BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Utility Service Schedules and Electric Service Regulations	)))))))))	**DOCKET NO. 10-035-124** **Exhibit No. DPU 2.0R** **Surrebuttal Testimony and Exhibits** **Matthew Croft**

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Surrebuttal Test Year Testimony of

Matthew Croft

March 21, 2011

Q. Please state your name and occupation?

A. My name is Matthew Allen Croft. I am employed by the Utah Division of Public Utilities ("Division") as a Utility Analyst.

Q. What is your business address?

A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84114.

Q. Are you the same Matthew Croft who provided direct testimony on the Company's proposed test year in this case?

A. Yes.

Q. What is the purpose of the testimony that you are now filing?

A. My surrebuttal testimony will focus on the comments of Mr. Brubaker in his rebuttal testimony.

Q. Do you have any comments regarding Mr. Brubaker's statement that your conclusion is not supported by evidence?

A. Yes. As can generally be seen from my analysis, the Company's plant addition forecasts have been "wrong." As I mentioned in my direct testimony, any plant addition forecast will inherently be wrong. Just because it is wrong does not necessarily mean that it is evidence to reject a particular forecasted period. It doesn't matter whether a 12, 18, or 24 month period is used, the forecast will always be wrong to some extent. I will address the other "evidences" such as the deviation trend and the revenue requirement effects of over-forecasting later in my testimony.

Q. Do you have any comments regarding Mr. Brubaker's concern about the fact that your forecast to actual comparisons only includes one, 24 month forecasted period and four 18 month periods?

A. Yes. As I admitted in my direct testimony, most of the data I have to work with is limited to 18 months but the data is what it is. I can only analyze what data I do have. The 2004 and 2006 general rate cases both include 24 month forecasted periods, but the Company was not nearly as capital intensive then as they are now. Mr. Brubaker does not outright reject my analysis on the 18 month issue but rather calls it a "concern." I would point out that if someone were to reject my analysis because of the 18 month issue, it basically means that only one forecast to actual analysis (the initial 2007 rate case filing) can be used regarding plant additions or any other input relevant to the proposed forecasted test year in this case. Because there would only be one forecast to actual analysis, it may not prove sufficient evidence to be considered. That basically means that no analysis can be done and that no argument can be made as to whether or not the Company is or is not accurate in their forecasts. That, in turn would mean that accuracies or inaccuracies in the Company's forecasting history could not be considered at all in the choice of a test period or in making adjustments off of an approved test year.

Q. Line 28 on page 2 of Mr. Brubaker's testimony states that "80% of the test data that Mr. Croft has presented does not address the forecasting period proposed by RMP in this case, which might suggest that his results would prove even worse for RMP's accuracy than he claims." Do you agree that the results might prove worse?

A. I agree to the extent of the word "might." The results could just as easily prove better as I will explain. As shown in my analysis, there is a trend in variation between actual and forecasted plant additions that for most scenarios increases over time. At first glance one might assume that using a longer forecasted period would therefore result in an even greater deviation. However, I was and am still reluctant to fully rely on that trend because of the fact that it can be very sensitive to events like a few large plant additions or a group of smaller plant additions coming into service one month early or one month late. In fact, the trend line could switch in a different direction depending on what the plant additions would have been in the six months after the 18 month forecasted period.

Q. Mr. Brubaker seems to emphasize the fact that the revenue requirement effects you calculated are understated. He also states on page 3 lines 12-14 that "in each case that he includes in his average, customers are worse off because of the error in forecasting." Is this correct?

A. No. While it is true that in most 13-month average cases customers are "worse off," not every case yields that result. As can be seen in my Exhibit 2.1, and as can be read on page 3 of my direct testimony, eight of the ten 13-month average scenarios (which include adjusted and unadjusted forecasts and actuals) resulted in the Company over-forecasting. Mr. Brubaker mentions that, "notably," customers were worse off in those cases but then eight lines later conveniently fails to mention that customers were "better off" in one of the cases by at least $14 million. He merely points to the "impact" to rate payers of the $14 million which, technically, is an "impact" to both the Company and rate payers.

