Q. Please state your name and business address with Rocky Mountain Power ("the Company" or "RMP"), a division of PacifiCorp.

A. My name is Steven R. McDougal and my business address is 201 South Main, Suite 2300, Salt Lake City, Utah 84111.

Q. Have you previously sponsored testimony in this proceeding?

A. Yes.

Purpose of Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to and rebut certain issues raised by Division of Public Utilities ("DPU") witnesses Mr. Clair Oman, Mr. David Thomson, Mr. Matthew Croft, Mr. Richard Hahn and Dr. Artie Powell; Utah Office of Consumer Services ("OCS") witnesses Ms. Donna Ramas and Ms. Michele Beck; Utah Association of Energy Users Intervention Group ("UAE") witness Mr. Kevin Higgins; and Federal Executive Agencies ("FEA") witness Mr. Greg Meyer.

First, I present a revised calculation of the Company's Utah-allocated revenue requirement and an updated revenue increase requested in this case. The Company's revised revenue requirement includes adjustments made to its original filing that address certain corrections identified by the Company and items raised in the direct testimony of intervening parties. Next, I discuss the Company's opposition to certain adjustments proposed by intervening parties that are not incorporated into the revised revenue requirement presented herein.

Revised Revenue Requirement

Q. Have you recalculated a revised revenue requirement for the Test Period?

A. Yes. The Company has adopted a number of adjustments reflecting updates and corrections to its original filing and issues identified by intervening parties through their direct testimony in this case, reducing the overall requested revenue change from $172,267,339 to $155,733,571. A summary of the Company's revised revenue requirement is provided in Exhibit RMP___(SRM-1R) and details of the revenue requirement calculation, including new adjustments to the revenue requirement, are included in Exhibit RMP___(SRM-2R). The revised results of operations for the twelve months ending May 31, 2013, (the "Test Period") demonstrate that under current rates, the Company will earn an overall return on equity ("ROE") of 7.0 percent in Utah.

Q. Please describe how Exhibit RMP___(SRM-2R) is organized.

A. Exhibit RMP___(SRM-2R) is the Company's revised Utah results of operations report (the "Report") incorporating all adjustments to the revenue requirement identified in my rebuttal testimony. The Report is organized into sections marked with tabs in a similar manner as Exhibit RMP___(SRM-3). Tabs 1, 2 and 11 of Exhibit RMP___(SRM-2R) replace tabs of the same number in Exhibit RMP___(SRM-3) previously filed by the Company in this proceeding. Tab 12 of Exhibit RMP___(SRM-2R) is a new section of the Report that identifies all adjustments made by the Company in its rebuttal case to the original filing and provides details supporting the calculation of the adjustments. All adjustments in tab 12 are incremental to the revenue requirement submitted in the Company's original filing.

Q. Please summarize the adjustments the Company is incorporating into its revised revenue requirement calculation.

A. The Company is making the following adjustments to the revenue requirement originally proposed in this proceeding related to corrections identified by the Company and issues addressed in the direct testimony of intervening parties:

Table 1 ($millions)

Adj No.	Filed Price Change	$	172.267
12.1	Net Power Cost Update		(8.726)
12.2	EEOC Penalty		(0.022)
12.3	Rents		(0.064)
12.4	Individual Recognition Program		(0.051)
12.5	Processing Customer Payments		(0.365)
12.6	Customer Switching to Paperless Billing		(0.343)
12.7	Community Organization Memberships		(0.014)
12.8	Seminar Travel Savings		(0.006)
12.9	Wages and Benefits - Wage Increase Update		(0.055)
12.10	Wages and Benefits - Post Retirement Benefits (PBOP)		(0.533)
12.11	Wages and Benefits - Overtime Expense		(0.543)
12.12	Deseret Power Dispute - Interest Expense		(0.201)
12.13	Property Tax Expense		(3.438)
12.14	Plant Held for Future Use		(0.485)
12.15	Special Contract Revenue		(1.281)
12.16	Wind Turbine Oil Changes		(0.600)
12.17	Contingency Adjustment		(0.155)
12.18	Oregon Rate Dispute Costs		(1.103)
12.19	Bridger and Trapper Mine Update		0.407
12.20	Klamath		0.040
12.21	Plant Addition and Retirement Update		(0.318)
12.22	Depreciation Expense Update		0.033
12.23	Depreciation Reserve Update		0.465
12.24	Tax Update		1.115
12.25	Pollution Control ADIT		(0.302)
12.26	Adoption of Safe Harbor Method		0.079
	Lead / Lag		(0.066)
	Rebuttal Price Change	**$**	**155.734**

Incorporated Adjustments

Q. Please explain the updates, corrections or other revisions the Company has incorporated into its rebuttal case.

A. Subsequent to filing the original revenue requirement request in this proceeding, the Company identified certain items to be updated in power costs as well as other items that merit revision. Additionally, the Company has adopted several adjustments proposed by parties in this proceeding. The majority of these items have been communicated to intervening parties through discovery and addressed in their direct testimony. I address individually the adjustments made by the Company in developing its rebuttal revenue requirement.

Net Power Cost Update

Q. Please explain the Net Power Cost update adjustment.

A. Page 12.1 of Exhibit RMP___(SRM-2R) updates the net power costs included in the case consistent with the May 11, 2012, net power cost update filing submitted by the Company in this proceeding and as addressed by Company witness Mr. Gregory N. Duvall in his rebuttal testimony. The net power cost update reduces total Company net power costs by $20.3 million and Utah allocated net power costs by $8.7 million.

EEOC Penalty

Q. Please explain Mr. Oman's proposed adjustment with respect to an Equal Employment Opportunity Commission ("EEOC") Penalty.

A. Mr. Oman removes from the Company's revenue requirement a $50,000 penalty assessed by the EEOC in June 2011, which was inadvertently booked to an above the line account. In response to data request DPU 28.1, the Company agreed to remove this item from the revenue requirement in its rebuttal filing.

Q. Is Mr. Oman's adjustment as presented in his direct testimony correct?

A. No. The total Company adjustment amount and allocation factor utilized in Mr. Oman's adjustment (DPU Exhibit No. 7.2) are both correct; however, the Utah allocated adjustment amount does not equal the total Company amount multiplied by the allocation factor percentage. The Company has corrected this in its adjustment removing the EEOC penalty from this case, which is detailed on page 12.2 of Exhibit RMP___(SRM-2R). Similar to Mr. Oman's adjustment, the Company's adjustment removes from results the escalated amount reflected in the Test Period for this item. This adjustment reduces the revenue requirement by $22,390.

Rents

Q. Please describe Mr. Oman's adjustment to rent expense.

A. Mr. Oman proposes to remove the escalation of O&M expense reflected in the Company's filing associated with rent expense for space in the One Utah Center ("OUC") not used by the Company. Escalation on the OUC rent expense is reflected in the Company's revenue requirement through adjustment 4.12 of Exhibit RMP___(SRM-3). Mr. Oman proposes this adjustment to align the ratemaking treatment of OUC rent expense with the rent revenues the Company receives for subleasing the unused office space within the OUC.

Q. Do you agree with this adjustment?

A. Yes. Mr. Oman's adjustment as proposed ensures that rent revenues received by the Company for subleasing OUC office space receive similar ratemaking treatment to rent expense incurred by the Company to lease office in the same building. I have incorporated this adjustment into the revised results of operations. This adjustment, which is detailed on page 12.3 of Exhibit RMP___(SRM-2R), reduces the revenue requirement by $64,337.

Individual Recognition Program

Q. Do you agree with the adjustment proposed by Mr. Thomson, and Ms. Ramas, to remove expense related to safety recognition gifts for transmission and distribution employees?

A. Yes. In his direct testimony in this proceeding, RMP president and CEO Mr. A. Richard Walje stated that the Company had eliminated safety recognition gifts for transmission and distribution function employees effective January 2011. Since this program will not be offered during the Test Period, costs associated with the program should be fully removed from Test Period results. This adjustment, which is detailed on page 12.4 of Exhibit RMP___(SRM-2R), reduces the revenue requirement by $51,379.

Processing Customer Payments

Q. Do you agree with the adjustment proposed by Mr. Thomson and Ms. Ramas to reduce Test Period expense to reflect savings resulting from the switch to in-house processing of customer electronic payments?

A. Yes. In Mr. Walje's direct testimony, he stated that the Company began processing customer electronic payments in-house in January 2012, which resulted in reduced costs of processing these payments. To reflect these savings in the revised results of operations, the Company has modeled the adjustment as proposed by Ms. Ramas since the OCS adjustment aligns with how costs associated with the now terminated customer electronic payment processing program were reflected in Test Period results. This adjustment reduces the revenue requirement by $365,086 and is detailed on page 12.5 of Exhibit RMP___(SRM-2R).

Customer Switching to Paperless Billing

Q. Please describe the adjustment proposed by Mr. Thomson and Ms. Ramas associated with RMP customers switching to paperless billing.

A. On page 10 of his direct testimony in this proceeding, Mr. Walje identified the Company's efforts to encourage customers to switch to paperless billing, which has resulted in cost savings associated with the customer billing process. Mr. Thomson's and Ms. Ramas' adjustments attempt to identify incremental savings associated with this effort that are projected to be realized in the Test Period and to reflect those savings in the Test Period revenue requirement calculation. Mr. Thomson's and Ms. Ramas' adjustments vary by approximately $250,000 on a Utah allocated basis.

Q. What causes the difference between Ms. Ramas' and Mr. Thomson's adjustments?

A. In calculating her adjustment, Ms. Ramas looks at the difference between the number of paperless billings projected to occur in the Test Period (2,580,000) and the number of paperless billings that occurred during the Base Period (1,852,176). She then applies a savings of $0.47 per billing to the difference between Test

Period and Base Period paperless billings. The $0.47 per billing savings figure was provided by the Company in data response OCS 8.2. Mr. Thompson identifies the number of incremental paperless billings expected to occur in the Test Period alone (192,000) and then applies the $0.47 per billing savings figure to the projected incremental Test Period paperless billings.

Q. Have you incorporated either Ms. Ramas' or Mr. Thompson's adjustment for the savings associated with paperless billing into the revised revenue requirement calculation?

A. Yes. I have incorporated Ms. Ramas' adjustment since her methodology more closely aligns with the incremental savings projected to be realized in the Test Period in comparison to savings realized in the Base Period. The adjustment reduces the revenue requirement by $343,131 and is reflected in Exhibit RMP___(SRM-2R) on page 12.6.

Community Organization Memberships

Q. Ms. Ramas proposes to reduce Test Period expense for memberships in community organizations. Do you agree with this adjustment?

A. Yes. On page 10 of his direct testimony in this proceeding, Mr. Walje stated that RMP had realized savings by reducing its membership in community organizations. In response to data request OCS 8.3, the Company identified the planned reductions to memberships and their impact on Test Period expense. This adjustment reduces the revenue requirement by $13,887 and is detailed on page 12.7 in Exhibit RMP___(SRM-2R).

Seminar Travel Savings

Q. Ms. Ramas proposes an adjustment to reduce Test Period O&M expense to reflect savings from converting the annual estimator seminar to an on-line forum. Do you agree with this adjustment?

A. Yes. In his direct testimony in this proceeding, Mr. Walje states that conversion of the annual estimator seminar to an online forum will result in savings of approximately $50,000 through the elimination of travel costs. In response to OCS data request 8.5, the Company identified annual O&M savings associated with this measure of approximately $12,500; expenses associated with the annual estimator seminar were 75 percent capitalized with the remainder booked to O&M expense. This adjustment reduces the revenue requirement by $6,414 and is detailed on page 12.8 in Exhibit RMP___(SRM-2R).

