**Witness OCS – 2D**

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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| **In the Matter of the Application of Rocky Mountain Power for Alternative Cost Recovery for Major Plant Additions of the Ben Lomond to Terminal Transmission Line and the Dave Johnston Generation Unit 3 Emissions Control Measure** | **)<br>)<br>)<br>)<br>)<br>)** | **Docket No. 10-035-13**<br><br>**Direct Testimony of Donna Ramas For the Office of Consumer Services** |

# REDACTED

REDACTED INFORMATION HIGHLIGHTED IN GRAY

April 26, 2010

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**INTRODUCTION**

**Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory analyst at Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

**Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.**

A. Larkin & Associates, PLLC, is a Certified Public Accounting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous electric, water and wastewater, gas and telephone utility cases.

**Q. HAVE YOU PREPARED AN EXHIBIT SUMMARIZING YOUR QUALIFICATIONS AND EXPERIENCE?**

A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

**Q. ON WHOSE BEHALF ARE YOU APPEARING?**

A. Larkin & Associates, PLLC, was retained by the Utah Office of Consumer Services (OCS) to review Rocky Mountain Power's (the Company or RMP) application for alternative cost recovery for major plant additions associated with the Ben Lomond to Terminal transmission line and the Dave Johnston Unit 3 pollution control related plant additions. Accordingly, I am appearing on behalf of the OCS.

**Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?**

A. Yes. I have prepared Exhibits OCS 2.1 through 2.4, which are attached to this testimony.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. I recommend three separate modifications to the revenue requirement calculations presented by RMP in its case, two of which pertain to the Dave Johnston Unit 3 pollution control investment and one for the Ben Lomond to Terminal transmission line. Specifically, I recommend that:

(1) The full annual level of projected revenues associated with the sale of incremental SO2 emissions allowances resulting from the pollution control investment at Dave Johnston Unit 3 be reflected to offset the increase in costs caused by the project;

(2) 50% of the costs that are common to both Dave Johnston Unit 3 and Dave Johnston Unit 4 pollution control equipment not be

depreciated for ratemaking purposes until such time as the Dave Johnston Unit 4 pollution control equipment is placed into service; and

(3) The projected plant in service for the Ben Lomond to Terminal transmission line be reduced by $8.5 million to remove the costs identified as “forecast risk.”

**Q. IS THE OCS RECOMMENDING ANY ADDITIONAL ADJUSTMENTS?**

A. Yes. OCS witness Randall Falkenberg is recommending several modifications to RMP’s calculation of the net power cost impact of the projects at issue in this case. Cheryl Murray will provide a policy recommendation that impacts the OCS’ revenue requirement recommendation.

**Q. WHAT IS THE IMPACT ON THE REQUESTED REVENUE REQUIREMENT RESULTING FROM THE OCS RECOMMENDED ADJUSTMENTS IN THIS CASE?**

A. The impact of the recommended adjustments presented in this testimony, combined with the impact of the adjustments recommended by OCS witness Randall Falkenberg, results in a $1,833,256 reduction to RMP’s requested increase under the rolled-in allocation methodology. The reduction to RMP’s requested increase is $1,902,088 when the 1% factor is applied. This percentage adder to the OCS adjustments is necessary to analyze them on an equivalent basis to the Company's request. Exhibit OCS 2.1 presents a summary of each of the OCS recommended adjustments using the rolled-in allocation method along with the revenue requirement impact of each adjustment both with and without the 1% factor applied by RMP.

In deriving the revenue requirement impact of each adjustment, the Company's jurisdictional allocation model was not used. The impact of each adjustment was calculated on Exhibit OCS 2.1 and uses the Commission authorized rate of return and the tax factors and revenue conversion factors used by the Company. I was unable to tie the model provided by the Company to the revenue requirement amounts[1] presented on Exhibit RMP__(SRM-1S) so I opted not to use the model in deriving the impact of each of the adjustments.

Each of my recommended revisions will be addressed below. OCS witness Randall Falkenberg is also recommending adjustments associated with the impact of the projects on the net power costs incurred by RMP in his direct testimony.

[1] The model provided by RMP resulted in the change in revenue requirement caused by the adjustments presented Exhibit RMP__(SRM-1S) being close, but not the same as, the amounts identified in Exhibit RMP__(SRM-1S), page 1.0, when the model is run using the rolled-in allocation methodology. The amounts differ substantially using the revised protocol allocation method in the model, which should not be the case.

