–BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH–

IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR AN INVESTIGATION OF INTER-JURISDICTIONAL ISSUES	)))))))	DPU EXHIBIT 1.0-DIRECT DOCKET NO. 02-035-04 2010 PROTOCOL

Inter-jurisdictional Cost Allocations

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Direct Testimony—2010 Protocol

INTRODUCTION

Q: Please state your name, employer, title, and address for the record.

A: My name is Artie Powell; I am employed by the Utah Division of Public Utilities (DPU or Division) within the Department of Commerce; I am the Energy Section manager; my business address is 160 E 300 S, Salt Lake City, Utah.

Q: On whose behalf are you testifying in this case?

A: The Division.

Q: Please summarize your qualifications.

A: I hold a doctorate degree in economics from Texas A&M University. Prior to joining the Division, I taught courses in economics, regression analysis, and statistics both for undergraduate and graduate students. I joined the Division in 1996 and have since attended several professional courses or conferences including, the NARUC Annual Regulatory Studies Program (1995) and IPU Advanced Regulatory Studies Program (2005), dealing with a variety of regulatory issues. Since joining the Division, I have testified or presented information on a variety of topics including, electric industry restructuring, incentive-based regulation, revenue decoupling, energy conservation, evaluation of alternative generation projects, inter-jurisdictional cost allocations, and the cost of capital.

SUMMARY

Q: What is the purpose of your testimony?

A: The main purpose of my testimony is to explain the Division's support for the agreement on inter-jurisdictional allocations before the Commission in this docket ("2010 Agreement").

Q: Can you summarize the reasons for the Division's support of the 2010 Agreement?

A: In Docket No. 02-035-04 the Commission adopted a stipulation that specified that Utah's revenue requirement was the lesser of that determined under the Rolled-In methodology multiplied by a rate mitigation cap and the Revised Protocol methodology multiplied by a rate mitigation premium ("2004 Stipulation").

In its application in this docket, the Company proposed several amendments to the Revised Protocol that moves all of the states closer to a Rolled-In allocation of the Company's costs ("2010 Protocol"). However, since the merger between Pacific Power and Utah Power, the Commission has consistently stated that the Rolled-In methodology is the benchmark by which to judge other allocation methodologies. The 2010 Agreement before the Commission in this docket essentially makes Utah's allocated share of the Company's costs equivalent to a fully Rolled-In allocated share. Therefore, the Division supports and recommends that the Commission adopt the proposed 2010 Agreement for purposes of allocating a reasonable share of the Company's costs judiciously to Utah.

BACKGROUND

Q: Does the Division believe that a change in the current inter-jurisdictional allocation methodology is necessary in order to achieve just and reasonable rates in Utah?

A: Yes. In Docket No. 02-035-04, the Commission approved the 2004 Stipulation supporting the use of the Revised Protocol methodology in conjunction with the Rolled-In methodology and certain rate mitigation measures for allocating or apportioning the Company's costs to Utah. For the years immediately preceding the adoption of the 2004 Stipulation, Utah's revenue requirement was determined using the Rolled-In methodology. At the time the 2004 Stipulation was adopted, it was expected that for the first several years, the Utah revenue requirement would be greater under Revised Protocol than under Rolled-In. However, in the later years, starting in about 2011, it was expected that the Revised Protocol would produce a revenue requirement less than that produced by Rolled-In. On a present value basis, these differences approximately offset one another so that the long run impact on Utah's revenue requirement would be minimal. That is, over the term of the 2004 Stipulation, the difference in Utah's revenue requirement from continuing under Rolled-In and Utah's revenue requirement under the 2004 Stipulation would be minimal.

The Commission's adoption of the 2004 Stipulation was conditional on the realization of the then projected savings of the Revised Protocol methodology relative to the Rolled-In methodology. Specifically, the Commission stated in its order that,

> Our approval of the [2004] Stipulation must be conditional. . . . in the long run, it must not result in significantly different impacts on Utah than now expected. If the projected savings to Utah in the later years, which substantially offset the increases in the early years, do not materialize, we may reconsider the further use of the [2004] Stipulation.[1]

Unfortunately, the projected savings in the later years have not materialized—Revised Protocol remains, and is projected to remain, above Rolled-In. Thus, the Division does not believe that the 2004 Stipulation and the concomitant revenue requirement can be relied on going forward to determine just and reasonable rates in Utah.

