

BEFORE THE PUBLIC SERVICE COMMISSION

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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 ) Docket Number  
Electric Service Schedules ) 07-035-93  
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. )

FEBRUARY 7, 2008 \* 9:00 A.M.

Location: Heber M. Wells Building  
160 East 300 South, Room 403  
Salt Lake City, Utah 84114

Reporters: Kathy Morgan, CSR, RPR  
Lanette Shindurling, CSR, RPR, CRR  
Notarys Public in and for the State of Utah

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Commission Present: TED BOYER, Chairman  
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## P R O C E E D I N G S

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CHAIRMAN BOYER: Let's go on the record.

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This is the time and place duly noticed for the

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hearing on test year in docket number 07-035-93,

7

which is captioned In the Matter of the Application

8

of Rocky Mountain Power for Authority to Increase Its

9

Retail Electric Utility Services Rates in Utah and

10

for Approval of Its Proposed Electric Service

11

Schedules and Electric Service Regulations,

12

Consisting of a General Rate Increase of

13

Approximately \$161.2 Million Per Year, and for

14

Approval of a New Large Load Surchoise -- Surcharge,

15

I beg your pardon.

16

Let's enter appearances, then. Let's

17

start to my right, your left, with Mr. Proctor.

18

MR. PROCTOR: Paul Proctor on behalf of

19

the Utah Committee of Consumer Services.

20

MS. ZENGER: Joni Zenger on behalf of the

21

Division of Public Utilities.

22

MR. GINSBERG: Michael Ginsberg appearing

23

for the Division of Public Utilities.

24

MR. BROWN: Justin Lee Brown on behalf of

25

Rocky Mountain Power.

26

1                   MR. SMITH: My name's Ted Smith. I'm with  
2 the law firm of Stoel Rives. I'm appearing on behalf  
3 of Rocky Mountain Power.

4                   CHAIRMAN BOYER: Mr. Dodge?

5                   MR. DODGE: Gary Dodge on behalf of UAE.

6                   MR. REEDER: Good morning. I'm Robert  
7 Reeder. I appear on behalf of a group of industrial  
8 customers whose names appear in the record who are  
9 known in this record as UIEC.

10                  CHAIRMAN BOYER: Mr. Ball?

11                  MR. BALL: Roger Ball on my own behalf.

12                  CHAIRMAN BOYER: Okay, very well. Before  
13 we commence, just a word about cross -- well, first  
14 of all, we've read the pleadings. We understand your  
15 positions, so this is your, you know, sort of the  
16 last opportunity to persuade us that your proposed  
17 test year is the one we should adopt. We have read  
18 the -- read the materials with respect to  
19 cross-examination, and as I've mentioned in prior  
20 hearings, we strongly discourage the use of  
21 cross-examination to prove your case, and we will  
22 limit cross-examination to the scope of direct  
23 examination.

24                  We hope to finish by about 11:45 this  
25 morning. Some or all of us have other commitments at

26



1 the noon hour. I hope that that permits enough time.  
2 If we don't have enough time, we can reconvene in the  
3 afternoon. I understand that our reporter has  
4 another commitment, but she's arranged for someone to  
5 stand in her stead.

6 Okay. With that, let's commence, then,  
7 with the Company's first five witnesses and go from  
8 there. Mr. Brown.

9 MR. BROWN: Yes. We'd call Mr. Rick  
10 Walje. If I may approach and grab the exhibits that  
11 he have.

12 CHAIRMAN BOYER: You may.

13 MR. BROWN: Good morning, Mr. Walje.

14 MR. GINSBERG: Do you want him to sit up  
15 here?

16 CHAIRMAN BOYER: I'm wondering, should we  
17 swear all the witnesses at this point and get that  
18 out of the way? Well, we'll swear them one by one.

19 Mr. Walje, would you please raise your  
20 right hand.

21 (The witness was sworn.)

22 Thank you. Please be seated.

23 THE WITNESS: Good morning, Chairman  
24 Boyer, Commissioners Campbell and Allen. I  
25 appreciate the opportunity to provide some testimony

26

1 in support of our test period as filed in our  
2 December 17th, 2007 general rate case filing. My  
3 purpose is to explain why --

4 MR. BROWN: Let me go ahead and introduce  
5 you and get your testimony admitted.

6 THE WITNESS: Well, that would be a good  
7 idea. (Laughter)

8 CHAIRMAN BOYER: You can't fault a man for  
9 speeding up the process.

10 THE WITNESS: I heard all of that talk  
11 about getting done in a hurry. Just trying to move  
12 on.

13 CHAIRMAN BOYER: Exactly. You took that  
14 to heart. That's good.

15 DIRECT EXAMINATION

16 BY MR. BROWN:

17 Q. Can you please state your full name and  
18 current employment for the record.

19 A. Arlo Richard Walje. I'm President of  
20 Rocky Mountain Power.

21 Q. And have you prepared pre-filed direct  
22 testimony in support of the Company's Application in  
23 this proceeding?

24 A. I have.

25 Q. And does a portion of the testimony  
26

1 support the Company's request for selection of a test  
2 period of June 30th, 2009?

3 A. It does.

4 Q. And has that testimony been marked and is  
5 in front of you, pre-marked as RMP-TP Exhibit 1?

6 A. Yes.

7 Q. And do you have any changes to your  
8 pre-filed written testimony?

9 A. I do not.

10 Q. And if I were to ask you the same  
11 questions that appear in your pre-filed testimony  
12 today, would your answers be the same?

13 A. They would.

14 MR. BROWN: We'd move to have RMP-TP  
15 Exhibit 1 admitted into the record for the limited  
16 purpose of selection of test period for this  
17 proceeding.

18 CHAIRMAN BOYER: Are there any objections  
19 to the admission of Mr. Walje's testimony?

20 MR. GINSBERG: No.

21 CHAIRMAN BOYER: It will be admitted.

22 Thank you.

23 MR. PROCTOR: Excuse me. For the limited  
24 purpose of?

25 CHAIRMAN BOYER: For the limited purpose

26

1 of the test year.

2 MR. PROCTOR: I think that needs to be  
3 clear. Thank you.

4 Q. (By Mr. Brown) Could you please provide a  
5 brief summary of your testimony and how it relates to  
6 the Company's selection of a test period of  
7 June 30th, 2009.

8 A. Yes, I will. As we looked at our business  
9 going forward, we concluded that the test year that  
10 best matched our revenues and future costs was the  
11 test year that was filed. So I think my purpose here  
12 in my comments is to explain why we think that's the  
13 appropriate test period, and why we believe the  
14 Commission should be persuaded by our arguments.

15 I guess I would just start out by saying  
16 we are facing continued strong growth in our service  
17 territory in customer numbers, load, and in peak  
18 demand, and financial -- our financial strength is  
19 very important in our ability to serve this growing  
20 load. And so we want to be able to meet our  
21 customers' expectations that we continue to provide  
22 safe, reliable and low-cost service. I think as you  
23 hear from me and my colleagues today, you'll be  
24 persuaded that this is the appropriate test period  
25 that will allow us the fair opportunity to gain our

26

1 return on equity for the period.

2 I'm going to digress just a little bit and  
3 talk some about my experience with the Company, if  
4 that's okay. Starting in 1973 as a skilled helper  
5 painting steel lattice towers in Davis County, to my  
6 current position, I've held many positions in the  
7 Company in engineering operations and staff  
8 positions. I think that gives me a unique overview  
9 of our processes over that period of time, and how I  
10 think the ownership by MidAmerican has increased our  
11 discipline and our skill in forecasting planning and  
12 budgeting. So some of my comments will be related to  
13 that.

14 And as we are about to enter our 100th  
15 year of existence, I guess I'm proud to say I've been  
16 employed by the Company about a third of that period  
17 of time, so I do have some experience, also as an  
18 executive manager with the Company, the sole  
19 remaining executive from the pre-Scottish Power era,  
20 and have been involved in our planning and budgeting  
21 processes for many years now.

