BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Application of	:	**Docket No. 13-035-184**
Rocky Mountain Power for Authority	:	**DPU Exhibit 9.0 DIR-RR**
To Increase its Retail Electric Utility	:	
Service Rates in Utah and for Approval	:	
Of Its Proposed Electric Service	:	
Schedules and Electric Service	:	
Regulations	:	
	:	

DIRECT TESTIMONY

OF

ROBERT A. DAVIS

STATE OF UTAH
DIVISION OF PUBLIC UTILITIES

May 1, 2014

Q: Please state your name for the record.

A: My name is Robert A. Davis.

Q: By whom are you employed and what is your business address?

A: I am employed by the Utah Department of Commerce, Division of Public Utilities (DPU) the "Division". My business address is 160 East 300 South, 4th Floor, Salt Lake City, Utah, 84114.

Q: What is your position with the Division?

A: I am employed as a Utility Analyst in the Energy Section.

Q: Please summarize your educational and professional experience.

A: I received a Master in Business Administration with Masters Certificates in Finance and Economics from Westminster College in May of 2005. I am a Certified Valuation Analyst-CVA by the National Association of Valuators and Analysts and an Accredited Senior Appraiser-ASA by the American Society of Appraisers. I am a Certified General Appraiser in the State of Utah. Prior to my present position, I was employed for 6.5 years at the Utah State Tax Commission in the Centrally Assessed Property Tax Division Utilities Section where I assessed telecommunication and airline companies for property tax purposes. Prior to working for the Property Tax Division, I was employed as an Electronic Engineering Technician at Fairchild Semiconductor for 22 years. I have been employed with the DPU since May, 2012.

Q: Have you testified before the Commission on prior occasions?

A: Yes I have.

Q: Please describe your participation in the Division's review of Rocky Mountain Power (RMP) the "Company" for this docket.

A: I have participated in part or solely in reviewing RMP's renewable energy credit program (REC), rent revenue, various expenses and rate base.

Q: What is the purpose of your testimony in these proceedings?

A: My testimony addresses and summarizes specific issues and adjustments pertaining to REC revenues, rent revenue, various rent expenses and plant held for future use. Although my analysis does not warrant any adjustments for Wyoming Wind Generation Tax nor Property Tax, a summary of my analysis for these accounts is provided later in my testimony.

Q: Please summarize the adjustments you have made for this proceeding.

A: Total Utah allocated adjustments as proposed in the following testimony consists of a $181,169 increase in REC revenue, $83,276 decrease in Other Operating Revenues for rent revenue, $207,557 decrease in various rent expenses and a $250,502 decrease in Plant Held for Future Use pertaining to the Cottonwood Coal Lease. These adjustments are explained in the following testimony.

Q: Please explain your adjustment to REC revenue, DPU Exhibit 9.1.

A: This adjustment incorporates updated projected REC revenue related to the Company's adjustment 3.4 REC Revenue. In response to UAE data request 2.2 1st supplemental, the Company provided an update to the projected REC revenue as proposed in Steven

McDougal's testimony. The update includes a new known wind sale, increased prices for available wind credits, and an update to increase the price per credit on Leaning Juniper revenue. This adjustment increases REC revenue by a net $722,090 total Company including the new known wind sale, RPS CA/OR/WA banking and Leaning Juniper revenue and an adjusted net Utah allocated amount of $426,612 before 10 percent REC retention.

Q: **Please explain the adjustment to include the 10 percent REC retention.**

A: The Stipulation in the most recent Rocky Mountain Power rate case Docket No. 11-035-200 states:

> The Parties agree that, as an incentive for the Company to aggressively market RECs and obtain additional value, the Company should be permitted to keep ten percent (10%) of the revenues it obtains from the sales of its RECs incremental to the current Utah-allocated projected test year revenues of $25 million through May 31, 2013, and thereafter incremental to the revenues received under contracts entered into after July 1, 2012.

