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**

Rebuttal Testimony and Exhibits of

Maurice Brubaker

Phase I

On behalf of

Utah Industrial Energy Consumers

November 12, 2009

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9168

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Rebuttal Testimony of Maurice Brubaker

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q ARE YOU THE SAME MAURICE BRUBAKER WHO PROVIDED PHASE I DIRECT TESTIMONY ON OCTOBER 8, 2009?

A Yes, I am.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of the Utah Industrial Energy Consumers (UIEC). Members of UIEC purchase substantial quantities of electricity from Rocky Mountain Power Company (RMP) in Utah, and are vitally interested in the outcome of this proceeding.

Q WHAT SUBJECTS ARE ADDRESSED IN YOUR REBUTTAL TESTIMONY?

A In this rebuttal testimony, I address certain positions taken by witnesses appearing on behalf of the Division of Public Utilities (DPU) and the Utah Office of Consumer Services (OCS) with respect to cost of service and revenue allocation issues.

I have been selective in my responses, so the mere fact that I may not have responded to a particular position taken by another witness should not be interpreted as an endorsement of that position.

Q PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A My findings and recommendations may be summarized as follows:

1. DPU's cost of service study, which essentially adopts the Revised Protocol Jurisdictional Allocation Model (JAM) allocation methods for application to the class cost of service study, is flawed and should be rejected.

2. No support has been provided for use of the JAM allocation in class cost of service studies.

3. DPU has offered no support for its proposed allocation of wind resources.

4. The allocation method that Mr. Mancinelli wants the Commission to adopt is the same method that the Commission raised substantial concerns about in its October 19, 2009 Order.

5. DPU's cost of service study utilizes RMP's load research data and DPU witness Nunes has expressed considerable concern about the accuracy of this load research data; concerns which are similar to the ones I expressed in my direct testimony. Despite the fact that these concerns have been confirmed, DPU has ignored them in interpreting its cost of service study and making its revenue allocation recommendations.

6. The revenue allocations proposed by DPU are flawed in that they rely upon a cost of service study that is based on deficient load research data and inappropriate allocation methods.

7. Committee of Consumer Services witness Mr. Chernick's recommendations with respect to the classification of a larger percentage of generation fixed costs to the energy category should be rejected because:

    a. It unrealistically assumes that all load could be met with combustion turbine peaking units.

b. It uses a mixture of gross plant costs and costs incurred by other utilities in other states to make the calculation supporting the recommendation.

c. The methodology is conceptually flawed and internally inconsistent because it allocates additional capital costs for base load facilities to high load factor customers but does not afford these customers the correspondingly lower energy costs that go with that higher capital cost allocation.

8. OCS's revenue allocation recommendation is based on the flawed RMP class cost of service studies and should be rejected.

9. Any revenue increase or decrease as a result of this proceeding should be applied as an equal percentage adjustment to all classes.

Response to the Division of Public Utilities

Q DOES DPU OFFER TESTIMONY ON CLASS COST OF SERVICE ISSUES?

A Yes. This testimony is offered by its witness Joseph Mancinelli.

Q HAVE YOU HAD AN OPPORTUNITY TO STUDY MR. MANCINELLI'S DIRECT TESTIMONY?

A Yes, I have.

Q WHAT IS MR. MANCINELLI'S APPROACH TO THE ALLOCATION OF COSTS AMONG CUSTOMER CLASSES?

A With the exception of his allocation of costs associated with wind facilities (and other exceptions of a minor nature), he relies upon and applies the Revised Protocol allocation methodologies contained in the JAM.

Q DID MR. MANCINELLI UNDERTAKE ANY SEPARATE ANALYSIS OR STUDY TO DETERMINE THAT THE ALLOCATIONS USED IN THE JAM WERE APPROPRIATE FOR USE IN THE CLASS COST ALLOCATION STUDY?

A No. In his direct testimony, he repeatedly refers to inconsistencies between RMP's class cost allocation and the JAM model as the basis for his selection of the JAM allocation method. When asked about the basis for his specific allocation factors, he replied in response to Question Nos. 9.1 through 9.8 of UIEC's First Set of Data Requests that his basis was the JAM allocations, and that he had not conducted any independent analysis. (See DPU's response to UIEC's First Set of Data Requests, Question Nos. 9.1 through 9.8, attached hereto and collectively labeled as UIEC ____ (MEB-1R).)