22 As I described in my general rate case  
23 testimony, we are facing increasing costs across the  
24 board of our base equipment, our basic inputs to our  
25 business, our -- the load growth. We're having --

26

1       there are some dearths of skilled, qualified  
2       craftsmen in our industry. There are also shortages  
3       of some of the contractors that we need to use from  
4       time to time. Fuel prices are going up. And most of  
5       these are outside of our direct control, so we do  
6       everything we can to manage the costs we can, but we  
7       do need to be able to have the rates that will allow  
8       us to cover these increasing costs in our strong and  
9       large capital investment program that we have  
10      underway that's required to meet our reliability and  
11      capacity requirements in our system.

12                   I'd like to talk a little bit about  
13      forecasting, because that certainly would be an issue  
14      about a forward test year. One of the things  
15      MidAmerican did when they first acquired PacifiCorp/  
16      Rocky Mountain Power was to go through a thorough  
17      review of our forecasting processes and really  
18      improve our approach to things.

19                   As an example, once a month I'm involved  
20      in a meeting where we review the economic and  
21      forecast assumptions against our load growth. That  
22      includes external and local econometric information  
23      as well as what's going on in the delivery parts of  
24      our business. So that's something where we have not  
25      had the operation people and the local people as

26

1 directly engaged.

2 I also review every single load of over 1  
3 megawatt that's proposed across our service territory  
4 so that I understand what the probabilities of that  
5 load coming on are and when we might expect that load  
6 to come on, and that happens every month. So I'm  
7 confident that our load forecasts, certainly in the  
8 year term and the term covered by this test period,  
9 are quite accurate and are the right things to be  
10 considered in this case.

11 From there, we start to calculate our net  
12 power costs. Witness Duvall can explain in detail,  
13 if you require, how that load forecast information is  
14 used there, and then that same information is used as  
15 we start to plan our capital investments out into the  
16 next two to three years.

17 And so we take it -- we've made  
18 significant improvements in our capital planning and  
19 budgeting processes, and we do things such as a  
20 yearly analysis. We do 52 planning studies in our  
21 company, looking forward every year. And I'll say  
22 this planning approach is also markedly improved in  
23 the last couple of years.

24 So if I were to contrast our current  
25 management approach to the previous eras, I'd distill  
26

1 it down to two points. We are much more disciplined  
2 in delivery of the plan, and that starts with our  
3 ten-year plan down to our yearly plans, and we pay a  
4 lot more attention to detail, and particularly in the  
5 management approach that MidAmerican employs where we  
6 plan, execute, measure and correct. And that's an  
7 overarching management process, an ethos that we use  
8 in all of our activities, and I think that's improved  
9 the quality of our delivery as well as the forecast  
10 and plans and budgets we've put in place.

11 I also think, as a result of the interim  
12 report we provided as a result of the last settled  
13 rate case where there was a request for us to take a  
14 look at how well we forecasted what was in that case,  
15 I would say we've done a good job on delivering  
16 against that plan. I know one of the issues that  
17 will be on people's minds is what if the economy  
18 falters.

19 There's been a lot of conversation about  
20 that at the national level recently. We know for  
21 sure that's a good question because any forecast will  
22 be precisely wrong, but it may certainly be  
23 acceptably accurate, and we believe our forecast in  
24 this case would result in that latter category. And  
25 again, as we manage through that, through our plan,

26



1 execute, measure and correct, we will be adjusting  
2 our plans and strategies appropriately. So in answer  
3 to the inevitable question, what would the coming  
4 recession do, I would just offer up that the  
5 Governor's recent report on the economy indicated  
6 that the underlying factors in this economy are still  
7 strong.

8           We have one of the highest population  
9 growth rates in the nation. GOAd recently announced  
10 that for the first time in decades, there was more  
11 in-migration, immigration, than there was native  
12 children born. So a fast-growing population, still.  
13 In fact, the Governor's Office has indicated that by  
14 2030, they expect population of Utah 4.1 million.  
15 Last year the U.S. Census indicated it would be about  
16 3.4 million. So that was the number we were using as  
17 we were thinking about our forward growth.

18           The Deseret News reported today we still  
19 have one of the best unemployment rates in the  
20 nation, load growth is still strong, personal income  
21 is rising. So even though there's some issues at the  
22 national level, perhaps, the forecast for Utah still  
23 looks quite strong at this point. And even if  
24 something occurred that was a little fundamental  
25 across the board, that wouldn't necessarily change

26

1 our plans, and certainly not our construction plans,  
2 because you will hear from Witness Bennion how we go  
3 about our planning and scheduling, and where we are  
4 in the process of the projects that are in the  
5 rate-effective period we're discussing here.

6 But in the end, we can't change our  
7 investment plans necessarily on speculation that  
8 might occur in the economy, and one of the reasons  
9 being it's about a two-year lead time to put in a  
10 distribution substation. By the time you do the  
11 design, procure a permit and build, it's about a  
12 two-year period for a main GRID transmission project,  
13 and before it, six years, gas-fired plant, three to  
14 five years.

15 So we have to actually look into the  
16 future and make those decisions that have long-term  
17 import for our business. So we think that our plan  
18 is still strong and certainly appropriate and  
19 conservative and valid for this rate case.

20 In the final analysis, we recognize that  
21 we don't have direct control over all of our costs  
22 and these capital investments are important for us to  
23 maintain reliable service to our customers. So when  
24 facing these requirements, one of the things we need  
25 to assure our Company has is a strong financial

26

1 backing. And sometimes I think people believe we  
2 make these sorts of statements based on some theory,  
3 or perhaps some artifice, in order to capture  
4 undeserved profits.

5           But I'd like to reference a comment from  
6 Standard & Poor's recent downgrade of IdahoCorp's  
7 credit rating. To quote from the analysis: "The  
8 rating action was driven by a gradual deterioration  
9 of cash flow coverage, and last week's proposed  
10 general rate case settlement, which does not  
11 sufficiently address long-term ratemaking issues tied  
12 to rising costs and load growth pressures. Over  
13 time, average credit metrics have deteriorated, and  
14 the Company has been unable to stabilize returns and  
15 cash flows with the existing rate mechanisms."

16           So Idaho Power has been a very  
17 fast-growing service territory, facing much the same  
18 issues that we do. So our owners, rating agents and  
19 bond holders must be satisfied that we have a  
20 reasonable chance to get our return on equity, and if  
21 we don't, that makes it incrementally more difficult  
22 for us to hit our -- to do our jobs of providing safe  
23 and reliable electric energy to our customers'  
24 demands. So that, I think, explains why we believe  
25 our rate case test period as filed is the right one.

26

1                   And I would like to add that even though I  
2 believe our request for price increases are  
3 appropriate and the rate -- excuse me -- the test  
4 period is the right one, we don't take these  
5 decisions easily.

6                   The decision, in our business, to raise  
7 prices for customers is one of the most difficult  
8 ones we make, because we understand the impact that  
9 electric energy has on society at large. Without it  
10 there's no telecommunications industry, IT industry.  
11 It's much more important in healthcare than it used  
12 to be. So when we ask for these price increases, it  
13 really does require us to do a lot of analysis and  
14 justification to make that decision.

15                   Likewise, we know that price increases  
16 fall unduly on low income, the infirm and those on  
17 fixed incomes, and that it has an impact on a  
18 company's ability to compete in the marketplace. So  
19 we really do consider those things strongly as part  
20 of our ethos as a Company.

21                   But in the end, one of the things we're  
22 concerned about is that we -- our ability to educate  
23 customers on what electric energy costs is somewhat  
24 limited if the price that they pay doesn't adequately  
25 reflect the cost of service. So as we look to reduce  
26

1 the demand, either through energy efficiency  
2 activities, demand reduction activities, or just  
3 plain conservation, it's not helpful if our prices  
4 don't reflect what the cost of electric energy should  
5 really be.

