Q. Are you the same Mark R. Tallman that submitted Direct Testimony in this proceeding?

A. Yes.

Purpose and Summary of Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut the testimony of Ms. Donna Ramas on behalf of the Office of Consumer Services ("OCS") related to wind turbine oil changes, wind-powered generation materials and Federal Energy Regulatory Commission ("FERC") hydro land use fees. My recommendation to the Commission associated with wind turbine oil changes is consistent with the recommendation made by Mr. Kevin C. Higgins on behalf of the Utah Association of Energy Users Intervention Group ("UAE"). In contrast, the Company does not agree with UAE's recommendations related to non-labor operations and maintenance ("O&M") escalation and project-specific contingency adjustments. My testimony rebuts UAE on these two issues as it relates to wind and hydro-powered resources. My testimony also rebuts the recommendation of Mr. Richard S. Hahn on behalf of the Division of Public Utilities ("DPU") related to wind turbine generator replacements during the test period.

Q. Please summarize your testimony.

A. The Company proposes to normalize O&M expense associated with wind turbine oil changes over a three-year period. The Company does not agree with how OCS calculates normalized wind turbine oil change expense for inclusion in rates. The Company's proposal is consistent with the normalized expense proposed by UAE.

The Company also does not agree with OCS's proposal associated with wind-powered generation materials or OCS's proposal associated with FERC hydro land use fees. My testimony demonstrates the Commission should reject OCS's recommendation to reduce wind-powered generation materials cost because the OCS relied on an inappropriate averaging methodology and that the OCS's recommendation with respect to FERC land use fees should also be rejected because OCS reached an incorrect conclusion regarding a single FERC invoice the Company received prior to the test period. The rebuttal testimony of Mr. Steven R. McDougal recommends that the Commission reject UAE's recommendations regarding non-labor O&M escalation and contingency. My testimony supports Mr. McDougal's testimony by further describing how UAE's proposals for these two issues inappropriately impacts contingency related to five hydro projects and results in an inappropriate disallowance of valid and prudent incremental O&M costs. Finally, the Company does not agree with the DPU's recommendation to remove wind turbine generator replacements during the test period. My testimony documents the need for these generator replacement costs.

Wind Turbine Oil Changes

Q. Please summarize OCS's position regarding wind turbine oil changes.

A. Ms. Ramas proposes a reduction of $2,029,333 ($875,759 Utah) that would remove two thirds of the wind turbine oil change costs the Company included for recovery in this case. Ms. Ramas based her proposed adjustment on the manufacturers' recommendation to change wind turbine oil every three years. Ms. Ramas claims that her approach would result in a normal level of oil change costs occurring during the test period. She proposes that $1.0 million ($437,876 Utah) be placed in rates associated with wind turbine oil changes.

Q. What is the Company's position regarding normalization of wind turbine oil change costs?

A. The Company agrees that normalization is one reasonable way to include these costs in rates, provided that all appropriate costs are reflected in the three year average calculation. Generation overhaul expenses are currently reflected in Utah rates on a normalized multi-year basis.

Q. Has OCS reflected all appropriate costs in the normalized wind turbine oil change expense it proposes?

A. No. OCS's calculation does not reflect all appropriate costs because the OCS calculation does not take into consideration the 74 wind turbines at the Dunlap I wind project. The Dunlap I wind turbines are due for an oil change during 2013. The Dunlap I oil change will likely begin during the test period and finish just after the end of the test period (May 2013) utilized in this case. In addition, the most recent estimate of oil change costs should be used for normalization purposes.

Q. Are there other instances in which costs extending beyond a test period are reflected in Utah rates?

A. Yes. As addressed in Company witness Mr. McDougal's rebuttal testimony, projected costs for generation plant overhauls extending beyond a rate case test period have been accepted by the Commission in previous rate case dockets.

Q. What is the Company's most recent estimate of normalized wind turbine oil

change costs?

A. As shown in Confidential Exhibit RMP___(MRT-1R), the Company currently estimates the three-year average oil change expense for wind turbine oil change costs to be $1.7 million per year ($715,756 Utah), inclusive of oil change costs for the 74 turbines located at the Dunlap I wind project. The Company bases this estimate, in part, on the results of a recent competitive procurement process for changing the oil in Wyoming located turbines. The Company's proposal would result in a reduction of $1,385,417 ($597,872 Utah). This reduction is reflected in the rebuttal testimony of Mr. McDougal.