Q DOES MR. MANCINELLI APPEAR TO BELIEVE THAT THIS COMMISSION HAS ENDORSED THE USE OF THE JAM ALLOCATORS FOR PURPOSES OF CLASS COST OF SERVICE ALLOCATION?

A Based on his testimony at lines 61-63 (appearing on page 4 of his direct testimony) wherein he states that the allocation factors used in the JAM allocation have been "...stipulated by the Utah Public Service Commission in Docket No. 02-035-04" that is certainly the impression that I get.

Q IN DOCKET NO. 02-035-04, DID THIS COMMISSION ADOPT THE JAM ALLOCATION METHODS FOR PURPOSES OF ALLOCATION OF COSTS TO CUSTOMER CLASSES?

A No. It explicitly did not adopt the JAM allocators for application in class cost of service studies. In particular, the Commission found as follows as page 40 of its September 14, 2004 Order in Docket No. 02-035-04:

> "Regarding the issue of the impact of the Stipulation and the Revised Protocol on customer classes, the Committee, PacifiCorp and UAE agree the record in this docket is not fully developed on this issue and the Order in this case should not try to resolve it. We concur. We further conclude the Revised Protocol only addresses interjurisdictional cost allocation which means class cost of service will be dealt with in other dockets such as general rate cases."

Accordingly, there is no basis for Mr. Mancinelli's use of the allocation methods contained in the JAM for purposes of class cost allocation.

Q IN YOUR DIRECT TESTIMONY, DID YOU COMMENT ON THE APPROPRIATENESS OF USING THE JURISDICTIONAL ALLOCATION METHOD FOR ALLOCATING COSTS AMONG CUSTOMER CLASSES?

A Yes, I did. At pages 21 and 22 of my direct testimony, I stated as follows in this regard:

> "Reliance upon an inter-jurisdictional allocation method also is not appropriate. As every participant to this proceeding is aware, the jurisdictional allocation method has evolved over time and is the product of trying to accommodate concerns of a wide variety of parties. There is not necessarily any "cost causation" basis to this study. Rather, inter-jurisdictional allocations have become more of an effort to provide the utility with an enhanced opportunity to collect 100% of its costs across all jurisdictions, while still accommodating particular jurisdictional priorities and preferences.
>
> In addition, load shape differences between classes within a state are far greater than differences in load shape between jurisdictions. What is an acceptable compromise at the jurisdictional level because of a small impact creates large inequities when applied to classes with widely varying load patterns. Thus, reliance upon an

> inter-jurisdictional allocation method as a basis for the class cost of service study is inappropriate."

Nothing in Mr. Mancinelli's testimony addresses these key issues.

Q ARE THERE ANY OTHER REASONS WHY A METHODOLOGY ADOPTED FOR ALLOCATION AMONG JURISDICTIONS MAY NOT BE APPROPRIATE FOR USE TO ALLOCATE COSTS AMONG CUSTOMER CLASSES IN A PARTICULAR STATE?

A Yes. Another important reason relates to the difference in load characteristics among customer classes within a state. While there are differences in load characteristics among state jurisdictions, those differences are not nearly as great as the variation in load characteristics among customer classes within a state. For example, in my direct testimony, I demonstrated in UIEC ____ (MEB-6) the wide variations in load patterns among the principal customer classes by using the measures of contribution to monthly jurisdictional system peaks, hourly loads on the system peak day and hourly loads during the maximum summer week. Quite obviously, the variations among customer classes within the state are greater than those among state jurisdictions. As a result, what may pass as a satisfactory compromise at the jurisdictional level because of the magnitude of impact will be totally inappropriate for allocation among customer classes within a state jurisdiction because of the large differences in impact.

Q ARE THERE ANY OTHER MATTERS PERTAINING TO THE CURRENT JAM METHODOLOGY THAT ARE RELEVANT HERE?

