service compared to class revenues adjusted for Customer B are as follows:

Cost of Service Reflecting Proposed Allocation Adjustment Compared to Annual Class Revenue

		(A)	(B)	(A-B)	(A/B-1)
Schedule No.	**Rate Class**	**Adjusted Revenue**	**Total COS**	**Difference**	**% Diff**
1	Residential	$570,908,120	$553,721,605	($17,186,515)	(3.0%)
6	General Service-Large	$407,879,106	$404,192,681	($3,686,425)	(0.9%)
8	General Service–Over 1 MW	$117,330,242	$119,585,951	$2,255,709	1.9%
7,11,12,13	Street & Area Lighting	$13,383,047	$11,296,555	($2,086,492)	(15.6%)
9	General Service-High Voltage	$159,688,687	$171,922,029	$12,233,342	7.7%
10	Irrigation	$10,962,790	$12,954,855	$1,992,065	18.2%
12TS	Traffic Signals	$470,828	$495,548	$24,720	5.3%
12OL	Outdoor Lighting	$933,273	$548,123	($385,150)	(41.3%)
23	General Service-Small	$102,234,904	$102,265,364	$30,460	0.0%
25	Mobile Home Parks	$850,935	$824,302	($26,633)	(3.1%)
SpC	Customer A	$9,343,310	$11,322,063	$1,978,753	21.2%
SpC	Customer B	$27,561,655	$34,785,499	$7,223,843	26.2%
SpC	Customer C	$25,480,279	$28,573,689	$3,093,410	12.1%
	Total	$1,447,027,176	$1,452,488,263	$5,461,088	0.38%

Q. What are the implications of the adjusted cost of service compared to that filed by RMP?

A. The most significant impact on COS results is related to the revenue requirement adjustments. These adjustments reduce RMP's requested rate increase by nearly 4%. With respect to the cost of service, variations between the adjusted COS results and the RMP COS results will have some impact on rate spreads, albeit small for most customer classes. The proposed cost allocation adjustments reflect a needed "tune-up" of the COS model. On a going forward basis, periodic "tune-ups" ensure that the underlying cost classifications inherent in the JAM are consistent with RMP COS model. The alignment will render a more consistent and accurate cost of service result.

Q. Mr. Mancinelli, have you reviewed the proposed rate spread as proposed by RMP Witness Mr. Griffith?

A. Yes, I have.

Q Do you agree with Mr. Griffith's recommendations regarding the rate spread?

A No, I do not.

Q. Mr. Mancinelli, what rate spread do you recommend?

A. Mr. Griffith's proposed rate spread varies significantly from the cost of service results as filed by RMP and shown in the following tables.

RMP COS Compared to Annual Class Revenue

Schedule No.	Rate Class	Annual Revenue	RMP COS	Difference	% Diff
1	Residential	$570,908,120	$574,354,318	$3,446,198	0.60%
6	General Service-Large	$407,879,106	$424,169,618	$16,290,512	3.99%
8	General Service–Over 1 MW	$117,330,242	$124,504,320	$7,174,078	6.11%
7,11,12,13	Street & Area Lighting	$13,383,047	$11,350,679	($2,032,368)	(15.19%)
9	General Service-High Voltage	$159,688,687	$178,651,468	$18,962,781	11.87%
10	Irrigation	$10,962,790	$13,339,264	$2,376,474	21.68%
12TS	Traffic Signals	$470,828	$510,391	$39,563	8.40%
12OL	Outdoor Lighting	$933,273	$531,688	($401,585)	(43.03%)
23	General Service-Small	$102,234,904	$106,935,711	$4,700,807	4.60%
25	Mobile Home Parks	$850,935	$854,517	$3,582	0.42%
SpC	Customer A	$9,343,310	$11,648,572	$2,305,262	24.67%
SpC	Customer B	$24,561,655	$34,296,895	$9,735,240	39.64%
SpC	Customer C	$25,480,279	$29,763,399	$4,283,120	16.81%
	Total	$1,444,027,176	$1,510,910,841	$66,883,665	4.63%