Wages and Employee Benefits

Q. Please summarize the adjustments you have made to wages and employee benefits in developing the revised revenue requirement.

A. The adjustment to wages and employee benefits incorporates the updates described subsequently to various labor-related costs in order to: (1) update actual wage increases that are now known but were estimated at the time of filing; (2) use more recent actuarial reports for postretirement benefits other than pension ("PBOP") costs that were not available at the time of filing; and (3) reduce labor overtime expense to the actual December 2011 level. Details utilized in developing these adjustments are provided on pages 12.9 through 12.11.5 of Exhibit RMP___(SRM-2R). These updates are incorporated into the Company's wages and employee benefit model which calculates all of the downstream impacts related to these changes such as reduced payroll taxes and reduced escalation rates applied to miscellaneous labor categories.

Q. Please describe the adjustment proposed by the DPU and UAE to wage increases.

A. Mr. Thomson and Mr. Kevin Higgins propose to update the officer/exempt and non-exempt labor groups for the January 2012 wage increase from the 2.0 percent projection used in the filing to the 1.93 percent level that actually occurred.

Q. Do you agree with the adjustment proposed by Mr. Thomson and Mr. Higgins to update the January 2012 wage increase?

A. Yes, with the exception of a few calculation errors made by Mr. Thomson and Mr. Higgins in developing their proposed adjustments. The Company agrees to update the January 2012 target wage increase of 2.0 percent as shown in Exhibit RMP___(SRM-3), page 4.2.5, to the actual increase of 1.93 percent extended to both the officer/exempt and non-exempt labor groups. This update impacts other labor related items such as other bare labor, annual incentive plan ("AIP"), associated payroll taxes, and some employee benefit levels. The impact to these items has been reflected in the Company's adjustment along with a correction of the errors included in Mr. Thomson's and Mr. Higgins' adjustments. The Company's adjustment reduces revenue requirement by $54,991 on a Utah allocated basis and is included in adjustment 12.9 in Exhibit RMP___(SRM-2R).

Q. Please summarize the errors made by Mr. Higgins and Mr. Thomson in calculating their proposed adjustments.

A. There are numerous computations necessitated by adjustments to wage expense to ensure all impacted items are appropriately addressed. The Company discovered a few errors in both Mr. Thomson's and Mr. Higgins' adjustments while reviewing their calculations. The most significant was that neither accounted for the forecasted benefit levels that are dependent upon the overall wage increase percentage included in the case. The Company has corrected the identified calculation errors in its wage and employee benefits adjustment reflected in the development of its rebuttal revenue requirement position.

Q. Please describe the adjustment proposed by Mr. Thomson, Mr. Higgins and Ms. Ramas to the PBOP actuarial value for calendar year 2012.

A. All three recommend revising the calendar year 2012 actuarial value of $1.5 million included in the calculation in Exhibit RMP___(SRM-3), page 4.2.7, with the updated actuarial value of $400,000.

Q. Please describe the adjustment proposed by Ms. Ramas to the PBOP actuarial value for calendar year 2013.

A. Ms. Ramas recommends also revising the calendar year 2013 actuarial value of $3.2 million included in the calculation in Exhibit RMP___(SRM-3), page 4.2.7, with the updated 2012 actual value of $400,000.

Q. Do you agree with the PBOP adjustments proposed by Mr. Thomson, Mr. Higgins and Ms. Ramas to update the 2012 actuarial value and also Ms. Ramas' adjustment to update the 2013 PBOP actuarial value?

A. Yes. The Company agrees to update the 2012 PBOP target actuarial value from $1.5 million to the actual value of $400,000, and though the Company has not yet calculated an updated 2013 PBOP actuarial value at this time, the Company also agrees to update the 2013 forecast actuarial value from $3.2 million to $0.4 million, accepting Ms. Ramas' position. The Company's proposal reduces the total Company PBOP expense included in the case from $2.1 million to $400,000 on a total Company basis, which reduces the Utah revenue requirement by $532,931. This adjustment is detailed on page 12.10 in Exhibit RMP___(SRM-2R).

Q. Please describe the adjustment proposed by Mr. Meyer to overtime expense.

A. Mr. Meyer proposes to reduce the Test Period overtime expense (overtime and premium pay) from $67.7 million to $66.1 million, which lowers Test Period overtime expense to the twelve months ended December 2011 actual level. The sole argument Mr. Meyer provides for his adjustment is that the actual 12 months ending December 2011 overtime expense and hours are the highest level recorded dating back to 2005. Mr. Meyer offers no other evidence or basis for this adjustment.

Q. Were there any errors in the overtime expense adjustment proposed by Mr. Meyer?

A. Yes. Mr. Meyer did not take into account the labor capitalization rate of 29.254

percent and the Utah allocation of 42.825 percent in developing his adjustment. In response to Company data request RMP 1 to FEA, Mr. Meyer corrected this error which reduces the adjustment from $1.5 million to $467,236 on a Utah allocated basis.

Q. Do you agree with Mr. Meyer's adjustment to overtime expense, reflecting the corrections you have addressed?

A. I do not agree with the simplistic rationale Mr. Meyer presents as support for his adjustment. Mr. Meyer asserts that the overtime and premium pay expense incurred during calendar 2011 should be the maximum amount for these items reflected in the Test Period. Mr. Meyer's adjustment ignores any and all Test Period specific conditions which may impact Test Period expense for these items, including overtime hours projected during the Test Period and contracted wage increases that will become effective during the Test Period.

Nevertheless, despite my objections to Mr. Meyer's methodology, the Company accepts the impact to revenue requirement of this adjustment. The Company believes that overtime costs during the Test Period will more accurately align with the level proposed by Mr. Meyer in his adjustment. It is on this basis that I reflect this adjustment into the revised revenue requirement calculation, which adjusts total Company overtime and premium pay expense in the Test Period to $66.1 million. This adjustment reduces Utah revenue requirement by $543,227 and is detailed on page 12.11 of Exhibit RMP___(SRM-2R).

Deseret Power Dispute – Interest Expense

Q. Please describe the adjustment proposed by Ms. Ramas and Mr. Thomson to remove from results the write-off of interest accrued on the Deseret Power Dispute.

A. Interest expense was accrued on amounts Deseret Power has refused to pay on its percentage share of the scrubber and turbine upgrade projects at the Hunter Unit 2 generation facility. After an unfavorable arbitration ruling, the accrued interest on the outstanding receivables was written-off the Company's books. The Company agreed to remove the impact of this write off from the results in response to data request OCS 14.3. Mr. Thomson's and Ms. Ramas' proposed adjustments remove the impact of this write-off from Test Period results.

Q. Do you agree with the adjustments as proposed by Ms. Ramas and Mr. Thompson?

A. Yes, with one small modification. Ms. Ramas labels CN ("Customer Number") as the allocation factor utilized in her adjustment, but uses 43.155 percent (which is the Utah SG factor percent in this case) in calculating the Utah allocated impact of her adjustment. If this percent is corrected to the Utah CN allocation factor rate of 49.8928 percent, Ms. Ramas' adjustment is equal to the adjustment proposed by Mr. Thomson. With the correction to Ms. Ramas' adjustment, the Company agrees with both the DPU and OCS proposed adjustments for this matter. This adjustment reduces the revenue requirement by $200,918. This adjustment is detailed on page 12.12 in Exhibit RMP___(SRM-2R).

Property Tax Expense

Q. Please describe the adjustments to property tax expense proposed by Mr. Thomson, Ms. Ramas and Mr. Higgins.

A. The adjustments proposed by Mr. Thomson, Ms. Ramas and Mr. Higgins all adjust Test Period property tax expense for an incorrect Base Period property tax expense amount utilized in the Company's original filing. The Company identified this issue through discovery and provided the correct Base Period property tax expense amount and the revised adjustment to arrive at projected Test Period property tax expense. Mr. Thompson's adjustment also incorporates a revision to Test Period property tax expense provided by the Company in response to data request DPU 44.1. The revised property tax expense for the Test Period is $336,939 greater than the Test Period property tax expense reflected in the Company's original filing.

Q. Do you agree with the proposed adjustments to property tax expense?

A. The Company agrees with the adjustment as proposed by Mr. Thomson. Inclusion of the revised Test Period property tax expense in this adjustment is consistent with the treatment of updates to Test Period expense for wages, PBOP and overtime pay included in the overall revenue requirement positions of the DPU, OCS, UAE and FEA and as reflected in the Company's revised revenue requirement calculation. This adjustment reduces the revenue requirement by $3.4 million and is detailed on page 12.13 in Exhibit RMP___(SRM-2R).

Plant Held for Future Use

Q. Please explain the adjustment to Plant Held for Future Use proposed by Mr. Higgins and Mr. Thomson.

A. Mr. Higgins and Mr. Thomson propose to remove the balances included in plant held for future use ("PHFU") for individual wind (the Twelve Mile and Wild Horse wind farms) and transmission (the Aeolus, Anticline and Populus substations) projects that were included in rate base in the Company's filing. Mr. Higgins and Mr. Thomson both discuss that the Company agreed to remove these properties from rate base in rebuttal testimony filed as part of its Wyoming general rate case (Docket No. 20000-405-ER-11).

Q. Did the Company discover any errors in the computation of this adjustment by any of the parties?

A. Yes. Mr. Thomson's proposed adjustment is incorrect because he removed the year end June 2011 balances in his adjustment instead of the beginning-ending average June 2010/June 2011 balances, which was the rate base included for these properties in this filing. As a result, Mr. Thomson's adjustment to rate base is overstated by $1.1 million.

Q. Does the Company accept the adjustment to PHFU as proposed by Mr. Higgins and Mr. Thomson?

A. Yes, conditioned upon the appropriate correction to Mr. Thomson's adjustment being made. Similar to the rebuttal adjustment accepted by the Company in its current Wyoming general rate case, RMP agrees to remove from rate base the PHFU balances associated with the transmission and wind projects identified previously. This adjustment, which reflects the appropriate correction to Mr. Thomson's adjustment, reduces the revenue requirement by $484,524 and is detailed on page 12.14 in Exhibit RMP___(SRM-2R).

Special Contract Revenues

Q. Please explain your understanding of the special contract revenue adjustment proposed by Mr. Higgins.

A. Mr. Higgins proposes to annualize the January 1, 2013, increases related to special contracts 1 and 2 into the revenues in this case. He also proposes to establish a rider surcredit to recognize revenues associated with the special contract increases starting on January 1, 2014.

Q. Does the Company agree that an adjustment should be made to special contract revenues?

A. For the January 1, 2013, increase in this case, the Company accepts Mr. Higgins' adjustment. However, as noted by Mr. Higgins, his adjustment UAE Exhibit RR 1.2 is:

> a placeholder value for this revenue based on RMP's requested revenue requirement. This value should ultimately be adjusted in a compliance filing based on the final revenue requirement approved by the Commission in this proceeding, as the benchmark rates used for adjusting Special Contract 1 and 2 rates are adjusted relative to the Company's filed case.[1]

The Company's adjustment, which reflects the original proposal by Mr. Higgins without any true-up, is included on page 12.15 in Exhibit RMP___(SRM-2R) and reduces the revenue requirement by $1.3 million.

[1] Direct Testimony of Kevin C. Higgins, page 11, lines 202 – 206.

Q. Does the Company support Mr. Higgins' proposal to establish a rider surcredit for special contract changes effective January 1, 2014, and running through the rate-effective period of the subsequent general rate case?