A Yes, I think so. In this docket, on October 19, 2009, the Commission issued an Order respecting the continued use of the current jurisdictional allocation method. In that

Order, the Commission raised concerns about the continued appropriateness of the use of the Revised Protocol for allocation between jurisdictions because of certain concerns as expressed in that Order. The Commission further underscored the importance of this issue by stating in its November 9, 2009 Order that it intended to have inter-jurisdictional allocation issues addressed and the reasonableness of any allocation established prior to any future rate changes for RMP.

While the ultimate resolution of these issues cannot currently be known, the fact that the Commission has raised these issues about the current jurisdictional allocation model should give one further cause for concern, and reason to pause, in the extension of the application of this methodology even further for use in allocation between customer classes.

Q DESPITE HIS CONTINUED RELIANCE UPON THE JURISDICTIONAL ALLOCATIONS FOR PURPOSES OF HIS STUDY, DOES HE DEPART FROM THOSE ALLOCATIONS FOR ANY MAJOR INVESTMENTS?

A Yes. In the case of wind resources, he proposes to allocate 100% of those investment costs strictly on the energy allocation factor.

Q WHAT IS HIS STATED BASIS FOR DOING THIS?

A I found one sentence at pages 16 and 17 of his testimony as support for this:

> "Given the unpredictable dispatch of wind resources, I recommend allocating these costs based on energy only."

Q IS THIS A SUFFICIENT BASIS FOR MR. MANCINELLI'S RECOMMENDED ALLOCATION OF WIND RESOURCES?

A No, not at all. The observation of unpredictability certainly does not translate directly into Mr. Mancinelli's recommended allocation factor. He has done absolutely no analysis to justify a change in the method of allocating these resources.

Q DOES MR. MANCINELLI RECOMMEND A CORRESPONDING CHANGE IN THE JURISDICTIONAL ALLOCATION FACTORS SO THAT THE CLASS AND JURISDICTIONAL ALLOCATION FACTORS WOULD BE BASED ON A CONSISTENT METHODOLOGY?

A He does not recommend a corresponding adjustment to the interjurisdictional allocation factors.

The inconsistency in Mr. Mancinelli's position is obvious.

Q IN YOUR DIRECT TESTIMONY YOU RAISED ISSUES WITH RESPECT TO THE ACCURACY OF RMP'S CLASS LOAD DATA FOR THOSE CLASSES WHERE RMP RELIES UPON SAMPLE DATA. DID ANY DPU WITNESS ADDRESS THIS ISSUE?

A Yes. DPU witness Jonathan Nunes addressed this issue in his testimony.

Q WHAT OPINION DID MR. NUNES GIVE WITH RESPECT TO RMP'S LOAD RESEARCH PROGRAM?

A At page 13 of his testimony (lines 186 through 192) he testified as follows:

> **"Q. What is your opinion of the Company's load research program?**
>
> A. The Company purports to be designing its load samples for the non-demand metered classes to meet a PURPA standard, discussed in Mr. Thorton's testimony, which mandates that samples be designed so that 90 percent of population load estimates are within 10 percent of actual loads. While the Company may be designing samples in an appropriate way to meet this standard, the resulting estimates from their samples over the last several rate cases and this case do not appear to be meeting the standard."

The concerns expressed by Mr. Nunes, and the other points made in his testimony, are consistent with the findings that I reported in my direct testimony.

Q DID MR. MANCINELLI MAKE ANY USE OF, OR INCORPORATE INTO HIS RECOMMENDATIONS, THE INVESTIGATIONS OF MR. NUNES?

A No, he did not. In his direct testimony, he did not even comment on this issue.

Q DID MR. MANCINELLI RESPOND TO ANY DATA REQUESTS CONCERNING THIS ISSUE?

A Yes. Several questions in UIEC Data Request Set No. 1 addressed this issue. (Responses to UIEC Set No. 1 Data Requests 9.10 through 9.14 are attached hereto and collectively marked as UIEC ____ (MEB-2R).)

Q WHAT IS MR. MANCINELLI'S EXPLANATION?

A As shown in those data responses, he basically relied upon Mr. Nunes, who found fault with the load research data. Mr. Mancinelli did not attempt to make any

adjustments for these data problems, nor did he temper his interpretation of study results in light of these serious deficiencies pointed out by his colleague.

