BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Alternative Cost Recovery for Major Plant Additions of the Populus to Ben Lomond Transmission Line and the Dunlap I Wind Project	)))))))))	**Docket No. 10-035-89** **DPU Exhibit No. 1.0**

Direct Testimony of

Brenda Salter

For the Division of Public Utilities

Department of Commerce

State of Utah

October 26, 2010

I. INTRODUCTION

Q. Please state your name and occupation.

A. My name is Brenda Salter. I am employed by the Division of Public Utilities of the Utah Department of Commerce 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. On whose behalf are you testifying?

A. The Division of Public Utilities ("Division").

Q. Please describe your position and duties with the Division of Public Utilities.

A. As a Utility Analyst, among other things I examine public utility financial data for the determination of rates, and I review applications for rate increases. I also research, examine, analyze, organize, document, and establish regulatory positions on a variety of regulatory matters, including reviewing operations reports, evaluating compliance with laws and regulations, and testifying in hearings before the Utah Public Service Commission ("Commission"). I am the manager for the Division in this docket.

Q. Please describe your education and work experience.

A. I hold a Bachelor's degree in accounting from Brigham Young University. I began working for the Division in the spring of 2007. Since starting with the Division, I have attended the NARUC Annual Studies Program at Michigan State University. I provided testimony and appeared as a Division witness on Revenue Requirement issues in the 2007, 2008 and 2009 rate cases, Docket Nos. 07-035-93, 08-035-38, and 09-035-23, respectively. Prior to my employment with the Division, I was employed by the Utah State Tax Commission for six years as a Senior Auditor.

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

A. My testimony presents a summary of the Major Plant Addition (MPA II) filing as presented by the Company. It also introduces the Division's witnesses who testify in this phase of the docket. I will present the Division's overall recommendation, along with a brief explanation of the adjustments recommended by each witness.

II. BACKGROUND

Q. Will you briefly review the background and factual framework surrounding this docket?

A. Pursuant to Utah Code Annotated §54-7-13.4 PacifiCorp (Company) in an Application dated August 3, 2010, requested a Commission order putting the capital costs of two projects, the Populus to Ben Lomond transmission segment and the Dunlap I Wind project, into the Company's rate base and requesting that the increase in rates be effective January 1, 2011.

Q. What are the amounts the Company is asking to be included in rate base?

A. PacifiCorp estimates that the total capital investment of the Populus to Ben Lomond transmission segment will amount to $548.1 million. The estimated total capital investment for the Dunlap I Wind project will amount to $264.5 million. The Utah allocated portions are estimated at $225.5 million and $108.8 million, respectively, totaling $334.3 million.[1]

Q. What is the rate increase requested by the Company?

A. The rate increase requested for the Populus to Ben Lomond transmission segment and the Dunlap I Wind project is $39.0 million. The Company is also requesting that the Commission allow the Company to collect the $30.8 million revenue requirement approved by the Commission in the first major plant addition Docket No. 10-035-13 (MPA I). The MPA I relates to the cost of construction of the Ben Lomond to Terminal transmission segment along with the Dave Johnston 3 environmental improvement project (scrubber). Finally, the Company requests that it be allowed to collect, beginning January 1, 2011, the MPA I Deferred Balance of $15.7 million, and ongoing carrying charges, collected over a period of eight months.

[1] Application, page 4-5; Direct Testimony of Brian S. Dickman, pages 10-12.

Q. Mr. Robert Reeder, attorney for Utah Industrial Energy Consumers (UIEC), responded to the Company's filing. What did he propose?

A. On August 25, 2010, Mr. Reeder submitted a Motion to Defer Recovery of the Major Plant Addition Costs until a general rate case, citing Utah Code Ann. § 54-7-13.4 in that Utah law requires the deferred amount in MPA I be collected in a general rate case. Mr. Reeder's motion includes the $30.9 million annual revenue requirement and the $15.7 million accrued through December 31, 2010. Mr. Reeder also proposes to defer the recovery of the MPA II allocation until the next general rate case or at least until the 2009 rate case work groups[2] have completed their investigations and the Company has completed a compliant cost-of-service study.