**Q. HOW IS THE MULTI-STATE ALLOCATION CONSIDERED IN DETERMINING THE COMPANY'S REVENUE REQUIREMENT AND THE OCS ADJUSTMENTS?**

A. The Company's filing, as supplemented in Exhibit RMP__(SRM-1S), requests an incremental increase in revenue requirement of $33,018,593, consisting of $17,958,231 associated with the Dave Johnston Unit 3 pollution control investment and $15,060,362 for the Ben Lomond to Terminal transmission line. These amounts are derived using the rolled-in allocation methodology plus 1% which RMP indicates is the revised protocol mitigation cap. The application of the 1% factor increases the Company's request by $326,917.

The adjustments made by RMP in its filing are predominately allocated using the System Generation (SG) allocation factor. A few items included in the adjustments, such as the revenues from the sales of SO2 emissions allowances and fuel costs, are allocated via the System Energy (SE) allocation factor. Both the SG and the SE factors remain unchanged under the rolled-in allocation method as compared to the revised protocol allocation method. Thus, there is minimal difference between the revenue requirement resulting from the major plant additions at issue in the case between the rolled-in and the revised protocol allocation methods.

**SO2 EMISSION ALLOWANCES**

**Q. COULD YOU PLEASE PROVIDE A SUMMARIZATION OF THE ADJUSTMENTS MADE BY RMP IN ITS FILING ASSOCIATED WITH THE DAVE JOHNSTON UNIT 3 POLLUTION CONTROL EQUIPMENT?**

A. Yes. The Company's adjustment to include the revenue requirement impact of the Dave Johnston Unit 3 pollution control equipment is presented in Exhibit RMP__(SRM-1S), pages 2.0 and 2.1. The capital expenditures included in the filing for the plant in service additions is $293.4 million, projected operation and maintenance costs associated with operating the pollution control facilities are $1.45 million per year and the overall revenue requirement request associated with the project is $17.96 million. In deriving the revenue requirement impact, RMP also reflected $19.9 million of associated plant retirements and reflected some of the projected revenues from the sales of incremental SO2 emission allowances. The associated impacts of the Company's adjustments on depreciation and taxes were also reflected.

**Q. HAS THE COMPANY PROJECTED THAT THE INSTALLATION OF THE DAVE JOHNSTON UNIT 3 POLLUTION CONTROL EQUIPMENT WILL RESULT IN INCREASES IN THE SALES OF SO2 EMISSIONS ALLOWANCES?**

A. Yes. According to the direct testimony of RMP witness Chad Teply, the Dave Johnston Unit 3 dry flue gas desulphurization system and baghouse will reduce SO2 emissions from the plant by approximately 6,600 tons per year. As a result, the Company has estimated that it will sell the resulting additional 6,600 tons of SO2 emissions allowances on an annual basis. In response to OCS Data Request 4.15, the Company has confirmed that at least for the next five years, 2010 through 2015, it estimates that it will sell these 6,600 tons of SO2 emissions allowances on an annual basis.

**Q. HAS THE COMPANY INCLUDED THE RESULTING REVENUE FROM THE SALE OF THE SO2 EMISSION ALLOWANCES AS AN OFFSET TO THE DAVE JOHNSTON UNIT 3 COSTS INCLUDED IN ITS FILING?**

A. The Company's filing includes a small portion of the projected total annual sales of the incremental tons of SO2 emission allowances that result from implementation of the Dave Johnston Unit 3 pollution control equipment. RMP projects annual revenues from the sales of the 6,600 tons of SO2 emission allowances of $1,036,200. This is based on the 6,600 additional tons of SO2 emission allowances and a projected price of $157 per ton sold. According to the response to OCS Data Request 4.11, the price of $157 per ton for 2010 SO2 emission allowances is based on the Clean Air Interstate Rule spot price that was published by Evolution Markets and is consistent with the price per ton that was incorporated in the test year in the Company's most recent rate case, Docket No. 09-035-23, for the months of January through June 2010.

While the Company is projecting annual sales of the incremental SO2 emission allowances of $1,036,200 per year, the Company's filing only reflects $161,910 of revenues on a total Company basis. The amount included by the Company as an offset to the costs is only 15.6% of the projected annual level of incremental sales ($161,910 / $1,036,200 = 15.6%).

