Rocky Mountain Power
Docket No. 10-035-124
Witness: Steven R. McDougal

BEFORE THE PUBLIC SERVICE COMMISISON
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Supplemental Direct Testimony of Steven R. McDougal

Deferred Accounts

June 2011

Q. Please state your name and business address.

A. My name is Steven R. McDougal and my business address is 201 South Main, Suite 2300, Salt Lake City, Utah, 84111.

Q. Are you the same Steven R. McDougal who submitted pre-filed direct, test period rebuttal and test period surrebuttal testimony in this proceeding?

A. Yes.

Q. What is the purpose of your supplemental direct testimony on deferred accounts ("Testimony") in this proceeding?

A. The purpose of my Testimony is to support the motion of the Company for determination of the ratemaking treatment for the Company's deferred accounts for incremental net power costs ("NPC") and incremental renewable energy credit ("REC") revenue. The motion and my Testimony are prompted by the testimony on the deferred accounting issue related to REC revenue raised by the Office of Consumer Services ("OCS") and the Utah Association of Energy Users Intervention Group ("UAE").

Q. Please summarize your Testimony.

A. The Company requests that the Commission determine the ratemaking treatment for the Company's deferred accounts for incremental NPC and incremental REC revenue so that the Company may begin amortization of both accounts as of the date the rates in this case go into effect. The Company believes that starting the amortization of both accounts simultaneously is in the customers' interest.

DEFERRED ACCOUNTS

Q. Was the amortization of the REC and NPC deferred balances addressed in the intervenor direct testimony in this rate case?

A. The amortization of the deferred REC balance was addressed in the testimony from the OCS and UAE, but neither they nor any other party addressed the issue of the deferred NPC balance.

Q. Why didn't the Company address this issue in the rate case when it was originally filed?

A. The Company filed this general rate case prior to receiving the Commission's Corrected Report and Order related to the energy balancing account ("EBA") in Docket No. 09-035-15 on March 3, 2011 ("EBA Order"). Inclusion of both deferred NPC and deferred REC revenues in the EBA was an issue in that case. Therefore, the Company was unable to address the issues raised in the EBA Order in the direct filing in the general rate case.

In the EBA Order, the Commission indicated that "[w]e will treat the deferred REC revenues accruing pursuant to any future decision in Docket No. 10-035-14 in a separate proceeding." In addition, the order stated: "We will address the ratemaking issues associated with the stipulation on deferred net power cost separately from this order." The Company believes that since the issue of the deferred REC balance was raised by UAE and OCS in this case, this case is the appropriate case to deal with both issues.

Q. When did the Company begin deferring Utah allocated REC revenue and deferred NPC?

A. Pursuant to the Commission's July 14, 2010 Report and Order on Deferred Accounting Stipulation in Docket Nos. 09-035-15 and 10-035-14, the Company has deferred incremental NPC in a Deferred NPC Account from February 18, 2010 and incremental REC revenue in a Deferred REC Account from February 22, 2010.

Q. What position was taken by parties on the amortization of the deferred REC balance in their testimony in this case?

A. In testimony filed on May 26, 2011, the OCS and UAE requested that the Commission determine the ratemaking treatment of the balance in the Deferred REC Account as part of this case. The OCS requested that the balance (as reported by the Company on the last day of hearings in the case) be amortized over a period of three years starting on September 21, 2011, with the amount amortized trued up to actual accruals through September 20, 2011 through a deferred account for REC revenue that would be in place thereafter. UAE requested that the balance that had accrued in the Deferred REC Account through December 31, 2010, which UAE claimed was $42 million plus carrying charges, be amortized from September 21, 2011 through September 20, 2012 and that the balance accruing from January 1, 2010 through September 20, 2010 be amortized from September 21, 2012 through September 20, 2013. In addition, the OCS and UAE both made statements possibly suggesting that balances should be an adjustment to the revenue requirement in this case or in subsequent general rate cases.

Q. Did other parties address the issue of the REC deferral?

A. The Division of Public Utilities ("DPU") did not make a recommendation on ratemaking treatment of the balance in the Deferred REC Account in its testimony filed May 26, 2011, but did recommend establishment of a tracker for REC revenue with filings and rate adjustments to parallel those made under the EBA so that REC revenue could be trued up along with NPC.

Q. What is the magnitude of the REC and NPC deferrals recorded by the Company?

A. As of the end of 2010, the balance in the Deferred REC Account from February 22, 2010 through December 31, 2010 was approximately $39 million. The Utah deferred NPC from February 18, 2010 through December 31, 2010 is approximately $54 million, prior to any consideration of use of the rolled-in allocation method as discussed in the EBA Order.

The Company estimates that through September 21, 2011, the date rates set in the 2011 general rate case will go into effect, the balance in the Deferred REC Account will *decline* by approximately $3 million because actual incremental REC revenue being received during 2011 is less than the $3.0 million monthly customer sur-credit as reflected in Schedule 98 included in the Commission Order Approving Settlement Stipulation in Docket Nos. 10-035-13, 10-035-14 and 10-035-89. At the same time, the Company estimates that the balance in the Deferred NPC Account will *increase* by approximately $103 million from January 1, 2011 through September 20, 2011.

Q. How do you account for the difference between the approximately $42 million balance in the Deferred REC Account as of December 31, 2010 and the approximately $39 million mentioned in your previous answer?

A. The difference between the $42 million and $39 million is related to the monthly REC revenues in rates, and the Utah allocation of actual REC revenues. The Company will provide its analysis of the difference in its rebuttal testimony.