A. No. This is a one-sided adjustment which singles out one item during the rate effective period while ignoring all other changes during the period. Clearly, there will be numerous changes to many revenue and cost components between the Test Period in this case, ending May 31, 2013, and the subsequent calendar year 2014 levels. The Company does not see any valid reason for carving out this one single item for a tariff rider, while ignoring all other items such as new plant additions, changes in O&M, and other items.

Q. What is your response to Mr. Higgins' argument that the structure of these contracts is "gamed" in favor of the Company?

A. This is not true; in fact, the special contract rate changes were delayed at the request of the special contract customers. One solution to Mr. Higgins' assertion would be for the Commission to determine that all future special contracts brought before the Commission include a provision that the special contract rates will be changed concurrently with the price changes in a general rate case, eliminating any timing difference in the rate changes for these customers. This would guarantee all customers neither benefit nor are harmed by any changes to special contracts rates, and would negate the need for a rider surcredit as proposed by Mr. Higgins.

Wind Turbine Oil Changes

Q. Please explain your understanding of the adjustments proposed by Ms. Ramas and Mr. Higgins related to Wind Turbine O&M costs.

A. In the incremental O&M adjustment presented in Exhibit RMP___(SRM-3), page 4.9, the Company included $3.0 million for wind-generation turbine oil change expenses that are projected to occur during the Test Period. Ms. Ramas recommends that the projected Test Period oil change costs be normalized over a three year period since the average manufacturer recommended time span between oil changes for Company owned wind turbines is three years. Mr. Higgins also proposes to include a three-year average level of oil change expense in the Test Period, inclusive of the oil change costs projected for the Dunlap I wind project. Ms Ramas' adjustment did not reflect costs for the Dunlap I wind project.

Q. Does the Company agree that an adjustment should be made to wind turbine oil change costs included in the Test Period?

A. Yes, the Company agrees to reflect Test Period wind turbine oil change costs using a three year average normalized basis, inclusive of the oil change costs projected for the Dunlap I wind project. Accordingly, the Company has adopted the adjustment as proposed by Mr. Higgins into its revised revenue requirement calculation. A full discussion on the Company's position and the calculation of the three-year average oil change cost level is included in the rebuttal testimony of Company witness Mr. Mark R. Tallman. This adjustment reduces the revenue requirement by $0.6 million on a Utah allocated basis and is detailed on page

12.16 in Exhibit RMP___(SRM-2R).

Q. Is the three year average methodology proposed for wind turbine oil change costs consistent with Commission approved treatment of similar costs?

A. Yes, the ratemaking treatment of generation overhaul expense is similar to the three year average methodology proposed for wind turbine oil change costs, although generation overhaul costs are averaged over a four year period due to plant overhaul schedules. The intent of both adjustments is to normalize periodic, lumpy costs over a reasonable time period. The two methodologies are also similar in that costs extending beyond the test period of a given rate case may be factored into development of the normalized cost average.

In the generation overhaul expense adjustment, overhaul costs of new generating units that do not have four years of operating history under the Company at the time the adjustment is prepared for a rate filing are normalized as part of the adjustment. In those instances, the Company includes a four-year average comprised of the overhaul expense projected for the first four full years those plants will be operated under Company management. This treatment has resulted in costs extending beyond the test period being included in the normalized four year average cost calculation.

An example is Utah Docket No. 09-035-23, where the test period utilized was the year ending June 2010. When this case was prepared, the Lake Side, Currant Creek and Chehalis plants had not been operated under Company management for a period of four years. In calculating the normalized four year average generation overhaul cost level included in this case, cost projections for the Chehalis plant extended through calendar year 2012, projections for Lake Side extended through calendar year 2011 and cost projections for the Currant Creek plant extended through calendar year 2010. This treatment was originally approved by the Commission in Docket No. 07-035-93 and reaffirmed in Docket No. 09-035-23.

This decision relates to the proposed treatment of wind turbine oil change costs in that the Company and UAE are proposing to include in the normalized three year average cost level projected costs for the Dunlap I wind project, a portion of which are expected to occur beyond the Test Period of this case. Allowance of the Dunlap I oil change costs in development of the three year average is consistent with prior Commission decisions on similar costs.

Capital Project Contingencies

Q. Mr. Higgins proposes an adjustment to remove 67 percent of the contingency amount for 13 plant additions. Do you agree with this adjustment?

A. No. Specifically I disagree with his recommendation to make an across the board 67 percent reduction to the contingency component of each of the projects simply based on his review of projects included in the last two general rate cases. Mr. Higgins does not provide any analysis of the individual projects or an assessment of the projected expenditures for the individual projects as justification for his adjustment. His simplistic recommendation is flawed and should be rejected because each project is unique and an extrapolation of the percentage of contingency utilized historically on a totally different set of projects is not a valid indicator of amounts that will be utilized on the projects identified in the current case.

The current case includes hydro license settlement agreement projects for fish collection and transport, dam seepage remediation, turbine upgrades, flue gas desulphurization and other clean air related projects, most of which are extremely complex projects, with higher exposures to risks than the normal run-rate repair, maintenance and overhaul projects. The contingency included for each of these projects is consistent with the Company's Corporate Governance policy which specifically addresses the usage of contingency on capital projects and states:

> Contingency: When preparing project cost estimates, the individual line items comprising the total estimate are required to be determined as accurately as possible. A contingency estimate is expected to be an integral part of the total projected cost and is particularly important where previous experience has demonstrated that cost increases for unforeseeable events are likely to occur.

The policy proceeds to say that "Contingency amounts should be included in the annual capital expenditure budget process." The across the board removal of two thirds of the contingencies which have appropriately been included as part of the cost of these thirteen projects will lead to significant under-recovery of legitimate costs incurred during the Test Period.

Additional discussion on the contingencies included in the hydro and transmission projects is included in the rebuttal testimony of Company witnesses Mr. Tallman and Mr. Darrell T. Gerrard.

Q. You stated that Mr. Higgins has not provided an assessment of the projected expenditures for the individual projects identified. Has the Company made such an assessment?

A. Yes. While I disagree with Mr. Higgins' proposed adjustment, it is appropriate to reflect the Company's current projection of the level of contingency costs to be used for these projects. The table below provides the current estimate of the amount of the contingency that has been used or is projected to be used for each of the thirteen projects identified in Mr. Higgins' proposed adjustment. The current projection of the costs to complete ten of the projects indicates that the full contingency amount will be used. For two of the projects (Naughton 1 and 2), current projections indicate that none of the contingency amount will be used. On the remaining project for Hunter 1, less than the full contingency amount is expected to be used. The lower projection of costs for the Naughton Unit 2 flue gas desulfurization system and the Hunter unit 1 SO2 upgrade have already been reflected in the plant addition update adjustment addressed subsequently in my testimony. The Company proposes to remove the remaining $3.4 million reduction in contingency expenditures from the case. This adjustment reduces the revenue requirement by $154,729 and is detailed on page 12.17 of Exhibit RMP___(SRM-2R).

Contingency Costs:

Project Description	Contingency Amount Included in Original Filing	Current Estimate of Contingency to be Used	Contingency to be Removed	Contingency Removed through Update*	Amount Removed through Contingency Adjustment
Naughton U2 Flue Gas Desulfurization Sys	3,565,848	-	3,565,848	3,265,848	300,000
Naughton U1 Flue Gas Desulfurization Sys	3,087,357	-	3,087,357	-	3,087,357
DJ U4 SO2 & PM Emission Cntrl Upgrades	2,461,244	2,461,244	-	-	-
Hunter U1 SO2 Upgrades	1,875,000	1,400,000	475,000	475,000	-
JB U2 Turbine Upgrade HP/IP/LP	450,000	450,000	-	-	-
Hunter 303 Turbine Upgrade HP/IP/LP	450,000	450,000	-	-	-
INU 4.1.1/4.1.2 Soda Springs Fish Passag	785,000	785,000	-	-	-
ILR 4.4 Swift Fish Collector	2,400,000	2,400,000	-	-	-
ILR 4.3 Merwin Upstream Collect & Trans	210,000	210,000	-	-	-
Ashton Dam Seepage Control	810,000	810,000	-	-	-
IRO Prospect Instream Flow / Automation	400,000	400,000	-	-	-
Clover Substation	800,000	800,000	-	-	-
Lake Side 2 Interconnect	900,000	900,000	-	-	-
Total	18,194,449	11,066,244	7,128,205	3,740,848	3,387,357

*The update includes actuals for July 2011 through March 2012 and limited changes to the April 2012 through May 2013 forecast as discussed in the testimony of Mr. McDougal.

Oregon Rate Dispute Costs

Q. Please describe the adjustment to legal expense proposed by Ms. Ramas associated with the Oregon rate dispute costs.

A. Legal costs of litigating a rate dispute with an Oregon customer were system allocated in the Company's original filing in this proceeding. Ms. Ramas' proposed adjustment removes these expenses from the Test Period results.

Q. Do you agree with Ms. Ramas' adjustment?

A. Yes. The legal costs associated with this matter should be situs assigned to Oregon since they relate to litigation concerning a rate dispute with an Oregon customer, the revenues from which are situs assigned to the Company's Oregon jurisdiction. This adjustment reduces the revenue requirement by $1.1 million and is detailed on page 12.18 in Exhibit RMP___(SRM-2R).

Bridger and Trapper Mine Updates

Q. Please explain Mr. Croft's adjustment to the Bridger and Trapper mine rate base balances.

A. Mr. Croft proposes to update the Bridger and Trapper mine rate base balances and the Trapper mine final reclamation liability balance with actual data through March 2012, replacing projected data through this period used in the original filing.

Q. Does the Company accept this adjustment?

A. Yes, the Company has reflected this adjustment in determining the revised results of operations for the Test Period. This adjustment increases revenue requirement by $406,811 and is detailed on page 12.19 in Exhibit RMP___(SRM-2R).

Klamath

Q. Please summarize the adjustments proposed by Ms. Beck and Mr. Higgins regarding the Klamath Hydroelectric Settlement Agreement ("KHSA").

A. Ms. Beck and Mr. Higgins propose various adjustments to items included in the Test Period results related to the Klamath hydroelectric facility and the KHSA. The Company has not incorporated any component of either adjustment into the rebuttal results of operations. A comprehensive discussion addressing the Company's position on the adjustments proposed by Ms. Beck and Mr. Higgins is provided in the rebuttal testimony of Company witness Ms. Andrea L. Kelly.

Q. Please describe the adjustment proposed by Dr. Powell regarding the Klamath Hydroelectric Settlement Agreement.

A. Dr. Powell proposes an adjustment to update the capital additions and AFUDC calculations included in the Klamath Hydroelectric Settlement Agreement Adjustment in the Company's original filing (refer to page 8.11 of Exhibit RMP___(SRM-3)) with actual data through March 2012.

Q. **Do you agree with Dr. Powell's adjustment to update the Klamath adjustment with actual data through March 2012?**

A. Yes. Updating the Klamath adjustment to include actual data through March 2012 is consistent with the treatment applied to other plant-in-service forecasts where more current information is now available than was at the time of the Company's original filing. Other adjustments which are being updated to reflect more current information in the Company's rebuttal results of operations include updates to plant additions, depreciation reserve and depreciation expense as proposed by the DPU; updates to wages and benefit expense as proposed by the DPU, OCS, UAE and FEA; and updates to the Bridger and Trapper mine rate base balances as proposed by the DPU. This adjustment increases the revenue requirement by $40,053 and is detailed on page 12.20 in Exhibit RMP___(SRM-2R).

