Q. Are you the same C. Craig Paice that presented direct testimony in this case?

A. Yes I am.

Purpose of Rebuttal Testimony

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony presents PacifiCorp's revised 2010 Class Cost of Service Study based on the twelve month future test period ending June 30, 2010. The study has been updated to include changes in the Utah Results of Operations. In addition, in response to issues related to the matching of customer and jurisdictional loads, the methodology used to develop customer class loads has been revised and the results of it are utilized in my updated cost of service study. Additionally, some minor functional factor changes were made to address issues identified during the discovery process. I also respond to the testimony of OCS witness Mr. Paul Chernick, UIEC witness Mr. Maurice Brubaker, UAE witness Mr. Kevin Higgins, and DPU witness Mr. Joseph Mancinelli.

Summary of Results

Q. Please identify Exhibit RMP___(CCP-1R) and explain what it shows.

A. Exhibit RMP___(CCP-1R) is the summary table from PacifiCorp's June 30, 2010 Class Cost of Service Study for the State of Utah. It is based on PacifiCorp's revised annual results of operations for the State of Utah presented in the rebuttal testimony of Company witness Mr. Steven R. McDougal. Page 1 of Exhibit RMP___(CCP-1R) presents results at the Company's June 2010 rate of return assuming current rate levels. Page 2 shows the results for the revised $54.9 million price increase proposal. It also reflects the revised customer class loads as presented in the rebuttal testimony of Company witness Mr. Scott D. Thornton.

Q. Please identify Exhibit RMP___(CCP-2R) and explain what it shows.

A. Exhibit RMP___(CCP-2R) shows the cost of service results in more detail by class and by function. Page 1 summarizes the total cost of service summary by class and pages 2 through 6 contain a summary by class for each major function.

Cost of Service Study Changes

Q. Please explain why the Company revised the methodology used to develop forecasted customer class loads.

A. As described in Mr. Thornton's direct testimony customer class loads used in the cost of service study that accompanied my direct testimony (see Exhibit RMP___(CCP-3, Tab 5, Page 8) were based on historical hourly load research data which was then aligned such that Mondays in the historical year match Mondays in the forecast year, Tuesdays match Tuesdays, and so on and then extrapolated to the forecasted class energy usage for the test period. As we responded to data requests concerning customer class loads in this proceeding and reviewed this issue more fully, we determined that this approach did not properly characterize the class peak relationships among the classes. Rather than selecting the load research results for the forecast peak dates as the prior approach did, we believe it is more appropriate to utilize load research results for the actual peak day for each month in the historical period and apply those results to the forecast energy amounts in the test period to project the class monthly peak. In this way, the relationships among the classes on the peak day are retained in the forecast test period. This revised approach accurately represents Utah customers' contribution to the PacifiCorp system peak and it significantly reduced the disparity between forecast customer class load data and jurisdictional loads. Using this revised methodology, the difference between forecast customer class loads and jurisdictional loads is approximately two percent which is a significant reduction from the nine percent difference Mr. Brubaker calculates in his exhibit UIEC___(MEB-1), page 2. The Company's manager of Metered Data Management, Mr. Thornton, discusses in greater detail the derivation of forecast customer class load data and the reasons for differences between jurisdictional and class loads in his rebuttal testimony.

Q. Please explain the reasons for changing various FERC account functional factors.

A. During the discovery process the Company reviewed a significant number of functional factors used in the cost of service study. It was determined that some minor changes were warranted. These changes have been made in the revised cost of service study. An itemized list of impacted accounts is provided in Exhibit RMP___(CCP-4R). The overall cost implications produced insignificant changes to customer class revenue requirements.

Rebuttal of Mr. Chernick

Shared Services

Q. Why does the Company allocate service drops using a single service per customer?

A. The Company allocates service drop costs using a single service per average customer because Company records do not contain data regarding the number of customers per service drop. This fact has been stated in responses to OCS Data Requests 7.3, 17.6, 17.7, 17.9, 17.10, and 17.11 in the current docket as well as CCS Data Requests 35.4 in Docket No. 08-035-38 and CCS Data Request 10.12 in Docket No. 07-035-93.

Q. Mr. Chernick states that his proposed method of allocating service drop costs is an improvement over the Company's method. Do you agree?

A. No. His analysis is limited to only the residential class. The service drop allocation factor (F70) also allocates services costs to small general service, large general service, traffic signal, and outdoor lighting customers. Since some of these customers also share service drops, Mr. Chernick's method produces biased results by reducing the allocation of services to residential customers while offering no modification to the allocation of services for non-residential customers.

