BEFORE THE

PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Rocky Mountain Power Proposed Schedule 94, Energy Balancing Account (EBA) Pilot Program Tariff	)))))	**Docket No. 11-035-T10**

Direct Testimony and Exhibits of

Maurice Brubaker

On behalf of

Utah Industrial Energy Consumers

Project 9535
February 23, 2012

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

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In the Matter of the Rocky Mountain Power Proposed Schedule 94, Energy Balancing Account (EBA) Pilot Program Tariff)	**Docket No. 11-035-T10**

<u>Direct Testimony of Maurice Brubaker</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and President of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of the Utah Industrial Energy Consumers ("UIEC"). Members of UIEC purchase substantial quantities of electricity from Rocky Mountain Power Company ("RMP") in Utah, and are vitally interested in the outcome of this proceeding.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q WHAT SUBJECTS ARE ADDRESSED IN YOUR TESTIMONY?

A My testimony addresses several issues concerning the proposed Energy Balancing Account ("EBA") tariff filed by Rocky Mountain Power ("RMP") on December 12, 2011. The issues which I address include transparency, treatment of special contracts, the deferral formula, the method of allocating approved deferred costs to rate schedules, the time allowed for the evaluation, and issues concerning the application of a carrying charge to the EBA balance.

Q PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A

1. Substituting the EBA process for the general rate case ("GRC") process increases the risk to customers of paying excessive amounts for electric service.

2. Care must be taken to set forth explicitly in the EBA tariff the revenues and expenses that may be included. In some cases, this may best be accomplished by listing particular FERC account numbers, and stating that all elements of the rate schedule <u>except</u> certain specified costs, or sub-accounts, may be included.

3. It is critical that the EBA be explicit about the inclusions and exclusions in order to minimize conflict, facilitate the evaluation and approval process, and ensure against overcharges to customers.

4. The tariff explicitly should exclude retail contract customers from the application of the tariff. RMP's language is confusing and should be adjusted as I have noted.

5. For purposes of the initial implementation of the EBA, it is appropriate to use the Scalar factor from the stipulation in last year's GRC, Docket No. 10-035-124. The appropriate application of the Scalar is to the actual monthly relationship between Utah kWh and total kWh so as to derive an appropriate composite EBA allocation factor to Utah retail customers. This application of the Scalar makes the allocation process dynamic rather than static.

6. As a part of the monitoring process, it is my understanding that monthly costs allocable to Utah will be directly calculated using the monthly SE (System Energy) and SG (System Generation) factors, a process which does not require the use of the Scalar. These results should be compared to the results using the Scalar, and an effort made in the recently filed GRC, Docket No. 11-035-200, to develop a streamlined process whereby actual monthly calculations (and preferably collections and refunds) can be implemented.

7. The allocation of EBA charges and refunds to customer classes should follow the rate spread from the prior GRC, Docket No. 10-035-124, as the Commission ordered.

8. RMP should present estimated bills for EBA charges to transmission level customers as soon after the close of a month as it has a reasonable estimate of the EBA costs. This improves price signals to customers and reduces the burden of the 6% annual carrying charges that accrues on EBA balances.

9. Because of the time lag which RMP enjoys on its purchases of fuel and purchased power, any carrying charges on EBA balances should not begin to be accrued at the end of the month. Rather, the accrual should begin a period of time after the end of the month consistent with the time lags in payment that RMP experiences. As shown on Exhibit UIEC ____ (MEB-2), the appropriate time lags range from approximately 14 days to 25 days, averaging 20 days.

10. The 45 days proposed for the evaluation process is inadequate. In order to allow adequate time for review of the data, consider adjustments that may be needed and to fine tune the process, 180 days should be allowed for the Division's evaluation. Customers should either be included in this evaluation process or else have at least 30 days to review and provide comments at the end of the Division's process.