Update to Plant Additions, Retirements and Depreciation Expense and Reserve

Q. **Intervening parties have proposed several adjustments to the rate base reflected in the Company's original revenue requirement calculation. Have you reflected any of these adjustments into the revised results of operations?**

A. Yes, in addition to the adjustments addressed previously in my testimony for plant held for future use, the Bridger and Trapper mines, Klamath and accumulated deferred income taxes, several additional adjustments proposed by intervening parties to rate base items have been reflected in the revised Test Period results of operations.

Q. Please summarize the additional adjustments proposed by intervening parties to rate base items you have reflected into the revised results of operations.

A. Below I address individually the additional rate base item adjustments that have been incorporated into the revised Test Period results of operations. The impacts of these adjustments are collectively reflected in Company adjustments 12.21 - Plant Addition and Retirement Update, 12.22 - Depreciation Expense Update, 12.23 - Depreciation Reserve Update and 12.24 - Tax Update in Exhibit RMP___(SRM-2R).

DPU Updates Adjustment

Q. Please describe the DPU Updates adjustment as proposed by Mr. Croft in his direct testimony.

A. Through the DPU Updates adjustment, Mr. Croft proposes three primary updates to the electric plant in service ("EPIS") balances and depreciation expense included in the Company's original filing. First, Mr. Croft proposes to update the following items to actual results occurring through March 2012: plant additions, plant retirements, removal costs, vehicle depreciation, hydro decommissioning payments, and depreciation expense. Second, Mr. Croft proposes to revise the retirement rates utilized by the Company in this proceeding to reflect a 5 year average of actual retirements occurring through December 2011; the retirement rates used by the Company in its original filing were developed using actual retirements from April 2006 through December 2010. Lastly, Mr. Croft proposes to update the capital additions included in the case from April 2012 through May 2013 to reflect current projections.

Q. Do you agree with the DPU Updates adjustment as proposed by Mr. Croft?

A. Yes, with the exception of Mr. Croft's proposal to revise the retirement rates. The other adjustments as proposed by Mr. Croft in the DPU Updates adjustment have been reflected in the revised revenue requirement calculation.

Q. Please explain your objections to Mr. Croft's proposal to recalculate the average retirement rates.

A. When the Company was preparing its original filing, retirement data for calendar year 2011 was not available. Accordingly, the Company used the most current information it had at the time to calculate the average retirement rates utilized in the case. The application of retirement rates to EPIS balances impacts both the plant balance itself and the associated accumulated depreciation balance. The plant balance is reduced by the amount of the calculated retirement and the same amount is removed from the associated accumulated depreciation balance. The impact to net rate base of these entries is zero. Consequently, updating retirement rates as proposed by Mr. Croft will have an immaterial impact on the Test Period results. Mr. Croft indicates in his testimony that updating the case for his proposed rates will reduce the revenue requirement by approximately $33,000. However, Mr. Croft has not provided evidence supporting utilization of the revised rates other than to say they reflect more current information.

Although several changes based on newer information updating future projections have been incorporated by the Company in its rebuttal revenue requirement calculation, RMP is opposed to updating Base Period information because of the relative impact this would have on the case compared to the effort required to make the update. The results of operations for this case was created using a Base Period ending June 30, 2011, and it would make little sense to make limited updates for December 31, 2011 data to Base Period data. For these reasons, I believe it is appropriate and reasonable to utilize the Company's original retirement rates in this case and reject Mr. Croft's adjustment.

Small Hunter Overhaul Projects

Q. Mr. Croft proposes to remove from the case nine capital projects associated with the Hunter generation facility scheduled to be placed in service from April 2012 to July 2012. Do you agree with this adjustment?

A. Yes. These projects were placed into service ahead of schedule and are included in actual plant additions through March 2012 which are reflected in the Company's rebuttal position through inclusion of the DPU Updates adjustment. These projects should be removed from the April 2012 through July 2012 forecast as long as the actual additions through March 2012 are reflected in results. The impact of this adjustment is incorporated into the plant and depreciation adjustments detailed on pages 12.21, 12.22, 12.23 and 12.24 in Exhibit RMP___(SRM-2R).

Excess Depreciation from Removal Costs

Q. Please describe Mr. Croft's proposed adjustment addressing excess depreciation from removal costs.

A. Through his adjustment, Mr. Croft is attempting to reflect an appropriate level of removal costs in the Test Period results of operations. Removal costs are incurred in capital projects where existing infrastructure must be removed prior to construction of the new asset. Removal costs are booked as a reduction (or debit) to accumulated depreciation when incurred. If removal costs are incorrectly included as additions to EPIS rather than a reduction to accumulated depreciation, depreciation expense calculated in the case will be overstated.

In the DPU Updates adjustment, Mr. Croft reflected actual removal costs incurred through March 2012. In addition to this, Mr. Croft proposes to adjust projected plant balances from April 2012 through May 2013 for removal costs. To do this, Mr. Croft proposes to adjust plant additions by $4.4 million each month, the average of actual monthly removal costs incurred by the Company from April 2008 through March 2012. In his adjustment, Mr. Croft reduces the monthly projected EPIS balances by $4.4 million and places the removal costs in accumulated depreciation by reducing (or debiting) the projected monthly accumulated depreciation balances by the $4.4 million. The net rate base impact of this adjustment is zero, but depreciation expense is reduced because of the reduction to the gross EPIS plant balances.

Q. Do you agree with this adjustment as proposed by Mr. Croft?

A. The Company agrees in principle with Mr. Croft's adjustment and has incorporated it into the revised Test Period results of operations. The impact of this adjustment is reflected in the plant and depreciation adjustments detailed on pages 12.21, 12.22, 12.23, and 12.24 in Exhibit RMP___(SRM-2R). The Company does have some reservations concerning Mr. Croft's methodology to spread the monthly adjustments across the plant functions and the methodology used to identify the monthly adjustment amount. However, any changes to these methodologies are likely to be immaterial in terms of revenue requirement impact to this case. The Company will explore alternative methodologies to reflect this adjustment into results in advance of filing its next general rate case.

DPU Consultant La Capra Adjustments to Plant Additions

Q. Please summarize the adjustment to capital additions proposed by Mr. Hahn.

A. Mr. Hahn of La Capra Associates, Inc. was retained by the DPU in this proceeding to review the capital additions reflected in the Company's Test Period results of operations. Mr. Hahn conducted a review of the capital additions included in the case and recommends adjustment to approximately thirty different projects for a variety of reasons based on his review.

Q. Are you addressing all of the projects Mr. Hahn proposes to adjust in your testimony?

A. No. I will only address seven specific projects in my testimony. The remaining projects are addressed in the testimony of Company witnesses Ms. Nancy K. Kent, Mr. Douglas N. Bennion, Mr. Dana M. Ralston, Mr. Tallman and Mr. Gerrard.

Q. What are the seven projects you are addressing in your testimony?

A. The seven projects I will address are as follows: 1) the City Creek Center new 40 MW Development for PRI Phase II project; 2) the Cottonwood Prep Plant-System Improvement project; 3) the Energy West Deer Creek Mine CAP Forecast project; 4) the Scipio Pass – Mineral Mountain Microwave project; 5) the 2GHz

Microwave Replacement Pavant Sub to Delta Service Center project; 6) the Hermiston U0 Auxiliary Boiler project; and 7) the Naughton U0 D10 Replacement project.

Q. Please describe, individually, the Company's position on each of these projects.

A. As provided below, I describe the Company's position on each of the seven projects.

<u>City Creek Center new 40 MW Development</u>

On page 35 of his direct testimony, Mr. Hahn proposes to adjust the City Creek Center project capital in-service for May 2012 to reflect plant additions for this project that were placed into service by March 2012. The Company agrees this is an appropriate adjustment and has reduced the May 2012 forecasted amount for the City Creek Center project by the $4.6 million that was placed into service through March 2012. This has been incorporated into the plant and depreciation adjustments detailed on pages 12.21, 12.22, 12.23, and 12.24 in Exhibit RMP__(SRM-2R). The other issues raised by Mr. Hahn concerning the City Creek Center project are addressed in the testimony of Company witness Mr. Bennion.

<u>Cottonwood Prep Plant-System Improvement</u>

The Company opposes Mr. Hahn's adjustment to remove the Cottonwood Prep Plant-System Improvement project from the case. Mr. Hahn proposes to remove this project as the internal appropriation request ("APR") document shows an in-service date of July 2013. However, this project has been accelerated into 2012.

As such, this project is expected to be completed and placed into service by December 2012, consistent with the Company's original filing.

Energy West Deer Creek Mine

Mr. Hahn proposes to reduce the projection for the Energy West Deer Creek Mine Capital forecast project from the $8.7 million included in the case to $3.3 million based on documentation supporting this project which he analyzed. The Company proposes to reflect in the revised results of operations the most current projection of capital spend for this project, which is $6.0 million for the period of April 2012 through May 2013.[2] This update has been incorporated into the plant and depreciation adjustments detailed on pages 12.21, 12.22, 12.23, and 12.24 in Exhibit RMP___(SRM-2R).

Scipio Pass – Mineral Mountain Microwave

Mr. Hahn proposes to reduce the projected capital in service amount for this project from $2.8 million to $1.5 million. This adjustment is duplicative to the DPU Updates adjustment proposed by Mr. Croft, and as accepted by the Company in its rebuttal revenue requirement calculation, which updates capital additions to actuals through March 2012. Since this project was placed into service prior to March 2012, it is reflected in the Company's rebuttal case at the actual amount placed into service.

2GHz Microwave Replacement Pavant Sub to Delta Service Center

Mr. Hahn proposes to reduce the forecast for this project from $350,000 to $133,786 based on project documentation received from the Company through

[2] An updated capital spend projection for this project was provided in response to data request DPU 42.6.

discovery. In response to DPU data request 26.8 (furnished in May 2012) concerning this project, the Company stated that this project was in the early evaluation stages. Since that time, an updated projection for this project has been developed, which calls for the project to be placed into service in December 2012 at a cost of $275,000. RMP proposes to reflect the revised projection for this project in the revised results of operations. This adjustment has been incorporated into the plant and depreciation adjustments detailed on pages 12.21, 12.22, 12.23, and 12.24 in Exhibit RMP___(SRM-2R).

Hermiston U0 Auxiliary Boiler

Mr. Hahn proposes to remove this project from the case based on a review of documentation available supporting the project provided by the Company through discovery. The Company accepts Mr. Hahn’s adjustment to remove this project from the case as the in-service date for this project is now expected to fall outside of the Test Period. This adjustment has been incorporated into the plant and depreciation adjustments detailed on pages 12.21, 12.22, 12.23, and 12.24 in Exhibit RMP___(SRM-2R).

Naughton U0 D10 Replacement

Mr. Hahn proposes to remove this project from the case based on his assertion that documentation supporting the project provided by the Company through discovery was inadequate. This project was placed into service in December 2011 at a cost of $1.2 million, and as such is reflected in the adjustment to update plant additions included in the case with actual additions through March 2012. Accordingly, Mr. Hahn’s adjustment is duplicative and not necessary. Further, the

Company provided additional documentation supporting this project in response to DPU data request 51.32, which was provided shortly after the DPU filed direct testimony in this proceeding.

Q. What is your response to the adjustments proposed by Mr. Hahn to the "generic" capital addition projects included in the Company's case?

A. "Generic" or "blanket" type projects included in the Company's filing reflect planned investment levels for various investment categories such as new customer connections and storm related replacements and repairs. These items encompass many small projects, which are aggregated to "generic" category levels for inclusion in the case. Investment associated with these types of projects is a necessary cost of providing service to customers and therefore should be allowed timely recovery through rates.

