Witness OCS – 1R TY

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	**)**	
Rocky Mountain Power for Authority	**)**	**Docket No. 10-035-124**
to Increase its Retail Electric Utility	**)**	**Test Period Phase**
Service Rates in Utah and for	**)**	**Rebuttal Testimony of**
Approval of Its Proposed Electric	**)**	**Daniel E. Gimble**
Service Schedules and Electric	**)**	**For the Office of**
Service Regulations	**)**	**Consumer Services**

March 17, 2011

I. INTRODUCTION

Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY THAT PROVIDED THE OFFICE'S TEST PERIOD RECOMMENDATIONS IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I respond to certain issues raised in the direct testimony of Company witness Mr. David Taylor and Division witnesses Ms. Joni Zenger and Mr. Matthew Croft.

II. COMPANY DIRECT TESTIMONY

Q. DOES THE COMPANY ACCURATELY REPRESENT THE OFFICE'S POSITION ON TEST PERIOD IN THE 2007 GRC (07-035-93)?

A. No. On page 17, lines 320-322, Mr. Taylor states:

> "In the Company's 2007 general rate case, the Company, the Division of Public Utilities and the Office of Consumer Services all supported use of a test period that extended approximately 18.5 months from the date the case was filed."

Mr. Taylor's statement essentially mischaracterizes the Office's position on test period as one of simple support instead of a more complex, layered recommendation that included concerns relating to the ability to effectively adjust projected information extending out 18-plus months and the development of various <u>customer safeguards</u> to address a situation where "the substantial level of projected expenditures contained in the filing may not be achieved."[1]

Q. DID THE OFFICE SUPPORT THE USE OF THE COMPANY'S PROPOSED TEST PERIOD IN THE 2007 RATE CASE?

A. The Office's testimony focused on the need for a test period decision to be made by the Commission early in the process. While the Office did not explicitly

[1] DeRonne Direct TY Testimony, p. 17, lines 146-147.

oppose the Company-proposed test period as other parties did, nowhere in its testimony did the Office support the Company's choice. Lack of opposition in contested proceedings before the Commission cannot be interpreted as explicit support.

Q. IN THE 2007 CASE, DID THE OFFICE EXPRESS CONCERNS ABOUT THE PROPOSED TEST YEAR THAT REQUIRED THE DEVELOPMENT OF CUSTOMER SAFEGUARDS?

A. Yes. On page 17 of her direct testimony on test period in Docket 07-035-93, Office witness DeRonne discussed three types of customer safeguards: (1) the phasing in of rate recovery of major projects based on achieved milestones; (2) deferral mechanisms to mitigate future cost increases; and (3) customer bill credits to true-up amounts collected in rates to actual capital spend levels. Thus, the Office was very concerned about developing an appropriate set of customer protections to address the potential consequences of relying on a forecast period extending out 18-plus months.

Q. WHAT WAS THE COMMISSION'S DECISION ON TEST PERIOD IN THE 2007 GRC?

A. The Commission adopted the UAE's recommendation to use a forecasted, calendar year 2008 test period with a 13-month average rate base. That test period is comparable to the forecasted calendar year 2011 test period recommended by certain parties in the 2011 Utah GRC and the test period being used in the concurrent Wyoming 2010 GRC by the Wyoming Commission.

Q. HAS THE OFFICE'S PERSPECTIVE ON WHAT CONSTITUTES AN APPROPRIATE TEST PERIOD EVOLVED OVER THE PAST FEW YEARS?

A. Yes. With the advent of the MPA and EBA mechanisms, the Company now has two important regulatory processes to address the costs of new major capital projects and variations in net power costs between GRCs. These two regulatory processes allow the Company to request expedited rate treatment of expenditures attendant to major capital projects and deferred recovery of up to 70% of variations in net power costs via an interest-bearing accrual account. These processes were considered by the Office in formulating a general policy position that a test period closer in time to the filing date is preferable to one further out.

The Office has also consistently recommended in past GRCs, and continues to recommend in this proceeding, that a test period decision should be made early in the case in order to ensure that the public interest is met. A delay in a decision on test period hampers the discovery-audit process and is a disadvantage to non-company parties in their ability to effectively represent customer interests.