Q. Does the Company believe that it would be in the customers' or Company's best interest to start amortization of the REC deferral and not the NPC deferral?

A. No. If the Commission determines the ratemaking treatment of the balance in the Deferred REC Account as part of this case, it should also determine the ratemaking treatment of the balance in the Deferred NPC Account as part of this case. To provide customers with a potential rate sur-credit based on the Deferred REC Account balance while holding the potential rate surcharge associated with the Deferred NPC Account balance that accumulated over the same time period for later treatment would not be appropriate and simply delay the recovery of the deferred NPC to a later period when there may not be an offsetting credit. To the extent possible, it would be in the customers' best interest to net the sur-credit associated with deferred REC revenue against the surcharge associated with the deferred NPC to minimize the impact on customers.

Q. Should deferred REC and NPC amounts be included in base rates?

A. No. The amortizations of the deferred accounts should be of finite amounts amortized over specified of time. Since the time period between cases is not known, including these deferrals in base rates would lead to an over- or under-recovery of the deferred balances.

Q. What is the Company's proposal regarding amortization of the deferred REC and NPC balances?

A. Since the amortizations of the deferred accounts are of a finite amount, the Company should be allowed to recover or return the amount over a specified period of time, which the Company recommends be a 24-month period. The Commission should allow the Company to defer the total deferred NPC balance, offset by the amount of the deferred REC balance. The Company should provide an estimate of this balance through September 20, 2011 as part of the Company's rebuttal filing in this rate case. This amount should be used by the Commission to amortize the expense over a 24-month period.

Q. If this amount is based on a projection, is the Company proposing any type of true up?

A. Yes. The Company proposes that the Company be required to file actual REC and NPC deferrals through September 20, 2011 as soon as those numbers are available. These numbers would be subject to audit. Any difference between the actual deferrals and the amounts being amortized based on the estimate would be considered in the EBA for the NPC and a REC balancing account or tracker for the REC revenue amount.

Q. Would this same mechanism be used for future REC or NPC deferrals?

A. No. Future NPC deferrals will be handled as part of the EBA. For future REC deferrals, the OCS and DPU have both made proposals as part of their direct testimony in the general rate case to true-up REC revenue in-rates to actual REC revenue. The Company believes that a balancing account or tracker for REC revenue should be adopted by the Commission.

Q. Why is it appropriate to amortize the balance in the Deferred NPC Account for recovery from customers in rates?

A. As recognized by the Commission in the EBA Order, NPC have been extremely volatile and difficult to forecast for several years. In addition, variances in NPC are substantial and largely outside the control of management. Therefore, the Commission concluded that an EBA is justified to recover differences between actual NPC and NPC included in rates.

Forecasted Utah-allocated NPC and REC revenues included in rates were set in Docket No. 09-035-23. For the deferral period, prior to carrying charges, actual NPC is projected to exceed the amount included in rates set in Docket No. 09-035-23 by over $152 million and actual REC revenues are projected to exceed the amount included in rates in the same docket by $60 million. Both variances were unforeseen and extraordinary, and the NPC variance is over two and one-half times larger than the projected variance in REC revenue from the amount included in rates during the same period.

The Company filed its request for an ECAM more than three months prior to the filing of its 2009 general rate case with the intent that the ECAM would be instituted at conclusion of the 2009 general rate case as contemplated by Commitment U 23 in Docket No. 05-035-54 and Utah Code Ann. § 54-7-13.5(2)(b)(ii). When it became apparent that the proceedings in the ECAM docket would not be concluded by February 18, 2010, the Company filed a motion requesting that a deferred account for incremental NPC be established effective February 18, 2010, the date rates set in the 2009 general rate case went into effect. As discussed above, the motion was granted by the Commission as part of its order granting the application of UAE for a deferred account for incremental REC revenue.

Given these circumstances, it is just, reasonable and fair for the Commission to order amortization of the balance in the Deferred NPC Account contemporaneously with the balance in the Deferred REC Account. The Company has always maintained that it had no objection to deferral and recovery of incremental REC revenue as long as it was also allowed deferral and recovery of incremental NPC. On the other hand, it would be inappropriate and unfair for the Commission to order amortization of the balance in the Deferred REC Account but to deny recovery of the balance in the Deferred NPC Account. The difficulty of forecasting both amounts during a general rate case is similar in nature, and the balance in the Deferred REC Account is substantially less than the balance in the Deferred NPC Account.

RECOMMENDATION

Q. In conclusion, what is the Company recommending?

A. Based upon the foregoing, the Company recommends that:

1. The Commission determine the ratemaking treatment of the Deferred REC Account and the Deferred NPC Account in this case by ordering amortization of the estimated balances in both accounts as of September

20, 2011 over a 24-month period with a true up to actuals and the establishment of a REC balancing account or tracker.

2. Alternatively, if the Commission decides not to determine the ratemaking treatment of the Deferred NPC Account in this case, the Commission remove the issue of the ratemaking treatment of the Deferred REC Account from this case and determine the ratemaking treatment of the Deferred NPC and Deferred REC Account in consolidated proceedings in Docket Nos. 09-035-15 and 10-035-14.

3. The amortizations of the deferred accounts not be included in base rates as possibly suggested by the OCS and UAE.

Q. Does this conclude your Testimony?

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that on June 2, 2011, a true copy of the foregoing Supplemental Direct Testimony of Steven R. McDougal – Deferred Accounts was served by email on the following:

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