Mr. McDougal addressed the 10 percent retention briefly in his testimony and indicates that the REC retention will be addressed by the Company in the REC Balancing Account (RBA) filing in March 2014. However, it was the Division's understanding that the 10 percent REC retention would be included in the next Rocky Mountain Power rate case as indicated in the Docket No. 11-035-200 stipulation. The Division's adjustment allows the Company to keep 10 percent of the Company's projected REC revenue allocated to Utah. This Utah situs adjustment reduces REC revenue by $245,442.

Q: **Please explain your adjustment to Other Operating Revenues for the Wilsonville**

sub-lease rental income, DPU Exhibit 9.2.

A: As a result of the expiration of the Wilsonville capital lease, the rental income from the sub-lease expired as well requiring a downward adjustment to Other Operating Revenues. The base year revenue FERC account 454 is adjusted downward by $196,080 total company and $83,276 after Utah allocation.

Q: Please explain your adjustment for the 1033 Building lease expense that expired in April of 2013, DPU Exhibit 9.3.

A: The 1033 Building Lease expense is removed from the base year as it expired at the end of April 2013. As a result, FERC account 931 is adjusted downward by $224,700 total company escalated to $244,990 for the test year and $104,048 after Utah allocation.

Additionally, FERC account 931 is adjusted for the 1033 Building related property tax reimbursement downward by $10,624 total company escalated to $11,583 for the test year and $4,919 after Utah allocation.

Q: Please explain your adjustment for the Wilsonville Distribution Center expense that expired in July of 2013, DPU Exhibit 9.3.

A: The Wilsonville Western Distribution Center Lease known and measurable expense is removed as it expired the end of July 2013 per DPU DR 3.7. As a result, FERC account 931 is adjusted downward by $201,250 total company escalated to $219,423 for the test year and $93,190 after Utah allocation.

Additionally, FERC account 931 is adjusted for the related pre-paid lease commission associated with the Wilsonville property downward by $7,624 total company escalated to $8,312 for the test year and $3,530 after Utah allocation.

Q: Please explain your adjustment for the Keystone Aviation hanger expense, DPU Exhibit 9.3.

A: FERC account 931 is adjusted downward by $4,038 total company for two months of additional hanger rent at Keystone Aviation in Salt Lake for the company aircraft within the base year-the company posted fourteen months of rent over the twelve month base period. This adjustment is escalated to $4,403 for the test year of which $4,038 is allocated to Utah.

Total adjustments to FERC account 931 for the various rent expenses is $448,236 total company escalated to $488,712 for the test period and $207,557 after Utah allocation.

Q: Please explain your adjustment to Plant Held for Future Use regarding the Cottonwood Coal Lease, DPU Exhibit 9.4.

A: The Company provided revised actual development costs for year ending 2013 regarding the Cottonwood Coal Lease per DPU DR 16.1. Specifically, revising RMP _ (SRM-3) 8.7.1 with the revised July 2013 through December 2013 development cost numbers and ensuing adjustments through 2014 and the test year resulted in a downward total company adjustment of $596,835 and $250,502 after Utah allocation.

Q: Please explain your analysis of the Wyoming Wind Generation Tax expense, RMP _

(SRM-3) 7.9.

A: The Wyoming legislature enacted W.S. 39-22-101 through 39-22-111, which imposes a tax on electricity produced from wind resources located within the state of Wyoming. Beginning in January 2012, a $1 per megawatt hour generation tax became effective on all electricity the Company generates from its Wyoming wind resources. However, note that the tax becomes effective three years after the turbine first produces electricity. The Division requested additional information regarding “In-Service Dates” for each turbine, forecasted MWH with analysis and taxes paid during the base year. [1]

The Division’s analysis uses monthly average 4-hour block outputs, name plate capacity and transformer losses over a year to forecast the possible generation by month for each wind project. It is assumed that the same type of analysis is performed with similar inputs to the Generation and Regulation Initiative Decision (GRID) model for each turbine to arrive at the forecasted possible generation.

The Division’s analysis provides similar results to the Company’s concluding in a small immaterial difference of $1,900. This small difference between the Division’s analysis and the Company’s is likely due to rounding of the inputs compared to those used by the GRID model.