RMP Proposed Rate Spread Compared to Annual Class Revenue

Schedule No.	Rate Class	Annual Revenue	RMP Proposed Rate Revenues	Difference	% Diff
1	Residential	$570,908,120	$593,925,121	$23,017,001	4.0%
6	General Service-Large	$407,879,106	$428,450,892	$20,571,786	5.0%
8	General Service–Over 1 MW	$117,330,242	$124,418,244	$7,088,002	6.0%
7,11,12,13	Street & Area Lighting	$13,383,047	$14,054,473	$671,426	5.0%
9	General Service-High Voltage	$159,688,687	$169,314,006	$9,625,319	6.0%
10	Irrigation	$10,962,790	$11,623,471	$660,681	6.0%
12TS	Traffic Signals	$470,828	$490,358	$19,530	4.1%
12OL	Outdoor Lighting	$933,273	$984,392	$51,119	5.5%
23	General Service-Small	$102,234,904	$107,379,510	$5,144,606	5.0%
25	Mobile Home Parks	$850,935	$885,244	$34,309	4.0%
SpC	Customer A	$9,343,310	$9,343,310	$0	0.0%
SpC	Customer B	$24,561,655	$24,561,655	$0	0.0%
SpC	Customer C	$25,480,279	$25,480,279	$0	0.0%
	Total	$1,444,027,176	$1,510,910,955	$66,883,779	4.6%

As shown in the above tables, Mr. Griffith proposed class rate levels vary significantly from the cost of service results. For example, the RMP COS indicates that the Residential Class rates should increase 0.6%, yet Mr. Griffith recommends a 4.0% increase for this class. RMP is recommending that this class over collect nearly $20 million compared to COS. Significant rate spread variations compared to the COS are the direct result of the re-allocation of rate subsidies afforded to the Special Contract Class to all other customer classes. Using the RMP COS analysis, the rate subsidies for Contracts A, B and C are significant, totaling approximately $16.3 million. These subsidies in effect raises the overall rate increase to non-contract customers by 32% ($66,883,665 (Total requested RMP Revenue Increase)/($50,560,048 (Indicated revenue adjustment for non-Special Contract Customers)) compared to that requested by RMP.

Q. Mr. Mancinelli, please describe the significant rate subsidy for Contracts A, B and C.

A. The RMP COS model shows that Customers A, B and C are currently charged at a level significantly below their cost of service. For the Test Year, Customer A is under collecting by approximately $2,305,262, Customer B by $9,735,240 and Customer C by $4,283,120 for a total under collection of $16,323,623. Customers A, B and C are served under special contracts, not tariffs, and their rates cannot be immediately adjusted to meet cost of service. To meet this shortfall, RMP is proposing that the remaining customer classes pay for this subsidy entirely. RMP places the burden of these subsidies entirely on RMP customers with no associated cost sharing responsibility with RMP stockholders.

Q. Is it appropriate for other rate classes to subsidize rates below cost of service for Contracts A, B, and C?

A. Generally subsidization among customer class is not a desired result of the cost of service and rate design process. When subsidization exists, it represents an inequitable sharing of system costs among the various customer classes. The customer classes that are providing the subsidy are unfairly burdened with more than their share of the system costs. To the extent subsidies are required, subsidies are best provided by governmental agencies rather than for-profit businesses. Heavily subsidized rates create numerous potential problems ranging from fairness to competitiveness issues. The cost of service should be the cornerstone for setting all utility rates. RMP appears to recognize the pitfalls of heavily subsidized rates as RMP is proposing to move special contracts to full COS over the next several years. I fully endorse RMP's approach with these special contract customers and

recommend that all subsidies associated with Contract A, B and C be eliminated within five years.

Q. Does RMP's proposal to eliminate subsidies associated with special contract customers impact this rate case?

A. Yes, specifically with respect to Contract B. Currently RMP is pursuing a contract renewal with this customer that would eliminate subsidation over the term of the new contract. If adopted, subsidation would be reduced in the first year. I recommend an adjustment be made in this case to take into consideration higher revenue from this customer.

Q. Mr. Mancinelli, if RMP is unable or unwilling to eliminate subsidies associated with the Special Contract Customers over a reasonable amount of time, should these subsidies continue to be borne by the remaining rate payers?

A. No. If RMP cannot eliminate subsidies for these Special Contract Customers, RMP stockholders should share the responsibility of the revenue shortfall with ratepayers.

Q. Mr. Mancinelli, given that subsidies exist today and will remain in effect for a least a few more years, please describe your proposed treatment of these subsidies and the associated rate spread?

