BEFORE THE UTAH PUBLIC SERVICE COMMISSION

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	))))))	DPU EXHIBIT 1.0 DOCKET NO. 10-035-124

Pre-filed Direct Testimony

Of

Joni S. Zenger, PhD

On Behalf of

Utah Division of Public Utilities

March 9, 2011

Test Period

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Joni S. Zenger, PhD

Pre-Direct Test Period Testimony

Introduction

Q. Please state your name, business address, and occupation for the record.

A. My name is Joni S. Zenger. My business address is Heber Wells Building, 160 East 300 South, Salt Lake City, Utah, 84114. I am employed by the Utah Division of Public Utilities (Division) of the Utah Department of Commerce as a Technical Consultant.

Q. On whose behalf are you testifying?

A. The Division.

Q. Please describe your education and work experience.

A. I received my Doctorate degree in economics from the University of Utah in early 2001. Prior to that, I earned my Bachelor's degree and Master's degree, also in economics, from the University of Utah. I began working for the Division in the fall of 2000. In addition, I taught various economics and statistics courses for a ten-year period from 1996 through 2006, first at the University of Utah and then at the University of Phoenix. I have worked on transmission and wind-related projects at the Division as well as general rate cases and lead the Division's team on PacifiCorp's Integrated Resource Plan.

Q. Have you previously testified before the Public Service Commission (Commission) of Utah?

A. Yes. I have testified numerous times in Utah. In particular, I was the Division's test period witness in Dockets No. 07-035-93, 08-035-38, and 09-035-23.

Scope of Testimony and Recommendations

Q. What is the purpose of your test year testimony?

A. The purpose of my testimony in this phase of Rocky Mountain Power's (Company) rate case is two-fold. First, I present the Division's analysis, findings, and recommendation to the Commission on the appropriate test period to be used in this case. Second, I introduce the two other Division witnesses providing test period testimony, Mr. Matthew Croft and Mr. Douglas Wheelwright, utility analysts with the Division and provide summaries of their testimonies.

Q. What test period does the Company propose using to determine revenue requirement in this case?

A. In this rate case the Company proposes using a fully forecasted test period beginning July 1, 2011 and ending on June 30, 2012, to support its requested approval of an increase in its retail electric utility service rates in Utah in the amount of $232.4 million. In compliance with Utah Administrative Code Rule R746-700-10.A.2, the Company filed normalized results of operations for an alternative test period ending June 30, 2011.

Q. What test year does the Division recommend be used for this rate case?

A. While the Division has some concerns about the Company's forecasts or assumptions that the Company used to construct its test period, the Division does not object to the test period proposed by the Company. The Division believes that its auditors and other staff can appropriately make adjustments to the test period revenue requirement proposed by the Company for any appropriate reason, including, but not limited to, forecasting issues. This could include modifying or reducing the expenses or rate base from that proposed by the Company in the event of forecasting error or a lack of sufficient evidence supporting the proposed revenue or expense.

The Division's Analysis and Findings

Q. What is the basis for the Division's test period determination in this case?

A. In determining the appropriate test period, the Division specifically looked to the best evidence it could find without any presumption for or against a particular test period. The Division determined that the Company's proposed test period complied with Utah's statute[1] and previous Commission orders. In the Commission's 2004 Test Period Order, the Commission identified several factors that the Division considered in this case in determining the appropriate test period.[2] The factors include: the general level of inflation; changes in the utility's investment, revenues or expenses; changes in utility services; the availability and accuracy of data to the parties; the ability to synchronize

[1] Section 54-4-4(3).
[2] Report and Order on Test Period, Docket No. 04-035-42, October 20, 2004.

the utility's investment, revenues and expenses; whether the utility is in a cost increasing or cost declining status; incentives to efficient management and operation; and length of time the new rates are expected to be in effect. Additionally, in this case the Division considered the current economic climate, the projected recovery from the recession, and the ability of parties to effectively analyze the Company's forecast.

According to the Company, the major drivers in this rate case are the investment needed for capital projects, at least some of which could not be recovered in a major plant addition filing; net power costs increases; and wholesale sales decreases. The Division analyzed (or is in the process of analyzing) each of these factors in detail to determine the accuracy and merits of the Company's forecasts.