Q. Do you have other concerns with Mr. Chernick's proposed methodology revision?

A. Yes. Mr. Chernick's analysis of residential customers is based on the Utah 2000 Census of Housing data. Clearly, data from nearly ten years ago does not reflect the present-day Utah residential housing composition nor does simply multiplying this out-dated data by a count of the Company's total residential customers accurately identify the Company's current residential customer base. Also, Mr. Chernick assumes that there is a single standard "residential-sized" service drop for each multi-family dwelling and that for each of the Census' multi-family dwelling categories the average number of units for that category's range is appropriate. For example, he assumes for the "3 or 4 units" category that each multi-family dwelling complex in this category contains 3.5 residential customers (units) and is served by one standard "residential-sized" service drop. Likewise, for the "20 to 49 units" category he assumes that each multi-family dwelling complex contains 34.5 residential customers (units) and is served by a single standard "residential-sized" service drop. For the "50 or more" category, he assumes one service for every 50 customers. Ultimately, Mr. Chernick's proposal effectively reduces the residential class' allocation of services by 21 percent.

Q. Do all of the residents within a multi-family dwelling complex necessarily share the same service drop?

A. No. It is possible for a large multi-family dwelling complex to be served by several service drops. The configuration of service connections to multi-family dwellings varies widely depending on the facility's requirements and service characteristics.

Q. Would you expect the cost of a service drop used to serve a single residence to be the same as a service drop used to serve multi-family residences?

A. No. If multiple customers use a shared service drop, it is expected that a larger conductor size would be required. Given the unique need of each facility, the average cost for service drops shared by residential customers could vary widely and be difficult to estimate.

Q. Mr. Chernick states on lines 293 through 296 of his direct testimony that "(t)he Company did not attempt to determine the portion of its residential customers that are in multi-family buildings, the number of residential service drops installed and in use, or a process for identifying shared services." Please comment.

A. As stated in the Company's response to OCS Data Request 17.9, "a number of company personnel in Customer Service, Mapping Services, Corporate Accounting and Utah Distribution Field Operations were contacted regarding the issue of shared services. Confirmation was received that Company records do not contain shared services data." Shared services data is not collected by the Company in Utah nor in any other state the Company serves because there has been no need articulated nor prior requests for this information. If the Commission determined that this information was needed, the Company and the Commission would need to implement a public process to request a share services study. Because such a study has never been performed, the Company is unable to estimate its cost. Once a contractor was selected through the process, the cost of the study would require prior approval from the Commission. Most likely, the study would entail a thorough study design and a physical survey of all Utah residential and general service customers (approximately 800,000 customers) in order to determine and classify the types of shared services in place.

Q. Please summarize problems with Mr. Chernick's proposed reduction to the allocation of services to the residential class.

A. Mr. Chernick makes the following assumptions related to shared services:

- All non-residential customers are excluded.
- 2000 Census of Housing data accurately represents the current-day residential housing composition.
- 2000 Census of Housing data reflects the Company's residential customer base.
- Every multi-family dwelling complex has only one service drop.
- The cost of a service drop serving only a single customer is the same as that of one serving as many as 50 customers.
- There is a specific average number of customers per multi-family dwelling complex (based on the average of a given range of units within each housing category).

I disagree with each of his assumptions as described above.

Q. **Should Mr. Chernick's method for allocating services be adopted?**

A. No. Mr. Chernick's methodology for allocating shared services is not an improvement as he suggests, it is only different. It is a seriously flawed analysis that includes one-sided assumptions, inconsistency with distribution design practices, and use of non-specific RMP customer information. For these reasons it should be rejected.

Classification of Generation and Transmission Costs

Q. Do you agree with Mr. Chernick that the cost of service study filed in this docket understates the energy-related cost of generation?

A. No, I do not. The cost of service study uses the Utah Public Service Commission (the Commission) approved 75 percent demand and 25 percent energy classification methodology for generation and transmission costs. The basis for classifying generation plant 75 percent demand and 25 percent energy is to recognize their design capability of meeting both peak demand and to generate lower cost energy all hours of the day and during all seasons of the year.

Q. Please explain why the current methodology employed in the Company's cost of service study is appropriate for the state of Utah?

A. This classification issue was one of the first raised at the time of the Utah Power - Pacific Power merger since both companies previously utilized different generation fixed-cost classification methodologies. Because the newly merged company created a combined system comprised of seven states it was necessary to find a methodology suitable to all parties. Studies were conducted by the Division of Public Utilities (DPU) to determine the cause of production capacity costs with their conclusions being adopted by the Commission staffs of the states served by the Company to allocate jurisdictional costs. This methodology was also used in Docket 90-035-06, the first post-merger case to allocate cost of service. Several years following this docket, DPU studies were updated and the same conclusions were reached. Since it was first introduced, the mix of 75 percent demand and 25 percent energy has been considered by the Commission to be reasonable. The Commission's position, as stated in Section IV. A.2. of the order issued in Docket 97-035-01, provides the basis for use of this allocation methodology:

> "We conclude that twelve monthly coincident peaks, with a 75 percent demand-related and 25 percent energy-related mix, is the appropriate basis for allocating production and transmission costs to classes in the Utah jurisdiction."