Q: Is the Division’s position in this case consistent with the Division’s position on inter-jurisdictional allocations in the recently resolved rate case, Docket No. 10-035-124?

A: Yes, it is. In the rate case, the Division recommended, “the Rolled-In be used to determine Utah’s revenue requirement in this case and going forward until such time as the Commission approves or adopts an alternative inter-jurisdictional costs allocation methodology.”[2] In this case, the Division is recommending that the Commission approve the use of the 2010 Agreement for allocating the Company's costs to Utah. As

[1] "Report and Order," Docket No. 02-035-04, December 14, 2004, pp. 36-37.

[2] “Direct Testimony Revenue Requirement, Artie Powell,” Docket No. 10-035-124, May 26, 2011, p. 5.

previously stated, the intent of the 2010 Agreement is to produce an outcome equivalent to the Rolled-In methodology.

A BRIEF HISTORY OF INTER-JURISDICTIONAL ALLOCATIONS

Q: Would you briefly review the history of the Company's inter-jurisdictional allocations?

A: The Commission's 2004 order adopting the 2004 Stipulation provides a concise history of inter-jurisdictional proceedings and decisions in Utah. Therefore, I will briefly highlight what I believe are the most relevant facts and ask that the Commission take notice of its own 2004 order in Docket No. 02-035-04 for more details.

According to the Commission's 2004 order, "Prior to the 1989 merger of Utah Power and Pacific Power (Docket No. 87-035-27), Utah Power served wholesale customers under FERC jurisdiction and retail customers in Utah, Idaho and Wyoming under state jurisdictions."[3] Although the Commission approved the merger, issues surrounding inter-jurisdictional allocations were not resolved. However, "The applicants [Utah Power and Pacific Power] assured the Commission that the merger benefits were so large that under any reasonable allocation method Utah ratepayers would be better off with the merger."[4] Nevertheless, the Commission's 1987 order specified that, "PacifiCorp shareholders were to assume all risks that may result from less than full

[3] "Report and Order," Docket No. 02-035-04, p. 19.

[4] "Report and Order," Docket No. 02-035-04, p. 20.

system cost recovery due to the adoption of different allocation methods by its regulatory jurisdictions."[5]

Q: Are there other relevant facts about inter-jurisdictional allocations you wish to comment on?

A: As previously mentioned, the Commission did not resolve inter-jurisdictional issues in the merger docket—Docket No. 87-035-27. Instead, a task force, the PacifiCorp Inter-jurisdictional Task Force on Allocations, or PITA, was formed to address the allocation issues. PITA developed two inter-jurisdictional allocation methods: Rolled-In and Consensus. The Rolled-In methodology is a dynamic allocation methodology, which appropriately reflects current cost causation and usage. The Consensus method differed from Rolled-In in several respects; principally, it provided for divisional—Utah Power and Pacific Power—assignment of pre-merger plant, and hydro and transmission endowments.

In PacifiCorp's 1990 general rate case, Docket No. 90-035-06, the Commission found that an immediate movement to Rolled-In would unfairly shift costs from the Utah Power Division to the Pacific Power Division. However, the Commission declined to adopt the Consensus method, but for fairness reasons, adopted the outcome of the Consensus method. The difference in the revenue requirements between the two methods, approximately $72.7 million, was a fairness premium, which the Commission

[5] "Report and Order," Docket No. 02-035-04, p. 21.

viewed as the maximum divergence from Rolled-In that it would allow in maintaining inter-jurisdictional fairness.[6]

Expecting the elimination of the hydro and transmission endowments—a key difference between the two methods—over a reasonable period, "The Commission stated that a single-system, Rolled-In allocation method provided the only acceptable benchmark or standard by which alternative allocation methods may be judged."[7]

Q: Has the Commission ever adopted an inter-jurisdictional allocation method?