Q WHAT IS DPU'S RATE SPREAD RECOMMENDATION?

A DPU witness Thomas Brill addressed this at page 15 of his direct testimony, beginning on line 288 and continuing through line 325 on page 17.

Despite acknowledging the deficiencies in the load research data that Mr. Nunes pointed out, and acknowledging that the result in Mr. Mancinelli's cost of service studies need to be interpreted in light of those problems, Dr. Brill goes on to recommend that 100% of what was then a recommended $8.5 million increase be allocated solely to Rate Schedules 9 and 10.

Q HOW DO YOU RESPOND TO DR. BRILL'S RECOMMENDATION IN HIS DIRECT TESTIMONY?

A I continue to believe that the errors in the load research data, as well as the shortcomings in the allocation methods themselves, support only an across-the-board allocation of any change in revenues that may result from this proceeding.

Q DID DR. BRILL PROVIDE ANY SUPPLEMENTAL TESTIMONY ON THIS ISSUE?

A Yes. In supplemental testimony accompanying his reporting of DPU's revised revenue requirement as a decrease, he recommended that any decrease be allocated only to residential class. For the reasons expressed above, I do not agree with this recommendation. If there is to be a decrease, then I believe it should be allocated uniformly to all customer classes.

Response to the Office of Consumer Services

Q HAVE YOU REVIEWED THE TESTIMONY OF MR. CHERNICK ON BEHALF OF THE COMMITTEE OF CONSUMER SERVICES?

A Yes.

Q WHAT IS MR. CHERNICK'S POSITION ON THE CLASS COST OF SERVICE STUDY?

A While he indicates that it should "…serve only as a guide to class rate spread." (Chernick Direct at page 4), he makes recommendations for several changes in the cost of service study that would effectively shift costs from demand-related or customer-related categories to the energy-related category. The end result would be to allocate more costs to large, high load factor customers and less to the low load factor customers, such as residential and small commercial.

Q WHAT IS MR. CHERNICK'S POSITION ON THE CLASSIFICATION OF FIXED GENERATION-RELATED COSTS?

A He disagrees with RMP's 75% demand-related and 25% energy-related classification of the fixed costs associated with generation facilities.

Q DOES HE EXPRESS HIS UNDERSTANDING OF THE BASIS FOR THIS CLASSIFICATION?

A Yes. At page 16, he states his understanding that the 75% / 25% split was a compromise between the Pacific Power & Light Company's (PP&L) 50% / 50% classification and Utah Power & Light Company's (UP&L) 100% demand classification. After the PP&L/UP&L merger, numerous task forces were convened

and the 75% / 25% (combined with the use of 12 monthly coincident peaks) emerged as a compromise for jurisdictional allocation purposes.

Q IS MR. CHERNICK'S UNDERSTANDING CONSISTENT WITH YOURS?

A Yes. The 75% / 25% (as well as the 12 coincident peak approach) was the product of a compromise primarily for purposes of jurisdictional allocation. Later, this methodology was applied to the allocation of costs among retail customer classes within a jurisdiction.

Q DOES MR. CHERNICK AGREE WITH THE 75% / 25% SPLIT?

A No. As expressed, beginning at page 17 of his testimony, it is his view that a larger proportion of fixed costs should be classified as energy, and a correspondingly smaller part as demand.

Q HOW DOES MR. CHERNICK QUANTIFY HIS CONCEPT?

A He uses what he calls a "peaker" method. Under this approach, the capital cost of a base load generating facility is considered to be energy-related to the extent that it exceeds the capital cost of a combustion turbine peaking unit – which he takes as the measure of the cost to meet demand.

Q HOW DOES HE APPLY THIS CONCEPT?

A As explained at page 20 of his testimony, he looks at the GROSS (i.e., undepreciated) capital costs per kilowatt for existing PacifiCorp coal plants and also at the cost of some collection of peaking units constructed by other utilities in other states.

Q IS THE REVENUE REQUIREMENT FOR FIXED COSTS ASSOCIATED WITH GENERATION FACILITIES BASED ON THE NET PLANT IN-SERVICE OR THE GROSS PLANT IN-SERVICE?