6 So with those comments, I do think it is  
7 important to know that even with our requested  
8 increase for per this case, our rates will remain  
9 among the very lowest in the nation, as all other  
10 utilities across the country are facing some of the  
11 similar cost pressures and growth issues that we are.

12 And that -- those -- conclude my remarks.

13 MR. BROWN: Thank you. We'll make  
14 Mr. Walje available for cross and questions from the  
15 Chairman and Commissioners.

16 CHAIRMAN BOYER: All right. Let's start  
17 with Mr. Proctor, then Mr. Ginsberg, and we'll just  
18 follow around the room, Mr. Dodge, and ending up with  
19 Mr. Ball, and then the Commission will ask questions.

20 Mr. Proctor?

21 MR. PROCTOR: I have no questions.

22 CHAIRMAN BOYER: Mr. Ginsberg?

23 MR. GINSBERG: I just have one.

24

25 CROSS-EXAMINATION

26

1 BY MR. GINSBERG:

2 Q. You indicated that you have these monthly  
3 meetings where you review the assumptions?

4 A. Yes.

5 Q. Are those the assumptions that have gone  
6 into making up this rate case?

7 A. They are.

8 Q. And how do they -- changes in those  
9 assumptions get reflected, then, in the rate request  
10 relief that you're asking for?

11 A. There has not been a fundamental change in  
12 our longer-range view of what our load growth is  
13 going to be as related to what was filed in this  
14 case. We do look out five years into potential  
15 loads, and though there may be one load that is  
16 offset by another load, in general our forecast  
17 remains the same.

18 Q. For example, the recent reduction in  
19 interest rates, that would reflect somehow in your  
20 forecast; would it not?

21 A. We do not go to that level of detail in  
22 the forecast.

23 MR. GINSBERG: Okay, thank you.

24 CHAIRMAN BOYER: Mr. Dodge?

25 MR. DODGE: No questions.

26

1 CHAIRMAN BOYER: Mr. Reeder?

2 MR. REEDER: Just a few.

3 CROSS-EXAMINATION

4 BY MR. REEDER:

5 Q. Morning, Mr. Walje.

6 A. Good morning, Mr. Reeder.

7 Q. You're the Company's policy witness in  
8 this case?

9 A. I am.

10 Q. Are you familiar with the statute that  
11 we're operating under this morning, the test year  
12 statute empowering this Commission to choose, if they  
13 wish, a test year for measuring performance of the  
14 Company?

15 A. I am.

16 Q. And that statute allows them, if they  
17 wish, to choose a future period, doesn't it?

18 A. It does.

19 Q. Is it your understanding that that statute  
20 modifies or repeals in any way the law of this State  
21 that an asset be used or useful to be included in a  
22 utilities rate base?

23 MR. BROWN: Objection. Calls for a legal  
24 opinion.

25 MR. REEDER: I'm asking for his position

26

1 as the policy witness of the Company.

2 A. I do not believe that it explicitly  
3 repeals that item, but if you look at a forward test  
4 year, it will be the case that irrespective of how  
5 far it goes, there may, in fact, be investments that  
6 aren't necessarily used and useful.

7 Q. (By Mr. Reeder) Is it the Company's  
8 position that that statute appealed or modified in  
9 any way the obligation of this Commission to base its  
10 findings that rates will be just and reasonable on  
11 evidence and not speculation?

12 MR. BROWN: Again, same objection. Calls  
13 for a legal opinion.

14 CHAIRMAN BOYER: I'm going to sustain it  
15 this time, Mr. Reeder. Can you ask it a different  
16 way?

17 MR. REEDER: I think I've made the point.

18 Q. (By Mr. Reeder) Question, Mr. Walje: The  
19 Company, in the IRP case just completed, changed its  
20 forecast midway through the IRP planning process.  
21 Can you tell me what occasion that changed?

22 MR. BROWN: Objection. Assumes facts not  
23 before the Commission at this time. Beyond scope of  
24 the selection, I believe.

25 CHAIRMAN BOYER: Mr. Reeder, why do you  
26



1 want to go there?

2 MR. REEDER: The foundation for where -- I  
3 want to know whether he's changed his forecast since  
4 the forecast filed in this case.

5 CHAIRMAN BOYER: Then just ask that.

6 MR. REEDER: I think I'm entitled to have  
7 a foundation.

8 THE WITNESS: The IRP --

9 CHAIRMAN BOYER: Mr. Walje, let me ponder  
10 this a moment and I'll rule on the objection. We  
11 have an objection before us. Let's hear one more  
12 question, Mr. Reeder, and see.

13 MR. REEDER: Let's go right to the chase.

14 Q. (By Mr. Reeder) Mr. Walje, what were the  
15 number of connections for Utah Power & Light for the  
16 month of December 2007 compared to your forecast?

17 A. I do not know the exact numbers, but I do  
18 know they were considerably lower than the forecast.

19 Q. If it should appear on this record that  
20 the number of connections was in the order of  
21 magnitude of 50 or 60 percent of the forecast, is  
22 that kind of information the kind of information that  
23 would cause you to change your forecast?

24 A. It would not, because our forecast and our  
25 overall investment plan understated the costs that we

26

1 were expecting in the commercial and industrial  
2 sector. So that specific item may be lower, but our  
3 overall plan isn't.

4 Q. Has PacifiCorp canceled any plans for  
5 construction within the last 120 days?

6 A. Of which type of assets?

7 Q. Did you cancel construction of your IGCC  
8 plant in Wyoming?

9 A. We did not have that project underway. It  
10 was under preliminary development review.

11 Q. Any there costs associated with that  
12 project in this case?

13 A. I will defer the answer to that question  
14 to Mr. Lasich, who is responsible for the actual  
15 review of the IGCC project.

16 Q. Can you explain what set of circumstances  
17 caused you to cancel that plant?

18 A. It was a review of the economics of the  
19 plant, based on receiving engineering and information  
20 related to the federal tax credits. And again, I  
21 will defer that to Mr. Lasich for further  
22 description.

23 Q. More current information caused you to  
24 change your plans?

25 A. That is correct.

26

1 Q. What about the nuclear plant in Idaho?

2 Same question. Same answers?

3 A. The nuclear plant in Idaho is not  
4 affiliated with Rocky Mountain Power or the regulated  
5 business, so I do not have direct knowledge of that  
6 answer.

7 Q. Any costs associated with that plant  
8 included in this case?

9 A. Not that I'm aware of.

10 Q. Are there any other projects not of that  
11 notoriety that the Company has changed its plans on  
12 in the last 120 days as a result of changes in the  
13 economic circumstances? And if so, what are they?

14 A. I believe that we have formally concluded  
15 that we would not be able to complete the  
16 Intermountain Power Project, Unit 3 project, but we  
17 were considering other projects that were in  
18 preliminary stages and not the actual plans covered  
19 by this investment period, to my knowledge.

20 Q. Are there any transmission additions that  
21 are proposed in this case that are now on hold that  
22 will not be completed in the same time frame as a  
23 result of the changed circumstances?

24 A. Not that I'm aware of.

25 MR. REEDER: Thank you. I have nothing  
26

1 further.

2 CHAIRMAN BOYER: Mr. Ball, have you any  
3 questions for Mr. Walje?

4 MR. BALL: No questions, thank you.

5 CHAIRMAN BOYER: Very well. Let's see if  
6 the Commission has questions of Mr. Walje.

7 Commissioner Allen?

8 COMMISSIONER ALLEN: Just one quick  
9 question. Thank you, Mr. Chairman.

10 You mentioned Idaho Power's case and their  
11 relationship with their bond-rating agencies. I  
12 don't recall, was there a specific issue with the  
13 test year that was mentioned by the agencies, or was  
14 that an issue before the Idaho Commission?

15 THE WITNESS: It was an issue before the  
16 Commission, but that was the only reference I took  
17 from the bond-rating agencies.