**Q. GIVEN THAT THE COMPANY HAS PROJECTED OVER $1 MILLION OF REVENUES FROM THE SALES OF THE INCREMENTAL SO2 EMISSION ALLOWANCES, WHY IS IT ONLY REFLECTING A PORTION OF THOSE REVENUES AS AN OFFSET TO THE INVESTMENT COST IN ITS FILING?**

A. This is due to the methodology used by the Company in reflecting the revenues from the sales of the SO2 emission allowances. According to the response to OCS Data Request No. 4.14, RMP has included the proceeds from the projected sales of the incremental SO2 emission allowances in accordance with the Commission's Order in Docket No. 97-035-01. The Order in Docket No. 97-035-01 approved a four-year amortization of SO2 sales revenues.

**Q. IF THE COMPANY IS REFLECTING A FOUR-YEAR AMORTIZATION OF THE SALES, THEN WHY ARE THE REVENUES PROJECTED IN**

**THE FILING LESS THAN ONE-FOURTH OR 25% OF THE PROJECTED ANNUAL SALES LEVEL?**

A. This is because of the methodology employed by the Company in reflecting its adjustment. RMP's filing assumes that the sales will occur evenly throughout the 12-month period and it begins the amortization of each month’s projected sales in that month. This results in significantly less than one-fourth of the projected annual level of sales being reflected in the Company's filing.

**Q. IN YOUR OPINION, IS THE METHODOLOGY USED BY THE COMPANY TO REFLECT THE REVENUES RESULTING FROM THE INCREMENTAL SO2 EMISSION ALLOWANCE SALES APPROPRIATE?**

A. No, it is not. The Company's filing includes 100% of the capital cost associated with the Dave Johnston Unit 3 pollution control equipment and 100% of the projected incremental operations and maintenance costs, which are $1.45 million, associated with running that equipment. This includes the full annual cost level associated with removing and disposing of the 6,600 tons of SO2. The full annual benefit associated with removing the SO2 and the resulting projected annual revenues resulting from the sales of the incremental SO2 emission allowances should flow back to customers and not be spread over a four-year period. The Company projects that the sales of the 6,600 tons of SO2 emission allowances will occur on an annual basis; thus, there is no need to reflect only one-fourth amortization in each year of these incremental sales. It would be unfair to expect ratepayers to pay the full capital and operations and maintenance costs associated with removing the SO2 emissions and not also flow back 100% of the projected revenues resulting from the sales of the incremental SO2 emission allowances.

**Q. WOULD YOU PLEASE DISCUSS THE COMMISSION'S ORDER IN DOCKET NO. 97-035-01, AS IT PERTAINS TO THE SALES OF SO2 EMISSION ALLOWANCES?**

A. The Commission’s Order in Docket No. 97-035-01 adopted a stipulation of certain revenue requirement issues in that case. Included in those stipulation issues was an agreement that the SO2 emission allowance sales would be amortized over a period of four-years. Since that time, each year’s annual level of revenues was subsequently amortized over a four-year period. The reason this methodology has been used is that the level of SO2 emission allowance sales and revenues vary from year to year. Thus, the amortization of each year’s revenues over a four-year period serves to normalize the level of SO2 emission allowance sales and revenues that are incorporated into rates.

**Q. WHY DO YOU RECOMMEND THAT THE INCREMENTAL SO2 EMISSION ALLOWANCE SALES THAT WILL RESULT FROM THE**

**IMPLEMENTATION OF THE POLLUTION CONTROL EQUIPMENT BE REFLECTED AT 100% INSTEAD OF AMORTIZED OVER A FOUR-YEAR PERIOD?**

A. The installation of this equipment results in the SO2 emissions coming from Dave Johnston Unit 3 being reduced by 90% each year, which equates to a reduction in the emission of SO2 of approximately 6,600 tons per year. The Company anticipates that it will have the 6,600 tons of incremental SO2 emission allowances available for sale each year going forward. This differs from the fluctuations that have occurred historically with the Company's sale of SO2 emission allowances as the Company projects it will sell these additional 6,600 tons each and every year. As the Company is now allowed special treatment to include the cost associated with the installation and the operation of the pollution control equipment outside of a full general rate case proceeding[2], the full projected amount of potential offsets to these incremental costs should also be reflected. It is not appropriate to reflect only $161,910 of SO2 emission allowance proceeds when the Company projects that it will receive $1,036,200 each year. As these incremental sales are anticipated to occur on an annual recurring basis going-forward, there is no need to reflect the four-year amortization to normalize these incremental sales. Additionally, as indicated previously, 100% of the costs associated with removing the 6,600 tons of SO2 are reflected in the Company's filing; thus, 100% of the

[2] Utah Code Section 54-7-13.4 allows for alternative cost recovery for major plant additions meeting certain parameters.

projected proceeds from the sales of the resulting incremental allowances should also be reflected.