Q. Is the Company's normalized wind turbine oil change cost recommendation consistent with that proposed by UAE?

A. Yes. UAE recommends adjusting wind O&M expense to reflect the normalized annual expense over the oil change cycle. UAE recommends that the Company's wind turbine oil change proposal in Wyoming Docket No. 20000-405-ER-11 be adopted in Utah. In the referenced Wyoming docket, the Company recommended a normalized three-year average oil change expense of $1.7 million per year, inclusive of oil change costs for the 74 turbines located at the Dunlap I wind project.

Q. What do you recommend to the Commission?

A. I recommend the Commission reject the proposed adjustment by OCS for wind turbine oil changes. Instead, I recommend the Commission accept the proposal by the Company which is consistent with and would result in the same adjustment proposed by UAE[1]. The Company and UAE propose to normalize oil change costs

[1] Except for small rounding differences.

over a three year period using all appropriate costs. As Confidential Exhibit RMP___(MRT-1R) shows, the Company's current estimate of the three-year average oil change expense for wind turbine oil change costs is $1.7 million per year ($715,756 Utah), inclusive of oil change costs for the 74 turbines located at the Dunlap I wind project. The Company's proposal would result in a reduction of $1,385,417 ($597,872 Utah) from the Company's filing. The OCS has failed to reflect all appropriate costs in the normalized wind turbine oil change expense they propose.

Wind-Powered Generation Materials

Q. Please summarize OCS's position regarding wind-powered generation materials.

A. Ms. Ramas proposes an 8.89 percent reduction in the cost the Company expects to incur for wind-powered generation materials during the test period. Ms. Ramas proposes to reduce test period expenses by $568,024 ($245,131 Utah). Ms. Ramas bases her proposal on the average of actual costs incurred by the Company during 2010 and 2011 for materials on a dollar per megawatt basis. As a result, the OCS is recommending that $5.8 million ($2,512,227 Utah) be placed in rates for wind-powered generation materials. The Company's filing included an expense of $6,389,472 ($2,757,356 Utah) for wind-powered generation materials.

Q. Is the OCS's approach to averaging appropriate?

A. No. Ms. Ramas inappropriately averages 2010 turbine material cost data for a single type of wind turbine (General Electric) with 2011 cost data for turbines produced by different manufacturers. In addition, Ms. Ramas inappropriately applies the result of her analysis to the Company's entire wind-powered generation material expense, which includes material costs that are not wind turbine related.

Q. Does the OCS or any other party object to wind-powered generation material expense not related to wind turbines?

A. No.

Q. Why did the Company use 2010 data to estimate materials expense?

A. The Company utilized 2010 turbine material cost data when determining its expected costs because 2011 cost data had not yet been calculated. The 2010 data only consisted of data on General Electric turbines. If a 2010 and 2011 averaging approach is utilized, the correct approach is to use the General Electric data for General Electric turbines and the non-General Electric data from 2011 for the other turbine types. As time passes, the Company will grow its historical data set for each type of turbine.

Q. Have you updated these material costs using the correct approach?

A. Yes. As shown in Confidential Exhibit RMP___(MRT-2R), the Company estimates wind-powered generation materials cost using the correct approach to be $6.4 million (total Company). On a rounded basis, the updated amount is equal to the $6.4 million (total Company) amount the Company included in its filing.

Q. What do you recommend to the Commission?

A. I recommend the Commission reject the proposed adjustment by OCS for wind-powered generation materials. The Commission should either accept the Company's original estimate using 2010 costs ($6.4 million total Company, $2,757,356 Utah) or accept the Company's current estimate using the correct approach to averaging 2011 and 2010 costs ($6.4 million total Company, $2,739,187 Utah). The Company's recommendation results in little or no adjustment. The OCS recommendation relies on an inappropriate averaging methodology that is also inappropriately applied to non-turbine related materials costs.

FERC Hydro Land Use Fees

Q. Please summarize OCS's position regarding FERC hydro land use fees.

A. Ms. Ramas proposes an adjustment of $535,204 ($230,967 Utah) on the basis that the Company received a FERC invoice for land use fees in March 2012, with payment due in April 2012, of $182,115 (total Company). Ms. Ramas calculates her proposed adjustment by taking the difference between $182,115 and the amount the Company included in its filing for expected test period expenses ($717,319 total Company). Ms. Ramas proposes that $182,115 ($78,591 Utah) be included in rates.