18 COMMISSIONER ALLEN: So they mentioned a  
19 broad range of issues they had to cover?

20 THE WITNESS: Right.

21 COMMISSIONER ALLEN: Thank you.

22 CHAIRMAN BOYER: Commissioner Campbell has  
23 none. Just one question. I was reading in the  
24 Deseret News earlier this morning that housing starts  
25 are down in Utah 22 percent. We tend to lag the

26

1 other states, who may be down 75 percent. Any  
2 comment on that and how that would affect the  
3 proposed test year you're suggesting?

4 THE WITNESS: I do have a comment, and I  
5 think it goes back to my answer to Mr. Reeder's  
6 question that if you research some of the history of  
7 the cycles of housing booms and busts in the State of  
8 Utah, you will find that commercial and industrial  
9 customers fall off or roll off related to the  
10 reduction, and residential customers lag the  
11 residential customer single-dwelling reduction by one  
12 to three years. So the econometric forecast that we  
13 have through CRG Commerce and others say that it will  
14 still be a very strong year to 18 months for  
15 commercial development.

16 Also, this doesn't indicate that  
17 multi-family dwellings are still being permitted and  
18 built at a rate that's more similar to what it's been  
19 in the past. So there's many aspects to it.

20 CHAIRMAN BOYER: Do you have any  
21 information on the size of residential dwellings? I  
22 mean, there's some suggestion that we've seen the  
23 last of palace envy or conspicuous construction, as  
24 they call it.

25 THE WITNESS: We have not seen any change  
26

1 in that, in the square footage of Utah homes, but  
2 other than to note that it has been reported we have  
3 among the largest homes in the nation, on average.

4 CHAIRMAN BOYER: Any redirect, Mr. Brown?

5 MR. BROWN: No.

6 CHAIRMAN BOYER: You may be excused.

7 Thank you, Mr. Walje.

8 THE WITNESS: Thank you.

9 MR. PROCTOR: Mr. Chairman, I have a  
10 request on behalf of my client. Just as the  
11 testimony is limited to a very narrow issue in this  
12 particular case, would the Commission consider also  
13 limiting the summaries to the test period, rather  
14 than, really, becoming documents of persuasion?

15 CHAIRMAN BOYER: Let's do that. We will  
16 restrict that to just the test period, although the  
17 information from Mr. Walje was helpful in terms of  
18 background.

19 Mr. Brown -- or Mr. Smith, are you ready?

20 MR. SMITH: Yes. We'd call Mr. Michael  
21 Rife.

22 CHAIRMAN BOYER: Mr. Rife, would you  
23 please raise your right hand.

24 (The witness was sworn.)

25 Thank you. Please be seated.

26

1                   Mr. Brown -- or Mr. Smith, I'm sorry.

2                   DIRECT EXAMINATION

3                   BY MR. SMITH:

4                   Q.     Mr. Rife, could you just make sure you  
5                   pull that mic close.

6                   A.     Okay.

7                   Q.     Would you state your name and business  
8                   address.

9                   A.     Michael Rife, 825 Northeast Multnomah,  
10                  Portland, Oregon.

11                  Q.     And you're an employee of Rocky Mountain  
12                  Power?

13                  A.     Yes. Well, PacifiCorp Energy.

14                  Q.     Right. You're appearing here today on  
15                  behalf of Rocky Mountain Power.

16                  A.     Yes.

17                  Q.     And your qualifications and background are  
18                  set forth in your direct testimony; correct?

19                  A.     Yes.

20                  Q.     Now, as I understand it, you have at this  
21                  point filed one piece of direct testimony, which, for  
22                  purposes of this hearing, we're identifying this  
23                  Exhibit RMP-2, and you also had attached to that six  
24                  separate exhibits; is that correct?

25                  A.     Yes.

26

1           Q.     If I were to ask you the questions that  
2     are set forth in that testimony that was pre-filed,  
3     would your answers today be the same?

4           A.     Yes.

5           Q.     Are there any significant corrections that  
6     need to be made to that testimony?

7           A.     No.

8           Q.     Do you have a brief summary that goes to  
9     the test period issues that are being discussed here  
10    at the hearing today?

11          A.     Yes, I do.

12          Q.     If you could give that, we'd appreciate  
13    it.

14          A.     Okay. During the production of the  
15    forecast, reasonable methods were used. We used  
16    exponential smoothing, a technique that's been used  
17    historically by many forecasting efforts across the  
18    country, and we used that technique to produce the  
19    forecast of customers. We used trend regression  
20    analysis for usage per customer.

21                    After the forecast was produced for sales,  
22    we checked economic forecasts produced by Global  
23    Insights, Incorporated to balance how the sales  
24    forecast compares to the economic forecast for Utah  
25    as produced by Global Insights. And the forecast was

26



1 produced around the September time period, and then  
2 we checked again the November time period of Global  
3 Insights' forecast for Utah, and saw that not much  
4 had changed in their economic outlook for Utah. As a  
5 result of that, we would conclude that the sales  
6 forecast for Utah would not change.

7 In addition, we checked what the Division  
8 of Economics in the State of Utah was saying for the  
9 State of Utah's economy, and noticed that their  
10 forecast was higher than what Global Insights was  
11 saying. So if we had used the State of Utah's  
12 forecast, we probably would have raised our sales  
13 forecast as a result.

14 In addition, our past historical  
15 performance of accuracy is pretty good. On average,  
16 our forecast there is half a percent, looking one  
17 year out. In addition to that, I believe that the  
18 forecast period is better because it captures  
19 customer usage patterns that will continue in each of  
20 the states that we serve. And the test period will  
21 better represent the growth and status of these  
22 patterns to reflect what will occur during the  
23 effective test period than an historical test period.

24 For example, air conditioning usage will  
25 increase in Utah, and we have to capture that

26

1 increase in AC usage as reflected in the test period.

2 That concludes my summary.

3 MR. SMITH: Thank you.

4 Mr. Chairman, we would offer Mr. Rife's  
5 direct testimony which, for purposes of this hearing,  
6 has been marked as RMP2, plus the six attached  
7 exhibits, for the limited purpose of addressing the  
8 test period issues in this case.

9 CHAIRMAN BOYER: Any objection to the  
10 admission of Mr. Rife's testimony for the limited  
11 purposes stated? Okay.

12 MR. PROCTOR: No objection.

13 MR. SMITH: He's available for  
14 cross-examination.

15 CHAIRMAN BOYER: Let's begin again with  
16 Mr. Proctor.

17 MR. PROCTOR: No questions.

18 CHAIRMAN BOYER: Mr. Ginsberg?

19 MR. GINSBERG: No questions.

20 CHAIRMAN BOYER: Mr. Dodge?

21 MR. DODGE: No questions.

22 CHAIRMAN BOYER: Mr. Reeder?

23

24

25

CROSS-EXAMINATION

26

1 BY MR. REEDER:

2 Q. Mr. Rife, what is the process that you  
3 follow for updating your forecasts in light of more  
4 recent and more current information?

5 A. We would generally update the time periods  
6 of estimation.

7 Q. Update the time periods of estimation?

8 A. Well, for example, the time period used to  
9 produce this forecast was around the middle of 2007,  
10 was the historical point.

11 Q. What was the data collection period for  
12 the release that you relied on to develop your  
13 forecasts?

14 A. Data collection? Could you clarify?

15 Q. You've testified that your release of  
16 information is the release dated October 20th, that  
17 you were relying on for the forecast in this case.

18 A. Yes.

19 Q. The release, the information in that  
20 release is lagging the date of its publication.

21 A. Yes, we --

22 Q. When was the last date of information,  
23 current information, was used in that forecast?

24 A. I believe it was April of 2007.

25 Q. April of 2007. Did the forecasting  
26

1 methods that you used allow for rapid changes in  
2 economic conditions in any way?

3 A. Only when we include more recent  
4 historical information, and then balance -- and then  
5 compared that against what Global Insights is saying  
6 for the State of Utah, or whatever state we're using.