Q. What was the Commissions response to the filing?

A. On September 15, 2010, the Commission issued a Scheduling Order notifying parties of the deadline to respond to UIEC's Motion and setting a hearing date. Parties in this case submitted responses to UIEC's Motion that provided their understanding of the motion and Utah Code. A hearing was held on September 28, 2010.

Q. What was the Commission's decision on UIEC's Motion to Defer Cost Recovery?

A. On October 13, 2010, the Commission denied UIEC's Motion to Defer Cost Recovery of the Major Plant Additions.[3]

[2] RMP 2009 General Rate Case Phase I Order on Revenue Requirement and Cost of Service, Docket No. 09-035-23, issued February 18, 2010, p. 134

[3] Decision on Motion to Defer Cost Recovery of Major Plant Addition Costs, Docket 10-035-89, issued October 13, 2010, p. 12.

Q. What is the current status of the Commission's order?

A. On October 25, 2010 UIEC filed a request for review and clarification with the Commission.

III. DIVISION ANALYSIS OF THE COMPANY'S APPLICATION

Q. Please outline the Division's activities in evaluating this Application.

A. The Division staff has reviewed the filings made by the Company, including the Attachments included with the Application pursuant to Commission Rule R746-700-30, parts A-E. Division audit staff evaluated the accounting, operating and maintenance costs (O&M), and the Jurisdictional Allocation Model (JAM) model the Company has presented for the two projects.

The Division contracted with Slater Consulting, Atlanta, Georgia, (Slater) to review the net power cost (NPC) adjustments that the Company proposes and to review the capital expenditure costs for the transmission line. The Division has also reviewed the costs associated with the Dunlap I Wind Plant. The Division and Slater issued 14 sets of data requests to PacifiCorp as of October 11, 2010. We have considered the Company's responses to our data requests as well as the responses to data requests by other intervening Parties. The Division and Slater have had several informal meetings with the Company and Division staff has reviewed highly confidential documents at the Company's offices.

A. Net Power Costs.

Q. Please describe the Company's proposed NPC impact.

A. The impact of adding the Populus to Ben Lomond transmission section and the Dunlap I Wind project reduces net power costs by approximately $1.4 million and $8.0 million, respectively, on a total Company basis.

Q. Has Slater evaluated the Company's NPC adjustment?

A. Yes. Mr. George Evans, an analyst for Slater who performed the NPC analysis, studied the NPC issue. Mr. Evans' letter report to the Division is attached as DPU Exhibit 1.1 and DPU Exhibit 1.2.

Q. What is the conclusion Mr. Evans reached regarding the NPC?

A. Mr. Evans and Slater Consulting have concluded that a NPC reduction in the amount of $9.4 million is within a reasonable range.

B. The Populus to Ben Lomond Segment and the Dunlap I Wind Project.

Q. Except for the issues outlined below, does the Division accept the costs of the Populus to Ben Lomond transmission segment and the Dunlap I Wind project as reasonable?

A. Yes, except for a few adjustments and one actual cost update to the Dunlap project, the Division accepts the Company's expected costs to both the transmission segment and the wind project as presented.