A It is based on the net plant in-service. To the extent that Mr. Chernick has relied upon the gross plant in-service, he has misstated the level of capital costs associated with coal plants – overstating them to the extent of the difference between the gross plant and the net plant value.

Q WHAT IS THE DIFFERENCE BETWEEN THE GROSS PLANT VALUE AND THE NET PLANT VALUE FOR PACIFICORP'S COAL PLANTS?

A As of December 31, 2008, the gross investment in steam plants is $5.1 billion, while the net plant value is $2.6 billion.

Q YOU MENTION THAT HE USED INVESTMENT COSTS FOR PEAKERS OWNED BY OTHER UTILITIES IN OTHER STATES. DOES HE EXPLAIN WHY HE DID NOT USE PACIFICORP'S PEAKERS?

A Yes. In Footnote 12 on page 21, he indicates that PacifiCorp does not own any peakers built in the same period as its coal plants.

Q DOES PACIFICORP HAVE ANY PEAKING UNITS TODAY?

A It has fewer than 400 megawatts, out of a total of over 11,000 megawatts. None of RMP's recent additions have been peakers.

Q IS RMP BUILDING ANY PEAKING UNITS?

A No. The resource expansion plan in RMP's 2007 IRP does not include any peakers.

Q WHAT IS YOUR ASSESSMENT OF MR. CHERNICK'S APPROACH?

A I will respond to that in two parts. First, the computational part, and second the conceptual part.

From a computational point of view, i.e., how did he do the calculations, I find them to be seriously flawed. Not only did he use gross plant instead of net plant for RMP's coal units, but he used peaking unit costs from other utilities in other states of mixed vintages that may or may not correspond to the years in which PacifiCorp added coal facilities. Further, he apparently used gross plant rather than net plant for these as well. And, of course, on top of all of that, RMP has only a few peaking units and is not building any more peaking units … so the relevance of the entire approach is questionable.

Q PLEASE ADDRESS THE CONCEPTUAL ISSUES ASSOCIATED WITH HIS APPROACH.

A As noted above, the peaker approach designates any capital costs spent on generating units that exceeds the capital cost of a peaking unit as having been incurred to produce energy at a lower cost than from a peaking unit, and classifies those costs as energy-related.

Fundamentally, this approach is erroneous and internally inconsistent even if its basic premise were to be accepted.

Q PLEASE EXPLAIN.

A Keep in mind that a utility system is designed to achieve the lowest overall, or total, cost of serving the entire population of customers reliably, consistent with least cost integrated resource planning concepts. To accomplish this objective, a utility builds

that combination of facilities which is designed to serve the loads of all of its customers, at all times, at the lowest overall net cost, taking into consideration both the fixed capital costs and the variable fuel costs. This defines the fixed or demand-related costs and the variable costs of the utility system.

The peaker method pretends that it would be possible to serve an entire utility system's demand requirements using only peakers. There is no such utility system in existence, and the fuel costs associated with such a system, if it could ever exist, would not be cost-effective or prudent.

Q WHAT IS THE PRACTICAL EFFECT OF TREATING A PORTION OF THE CAPITAL COSTS OF BASE LOAD GENERATING FACILITIES AS ENERGY RELATED AS OPPOSED TO DEMAND-RELATED?

A The effect of classifying a greater proportion of fixed costs as energy-related is to increase the amount of cost that is allocated to high load factor customers, as compared to low load factor customers. As an example, under a summer peak allocation method, Schedule 9 customers are responsible for 11.3% of the demand costs, but 16.6% of the energy. This nearly 50% difference in cost responsibility is the result of Schedule 9 customers having higher load factors than other customer classes. Thus, classifying costs as energy-related, as opposed to demand-related, would shift costs to Schedule 9 and other high load factor customers, and away from the residential and other lower load factor customers.

Q HOW DOES MR. CHERNICK PROPOSE TO ALLOCATE THE FUEL COSTS FROM RMP'S GENERATING PLANTS?

A He apparently proposes to allocate these costs essentially on an average basis. This means that the cost per kilowatthour of energy (adjusted for losses) is the same for each customer class, regardless of load factor, and regardless of how much capital cost of generation facilities was allocated to those customers.