A: Yes. In Docket No. 97-035-04, the Commission's order, dated April 16, 1998, adopted Rolled-In for apportioning costs to Utah for the purposes of setting rates. The Commission also drew two conclusions relevant for judging the appropriateness of any allocation methodology. First, cost causation should reflect current usage rather than past usage. Second, attempts to achieve merger fairness using ad hoc adjustments within an allocation method will likely lead to unintended or inconsistent consequences.[8]

The Commission also reaffirmed its earlier decision to phase out the merger fairness premium. To this end, the Commission established a five-year schedule beginning in 1996 through 2000. The intent was that starting in 2001, some twelve

[6] See, "Report and Order," Docket No. 02-035-04, p. 23.

[7] "Report and Order," Docket No. 02-035-04, p. 22.

[8] See, "Report and Order," Docket No. 02-035-04, p. 24.

years after the merger of Utah Power and Pacific Power, Utah's revenue requirement would be based on the Rolled-In methodology.

Q: Did Utah move to Rolled-In in 2001 per the Commission's order in Docket No. 97-035-04?

A: Actually, Utah moved to Rolled-In with the conclusion of the 1997 general rate case, Docket No. 97-035-01.

The Committee of Consumer Services, now the Office of Consumer Services, and the Division filed to initiate a general rate case on February 12, 1997. However, because of legislative action, which froze the Company's rates on an interim basis, rates did not go into effect until March 1, 1999. As of that date, March 1, 1999, it was determined that a total refund of $111.5 million was owing to customers. The Commission also determined that the then present value of the remaining merger fairness premium it had established in Docket No. 97-035-04 was equal to $71.24 million. Using part of the refund to "buy-out" the remaining portion of the merger fairness premium presented an opportunity for an earlier movement to Rolled-In, which the Commission ordered. Thus, the rates that went into effect on March 1, 1999, were based on the Rolled-In methodology plus the remaining (present) value of the merger fairness premium.

Rates were also set based on the Rolled-In methodology in three subsequent rate cases, Docket Nos. 99-035-10, 01-035-01, and 03-035-02.

Q: If the Commission adopted Rolled-In in the 1997 general rate case, and used Rolled-In in several subsequent cases, what gave rise to the Revised Protocol and the use of the 2004 Stipulation to set rates in Utah?

A: In its order, dated November 23, 1999, in Docket No. 98-2035-04, the Commission approved the acquisition of PacifiCorp by ScottishPower. As part of the approval, the Company again assumed the risk of cost recovery arising from different inter-jurisdictional allocation methods utilized among the various state jurisdictions.[9]

However, on December 1, 2000, in Docket No. 00-035-15, the Company filed an application seeking approval of a corporate restructuring creating six distribution companies, one for each of the six state jurisdictions, a generation company, and a service company.[10] In its application, "The Company stated the continued gridlock over inter-jurisdictional allocations resulted in the Company continuing to suffer a material earnings shortfall, and created disincentives for future infrastructure investment."[11]

It is my understanding that most of the states either rejected the Company's initial corporate restructuring proposal or, like the Utah Commission, suspended the schedule in the docket.[12] At the same time the Commission suspended the schedule regarding the corporate restructuring, the Commission initiated (at the Company's

[9] See, "Report and Order," Docket No. 02-035-04, p. 26.

[10] See, "Report and Order," Docket No. 02-035-04, p. 27.

[11] "Report and Order," Docket No. 02-035-04, p. 27.

[12] "Order Suspending Schedule," Docket No. 00-035-15, April 3, 2002.

request and in cooperation with PacifiCorp's other jurisdictions) the multi-state process, or MSP.[13] A MSP organizational meeting was held in Boise, Idaho on April 10-12, 2002. Subsequently, a series of meetings were held with the other jurisdictions, which led to the development of the Revised Protocol. This in turn led to the Commission adopting the 2004 Stipulation.

CONCLUSIONS CONCERNING INTER-JURISDICTIONAL ALLOCATIONS

Q: What can you conclude from this history of inter-jurisdictional allocations?

A: I think there are several important observations to make concerning this history:

- Since the original merger between Utah Power and Pacific Power, the Commission has consistently used Rolled-In as the standard by which to judge alternative allocation methods;
- Rolled-In is the only inter-jurisdictional allocation method formally adopted or approved by the Commission;
- Since the original merger, rates in Utah have included tens of millions of dollars above Rolled-In allocations to satisfy merger fairness;
- With the conclusion of the 1997 rate case, Utah ratepayers paid over $71 million to buy-out the remaining fair value of the merger fairness premium;

[13] "Order on PacifiCorp's Application to Initiate Investigation of Inter-jurisdictional Issues," Docket 00-035-15, April 3, 2004.