Q. Will you please introduce the Division's witnesses and their proposed adjustments?

A. Dr. Joni Zenger, DPU Witness 2.0, will provide her analysis of the transmission segment and the wind project. She will also explain the adjustment to contingencies that were included in the Dunlap I Wind project and not used. The Company's response to DPU DR 13 provided the updated actual cost of the transmission section of the Dunlap wind project. Dr. Zenger's testimony provides an overview of this update. Dr. Zenger's adjustments result in a revenue requirement change of $57,219 and $21,166, contingency and transmission costs respectively, for the Dunlap I project. The Division's adjustment to the transmission segment, specifically the communication portion and change-in-work (CIW) orders regarding the re-routing of the Populus to Ben Lomond segment, will be presented by Mr. Kenneth Slater of Slater Consulting (DPU Witness 3.0). Mr. Slater's adjustment results in a revenue requirement adjustment of $452,310 for the communication systems and $543,253 for the CIW re-routing. The Division's recommendations regarding the cost of service/rate design will be addressed by Dr. Abdinasir Abdulle (DPU Witness 4.0). I will present testimony on the reasonableness of the Company's adjustment to the Renewable Energy Credit (REC) Revenue and the Division's analysis of the MPA I Deferred Balance of $15.7 million. The result of the Division's adjustment to REC

Revenue is a decrease to revenue requirement of $34,616. The JAM model used to calculate the adjustments is provided as DPU Exhibit 1.5.

C. MPA I Deferred balance of $15.7 million.

Q. The Company presented that the MPA I Deferred Balance will be approximately $15.7 million as of December 31, 2010. Has the Division analyzed the Company's calculation of this deferred balance?

A. Yes. The Attachment to UIEC DR 1.54 provides the Company's calculation of the $15.7 million deferred balance. The $15.7 million is made up of $15.4 million of MPA I deferral and $324,520 of interest. The Company calculated interest in the current month upon the accumulated total of the deferral plus one-half of the deferral for the current month. Since the monthly deferral amount of $2,566,667 does not accrue the first day of the month this calculation spreads the accrual throughout the month.

Q. What is the Division's view on the Company's calculation?

A. The Company's half month interest calculation of the MPA I deferral is an acceptable method to calculate interest.

D. Renewable Energy Credit (REC) Revenue.

Q. The Company has proposed an adjustment to the REC revenues associated with the Dunlap I Wind project. Is the Division in agreement with this adjustment?

A. No.

Q. Please explain.

A. The Company made an adjustment to include the incremental revenue from the sale of RECs as provided in Mr. Brian Dickman's testimony and Exhibit RMP-BSD-1 and Mr. Stefan Bird's testimony and Exhibit RMP-SAB-1. The Division proposes an increase in total company revenue based on a change to the Company's REC revenue adjustment in the amount of $84,161. Utah's allocated adjustment results in a $34,616 increase in revenue. This adjustment is consistent with the Commission's Report and Order in the 2009 general rate case Docket No. 09-035-23. In addition to the proposed REC adjustment, the Division also recommends the deferral of Dunlap's incremental REC revenues outside of the guidelines utilized in setting rates from the 2009 general rate case order. Any amounts deferred in this case would be combined with the amount pending the Commission's final determination on ratemaking treatment as Stipulated in UAE's Application for Deferred Accounting Order in Docket No. 10-035-14.

Q. What does the Company propose for the REC Revenue?

A. The Company proposes a green tag sales price per MWh of $7.00 that is based on the Company's current understanding of the REC market liquidity and information obtained from broker quotes.[4] The Company has also limited the amount of RECs available for sale based on two factors. The first factor is the California and Oregon renewable portfolio standards that require the Company to bank RECs for future compliance. The second factor limiting REC sales to 75 percent, after the compliance limit, is noted in the Company's filing as "Percent Sold in Test Period." The cumulative effect is an increase in revenue in the amount of $1,320,919, with Utah's allocated share in the amount of $543,300.

Q. Does the Division agree with this adjustment?

A. No. The Division proposes the Company maintain the REC price of $6.57 and the percentage of RECs available for sale at 85 percent from the "base case," namely the Commission's Report and Order in the 2009 General Rate Case Docket No. 09-035-23, and continue to defer any incremental amounts outside this base level as ordered by the Commission in UAE's application to Defer Incremental REC Revenue Docket No. 10-035-14. Attached is DPU Exhibit 1.3 that presents the Division's proposed adjustment to the Company's REC revenues as presented in this case.

Q. What is the Division's understanding of the base case for Major Plant Additions?

A. The base case as presented by the Company,[5] is the Commission's order in the Company's last general rate case.

[4] Direct Testimony of Stephan Bird. page 6.
[5] Direct Testimony of Brian Dickman, page 8.

