

1 **Q. Please state your name and business address.**

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

4 **Q. Are you the same Steven R. McDougal who submitted pre-filed direct**
5 **testimony in this proceeding?**

6 A. Yes.

7 **Purpose and Summary of Testimony**

8 **Q. What is the purpose of your test year rebuttal testimony (“Testimony”) in**
9 **this proceeding?**

10 A. The purpose of my Testimony is to respond to the test period testimony of the
11 Office of Consumer Services (“OCS”), Utah Association of Energy Users
12 Intervention Group (“UAE”) and the Utah Industrial Energy Consumers
13 (“UIEC”).

14 **Q. Please summarize your Testimony.**

15 A. My Testimony explains why the Company’s proposed test period from July 1,
16 2011 to June 30, 2012 better reflects the conditions the Company will experience
17 during the rate-effective period in this case than the 2011 calendar-year test period
18 proposed by UAE and UIEC. Specifically my testimony will explain why:

- 19
- 20 • The Commission’s adoption of the Energy Balancing Account (“EBA”) and the Major Plant Addition (“MPA”) statute, Utah Code § 54-7-13.4, do
21 not eliminate the need to use a test period that best reflects the rate-
22 effective period.
 - 23 • The selection of an appropriate test period is important to assure that

24 dynamic allocation factors are appropriately reflected in rates.

25 • Other claims by the parties are inaccurate.

26 **Impact of MPA and EBA**

27 **Q. Messrs. Kevin Higgins, Maurice Brubaker and Daniel Gimble suggest that**
28 **the EBA and MPA statute, Utah Code § 54-7-13.4, eliminate the need for the**
29 **June 30, 2012 test period. Do you agree?**

30 A. No. As shown in pages 8.8.22 through 8.8.33 of Exhibit RMP____(SRM-3) and
31 summarized in Table 6 in the direct testimony of Mr. David L. Taylor, the
32 Company is adding approximately \$3.7 billion in new capital expenditures from
33 July 1, 2010 through June 30, 2012. Of these, only \$1.1 billion, or less than 30
34 percent of the total, qualifies for alternate rate recovery under the MPA statute.
35 Of the amount that qualifies for filing under the MPA statute, \$800 million was
36 already included in the Company's MPA Docket No. 10-035-89 and is currently
37 reflected in rates. Of the remaining \$2.9 billion not in rates only \$300 million, or
38 approximately 10 percent, qualifies for filing under the MPA statute. That leaves
39 over \$2.6 billion of plant additions for which the only recourse the Company has
40 to achieve cost recovery is through a general rate case.

41 **Q. Are there any other reasons why the MPA statute may not eliminate**
42 **regulatory lag associated with new MPA capital additions?**

43 A. While the Company believes that an MPA case can be filed simultaneously with a
44 general rate case, the Company requests that the Commission clarify that this
45 option exists. Absent the ability to have overlapping or simultaneous MPA and
46 general rate case filings, the Company's ability to recover a fair return on major

47 plant additions is reduced, especially if a test period that does not align with the
48 time rates will be in effect is used in a rate case.

49 An example of this is the Naughton Unit 2 flue gas desulfurization system,
50 the largest project in this case which has not already been included in an MPA
51 filing. This project is scheduled to go into service in November 2011 at a cost of
52 approximately \$157 million. It is unclear whether the Company could elect to
53 remove this from the rate case, and seek cost recovery under the MPA statute. If
54 the Company cannot file simultaneously for MPA treatment of this investment
55 during the pendency of this rate case, then the use of any test period other than a
56 test period from July 1, 2011 to June 30, 2012 would result in the Company
57 significantly under-earning on this project. Below is a comparison of the rate
58 base associated with this project under the MPA statute, and using the two test
59 periods proposed in this case. This investment will be in service for ten months of
60 the rate-effective period. Seeking recovery under the MPA statute would allow
61 the Company the opportunity to fully recover costs for the ten months, resulting in
62 an impact on average rate base of \$131 million. In addition, the plant would be
63 completely included in rates on an ongoing basis. Using the test period proposed
64 by the Company, the Company will include this investment in rates at \$97 million
65 for the entire rate-effective period, resulting in 26 percent less than total recovery
66 on this investment. Using the test period proposed by UAE and UIEC the
67 Company will only be allowed to include this amount in rate base for 2/13 of the
68 test period, resulting in an under-recovery of over 80 percent. In addition, seeking
69 cost recovery in a rate case will result in this investment being only partially in

70 rate base because of the 13 month average until the Company’s next general rate
71 case.