- The projected benefits to Utah under the Revised Protocol methodology have not materialized, and are not likely to materialize;
- The Company has explicitly born the risk of cost recovery arising from differences in inter-jurisdictional allocation methods; and
- Continued use of the 2004 Stipulation adopted in Docket No. 02-035-04 to set rates in Utah will not lead to just and reasonable rates.

ROLLED-IN VERSUS REVISED PROTOCOL

Q: Would you briefly explain the difference between Rolled-In and Revised Protocol?

A: Rolled-in, as previously stated, is a dynamic allocation approach consistent with a single system (for both planning and operation) reflecting current cost-causation of joint-use resources. Rolled-In allocates cost of joint-use resources based on each jurisdiction's contribution to system peak demand and annual energy use.

The Revised Protocol allocation method starts with Rolled-In and then adds four (4) ad-hoc adjustments. The adjustments center around (1) Company owned hydro, (2) Mid-Columbia Contracts, (3) QF contracts, and (4) seasonal loads.

The Embedded Cost Differential Hydro Adjustment is based on the difference between two calculations: (1) the embedded cost of Company owned hydro including, post-merger costs, and (2) the embedded cost of the rest of the system excluding QF contracts.

The Mid-Columbia Contract Embedded Cost Differential adjustment assigns a substantial share of the low-cost Mid-C contracts to the Northwest. Oregon receives the lion's share of this adjustment. The calculation is based on the difference between the Mid-C contracts' costs and the costs of All Other resources. (The Revised Protocol states that as long as Oregon continues to support the Revised Protocol, PacifiCorp will not support any change to the hydro endowment adjustments).

The Revised Protocol also situs assigns approved pre-existing QF contracts. Finally, the Revised Protocol allocates certain seasonally defined resources based on seasonal loads rather than annual loads.

Q: You describe Rolled-In as a dynamic allocation methodology. Would you explain what you mean?

A: Under Rolled-In, the basis for determining a jurisdiction's allocation factors is largely its contribution to system peak. For example, the SG factor as defined in the 2004 Revised Protocol documents is

$$\mathrm{SG_i} = 0.75 * \mathrm{SC_i} + 0.25 * \mathrm{SE_i} \qquad \text{Eq. 1}$$

where

$\mathrm{SG_i}$ = the System Generation Factor for jurisdiction i;

$\mathrm{SC_i}$ = the System Capacity Factor for jurisdiction i; and

SE_i = the System Energy Factor for jurisdiction i.

Therefore, as a jurisdiction's loads grow relative to the other jurisdictions, its allocation factors will increase. This means that as the loads for one jurisdiction grow relative to the other jurisdictions, that jurisdiction will receive a larger allocated share of new resource costs, as well as receiving a larger share of the allocated costs of the existing resources.

EXPECTED PERFORMANCE OF REVISED PROTOCOL

Q: Can you demonstrate the performance expectations of Revised Protocol at the time of adoption of the 2004 Stipulation?

A: Yes. I have included as DPU Exhibit 1.1-Direct a forecast of the Revised Protocol relative to Rolled-In developed in the proceedings leading up to Docket No. 02-035-04. This exhibit is a copy of an exhibit, Exhibit C, attached to and part of the Commission's Report and Order in that docket.

As shown in the graph, the expectation in 2004 was that Revised Protocol would be greater than Rolled-In in the initial years, but would be less than Rolled-In in the later years, with the cross-over occurring in approximately 2011. The graph also demonstrates the intended effect of the rate mitigation cap and premium on Utah's revenue requirement.

Q: What was the intent of the Rate Mitigation Cap?

A: In the years immediately preceding the adoption of the 2004 Stipulation, Utah's revenue requirement was determined using Rolled-In. The Revised Protocol, therefore, represented in the initial years a shift in costs to the Utah jurisdiction from the other jurisdictions in which PacifiCorp operated. The purpose of the rate mitigation cap was to mitigate the rate impact of the Revised Protocol on Utah ratepayers.