Q. Mr. Brubaker states, as you have in your testimony, that the $4 million revenue requirement is understated. Since the $4 million is understated, does Mr. Brubaker ever explicitly state that a 5, 6, or $7 million dollar understatement is a better estimate and that this inaccuracy is material enough to reject the Company's proposed test year?

A. No he does not.

Q. **How would even a $7 million adjustment compare to plant addition adjustments that have been proposed in previous cases?**

A. Even a $7 million adjustment is not outside the range of adjustments that have been proposed by the Division and accepted by the Company in previous cases. For example, in the 2007 general rate case the Division proposed plant addition adjustments that resulted in a Utah revenue requirement adjustment of approximately $8.4 million. In the 2008 general rate case, plant addition adjustments proposed by the Division resulted in the Company accepting a Utah revenue requirement adjustment of $9 million. These adjustment amounts were accepted by the Company in their rebuttal testimonies.

Q. Are you implying that adjustments of similar magnitude will <u>for sure</u> be applicable in the current case?

A. No. I am merely pointing out that even if the $4 million is understated there have been adjustments in the past that have been much larger than $4 million. These past adjustments were made as adjustments to forecasted inputs rather than adjustments to the length of the forecast period. In other words, even adjustments larger than $4 million are not outside the range of past adjustments that were made in the ordinary course of the revenue requirement

phase of a rate case. Any potential adjustment (whether positive or negative) to the forecasted plant additions in this case will be made based on the best information available at the time of, or just prior to filing direct testimony on revenue requirement.

Q. Mr. Brubaker states on page four line 6 that "Mr. Croft also overlooks that once costs are included in rates they cannot be removed regardless of whether the expenditures are prudent or when or if the investment goes into service and is determined to be used and useful in providing electric service to customers." Do you have any comments concerning this statement?

A. Yes. I am not entirely sure what Mr. Brubaker means by the phrase "cannot be removed." It should be noted that misforecasted (dollar amount and timing) projects will not be in rates forever and because of the use of a 13-month average, the full cost of a particular project is not always reflected in rates. For example, suppose that rates include costs for a project that ultimately ends up being canceled. The rates that include the canceled project will be in effect only until the next rate case when the canceled project is "removed" because it is not part of the actuals or new forecast. A similar concept applies for projects that were included in rates at one cost or in-service date and then ultimately ended up being placed into service at different times or at different amounts. Rates will reflect the incorrect amounts (which may vary between $1/13^{th}$ and 100% of the total project cost) and inservice dates only until a future rate case when the actuals are obtained. Furthermore, as was the case between the 2008 and 2009 rate cases, forecasted periods for which actuals were not at the time available, can overlap each other. Therefore, implicitly accepting a project's prudency, cost, and inservice date in one case does not mean it has to be accepted in the next case if the project appears

again in an overlapping forecast where actuals are not available. Otherwise, the Company would have to be held to keep its original forecast, the first time it appeared in a case, and obviously this does not happen. In addition, I would also note that no matter what test period is chosen, the prudency of projected plant additions can always be challenged during the rate case process. Last, while it is possible that customers may, for a time, bare costs for plant additions that are not accurate, it is also possible that the Company may under-recover on their plant additions that were placed in service because they were not included in their forecast but were nonetheless prudent and necessary.

Q. Do you believe you have overlooked the fact that once costs are included in rates they are essentially stuck there until the next rate case?

A. No, not at all. I recognize that ideally you would want rates to reflect accurate costs, in-service dates and perfect prudency. The reality however, is that a forecasted test year will inherently always be "wrong" to some extent regardless of the test period chosen. Concerns regarding timing, cost, and prudency of plant additions can always be addressed, and in fact have been addressed in the past during the revenue requirement phase of a rate case.

Q. Does Mr. Brubaker ever address the issue that possible inaccuracies in plant addition forecasts can be addressed in the revenue requirement phase of a rate case?

A. No.

Q. Does this conclude your testimony?

A. Yes.