The differences between reported booked and actual taxes paid for July 2012 through

1 See Docket No. 13-035-184, DPU DR 24.1-24.3

December 2012 and January 2013 through June 2013 are immaterial as well. Therefore, the Division believes the $173,583 Utah allocated adjustment to Taxes Other than Income relating to the Wyoming Wind Generation Tax is reasonable.

Q: Please explain your analysis of the Property Tax expense, RMP _ (SRM-3) 7.2.

A: There are several issues of concern in determining the Utah allocated property tax expense adjustment for the test year in this docket. Although the Division does not believe an adjustment is warranted, there needs to be some discussion concerning the assumptions made to determine the adjustment.

First, the Company's adjustment is based on "Extraordinary Assumptions" [2] in its modeling for the year following the base year and ensuing test year. Refer to confidential exhibit RMP _ (SRM-5). Note that the base year is updated with actual assessed values and taxes paid as of January 1, 2013 prior to modeling succeeding years. Property taxes for each jurisdiction come due at different times during the January to December calendar year. The Company's base and test years for this docket run from July 2012 to June 2013 and July 2014 to June 2015 respectively. The Company assumes that the taxes accrued from July to June of the base year would be the same as if accrued January through December of 2013 dependent upon forecasted assessed values.

2 Extraordinary Assumption: an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions. Uniform Standards of Professional Appraisal Practice. Appraisal Standards Board-The Appraisal Foundation. 2014-2015.

Second, the Company's modeling assumes that the appraiser for each jurisdiction will appraise in the same manner as in prior years. Further, the Company assumes that the appraiser would only update the metrics used to determine fair market value for each approach to valuation as provided by each jurisdictional rules and statutes. The Company also assumes the appraiser would consider the same weighting of the various cost, income and market indicators of value towards the overall assessed value year over year.

In its modeling, the Company uses each jurisdiction's appraisal templates with its forecasted inputs to determine the test year property tax. The Company makes the assumption that the appraiser would use similar techniques to arrive at similar results to those of the Company.

Third, the capitalization rate used for the various income approaches to value used by appraisers for each jurisdiction can have a large impact on assessed values. Similar to the rate of return, the capitalization rate used by an appraiser may be different for various reasons. The Company uses the same cost of equity, cost of debt and capital structure in the property tax modeling as it uses for the revenue requirement for this docket with the exception of a very small adjustment for transaction costs. The Company makes the assumption that each taxing jurisdiction will use the same rates in their appraisals.

Annually, each taxing jurisdiction determines and publishes their studies for cost of capital including cost of equity, cost of debt and capital structure to be used for current year appraisals. The chance of exact similarity between the jurisdictions and the Company is nil although the rates are likely close given the use of the same market data and cost of equity models.

These extraordinary assumptions are applied to the base year to arrive at the succeeding year assessed values. The same assumptions are then applied to arrive at the test year assessed values. The average of the two forecast years is compared to the accrued property taxes at the end of the fiscal base year. The difference becomes the total company adjustment of $15,336,167 and $6,513,327 Utah allocated.

The Division analyzed past actual property tax paid from the filed FERC forms since 2008. Using simple trend analysis, the results support the Company's forecast within reason warranting no adjustment to that proposed. Further analysis using published cost of capital metrics from each jurisdiction could also be used to determine differences holding all else equal. However, this would require the Division to proceed under the same extraordinary assumptions as the Company. The result would be based on differences between extraordinary assumptions leading to different results but an undefined correct property tax adjustment.

The Division does not find the Company's adjustment to be reasonable or unreasonable as it is widely based on extraordinary assumptions and appraiser judgement.

Q: Please summarize the Division's recommendations.

A: The Division recommends that Revenues be adjusted upward by $181,169 Utah allocated for revised REC credits. FERC account 454 should be adjusted downward by $83,276 Utah allocated for the loss of the Wilsonville sub-lease rent. FERC account 931 should be adjusted downward by $207,557 Utah allocated for rent expenses relating to the 1033 Building, Wilsonville and hanger space at Keystone Aviation. Lastly, Property Held for Future use should be adjusted downward by $250,502 Utah allocated for revised Cottonwood Coal Lease developmental costs.

Q: **Does this conclude your direct testimony?**

A: Yes it does.