**Q. WHAT IMPACT DOES THE REFLECTION OF 100% OF THESE REVENUES FROM THE PROCEEDS OF THE SALES OF THE INCREMENTAL SO2 EMISSION ALLOWANCES HAVE ON THE REVENUE REQUIREMENT PRESENTED BY RMP IN ITS SUPPLEMENTAL FILING?**

A. As shown on Exhibit OCS 2.1, line 52, the impact would be a reduction to revenue requirement of $345,167 on a Utah jurisdictional basis. Exhibit OCS 2.2 presents the adjustments that need to be made to reflect my recommendation.

**Q. DO YOU FORESEE ANY EVENTS IN THE FUTURE THAT MAY RESULT IN A DIFFERENT TREATMENT OF THE SO2 EMISSION ALLOWANCE SALES?**

A. Yes, potentially. It is my understanding that there is a docket open before the Commission in which the various parties are addressing whether or not an ECAM should be implemented for Rocky Mountain Power in Utah. In the event that an ECAM is put into place in a future period in the Utah jurisdiction, the revenues associated with the sale of SO2 emission allowances could potentially flow through such an ECAM mechanism. However, since it is unknown at this time if or when an ECAM will be implemented, I recommend that all of the projected incremental annual revenues associated with the SO2 emission allowance sales resulting from the implementation of the pollution control equipment be reflected as an offset to the incremental revenue requirement caused by the implementation of the pollution control equipment as part of this docket. The OCS will address the treatment of SO2 emission allowance sales as it pertains to a potential ECAM in the appropriate docket at the appropriate time.

**Q. SINCE THE ANNUAL REVENUES ASSOCIATED WITH THE SALES OF SO2 EMISSIONS ALLOWANCES ARE CURRENTLY BEING AMORTIZED OVER A FOUR-YEAR PERIOD FOR UTAH RATEMAKING PURPOSES, HOW COULD THE INCLUSION OF 100% OF THE PROJECTED INCREMENTAL SALES ASSOCIATED WITH THE IMPLEMENTATION OF THE POLLUTION CONTROL EQUIPMENT BE TREATED FOR PURPOSES OF A FUTURE RATE CASE PROCEEDING TO ENSURE THE INCREMENTAL REVENUE IS NOT POTENTIALLY COUNTED TWICE IN DETERMINING RATES?**

A. In this case, I am recommending that $1,036,200 of projected annual revenues from the sale of the incremental SO2 emissions allowances be included in deriving the revenue requirement associated with the Dave Johnston Unit 3 pollution control equipment. Absent this methodology, it would be at least four years before a full annual level of the incremental sales are reflected in rates. Beginning July 1, 2010, the Company should be permitted to exclude the first $1,036,200 of annual sales from the deferral and amortization. In other words, the first $1,036,200 of revenues associated with the sales of SO2 emissions allowances would not be deferred and amortized. Amounts of revenues from the sale of SO2 emissions allowances in each annual period exceeding the $1,036,200 would continue under the current methodology for ratemaking purposes.

This would ensure that ratepayers begin to receive the full benefit of the projected annual sales of incremental SO2 emissions allowances resulting from the implementation of the pollution control equipment at the time the Company would effectively begin to recover the pollution control equipment capital and operating costs. By setting a dollar amount that is included in rates, or $1,036,200, it would also protect both the Company and ratepayers in the event the sales prices of SO2 allowances differ from the projected amount included in this case. The Company's filing assumes a price per ton of $157; however, the actual price per ton fluctuates. By setting a dollar amount that is included in rates and continuing the current deferral and amortization methodology for SO2 emissions allowance revenues in excess of the $1,036,200, both RMP and customers will be held harmless should the future sales price differ from the $157/ton assumed by RMP in its filing.

**<u>DAVE JOHNSTON UNIT 3 POLLUTION CONTROL EQUIPMENT – JOINT/COMMON COSTS</u>**

**Q. THE COMPANY'S FILING REFLECTS AN ADDITION TO STEAM PLANT IN SERVICE, FERC ACCOUNT 312, OF $293,401,588 FOR THE DAVE JOHNSTON UNIT 3 POLLUTION CONTROL EQUIPMENT. ARE ALL OF THE COSTS INCLUDED IN THE $293.4 MILLION SPECIFIC TO THE DAVE JOHNSTON UNIT 3 PROJECTED INVESTMENT?**

A. No. As part of the project, the Company is also constructing pollution control equipment on Dave Johnston Unit 4. The construction of each of these projects is being done simultaneously as part of the same overall project. The Company currently anticipates that the Dave Johnston Unit 4 pollution control equipment will be placed into service during the next scheduled overhaul for that unit in 2012. There are certain joint assets and joint costs being incurred that will be used for both Dave Johnston Unit 3 and Dave Johnston Unit 4 pollution control. The costs included in the Company's case consists of the investments specific to the Unit 3 pollution control equipment and all of the joint and common costs that will be used by and benefit both Units 3 and 4.