Q IS THIS AN INTERNALLY CONSISTENT APPROACH?

A No, it is completely inconsistent and is one of the most fundamental flaws in the peaker approach.

Q PLEASE ELABORATE.

A As indicated above, the practical effect of Mr. Chernick's recommendation is to increase the proportion of capital costs of base load generation facilities allocated to high load factor customers. He does this on the theory that some additional dollars (above the cost of building a peaker) were incurred in order to reduce energy costs. Yet, he allows the lower load factor customers to share completely in the benefits of the lower fuel costs associated with these base load plants that he allocates disproportionately to high load factor customers.

While the approach would still be of questionable validity, it would at least be consistent to allocate more of the low cost energy to the customer classes that are allocated the higher share of capital costs. In other words, instead of each customer class being charged the same cost per kilowatthour for energy, customer classes with above-average load factors (who would pay an above-average cost per kilowatt for capacity under Mr. Chernick's theory) would be entitled to receive a correspondingly

greater percentage of their energy from the base load facilities that presumably (according to Mr. Chernick) would benefit them more.

Since Mr. Chernick makes no attempt to take into consideration the lower energy costs associated with the base load facilities that are disproportionately allocated to high load factor customers, his entire approach is internally inconsistent and should be rejected.

I should note that RMP's 75% / 25% allocation method already suffers from this infirmity, so extending it further as Mr. Chernick proposes would aggravate an already inappropriate allocation.

Q WOULD MR. CHERNICK'S METHOD PROVIDE FOR A MORE ACCURATE DETERMINATION OF COSTS ASSOCIATED WITH PEAK LOADS?

A No. In fact, it would provide less recognition even than RMP's study.

Q PLEASE EXPLAIN.

A In order to serve temperature-sensitive peak load, it is necessary for the utility to hold generation reserves to serve loads occasioned by high temperature excursions on little or no notice.

There is no question about the fact that the residential peak demands are driven by high summer temperatures. Temperatures vary from hour to hour, day to day, and month to month, and so do loads. RMP must have the capability of serving these peak loads whenever they occur. Because of the highly variable residential class load shape, there will be many hours when the built or contracted capacity that is required to cover the peak demands is not needed to serve load because the load is not at its peak.

To the extent that the temperature-sensitive load was to be served from owned generation capacity, that capacity is not required to serve system load in many hours, but the costs continue to be incurred and must be paid by someone. To the extent that capacity purchases were made, either for the year or season, there will be many hours when the full amount of contracted capacity and corresponding energy is not required to serve native load. To the extent that the surplus power is sold back to the market during hours when temperatures are more moderate and loads are lower, there is a high probability that RMP will not cover its costs.

The 12CP 75/25 method does not adequately identify and allocate these costs, and mis-classifying even more of the costs as energy-related would only make matters worse.

Q WHAT IS YOUR OVERALL CONCLUSION CONCERNING MR. CHERNICK'S PROPOSALS?

A In the absence of a comprehensive analysis considering both capital costs and fuel costs, the traditional method of treating both capital costs and fuel costs on an average basis and allocating capital costs on demand and energy costs on energy is the appropriate approach.

Q WHAT REVENUE ALLOCATION OR RATE SPREAD PROPOSAL DOES OCS RECOMMEND?

A The primary recommendation is set forth on page 3 of the testimony of witness Daniel Gimble. Mr. Gimble appears to rely primarily upon the results of RMP's class cost of service study. As I pointed out previously in this testimony, and much more extensively in my direct testimony, the results of the Company's class cost of service

study should not be relied upon in this proceeding because of the data deficiencies and the inadequacies and inappropriateness of many of the class cost allocation methods.

Further, it is somewhat surprising that Mr. Gimble would recommend a decrease for Rate Schedule 10, and an increase for Rate Schedule 9, in light of the fact that RMP's class cost of service study shows that in order to move to cost of service Schedule 10 would require twice as large a percentage increase as Schedule 9.

Q DOES THIS CONCLUDE YOUR PHASE I REBUTTAL TESTIMONY?

A Yes, it does.

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