The Division does not see a difference in the RECs generated by the Dunlap I Wind project and other RECs generated by renewable resources in the Company's portfolio. The Division believes the RECs generated at the Dunlap I Wind project should receive the same ratemaking treatment as RECs included in the 2009 general rate case decision and UAE's application to defer incremental REC revenue.

IV. CONCLUSION AND RECOMMENDATIONS

Q. What are the Division's conclusions?

A. In this docket, the Division evaluated the prudence of the costs of the Populus to Ben Lomond segment and the general prudence of the Dunlap I wind project and the associated costs of both projects. As Mr. Slater will testify to, the capital costs for the Populus to Ben Lomond line should be reduced by $9 million and $7.5 million for transmission re-routing costs and communication costs. The Company's planning of the line's route was not managed well and it could have avoided the re-routing costs associated with this transmission line. Also, excess communication costs not associated with this transmission line should be dealt with in the next general rate case.

Q. Have you calculated a related AFUDC adjustment with respect to Mr. Slater's adjustments?

A. Yes. Mr. Slater's adjustment amounts were used to calculate an estimated AFUDC charge which was then added onto his adjustments. The adjustments shown in DPU Exhibit 1.4

"DPU Adjustment Workpapers" include the AFUDC adjustments. The Division does not have the specific time period that these portions of plant were in Construction Work in Progress. As a result, the estimated amount of AFUDC is based on the proportion of AFUDC ($47.3 million) to the Non-AFUDC ($500.8 million) capital costs originally filed by the Company. The specific calculations can be found in the "Transmission – Book Detail" tab in the DPU Adjustment Workpapers spreadsheet.

As Dr. Zenger will testify, the Dunlap I wind project was prudently planned. However, the $1 million contingency fee for Dunlap should be disallowed as it was never used. Also, Dr. Zenger has made an adjustment for the actual cost of the transmission segment of Dunlap I. The Division proposes the Company maintain the guidelines for the REC revenue calculation for Dunlap as those stipulated to in the 2009 general rate case and defer any incremental amounts. Other than the revenue requirement adjustments described above, the Company's capital expenditure costs for each of the two projects appear to be within a reasonable range given the time period of construction and the geographical issues faced by the transmission line.

Because the actual costs of the transmission line will not be known until the Commission goes to hearing the first of December, the Division requests a true-up to actuals with any amounts that were over forecasted based on a comparison to actual costs, be returned to rate payers. Any over forecasted amounts would be deferred and either included in the next general rate case or included in this case if known before the Commission issues an order in this case.

Q. What do you recommend?

A. The Division recommends that, consistent with the explanations above and presented in the testimony of other Division witnesses, the requested increment to PacifiCorp's rate base of $315.1 million and the revised revenue requirement of approximately $37,882,221, are just and reasonable and in the public interest. This conclusion assumes that the capitalized costs that finally go into rate base are the actual costs of the two projects under consideration. The Division recommends a true up of actual costs for both projects as the case proceeds and, if actual costs are not known before the Commission issues an order in this case, that any over forecasts of costs be deferred until a future rate case or other appropriate proceeding. In arriving at its $37.9 million revenue requirement, the Division recommends that the Commission approve the addition to PacifiCorp's rate base in Utah the amounts of approximately $206.9 million and $108.2 million representing the Utah portion of the capital expenditures for the Populus to Ben Lomond transmission segment and the Dunlap I Wind project. The Division recommends that the Commission approve the incremental revised revenue requirement of $30.8 million for MPA I and the $37.9 for MPA II and that they be implemented into rates effective January 1, 2011. The Division also recommends that the Commission begin the amortization of the MPA I deferred balance of approximately $15.7 million with associated carrying charges, beginning

January 1, 2011 and collect the deferral over an eight month period or until the balance is exhausted.

Q. Does this conclude your testimony?

A. Yes.