

1                                   **PREFILED TEST YEAR REBUTTAL TESTIMONY OF**  
2                                   **MICHAEL L. LEMMON, PH.D.**

3   **Q.     Please state your name and business address.**

4   A.     Michael L. Lemmon. My business address is David Eccles School of Business,  
5   University of Utah, Salt Lake City, Utah 84112.

6  
7   **Q.     What is your occupation?**

8   A.     I am the Wasatch Advisors Professor of Finance at the David Eccles School of Business  
9   of the University of Utah.

10  
11   **Q.    Please summarize your educational background and experience.**

12   A.     These are set forth in Appendix A to my testimony.

13  
14   **Q.    On whose behalf are you testifying?**

15   A.     I am appearing on behalf of the group of electrical power customers referred to in this  
16   proceeding for convenience only as the “Utah Industrial Energy Consumers” or “UIEC”.

17  
18   **Q.    Could you please summarize your relevant experience?**

19   A.     Yes. I have provided testimony in court cases regarding financial and economic issues,  
20   and have been published widely in leading academic financial journals. My experience also  
21   includes teaching statistical and financial analysis and its application.

22  
23   **Q.    Please describe the purpose of your testimony at this time.**

24   A.     My testimony addresses the issue of the appropriate choice of a test year in this case.

25  
26   **Q.    Please Summarize your recommendations.**

27   A.     My opinion is that the use of a test period ending June 2009 which is based on forecasted

1 data is unreliable given the current level of economic uncertainty. Instead, I believe that using a  
2 mid-period test year ending June 2008 best addresses the Commission's goals of providing just  
3 and reasonable rates while protecting the consumer.  
4

5 **Q. Do you understand the basis for selecting a test year?**

6 A. Yes. As I understand, Utah Code Annotated § 54-4-4(3)(a) provides:

7 If in the commission's determination of just and reasonable rates  
8 the commission uses a test period, the commission shall select a  
9 test period that, on the basis of the evidence, the commission finds  
10 best reflects the conditions that a public utility will encounter  
11 during the period when the rates determined by the commission  
12 will be in effect.

13 It is my understanding that the Commission can use a test period that is determined on the basis  
14 of (a) a future test year, with projected data not exceeding 20 months from the date the increase  
15 was filed; (b) an historic test year, adjusted for known and measurable changes; or (c) a test  
16 period that is a combination of the other two, future projections and historic data.  
17

18 **Q. Without attempting to give a legal opinion, what do you think the plain language of**  
19 **the statute means with respect to what best reflects the conditions a public utility will**  
20 **encounter.**

21 A. It seems to me that to result in just and reasonable rates, the test period should be the one  
22 based on the most reliable information. In a time of economic uncertainty, such as that which we  
23 are currently experiencing, something similar to the Mid Period test year will better reflect the  
24 conditions the utility will encounter during the period the rates will actually be in effect.  
25

26 **Q. What is the test year being proposed by Rocky Mountain Power Company ("RMP")**  
27 **in this general rate case?**

28 A. RMP is proposing to use a fully forecasted test period running from July 1, 2008 through  
29 June 30, 2009, to support its requested rate increase of \$161.2 million. My understanding is that

1 RMP bases its forecast for this period on historical data ending June 2007.

2

3 **Q. What test year has the Division of Public Utilities (“DPU”) recommended in its**  
4 **direct testimony?**

5 A. The DPU has stated that it has no objections to the use of the test period RMP has  
6 proposed, subject to the ability to make whatever adjustments it may deem necessary.

7

8 **Q. What test year has the Committee of Consumer Services (“Committee”)**  
9 **recommended in its direct testimony?**

10 A. The Committee has stated that in its view, the test year proposed by RMP can be used so  
11 long as adjustments can be made so that it reasonably reflects the conditions RMP will face in  
12 the rate effective period.

13

14 **Q. Do you agree with the recommendations of the DPU and the Committee.**

15 A. No.

16

17 **Q. Please explain why the forecasted test year ending in June 2009 is not advisable.**

18 A. RMP’s own forecasting expert notes that the Company’s Utah load growth is derived  
19 primarily from the increase in Utah’s population load growth and its associated economic  
20 activity. The current increase in the uncertainty about future economic conditions calls into  
21 question the reliability of these forecasts.

22

23 At the macro-level, the most important criteria are the following:

24 1) The Federal Reserve has very recently acted twice to reduce interest rates rapidly and  
25 substantially. This was the biggest change since 1990;<sup>1</sup>

26 2) The continuing sub-prime mortgage crisis and its effects on credit markets;

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<sup>1</sup>Board of Governor’s of the Federal Reserve System, Press Releases: Jan. 22, 2008, Jan. 30, 2008.

- 1           3) The fourth quarter GDP growth that was substantially lower than expected;<sup>2</sup> and  
2           4) The increased risks of an economic recession.  
3

4   **Q.     Do these national trends affect Utah?**

5   A.     Yes, the Utah economy is also affected by trends in the national economy. Exhibit 1.1 to  
6 my testimony shows that permitted construction of single-family homes has declined  
7 significantly over the period since July 2007. Jim Wood, director of the Bureau of Economic  
8 and Business Research at the University of Utah, recently noted that on the residential side, sales  
9 of new homes have nearly ground to a halt.<sup>3</sup> Exhibit 1.2, produced from RMP's response to  
10 UIEC 1.7, shows actual new connections against forecasted, showing that actual connections are  
11 below the number forecasted in each of the last four months ending in January 2008. In addition,  
12 an economic downturn will affect the amount of electricity each customer uses as economic  
13 activity slows, putting downward pressure on consumption and business activity.  
14

15 Finally, the 3.3% projected growth in new customers used by RMP is considerably greater than  
16 the forecasted population growth rate of 1.7% relied on by DPU's witness Dr. Zenger.  
17

18   **Q.     What do you conclude about RMP's choice of test year based on these trends?**

19   A.     The current trends increase the uncertainty about future economic conditions and call into  
20 question reliability of RMP's load growth forecasts, which are largely based on data from a  
21 period of economic expansion.  
22

23   **Q.     Do you have any opinion as to the issue of regulatory lag?**

24   A.     As the law has been explained to me, RMP has discretion of when and how often it can  
25 file for a rate increase. Therefore, it seems to me that if RMP has a concern about regulatory lag,

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<sup>2</sup> U.S. Dep't of Commerce; Bureau of Economic Analysis, News Release, Jan. 30, 2008.

<sup>3</sup> Trendlines: Perspective on Utah's Economy; [A Discussion on Utah's Housing](#); January/February 2008.

1 it should file as frequently as necessary to alleviate that concern. The answer should not be to  
2 make speculative forecasts.

3

4 **Q. What conclusions can be drawn regarding test year in this case?**

5 A. For the commission to meet its obligation for setting a test year to result in just and  
6 reliable rates, in today's environment, a mid-year test year best satisfies their obligations.

7

8 **Q. Does this conclude your testimony?**

9 A. Yes, it does.