Q PRIOR TO BEGINNING YOUR DISCUSSION OF SPECIFIC ELEMENTS OF THE PROPOSED EBA TARIFF, DO YOU HAVE ANY COMMENTS WITH RESPECT TO THE CHANGE IN REGULATORY APPROACH THAT IS CREATED BY THE IMPLEMENTATION OF A PROCEDURE, LIKE THE EBA, THAT ALLOWS FOR RATE ADJUSTMENTS OUTSIDE THE CONTEXT OF BASE RATE PROCEEDINGS, OR MAJOR PLANT ADDITION PROCEEDINGS?

A Yes. With the EBA, the focus has shifted from attempting to set reasonable rates for the future to a process of a detailed evaluation of what RMP actually did, or did not do, in an historic time period, and which of those costs appropriately should be charged to customers. This shift in focus and the shorter time frame allowed for analysis increases the risk that customers will be charged more than they should pay for electricity.

Adjustment mechanisms are inherently complex and because they amount to "single-issue ratemaking" it is important to be sure that only the elements that are supposed to be tracked and adjusted for in the adjustment process are in fact tracked and adjusted for. Costs and revenue elements must be analyzed not just for their mathematical accuracy, but even more importantly to ensure that all of the appropriate, but only the appropriate, adjustments are included and that the underlying decisions that led to the incurrence of costs were prudent and in accordance with the utility's approved procurement plans. A period of 45 days is simply not adequate for this purpose. I address this later in my testimony.

Transparency

Q WHAT IS MEANT BY "TRANSPARENCY"?

A Transparency refers to the identification of costs and revenues properly includable in the EBA, the data source within RMP's books and records utilized to determine the value of each of those revenues and costs, and the procedures for combining these revenues and costs to determine the actual EBA revenues and costs that are to be compared to the base EBA revenues and costs for purposes of adjusting the deferred EBA balance.

Q WHAT DEFINITION OF EBA COSTS IS PROVIDED IN RMP'S PROPOSED TARIFF?

A This appears on Original Sheet No. 94.1 under the heading EBA Costs ("EBAC") which is defined as follows:

> "Actual EBAC and Base EBAC include all components of Net Power Cost (NPC) and wheeling revenue, typically booked to the FERC Accounts described in this electric service schedule."

RMP sets forth the outline of these costs on Original Sheet No. 94.3. The term "Net Power Cost" is not a specific concept or set of costs like "coal costs," but rather is a much more general term and could include a number of factors not explicitly defined. It is for this reason that specificity is important.

Q IS THIS DEFINITION SUFFICIENTLY TRANSPARENT AND UNAMBIGUOUS?

A No. For example, the lead-in paragraph to the definition states as follows:

> **"APPLICABLE FERC ACCOUNTS:** The EBA rate will be calculated using all components of EBAC as defined in the Company's most recent general rate case, major plant addition case, or other case where Base EBAC are approved. EBAC are typically booked to the following FERC accounts, as defined in Code of Federal Regulations, Subchapter C, Part 101, with the noted clarifications and exclusions:"

This is followed by a general description of certain revenue and expense accounts. While this introductory paragraph leaves open the possibility that components of EBAC may be changed in future GRCs, it does not provide a clear definition of what is included in the base EBAC that was established in GRC, Docket No. 10-035-124. While it is true that the components of EBA may be changed in future cases, the vague statement does not provide sufficient clarity. At all times the tariff sheet should state, with specificity, what costs are to be tracked going forward for purposes of determining EBA adjustments.

Of course, the revenues and costs to be included in an EBA may be changed in the context of a GRC, and if that occurs then the definitions in the tariff sheets should change. However, the filed tariff sheet should at all times be explicit about what may be included and what is to be excluded from the EBA.

Q ARE THE ACCOUNT DESCRIPTIONS AND EXCLUSIONS SET FORTH ON ORIGINAL SHEET NO. 94.3 SUFFICIENT TO DESCRIBE WHAT COMPONENTS OF THOSE ACCOUNTS ARE TO BE INCLUDED?

A No. Many of the items lack specificity. For example, one of the exclusions from revenues is "on-system wholesale sales." Nowhere is this term defined, nor are examples provided as to the customers who fall into this category. Presumably, these include sales to certain Utah municipalities whose loads are excluded from the jurisdictional allocation of costs to Utah retail customers. If this is the case, it should be so stated in that tariff.