7 Q. How often do you update?

8 A. As needed for business purposes, as well  
9 as for rate case purposes.

10 Q. How often do you update for rate case  
11 purposes?

12 A. Whenever we file a rate case.

13 Q. Have you updated your forecast since you  
14 filed this case?

15 A. No.

16 Q. Do you -- how have your forecasts  
17 performed -- or let me lay some foundation. Have you  
18 performed any forecasts during periods of economic  
19 downturn?

20 A. While at PacifiCorp?

21 Q. While at PacifiCorp.

22 A. No, because my time period at PacifiCorp  
23 has been since 2002.

24 Q. So we have no history of determining how  
25 PacifiCorp's forecasting methods react to economic

26

1       downturns?

2                   MR. SMITH:   Excuse me.  I do object.  I  
3       mean, he's asking a general question about does  
4       PacifiCorp have any history of forecasting in  
5       economic downturn periods, and Mr. Rife has indicated  
6       he's only able to testify as to 2002.  I certainly  
7       don't think he's the witness to identify what may  
8       have happened in the '90s when we did have a  
9       recession.

10                   CHAIRMAN BOYER:  I'm going to overrule  
11       that objection.  Go ahead, Mr. Reeder.

12                   Q.       (By Mr. Reeder) You can answer the  
13       question.

14                   A.       No, but I would point out that our  
15       accuracy from 1991 to 2004, which includes two  
16       recessions, our average accuracy rate is 0.5 percent.

17                   Q.       Over that broad range?

18                   A.       Over that broad range, on average.

19                   Q.       What was it during the years of downturn?

20                   A.       That I do not know.

21                   MR. REEDER:  May I ask to have this  
22       exhibit marked as the next document in order.  It is  
23       a Data Request answer from the Company.

24                   CHAIRMAN BOYER:  How do you wish this  
25       exhibit marked, Mr. Reeder?

26

1 MR. REEDER: What is the next number in  
2 order?

3 CHAIRMAN BOYER: Why don't we mark it as a  
4 UIEC exhibit.

5 MR. REEDER: That will be fine, thank you.

6 MR. SMITH: UIEC 1? Cross 1?

7 CHAIRMAN BOYER: Cross 1, UIEC Cross 1.

8 Q. (By Mr. Reeder) Mr. Rife, you have in  
9 front of you a document marked for identification as  
10 UIEC Cross 1.

11 A. Yes.

12 Q. And are you familiar with the contents of  
13 that document?

14 A. It appears to be a new connect forecast.

15 Q. And was it prepared, as you understand it,  
16 by Rocky Mountain in response to Data Requests by us?

17 A. Yes.

18 Q. Let's turn to the last two pages of the  
19 document. Can you tell me what those last two pages  
20 purport to show?

21 A. It shows several things. It shows --

22 Q. It shows the actual new connections for  
23 the years 2006 and 2007, doesn't it?

24 A. Yes.

25 Q. Directing your attention to the last two  
26

1 months of 2007, November and December of 2007, do you  
2 see the number of new connections?

3 A. Yes.

4 Q. All right. Turning forward in the  
5 document, what does the document -- the first  
6 document, second page in, the third page in the --  
7 second page in the document, the first column or  
8 series, does that show the forecasted connections  
9 used in this case?

10 A. Yes.

11 Q. Looking at the year December of 2007, can  
12 you compare for me your forecasted number of  
13 connections with the actual number of connections?

14 A. On a total basis?

15 Q. On the month of December. I'm sorry, sir.

16 A. On?

17 Q. On the month of December, compare  
18 residential connections against residential  
19 connections, if you will.

20 A. Yes.

21 Q. What do you observe?

22 A. I see that the forecast is 1,830, and what  
23 actually occurred was 1,086.

24 Q. Look at the month of November. What do  
25 you observe?

26

1           A.     I see that the actual was 1,571, and the  
2 forecast was 1,883.

3           Q.     These are new connections, realtime for  
4 that period; are they not?

5           A.     Yes.

6           Q.     All right. Turning to your direct  
7 testimony, if we will, we'll try to limit the  
8 examination to issues involving test years. You  
9 testify on page 8, that line 181, that: "There is no  
10 indication that this rate of growth will change in  
11 the future;" do you not?

12          A.     Yes, I do indicate that.

13          Q.     What information did you rely on to make  
14 that, to reach that conclusion?

15          A.     The forecast from Global Insights, as well  
16 as information from the State of Utah's Division of  
17 Economics forecast.

18          Q.     Okay. Let's look at page 10 of your  
19 testimony. When you forecast load in the State of  
20 Utah, and thus revenue and expenses for the State of  
21 Utah, how do you build up that forecast?

22          A.     Well, for the revenues for the State of  
23 Utah, it's a multiplication of usage by customer  
24 class multiplied by the projected sense per kWh.

25          Q.     To forecast usage, do you start with the  
26



1 number that is the number of customers?

2 A. Yeah, and it's customers times usage per  
3 customer.

4 Q. Customers times usage. Now, I'm not a  
5 math guy, my PhD isn't in math, but as the number of  
6 customers change, what does that do to your forecast?

7 A. It tends to vary directly.

8 Q. Have you tested usage to see what usage  
9 has changed since the economic downturn began?

10 A. No, I have not. However, we did perform a  
11 forecast with information through December of 2007,  
12 and we found that the forecast for the State of Utah  
13 did not change dramatically for the years 2008, 2009  
14 and 2010.

15 Q. Will you provide that forecast to us?

16 MR. BROWN: Upon a written Data Request, I  
17 think we have no problem.

18 MR. REEDER: Consider this a Data Request.  
19 If you've performed a forecast that you're holding  
20 out on us, we want to see it.

21 THE WITNESS: It is not holding out. It's  
22 not been officially approved.

23 Q. (By Mr. Reeder) Who has to approve it?

24 A. Management within PacifiCorp.

25 Q. What was the data collection period for  
26

1 that forecast?

2 A. Data ended December 2007.

3 Q. What's the release of the forecast?

4 A. The forecast has not been released because  
5 it has not gone through management.

6 Q. You've testified that the growth in Oregon  
7 is not as robust as the growth in Utah, on page 9 of  
8 your testimony. Upon what evidence did you base that  
9 assumption?

10 A. Well, based on historical growth patterns  
11 within Oregon and Utah.

12 Q. And did the fact that growth was not as  
13 robust as you anticipated in Oregon cause you to  
14 reduce downward your estimates of what would happen  
15 in Oregon?

16 A. I cannot recall what specifically the  
17 forecast for the State of Oregon is right now.

18 Q. What test year did you use in Oregon?

19 A. Test year for a rate case?

20 Q. Yes.

21 A. I cannot recall.

22 Q. What test year did you use in Idaho?

23 MR. BROWN: Objection. Can we get some  
24 clarification on timing? What time?

25 MR. REEDER: The most recent rate case.

26

1           A.     I'd have to check. I do not recall.

2           Q.     (By Mr. Reeder) What test year did you use  
3 in Wyoming?

4           A.     I'd have to check, again.

5           Q.     You don't know whether or not it's true  
6 that in either of those states, in neither of those  
7 states, that you used the year ending June 2009?

8           MR. SMITH: Well, I do object. He just  
9 said he didn't know.

10          MR. REEDER: I'm testing to see, if he  
11 doesn't know the specific year, does he know  
12 generally? Does he use the same year or a shorter  
13 year?

14          A.     I do not recall. I'd have to check.

15          Q.     (By Mr. Reeder) Will you check and advise  
16 us?

17          A.     Yes.

18          MR. SMITH: What is the specific test  
19 years in Oregon, Idaho, Wyoming; right?

20          MR. REEDER: Yes.

21          MR. BROWN: I guess what's the relevance  
22 as well? In terms of each state has their own  
23 requirements in terms of timing, possibly policies on  
24 test years. I mean, what . . .

25          MR. REEDER: Why should you ask this State  
26

1 to reach out and fund the future based on speculation  
2 when you ask no other states to do so?