Classification of generation and transmission costs was addressed at length during the Multi-State Process (MSP) discussions. As with earlier PacifiCorp Interjurisdictional Taskforce on Allocations (PITA) analyses, there was no clearly superior demand/energy classification split that emerged from analyses conducted during the Multi-State Process (MSP). Because the 75 percent demand and 25 percent energy classification of generation fixed costs currently used by PacifiCorp falls in the middle of the range of reasonable approaches, the Company found no compelling reason to change the approach.

Q. Have changes to the 75 percent demand and 25 percent energy allocation method been proposed in previous rate cases?

A. Yes. In Docket 01-035-01, USEA (United States Executive Agencies) witness Mr. Joseph Herz argued in support of 100 percent demand classification of generation fixed costs. He concluded that the 75 percent demand and 25 percent energy classification was inappropriate "in that a portion of its demand related costs are allocated according to energy use." The Company provided testimony in support of the 75 percent demand and 25 percent energy classification in this same docket. RMP witness Mr. David L. Taylor stated:

> "PacifiCorp classifies production and transmission plant and non-fuel related expenses as 75 percent demand and 25 percent energy related. The Company's goal is to supply the lowest total cost generation resources to meet our customers' needs." (Docket 01-035-01, Taylor rebuttal, page 8).

In addition Dr. George Compton, of the DPU, also responded to Mr. Herz' recommendations and conducted additional analysis on the classification question.

Q. What were the results of Dr. Compton's analysis?

A. The analysis performed by Dr. Compton determined that a portion of the fixed costs associated with generation plants are energy-related and that it is entirely appropriate to allocate some of these costs in proportion to energy consumption. Regarding the quantity of energy-related fixed costs, Dr. Compton's rebuttal testimony in the aforementioned docket illustrates continued support for the approved methodology where he stated that "… the 25% figure is reasonable." (Docket 01-035-01, Compton Rebuttal, page 3)

Q. Is the peaker allocation approach presented by Mr. Chernick an appropriate method of determining energy-related generation plant costs?

A. No. Although classifying some portion of generation fixed costs as energy-related is appropriate, as previously explained, Mr. Chernick's approach reflects a bias toward classifying an excessive portion of generation costs as energy-related. The 1992 *Electric Utility Cost Allocation Manual* published by the National Association of Regulatory Utility Commissioners (NARUC) states that using the peaker method generally results in significant portions (between 40 to 75 percent) of generation costs being classified as energy-related. In addition, Mr. Chernick's approach applies simple calculations to a very complex issue. The complexities involved in determining a proper allocation cannot be underestimated. Perhaps this is best summarized by Dr. Compton, again in rebuttal testimony in Docket 01-035-01, where he referenced the difficulty involved in calculating an appropriate demand and energy classification mix. His opinion provides guidance on this subject:

> "To perform a definitive analysis employing all (or even a large portion of) the elements of the PacifiCorp demand/profile and resources would be horrendously complex." (Docket 01-035-01, Compton Rebuttal, page 3)

Mr. Chernick's approach lacks the complexity required to meet the qualifications of a definitive analysis.

Q. How should we view Mr. Chernick's recommended changes in the energy allocation of generation-related costs?

A. These recommended changes should be rejected for the following reasons:

- This subject has received significant attention throughout the years following the Utah Power - Pacific Power merger. The PacifiCorp Interjurisdictional Task Force on Allocations (PITA), the Multi-State Process (MSP) and the 2005 Cost of Service and Rate Design Taskforce have all discussed this subject at length with no resulting changes.
- The Utah PSC gave approval for use of this allocation method in cost of service studies.
- Various analyses have been performed validating reasonableness of the 75 percent demand and 25 percent energy allocation.
- Approaches based on simplified mathematical computations lack objectivity and ignore the importance associated with determining an appropriate generation cost allocation method. Selection of an appropriate allocation method requires extensive analysis.
- Mr. Chernick's approach significantly increases the energy allocation of generation costs (60 to 80 percent energy) which would create significant cost shifts between the various rate schedules. Since the revenue requirement

spread to schedules is generally dependent upon cost-of-service information, a large or abrupt change in cost allocations could ultimately produce large rate variations violating the principle of gradualism. The principle of gradualism has been held by the Utah PSC to be an important rate making principle in order to avoid significant changes in customer rates.

Allocation of Firm Non-Seasonal Purchases

Q. What is the basis for allocating purchased power expenses as presented in the cost of service study?

A. The basis is the *Allocations Task Force Report to the Utah Public Service Commission* (December 16, 1999, page 21) which states:

> "The PSC indicated in their Order in the last PacifiCorp rate case their desire for consistent application of cost-causal principles in both jurisdictional and class allocation studies. Consistency implies that the same methodology would be used in both the jurisdictional allocation and class cost of service models to allocate similar types of costs."

The Purchased Power expense allocation presented in the cost-of-service study is consistent with allocations presented in the Jurisdictional Allocation Model (JAM) and comports with the Commission's perspective.

Q. Do you agree with Mr. Chernick that the cost of service study understates the energy-related portion of firm non-seasonal purchases?