Another exclusion from sales is "other revenues that are not modeled in the Company's production cost model." At a minimum, examples of the major categories that are excluded should be provided.

Q WHY IS IT IMPORTANT THAT ITEMS EXCLUDED BE IDENTIFIED?

A This is especially important in the case of revenues. Knowing exactly what was excluded helps parties evaluate whether or not the exclusions were appropriate and, if they determine they are not appropriate, make appropriate imputations of revenues to correct what they perceive to be unwarranted omissions.

Q ARE THERE EXAMPLES IN THE EXPENSE ACCOUNTS AS WELL?

A Yes. Another example is Account No. 501, where certain items are designated as being excluded. At a minimum, the individual sub-account numbers of the items that are to be excluded should be listed with the description of what those items are. The draft Division report on EBA pilot program evaluation makes a start in identifying some of these items, but it is not sufficient simply to have them listed in some report.

They should explicitly be defined and stated in the tariff sheets because it is the tariff, not the report, that governs what costs will be charged to customers.

The compliance filing, and the Division evaluation of the compliance filing, forms the basis for the Commission to rule on whether RMP has appropriately included revenues and costs in the EBA calculations. Absent a clear description of what is to be included, the Commission will find it difficult to make an informed ruling.

Any ambiguities about what should be included or excluded should be resolved in favor of customers.

Q DOES THE PROPOSED TARIFF INCLUDE REFERENCES TO THE SOURCES OR REPORTS PRODUCED BY RMP THAT SHOULD BE CONSULTED TO DETERMINE THE APPROPRIATE REVENUES AND COSTS?

A No, it does not.

Q WHAT IS NEEDED FOR THESE SPECIFIC REFERENCES?

A We have learned through participation in the EBA case and in GRCs that RMP, like any major corporation, produces numerous reports at various times, and those reports include different information. For example, see Exhibit UIEC ____ (MEB-1) for the responses to DPU Data Requests 14.1 and 14.2 in Docket No. 09-035-15. These responses explain the different reports that are available and provide some indication of the difference in the contents of these accounts. The EBA tariff needs to be specific about which reports are to be the origin of the numbers that are used in the deferral calculations.

Q ARE THERE OTHER FACTORS THAT SUPPORT GREATER SPECIFICITY?

A Yes. This is the first attempt at an EBA tariff for RMP. The first evaluation report is to be based on only three months of data with the report, following close on the heels of the conclusion of that three-month period, and detailed filing requirements and procedures have not yet been developed. The absence of these filing requirements is another reason supporting greater detail and transparency.

Q WHAT DO YOU BELIEVE WOULD BE THE CONSEQUENCES OF NOT INCLUDING THESE CLARIFICATIONS AS TO CONTENT AND REFERENCES AS TO DATA SOURCE AND PROCEDURES?

A The less precise the tariff, the more room there is for disagreement among the parties and the higher the likelihood that conflict will arise over the appropriate magnitude of deferrals. Because we explicitly are identifying certain cost categories in base rates that are to be tracked separately, it is essential that there be clear and precise delineations between the costs that are base rate costs and not subject to EBA adjustments, and the costs that are subject to tracking, deferral and subsequent collection/refund through the EBA mechanism.

When all costs and revenues were accounted for in base rates, and changes did not take place between rate proceedings, regulation was much simpler. Now, with the EBA which allows tracking and recovery outside of GRCs, precision and clarity are extremely important because customers are now explicitly at risk for these costs. Unless precision and clarity are achieved, there can, and almost certainly will, be disputes among the parties as to the appropriate calculations. While some disagreements may be inevitable, the objective should be to create a circumstance where the possibility of disagreement is minimized.

Adding to the importance of clarity as to content and procedures, is the fact that there is only a relatively limited time (currently proposed to be approximately 45 days) for the Division to complete its evaluation. If the Division has to go back and forth with RMP over discovery issues, it simply detracts from and reduces the time available to perform a comprehensive evaluation.

Q ARE YOU FAMILIAR WITH THE DRAFT DIVISION REPORT ON THE EBA PILOT PROGRAM EVALUATION PLAN?

