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26 compared to the more aggressive future test period proposed by
27 RMP.¹
28

29 **Q. Why does Mr. Higgins make this recommendation?**
30

31 A Starting on the same line 8, he writes (bold added):
32

33 A future test period such as Calendar Year 2008 will use forecasts
34 that are **nearer in time** than those proposed by the Company, and
35 thus will provide a more certain basis for establishing rates that
36 would go into effect in August 2008.
37

38 Further, on page 9, lines 1-2 Mr. Higgins states (bold added): “I believe that a projected test
39 period that is **closer in time** than RMP’s proposed period is a more reasonable choice.”

40 **Q. Do you believe that near in time or closer in time makes the 2008 Calendar Year a more**
41 **reasonable choice?**

42 A. No, not necessarily. There is no debate regarding the truism that forecasts that are closer in
43 time tend to reduce forecast error and thus be more accurate. However, Mr. Higgins also
44 acknowledges that his proposed test period is in itself a forecast:

45 Further, I acknowledge that the Calendar Year 2008 test period I
46 am recommending relies entirely on projections of data, and from
47 that standpoint, is also a future test period.²
48

49 However, just because a forecast is closer in time is not grounds to dismiss another
50 forecasted test period, which may more closely reflect the conditions that the utility will
51 encounter during the rate effective period, and of which any forecasted projections could be
52 adjusted to ensure the accuracy of the assumptions of the alternative forecast. In other
53 words, I propose that all other factors and conditions that I outlined in my Direct Testimony

¹ Pre-Filed Direct Testimony of Kevin C. Higgins, p. 20, lines 4-8.

² Direct Testimony of Kevin C. Higgins, p. 6, line 22, p.7, line 1.

54 should be taken into account in determining which test period to use. I would advocate not
55 selecting the test period based on that one truism--that a forecast that this is closer in time
56 will have less forecasting error.

57 As I described in my Direct Testimony, the significant increase in customers and load
58 growth, the tremendous amount of capital investment that Rocky Mountain Power (the
59 Company) needs to spend in the areas of generation, transmission, and distribution during the
60 period from July 1, 2008 through June 30, 2009, are more determinative factors than which
61 months happen to fall in the calendar closer to the August 2008 dates when the rates would
62 become effective.

63 **Q. Mr. Higgins states that he is fine with the Mid-Period or Calendar 2008 test period.**

64 **How many months difference is this than the Company's proposed test period?**

65 A. The Mid-test period runs from July 1, 2007 through June 30, 2008. Thus, this is a difference
66 of one full year from the Company's proposed test period which runs from July 1, 2008
67 through June 30, 2009. The Calendar Year 2008 test period that Mr. Higgins proposed is a
68 difference of six months from the Company's proposed test period. The months of July
69 through December 2008 already fall within the Company's proposed test period.

70 **Q. Which test period does Mr. Higgins prefer—the Calendar Year 2008 test period or the**
71 **Mid-Test Period?**

72 A. On page 20, lines 16-22, Mr. Higgins expresses his first choice for the Calendar Year 2008
73 and his second choice would be the Mid-period:

74 If my Calendar Year 2008 proposal is not practicable for some
75 reason, my alternative proposal is for the use of the Mid Period,
76 July 1, 2007 - June 30, 2008. I believe this test period is the next
77 best test period to reflect the conditions RMP will encounter during

78 the period that rates will be in effect, as it would be based on
79 information that is closer in time than the more aggressive future
80 test period proposed by RMP.³
81

82 **Q. If we went with Mr. Higgins' first choice, the Calendar Year 2008, then it would include**
83 **a portion of the Company's proposed test period--July through December 2008. The**
84 **months of January through June 2009 would be excluded in his proposal. Do you have**
85 **any evidence that suggests the need to include the January through 2009 months as part**
86 **of the test period?**

87 A. Yes. In response to my DPU Data Request #5.2, the Company states that it expects to spend
88 \$441.1 million in plant addition costs during the months from January 1, 2009 to June 30,
89 2009.

90 **Q. So are you saying that if the Commission ordered the Company to use the Calendar**
91 **Year 2008 Test year, this \$441.1 million of capital expenditures would be left out of the**
92 **revenue requirement?**⁴

93 A. Yes. Disregarding any adjustments parties may recommend in the revenue requirement phase
94 of this case, the \$441.1 million would not be counted if the Calendar 2008 Test Year were
95 used.