Q. Did Ms. Ramas draw an incorrect conclusion regarding the March 2012 invoice?

A. Yes. Ms. Ramas incorrectly concluded that the March 2012 invoice of $182,115 is equal to the FERC land use fee expense the Company will incur during the test period (June 2012 through May 2013).

Q. Please explain.

A. As Ms. Ramas noted, the FERC land use fee invoice was due in April 2012. Accordingly, the Company paid the invoice and expensed the amount prior to the test period. I explained in my direct testimony that the Company would make any necessary adjustments to its projected test period costs once the FERC land use invoice was received during the spring of 2012. At the time, the Company did not know if the invoice would be paid during the test period or prior to the test period. As Ms. Ramas notes, the invoice was paid prior to the test period.

Q. Is the Company still projecting a FERC land use fee expense of $717,319 ($309,557 Utah) during the test period?

A. Yes. The Company still expects to incur $717,319 ($309,557 Utah) of FERC land use fee expenses during the test period. Therefore, the appropriate cost estimate to use for setting rates is the *next* FERC invoice. Not the March 2012 invoice as the OCS suggests.

Q. When will FERC invoice for land use fees during the test period?

A. FERC does not invoice on the exact same date every year. Thus the uncertainty described above. The Company expects to receive and pay the next FERC invoice as early as December 2012, during the test period.

Q. Why is the next invoice the Company expects to receive most indicative of the costs the Company will incur during the test period?

A. As explained in my direct testimony and in response to data request OCS 8.16(b), the cost of the expected FERC land use fees during the test period is based on the methodology FERC intends to implement after a notice of proposed rulemaking ("NOPR") process is complete. The Company has included $717,319 (total Company) in its filing based on the NOPR's methodology. The $182,115 (total Company) invoice received in March 2012, and expensed prior to the test period, has no impact upon the costs the Company will incur during the test period because the March 2012 invoice uses the prior methodology. FERC based its March 2012 invoice on the prior methodology because the NOPR was still active at the time FERC elected to issue the March 2012 invoice.

Q. What do you recommend to the Commission?

A. I recommend the Commission reject the proposed adjustment by OCS and accept the Company's originally filed estimate of $717,319 ($309,557 Utah) for FERC land use fees during the test period because it is most indicative of the costs the Company will incur during the test period. The Company's recommendation results in no adjustment. As described above, the OCS's proposed adjustment is based on an incorrect conclusion regarding the FERC invoice the Company received prior to the test period.

Non-Labor O&M Escalation

Q. Please describe UAE's proposed adjustment to RMP's cost escalation component for projected inflation.

A. Mr. Higgins recommends the Commission reject the Company's O&M escalation adjustment that was included in Mr. McDougal's Exhibit RMP__(SRM-3). The O&M escalation adjustment provides the Company the opportunity to plan for inflation and other industry-specific cost increases that are expected during the test period. Details on how the adjustment is calculated and arguments rebutting UAE's position are provided in the rebuttal testimony of Mr. McDougal.

Q. Does UAE's proposal result in an inappropriate O&M adjustment?

A. Yes. My testimony provides further discussion about why UAE's proposed adjustment harms the Company's wind-powered and hydro-powered generation operations. The adjustment proposed by UAE inappropriately reduces the Company's incremental O&M adjustment.

Q. Please describe how the proposal by UAE to remove the Company's O&M escalation adjustment relates to the Company's O&M expense for wind-powered and hydro-powered resources.

A. As generally described in the rebuttal testimony of Mr. McDougal, in addition to removing general O&M escalation, Mr. Higgins' adjustment has the further effect of inappropriately removing part of the incremental O&M adjustment related to wind and hydro addressed in my direct testimony. Mr. Higgins expected that removing non-labor escalation would also reduce incremental O&M costs on the basis that it was not clear to him that the standalone forecast excludes inflation. While Mr. McDougal's testimony argues against Mr. Higgins' entire $24.3 million (total Company) exclusion of cost escalation, my rebuttal testimony provides additional evidence showing why that portion Mr. Higgins' proposed adjustment ($2.1 million total Company) related to the incremental O&M costs for the Company's wind and hydro-powered resources inappropriately deprives the Company of recovering prudent costs necessary for the Company to maintain its operations.