Mr. Hahn recommends adjusting downward projected capital expenditures for nine generic projects included in the Company's filing on the basis that the trending analysis he conducted projects that expenditures for these projects will be less than what is included in the Company's filing. After examining Mr. Hahn's work papers entitled "Hahn Workpapers for Generic Projects.xlsx", it is evident that his trending analysis results in some projects showing a higher projected spend amount for the Test Period than was included in the Company's filing. However, Mr. Hahn's proposed adjustment only reflects projects where his trending analysis suggests that expenditures will be less than those projected by the Company in its filing.

As an example, the Company included $6.1 million in the filing for the July 2011 through May 2013 period for the Utah distribution project "M1-Mandated – Highway Relocations". Mr. Hahn's trending analysis work papers forecast $7.9 million in Test Period expenditures alone for this project. It appears that Mr. Hahn was selective in only proposing adjustments for projects where his trending analysis indicated forecast expenditures for a project would be less than what was reflected in the Company's filing. This is, at a minimum, unbalanced, and also brings into question the validity of Mr. Hahn's methodology if it cannot be relied upon to support adjustments to projects either up or down from the Company's filed amounts.

Q. Do you have any concerns with the way Mr. Croft has calculated the revenue requirement impact of Mr. Hahn's adjustment?

A. Yes, for certain projects. Mr. Croft's modeling of Mr. Hahn's adjustments is not consistent with the DPU Updates adjustment proposed by the DPU, where actual capital additions occurring through March 2012 are reflected in the case. In modeling Mr. Hahn's adjustments, Mr. Croft removes, for many projects, spend associated with projects projected to be placed in service during the July 2011 through March 2012 period at the amount originally projected by the Company in this proceeding instead of the actual amount placed in service. To be consistent with the DPU Updates adjustment, Mr. Croft should have removed actual project dollars as reflected in the actual capital additions update. For many projects, Mr. Croft has a footnote that states, "assumes that actuals through March 2012 match original forecast", but in most cases this assumption is invalid.

Casper Service Center

Q. Please describe the Casper Service Center adjustment proposed by Mr. Higgins and Ms. Ramas.

A. The proposed adjustment to the Casper Service Center project is related to an allocation error that was discovered by the Company while responding to data request OCS 8.26. The Company discovered that $2.95 million in costs related to the Casper Service Center were being allocated in the case on an SO factor; costs associated with this project should be situs assigned to Wyoming.

Q. Do you accept the adjustment proposed by the Mr. Higgins and Ms. Ramas?

A. Yes, in principle. The proposed adjustments by Mr. Higgins and Ms. Ramas attempt to remove the costs associated with the Casper Service Center, but each party uses a different methodology to do so. In his adjustment, Mr. Higgins only removes the plant in service amount related to the Casper Service Center. This methodology ignores the associated depreciation expense and depreciation reserve, thereby understating the correct revenue requirement impact of this adjustment. Ms. Ramas' adjustment removes the plant in service balance and the depreciation expense and depreciation reserve associated with the Casper Service Center project. In principle, this is the correct approach; however, Ms. Ramas made a slight error in calculating the average accumulated depreciation balance for the Test Period.

Q. How should the average accumulated depreciation balance related to the Casper Service Center project be calculated?

A. In the first month that a project is placed in service, regardless of the exact day within the month a project is placed in service, the Company books depreciation expense and the depreciation reserve impact for that project. These amounts are calculated as one-half of the normal monthly depreciation expense rate for the project. This initial month balance of accumulated depreciation, which is carried forward throughout the entire life of the project, was not taken into account by Ms. Ramas in calculating her adjustment. However, making this correction only slightly decreases the revenue requirement impact of this adjustment.

Q. Have you made an adjustment to correctly situs assign this project to Wyoming and treat the depreciation expense and reserve as you've described?

A. Yes. This adjustment is incorporated into the plant and depreciation adjustments detailed on pages 12.21, 12.22, 12.23 and 12.24 in Exhibit RMP___(SRM-2R).

Impact of Update to Plant Additions, Retirements and Depreciation Expense and Reserve

Q. Please describe the net impact of the adjustments you've made to update plant additions, retirements and depreciation expense and reserve as you've described previously.

A. The net impact of the following adjustments are reflected in the Company's adjustment to update plant additions, retirements, depreciation expense and reserve: 1) DPU Updates (with the exception of Mr. Croft's proposed retirement rates), 2) Small Hunter Overhaul Projects, 3) Excess Depreciation from Removal Costs, 4) LaCapra Adjustments to Plant Additions (for projects accepted as discussed previously) and 5) Casper Service Center. These adjustments are reflected in the Company's rebuttal revenue requirement through adjustments 12.21 through 12.24 of Exhibit RMP___(SRM-2R). Company adjustment 12.21, Plant Additions and Retirements Update, reduces plant in service balances included in the case by $27.0 million, which decreases Utah revenue requirement by $317,776.

Adjustment 12.22, Depreciation Expense Update, revises Test Period depreciation expense consistent with the adjustments made to plant in service amounts. This adjustment increases Utah Test Period depreciation expense by $33,024, which increases Utah revenue requirement by $33,147. Adjustment 12.23, Depreciation Reserve Update, reflects the changes to the depreciation reserve based on adjustments made to depreciation expense, plant additions, plant retirements, and removal costs. This adjustment reduces Test Period depreciation reserve by $31.7 million, which increases Utah revenue requirement by $464,925.

Tax Update on Changes to Plant in Service

Q. Please describe the adjustment made to deferred income taxes to reflect changes made to plant in service in the Company's rebuttal filing.

A. Adjustment 12.24 updates deferred income taxes based on changes to rate base in the Company's rebuttal filing. This adjustment increases Utah revenue requirement by $1.1 million and is detailed on page 12.24 in Exhibit RMP___(SRM-2R).

Accumulated Deferred Income Taxes ("ADIT")

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Q. What is the impact of this adjustment?

A. The amortization increases the total Company ADIT liability balance by $6.3 million. This adjustment reduces revenue requirement by $301,916 and is detailed on page 12.25 in Exhibit RMP___(SRM-2R).

Q. Have any other tax issues been raised in this case?

A. Yes. Ms. Ramas has raised the issue of IRS Revenue Procedure 2011-43 and asked the Company to address it in rebuttal. This issue is related to a safe harbor method that taxpayers, such as the Company, may use to determine whether an expenditure to maintain, replace or improve electric transmission and distribution property may be expensed instead of capitalized for income tax purposes. The expensing of such costs for income tax purposes is commonly referred to as a repairs deduction.

Q. Does the new Revenue Procedure 2011-43 apply to the Company?

A. Yes. It provides procedures for obtaining automatic consent to change to the safe harbor method of accounting. Taxpayers that previously changed their tax accounting for repairs deductions associated with transmission and distribution assets can also now adopt as a new accounting method known as the Safe Harbor Method under this Revenue Procedure.

Q. Has the Company previously changed its method of tax accounting for repairs deductions?

A. Yes. The Company changed its method of tax accounting for repairs deductions effective with its 2008 federal income tax return.

Q. Has the Company adopted, or does it plan to adopt, the Safe Harbor Method identified in the IRS Revenue Procedure 2011-43?

A. The Company is planning to formally adopt the safe harbor method identified in Revenue Procedure 2011-43 through a change in accounting method application, Form 3115, to be attached to the 2011 federal income tax return which will be filed by September 17, 2012.

Q. Does the Company plan to make an IRC Section 481(a) adjustment at the time of adoption?

A. Yes. The IRC Section 481(a) adjustment will be included in the 2011 return itself and separately set forth on Form 3115, which will be attached to the 2011 income tax return.

Q. Has the Company estimated an amount for the IRC Section 481(a) adjustment to ADIT related to the adoption of the safe harbor method identified in Revenue Procedure 2011-43?

A. Yes. The Company has computed a decrease in total Company ADIT liability balance using a 13-month average of $1.6 million for the Test Period. The adjustment is composed of a decrease of $12.8 million to adjust the transmission, distribution and generation income tax repair deduction deferred income tax liability included in the rate case to reflect the "as filed" income tax returns including the impacts from the 2011 income tax return to be filed by September 17, 2012. This will be offset by an increase of $11.1 million to adopt the safe harbor method identified in Revenue Procedure 2011-43. This adjustment increases revenue requirement by $78,701 and is detailed on page 12.26 in Exhibit RMP___(SRM-2R).

Lead Lag Study

Q. Please describe Mr. Meyer's adjustment to working capital.

A. Mr. Meyer proposes an adjustment to working capital that removes all other working capital balances on the grounds that their components have already been reflected in the cash working capital section, and their inclusion in rate base constitutes double counting.

Q. Does the Company agree with this adjustment?

A. No. Mr. Meyer erroneously asserts that there is a double count between the lead lag study and the other working capital balance (which is not determined through the lead lag study) included in the filing. The other working capital balances included in the Company's rate base (refer to page 2.33 of Exhibit RMP___(SRM-3)) are not reflected in the data that is used to calculate the lead lag study. These balances reflect miscellaneous receivable balances and liabilities of the Company and have been reflected in rate base consistent with prior RMP rate cases. Since the other working capital balances are not reflected in the calculation of the lead lag study, they are not included in the Company's calculation of cash working capital. Other working capital and cash working capital are distinct and separate balances, both of which are properly includable in the Company's rate base. Since the other working capital balance is not duplicative to cash working capital, the Company recommends the Commission not adopt Mr. Meyer's adjustment.

Q. Please outline Ms. Ramas' adjustment to cash working capital.

A. Ms. Ramas takes issue with three areas of the Company's lead lag study, the foundation for how the Company calculates cash working capital. First, Ms. Ramas proposes a one-day reduction to revenue lag as a direct result of the Company's Automated Meter Reading ("AMR") program and its impact on billing lag. Second, she takes issue with capital expenditures included in the Other O&M expense section of the study. Finally, Ms. Ramas proposes adding a seven-day service lag to all Other O&M expense invoices. The combined impact of all three issues is a $1.5 million reduction to the revenue requirement in this case.

Q. Please comment on the Company's position with regard to the first issue mentioned within the OCS' adjustment to cash working capital.

A. Ms. Ramas asserts the Utah AMR program was not fully implemented prior to 2010, the period used for calculating the lead lag study, and suggests a one-day reduction to billing lag to remedy this. The Company is opposed to this proposal. The implementation period of the AMR program does not affect billing lag as meter read dates and the CSS billing batch process have remained unchanged throughout the implementation of the program. The efficiencies the Company has realized as a result of the AMR program Ms. Ramas points to in her testimony as support for her adjustment are realized as reductions in labor and O&M costs, not through billing lag. Both before and after the implementation of AMR, meter reads were uploaded to the customer system the same day.

Approximately 87 percent of customers in Utah had AMR meters installed prior to calendar year 2010, the period that was used for the lead lag study utilized in this case. Between the 2007 and 2010 lead lag studies, billing lag for general business revenues increased slightly in the 2010 study. This directly contradicts Ms. Ramas' assertion that the installation of AMR in Utah will reduce billing lag. In addition, even if her assertion that the billing lag is reduced were valid, the calculation is invalid since she did not take into account that it would only impact 13 percent of the Utah customers. Accordingly, Ms. Ramas' proposal to reduce revenue billing lag by one day to account for the installation of AMR is invalid and should not be adopted by the Commission.

