

Docket No. 20000-³⁸⁴-ER-10
Witness: Brian S. Dickman

BEFORE THE WYOMING PUBLIC SERVICE
COMMISSION

ROCKY MOUNTAIN POWER

Direct Testimony of Brian S. Dickman

November 2010

1 Q. Please state your name and business address with PacifiCorp dba Rocky
2 Mountain Power (the "Company").

3 A. My name is Brian S. Dickman and my business address is 201 South Main, Suite
4 2300, Salt Lake City, Utah, 84111.

5 **Qualifications**

6 Q. What is your current position at the Company and what is your employment
7 history?

8 A. I am currently employed as the manager of revenue requirement for the Company.
9 I have been employed by the Company since 2003 including positions in revenue
10 requirement and regulatory affairs. Prior to joining the Company, I was employed
11 as an analyst for Duke Energy Trading and Marketing.

12 Q. What are your responsibilities as manager of revenue requirements?

13 A. My primary responsibilities include the calculation and reporting of the
14 Company's regulated earnings or revenue requirement, application of the inter-
15 jurisdictional cost allocation methodology, and the explanation of those
16 calculations to regulators in the jurisdictions in which the Company operates.

17 Q. What is your educational background?

18 A. I received a Master of Business Administration from the University of Utah with
19 an emphasis in finance and a Bachelor of Science degree in accounting from Utah
20 State University. I completed the Utility Management Certificate Program at
21 Willamette University and I have also attended various educational, professional
22 and electric industry-related seminars.

1 Q. Have you testified in previous regulatory proceedings?

2 A. Yes. I have filed testimony in proceedings before the Idaho Public Utilities
3 Commission, the Wyoming Public Service Commission, and the Utah Public
4 Service Commission.

5 Purpose of Testimony

6 Q. What is the purpose of your direct testimony?

7 A. My direct testimony addresses the calculation of the Wyoming-allocated revenue
8 requirement and revenue increase requested in this case. In support of this request,
9 my testimony includes the following:

- 10 • Calculation of the \$97.9 million dollar overall revenue increase required
11 for the Company to recover its Wyoming revenue requirement of \$664.7
12 million.
- 13 • Support for the test period in this case, consisting of the 12 months ending
14 December 31, 2011, and the related treatment of rate base on an average
15 basis.
- 16 • A discussion of the 2010 Protocol inter-jurisdictional allocation
17 methodology utilized to compute the requested price increase and the
18 procedure that is currently ongoing before the Wyoming Public Service
19 Commission ("the Commission") addressing inter-jurisdictional
20 allocations.
- 21 • Support for the ongoing accounting for property and liability insurance
22 expense and charges from MidAmerican Energy Holdings Company
23 ("MEHC") for administrative services, two items addressed in MEHC

1 merger commitments that are set to expire during the test period. I also
2 describe the Company's treatment of revenue from the sale of renewable
3 energy credits ("RECs").

- 4 • Explanation of the process used by the Company to prepare the Wyoming
5 results of operations for the test period and a detailed explanation of the
6 normalizing adjustments included in the case.

7 In addition to support for the Company's revenue requirement I discuss a number
8 of items that have been raised in previous cases and explain their treatment in this
9 case or provide follow-up information as directed by the Commission. My
10 testimony is accompanied by various supporting exhibits including the
11 Company's proposed test period results as well as the historical results of
12 operations for the period ending June 30, 2010.

13 Revenue Requirement

14 **Q. What is the revenue increase necessary to achieve the requested return on**
15 **equity ("ROE") in this case?**

16 **A. Utilizing Dr. Samuel C. Hadaway's recommended ROE of 10.6 percent produces**
17 **an overall Wyoming revenue requirement of \$664.7 million. When compared to**
18 **retail revenue at present rates an overall revenue increase of \$97.9 million is**
19 **needed for the Company to achieve its recommended return. Without a rate**
20 **increase, Rocky Mountain Power will earn an overall return on rate base ("ROR")**
21 **of 5.0 percent in Wyoming during the test period. This return is far less than the**

1 8.33 percent ROR included in the stipulation in Docket No. 20000-352-ER-09¹
2 and is less than the 8.36 percent ROR requested in this case.