While the economy was slow in getting out of the recession, and robust growth is yet to be sustained, there are reasons for cautious optimism. For example, manufacturing is accelerating, personal income is up, exports are gaining, and confidence is improving. First quarter 2011 Gross Domestic Product is expected to be higher than third and fourth quarter 2010. While there remain problems, particularly in the real estate sector, a general consensus seems to have emerged that the worst is behind us and that economic growth should pick up going forward. Even with the sluggish economy, the Company is in a cost increasing status and must build new generation, distribution, and transmission facilities to meet its projected load deficit. According to the Company's 2011 Integrated Resource Plan,[3] the Company will have a negative load and resource balance in the year 2012, and additional resources will

[3] PacifiCorp 2011 Integrated Resource Plan, March 9, 2011, p. 77.

continue to be needed for the next ten years in order for the Company to meets its future service obligation. According to the Company, many of the investments the Company is making during the test period are required in order for the Company to provide safe and reliable service. For example, Company witness Mr. Darrell T. Gerrard testifies, “the Company must maintain a minimum level of system reliability to provide adequate transmission service” and that some of the projects and related investments proposed by the Company are necessary to meet this requirement.[4] Mr. Gerrard continues by explaining that the Company is required to meet more than 100 North American Electric Reliability Corporation standards and “The project investments and their respective **in-service date timing** are required to maintain compliance” with those standards (emphasis added).[5] Another type of capital investments that the Company claims is required at this time is the pollution control equipment that the Company is installing to reduce emissions and/or meet clean air standards. On the one hand, if the Company has little or no discretion in the timing of these plant additions in order to meet system reliability or other standards, the Company could incur these costs without a reasonable chance for recovery if a closer-in test period were used for the case. On the other hand, if because a closer-in test period is used, the Company postpones the investments to the detriment of reliability or other failures, customers may not be well served. In either case, the public interest may not be met with a closer-in test period.

[4] Direct Testimony of Darrell T. Gerrard, p. 5, lines 98-110.
[5] Id. at p. 6, 116-121.

Division witness, Mr. Matt Croft, will discuss the accuracy of the Company's previous plant addition forecasts. By using an average test period, as opposed to an end-of-period test period, the Division's auditors will be able to synchronize the Company's investment, revenues and expenses with any adjustments that the Division deems reasonable.

Division witness Mr. Doug Wheelwright analyzes the Company's past and projected load growth and net power costs, and the variance in its forecasts over time. As Mr. Wheelwright will testify, net power costs are increasing significantly over time, and the Company has indicated that increasing coal costs are a large factor contributing to the increased net power costs.[6]

Q. You indicate that Division analysts are looking at the Company's forecast accuracy. Can you summarize the Division's findings and conclusions?

A. The Division's principal findings concerning previous plant addition forecasts are outlined below and are discussed in more detail in the testimony of Mr. Croft.

1) From an adjusted and weighted average perspective, the Company has over forecasted its plant additions in the previous five rate case filings.[7]

2) From a non-adjusted but weighted average perspective, the Company has over forecasted its plant additions in three of the last five rate case filings.[8]

[6] Direct Testimony of Cindy A. Crane, p. 3, lines 57 – 66.
[7] The five filings include the original 2007 GRC filing, the supplemental 2007 GRC filing, the original 2008 GRC filing, the supplemental 2008 GRC filing, and the 2009 GRC filing.
[8] Id.

3) Eight of the ten weighted average scenarios performed in this analysis yielded an absolute dollar deviation between forecasted and actual plant additions that increased over time.

4) Despite the increase in absolute dollar deviations over time, the amount of the over forecasting is not material enough to warrant a rejection of the forecasted period proposed by the Company.