96 **Q. What would be the effect of leaving this \$441.1 million out of the forecast, knowing that**
97 **the Company has identified generation, distribution, and transmission plant costs that**
98 **it must spend on load growth in order to meet its obligation to serve?**⁵

³ Pre-Filed Direct Testimony of Kevin C. Higgins, p. 20, lines 16-22.

⁴ Rocky Mountain Power, Response to DPU Data Request 5.2, January 16, 2008.

⁵ Steven R. McDougal, Tab 8, pp. 8.7-8.7.19.

99 A. The Company has estimated that it will incur total expenses in the amount of \$3,966,105,800
100 during the 12 months ending June 30, 2009. The effect of leaving it out is that the Company
101 would not be including the \$441.1 million in the revenue requirement, and the \$50 million
102 would not be accounted for in net power costs.⁶ If the Division approved the accounting data
103 as filed, the Company might possibly not be able to build the needed plant and still earn its
104 authorized rate of return in this instance.

105 The Division does not object to using the Company's forecasted test period, as it serves
106 to align rate and planning processes so that the revenue requirement takes into account the
107 need to commence and build planned projects. This would of course be subject to intense
108 scrutiny by Division auditors.

109 **Q. Are you saying that we should accept the Company's forecasts as filed?**

110 A. No, of course not. It is healthy to be skeptical of the Company's facts and figures, including
111 forecasts. That is why we, as regulators, go through accounting items, check the facts,
112 figures, and forecasted assumptions and make adjustments as justifiably determined. This I
113 stated in my Direct Testimony below:

114 **Q. Notwithstanding the above, does the Division think that**
115 **there may be instances when this test period must be adjusted**
116 **by its auditors?**
117

118 A. Yes. The Division believes that its auditors and other staff can
119 appropriately adjust the test period proposed by the Company for
120 any appropriate reason, including, but not limited to, forecasting
121 issues. This could include bringing the expenses or rate base back
122 to an earlier time period than proposed by the Company in the
123 event of a forecasting error or due to a lack of sufficient evidence

⁶ Rocky Mountain Power, Response to DPU Data Request 5.3, January 16, 2008.

124 presented by the Company that would support the expense
125 proposed.⁷

126 **Q. I noticed that you and Mr. Higgins both pointed out the factors identified in the**
127 **Commission’s 2004 Order that should be considered in selecting a test period.⁸ Do you**
128 **wish to respond to Mr. Higgins’ analysis of these factors?**

129 A. Yes. The first issue I will address is the whether the utility is in a cost increasing or cost
130 declining status. I generally agree with Mr. Higgins’ statement on page 17:

131 In general, a utility that is facing increasing costs will benefit
132 from—and therefore, prefer—an aggressive future test period.
133 Conversely, a utility facing a declining cost situation will benefit
134 from – and prefer – an historical test period.⁹
135

136 In my Direct Testimony, I cite from many sources the fact that the utility is in an increasing
137 cost industry, due to higher cost of fuel, construction costs, environmental mitigation costs,
138 new technologies such as automated meter reading, etc. I also provide EIA data to support
139 the claim. If the Company was facing declining costs, it may not have filed a rate case.

140 My disagreement with Mr. Higgins is with his depiction of the Company’s forecasted test
141 period as “an aggressive future test period.” The Webster’s online dictionary defines
142 “aggressive” as “having or showing determination and energetic pursuit of your ends “or
143 “marked by aggressive ambition and energy and initiative.”¹⁰ Dictionary.com’s thesaurus
144 lists belligerent and assertive as synonyms for the word.¹¹ I can agree that the Company’s
145 forecasted test year may be somewhat ambitious and is definitely forward looking, because

⁷ Direct Testimony of Joni S. Zenger, Ph.D., p. 4, lines 45-51.

⁸ Direct Testimony of Kevin C. Higgins, p. 6, lines 4-9 and Direct Testimony of Joni S. Zenger, Ph.D., p. 6, lines 107-119.

⁹ Id, p. 17, lines 1-3.

¹⁰ <http://www.websters-online-dictionary.org/definition/aggressive>.

¹¹ <http://thesaurus.reference.com/browse/aggressive>.

146 the Company knows that its faces large capital expenditures in the upcoming years.