A Yes. This report outlines some of the items that the Division proposed to have RMP supply as an aid in its auditing process.

Q HOW DOES THIS RELATE TO THE EBA TARIFF?

A The EBA tariff sets forth the items properly included in the EBA. The audit report addresses the information that should be supplied in order to allow the Division and other parties to evaluate the propriety of the EBA costs claimed by RMP. UIEC filed comments on February 13, 2012 expanding on its view of the procedures that should be followed and the information that should be provided by RMP. It is worth emphasizing that in order to conduct an adequate prudence review of the costs and revenues that are components of the EBA, substantial detail on individual transactions and disclosure of parties to the transaction are required. It is not sufficient simply to report total categories of transactions or total dollars of transactions by party. Rather, individual detail about the specific contracts and transactions must be provided. This includes not only the specific amounts of costs at issue, but also requires a comprehensive disclosure of the price-risk management plan and the details of the transactions executed in pursuance of that plan.

Reference is made to those UIEC comments for elaboration on the detail of the information that should be provided.

Contract Customers

Q WHAT DOES THE TARIFF SAY ABOUT RETAIL CONTRACT CUSTOMERS?

A In pertinent part, the "Application" paragraph on Original Sheet No. 94.1 states:

> "This Schedule shall be applicable to all retail tariff Customers taking service under the terms contained in this Tariff and to retail contract customers taking service under the terms of a contract to the extent authorized by, and according to the terms of, the governing contract."

I believe the language is potentially confusing, and in any event unnecessary. An EBA tariff sheet should only state that it is not applicable to retail contract customers, which I believe is provided in the statute, UCA § 54-7-13.5(2)(f). This approach allows the terms of each retail contract to stand separately and govern the relationship between the contract customer and RMP without confusing references back to EBA tariff sheets which may or may not be applicable to a contract. Similar language changes should be made on Sheets 94.4 and 94.5.

Deferral Formula

Q HAVE YOU STUDIED THE EBA DEFERRAL FORMULA SET FORTH ON ORIGINAL SHEET NOS. 94.4 AND 94.5?

A Yes.

Q WHAT IS YOUR UNDERSTANDING OF THE "S" OR SCALAR TERM?

A First, it is appropriate to interpret the Scalar in the context of the allocation of total company Fuel and Purchased Power Costs ("F&PP Costs") to Utah retail customers. There are two different allocation factors that are used to allocate these costs to Utah.

One is the SE factor. The other is the SG factor. The SE factor is determined by dividing Utah kWh by total company kWh.

The SG factor, on the other hand, is a composite factor which gives 75% weighting to the ratio between Utah's 12 monthly coincident peaks and total company 12 coincident peaks, and 25% weighting to the SE factor. When costs are allocated using these two factors, and the allocated Utah dollars are divided by total company dollars, this composite number reflects the percentage of total company F&PP Costs allocated to Utah. Dividing this composite allocation percentage by Utah's SE factor provides a relationship between the result of allocating all costs on the basis of kWh and the result of the actual combined SE and SG allocation.

This S factor was created in the context of a settlement in the last GRC, Docket No. 10-035-124.[1] The Commission affirmed this requirement at page 3 of its January 20, 2012 Pre-Hearing Order in this docket.

Q WHAT IS THE DISTINCTION BETWEEN THE SCALAR AND THE ISSUE OF WHETHER AN ALLOCATION FACTOR IS DYNAMIC?

A They are separate issues. As noted above, the Scalar is simply a means of estimating the composite F&PP Costs allocated to Utah when only the kWh allocation factor is known. In and of itself, the Scalar is neither static nor dynamic.

The question of whether the allocations are static or dynamic really turns on whether the kWh used to determine actual power costs are the actual kWh in the month being considered or are stale, fixed numbers or relationships, from a prior period. It is appropriate that the calculation be dynamic so that the allocation of costs

[1]Footnote No. 5 to Exhibit No. B, attached to the Revenue Requirement Stipulation in that case specifies that the Scalar calculated therein will be used in calculating Utah Actual F&PP Costs for the EBA.

to Utah retail jurisdictional customers is reflective of changes in the Utah retail jurisdictional load as compared to the total company load.