Since adoption of the 2004 Stipulation, until the recently resolved rate case,[14] the Revised Protocol plus its premium has been greater than Rolled-In plus the cap. Thus, in the last five rate cases, Utah's revenue requirement has included an amount over Rolled-in. Table 1 depicts the premium amounts as originally requested by the Company for the five rate cases since 2004 and prior to the current rate case.

Table 1: Rate Mitigation Cap (As Filed by PacifiCorp)

Docket	Revised Protocol	Rolled-In	CAP Percent	CAP Value
04-035-42	1,279,449,499	1,248,104,005	1.50%	18,721,560
06-035-21	1,451,177,035	1,405,246,184	1.50%	21,078,693
07-035-93	1,533,044,193	1,490,798,620	1.25%	18,634,983
08-035-38	1,568,589,411	1,530,674,491	1.06%	16,263,416
09-035-23	1,551,446,173	1,523,737,373	1.00%	15,237,374

[14] The Commission approved the stipulations of the parties resolving the 2010 general rate case, Docket 10-035-124 in its Memorandum Decision dated August 11, 2011, indicating that a final order will be issued prior to September 21, 2011.

Thus, as contemplated under the 2004 Stipulation, Utah ratepayers have been paying a premium over Rolled-In since 2004 but, as previously explained, expected to benefit in the latter years as the Revised Protocol produced revenue requirements less than those under Rolled-In. However, the benefits contemplated under the 2004 Stipulation have not and are not likely to materialize in the future. Indeed, in the recently resolved rate case, the revenue requirement under the Revised Protocol methodology was still substantially greater than that under the Rolled-In methodology.

Q: You indicated that the expected savings from Revised Protocol are not likely to materialize. Would you explain your reasoning for this conclusion?

A: Yes. I have included as Confidential DPU Exhibit 1.2-Direct a forecast of Revised Protocol relative to Rolled-In developed by the Company in the multi-state process, MSP, in April 2010. As previously mentioned, this forecast indicates that Utah's Revised Protocol revenue requirement will not fall below that of Rolled-In for the duration of the study period, 2010-2018. In contrast, the 2004 forecast indicated that during this same study period, the Revised Protocol would be less than Rolled-In.

2010 Protocol

Q: Have you reviewed the Company's application in the current docket?

A: Yes, I have reviewed the Company's application and testimony in this case. I also participated in the MSP workgroup meetings that lead to the Company's filing seeking approval of modifications to the Revised Protocol, which for convenience is referred to as the 2010 Protocol.

GENERAL COMMENTS ON THE 2010 PROTOCOL

Q: What is your understanding of the 2010 Protocol?

A: The Application, which was filed in the 2002 inter-jurisdictional docket, explains that participants in the MSP workgroup reached an agreement in principle to amend the Revised Protocol. As explained in the Application and the Company's accompanying testimony, the 2010 Protocol is "to allow for a greater movement to a Rolled-In allocation methodology, while retaining a Hydro Endowment for the former Pacific Power & Light states of Oregon, California, Washington, and part of Wyoming."[15]

The 2010 Protocol contains at least two important modifications to the Revised Protocol. First, the Hydro embedded cost differential (ECD) has been "reduced and limited using a comparison of embedded costs based on resources in place on the Company's system prior to 2005."[16] Second, the ECD is fixed at a levelized value, which is applied respectively to each jurisdiction's revenue requirement under the Rolled-in methodology for the duration of the 2010 Protocol, which runs through December 31, 2016.

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[15] PacifiCorp's Application, "In the Matter of the Application of PacifiCorp for an Investigation of Inter-Jurisdictional Issues," Docket No. 02-035-04, September 15, 2010, p. 5.

[16] PacifiCorp's Application, Docket No. 02-035-04, September 15, 2010, pp. 5-6.

Q: What is the levelized ECD for Utah under the 2010 Protocol?

A: The levelized ECD value is approximately $1 million annually for years 2011 through 2016. In other words, if the Commission were to adopt the 2010 Protocol as proposed by the Company, Utah's annual revenue requirement would be approximately $1 million dollars less than that derived under the Rolled-In methodology.