147 However, Mr. Higgins describes the Company's proposed test period as "aggressive" on ten
148 separate times in his testimony when referring to the July 1, 2008 through June 30, 2009
149 Forecast Test Period (or the Company's Forecasted Test Period).

150 My interpretation of reading this in his testimony is that there is some kind of negative
151 connotation every time he mentions the test period ending June 2009. Clearly the Company's
152 test period is within the statutory guidelines of being within 20 months from the date of
153 filing. I think that a test period can certainly be selected up to 20 months out, and that is
154 clearly within the guidelines or it would not be allowed and written as such in the statute.

155 **Q. Are there any other factors from the Commission's 2004 Order that you want to**
156 **address with respect to Mr. Higgins' Testimony?**

157 A. Yes--the length of time the new rates are expected to be in effect may be a factor in
158 determining test period. Both Mr. Higgins and I agree that it is difficult to predict how long
159 the new rates may stay in effect. However, I would predict that if we were to use a Calendar
160 2008 test year, the Company would immediately begin preparing for its next rate case to be
161 filed around August or so. The Company may very well not agree to a stay-out provision
162 using the 2008 Calendar test period. This would be administratively an inefficient use of the
163 Company's time and resources, as well as those of regulators and intervening parties. I
164 would prefer that, if the Commission selects a test period up front, it selects one that closely
165 aligns the Company's conditions with the rate effective period.

166 **Q. Mr. Higgins expresses a concern regarding how rapidly the utility will implement its**
167 **capital expenditure programs. Do you agree with this concern?**

168 A. Yes, most definitely I agree. The delay in Lakeside going online was an excellent example
169 of how this could occur. In my Direct Testimony I wrote:

170 Ratepayers might be disadvantaged if projects encounter some type
171 of delay, resulting in ratepayers paying for projects not yet built or
172 for which capital expenditures have not yet been made.¹²
173

174 I did not address this in depth in my testimony, as the Division's policy witness will
175 testify on this matter, but I agree with Donna DeRonne that some type of provisions should
176 be put in place to protect consumers in the event that a delay like Lakeside or some other
177 delay might harm consumers. The Division's policy witness will discuss these conditions in
178 length. I asked this question of the Company in my DPU Data Request # 3.9. The Company
179 responded as follows:

180 **Policy Issues.** In reference to lines 203-205 of SRM Direct
181 Testimony, is it also true that regulatory lag can work the opposite
182 way? In other words, could the Company be granted a rate
183 increase based on a forecasted test year, but for one reason or
184 another, the plant did not go online or the transmission line was not
185 built as planned?
186

187
188 **Response to DPU Data Request 3.9**
189

190 It is possible, but this is contrary to the Company's experience.
191 With respect to any delay in generation plant coming online,
192 customers typically are held harmless as they benefit through an
193 offset in the net power costs that are incurred by the Company
194 during any delay. Furthermore, the Company is not aware of any
195 situation in which customers actually paid for plant additions that
196 were forecasted in a general rate case, but that ultimately never
197 came online.¹³
198

¹² Direct Testimony of Joni S. Zenger, Ph.D., p. 9, lines 184-186.

¹³ Rocky Mountain Power, Response to DPU Data Request #3.9, January 14, 2008.

199 I believe it is in the Company's best interest to try to budget, plan, and forecast as
200 accurately as possible. The Division intends to review the Company's actual results of
201 operations and other data compared to forecasted information provided in this rate case. The
202 data that we have analyzed thus far indicates that the Company will face increasing costs for
203 the next several years. In the event the Company proposes a rate case each year for the next
204 several years, the Company would most likely not be allowed to use a fully forecasted test
205 period in future cases if the variance reporting shows that the Company does not make
206 somewhat accurate and reliable forecasts.

207 **Q. Mr. Higgins discusses the SG Allocation Factor as used in this rate case and last year's**
208 **2006 rate case. He asks the following:**

209 Is there evidence that the use of an aggressive future test period in
210 the past would have produced an unwarranted increase in Utah's
211 interjurisdictional cost allocation?¹⁴
212

213 **Do you share his concern over the over-allocating of the SG factor to Utah or the under**
214 **projection of Oregon demand and energy?**

215 A. Yes, most definitely. The calculation of the SG factor has a material effect on the calculation
216 of the rates that Utah rate payers end up paying when a general rate case is filed. However,
217 there can be a miscalculation of the SG factor with any test period that is selected.
218 Regardless if a Calendar Year 2008 test period, or a Mid-Period, or a June 2009 test period is
219 selected, the accuracy of the SG factor needs to be verified.