A. No. I disagree with his position for several reasons. First, Mr. Chernick's proposal would cause Sales for Resale revenue and Purchased Power Expenses to be allocated differently. This is due to the fact that Sales for Resale revenue would be allocated inconsistent with the cost of the resources supporting those revenues. This same allocation issue, raised in Docket 97-035-01, was addressed by the Company and the Division. The Allocation Taskforce arising from that case also addressed this issue. A discussion on this subject was included in the *Allocations Task Force Report to the Utah Public Service Commission* (December 16, 1999, page 13). The report stated:

> "Early in the task force discussions, the parties agreed with the principle that the sales for resale revenue should be allocated on the same basis as the cost of making the sales."

The cost of service study maintains this proportional perspective when comparing the percent of total sales for resale revenues to total purchases power expenses for all classes.

Next, Mr. Chernick states that non-seasonal generation plant is more energy-related than is shown in the cost of service. His only support for this assertion is his discussion regarding use of a peaker method to allocate generation costs. As previously discussed, this is not a definitive analysis.

Finally, he asserts that the Company does not attempt to separate the variable and fixed components of firm non-seasonal purchases and treats all purchase costs as fixed plant costs. He further estimates the energy-related percentage of firm purchase costs as approximately 83 percent of short-term firm and long-term contract costs projected in GRID runs prepared for this proceeding. Company personnel who operate the GRID model have determined that there is no accurate way to separate firm non-seasonal purchases between variable and fixed components. Given that the Company cannot determine a capacity/energy separation and that the approved Revised Protocol Methodology allocates these costs in the Jurisdictional Allocation Model (JAM) using an SG factor (75 percent demand, 25 percent energy), Mr. Chernick's estimate of firm non-seasonal purchases being 83 percent energy-related is highly subjective, non-definitive, and has the potential to shift costs among customer classes.

Q. Please summarize your findings regarding current cost of service study classification and allocation methodologies.

A. The cost of service study filed by the Company is a reasonable representation of cost functionalization, classification, and allocation of the Utah revenue requirement. The 75 percent demand / 25 percent energy allocation accepted by the Utah PSC and used in this study is an appropriate methodology which has been significantly discussed and analyzed. Mr. Chernick's recommended allocation changes to the cost study would produce cost shifts among customer classes potentially creating large rate change variations across classes. He provides no analyses to illustrate total potential class revenue requirement shifts. Given the absence of cost movement indication it is impossible to ascertain the full impact of Mr. Chernick's recommendations and determine if the principle of gradualism would be preserved.

Q. Does Mr. Chernick propose any additional modifications to the Company cost of service methodology?

A. Yes. Mr. Chernick believes that some part of distribution plant should be classified as energy-related because duration of peak is a consideration when designing the size of transformers and conductor. Mr. Chernick also believes that substation weights should consider the size of substation peaks. These issues are addressed in the rebuttal testimony of Rocky Mountain Power witness Mr. Lowell

E. Alt.

Rebuttal of Mr. Brubaker

Allocation of Generation and Transmission Plant

Q. Mr. Brubaker argues for a change in the classification of generation costs. Do you agree with his recommendation that generation and transmission fixed costs should be classified as 100 percent demand related?

A. No. PacifiCorp's generation portfolio includes different types of resources including coal fired steam plants, hydro facilities, simple and combined cycle gas combustion turbines, wind turbines, and purchases. Although it may be reasonable to classify the fixed costs of simple cycle combustion turbines and other peaking resources 100 percent demand related (which are designed to run during peak load hours only) such a classification would not be appropriate for the majority of PacifiCorp's portfolio. The Company's resource fleet is heavily skewed toward base load plants that were constructed not only to meet peak load, but also to produce low cost kilowatt-hours 24 hours per day, 7 days per week as needed to provide the energy requirements of all customers. The capital investment of a coal fired steam plant and other base load plants is greater than the capital investment of a peaking turbine. This additional investment was made, not to meet the peaking needs of the Company, but to generate lower cost kilowatt hours. Therefore, it would seem reasonable that some of the additional capital investment be classified as energy related. Although Mr. Brubaker's recommendation contrasts significantly with OCS consultant Mr. Chernick's position (significant increase in energy classification), the Utah Public Service

Commission approved 75 percent demand and 25 percent energy classification methodology employed in the cost of service study represents a "middle-of-the-road" approach as determined from analyses conducted during the MSP which I referenced earlier in my testimony.

Q. Do you agree with Mr. Brubaker's opinion that because of growth in summer peak compared to loads in other seasons that allocation of generation and transmission plant using 12 coincident peaks (CP) is out-dated?