Q. Please comment on the Company's position with regard to the second issue mentioned within the OCS' adjustment to cash working capital.

A. Ms. Ramas suggests it is improper to include capital expenditures in the Other O&M expense section of the lead lag study and proposes removing all invoices over $2 million. The Company accepts this portion of the OCS' adjustment, noting that doing so reduces net lag days to 4.76. This adjustment reduces Utah revenue requirement by $66,439.

Q. Please comment on the Company's position with regard to the third issue mentioned within the OCS' adjustment to cash working capital.

A. Ms. Ramas expresses concern with the Company's calculation of Other O&M expense lag, specifically with regard to the absence of a specified service lag. Ms. Ramas correctly notes that there are a variety of costs included in the Other O&M category. Ms. Ramas suggests applying a seven day lag to the calculated figure to represent a service lag similar to the 15.2 days included in the calculation of purchased power lag.[3]

The volume and variety of invoices included in the Other O&M expense calculation made it impractical for the Company to review all of the invoices; more than 300,000 invoices are captured in the Other O&M expense section. Ms. Ramas makes assumptions about the nature of expenses included in the calculation, stating, "… many expenses and services are provided over a monthly period."[4]

Expenses that are nonrecurring in nature, such as certain types of maintenance, could have no service lag. Additionally, invoices for rent which are paid on the first of the month for which the Company receives a benefit throughout the entire month would require a negative service lag of 15.2 days if the methodology from the purchased power section were applied. Most importantly, neither Ms. Ramas nor the Company is able to gauge an accurate service lag without manually going through each of the invoices included in the Other O&M expense calculation. The Company would also note that no service lag was applied in the Other O&M expense section of the 2007 lead lag study. For these reasons, the Company recommends the Commission not adopt Ms. Ramas'

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[3] OCS-3D Ramas, page 18, lines 396 – 399.
[4] OCS-3D Ramas, page 18, lines 407 – 408.

proposal to add seven days of service lag to the Other O&M expense calculation of the 2010 lead lag study.

Adjustments Opposed

Q. Are there specific adjustments proposed by intervening parties to which the Company is opposed?

A. Yes. Witnesses from intervening parties proposed adjustments which are not incorporated into the Company's revised revenue requirement. The adjustments that the Company opposes are listed and discussed below, and are set forth in more detail in the testimony of other Company witnesses.

Q. Please identify the revenue requirement issues that are addressed by other Company witnesses.

A. The table below lists the revenue requirement issues addressed by other Company witnesses:

Klamath - addressed in the testimony of Ms. Andrea L. Kelly

Ben Lomond Transformer In-Service Date - addressed in the testimony of Mr. Darrell T. Gerrard

U2 Duct Replacements - addressed in the testimony of Mr. Dana M. Ralston

Lake Side II Interconnection - addressed in the testimony of Mr. Darrell T. Gerrard

Capital Expenditures - addressed in the testimony of Ms. Nancy K. Kent, Mr. Doug N. Bennion, Mr. Dana M. Ralston, Mr. Mark R. Tallman and Mr. Darrell T. Gerrard.

Contingency Cost - addressed in the testimony of Mr. Mark R. Tallman and Mr. Darrell T. Gerrard.

Wind Turbine Materials Expense - addressed in the testimony of Mr. Mark R. Tallman

FERC Land Use Fees - addressed in the testimony of Mr. Mark R. Tallman

Return on Equity, Cost of Capital and Capital Structure - addressed in the testimony of Mr. Bruce N. Williams and Dr. Samuel C. Hadaway

Net Power Costs - addressed in the testimony of Mr. Greg N. Duvall

Gas Swaps - addressed in the testimony of Stefan A. Bird

Remaining Revenue Requirement Issues - addressed below

Property Insurance and Injuries and Damage Expense

Q. Please describe the adjustment proposed by Mr. Oman to property and liability insurance.

A. Insurance expense for both property and injuries and damages liability is reflected in the Test Period at a three year historical average level of actual loss (refer to adjustment 4.7 of Exhibit RMP___(SRM-3)). Mr. Oman proposes to calculate Test Period levels of expense for both property and injuries and damages insurance using a five year historical average.

Q. What evidence does Mr. Oman present as support for this adjustment?

A. Mr. Oman reviewed actual losses for property and injuries and damages events over a six year period. He observed that the losses realized vary significantly from year to year. Mr. Oman concluded that the variations in losses realized from year to year are contributing to rate fluctuations from rate case to rate case. Mr. Oman asserts that moving to a five year average calculation for insurance expense in rate cases would lessen the rate fluctuation caused by loss variation. Mr. Oman indicates moving to a five year average calculation in this case reduces Test Period insurance expense by approximately $1.6 million on a total Company basis.

Q. Why did the Company calculate insurance expense in this case using a three year average methodology?

A. In Docket No. 07-035-93, the Commission ordered that a three year average methodology be utilized to calculate insurance expense for injuries and damages. In Docket No. 09-035-23, the Division took a similar position to the one it is taking in this proceeding concerning injuries and damages expense. The Division argued that injuries and damages expense should be calculated using a five year historical average due to the wide variations of loss realized by the Company on a year to year basis. The Division's proposal would have reduced total Company revenue requirement by $0.2 million in that proceeding. The Commission reaffirmed its position on the three year average methodology by declining to adopt the Division's adjustment to a five year average methodology.

Q. Does the Company agree with Mr. Oman's adjustment?

A. No. The Company believes a three-year average remains appropriate because it is a long enough period to capture a range of loss positions in determining a normalized result while excluding from the range results from farther back that may not be reflective of current and future operating conditions. It is also important that the methodology used to calculate the average remain consistent between rate cases. The Company supports the continued use of the Commission approved three year average methodology.

Q. Please explain the adjustment proposed by Ms. Ramas to non-T&D insurance and maintenance expense.

A. The Company has reflected costs in the Test Period for non-transmission and distribution ("T&D") insurance and maintenance based on a three-year average of actual losses. Ms. Ramas proposes removing from the three-year average calculation costs associated with damages to the Swift hydro facility caused by high flow run-off. Ms. Ramas argues this is an abnormal event and should be excluded from the three year average for non-T&D insurance and maintenance expense.

Q. Does the Company agree with Ms. Ramas' adjustment?

A. No. By their nature, non-T&D property damages are unusual and any one event is non-recurring. However, when they occur, the Company is entitled to recover the costs associated with recovering from the event. The purpose of averaging is to deal with these types of events.

Q. If there are no major events in the future, will the Company over-earn its authorized ROE?

A. No. The Company is charging property damage expense accruals to a reserve account. Using a property insurance reserve allows the Company to provide for these major events through level accruals and rates. Property damage expense accruals are charged to a liability that is a rate base reduction that allows ratepayers to earn a return on any over accrual until the funds are needed. When the events actually occur, they can be paid for out of the reserve with no impact to the ratepayer. If the events do not occur as expected, the amount in the reserve will be returned to ratepayers through reduced accruals in the future. Purposely under accruing the reserve because we don't believe a major event will occur does not seem financially responsible.

Legal Consulting Service – Expert Witness Fees

Q. Please describe the legal expense adjustment proposed by Mr. Higgins and Ms. Ramas.

A. Mr. Higgins proposes removing from the case legal costs related to the USA Power, Deseret Power and Wah Chang disputes. Ms. Ramas proposes removing legal expenses from the filing related to the dispute with Deseret Power over its refusal to pay its percentage share of the scrubber and turbine upgrade projects at the Hunter Unit 2 generation facility**.**

Q. Do you agree with these adjustments?

A. The Company agrees with these adjustments in part. The Wah Chang legal costs should be allocated situs to Oregon and therefore removed from the filing. This adjustment is also proposed by Ms. Ramas, which the Company agreed to earlier in my testimony. Ms. Ramas' adjustment is slightly larger than that proposed by

Mr. Higgins because Ms. Ramas escalates the base period cost by the O&M escalation as was done in the Company's original filing. Mr. Higgins' adjustment for Wah Chang is correct in eliminating this O&M escalation since he recommends that all O&M escalation included in the case be disallowed. The Company does not agree with the other parts of these adjustments.

Q. Why does the Company oppose the adjustments to remove legal costs (other than Wah Chang) proposed by Mr. Higgins and Ms. Ramas?

A. These adjustments remove legal costs associated with specific cases because of the nature of the disputes. Very simply speaking, the intervenors propose removal of legal costs incurred in the USA Power dispute and the Deseret arbitration based on the initial results of those cases. However, as Mr. Higgins concedes "PacifiCorp has indicated it will appeal the verdict, so further, substantial legal expenditures are sure to follow" (Higgins p. 33, line 676). This concession by Mr. Higgins highlights two important points: first, these disputes have not concluded and the intervenors' attempts to have the Commission make cost and rate determinations only part-way through these legal proceedings is inappropriate and without precedent. Neither Mr. Higgins, nor this Commission, has the prescience to determine what will occur with the USA Power case in regard to post-trial motions and on appeal. Similarly, the Deseret arbitration matter, including arguments questioning the financial implications of the arbitrator's initial ruling, is now in litigation pending before the US District Court for Utah and is set for trial in 2013.

Moreover, the arbitrator in the Hunter 2 arbitration reached a "split decision" and sided with the Company that its decision to install a baghouse at Hunter 2 was consistent with reasonable utility practice. No explanation is given by Mr. Higgins or Ms. Ramas why legal expenses incurred to fend off a challenge to a prudent decision to make needed environmental upgrades should not be recoverable. Rather, they simply lump all costs of the Deseret Arbitration, or at a minimum, the "Hunter 2" arbitration, together without cause.

The second point highlighted by Mr. Higgins' concession is that both cases are ongoing, and are likely to incur significant expenses over the next year or more. This point completely undermines the argument of some intervenors that these are one-time or unique expenses that should be normalized. Certainly these specific cases are calendared for litigation during the Test Period so there should be no adjustment to past expense patterns by removing costs incurred to protect the Company in these disputes if that is the implication of Mr. Higgins or Ms. Ramas.

Finally, Mr. Higgins tries to argue that the litigation only benefits the Company, and not customers. This is simply not true. In each instance the Company has incurred costs trying to protect its interest from claims by co-owners or third-parties. Such costs are ordinary and typical business costs necessary for any business to remain healthy. The logical conclusion of Mr. Higgins' and Ms. Ramas' points is that the Company can only recover legal fees if (1) it prevailed, and (2) it made a recovery that resulted in a measurable dollar savings or award directly attributable to customers. Essentially, they would have the Company become a contingent-fee broker for rate payers. They point to no other Commission that has ever so ordered. Defending the Company from claims or trying to recoup costs expended in on-going business concerns are reasonable business practices.

Simply stated, the Company will always have to incur legal expenses to deal with a variety of issues. Not one of Mr. Higgins, Ms. Ramas, nor Mr. Thompson points to anything that suggests the Company will have fewer legal expenses on a going-forward basis, other than adjusting for the Wah Chang matter. The table below summarizes legal expenses for the last four years after excluding the Wah Chang matter, which will be removed from this filing. The result shows the twelve months ended June 2011 amount included in the filing is comparable to prior years, and is at a reasonable ongoing level, particularly when considering the ongoing litigation noted above.

Period	External Legal Expense [1] (Excluding Wah Chang)
CY 2008	16,442,836
CY 2009	9,729,601
CY 2010	13,167,389
CY 2011	14,880,313
4 Year Average	13,555,035
Base Period	14,796,267

Notes:
1) Stated in 2011 dollars

Q. Please describe the Legal Consulting Costs adjustment proposed by Mr. Thomson.

A. Mr. Thomson's adjustment attempts to "normalize legal consulting service expense due to an abnormal level of one time occurring costs in the general rate case base period."

