

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

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In the Matter of the Application of Rocky)
Mountain Power for Authority To Increase)
its Retail Electric Utility Service Rates in)
Utah and for Approval of Its Proposed)
Electric Service Schedules and Electric)
Service Regulations, Consisting of a General)
Rate Increase of Approximately \$161.2)
Million Per Year, and for Approval of a New)
Large Load Surcharge)
)

DOCKET NO. 07-035-93

ORDER ON TEST PERIOD

ISSUED: February 14, 2008

By the Commission:

On December 17, 2007, PacifiCorp, doing business in Utah as Rocky Mountain Power (“Company”), filed for a rate increase based on a 12-month test period ending June 30, 2009. On January 11, 2008, the UAE Intervention Group (“UAE”) requested a hearing to determine the appropriate test period to be used for purposes of this general rate case. After due notice, a hearing was held on February 7, 2008, to take evidence and hear argument by parties regarding the appropriate test period to be used in this matter. We issue this Order pursuant to Utah Code Annotated (“UCA”) §54-4-4(3) which states, “If in the commission’s determination of just and reasonable rates the commission uses a test period, the commission shall select a test period that, on the basis of evidence, the commission finds best reflects the conditions that a public utility will encounter during the period when the rates determined by the commission will be in effect.”

In determining an appropriate test period for this docket, we consider the testimony of the Company, the Utah Division of Public Utilities (“Division”), the Utah

Committee of Consumer Services (“Committee”), UAE, the Utah Industrial Energy Users (“UIEC”), and Roger Ball. The Company recommends a test period consisting of the 12 months ending June 30, 2009. The Division and Committee do not oppose the Company’s proposed test period, providing it is subject to necessary adjustments. UAE recommends a test period consisting of the 12 months ending December 31, 2008. The UIEC recommends a test period consisting of the 12 months ending June 30, 2008.

Based on the evidence provided in hearing, we find the 2008 calendar-year recommended by UAE best reflects the conditions the Company will encounter during the period when the rates determined in this docket will be in effect. This finding is based on an evaluation and balancing of factors relevant to selection of a test period identified in our October 20, 2004, Order in Docket No. 04-035-42. These factors are employed by the Division and UAE in the formation of their positions regarding the appropriate test period in this case. These factors are: The general level of inflation; changes in the utility’s investment, revenues or expenses; changes in utility services; availability and accuracy of data to the parties; ability to synchronize the utility’s investment, revenues and expenses; whether the utility is in a cost increasing or cost declining status; incentives to efficient management and operation; and length of time the new rates are expected to be in effect.

With respect to the nine factors, witnesses support use of a forecasted test year based primarily on changes in the utility’s investment, revenues or expenses; the ability to synchronize the utility’s investment, revenues and expenses; and the belief the Company is in a cost increasing status. Company testimony provides evidence of changes in utility investment,

the bulk of which is projected to occur prior to year-end 2008. No party recommends the use of an historical test period with known and measurable changes in this case.

However, UAE and UIEC recommend the Commission balance the need for a forecasted test period with the uncertainty of forecasting out to June 2009. UAE argues there is an asymmetry in risk between the Company and ratepayers regarding knowledge of investment requirements and control of the timing of these investments. Whereas the Company can manage adverse effects of forecast error by, for example, delaying or cancelling investment, the ratepayer cannot, and thus assumes greater risk for forecast error. UAE also presents evidence showing how forecast error of the loads in another state served by the Company can materially affect Utah's allocation of system costs. Such forecast error can result in Utah being allocated a greater share of interjurisdictional costs than is warranted. Therefore, UAE and UIEC recommend forecasting a period nearer in time to render greater confidence in the matching of costs and revenues, and the more appropriate balancing of Company and ratepayer interests.

Testimony also indicates there is uncertainty regarding the likelihood of a change in general economic conditions nationally and in Utah. Witnesses testify of potential recessionary pressures and note Utah tends to lag the nation with respect to the effects of a recession. Thus, it is uncertain how changing economic conditions will affect forecasts of revenues, expenses and investments.

We concur with UAE and conclude a projected test period ending December 31, 2008, will strike an appropriate balance between Company and ratepayer interests and best reflects the conditions the Company will encounter during the rate effective period. While the beginning date of this rate effective period is known, its length is unknown. The purpose of

establishing a test period is not to ensure any particular period of time between rate cases, but rather to set just and reasonable rates for the Company and its ratepayers. In this time of expanded utility investment, potentially increasing costs, and greater uncertainty of economic conditions, more frequent rate cases may be necessary to ensure just and reasonable rates.

The Company testifies it may take up to four weeks to construct the 2008 calendar-year test period. We understand this test period data is also the subject of a data request by UAE. We direct the Company to update its filing in this case with the calendar-year 2008 test period, based on an average-of-year rate base, as soon as possible and no later than the earlier of the date the UAE data response is due or within four weeks from the date of this Order. Further, any responses to data requests must conform to the test period ordered herein.

Finally, we note Mr. Ball argued during hearing that UCA §54-4-4(1) establishes a condition precedent requiring this Commission to find the Company's current rates unjust or unreasonable prior to proceeding on the Company's rate increase request. We disagree. UCA §54-4-4(2) permits the Commission to examine the Company's rates, charges, classifications, rules, contracts, regulations, and practices and, after hearing, order replacements "in lieu of them." Furthermore, UCA §54-7-12(2) unambiguously permits "any public utility or other party" to propose a change in rates. UCA §54-7-12(2) mandates the Commission to proceed with a hearing to consider the proposed rate change and specifies what the Commission must determine relative to the proposed rate change. It, notably, says nothing about a first requirement for the Commission to make any finding(s) prior to conducting the mandated hearing on the proposed rate change, nor what finding(s), if any, must first be made with respect to rates for which alternatives have been proposed. UCA §54-7-12(3) provides for the

implementation of interim rates pending adjudication of a rate change request. None of these statutory provisions requires an initial finding that the utility's current rates are unjust or unreasonable and we decline to insert such a requirement as suggested by Mr. Ball. UCA §54-4-4(1) refers to the hearing in the procedure commonly known as a "general rate case" and not to some preliminary hearing to determine whether or not a rate case is called for. Indeed, we cannot determine whether existing rates are unjust or unreasonable until the revenue requirement portion of the general rate case is heard.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED:

1. The calendar-year of 2008 shall be the test period in this docket.
2. The Company shall update its filing to provide the information for the 2008 test period as ordered herein.
3. Any Company response to data requests must conform to the test period ordered herein.

DATED at Salt Lake City, Utah, this 14th day of February, 2008.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#56331