FINAL COMMENTS ON THE 2010 PROTOCOL

Q: Before moving to the 2010 Agreement, do you have any final comments on the 2010 Protocol?

A: Yes. Some may have concerns that the 2010 Protocol may constrain the Commission's ability to set just and reasonable rates for Utah ratepayers by decisions (or the lack thereof) in other states. In particular, in Section XIII, Sustainability of the 2010 Protocol, sub-paragraph C, 2010 Protocol Amendments, the 2010 Protocol states:

> Prior to departing from the terms of the 2010 Protocol, consistent with their legal obligations, Commissions and parties will endeavor to cause their concerns to be presented at meetings of the MSP Standing Committee and interested parties from all States in an attempt to achieve consensus on a proposed resolution of those concerns.

I believe this concern is warrantless. First, there are two important qualifying clauses in this statement: (1) "consistent with their legal obligations"; and (2) "will endeavor." Regardless of what other states may or may not do, the Utah Commission has a legal obligation to set just and reasonable rates for Utah ratepayers and, if circumstances warrant, act unilaterally for the benefit of Utah ratepayers. The 2010 Protocol, in other words, acknowledges that conflicts of interests may arise between the various states and, like the Revised Protocol, only requests that parties "endeavor" to bring any concerns to the Standing Committee and seek a consensus resolution.

Furthermore, other parts of the 2010 Protocol make it clear that parties, even if they have signed the 2010 Protocol, are not bound to support rates that are shown to be unjust or unreasonable. For example, in Section I, Introduction, the 2010 Protocol states:

> The assignment of a particular expense or investment, or allocation of a share of an expense or investment, to a State pursuant to the 2010 Protocol is not intended to, and should not, prejudge the prudence of those costs.

In that same paragraph, the 2010 Protocol continues:

> Nothing in the 2010 Protocol shall abridge any State's right and/or obligation to establish fair, just and reasonable rates based on the law of that State and the record established in rate proceedings conducted by that State.

In other words, even if a cost is allocated to Utah under the 2010 Protocol, parties are free to argue, and the Commission is free to determine, whether those costs are prudent and should be borne by Utah ratepayers. The 2010 Agreement reflects this same principle.[17]

The 2010 Protocol Agreement

Q: The Division supports and is recommending that the Commission approve the 2010 Agreement for ratemaking purposes in Utah. Would you please comment?

A: Yes, it is. Under the 2010 Agreement, Utah's allocated share will be equivalent to a Rolled-In allocated share. This is consistent with the Commission's long-standing policy that the Rolled-In methodology is the benchmark by which to judge other allocation methodologies and the preferred basis for inter-jurisdictional allocations is current cost causation and usage.

Specific Details of the 2010 Protocol Agreement

Q: Are there key features of the 2010 Agreement on which you would like to remark?

A: Yes there are. Paragraph 2 of the 2010 Agreement states that, "for the duration of the 2010 Protocol, a fixed dollar amount per year adjustment would be applied to Utah's revenue requirement under the Rolled-In allocation methodology." Utah's annual adjustment is approximately ($1.0) million. In other words, Utah's revenue requirement under the 2010 Protocol would be approximately $1 million less than that under a full

[17] See in particular paragraphs 3, 15, and 18 of the 2010 Agreement.

Rolled-In allocation.[18] However, Paragraph 9 indicates that for ratemaking purposes, the net effect of the embedded costs differential (ECD) and the Klamath adjustments "will be deemed to" be zero. Therefore, essentially, under the 2010 Agreement Utah's allocated share of the Company's costs are equivalent to a Rolled-In share of those costs.

Q: Why does the Division support forgoing an automatic million-dollar reduction to Utah's allocated cost share?

A: There are a couple of reasons. First, the Commission has consistently stated that Rolled-In is the benchmark by which to judge other allocation schemes. The Commission has also indicated that inter-jurisdictional allocations should be based upon current cost causation and not historic usage or causation. The Division agrees with both of these principles. The ECD, as construed under the Revised Protocol, is an ad hoc adjustment based on assumed historical cost causation and usage of system resources. While the treatment of the ECD as a fixed dollar amount under the 2010 Protocol is an improvement over the ECD treatment under the Revised Protocol, it is still an ad hoc adjustment and, as such, is difficult to justify on a principled basis.