3 MR. BROWN: When this state permits a  
4 20-month forecast and others might not? What's the  
5 relevance to the question?

6 MR. REEDER: Just because this State may  
7 permit it is no reason this state should become the  
8 target for the capital raising.

9 CHAIRMAN BOYER: Well --

10 MR. BROWN: I guess I would ask the  
11 Commission and the Chairman, in terms of requests to  
12 provide information, we've had discovery set forth in  
13 the scheduling order for that purpose. I believe  
14 we've responded to everything that UIEC has  
15 requested, and I don't think Mr. Reeder's  
16 representing that we haven't answered any of his  
17 questions in terms of discovery, and I think we would  
18 object to the request for the additional information  
19 now.

20 CHAIRMAN BOYER: Before I rule on the  
21 request, Mr. Proctor does not want to say anything  
22 any longer?

23 MR. PROCTOR: No, not now. (Laughter)

24 CHAIRMAN BOYER: We would like to see that  
25 information as well.

26

1                   MR. BROWN:  Would you like that in the  
2 form of a late-filed exhibit, or what?

3                   CHAIRMAN BOYER:  You can even do it  
4 informally.

5                   MR. REEDER:  We can solve that answer to  
6 your question now, if we may.  Let's make this the  
7 next exhibit in order.

8                   CHAIRMAN BOYER:  This will be, then, UIEC  
9 Cross Exhibit 2.

10                  Q.       (By Mr. Reeder) Mr. Rife, you have before  
11 you a document marked for identification as Cross  
12 Exhibit 2.  Are you familiar with the contents of  
13 that document?

14                  A.       I'm becoming familiar, yes.

15                  Q.       Thank you.  Let me ask you again after  
16 you've had a chance to read it.  What test year did  
17 you use in Idaho?

18                  A.       An historical test year ending December  
19 31st, '06.

20                  Q.       And what test year did you use in Wyoming?

21                  A.       A 12-month period ending August 31st,  
22 2008.

23                  MR. REEDER:  If I can have just a moment,  
24 I may be just about through.  Can I have this exhibit  
25 marked as the next document in order.

26

1                   MR. BROWN: Just to help this process as  
2 well, I think some of these questions could be  
3 probably better answered by Steve McDougal.

4                   CHAIRMAN BOYER: This exhibit will be  
5 marked UIEC Cross Exhibit 3.

6                   Q.     (By Mr. Reeder) To the question of other  
7 forecasts, your counsel answered there is no evidence  
8 that you've been withholding forecasts. Are you  
9 familiar with the contents of Cross-Examination  
10 Exhibit Number 3?

11                   MR. BROWN: Again, we'd renew our  
12 objections. They're stated in the response to the  
13 Data Request as well, with respect to the specific  
14 questions set forth in the Data Request, which I  
15 believe to be a different question than the one posed  
16 by Mr. Reeder.

17                   Q.     (By Mr. Reeder) Have you provided to us  
18 all of the forecasts relied upon by Rocky Mountain  
19 and its affiliated companies?

20                   A.     All forecasts?

21                   Q.     Yes.

22                   A.     I believe so. I'd have to -- if requested  
23 to provide forecasts, we have provided.

24                   Q.     Look at question number 1.2 and see if  
25 that informs your answer.

26

1           A.     You mean 1.12?

2           Q.     I'm sorry, 1.12, yes.

3           MR. SMITH:   Your Honor, I object to this  
4 question.  I mean, it's obviously a legal response to  
5 a fairly broadly-worded question, and I think it's  
6 certainly inappropriate to ask this witness to  
7 attempt to interpret something that he was not the  
8 author of.

9           CHAIRMAN BOYER:  Well --

10          MR. SMITH:  And which is clearly legal in  
11 nature.

12          CHAIRMAN BOYER:  I think this witness has  
13 answered the question to the best of his knowledge.  
14 He answered just a moment ago that he did not think  
15 that any forecasts had been withheld.

16          A.     I remember in one case providing an  
17 additional forecast to a Data Request, yes.

18          MR. REEDER:  That's all I have.  Thank  
19 you.

20          CHAIRMAN BOYER:  Mr. Reeder, do you wish  
21 to move admission of your three exhibits?

22          MR. REEDER:  I'd move the admission of the  
23 three exhibits I've offered, yes.

24          MR. BROWN:  I would object to -- I don't  
25 recall the number -- it's Data Request 1.5 for the

26

1 purposes of relevance to the selection of the test  
2 period in Utah, as each state has probably their own  
3 requirements and policies, as well as, you know, test  
4 periods determined by stipulations and settlements  
5 from prior rate cases.

6 I just don't think it has any bearing on  
7 interpretation on Section 54-4-4 in the State of Utah  
8 and the use of a selection of a test period, as well  
9 as renew the objections we have that are set forth in  
10 the Data Request on 1.12.

11 CHAIRMAN BOYER: Mr. Reeder, anything  
12 further?

13 MR. REEDER: I have nothing further. I  
14 think the documents speak for themselves. I think  
15 their relevance is self-evident. We've argued it  
16 already.

17 CHAIRMAN BOYER: We'll admit these three  
18 exhibits, UIEC Cross 1, 2 and 3, and give them  
19 appropriate weight.

20 Mr. Ball, have you questions of Mr. Rife?

21 MR. BALL: Yes, please, Chairman.

22 Good morning, Mr. Rife.

23 THE WITNESS: Good morning.

24

25

CROSS-EXAMINATION

26



1 BY MR. BALL:

2 Q. To the extent that you know, can you tell  
3 us, please, where Utah tends to fall in the sequence  
4 of the states of the United States in the economic  
5 cycle? For example, does it lead the economic moves?  
6 Does it lag the economic moves? Or whereabouts in  
7 between does it fall?

8 A. The State of Utah tends to lag whatever  
9 happens or occurs nationally. In terms of the  
10 national economy, it's driven by the two coasts,  
11 primarily, the East Coast and California. And then  
12 eventually, as economic weakness occurs on those two  
13 coasts, it eventually affects the rest of the  
14 country.

15 And so, generally speaking, Utah's economy  
16 tends to lag a year to a year and a half behind what  
17 the national economy is doing. And in addition to  
18 that, the -- how Utah behaves during an economic  
19 cycle is they tend not to go as far down during a  
20 recession, and then during a time of expansion, it  
21 tends to outperform what the national economy is  
22 doing.

23 MR. BALL: Thank you, Mr. Rife, that was a  
24 very complete answer and I appreciate it very much.

25 Thank you, Chairman.

26

1 CHAIRMAN BOYER: Thank you, Mr. Ball.

2 Commissioner Allen, have you any questions  
3 of this witness? And I have nothing as well.

4 Any redirect, Mr. Smith?

5 MR. SMITH: Yes, a couple.

6 REDIRECT EXAMINATION

7 BY MR. SMITH:

8 Q. First, Mr. Rife, would you turn to UIEC  
9 Cross 1. It's the first one that showed the monthly  
10 new connect data.

11 A. Yes.

12 Q. Now, if you'll look on page 3 of that, I  
13 believe, if I have it right, Mr. Reeder referred to  
14 two months there, the new connect numbers for  
15 November and December of 2007.

16 A. Yes.

17 Q. Is that your recollection?

18 A. Uh-huh (affirmative).

19 Q. The first question I have is: Can  
20 inclement winter weather have an impact on the number  
21 of new connects that are made in a particular month?

22 A. Oh, most definitely, yes. If people  
23 cannot go out and, you know, hook up a residence with  
24 electricity, it would not be counted in the data, and  
25 so inclement weather could be a cause of that.

26

1           Q.     The second question I have relates to sort  
2     of the same exhibit, but a broader question, and that  
3     is: In the economic forecasts that you prepare, how  
4     much weight do you give to the results in a  
5     particular month or months? Or are you looking at  
6     different time frames for purposes of making your  
7     long-range forecasts?