III. DIVISION DIRECT TESTIMONY

Q. WHAT IS THE DIVISION'S RECOMMENDED TEST PERIOD?

A. Despite concerns regarding the Company's forecasts and underlying assumptions used in constructing its test period, Division witness Zenger states the Division does not object to the Company's proposed test period.[2] Ms. Zenger further asserts that the Division will make adjustments to the Company's test period data based on its review of forecasts and other evidence.[3]

Q. DOES THE DIVISION DISCUSS ANY SPECIFIC CONCERNS RELATING TO THE COMPANY'S FORECASTS AND UNDERLYING ASSUMPTIONS?

A. Yes. For example Division witness Croft provides a high level analysis comparing the Company's capital addition forecasts to actual and shows that the Company has over-forecasted capital additions in the last five GRCs. In Exhibit DPU 2.1, he calculates that over-forecasts of capital additions have impacted Utah revenue requirement by an average of about $4 million over these GRCs. He also notes that the estimated effect on Utah revenue requirement would be

[2]Zenger Direct, page 3, lines 46- 48.
[3]Zenger Direct, pg. 3, lines 48-53.

greater if accumulated depreciation, depreciation expense and accumulated deferred income taxes were included in the calculation.[4]

Q. WHAT DID THE DIVISION CONCLUDE BASED ON ITS ANALYSIS OF FORECASTED LEVELS OF CAPITAL ADDITIONS TO ACTUALS?

A. Division witness Croft states that while $4 million would represent a significant adjustment to revenue requirement in a given GRC, it doesn't rise to the level of materiality such that it is necessary to propose an alternative test period.[5]

Q. PLEASE COMMENT ON THE DIVISION'S CONCLUSIONS?

A. The Office agrees that the estimated $4 million revenue requirement impact would represent a material adjustment to test year revenue requirement in a given GRC. More importantly, Mr. Croft's analysis suggests that the Company has systematically over-forecasted capital additions in recent GRCs using more limited forecast periods. This trend of over-forecasting capital additions raises concerns about the level of capital additions included in the Company's proposed test period, which extends out 17-plus months. If a long forecasted test period is adopted by the Commission, it may be necessary to develop customer safeguards to moderate the effects of over-forecasts of capital additions on Utah customers. Developing and implementing an effective set of customer protections would add a layer of complexity to what already is a major GRC filing.

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[4] Croft Direct, pg. 6, footnote 4.
[5] Croft Direct, pgs. 6-7, lines 105-107.

IV. OFFICE RECOMMENDATION

Q. BASED ON THE OFFICE'S REVIEW OF THE DIRECT TESTIMONY FILED BY OTHER PARTIES ON TEST PERIOD, DOES THE OFFICE CONTINUE TO SUPPORT ITS RECOMMENDATIONS ON TEST PERIOD FILED IN DIRECT TESTIMONY?

A. Yes. The Office continues to recommend that under current regulatory circumstances the Commission should generally require a test period that is closer in time to when the Company's case is prepared and filed. The Office also recommends that a decision on test period be published early in the case to facilitate a more efficient discovery-audit process.

While we do not oppose the use of a future test period for this GRC, we do recommend a shorter time period than the 17-plus month time frame proposed by the Company. In addition, the MPA and EBA processes represent new factors that serve to mitigate concerns about regulatory lag. However, these new regulatory processes also raise concerns about how to properly match revenue, expense and capital investment in three interlinked processes to establish rates for Utah customers that are fair and reasonable.[6] Thus, a closer in time, calendar year 2011 test period may be more appropriate for this GRC to initially line up base rates and pass-through rates, given that the implementation of the EBA is targeted for later this year.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THE TEST PERIOD PHASE OF THIS CASE?

A. Yes it does.

[6] The Commission explicitly recognized this new challenge of coordinating the MPA, EBA and GRC processes in its EBA Order, at page 70, stating: "Both the major plant addition and Energy Balancing Account statutes complicate the traditional ratemaking process of matching all costs and revenues over a given time period to determine just and reasonable rates."