Q. Please describe why these costs are prudent and necessary for the Company to maintain its operations.

A. The $2.1 million (total Company) decrease proposed by UAE would not simply decrease inflation-related costs. As my direct testimony describes, the Company has incremental costs representing \$8.7[2] million in legitimate incremental costs necessary to maintain and operate the Company's wind and hydro-powered resources. These are costs specific to the Company's wind and hydro-powered resources and reflect the cost of goods, services and regulatory requirements the Company will experience during the test period.

Q. Please provide examples of these resource-specific and necessary costs.

A. Specific examples of he Company's wind-powered generation costs include increasing material costs (due to expiring warranties), decreasing third party contract costs (due to expiring contracts) and necessary costs associated with changing wind turbine generator oil. Specific examples associated with the Company's hydro-powered generation resources include increased FERC fees, the costs to implement FERC issued licenses (on the Lewis and Umpqua Rivers) and costs associated with the Klamath River Hydroelectric Settlement Agreement. The Company will incur these specific costs during the test period and, as a result, they should be included in the revenue requirement as prudent and necessary costs of providing service. Accepting and applying UAE's proposed non-labor O&M adjustment to the incremental wind and hydro-powered costs addressed in my testimony would inappropriately implement a \$2.1 million (total Company) disallowance for these categories.

Q. What do you recommend to the Commission?

A. Consistent with the testimony of Mr. McDougal, I recommend the Commission reject UAE's proposed O&M escalation adjustment because it would result in an

[2] See direct testimony of Mr. Mark R. Tallman. Includes \$3.0 million in oil change costs subject to normalization.

inappropriate disallowance being applied to valid wind and hydro-powered O&M costs.

Contingency

Q. Please describe UAE's recommendation to the Commission with respect to project contingency.

A. Mr. Higgins recommends that approximately two thirds (67 percent) of contingency costs be removed from 13 specific projects.

Q. Do you agree with UAE's proposed adjustment?

A. No. While Mr. McDougal rebuts UAE's proposed contingency adjustment in general, I earnestly disagree with UAE's proposed contingency adjustment as it relates to five hydro-resource generation projects. Each of the five hydro projects that UAE proposes a contingency reduction to is required by FERC and is a project not yet complete. The Company anticipates that the full amount (100 percent) of planned contingency for these hydro projects will be required. As Mr. McDougal's testimony highlights, UAE's proposal to arbitrarily reduce planned contingency is inappropriate for rate setting purposes.

Q. Why does the Company anticipate that 100 percent of the planned contingency for the hydro projects you reference will be required?

A. The contingency for the identified hydro construction projects is forecasted to be used because of the settlement of claims due to adverse subsurface conditions, the potential for further adverse subsurface conditions or other adverse project conditions to be discovered, commissioning control systems to comply with complex operational and compliance requirements, and the costs of integrating these new facilities into the Company's day to day operations.

Q. What do you recommend to the Commission?

A. Consistent with Mr. McDougal's recommendation, I recommend the Commission reject the proposal by Mr. Higgins to reduce the Company's contingency associated with hydro-resource generation projects.

Wind-Turbine Generator Replacements

Q. Please summarize the DPU's position regarding wind-powered generator replacements.

A. Mr. Hahn recommends that $318,953 (total Company) for three wind turbine generator plant replacements be removed. Mr. Hahn makes his recommendation on the basis that the Company has not adequately documented the need for such replacements.

Q. Does the Company expect that it will be necessary to replace at least three wind turbine generators during the test period?

A. Yes. The Company has experienced some wind turbine generator failures to date and anticipates experiencing at least three such failures during the test period.

Q. Does the Company have records documenting these historical failures?

A. Yes. As Confidential Exhibit RMP___(MRT-3R) indicates, the Company has had at least three wind turbine generator failures per year since 2009.

Q. What do you recommend to the Commission?

A. I recommend the Commission reject Mr. Hahn's proposed adjustment to remove $318,953 ($137,643 Utah) from the Company's revenue requirement. Mr. Hahn makes his recommendation solely on the basis that the Company has not adequately documented the need for such replacements. Significantly, Mr. Hahn puts forward no evidence to contradict the Company's position. Yet as Confidential Exhibit RMP___(MRT-3R) demonstrates, the Company has historical information that documents three wind turbine generator failures is a reasonable expectation during the test period.

Q. Does this conclude your rebuttal testimony?

A. Yes.