Q HOW HAS RMP REFLECTED THIS CONSIDERATION IN ITS EBA DEFERRAL CALCULATIONS?

A As shown on Original Sheet No. 94.4, the "actual EBAC" is based on the actual total company and Utah kWh each month, with the Scalar applied to translate the results of a pure kWh allocation into a composite allocation factor designed to capture the fact that some costs are allocated on the SE factor and others on the SG factor.

Q DO YOU BELIEVE THAT RMP HAS APPROPRIATELY INCORPORATED THESE CONCEPTS INTO ITS EBA DEFERRAL FORMULA?

A Yes, I do.

Q DO YOU BELIEVE THAT USE OF THE SCALAR IS THE BEST APPROACH GOING FORWARD?

A No. The Scalar is somewhat imprecise because it is based on relationships from a prior test year, expressed on an annual basis, whereas the actual relationships between the SE factor and an F&PP Costs factor, if calculated month-by-month, could well be different.

The preferred way of implementing an EBA would not involve an estimate created by using a Scalar, but would involve separately calculating the SE and SG factors each month and applying those to the appropriate F&PP Costs elements to allocate total company F&PP Costs to Utah. It is my understanding that as part of the study process, the Division is to develop factors on this basis so that a comparison can be made between the more precise separate calculation of the elements of F&PP Costs and the proxy approach using the Scalar.

The ultimate objective should be to develop a process whereby costs for the Utah jurisdiction can be developed monthly, and also allocations to customer classes within Utah can also be performed on a monthly basis. Performing these calculations and allocations on a monthly basis will improve the nature of the price signal provided to customers and reduce the amount of carrying charges that customers must pay on these deferred EBA balances. Accordingly, it is very important to preserve the integrity of the monthly calculations of EBA costs and revenues.

Q DO YOU BELIEVE THAT THE EBA DEFERRAL FORMULA ON ORIGINAL SHEET NO. 94.4 IS DYNAMIC?

A Yes, it is dynamic in the sense that the monthly calculations of the relationship between Utah energy and total company energy are used so that the allocation factor changes as the Utah load and its relationships to total company load changes.

Allocation of EBA Costs to Rate Schedules

Q HOW DOES RMP PROPOSE TO ALLOCATE THE EBA RECOVERY/REFUNDS TO RATE SCHEDULES?

A As set forth on Original Sheet No. 94.5, this is based on the rate spread approved by the Commission in the most recent GRC. All of the dollars allocated to each rate schedule will be recovered as a uniform percentage applied to the demand and energy charges within each rate schedule.

Q DO YOU AGREE THAT THIS METHOD OF COLLECTION/REFUND REFLECTS THE COMMISSION'S ORDER IN DOCKET NO. 09-035-15?

A Yes. This is consistent with the direction the Commission provided on pages 76 and 77 of its March 3, 2011 Corrected Report and Order in Docket No. 09-035-15. Specifically, the Commission stated:

> "Therefore, we will rely on our most recent general rate case revenue spread and rate design decisions for the spread of the deferred balance to rate schedules and to rate elements."

Q INSTEAD OF USING THE RATE SPREAD FROM THE RATE CASE, WOULD IT BE APPROPRIATE TO IDENTIFY AND ALLOCATE COSTS PERTAINING TO THIS INITIAL EBA CYCLE TO RATE SCHEDULES BASED ON CLASS DEMAND AND ENERGY RELATIONSHIPS?

A No. The rate spread stipulation that was adopted by the Commission in Docket No. 10-035-124 (as well as the Commission EBA Order itself) is silent on the appropriate methodology for allocating particular costs among rate schedules. Instead, the settlement specified an overall allocation of the total increase in revenue requirement that was awarded in that docket.

Q WOULD THIS RATE SPREAD ALLOCATION CONTINUE TO BE APPROPRIATE IN FUTURE EBA'S?

A Not automatically. The basis for allocation of EBA costs subsequent to the conclusion of the pending rate case is a matter to be determined in that rate case and may or may not be the same as is applicable to the initial EBA cycle.