**Q. WHAT TYPES OF JOINT COSTS THAT WILL BE USED FOR BOTH DAVE JOHNSTON UNIT 3 AND UNIT 4 POLLUTION CONTROL INVESTMENT PROJECTS ARE INCLUDED IN THE CAPITAL EXPENDITURES REQUESTED FOR RECOVERY IN THIS CASE?**

A. OCS Data Request 4.22 (a) asks the Company to identify the costs that are "shared capital" costs for both the Unit 3 and Unit 4 pollution control project. In response the Company stated as follows:

Begin Confidential

End Confidential

As can be seen from the above quote, there are numerous components of the project that are joint in nature and will be used to serve both the Dave Johnston Unit 3 and Dave Johnston Unit 4 pollution control projects. Again, these projects are being done simultaneously. Begin Confidential

End Confidential

**Q. HOW WILL THE COMPANY ACCOUNT FOR THE JOINT COSTS WHEN BOTH PROJECTS ARE COMPLETE?**

A. According to the confidential response to OCS Data Request 4.22 (a), Begin Confidential

End Confidential the Company has requested inclusion of $293.4 million in plant in service in this case associated with the project.

**Q. ARE THERE ANY BENEFITS TO PLACING THE PROJECTED COMMON COSTS THAT WILL BE COMPLETE AS OF JUNE 30, 2010 INTO PLANT IN SERVICE AS PART OF THIS CASE?**

A. As indicated by the Company, the common facilities that will be shared by Dave Johnston Units 3 and 4 need to be operational and in service prior to the Dave Johnston Unit 3 pollution control equipment being put into place and operational. While the common facilities will not yet be used to their full capacity until such time as Dave Johnston Unit 4 pollution control equipment comes into service, those common facilities will be used to serve customers at the time that the Dave Johnston Unit 3 equipment is placed into service. By placing the common plant costs into service, the result is that the accumulation of allowance for funds used during construction (AFUDC) on the common facilities will cease as of the time the facilities are placed into service. Thus, the total cost associated with the common facilities should not increase in the future as a result of accumulating additional AFUDC on the project costs.

**Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS ASSOCIATED WITH THE COMPANY'S INCLUSION OF 100% OF THE COMMON COSTS ASSOCIATED WITH THE DAVE JOHNSTON UNIT 3 AND DAVE JOHNSTON UNIT 4 POLLUTION CONTROL INVESTMENT PROJECTS IN THIS CASE?**

A. I am not recommending any reductions to the amount the Company has proposed to include in plant in service as part of this case at this time. However, I am recommending a reduction to depreciation expense associated with the common facilities that will be used as part of both the Dave Johnston Unit 3 and Dave Johnston Unit 4 pollution control projects. I recommend that the portion of the common costs that will ultimately be assigned to the Dave Johnston Unit 4 pollution control equipment, or 50% of those costs, not receive depreciation recovery as part of this case. As part of this recommendation, the Company would begin to receive a return on its common joint facility investment, but not a return of the portion that is associated with the Dave Johnston Unit 4 pollution control investment.

I recommend that the portion of the common costs associated with Dave Johnston Unit 4, or 50% of the common costs, not begin to be depreciated by RMP for ratemaking purposes until the Dave Johnston Unit 4 pollution control project is placed into service by the Company. The portion of the common costs that will benefit Dave Johnston Unit 4 should be spread over the life of that unit and depreciated with the Dave Johnston Unit 4 pollution control project costs that are specific to that unit.

**Q. WHAT AMOUNT IS INCLUDED IN THE $293.4 MILLION BEING ADDED TO PLANT IN SERVICE THAT IS ASSOCIATED WITH THE JOINT OR COMMON COSTS THAT BENEFIT BOTH OF THE UNITS?**

A. According to the Company's response to DPU Data Request 6.6, confidential attachment DPU 6.6(b), of the total $293,401,586 being added to plant in service by the Company in this case, Confidential that cost is associated with common facilities.