	Amount Included in Rate Base	Months included in rates during Rate-Effective Period	Average Rate Base during the Rate-Effective Period
MPA filing	\$157 m	November 2011 through September 2012 – aligns with the months actually in-service.	\$131 m
July 1, 2011 – June 30, 2012 test period	\$97 m	8/13 included using 13 month avg. rate base, starting with rate-effective date of this case.	\$96 m
Jan 1, 2011 – Dec. 31, 2011 test period	\$24 m	2/13 included using 13 month avg. rate base, starting with rate-effective date of this case.	\$23 m

72 **Q. Doesn’t the EBA eliminate the need for the July 1, 2011 through June 30,**
73 **2012 test period?**

74 A. No. The biggest reason the EBA does not eliminate the need for the Company’s
75 proposed test period is the 30 percent disallowance, or sharing band, that would
76 result if actual NPC exceed forecast NPC as a result of using a test period that is
77 not aligned with the rate-effective period. This represents an amount the
78 Company will never be able to recover. This point is acknowledged in the
79 testimony of other parties, who make comments such as the Company can “seek
80 to recover up to 70 percent of any deferred net power cost balance.”¹ These
81 parties seem to think that recovery of 70 percent of prudent costs is appropriate
82 and that the Company doesn’t deserve the opportunity to recover all of the costs
83 prudently incurred to serve its customers. Given that only 70 percent of
84 differences between forecast and actual NPC will be recovered, it is essential that

¹ Gimble, lines 55-56

85 NPC forecasts reflect the NPC that will be incurred during the rate-effective
 86 period, not a period that is closer in time that does not correspond to the rate-
 87 effective period.

88 The EBA approved by the Commission uses a monthly formula to
 89 compare actual costs to the base amount approved in the last general rate case.
 90 Under this formula, it is important the test period match as many months as
 91 possible in the rate-effective period to get the best possible results from the EBA.
 92 The chart below shows the monthly calculation of the EBA, and that the test
 93 period proposed by the Company aligns with the EBA in nine out of the twelve
 94 months in the rate-effective period.

Actual Month	Jan 1, 2011 – Dec 31, 2011 Test Period		Jul 1, 2011 – Jun 31, 2012 Test Period	
	Base Month	EBA Comparison	Base Month	EBA Comparison
Oct 2011	Oct 2011	Actual and Base Match	Oct 2011	Actual and Base Match
Nov 2011	Nov 2011		Nov 2011	
Dec 2011	Dec 2011		Dec 2011	
Jan 2012	Jan 2011	Jan 2012		
Feb 2012	Feb 2011	Feb 2012		
Mar 2012	Mar 2011	Mar 2012		
Apr 2012	Apr 2011	Mismatch - Base Month is 12 Months before Actual	Apr 2012	
May 2012	May 2011		May 2012	
Jun 2012	Jun 2011		Jun 2012	
Jul 2012	Jul 2011		Jul 2011	Mismatch - Base Month is 12 Months before Actual
Aug 2012	Aug 2011		Aug 2011	
Sep 2012	Sep 2011		Sep 2011	

95 For Utah NPC by month, we should use total Company NPC multiplied by Utah
 96 actual factors. If we use the factors from this case, it is important that they reflect
 97 the rate-effective period.

98 **Q. Do you agree with Mr. Brubaker’s claim that a calendar-year test period**
99 **would be easier to reconcile as part of the EBA?**²

100 A. No. The EBA formula is based on comparing the *monthly* base net power costs
101 with *monthly* actual net power costs. Since the comparison is done on a monthly
102 basis, it is important to align as many months as possible to reduce the
103 reconciliation issues and to make the forecasts as accurate as possible. Using
104 monthly data from a model run on a calendar-year test period versus a July
105 through June test period will not make a difference. The Company has experience
106 dealing with non-calendar year data sets without problem. And because rates will
107 not necessarily be in effect for calendar years, there would be no reconciliation
108 benefit to calendar year test period. Therefore, Mr. Brubaker’s point has no
109 validity.

110 **Q. What do you think of Mr. Brubaker’s quote from the Company that “RMP**
111 **... is willing to abandon forecasts of net power costs?”**³

112 A. Mr. Brubaker is taking this quote out of context. As Mr. Brubaker knows, the
113 above quote was part of the ECAM docket wherein the Company was requesting
114 an ECAM with no sharing mechanism. If the EBA order had allowed the
115 Company to recover 100 percent of its prudently incurred NPC as requested in the
116 Company’s filing, then the NPC forecast in this case would not be as big of an
117 issue and the only real issue would be that of cash flow impacts. However, the
118 EBA as ordered by the Commission only allows for 70 percent recovery of the
119 variance between actual and base NPC. Therefore, the quote used by Mr.

² Brubaker , p. 3, lines 10 - 12

³ Brubaker, p. 5, lines 5-6

120 Brubaker is irrelevant and does not accurately state the Company's position.

121 **Factors**

122 **Q. Are there additional reasons why using an earlier test period is**
123 **inappropriate?**

124 A. Yes. Rate base and other costs in this case are impacted by the allocation factors
125 used. Using factors from January 1, 2011 to December 31, 2011 is inherently
126 wrong and will not reflect the dynamic nature of the Company's inter-
127 jurisdictional allocations. Given that inter-jurisdictional allocation factors are
128 constantly changing, the Commission should set rates using factors that best
129 reflect the period when rates will be in effect.