A. I agree that summer peak loads are growing. For this reason, the Company introduced modifications to the allocation of generation fixed costs and net power costs (first presented in Docket 06-035-21) to reflect the impact of seasonal costs and load differences. These modifications represent a step toward meeting the objective of recognizing seasonal load and cost differences in the cost of service study without causing significant cost shifts between customer classes. However, I do not agree that the 12 CP cost allocation methodology is out-dated for two reasons. First, even though RMP is a summer-peaking utility costs are allocated throughout the year based on the entire integrated system because that is how the system is planned and dispatched. This is evident from the fact that Gadsby, one of the Company's peaker plants, was in operation during 10 consecutive months from June 2008 through March 2009. A 12 CP allocation for system demand costs has been used since the Utah Power - Pacific Power merger in 1989 and continues to be used because it represents actual system operations. It recognizes that each of the monthly peaks is important. Second, it is appropriate for allocation methods to be consistent between inter-jurisdictional and class cost of service allocations. These two positions comport with Utah PSC findings (see order in Docket 97-035-01, Section IV.A.2, 4 respectively).

Q. **How do the alternative allocation methodologies recommended by Mr. Brubaker impact cost of service results?**

A. Mr. Brubaker proposes to allocate generation among classes and supports using either a 3CP or Average and Excess Demand (AED). He states that either method shows Schedule 9 customers earning a rate of return substantially in excess of the system average and deserving a rate reduction. This is the underlying benefit of either methodology. However, Mr. Brubaker fails to mention how his recommendations impact other customer classes. Page 2 of both exhibits, UIEC___(MEB-8) and UIEC___(MEB-9), illustrate how dramatically costs shift among other rate schedules at the target rate of return. For example, the 3CP method shows the residential class needing approximately a $36 million revenue requirement increase, yet the AED method shows these same customers needing a revenue requirement increase in excess of $52 million. Schedule 6 customers receive more than a $30 million increase using the 3CP but only a $9 million (approximate) increase with the AED method.

Q. **What conclusions can be drawn from Mr. Brubaker's recommendations?**

A. Neither the 3CP or AED allocation methods are appropriate for the Utah jurisdiction since they do not represent how the Company's system is planned and dispatched. Additionally, the magnitude of cost shifting among customer classes using either of Mr. Brubaker's recommended methods coupled with the inconsistency of revenue requirement increases/decreases among customer classes would clearly create an unstable rate environment and significantly violate the principle of gradualism. As can be seen in this case, parties have varying opinions on this subject, the UPSC approved 12CP, 75 percent demand / 25 percent energy allocation method is the appropriate methodology for cost allocations in the state of Utah given that it represents a "middle-of-the-road" methodology.

Transmission Revenue Requirement

Q. In his testimony, Mr. Brubaker requests that the Company reconcile the $118 million transmission-related revenue requirement shown in the cost of service Exhibit RMP___(CCP-1) with the $55 million amount set forth in a filing made by PacifiCorp with the Federal Energy Regulatory Commission ("FERC"). How do you explain the differences between these amounts?

A. Mr. Brubaker incorrectly characterizes the FERC filing as specifying the Company's total transmission-related revenue requirement for Utah retail service. It does not. Although not specifically identified in his testimony, but as indicated in UIEC response to RMP data request 1.1, Mr. Brubaker indicated that he was referring to PacifiCorp's August 31, 2009 filing of an annual update to its <u>load ratio share data</u>, as required by PacifiCorp's Open Access Transmission Tariff ("OATT") for FERC-jurisdictional transmission service. PacifiCorp is a transmission provider that offers various types of transmission service under the terms and conditions of its OATT, which also sets forth the pricing for these services. PacifiCorp's transmission customers taking network service pay for this service based on their load ratio share. Load ratio share is the ratio of a network customer's load to the transmission provider's total transmission system load, computed in accordance with applicable provisions of the OATT. Network customers are responsible for paying charges for network service equivalent to each network customer's respective load ratio share percentage of the transmission provider's annual transmission revenue requirement. Also pursuant to the OATT, PacifiCorp must update its load ratio share calculation annually with actual metered-value data from the prior year. The updated data from the prior year is effective August 1 of each year and reflects the prices that network customers must pay for network service for the coming year.

In its August 31, 2009 filing required by FERC to update its load ratio share data, PacifiCorp included an Exhibit C showing a comparison of current and anticipated revenues from network customers based on the updates to the data. Exhibit C contains a table which lists all of PacifiCorp's network customers, including PacifiCorp Energy. The table shows that PacifiCorp Energy's updated load ratio share for the network service utilized for Utah network load is 22.76711 percent. This percentage is then applied to the transmission provider's annual transmission network revenue requirement, resulting in annual network service pricing of $55,177,921.

This value does not represent, as Mr. Brubaker suggests, RMP's <u>entire</u> transmission revenue requirement for Utah retail service. In order to reliably serve load, PacifiCorp Energy must also purchase transmission service from other transmission providers besides PacifiCorp. In addition, PacifiCorp Energy may also purchase other types of transmission service from transmission providers in order to serve load, including point-to-point transmission service. These types of charges are not reflected in the $55,177,921 amount shown in Exhibit C of the FERC filing.

Q. Mr. Brubaker states that he wouldn't expect these two values to be exactly equal. How does the amount in the cost of service study compare with the amount in the required FERC OATT load ratio share filing once transmission service purchased from other providers is included?