3 Wyoming's jurisdictional revenue requirement is determined based on the
4 2010 Protocol allocation methodology which is currently being considered before
5 the Commission as I will explain further on in my testimony. Exhibit
6 RMP__(BSD-1) provides a summary of the Company's Wyoming-allocated
7 results of operations for the test period, and details supporting the revenue
8 requirement by FERC account are provided in Exhibit RMP__(BSD-2).

9 **Q. Does this case consider all components of the Company's revenue**
10 **requirement, including net power costs?**

11 **A. Yes. The overall revenue increase requested in this case encompasses all revenue**
12 **requirement components. The Company currently recovers its net power costs**
13 **("NPC") through the Schedule 94 NPC Power Cost Adjustment Mechanism**
14 **("PCAM") tariff. As part of this Docket, the Company is proposing to reset the**
15 **base NPC at the level included in the test period in this case. Page 1 of Exhibit**
16 **RMP__(BSD-1) shows the breakout of total revenue requirement into the NPC**
17 **and non-NPC components. Certain non-NPC components of the test period**
18 **revenue requirement are impacted by NPC-related items, such as renewable**
19 **energy tax credits, and these items are all synchronized with the test period NPC.**

¹ The stipulation in Docket No. 20000-352-ER-09 was approved by the Commission on July 29, 2010. That settlement specified an allowed return on rate base of 8.33% but did not include a specific ROE. The Commission last authorized a specific ROE of 10.25% in the settlement of Docket No. 20000-277-ER-07.

1 **Test Period**

2 **Q. What test period did the Company use to determine revenue requirement in**
3 **this case?**

4 A. The Company used the pro forma results of operations for the period of time
5 beginning January 1, 2011, and ending December 31, 2011. The test period was
6 developed using historical data for the twelve months ended June 2010 as a base.
7 As I will discuss in greater detail further in my testimony, rate base is included
8 using the average balance over the test period.

9 **Q. Why did the Company choose the year ending December 31, 2011, as the test**
10 **period?**

11 A. The Company's primary objective in determining a test period is to develop
12 normalized results of operations based on a period of time that will best reflect the
13 conditions during which the new rates will be in effect. Beyond satisfying this
14 fundamental ratemaking principle, the Company also considers the statutory
15 constraints of the jurisdiction, issues addressed in previous regulatory proceedings
16 and collaboration with intervenors in those cases, the current regulatory
17 environment, and the need for transparency with customers and regulators. The
18 Company's proposed test period in this case balances the need for adequate
19 recovery of prudent costs with these other considerations.

20 **Q. What business factors influenced the Company's choice of test period in this**
21 **case?**

22 A. Two main drivers are causing the need for a revenue increase in this case: capital
23 investment and net power costs. As a regulated utility we must continue to incur

1 these increased costs to meet our customers' growing demand for electricity and
2 to improve service reliability.

3 Rocky Mountain Power is building new generation facilities, improving
4 the efficiency and reducing the environmental footprint of existing generating
5 plants, increasing the capacity of its transmission system, and building new
6 distribution lines and substations. New facilities are significantly more expensive
7 than similar facilities currently included in rates. The test period includes over
8 \$1.4 billion more electric plant in service (total Company) than the previous case,
9 even after considering rate base averaging in this case. The Company will place
10 over \$1.2 billion (total Company) into electric plant in service during calendar
11 year 2011 alone. On a Wyoming-allocated basis, total rate base in this case is over
12 \$140 million higher than the previous case. Costs for significant new facilities
13 reflected for the first time in this rate case include the Dunlap I wind generating
14 plant in Wyoming, the Populus to Ben Lomond 345-kilovolt transmission line
15 between Idaho and Utah, and pollution control facilities at the Naughton power
16 plant in Wyoming. As explained by Company witness Mr. Gregory N. Duvall,
17 total Company net power costs are expected to rise from the \$1.003 billion set in
18 the previous rate case settlement to \$1.377 billion in the test period.