Q. Do you agree with the Legal Consulting Costs adjustment proposed by Mr. Thomson in DPU Exhibit 6.7?

A. No. Mr. Thomson's proposed adjustment addresses only two accounts, 530094, Legal Consulting Services – Expert Witness Fees and 530096, Legal Consulting Services – Legal Costs. He notes that "the major driver of the increase is the Wah Chang vs. PacifiCorp matter"[5] Since the Company has agreed to situs assign these costs to Oregon, his adjustment seems to be resolved.

Generation Overhaul

Q. Does the Company agree with Ms. Ramas generation overhaul adjustment?

A. No. Before averaging historical amounts, it is important that the dollars be correctly stated using constant dollars. Absent using constant dollars, the calculation ignores the impact of inflation and assumes that the buying power of a dollar is the same today as it was four years ago. Just like it would be imprudent for the Company to ignore inflation in making acquisition decisions and in calculating the net present value of investment alternatives, it is equally incorrect to assume that no inflation has occurred over the last four years.

Q. Are other parties providing evidence that historical costs should be restated in constant dollars in determining normalized cost levels?

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[5] Direct testimony of David T. Thomson, page 12, lines 238-239.

A. Yes. Dr. Artie Powell sponsors testimony that shows failure to account for inflation will understate the Company's Test Period generation overhaul expense.

Q. How does Dr. Powell come to this conclusion?

A. Dr. Powell used statistical modeling and economic reasoning to conclude that the best method is to inflate the historical values prior to averaging. To test this conclusion, Dr. Powell developed a simulation model. The results of the simulation confirm that averaging the inflated historical values provides a better estimate of Test Period expense. Based on the evidence presented the Commission should reconsider its position on inflation before escalation.

Wheeling Revenue

Q. Please describe the adjustment Mr. Higgins proposes to wheeling revenue.

A. Mr. Higgins proposes to impute additional wheeling revenue into the Company's filing attributable to the Company's outstanding Federal Energy Regulatory Commission ("FERC") rate case.

Q. What is the status of the Company's FERC rate case?

A. The Company is currently in settlement discussions with parties in the FERC rate case. However, no agreement has been reached at this time. The new interim FERC rates being collected under the proposed tariff are subject to refund based on the final decision by FERC.

Q. Does the Company believe that additional wheeling revenue, if any, resulting from the FERC rate case should be passed through to Utah customers?

A. Yes. Additional wheeling revenue received should be credited to customers. However, it is too early to know how much additional revenue, if any, will be generated from the FERC rate case.

Q. Since the Company agrees these revenues should be returned to customers, why does the Company oppose the adjustment proposed by UAE?

A. UAE imputes revenues based on the full filed amount of the FERC rate case. However, it is uncertain and speculative at this point what the outcome of the FERC rate case filing will be. Therefore, the Company proposes to return the increase to customers once the amount is known.

Q. What does the Company believe is an appropriate treatment of revenues that will be received from the FERC rate case?

A. As described in my direct testimony, the Company proposes to continue the deferral treatment established in the settlement stipulation resolving the 2011 GRC. That is, beginning with the effective date of new FERC transmission rates, additional revenue related to the FERC proceeding will be deferred and credited to customers through the energy balancing account ("EBA") without application of the 30 percent sharing mechanism (i.e., 100 percent of the transmission rate adjustment will accrue to customers). Such treatment will continue until a new base level for wheeling revenue is established in a general rate case that includes the final outcome of the current FERC proceeding. The true-up effects resulting from this final outcome will also be reflected through the EBA to ensure a dollar-for-dollar pass-through of wheeling revenue to customers.

O&M Escalation

Q. Please explain the adjustment to the escalation of non-labor O&M costs proposed by Mr. Higgins.

A. Mr. Higgins' proposed adjustment removes the increases in non-labor O&M expense as projected by applying IHS Global Insight (USA) Inc. ("IHS") escalation factors to the base period. He cites two primary concerns: (1) including a provision for escalation in rates makes inflation a "self-fulfilling prophesy"; and (2) including escalation in the Company's rates builds a "cost cushion" and provides a disincentive for the Company to improve efficiency. His adjustment reduces the Company's revenue requirement by $9.6 million.

Q. Did Mr. Higgins calculate his proposed adjustment correctly?

A. No. Mr. Higgins adjustment is overstated by $5.0 million because he failed to remove the impact of the Company's O&M escalation for the thermal, wind/hydro and Klamath O&M adjustments. In the Company's filed case, the O&M escalation adjustment no. 4.12 is calculated by taking the unadjusted non-labor, non-net power costs ("NPC") O&M expense for the twelve months ended June 30, 2011, and adjusting that expense to remove out of period adjustments. IHS Escalation factors are applied to the adjusted O&M expense to arrive at a Test Period level of O&M expense. After that, any O&M adjustments the Company made in the case that adjust base period non-labor, non-NPC O&M expense were calculated to correctly account for the escalation applied in the O&M escalation adjustment. In preparing his adjustment, Mr. Higgins did not remove the interplay between the thermal, wind/hydro and Klamath O&M escalation adjustment and O&M adjustments included in the case. In doing so, Mr. Higgins removed some escalated O&M that was already appropriately removed or addressed elsewhere in the filing.

Q. Why did Mr. Higgins remove O&M escalation from certain adjustments while not from those related to thermal, wind/hydro and Klamath O&M?

A. Mr. Higgins wasn't clear that the standalone forecast excluded inflation. He asked data requests on this subject but didn't submit them in time to be used in his testimony. Mr. Higgins said he will supplement his testimony to adjust the O&M escalation adjustment based on the information he receives in discovery.

Q. Why does the Company oppose Mr. Higgins' adjustment?

A. Mr. Higgins' argument that including a forecast of inflation in the Company's case becomes a self-fulfilling prophesy is overreaching. Mr. Higgins' proposed adjustment is based solely on his interpretation of high-level economic indicators and not empirical evidence of the cost pressures facing the utility industry and RMP. The Company is simply reflecting the cost of goods and services that it projects to experience during the Test Period. If these cost increases are not reflected in the Company's projected revenue requirement, it will impact the Company's ability to recover the costs necessary to serve customers during the rate-effective period.

Q. Do you agree that including escalation serves as a "cost cushion" for the Company?

A. No. Planning for the costs the Company will incur in providing service to customers during the Test Period is not a cost cushion, but rather a prudent and accepted practice in setting rates that will allow the Company an opportunity to recover its prudently incurred costs of providing safe and reliable electrical service. Adopting Mr. Higgins' adjustment that holds the Company's non-labor O&M flat would only result in chronic under earning. The Company is using base costs from the twelve months ended June 30, 2011, and a Test Period ending May 31, 2013, for this case. To assume that there will be no inflation during the period of time between the base period and Test Period is unreasonable and imprudent.

Q. What additional arguments does Mr. Higgins provide to support his adjustment?

A. Mr. Higgins claims that inflationary pressures will not be substantial through the Company's Test Period. He lists two sources to support this claim: the Minutes of the Federal Reserve Open Market Committee from January 24-25, 2012, and the January 2012 forecast of the Congressional Budget Office. Both of these sources contain high level discussions of national economic factors, including core inflation, which is anticipated to be in the range of 1.2 percent to 1.8 percent in 2012.

Q. Why does the Company believe that the IHS Global Insight escalation factors included in the case are more appropriate than Mr. Higgins' core inflation argument?

A. IHS conducts thorough research that is highly specialized to the electric utility industry. Based on its research, IHS formulates escalation factors related to specific FERC accounts. In contrast, core inflation is a broad predictor of inflation that is measured based on aggregate price growth excluding food and energy prices. While core inflation can be a valuable tool when examining the economy as a whole, it is too broad to be an accurate predictor of the specific cost pressures the Company will experience during the Test Period.

Q. Please explain the adjustment to the escalation of non-labor O&M costs proposed by Mr. Meyer.

A. Mr. Meyer's proposed adjustment removes the increases in non-labor O&M expense as projected by utilization of IHS Global Insight (USA) Inc. ("IHS") escalation factors from the base period through the Test Period. He cites two primary concerns: His first concern is that he believes the June 2011 O&M expense is lower than the June 2010 O&M expense. The second concern is because the Company has filed many rate cases, the need for an inflation adjustment is diminished. His adjustment reduces the Company's revenue requirement by $10.2 million.

Q. Did Mr. Meyer calculate his proposed adjustment correctly?

A. No. Mr. Meyer's adjustment is overstated by $5.5 million because he failed to account for the impact the Company's O&M escalation adjustment has on other non-labor O&M related adjustments similar to the miscalculation made by Mr. Higgins.

Q. Please provide some examples to illustrate Mr. Meyer's miscalculation.

A. In Exhibit RMP___(SRM-3), page 5.3, the Little Mountain adjustment removes O&M expense related to the plant since it no longer produces power and has been taken out of service. The amount included in the unadjusted results related to Little Mountain non-labor O&M was $279,370. However, the Company removed $297,920 from results with the difference representing the $18,550 in escalation that was applied in the O&M escalation adjustment no. 4.12. Absent the O&M escalation adjustment, only $279,370 should have been removed through the Little Mountain adjustment. Since Mr. Meyer removed the O&M escalation adjustment in its entirety and failed to revise the Little Mountain adjustment for the additional $18,550, the escalation is being removed from revenue requirement twice – once through Mr. Meyer's adjustment and again through the Little Mountain adjustment.

Another example of an impacted adjustment is the incremental O&M adjustment no. 4.9, which is the largest adjustment affected by Mr. Meyer's proposed O&M escalation removal adjustment. The incremental O&M adjustment ensures that the level of generation plant O&M expense projected to be incurred during the Test Period is reflected in the case. Projected plant O&M is included in the case through two adjustments - the O&M escalation adjustment and the incremental O&M adjustment. Through the O&M escalation adjustment, Plant O&M accounts are brought forward to the Test Period using IHS Global Insight escalation factors. The escalated plant O&M accounts are then compared to the level of plant O&M the Company expects to incur during the Test Period. Any variance between the escalated O&M and the Company's projection is reflected in the case through the incremental generation O&M adjustment.

As illustrated on pages 4.9.1 and 4.9.2 of Exhibit RMP___(SRM-3), increases in plant O&M included in the case through the O&M escalation adjustment are removed in calculating the amount of O&M to be added through the incremental O&M adjustment. As detailed in adjustment 4.9 of Exhibit

RMP___(SRM-3), a total of $18.4 million in plant O&M is added to the case beyond base period levels. Of this, $11.3 million is adjusted through the O&M escalation adjustment, while the balance of $7.1 million is reflected in the case through the incremental O&M escalation adjustment. When Mr. Meyer removes the O&M escalation adjustment, he is removing from the case $11.3 million ($4.9 million Utah allocated) of plant O&M projected to be incurred during the Test Period. Of the $4.9 million of incremental plant O&M, $4.0 million relates to the Company's thermal units and $0.9 million is associated with the hydro and wind units.

Mr. Meyer's O&M escalation adjustment removes from the case projected Test Period plant O&M costs that are necessary and appropriate. The testimony of Company witnesses Mr. Ralston and Mr. Tallman provide further support of the projected levels of plant O&M included in the Company's revenue requirement.