A. Very favorably. In the filed cost of service study in this case, FERC account 565, Transmission of Electricity by Other, totals slightly more than $58 million. If one adds this amount to $55.2 million contained in the 2008 test period FERC filing, the total is over $113 million. The total amount in the cost of service study for the forecast test period ended June 2010 is approximately $118 million--a difference of only four percent.

Rebuttal of Mr. Higgins

MSP Rate Mitigation Cap Allocation

Q. Do you agree with Mr. Higgins that the Company's treatment of the MSP Rate Mitigation Cap in the class cost of service approach is incorrect?

A. No. I do not believe the Company's treatment of the MSP Rate Mitigation Cap (RMC) employed in the filed cost of service study produces a conceptual error. Cost of service treatment of the RMC is consistent with the Company's representations before the Commission in the hearing to approve the MSP Stipulation held on July 19, 2004 as evidenced by the following:

> CHAIRMAN CAMPBELL: What about the rate mitigation? How does that work? ….
> MR. TAYLOR: …We will then take the proposed total state revenue requirement under the rolled-in allocation method times 101.5 percent. …That will then become the maximum revenue requirement that the Company would request from the state. And if that number is smaller than… the revised protocol, that rolled-in plus one-and-a-half percent become the target revenue requirement.
> That number is then input into the class costs of service model as the target revenue requirement, and then … it would calculation-wise make the return look a little lower, because the costs will all have been allocated under the revised protocol, but then you have a target revenue requirement that is somewhat lower. So the return component in that calculation will show up as being a little bit smaller. (Transcript Pages 53 – 55).

Q. According to Mr. Higgins, why does he feel the Company's approach is incorrect?

A. Mr. Higgins' opinion is that the RMC reduces the allocation of generation costs to the state of Utah instead of reducing the Company's return on rate base. Because of this viewpoint, he recommends that the impact of the RMC be reflected as a reduction to generation expense so that the Company return is unaffected.

Q. Do you agree with this portrayal of RMC?

A. No. The RMC does not reduce Utah's allocation of costs. The MSP Revised Protocol as stipulated by the Utah parties, including those represented by Mr. Higgins, and approved by the Utah Commission is the methodology used to allocate costs to Utah. Therefore, Utah is allocated its full proportional share of total Company costs. The RMC does not limit the allocation of generation costs it only limits the level of revenues the Company is allowed to collect effectively lowering the rate of return the Company will actually realize in Utah. The Company's cost of service study reflects the impact of the RMC by incorporating this lower "effective" return on rate base it produces.

Q. Are there other alternatives to the cost of service treatment of the RMC?

A. Certainly. A Company suggested alternative to current cost of service treatment would be to lower the target return for the generation function, producing a different return for them when compared to the rates of return for other functions. The Company is not in opposition to examining this or other alternative approaches and welcomes input from all parties regarding additional methods for treating the RMC. However, the Company's traditional view is that all business functions produce the same rate of return.

Income Tax Expense Allocation

Q. Please explain Mr. Higgins' recommendation for the allocation of income tax expense to the classes.

A. Mr. Higgins proposes allocating a calculated income tax expense to each class based upon that class' forecast present revenue. Under such an approach, each class' income tax expense responsibility would be related to the current level of revenues which that class is paying. A class whose earnings exceeded an allowed rate of return would be allocated more taxes than is their fair share and allocated less if earnings fell short of an allowed rate of return.

Q. What problems are associated with Mr. Higgins' method?

A. Mr. Higgins' method for allocating income tax expense is based upon the actual current level of revenue that is being collected from each customer class. Depending upon the class selected, this amount may be below, at or above cost of service. For example, the Street and Area Lighting class' annual revenue is

$13,383,047, but its cost of service at the earned level is at $11,001,878. In other words, the Street and Area Lighting class pays nearly an 18 percent premium to its cost of service. Conversely, the Irrigation class' annual revenue is $10,962,790, while its cost of service at the earned level is $12,745,293, a discount of just over 16 percent. Implementing Mr. Higgins' method would produce counter-intuitive results, as it rewards classes that pay less than their cost of service and punishes classes that pay more.

Q. Why does the Company allocate income tax expense to the classes within its cost of service model using rate base?

A. State and federal income tax expense (accounts 40911 and 40910) are allocated to each cost of service class on functionalized Factor 101- Rate Base since the Company earns a rate of return on its rate base and is taxed on its earnings. Additionally, in Docket No. 79-035-12 the Commission ordered the Company to allocate federal income tax expense on rate base and reaffirmed this decision in Docket No. 97-035-01. The Commission order specifically stated at page 88:

> "Any move to functionally unbundle cost-of-service analyses makes allocating income taxes based on taxable income even more problematic. Currently, separate rates for the production, transmission, and distribution functions do not exist, so revenues and taxable income by function are not directly identifiable. But when rate base is allocated to functions, income taxes by function can be determined. For these reasons, we conclude that income taxes should be allocated based on relative rate base."