19 **Q. Does the Company rely on actual costs the development of its future test**
20 **period?**

21 **A.** Yes. Development of a future test period begins with actual costs and then
22 includes certain pro forma adjustments to reflect future conditions. But regardless
23 of the chosen test period, establishing new rates inevitably involves a certain

1 amount of informed projections of the future. With the dynamic nature of the
2 world in general and the electric industry in particular, it is unlikely that a strictly
3 historical test period will result in a revenue requirement that will allow the
4 Company a fair opportunity to earn its authorized rate of return.

5 **Q. Is the development of the test period in this case consistent with that of test**
6 **periods in previous Company filings in Wyoming?**

7 A. Yes. The development of this case is generally consistent with how the Company
8 has prepared prior cases in Wyoming, including the 2008 and 2009 general rate
9 cases (Docket Nos. 20000-333-ER-08 and 20000-352-ER-09). Variations from
10 previous cases include the timing of the forecasted test period and rate base
11 treatment. The forecasted period in this case extends approximately 13 months
12 beyond the date of filing and 18 months beyond the historical base period. In this
13 case, rate base is calculated using average balances over the test period,² whereas
14 end-of-period balances were used in the previous two cases. The test period
15 average of rate base for calendar year 2011 places the point estimate of rate base
16 at June 2011.

17 **Q. When will a rate change become effective in this proceeding?**

18 A. The Company is requesting that new rates become effective September 22, 2011,
19 ten months after the Company's application. It is important to note that the rate
20 increase will take effect almost nine months after the beginning of the test period.

² Electric plant in service and accumulated depreciation are reflected on a 13 month average, other rate base components are on a beginning/ending average basis.

1 Q. Is a future test period necessary to represent the conditions when new rates
2 from this case are in effect?

3 A. Yes. An environment of rapidly increasing costs emphasizes the need for rates to
4 be set based on a test period that looks into the future to adequately reflect
5 conditions expected during the rate effective period. Only a future test period can
6 sufficiently capture the rate-making impacts of growing customer load, the capital
7 investment required to serve it, and the operation and maintenance ("O&M")
8 costs required to maintain system safety and reliability. If the rates in this case
9 were set based upon outdated historical investment levels and costs, the Company
10 would have no chance of being compensated properly for the service provided to
11 customers and would not have a reasonable opportunity to earn the return
12 authorized by the Commission. Even with the forecast being relied on in this case
13 (with a point estimate of rate base at June 2011) the Company will continue to
14 experience lag if capital additions continue at the current pace because the
15 midpoint of the rate effective period is March 2012.

16 If rates are set on purely historical costs they would not reflect the reality
17 of steadily increasing revenue requirement and would not adequately reflect the
18 Company's cost of serving customers during the rate effective period. Prices paid
19 by consumers should be set at a level that matches contemporaneously the cost to
20 provide service. A rate base, rate of return regulated utility like Rocky Mountain
21 Power must be given a reasonable opportunity to recover its cost of service, and I
22 believe that, similar to the Company's most recent general rate cases in Wyoming,
23 the Company's current circumstances are a perfect example of the need for a

1 future test period.

2 **Q. Does the Company's case include investments placed in service after the date**
3 **new rates become effective?**

4 A. Yes. Because the Company's proposed test period extends beyond the point at
5 which rates would normally become effective in this case (10 months beyond the
6 date of filing, or September 22, 2011), the projections of future capital additions
7 include investment placed in service after rates become effective. The Company's
8 test period addresses this issue by including rate base using average balances. The
9 Commission clearly stated its expectation that the Company utilize average rate
10 base with a forecast test period in its final order concluding the Company's 2009
11 general rate case in Docket No. 20000-352-ER-09. As mentioned previously,
12 using average balances for the test period effectively results in a point estimate for
13 rate base as of June 30, 2011, or three months *prior* to any rate change. But
14 because the test period and the rate effective period are not perfectly aligned,
15 using average rate base also means that as the Company continues to place new
16 investments into service after September 22, 2011, rates will still not entirely
17 reflect the true then-current cost of providing service.

18 **Historical Results of Operations**

19 **Q. Did the Company provide the most recently available historical results of**
20 **operations with its filing?**

21 A. Yes. Consistent with the stipulation and Commission order approving the
22 settlement reached in the 2009 general rate case in Docket 20000-352-ER-09, the
23 Company's filing in this case includes the historical results of operations for the