Q. Does Mr. Meyer's adjustment to O&M escalation affect other adjustments?

A. Yes, in addition to the adjustments mentioned above, the following adjustments reflected in Exhibit RMP___(SRM-3) are impacted by Mr. Meyer's adjustment to O&M escalation: Uncollectible Accounts, Utah AMR Savings, Electric Lake Settlement, Powerdale Removal, Regulatory Asset Amortization, Klamath Hydro-Electric Settlement Agreement, and Miscellaneous Asset and Sales Removals. The Company believes that Mr. Meyer's adjustment should be rejected for reasons described below. However, should the Commission choose to adopt his proposal, the adjustment should be revised from $10.2 million to $4.7 million to properly account for the issues described above.

Q. Why does the Company oppose Mr. Meyer's O&M escalation adjustment?

A. Mr. Meyer's adjustment should be disallowed because the basis for his adjustment is that the Utah allocated unadjusted O&M expense in June 2011 is lower than the June 2010 O&M by $29.2 million.

Q. Is Mr. Meyer's comparison of June 2010 and June 2011 O&M a valid comparison?

A. No. Mr. Meyer's analysis has several flaws. The biggest flaw is that he indicates in his footnotes that the June 2010 column (labeled June 2012) is calculated using Revised Protocol, and that the June 2011 column was calculated using 2010 Protocol, but he did not consider the differences in allocation in calculating the difference. The June 2010 figures included $29.3 million associated with the Revised Protocol embedded cost differential ("ECD") expense, which under 2010 Protocol is set to zero in Utah. This accounted for his entire decrease. If Mr. Meyer had performed his adjustment using total Company costs to remove the impact of allocations he would have noticed increasing, not decreasing, costs. In addition, Mr. Meyer used unadjusted data without any normalization adjustments or correcting adjustments.

Q. Has the Utah Commission ruled on the use of escalation rates?

A. Yes. In Docket 07-035-93 the Commission stated "In this case, we find use of Global Insight inflation forecasts is appropriate and provide the Company adequate incentive to manage their non-labor O&M costs (other than net power costs)."

Uncollectible Expense

Q. Please describe Mr. Meyer's adjustment to uncollectible expense?

A. Mr. Meyer removes the projected increase in uncollectible expenses in this case associated with the requested price increase.

Q. Has the Company changed the way uncollectible expenses for new revenue associated with price changes are calculated in this rate case?

A. No. The Company has always calculated a change in uncollectible expense associated with the price change as is noted on pages 1.0 and 1.1 of Exhibit RMP___(SRM-3). This change is part of the normal ratemaking process and is done in all of the Company's jurisdictions. Uncollectible expense is calculated as a percent of revenues. Therefore, if revenues change, so does the uncollectible expense.

Q. Does the Company collect 100% of every dollar it bills its customers?

A. No it doesn't. Despite the Company's improved efforts to collect on customer balances, there are still some balances that will not be recovered. It is naïve and unrealistic to think that the entire price change billed to customers will be collected. Uncollectible expense is a necessary business expense that impacts all businesses.

Q. Do you have other concerns with Mr. Meyer's adjustment?

A. Yes. Mr. Meyer's adjustment was calculated using a fixed dollar amount based on the Company's original request. The amount of his adjustment is overstated based on the rebuttal filing, and would need to be further adjusted based on the final outcome in this rate case.

Q. Does the rate used by the Company capture the collection improvements

made by the Company?

A. Yes it does. The uncollectible rate is calculated by dividing the base period uncollectible expense by the base period revenues for the twelve months ended June 2011. This rate is used to calculate an amount of bad debt expense associated with the price change.

CWIP Write-Offs

Q. Please explain Ms. Ramas' proposed adjustment to construction work in progress (CWIP).

A. Ms. Ramas proposes to remove from results the written-off costs related to two cancelled projects: 1) the switchgear replacement project at Huntington Units 1 and 2; and 2) electronic security projects associated with NERC/Critical Infrastructure Protection Standards. Ms. Ramas provides little support for this recommendation other than to say the costs for these projects should be removed from Test Period expense and not passed on to customers.

Q. Why did the Company decide to cancel the Huntington switchgear replacement project?

A. During the preparation for installation of the switchgear, management raised concerns about the risks required to install the equipment. After additional engineering reviews, it was determined that the switchgear project could be cancelled and the equipment could be bypassed in the event of a failure. Based on this review, the decision was made to cancel the project.

Q. Why did the Company decide to cancel the electronic security projects associated with the NERC/Critical Infrastructure Protection Standards?

A. After a 2008 assessment of the extensive nature of the NERC CIPS standards and the limited available internal resources, the Company decided to hire an outside consultant to design a fully integrated compliance program that would bring the critical asset generation facilities and operations into compliance with the new NERC CIPS standards. The third party solution that was chosen included a complete set of compliant policies, procedures and documentation, as well as a network design that allowed each critical asset generation facility to automate many of its compliance obligations, while simultaneously meeting the new cyber security requirements imposed by the new NERC standards.

In February of 2010, Company management and the IT department performed an internal reassessment of the third party solution. The assessment concluded that while the solution provided a compliant program, it also presented several undesirable drawbacks such as: (1) requiring the Company to rely on a third party vendor for its compliance program; (2) requiring that the Company either add internal headcount or hire the third party solution provider on a continuing basis in order to sustain the compliance program; (3) essentially requiring the creation of an IT department within the generation organization; and (4) reinforcing the stand-alone operation mode of the critical asset generation plants rather than moving closer to a centralized, integrated solution.

The IT department presented Company management with an alternative compliance model that was primarily supported by internal resources. The alternative compliance model offered the benefit of centralizing many of the compliance tasks that, under the third party solution, would have been performed independently by plant personnel at each of the critical asset facilities.

Upon completion of the assessment, the determination was made to terminate the original third party provider scope of work and to pursue implementation of the alternative compliance model proposed by the IT department. The work is now being done by the in-house IT group with the changes in scope reflecting fewer facilities requiring the full-scale implementation.

Q. Did the Company remove from the Base Period any expenses associated with the write-off of projects that were previously recorded in CWIP?

A. Yes. As noted by Ms. Ramas in her testimony, the Company removed $3 million from Base Year expenses associated with the establishment of a CWIP reserve for the Jim Bridger turbine upgrades. In establishing this CWIP reserve, the Company did not actually write-off the underlying asset. Because the Company did not actually write-off expenses related to the Jim Bridger turbine upgrade during the Test Period, the Company did not find it appropriate to include this impairment charge in rates. As a result, the Company made an adjustment, detailed in Exhibit RMP___(SRM-3) to remove the non-recurring entry associated with the Jim Bridger impairment charge. Subsequent to the end of the Base Period, the accounting entry to establish the CWIP reserve was reversed and the associated expense, which had previously been removed from rates by the Company, was nullified.

Q. Is the Company's treatment of the Jim Bridger turbine upgrade impairment charge inconsistent with its treatment of the switchgear replacement and

electronic security projects in question?

A. No. The Company's rationale for removing the Jim Bridger impairment charge is fundamentally different from the rationale proposed by Ms. Ramas to remove the written-off expenses related to the switchgear replacement and electronic security projects. As explained above, the decision to remove the Jim Bridger impairment charge was made because management did not feel it was appropriate to include this one-time charge associated with the establishment of a CWIP reserve for this asset, especially when considering the potential for this expense to be reversed at a later time. The expenses Ms. Ramas is proposing to remove are not associated with the establishment of a CWIP reserve due to concerns about the standing of these projects. Rather, these capital projects were written-off as expenses because the Company made the decision to cancel them.

Q. How does the Company propose to treat CWIP write-off costs in response to Ms. Ramas' adjustment?

A. The Company disagrees with the notion that costs related to projects that have been cancelled should be removed from Test Period expenses. When the Company makes the decision to pursue a project it utilizes the best, most complete information available at the time. However, as time passes and projects progress, new circumstances and information continually arise which have the potential to impact the efficacy of any project. In response to these changing circumstances, sometimes it is necessary for the Company to cancel projects in order to be able to move forward with alternative solutions better suited to fit the Company's needs in providing service to customers. These changes and the costs associated with them are simply part of the normal course of doing business and they should be included in ratemaking.

Although the Company believes Ms. Ramas' adjustment is not necessary, if an adjustment is made the Company believes reflecting a five year average of historical CWIP write-off expense in this case is reasonable. The Company has calculated a five year average of historical write-offs using data from 2007 through 2011. These annual amounts were restated using constant dollars to the Test Period, then the average was compared to the level of write-offs reflected in the Company's filing; the Bridger write-off of $3.0 million was removed from both figures. Both the five year average and the original Test Period level of write-offs (excluding the Bridger item) are $5.3 million. Based on this, the Company recommends that no adjustment to CWIP write-off expense be adopted in this proceeding. The Company believes this is a reasonable and balanced approach to this issue and allows the Company to recover a normalized level of this expense, which is an ongoing and necessary part of providing service to customers.

Edison Electric Institute Dues ("EEI")

Q. Do you agree with Mr. Oman's adjustment to reduce EEI dues expense in the Test Period?

A. No. Mr. Oman proposes to remove $138,095 from the case associated with EEI dues paid by the Company. This is based on Mr. Oman's incorrect assumption that the total dues paid by the Company in the Base Period were $678,271. The $678,271 cited by Mr. Oman is only the above-the-line portion included in FERC account 930.2. The portion of the dues allocated to lobbying efforts was booked below-the-line in FERC account 426. The total amount paid to EEI in the Base Period was $867,149, of which $188,878 was recorded below-the-line for lobbying. Therefore, Mr. Oman proposes, erroneously, to remove the lobbying expense a second time.

Information on the total bill, including the break out of below-the-line charges, was provided to the DPU in response to DPU data request 49.7, which was furnished on June 8, 2012. Based on the date this response was provided, Mr. Oman may have been unable to review this information in advance of submitting his direct testimony in this proceeding on June 11, 2012. However, since the portion of EEI dues allocated to lobbying efforts incurred during the Base Period was already booked to a below-the-line account, and was therefore not included in the Test Period of this case, it is inappropriate to remove lobbying costs that are not included in the rate case.

Chamber of Commerce

Q. Please describe Mr. Oman's proposed adjustment to remove from the case expenses for chamber of commerce organizations.

A. Mr. Oman proposes to remove from the Test Period expenses associated with dues paid by the Company to chamber of commerce organizations based on his assertion that the Company's participation in these organizations does not provide a direct quantifiable benefit to customers and is not necessary to the Company's efforts of providing safe and reliable electric service to customers.

Q. Does the Company agree with Mr. Oman's adjustment?

A. No, the Company is opposed to Mr. Oman's recommendation to remove chamber of commerce dues from the Test Period. Contrary to Mr. Oman's arguments to remove these costs from the case, Company participation in these organizations does, in fact, provide tangible benefits to customers. One of the primary purposes of chambers of commerce is to promote local economic development and jobs. This purpose is extremely important to customers and communities in the current economy. The Company's support of chambers and other activities which help improve the local economies directly benefits its customers. Importantly, the Company's participation is not for the purpose of increasing load or sales.

In addition, participation in these organizations provides basic information which the Company considers in developing its load forecasts and planning to meet the utility service needs of the communities we serve. Chamber of commerce meetings are often a source for where the Company learns about new load planned in a community or other matters which might impact the Company's infrastructure or service protocols in the community. Participation in these organizations is critical to the Company' efforts to remain informed of these issues.

Removing these costs from rates would disallow recovery of costs incurred by the Company that result in tangible benefits to our customers. For these reasons, the Company recommends that the Commission not adopt Mr. Oman's proposed adjustment to chamber of commerce dues.

Q. Does this conclude your rebuttal testimony?

A. Yes.