With respect to net power costs, Mr. Wheelwright will testify that there is a significant increase in the forecast for net power costs due to the change in the forecast value of the electric swaps transactions included in the short-term firm purchases. He compares the calendar year 2011 time period with the June 2012 test year and explains the noticeable differences (DPU Exhibit 3.3). Specifically, he notes that the change in net power costs between the two periods is a reduction in net power cost of $124 million from $1.521 billion to $1.397 billion. The primary reason for the difference includes a $76 million difference in electric swaps, a $10.5 million reduction in the total coal fuel burn expense, and a $40.2 million reduction in the total gas fuel burn expense. Finally, Mr. Wheelwright compares the Company's historic forecasted load growth to actual load and determines that adequate adjustments can be made as deemed necessary to ensure that the Company's test period results are reflective of the rate effective period. Furthermore, the Commission's recent approval of an Energy Balancing Account Mechanism[9] should mitigate (if not eliminate) parties' concerns over the choice of test period.

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[9] Report and Order, Docket No. 09-035-15, March 3, 2011.

Q. Explain how the test period ending June 2012 improves the likelihood that expenses the Company will incur during the test period will most closely be reflected in the rate effective period.

A. Between the time that a rate case is filed and the rates go into effect, even with the 240-day clock established by statute, there can be a significant time lag before new investments are recognized, yet they have already been paid for by the Company. Using a future test year improves the likelihood that these expenses incurred by the Company will more closely be reflected in the rate effective period.

For example, if the Company were to file its next general rate case in January 2012, the rate effective periods from this case and that future case would be back-to-back: the rate effective period in this case would be the 12 months roughly from October 2011 through September 2012; with the rate effective period from the future case starting in October 2012. However, given the timing of the two rate cases, the regulatory lag is considerably different depending on the choice of test year. With the Company's test period, the lag is approximately three months; with a 2011 calendar year test period the lag is approximately nine months.

Q. Has the Division estimated the revenue impact of using a calendar 2011 test period versus the Company's test period?

A. Yes, at least partially with the information provided to date. In this case the Division has determined that if the Company's proposed June 2012 test period was changed to a calendar year 2011 test period, the Company's gross electric plant in service balance would be reduced by $668 million. Excluding the effect of bonus depreciation, the Utah revenue requirement for this amount would roughly be $42 million.[10] The Division understands that many of these additions are related to distribution or environmental protection equipment. As discussed previously, dismissing these investments out-of-hand by choosing a closer-in test year may not meet the public interest standard for setting reasonable rates. Therefore, the Division supports the use of the Company's forecasted test period.

On the other hand, the Division recognizes that ratepayers have to be protected from paying for capital projects that may not go into service as projected or for costs that exceed the actual initial project cost. At this time, the Division has not completed its due diligence on these proposed plant additions and, therefore, cannot speak to the merits of these additions. However, the Division believes that there may be mechanisms that would mitigate parties concerns. For example, regardless of the test period chosen by the Commission, the Division is considering tracking mechanisms, similar to Questar Gas Company's Feeder Line Tracker that would allow cost recover once certain plant additions are placed into service.

Furthermore, regulatory delay or lag can adversely affect the public interest by hampering the progress and efficiency of a public utility or by preventing ratepayers from receiving their share of the benefits flowing from progress and efficiency. For

[10] The plant addition value, $668 million, represents the difference between the 13-month average gross plant balance under a June 2012 test year and a December 2011 test year. The Utah revenue requirement is roughly $668*0.15*0.42 million, where the 15% represents the pre-tax return and depreciation expense and the 42% is Utah's allocated share.

example, both consumers and the public utility are harmed when the introduction of a new or improved service or technology is postponed or if the public utility is not allowed to operate efficiently and safely because capital projects cannot be funded.

Conclusion and Recommendations

Q. What has the Division determined with respect to the accuracy and reliability of the Company's forecasts as they pertain to this case?

A. The Division has determined that the Company's forecasts can adequately be adjusted, if needed, by our auditors and analysts to account for any variance or adjustments that we may find.

Q. What does the Division believe is the appropriate test period for this case?

A. Based on the evidence described above and in Mr. Croft and Mr. Wheelwright's respective testimonies, the Division does not object to the test period proposed by the Company beginning July 1, 2011 and ending June 30, 2012, subject to the conditions explained above. The Division believes that the information filed in this case can be adjusted such that the requested period can be reasonably reflective of the conditions the Company will face in the rate effective period. Finally, the Division recommends that the Commission approve the Company's June 2012 test period as filed in this case.

Q. Does that conclude your direct testimony?

A. Yes, it does.