A. Assuming subsidization must exist for the special contract customers, at least in the short term, subsidization should be distributed among the other customer classes in a non-biased manner. To accomplish this, I propose to allocate the subsidy to each rate class based on the proportional cost of service responsibility of each class compared to the total RMP cost of service. This approach increases the cost of service associated with the subsidy on an

equal percentage basis to all rate classes. Please refer to DPU Exhibit 5.8 for the proposed allocation of the $16,323,623 subsidy for Customer A, B and C.

I have calculated the rate spread using this approach under two methods; first, using cost of service results as filed by RMP and summarized in Mr. Paice's testimony Exhibit CCP-1; second, using the adjusted cost of service that incorporates my recommendations and revenue requirement adjustments sponsored by Dr. Brill as summarized in DPU Exhibit 5.8. These rate spread alternatives compared to that proposed by RMP are summarized in the table below.

Proposed Rate Spread Using RMP COS

(A)	(B)	(C)	(D)	(E)
Schedule No.	**Rate Class**	**RMP COS**	**RMP Proposed Rate Spread**	**Revised Rate Spread Using RMP COS**
1	Residential	0.6%	4.0%	1.8%
6	General Service-Large	4.0%	5.0%	5.2%
8	General Service–Over 1 MW	6.1%	6.0%	7.3%
7,11,12,13	Street & Area Lighting	(15.2%)	5.0%	(14.2%)
9	General Service-High Voltage	11.9%	6.0%	13.2%
10	Irrigation	21.7%	6.0%	23.1%
12TS	Traffic Signals	8.4%	4.1%	9.6%
12OL	Outdoor Lighting	(43.0%)	5.5%	(42.4%)
23	General Service-Small	4.6%	5.0%	5.8%
25	Mobile Home Parks	0.4%	4.0%	1.6%
SpC	Customer A	24.7%	0.0%	0.0%
SpC	Customer B	39.6%	0.0%	0.0%
SpC	Customer C	16.8%	0.0%	0.0%
	Total	4.6%	4.6%	4.6%

Proposed Rate Spread Using Adjusted COS

(A) Schedule No.	(B) Rate Class	(F) Adjusted COS	(G) Revised Rate Spread Using Adjusted COS & Cust B Rev
1	Residential	(3.0%)	(2.14%)
6	General Service-Large	(0.9%)	(0.02%)
8	General Service–Over 1 MW	1.9%	2.83%
7,11,12,13	Street & Area Lighting	(15.6%)	(14.84%)
9	General Service-High Voltage	7.7%	8.62%
10	Irrigation	18.2%	19.23%
12TS	Traffic Signals	5.3%	6.19%
12OL	Outdoor Lighting	(41.3%)	(40.74%)
23	General Service-Small	0.0%	0.92%
25	Mobile Home Parks	(3.1%)	(2.27%)
SpC	Customer A	21.2%	0.00%
SpC	Customer B	26.2%	0.00%
SpC	Customer C	12.1%	0.00%
	Total	0.38%	0.59%

My rate spread proposal uses cost of service as the basis for the subsidy adjustment and therefore follows the direction of the indicated rate adjustment as determined by the cost of service. Classes that should receive a rate decrease per cost of service results, receive a rate decrease under my approach, albeit less given the subsidation of the special contract customers. Similarly, classes that should receive a rate increase per cost of service results, receive a slightly larger rate increase given subsidation. Subsidation is borne by all classes equally as a percentage of the cost of service. In the adjusted cost of service analysis all non special contract customers cost of service is increased by 0.89%.

Because of differences in the revenue requirement and cost of service allocation, recommended rate spreads based on the adjusted cost of service analysis vary significantly for all rate classes compared to that requested by RMP.

Based on my recommended adjustments to the RMP cost of service analysis and the associated rate spread given consideration to the subsidation of Contracts A, B and C, I recommend adjusting rate levels in each class to achieve the percentage changes as indicated in Column G as shown in the table above depending upon the outcome of the Customer B contract renewal.

Q: The overall rate increase proposed by the DPU is only approximately $8 million. Does this affect any of your recommendations?

A: In general, no it does not influence any of my recommendations. However, the DPU's final rate spread recommendation for this case is presented by Dr. Brill.

Q. Does this complete your testimony with respect to RMP cost allocation issues?

A. Yes it does.