Q IN CALCULATING THE PERCENTAGE RECOVERY FACTOR TO BE APPLIED TO THE DEMAND AND ENERGY CHARGES OF EACH RATE SCHEDULE, WHAT REVENUE SHOULD BE USED?

A To determine the EBA surcharge percentages, the dollar amounts allocated to each rate schedule should be divided by the base demand and energy revenues expected to be collected from each rate schedule during the time period when the deferred amounts are to be collected or refunded. This approach will minimize the over/under-collections as compared to use of historic revenues for the purpose of calculating the EBA surcharge percentage.

<u>Frequency of Billing</u>

Q DO YOU HAVE ANY COMMENTS ABOUT THE FREQUENCY OF BILLING FOR EBA CHARGES?

A Yes. The tariff is essentially set up to accumulate carrying charges (at the rate of 6% per year or 0.5% per month) on outstanding EBA balances subject to carrying charges, with billing to occur many months later. Billing on a more frequent basis would be desirable in order to provide better price signals to customers and to reduce the burden of carrying charges on customers. In today's capital markets, a 6% annual interest charge is very high. It substantially exceeds RMP's short-term cost of borrowing, and also exceeds the rate of interest available to consumers in the market. Accordingly, it is important that customers have an opportunity to avoid paying these high carrying charges to RMP.

For these reasons, I recommend that RMP bill transmission voltage level customers as soon after the end of a calendar month as a reasonable estimate of the monthly EBA costs is available. For this EBA cycle, the percentage recovery factors applied to bills should be consistent with the rate spread in the previous GRC. When final evaluation of the EBA has occurred, a reconciliation can be made and over/under-collections recognized by crediting/charging these customers. In addition to providing more timely and accurate price signals, this approach has the favorable effect of reducing the amount of the carrying charge burden that the customers must bear.

Q WHY DO YOU LIMIT YOUR RECOMMENDATION TO TRANSMISSION LEVEL TARIFF CUSTOMERS?

A I make this recommendation in the interests of facilitating administration by RMP. I certainly have no objection to extending this more timely billing approach to other customers.

Timing for Completion of Evaluation Process

Q ACCORDING TO THE PROPOSED EBA TARIFF, HOW LONG WOULD THE DIVISION HAVE TO EVALUATE AN EBA FILING?

A As I understand the tariff, the filing date is March 15 and the effective date of the adjustment would be June 1, so a total of 45 days would be allowed.

Q IN YOUR VIEW, IS 45 DAYS AN ADEQUATE PERIOD TO EVALUATE AN EBA?

A No. Even with a fairly complete filing, there inevitably will be a need for additional information, meetings, and clarifications. In some cases, depositions may be required. As I indicated earlier in this testimony, evaluating a filing pertaining to an adjustment clause such as this, especially for a utility like PacifiCorp that has a multitude of transactions (both revenues and costs), is a significant undertaking. In my experience, 45 days is not a sufficient period of time to appropriately accomplish this task and ensure that customers are not overcharged.

Q DO YOU HAVE A RECOMMENDATION?

A Yes. I recommend that at least for the initial EBA evaluation, the Division and others be allowed a period of 180 days. This will allow adequate time to review the data, consider adjustments that may appropriately be made to data filed by RMP and establish procedures to be followed for the evaluation, and to fine tune the process. For subsequent EBAs, after experience has been gained, consideration could be given to shortening this period of time.

Q SHOULD ANYTHING ELSE BE INCLUDED IN THE EVALUATION PROCESS?

A Yes. Customers are the ones that ultimately pay the bills, so they should be given an opportunity for meaningful input into the process of determining the EBA rates. It is my recommendation that customers be included in this 180-day evaluation process and also be given a minimum of 30 days after the conclusion of the Division's evaluation for review, be allowed to seek resolution with the Division and RMP in the event that there are disagreements, and have the right to file with the Commission in the event that the disagreements cannot be resolved satisfactorily.