8           A.     I tend not to pay attention to any one or  
9     two particular months. Two months do not make a  
10    trend. It takes a longer time period than that to  
11    say that yeah, there's an underlying weakness  
12    occurring. I look at that, I look at economic  
13    indicators for the State of Utah, for the state of --  
14    for the national economy. I look at one or two  
15    periods of economic -- or one or two periods of sales  
16    or connect weakness, I would tend not to put much  
17    weight on that.

18          Q.     You put it into a broader context?

19          A.     Yes, definitely.

20               MR. SMITH: Thank you. That's all the  
21    redirect we have.

22               CHAIRMAN BOYER: Thank you, Mr. Rife. You  
23    may sit down. Looks like we may have to readjust our  
24    expectations as to how this hearing will go. But  
25    let's proceed with the next witness.

26

1                   MR. BROWN: The next witness will be  
2 Company Witness Rob Lasich.

3                   CHAIRMAN BOYER: Mr. Lasich, please raise  
4 your right hand.

5                   (The witness was sworn.)

6                   Thank you. Please be seated.

7                   DIRECT EXAMINATION

8 BY MR. BROWN:

9                   Q. Good morning. Could you please state your  
10 name and current position for the record.

11                  A. Yes. My name is Rob Lasich, and I'm  
12 currently President of PacifiCorp Energy.

13                  Q. And have you prepared written pre-filed  
14 direct testimony in this proceeding as well as  
15 exhibits?

16                  A. Yes, I have.

17                  Q. And does a portion of your testimony  
18 support the Company's proposed selection of a test  
19 period June 30, 2009?

20                  A. Yes, it does.

21                  Q. And if I were to ask you the same  
22 questions that appear in your pre-filed written  
23 testimony today, would your answers be the same?

24                  A. Yes, they would.

25                  MR. BROWN: We'd move to have Mr. Lasich's  
26

1 testimony that's been pre-marked as RMP-TP3 admitted  
2 for the limited purpose of selection of test period  
3 for this proceeding.

4 CHAIRMAN BOYER: Are there any objections  
5 to the admission of Mr. Lasich's testimony for the  
6 limited purposes mentioned?

7 MR. GINSBERG: No objection.

8 MR. PROCTOR: No objection.

9 CHAIRMAN BOYER: They are admitted, then.  
10 Mr. Smith?

11 MR. SMITH: Well, just in terms of  
12 identifying exhibits, I referred to Mr. Rife's  
13 testimony as RMP2, and to follow the convention we've  
14 adopted, it should be RMP-TP2, so I would just  
15 correct that on the record.

16 CHAIRMAN BOYER: Thank you.

17 Q. (By Mr. Smith) Have you prepared a brief  
18 summary, Mr. Lasich, of how your testimony supports  
19 the Company's selection of a June 30, 2009 test  
20 period?

21 A. Yes, I have.

22 Q. Would you please provide that.

23 A. Yes, thank you.

24 Good morning, Mr. Chairman, Commissioner  
25 Allen, Commissioner Campell. My testimony in most

26

1 respects discusses eight resource projects that the  
2 Company is developing which are indicative of the  
3 conditions we will be experiencing in the forward  
4 test year. Specifically, those eight resources are  
5 the Lake Side combined cycle facility, which is  
6 located south of Utah, a 548-megawatt gas-combined  
7 cycle facility; also our Leaning Juniper wind  
8 project, which is a 100.5 megawatt project located in  
9 Arlington, Oregon; our 140.2-megawatt wind project,  
10 the Marengo project, in Dayton, Washington; as well  
11 as our Blundell Bottoming Cycle, which is a  
12 bottoming, 11-megawatt bottoming cycle turbine, which  
13 is in addition to our Blundell geothermal project  
14 located in Milford, Utah. All of those projects are  
15 on-line and operating, and are producing power for  
16 our customers' needs.

17           The other four project additions, capital  
18 project additions referred to in my testimony include  
19 an expansion of the existing Marengo project. It's a  
20 70.2-megawatt expansion project that is coming  
21 on-line in August of 2008. We also have the Goodnoe  
22 Hills project, which is a wind project located in  
23 Goldendale, Washington. It's a 94-megawatt project  
24 that will come on-line in June of 2008.

25           We also have two additional wind projects  
26

1 located in Wyoming, each of which are 99 megawatts.  
2 Our Seven Mile Hill project, which is located near  
3 Medicine Bow, Wyoming, will come on-line in December  
4 of 2008 as well as our Glenrock 99-megawatt project  
5 that will come on-line in December of 2008 as well.

6 With respect to each of those projects,  
7 the Company has already expended considerable capital  
8 sums in the development of those projects. Those  
9 projects have been permitted and are under  
10 construction as we speak, and certainly will be in a  
11 position to be available for customer use to serve  
12 load needs. As I mentioned, with respect to each of  
13 those, contractual commitments have already been  
14 made and the construction is underway.

15 I think it's worth mentioning as well, we  
16 have some other resource additions that are not  
17 included in this test year period. We have a Rolling  
18 Hills wind project, which is a 99-megawatt project  
19 located in -- right next door to our Glenrock  
20 project. That will come on-line in December of 2008,  
21 a roughly \$206.5 million project.

22 We also have a planned expansion of our  
23 Lake Side facility where -- that we plan to do a  
24 10-megawatt uprate that will add to our Lake Side  
25 facility to increase the output of that plant. We'll

26

1 do that increase during the spring outage in May of  
2 2008, as well as we already have expansion plans and  
3 permits underway and have acquired turbines for the  
4 expansion of all three of the Wyoming project, the  
5 Rolling Hills project I just mentioned, the Glenrock  
6 and Seven Mile Hill project.

7           And I think it is worth noting, as much of  
8 the discussion I've heard this morning about economic  
9 downturn and so forth and the impact on the Company's  
10 test year, I think it's worth noting that each of  
11 those projects are renewable projects. The renewable  
12 segment of the capital addition market is not  
13 experiencing any economic slowdown whatsoever.

14           My personal experience in dealing with  
15 turbine supply companies, the General Electric  
16 Company, Mitsubishi, REpower, who is a German  
17 manufacturer, Vestus, which is another manufacturer  
18 in Europe, their book of business is very strong.  
19 They're booking orders out through 2010 and beyond,  
20 contractors who have the necessary skill set to be  
21 able to construct, to balance a plan for these  
22 particular types of projects.

23           Again, that market is very strong, and  
24 that's primarily driven by the demand side, which is  
25 driven, as all of us who have been privy to the news,

26



1 renewable portfolio standards, particularly here in  
2 the West and throughout the rest of the country, as  
3 well as here in Utah, our own discussion of carbon  
4 reduction legislation.

5           So that segment of the market has not been  
6 experiencing any slowdown, and clearly, as this  
7 country demands for more renewal energy, as our  
8 customers and stakeholders and commissions expect us  
9 to be adding more renewable energy to our portfolio,  
10 do not foresee at all that that would be experiencing  
11 any slowdown in terms of prices or demand.

12           That concludes my summary remarks. If I  
13 could get ahead of Mr. Reeder, I believe earlier he  
14 had asked a number of questions of Mr. Walje,  
15 particularly in reference to the integrated  
16 gasification combined cycle project, the Wyoming  
17 project, as we refer to, IGCC, as well as the IPP  
18 three projects.

19           With respect to the specific question  
20 about accounting treatment, I'm not an accountant and  
21 will defer that to Mr. McDougal. I can say we had  
22 incurred costs related to the feasibility study,  
23 hiring an owner's engineer to help us understand and  
24 scope out the nature of the cost and feasibility of  
25 those studies. Those costs, at this point, have been  
26

1 written off as we have decided not to pursue those  
2 projects at this time, and as I say, are being more  
3 aggressive in our pursuit of resource development on  
4 the renewable side, which is consistent with our IRP  
5 planning and our commitment to deliver  
6 1,400 megawatts of renewable resources for customers.