130 Utah is continuing to grow faster than the system average, increasing its
131 allocation of system costs. In the test period, Utah's SG factor is 43.3 percent and
132 the SE factor is 42.6 percent. In the alternative period, Utah's SG is 42.8 percent
133 and the SE is 42.1 percent. Not only do these allocation factors determine Utah's
134 share of the vast majority of the Company's revenue requirement, but they also
135 impact the base NPC amount used in the EBA. Ignoring all other changes, using
136 factors that don't adequately reflect the rate-effective period will result in Utah
137 customers not paying their share of system costs.

138 In addition to correctly calculating allocation factors for the general rate
139 case, the use of a forecast period correctly sets factors for use in major plant
140 addition case and billing components for the current GRC. It also sets the correct
141 load for use in calculating projected revenues and net power costs.

142 **Other Items**

143 **Q. Mr. Higgins states he has concerns with “pricing formulations that reinforce**
144 **inflation”.**⁴ **What is your opinion of Mr. Higgins’ concerns with using**
145 **inflation in forecasts?**

146 A. The Company has two concerns with this issue. First, this is not an issue the
147 Commission needs to consider as part of selecting a test period. Regardless of the
148 test period chosen, Mr. Higgins can propose an adjustment to the level of inflation
149 included in the case. Second, while we understand his concerns, ignoring
150 inflation in any type of forecast is bad practice and does not reflect reality.
151 Whether it is forecasting a rate case, or forecasting the money needed for
152 retirement, inflation is a factor that needs to be considered and included. I am not
153 aware of any projection that claims inflation will not occur in the future, and since
154 we know it will occur it needs to be considered in a forecasted test period.

155 In addition, the inflation rate the Company used in this rate case is very
156 moderate. In fact, as noted in Mr. A. Richard Walje’s testimony, even including
157 modest inflation, our operation and maintenance costs on a per unit of power basis
158 are not projected to increase, and our administrative and general expenses are
159 expected to decrease. Including such levels of inflation in forecasting will not
160 impact the national inflation numbers, but choosing to ignore inflation will
161 guarantee that the Company’s rates will not recover its prudent costs. The self
162 fulfilling prophecy is not that including inflation in our case will cause inflation,
163 but that excluding inflation will set prices that will understate the cost of
164 providing service.

⁴ Higgins, p. 18, lines 445 – 454.

165 **Q. Is Mr. Brubaker’s statement that the Company has not provided a**
166 **quantification of capital investments that do not qualify as major plant**
167 **additions correct?**

168 A. No. Mr. Brubaker states that the Company “alleges it has made significant other
169 ‘smaller’ capital additions since July 1, 2010” but that the Company “offers no
170 quantification of the amounts of these investments.”⁵ He then restates later in his
171 testimony RMP has claimed there are capital additions that were not included in
172 the MPA but “there is no explanation as to what those projects are.”⁶ Mr.
173 Brubaker has apparently not read the Company’s filing and exhibits. Pages 8.8
174 through 8.8.47 of exhibit RMP____(SRM-3) provide 48 pages of details on capital
175 additions, the vast majority of which do not qualify for major plant additions
176 filings as described above.

177 **Q. Do you have any other concerns with Mr. Brubaker’s testimony?**

178 A. Yes. Mr. Brubaker mischaracterizes or misinterprets my testimony on two main
179 issues by referring to comments out of context.

180 First, Mr. Brubaker claims that regarding “whether the utility is in a cost
181 increasing or cost declining status,” I admit that “this is not an issue.”⁷ What I
182 actually stated is there is minimal pressure associated with increasing O&M costs.
183 However, I go on to say “as a result of its capital investment program and changes
184 in net power costs the Company is in a rising cost environment.”⁸

185 Second, Mr. Brubaker misinterprets my testimony stating that

⁵ Brubaker, p. 10, lines 15-17

⁶ Brubaker, p. 14, lines 11 - 16

⁷ Brubaker, p. 11, lines 16-17

⁸ McDougal Direct, page 14, lines 317 – 318.

186 “management has no control over the cost of capital additions.”⁹ I did not mean
187 to imply by this statement as assumed by Mr. Brubaker that management cannot
188 control costs or prioritize capital additions. What I meant was that the capital
189 additions included in the test period in this rate case have gone through various
190 management reviews, and are necessary and prudent to provide reliable and safe
191 service for our customers. Management has projected the costs of these projects
192 based on careful analysis and budgeting processes. There is no way management
193 can compensate for the use of an inappropriate test period selection by cutting the
194 capital in this case. This is especially true because the capital additions in this
195 rate case are largely fixed, and most will be in-service or already started prior to
196 an order in this rate case.

197 **Q. Does this conclude your Testimony?**

198 **A. Yes.**

⁹ Brubaker, p 11, line 25 through p 12, line 1.