Carrying Charge Issues

Q ARE YOU FAMILIAR WITH RMP'S REQUEST FOR 0.5% MONTHLY CARRYING CHARGES (6% ANNUALLY) TO BE APPLIED TO THE EBA BALANCE?

A Yes, I am. RMP has proposed to apply this carrying charge each month to the balance in the EBA account.

Q UNDER THIS APPROACH, HOW LONG MIGHT CUSTOMERS BE CHARGED INTEREST?

A With annual reconciliations and recovery of the accumulated EBA balance over a 12-month period, customers could face the prospect of paying these interest charges for over two years.

Q DO YOU BELIEVE THAT THIS IS REASONABLE?

A No. A more frequent clearing of the accumulated balances would reduce the burden of these carrying charges. In fact, with monthly or bi-monthly billings, carrying charges could be avoided.

Q WHAT IS YOUR RECOMMENDATION?

A I recommend that RMP be directed to develop a process for monthly or bi-monthly billings of EBA amounts and that carrying charges not be applied.

Q IF THE COMMISSION DOES NOT ACCEPT YOUR RECOMMENDATION, ARE THERE ANY ADJUSTMENTS REQUIRED TO RMP'S PROPOSED APPLICATION OF CARRYING CHARGES?

A Yes. Because there is a lag in the payment of expenses by RMP, it would not be appropriate to begin to apply the carrying charge to each month's over/under-balance until such time as RMP would have an outlay of cash. Because bills typically are paid substantially after invoices and services are received, there is a lag. This lag is taken into account by RMP in developing a cash working capital allowance in its GRC. The same lags would apply to incremental changes in F&PP Costs.

Q HAVE YOU CALCULATED WHAT THOSE LAGS SHOULD BE?

A Yes. Based on RMP's filing in Docket No. 11-035-200, I have determined the applicable lag days that should be used in determining when carrying charges are first applied to over/under-amounts.

Q HAVE YOU PREPARED A SCHEDULE DETAILING THIS CALCULATION?

A Yes. Exhibit UIEC ____ (MEB-2) attached to my testimony presents this information. Column 1 shows the dollar amount of the various categories of fuel and purchased power set forth on Exhibit RMP___(GND-1) for the test year. Column 2 shows the percentage that each category is of the total expenses.

Column 3 shows the calculated lag days from RMP's 2010 lead lag study that is included in the standard filing requirements for the case. These are the total estimated days from receipt of the product to payment. Because the assumption is that deliveries are made randomly over the month, this number should be reduced by 15.2 days to determine the elapsed time between the end of a month and when the payment, on average, is made. This deduction allows us to estimate the number of days past the end of the month when carrying charges should be applied for purposes of the EBA. This lag ranges from 14.38 days in the case of coal to 25.41 days in the case of natural gas. Column 5 shows the weighted average number of days to be 20.36 days.

Q PLEASE EXPLAIN HOW THIS WOULD BE UTILIZED IN TERMS OF THE EBA BALANCE.

A Whenever the over/under-collection for a particular month is calculated, the carrying charges would begin to apply 20 days from the end of that first month. In subsequent months, the same calculation would be made for new over/under-increments.

Because the lag is a one-time event, a full 30 days of carrying charges would apply in subsequent months.

Q HOW WOULD THE CARRYING CHARGE BE APPLIED TO CUSTOMERS WHO ARE BILLED ON A MONTHLY BASIS?

A Customers billed on the monthly basis should not be subject to a carrying charge. RMP should be able to make a reasonable estimate of monthly costs in a relatively short period of time, so carrying charges should not be applicable to customers who are billed on a monthly basis. Importantly, the inability to earn a carrying charge on portions of EBA deferrals applicable to customers who are billed monthly provides a powerful incentive for RMP to expeditiously determine the EBA amounts at issue during each month.

Q TO THE EXTENT THAT CUSTOMERS ARE BILLED FOR COSTS THAT ARE SUBSEQUENTLY DETERMINED TO BE IMPRUDENT, OR TO THE EXTENT THAT CARRYING CHARGES HAVE BEEN ACCRUED ON COSTS THAT ARE SUBSEQUENTLY DETERMINED TO BE IMPRUDENT, WHAT ADJUSTMENTS SHOULD BE MADE?

