Q. Are you the same Steven R. McDougal that filed direct testimony in this case?

A. Yes.

Purpose of Testimony

Q. What is the purpose of your supplemental direct testimony?

A. The purpose of my supplemental direct testimony is to address the DPU's proposed adjustment to the EBA for outages where the Company received damage payments.

Q. What specifically does the DPU recommend?

A. DPU witness Mr. Richard Hahn recommends that $1.2 million be removed from total net power costs and the Utah EBA deferral balance be reduced by $380,207 to cover the replacement power costs associated with three plant outages at [redacted] where the Company received damage payments from contractors. Mr. Hahn argues that these damage payments, which have not been included in the EBA, should be used to offset replacement power costs incurred when these units were out of service.

Q. Is it appropriate for these damage payments to flow through the EBA as Mr. Hahn suggests?

A. No. Consistent with Generally Accepted Accounting Principles ("GAAP") the liquidated damage payments received from contractors for these outages have been applied as a reduction to the capital cost of the plants where the outages occurred. The Price Waterhouse Coopers ("PWC") Accounting and Reporting Manual specifically states:

> Certain construction agreements provide for the payment of liquidated damages by the contractor to the owner of the asset under construction in the event that construction is not completed by an agreed upon date or if the asset doesn't meet certain performance requirements or some other requirement outlined in the contract. Liquidated damages are negotiated to represent compensation for a reasonable estimate of the buyer's (owner's) costs associated with a delay and are usually specified in advance to eliminate the need for subsequent negotiation of actual costs incurred. Any payments received by the owner from the contractor should be presumed to be a reduction of the cost of the asset being constructed. It is generally not appropriate for the buyer of an asset to immediately recognize income for a payment received from the contractor.
> (PWC ARM 4500 PROPERTY PLANT AND EQUIPMENT ACCOUNTING FOR RECEIPT OF LIQUIDATED DAMAGES)

Q. Will Rocky Mountain Power customers receive the benefits of these liquidated damages payments through their rates?

A. Yes. As the liquidated damages payments have been applied to reduce the rate base cost of the impacted plants, customers will receive the benefits of the liquidated damages payments through their rates over the remaining lives of the plants.

Q. What would be the result of Mr. Hahn's proposal remove from the EBA the replacement power costs for these outages?

A. Customers would receive the benefit of the liquidated damages payments twice. Once through a reduction in rate base and again through a reduction in the EBA.

Q. Is there a way to provide the liquidated damages payments through the EBA without double counting the benefit?

A. Yes. The adjustments as proposed by Mr. Hahn could flow through the EBA by the creation of a regulatory asset. The regulatory asset would add an amount equal to the liquidated damages payments back into rate base while crediting an equal amount against 2012 net power costs. Rates set in the next general rate case would be higher as a result of the increase in rate base.

Q. In your opinion, would that be the best option for Utah customers?

A. No. While flowing the liquidated damages payments through the EBA, as Mr. Hahn recommends, provides a benefit to customers in the near term, they will receive less than the full benefit. Because of the 70/30 sharing bands, if the liquidated damages payments are applied against net power costs Utah customers would only receive 70 percent of the payment amount through the EBA. Applying the liquidated damages payments as a reduction to the plant investment, as GAAP requires, provides the benefit to customers, with a return, over the remaining life of the plant without the application of the sharing band. The impact of this is shown in Confidential Figure 1 below, which uses the values from Figure ES-1 in Mr. Hahn's testimony. If $1,246,714 in liquidated damages payments are treated and reductions to NPC rather than as a reduction to the plant investment, Utah customers will receive a reduction in the EBA of only $380,207, or 70 percent, of its $534,242 allocated share of the payment. If the damage payments remain as a reduction to rate base plant investment Utah customers will receive a benefit equal to the full $534,242, plus a return, over the remaining life of the plant.

Confidential Figure 1

DPU Recommended Adjustment for Damage Payments			
Outage	Total Company NPC Reduction	Utah-Allocated NPC Reduction	EBA Deferral Adjustment
[redacted]	$ 278,210	$ 125,232	$ 90,551
[redacted]	$ 163,946	$ 69,196	$ 48,801
[redacted]	$ 804,558	$ 339,814	$ 240,855
Total	**$ 1,246,714**	**$ 534,242**	**$ 380,207**

Q. Do you support flowing the liquidated damages payments through the EBA?

A. No. Mr. Hahn's proposed adjustment is not in the best interest of customers and should be rejected.

Q. Does this conclude your supplemental direct testimony?

A. Yes.