[18] As indicated in paragraph 2 of the Agreement, Utah's fixed annual dollar adjustment is based on the netting of the embedded cost differential, as modified by the 2010 Protocol, and situs assignment of the Klamath Dam rate impacts. A similar adjustment is calculated for each of the other states. These adjustments are detailed in the direct testimony of Company witness Mr. Steven R. McDougal, Exhibits RMP_(SRM-6) and RMP_(SRM-7).

Second, the Commission and at least some Utah parties have been advocating movement to the Rolled-In Methodology on one period or another since the original merger between Utah Power and Pacific Power. While the 2010 Protocol moves all of the states closer to Rolled-In allocations, the 2010 Agreement essentially makes Utah's allocated share of the Company's costs equal to a full Rolled-in share.

Q: Please continue with your remarks on the 2010 Agreement.

A: Paragraphs 4 through 7 of the 2010 Agreement discuss the disposition of the incremental costs associated with Klamath Hydroelectric Settlement Agreement or K-H-S-A (KHSA). In brief, the 2010 Agreement specifies that the parties have not reached an agreement on the ratemaking treatment of the KHSA rate impacts described in Paragraph 5. Specifically, Paragraph 7(b) of the 2010 Agreement states, "this agreement does not resolve, whether, under the Rolled-In inter-jurisdictional methodology, any such Klamath rate impacts should be borne by Utah customers." In the current rate case, Docket No. 10-035-124, the Commission has indicated its approval of the revenue requirement settlement stipulation in its memorandum decision issued on August 11, 2011. Under the terms of that settlement, the Company agreed to remove the rate impacts of the KHSA and, therefore, those impacts will not be reflected in Utah rates once rates go into effect on September 21, 2011.

Paragraph 8 of the 2010 Agreement specifies that "use of the 2010 Protocol shall begin with [the current rate case] Docket No. 10-035-124 and remain in effect for all Company filings made on or before December 31, 2016." In its rebuttal position, the Company adopted the change in the allocation method in the current rate case, which resulted in an approximate $15 million reduction in the Company's revenue requirement. Thus, the revenue requirement settlement adopted by the Commission in the rate case reflects the change in allocation methodology.[19]

Paragraph 13 of the 2010 Agreement indicates that the Company will file its semi-annual result of operations (ROO) showing both the Rolled-In and 2010 Protocol allocations, including the ECD and Klamath adjustments, using actual test period data. Under the Revised Protocol, the ECD was allowed to float with actual data and did not perform as originally expected under the 2004 Stipulation. Even though the ECD forecast is treated as a fixed amount under the 2010 Protocol, the Company agrees to file its ROO so that the actual movement in the ECD and Klamath adjustments under the 2010 Protocol can be tracked. This information will be valuable if or when the 2010 Protocol expires or changes therein are proposed.

Finally, Paragraph 7(a) reiterates the Commission's long standing policy that the Rolled-In methodology is the benchmark for judging other allocation methodologies.

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[19] See, Confidential Rebuttal Testimony of Steven R. McDougal, Docket No. 10-035-124, pp. 3-4, lines 39-60.

Conclusions and Recommendations

Q: Do you have any final remarks?

A: The modifications proposed to the Revised Protocol as detailed in the 2010 Protocol and the Company's testimony move the states' allocations closer to the Rolled-In methodology and its results. Utah's allocation under the 2010 Protocol in particular is only about 0.05% different from the Rolled-In. Thus, the Division finds the modifications to be reasonable. Furthermore, the 2010 Agreement before the Commission in this proceeding essentially sets Utah's allocated share of the Company's costs equal to a full Rolled-In allocated share. Using the Rolled-In method to allocate costs to Utah is consistent with the Commission's, and the Division's, long standing principles concerning inter-jurisdictional allocations. Taken as a whole, the Division finds that the 2010 Agreement is just and reasonable in results and is in the public interest. Therefore, the Division supports and recommends that the Commission approve the 2010 Agreement for ratemaking purposes in Utah.

Q: Does that conclude your direct testimony?

A: Yes it does.