A Of course, costs imprudently incurred should not be passed on to customers. To the extent that costs subsequently determined to be imprudent have been passed on to customers who are billed on a monthly basis, adjustments should be made to refund these imprudently incurred costs to the customers who paid them. With respect to customers who do not pay on a monthly basis, but who's share of EBA charges are subject to the application of carrying charges, once the Commission makes the finding about the prudency of the costs, any imprudent costs should be removed from the amounts that customers owe RMP, and any carrying charges accumulated on those imprudent costs also should be removed from the balance that customers are required to pay to RMP.

Q SHOULD ANY MARK-TO-MARKET CHARGES FOR NATURAL GAS SWAPS BE INCLUDED IN THE CARRYING CHARGE CALCULATION?

A No. Mark-to-market calculations that are made prior to settlement are just for information and do not involve any cash, so cash working capital would not be applicable to any such amounts.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes.

Qualifications of Maurice Brubaker

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and President of the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I was graduated from the University of Missouri in 1965, with a Bachelor's Degree in Electrical Engineering. Subsequent to graduation I was employed by the Utilities Section of the Engineering and Technology Division of Esso Research and Engineering Corporation of Morristown, New Jersey, a subsidiary of Standard Oil of New Jersey.

In the Fall of 1965, I enrolled in the Graduate School of Business at Washington University in St. Louis, Missouri. I was graduated in June of 1967 with the Degree of Master of Business Administration. My major field was finance.

From March of 1966 until March of 1970, I was employed by Emerson Electric Company in St. Louis. During this time I pursued the Degree of Master of Science in Engineering at Washington University, which I received in June, 1970.

In March of 1970, I joined the firm of Drazen Associates, Inc., of St. Louis, Missouri. Since that time I have been engaged in the preparation of numerous studies relating to electric, gas, and water utilities. These studies have included analyses of the cost to serve various types of customers, the design of rates for utility services, cost forecasts, cogeneration rates and determinations of rate base and operating income. I have also addressed utility resource planning principles and plans, reviewed capacity additions to determine whether or not they were used and useful, addressed demand-side management issues independently and as part of least cost planning, and have reviewed utility determinations of the need for capacity additions and/or purchased power to determine the consistency of such plans with least cost planning principles. I have also testified about the prudency of the actions undertaken by utilities to meet the needs of their customers in the wholesale power markets and have recommended disallowances of costs where such actions were deemed imprudent.

I have testified before the Federal Energy Regulatory Commission (FERC), various courts and legislatures, and the state regulatory commissions of Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Guam, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Missouri, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Utah, Virginia, West Virginia, Wisconsin and Wyoming.

The firm of Drazen-Brubaker & Associates, Inc. was incorporated in 1972 and assumed the utility rate and economic consulting activities of Drazen Associates, Inc., founded in 1937. In April, 1995 the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and staff. Our staff includes consultants with backgrounds in accounting, engineering, economics, mathematics, computer science and business.

Brubaker & Associates, Inc. and its predecessor firm has participated in over 700 major utility rate and other cases and statewide generic investigations before utility regulatory commissions in 40 states, involving electric, gas, water, and steam rates and other issues. Cases in which the firm has been involved have included more than 80 of the 100 largest electric utilities and over 30 gas distribution companies and pipelines.

An increasing portion of the firm's activities is concentrated in the areas of competitive procurement. While the firm has always assisted its clients in negotiating contracts for utility services in the regulated environment, increasingly there are opportunities for certain customers to acquire power on a competitive basis from a supplier other than its traditional electric utility. The firm assists clients in identifying and evaluating purchased power options, conducts RFPs and negotiates with suppliers for the acquisition and delivery of supplies. We have prepared option studies and/or conducted RFPs for competitive acquisition of power supply for industrial and other end-use customers throughout the Unites States and in Canada, involving total needs in excess of 3,000 megawatts. The firm is also an associate member of the Electric Reliability Council of Texas and a licensed electricity aggregator in the State of Texas.

In addition to our main office in St. Louis, the firm has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

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