As such, the method used by the Company in the cost of service study comports with the UPSC's position.

Rebuttal of Mr. Mancinelli

Cost of Service Model

Q. Mr. Mancinelli compares and contrasts Dr. Logan's cost of service model (Logan Model) with the Company's. Please summarize this discussion.

A. In his testimony, Mr. Mancinelli describes reviewing both the Company's cost of service model and the Logan Model and expresses his preference for the Logan model. He also characterizes the Company's cost of service model as being non-transparent, difficult to use, and containing logic that is hard to follow.

Q. Do you agree with Mr. Mancinelli's criticisms of the Company's cost of service model?

A. No. With some training, the Company's comprehensive cost of service model is easy-to-use and very transparent. Becoming proficient with the model's mechanics may require some assistance but with some effort, the ability to skillfully operate the model is obtainable in a relatively short period of time. I have observed and assisted numerous individuals, both inside and outside of the Company, who achieved success with model operation.

Q. Has the Company's embedded cost of service model previously been criticized with respect to the level of difficulty involved in its use?

A. No. Since the Company's unbundled cost of service model was first introduced in the late 1990's, I do not recall any filed complaints about the level of difficulty with the model's operation as Mr. Mancinelli has. This model, with various improvements made over time, has been used in numerous regulatory proceedings in different states where the Company files embedded cost of service studies.

Q. Has the Company made efforts to familiarize and train interested parties with the Company's cost of service model.

A. Yes. The Stipulation in Cost of Service and Rate Spread – Phase II in Docket No. 08-035-38 called for a work group to address the mechanics of the COS model and to hold at least three substantive work group meetings within 90 days of stipulation approval. The first of these meetings was held on June 11, 2009 with interested parties and additional meetings were held in July and August. The Company addressed all issues raised by the parties and developed a comprehensive Cost of Service Instruction Manual (49 pages) with copies distributed to all participants. Realistic scenarios were also included to assist users to make changes as desired. Also, a list of Company personnel available for consultation regarding model operation was included with the manual. This manual is provided as Exhibit RMP___(CCP-5R) to illustrate the level of detail included in the instructions.

Q. Were any Company personnel contacted regarding the cost of service model?

A. Not to my knowledge.

Q. Mr. Mancinelli expressed his preference for the Logan model and stated that he primarily relied upon it for his analysis. Please comment.

A. As Mr. Mancinelli stated, "RMP has concluded that the Logan Model is an alternative model that renders the same results as the RMP cost of service model." The Company takes no issue with other parties using the Logan model and acknowledges that it is a fine analytical tool. However, as expressed by Dr. Logan during work group meetings, his model does not meet the Company's requirements which are different than his own. Specifically, the Company's model is structured to easily print necessary regulatory exhibits and it has been formatted so results from the JAM can be efficiently and accurately downloaded with minimal effort.

It is natural that individuals have varying preferences. I personally have some difficulty navigating the Dr. Logan's Model because I am not particularly familiar with it, however, I do know that his model is well suited to his specific preferences. Mr. Mancinelli's criticism of the Company's model, in my opinion, is unwarranted.

Functionalization and Allocation

Q. Do you agree with Mr. Mancinelli's claim that the Company's cost of service model does not explicitly classify costs identified at the functional level and they could be considered skipped?

A. Absolutely not. The "Func Study" tab in the cost of service clearly illustrates, in summary and itemized detail format, functionalized FERC account and subaccount data that is downloaded directly from the JAM. At this point, the JAM and cost of service data matches dollar-for-dollar. Since the JAM does not classify costs, this tab also provides a classification of functionalized data. Functionalized and classified data, through use of macros built into the cost of service model, is then allocated to the various customer rate schedules according to internal and external allocation factors which are detailed in the "COS Factor Table" tab. All data is identified and labeled to assist with data flow recognition. Again, this model has been used for many years by the Company and never has data been considered “unidentified” or “skipped.”

Q. Mr. Mancinelli proposes use of seasonal allocation factors to allocate a number of items. Why does the Company allocate these items using Factor 10 instead of seasonal allocation factors?

A. The cost of service study’s prior use of seasonal system allocation factors was replaced with the Company’s proposed method for classifying and allocating all generation and transmission fixed costs since all generation resources are now allocated on a seasonal basis. This method is based on Proposal #9 from the December 15, 2005 Utah Cost of Service and Rate Design Taskforce Report to the UPSC and was initially employed in the cost of service study filed in Docket 06-035-21. The Task Force was able to achieve a general consensus that the Company should explore a cost of service method that better reflects seasonal and time differentiated load and cost differences without causing significant cost shifts between customer classes. This objective is achieved through use of monthly coincident peak weightings applied to the demand component of Factor 10.

Q. Mr. Mancinelli proposes changing the functionalization and allocation factors for a number of line items within the cost of service study, because he feels that they better reflect the PITA factors used for those line items within the JAM. Do you agree with his recommendations?