220 **Q. Do you have any other comments that you want to rebut regarding Mr. Higgins'**
221 **testimony?**

¹⁴ Direct Testimony of Kevin C. Higgins, p. 12, lines 4-6.

222 A. Yes, one final thought. In his summary, Mr. Higgins writes: “If my Calendar Year 2008
223 proposal is not practicable for some reason...” I think there are several reasons why his
224 proposed Calendar Year 2008 test period is not practicable...”¹⁵ First, as I identified earlier,
225 it would be an inefficient use of resources, and in my opinion, not in the public interest if the
226 Company, the regulators, other parties, and the Commission have to process another rate case
227 in the very near future due to the fact that the above-referenced expenditures were not
228 captured in the current rate case. Second, in order to implement the proposal, the Company
229 would have to re-run the net power costs, and the parties would have to begin analyzing new
230 data and asking different data requests, taking more time out of the restrictive 240 days that
231 are allowed for the rate case to be completed.

232

233 **REBUTTAL TO DONNA DERONNE’S PRE-FILED DIRECT TEST YEAR**
234 **TESTIMONY**

235 **Q. Do you wish to make comments regarding Ms. DeRonne’s Testimony?**

236 A. Yes, I have just a few points to make. First the Division agrees with the following
237 two statements:

238 (2)The Committee’s position that the Company’s proposed test
239 year, if adjusted appropriately, can be reasonably reflective of
240 the conditions RMP is likely to encounter during the rate
241 effective period;¹⁶

242

243 The forecasted test period was presented by the Company in
244 Exhibit RMP__(SRM-1). It is the Committee’s view that the
245 information and calculations presented in Exhibit
246 RMP__(SRM-1) can be adjusted such that the requested period

¹⁵ Direct Testimony of Kevin C. Higgins, p. 20, line 17.

¹⁶ Pre-Filed Direct Test Year Testimony of Donna DeRonne, p. 2, lines 34-35.

247 can be reasonably reflective of the conditions RMP will face in
248 the rate effective period.¹⁷
249

250 As previously mentioned, I stated a similar sentiment in my own testimony:

251 The Division believes that its auditors and other staff can
252 appropriately adjust the test period proposed by the Company
253 for any appropriate reason, including, but not limited to,
254 forecasting issues. This could include bringing the expenses or
255 rate base back to an earlier time period than proposed by the
256 Company in the event of a forecasting error or due to a lack of
257 sufficient evidence presented by the Company that would
258 support the expense proposed.¹⁸
259

260 **Q. What comments do you have regarding the timing of the test year decision?**

261 **A.** Ms. DeRonne states that it is “imperative that the resolution of the test period be
262 determine early in the rate case schedule.”¹⁹ The Division recognizes the benefits to
263 the auditors and others working on the case to have the test year decision up front.
264 However, we are neutral on that issue and feel that the test period can also be decided
265 as part of the revenue requirement phase of the rate case.

266 **Q. Do you have any other comments that you want to provide in response to Ms.
267 DeRonne’s Testimony?**

268 **A.** Yes. The Division agrees that there needs to be some type of conditions or provisions
269 put in place and that “regulators need access to the Company’s forecasts and actual
270 data going forward” in order to evaluate future projects and plans or to suggest

¹⁷ Id, p. 5, lines 124-128.

¹⁸ Direct Testimony of Joni S. Zenger, Ph.D., p. 4, lines 47-51.

¹⁹ Pre-Filed Direct Test Year Testimony of Donna DeRonne, p. 8, lines 181-182.

271 alternatives.²⁰ As described above, the Division's policy witness will be testifying on
272 these types of issues during the revenue requirement phase of the case.

273 **Q. Does this complete your testimony?**

274 A. Almost. I want to commend Kevin Higgins and Donna DeRonne for bringing out
275 salient issues that we need to all address in this case and in future cases. This
276 completes my testimony.

277

²⁰ Direct Testimony of Joni S. Zenger, Ph.D., p. 18, lines 368-369 and p. 20, lines 370-371.