**Q. WHAT ADJUSTMENT IS NEEDED TO REFLECT YOUR RECOMMENDATION THAT ONLY 50% OF THE COMMON FACILITY COSTS BE DEPRECIATED AT THIS TIME?**

A. The result is a recommended reduction to depreciation expense included in the filing of Confidential. As shown on Exhibit OCS 2.3 (Confidential), this amount is derived by Begin Confidential End Confidential This recommendation would also impact the amount of accumulated depreciation and accumulated deferred income taxes incorporated in the Company's filing.

**Q. WHAT IS THE OVERALL IMPACT ON REVENUE REQUIREMENT AS A RESULT OF YOUR RECOMMENDATION REGARDING DEPRECIATION EXPENSE?**

A. My recommendation that only 50% of the common plant cost be depreciated as part of this case results in a reduction in revenue requirement of $330,933 on a Utah jurisdictional basis.

**Q. DOES THIS RECOMMENDATION RESULT IN THE COMPANY NOT BEING ABLE TO RECOVER ALL OF ITS COMMON INVESTMENT ASSOCIATED WITH THE INSTALLATION OF THE POLLUTION CONTROL EQUIPMENT ON DAVE JOHNSTON UNITS 3 AND 4?**

A. No, it does not. Rather, it assigns the depreciation associated with the Dave Johnston Unit 4 pollution control equipment to begin at such time that the unit is actually placed into service and serving customers. In the interim the Company would still earn a return on the common facilities that will serve both units.

**<u>BEN LOMOND TO TERMINAL TRANSMISSION LINE</u>**

**Q. INCLUDED IN THE COMPANY'S FILING IS $268,202,035 IN ESTIMATED CAPITAL COSTS FOR THE BEN LOMOND TO TERMINAL TRANSMISSION LINE. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE COMPANY'S PROPOSED ADDITION TO PLANT IN SERVICE ASSOCIATED WITH THIS PROJECT?**

A. Yes. Exhibit RMP_(DTG-2), attached to the direct testimony of RMP witness Darrell Gerrard, provides a breakdown of the $268.2 million of Ben Lomond to Terminal estimated capital cost. This was the Company's estimate of the cost as of December 2009. Included in the breakdown is a component for allowance for funds used during construction and overheads totaling $29,885,709. This total consists of: (1) AFUDC of

$15,625,709; (2) PacifiCorp overheads of $5,760,000; and (3) "Forecast Risk" of $8.5 million. I recommend that the forecast risk item of $8.5 million be removed.

**Q. WHY DO YOU RECOMMEND THAT THIS COMPONENT BE REMOVED?**

A. DPU Data Request 8.4 asked the Company to explain what is meant by "forecast risk", inquired if it was considered a contingency item, and asked the Company to describe how the forecast risk was calculated. In addition, the Company was asked to provide all supporting documentation for the $8.5 million. In response the Company stated as follows:

> The "forecast risk" line item included in the exhibit of Darrell Gerrard's testimony is not considered a contingency. This amount is an estimate for any changes in AFUDC rates or PacifiCorp overheads until the end of the project. The project will only receive actual AFUDC or overhead charges incurred up through completion of the project.

The Company has clearly not supported the additional $8.5 million it included in the $268.2 million cost estimate. The DPU had specifically asked the Company to describe how the amount was calculated and to provide all supporting documentation for the amount. In response the Company provided no support or data showing how the amount was derived and did not justify inclusion of the $8.5 million. The Company merely indicated that it is an estimate for changes in AFUDC rates or PacifiCorp overheads until the end of the project. However, the Company has already included $15.6 million of AFUDC and $5.76 million of PacifiCorp overheads. At this time RMP has not justified or explained the additional $8.5 million it has identified as forecast risk; therefore, I recommend that it be removed.

**Q. WHAT IMPACT ON REVENUE REQUIREMENT DOES THE REMOVAL OF THE $8.5 MILLION FROM THE PROJECT COST HAVE?**

A. The removal of $8.5 million from the additions to plant in service also impacts accumulated depreciation, depreciation expense, and property taxes. The necessary adjustments are reflected on Exhibit OCS 2.4. As shown on OCS Exhibit 2.1, line, 54, the impact on revenue requirement on a Utah jurisdictional basis of removing the $8.5 million of plant additions as well as the associated impacts is a reduction to revenue requirement of $561,363. Ms. Murray will provide the OCS' final revenue requirement recommendation.

**Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?**

A. Yes.