A. I agree with several of his recommendations and disagree with others. The cost of service study filed with my rebuttal testimony incorporates the revisions proposed by Mr. Mancinelli with which the Company agrees. Exhibit RMP___(CCP-4R) lists these revisions. These revisions have minimal cost allocation impacts on customer classes.

Q. Please explain why you disagree with other recommendations Mr. Mancinelli's makes regarding cost classification.

A. As stated in the response to DPU Data Request 44.2 costs are collected for regulatory reporting purposes into the Business Warehouse (BW) database. Each account balance is assigned a functional identifier since they are directly related to one or more of the primary business functions: Production (P), Transmission (T), Distribution (D) (or Distribution Poles and Wires (DPW)), Retail (R), or Miscellaneous (M). The functional identifier is driven by the location code associated with an asset or transaction. In some cases the business purpose of the asset or transaction is used rather than the physical location.

Account balances from BW are aggregated into the Jurisdictional Allocation Model (JAM) by FERC account and by a Revised Protocol jurisdictional allocation factor which roll up to a line item. PITA factors were developed by the 2002 MSP working group for each FERC account in the JAM. Line items, which are organized by FERC account and PITA factor, are then assigned or allocated to one or more of the five functions using functional factors (FUNC factors) created in the Functional Factor file provided as Exhibit RMP___(CCP-3), Tab 3. FUNC factors are selected which most closely correspond to the FERC account and PITA factor of the line item being examined. JAM data is then downloaded into the Cost of Service (COS) study such that both models are populated with the same underlying data. Line items are functionalized in the same manner in both the JAM and COS study.

Q. Please provide an example of how FUNC factors are determined.

A. I will present an example for two different accounts: Account 154 and Account 397. Each of the items within Account 154 – Materials and Supplies is functionalized on the MSS functional factor. The MSS functional factor is developed from the end-of-year balances of Materials and Supplies that are related to each function as reported within the Company's FERC Form 1 on page 227. The calculation of this factor is shown in Exhibit RMP___(CCP-3), Tab 3, Page 15.

Each of the items within Account 397 – Communication Equipment is functionalized on the COM-EQ functional factor. The COM-EQ functional factor is developed by applying functional percentage estimates for the balances of 20 subaccounts in the Account 397 total. The calculation of this factor is shown in Exhibit RMP___(CCP-3), Tab 3, Page 6. Mr. Mancinelli's assertion that the Company ignores underlying cost classification as set forth in the JAM is incorrect since FUNC factors provide greater detail and clarification regarding various accounts than is show in the JAM.

Q. Mr. Mancinelli proposes changing the functionalization factors for both Account 154 and Account 397 to be more consistent with the PITA factors employed in the JAM model. Shouldn't Account 154 and Account 397 be functionalized in a manner consistent with the PITA factors in the JAM as Mr. Mancinelli proposes?

A. No. The Company tries to maintain consistency between the JAM model and the functionalization that takes place in the "Func Study" tab of the cost of service model. For example, when the (CN) PITA factor is employed within the JAM model for a particular line item, generally that same line item is functionalized on the corresponding (CUST) FUNC factor within the "Func Study" tab of the cost of service model. Other corresponding factors include the (SE) PITA factor and (P) FUNC factor, the (SSGCH) PITA factor and the (P) FUNC factor, and to a lesser extent the (SO) PITA factor and the (PTD) FUNC factor. While a specific FUNC factor may often be used when a similar corresponding PITA factor is used, this is not always the case. It is important to keep in mind that PITA factors and FUNC factors are used for different purposes. If more detailed information is available for functionalization purposes, an alternative FUNC factor may be used such as is done with the MSS and COM-EQ FUNC factors for accounts 154 and 397. The PITA factors used for these accounts, however, are sufficient for the purposes of apportioning costs among the states.

Q. How should Mr. Mancinelli's proposal that wind generation resources be allocated entirely on energy be viewed?

A. The cost of service attempts to maintain consistency with the JAM and allocations performed within the JAM are subject to review of the MSP Standing Committee. Mr. Mancinell's proposal would have to be presented to the Committee for review and comment.

Q. Mr. Mancinelli states that he agrees with Mr. Higgins that the RMC adjustment should be applied solely to the Production function. Do you agree with this assertion?

A. As I stated earlier in my testimony in response to Mr. Higgins' proposal regarding this issue, the Company has suggested a possible alternative to current cost of service treatment and is not in opposition to examining alternative approaches. Since this issue was discussed during the 2005 Utah Cost of Service and Rate Design Taskforce without reaching consensus, the Company suggests additional discussion be conducted to determine the most appropriate approach. Given the revenue requirement impacts to other customer classes, input should be received from all impacted parties.

Workpapers

Q. Have you included your workpapers?

A. Yes. Exhibit RMP___(CCP-3R) is a CD that includes the cost of service study underlying the summary tables in Exhibit RMP___(CCP-1R) and Exhibit RMP___(CCP-2R).

Q. Does this conclude your rebuttal testimony?

A. Yes it does.