7 So with that, Commissioners and  
8 Mr. Chairman, that concludes my remarks.

9 CHAIRMAN BOYER: Thank you. Is the  
10 witness now available for cross-examination?

11 MR. BROWN: Yes.

12 CHAIRMAN BOYER: Mr. Proctor?

13 MR. PROCTOR: No questions.

14 CHAIRMAN BOYER: Mr. Ginsberg?

15 MR. GINSBERG: I just had one or two.

16 CROSS-EXAMINATION

17 BY MR. GINSBERG:

18 Q. In answer to a Data Request, I think it's  
19 DPU 3.8, it shows that in the January through  
20 June 2009 period, which is part of your test period,  
21 there are significant amounts of expenditures in  
22 steam plants of \$130 million hydro plants, \$21  
23 million, and for other production, about \$12 million.  
24 What kind of projects are those? None of the ones  
25 you listed related to the January through June 2009

26

1 period.

2 A. Do you have a copy of the Data Request? I  
3 could refresh my recollection.

4 Q. I just have a summary of the dollars.

5 A. Okay. I will have to defer. I'm not  
6 familiar with the specific dollar amounts nor the  
7 projects they relate to. I would defer to  
8 Mr. McDougal, who would be better equipped to answer  
9 the accounting functions. Without the information,  
10 I'm, unfortunately, not able to respond.

11 CHAIRMAN BOYER: Is that all, Mr.  
12 Ginsberg?

13 MR. GINSBERG: Yes.

14 CHAIRMAN BOYER: Thank you.

15 Mr. Dodge?

16 MR. DODGE: No questions, other than to  
17 congratulate Mr. Lasich on his new position.

18 THE WITNESS: Thank you.

19 CHAIRMAN BOYER: Mr. Reeder?

20 MR. REEDER: I too should congratulate you  
21 on your new position. Just a few questions.

22 CROSS-EXAMINATION

23 BY MR. REEDER:

24 Q. What's the long-lead term items on the  
25 wind projects you just described?

26

1           A.     I'm not sure, Mr. Reeder, of your exact  
2     nature as to -- but I can say the long-lead term  
3     items typically we experience are turbine supply and  
4     the GSU transformers.

5           Q.     Do you have orders in place for the GSU  
6     transformers and the turbines?

7           A.     Yes, we do.

8           Q.     Have they been delivered?

9           A.     No, they have not.

10          Q.     Permitting is always dicey in some places  
11     on these projects. Do you have in place all of the  
12     permits necessary to operate these properties?

13          A.     Could you clarify what specific projects  
14     you're referring to?

15          Q.     The wind projects that you've described  
16     would be completed by December of 2008.

17          A.     We have all the Certificate of Public  
18     Convenience and Necessity permits, our Wyoming  
19     Industrial Siting Council permits for the Glenrock  
20     and Rolling Hills project, we expect to have those in  
21     February. We have filed for the expansions that I  
22     referred to, those three Wyoming projects. We have  
23     not received the permitting yet. We anticipate that  
24     not to be an issue.

25                   MR. REEDER: I have nothing further.

26

1 CHAIRMAN BOYER: Thank you. Mr. Ball?

2 MR. BALL: No questions. Thank you.

3 CHAIRMAN BOYER: We'll go to the  
4 Commissioners. Commissioner Allen, then Commissioner  
5 Campbell.

6 COMMISSIONER CAMPBELL: Insofar as you  
7 gave us a list of plants that you're looking to rate  
8 base this year, just out of curiosity, why is Currant  
9 Creek not on that list?

10 THE WITNESS: I believe -- I would defer  
11 to Mr. McDougal, but I believe a prior rate case  
12 would have contemplated Currant Creek, as that plant  
13 came on-line earlier, around, I believe, 2003.

14 CHAIRMAN BOYER: Mr. Brown, I have a  
15 couple questions as well, but I think I cut you off  
16 before you could move admission of Mr. Lasich's  
17 testimony. Do you wish to do so?

18 MR. BROWN: Yes, I think I did do it.

19 CHAIRMAN BOYER: Oh, you did it?

20 MR. BROWN: If not, I'll do it again.

21 CHAIRMAN BOYER: Oh, you did?

22 MR. BROWN: I thought I did before we made  
23 him available for cross.

24 CHAIRMAN BOYER: It's all a blur, isn't  
25 it?

26

1 MR. BROWN: I know.

2 CHAIRMAN BOYER: Commissioner Campbell has  
3 another question.

4 COMMISSIONER CAMPBELL: Let me just follow  
5 up on that question. So is it the Company's position  
6 that if there's a stipulation and the Commission  
7 doesn't have a hearing to review prudence, that just  
8 as a basis of the stipulation, a plant is  
9 automatically in rate base?

10 THE WITNESS: I'm not sure I fully  
11 understand your question, Commissioner Campbell.

12 COMMISSIONER CAMPBELL: Well, I mean, I  
13 understand your answer that the plant was in your  
14 filing in the last case, and so -- but the Commission  
15 never actually had any testimony as it related to  
16 that specific plant as part of that case. And I  
17 guess my question is: I just assumed it's in the  
18 result of a stipulation, or what is the formal  
19 process to rate base a plant?

20 THE WITNESS: Commissioner Campbell, I  
21 would have to defer to our regulatory counsel to the  
22 specifics of how that gets admitted and . . .

23 COMMISSIONER CAMPBELL: And we can hold  
24 off until the general part of this case. It's just  
25 you listed those plants, and I was curious whether

26

1 Currant Creek was considered rate based or not.

2 CHAIRMAN BOYER: Mr. Lasich, you've listed  
3 eight resources. Four are already in service for a  
4 plant. Are all those Company-owned or are any of  
5 those PPAs?

6 THE WITNESS: No, those are all  
7 Company-owned resources, Chairman.

8 CHAIRMAN BOYER: Now, the costs on those  
9 eight projects are known; are they not?

10 THE WITNESS: Yes, they are.

11 CHAIRMAN BOYER: So these could be  
12 incorporated in an historic test year or future test  
13 year or something in between; could they not?

14 THE WITNESS: Yes, they could.

15 CHAIRMAN BOYER: Thank you. Any redirect,  
16 Mr. Brown?

17 MR. BROWN: Just one moment. I do have  
18 one question. I have a copy of DPU Data Request 3.8  
19 that Mr. Ginsberg referenced, and would like to  
20 approach the witness and ask him some questions about  
21 the projects that are listed in it.

22 CHAIRMAN BOYER: You may proceed.

23

24

25

REDIRECT EXAMINATION

26

1 BY MR. BROWN:

2 Q. Mr. Lasich, Mr. Ginsberg asked some  
3 questions regarding a Data Request response, DPU 3.8.  
4 Attached there is the spreadsheets that were attached  
5 to that response. Does that help refresh your  
6 recollection in terms of what those particular  
7 projects are and why they were included in the test  
8 period?

9 A. If I could read the fine print, I'm sure  
10 it would. Yes, generally I can -- I don't recall the  
11 specific dollar amounts he was referring to, but it  
12 does contain a list of the projects and the dollar  
13 amounts referenced.

14 Q. Could you please describe what those --  
15 what your understanding of those projects are and the  
16 basis for them in the case?

17 A. These are --

18 Q. That particular period of June -- or  
19 January '09 through June of '09.

20 A. Yes. These are specific dollar amounts  
21 for projects, capital projects that have been  
22 expended, in most part, for some of our steam  
23 generation facilities, kind of routine, you know,  
24 boiler, tube replacement, reheater replacement, as  
25 well as contains costs relative to our hydro

26



1 facilities, some of the upgrades of those units, and  
2 repair of some of the equipment related to those  
3 facilities.

4 Q. Those maintenance and upgrade-type  
5 projects, then?

6 A. Yes.

7 Q. And are those projects that -- why do you  
8 believe it would be those -- why do you believe those  
9 projects would be reasonable estimates of the  
10 conditions that the Company will be experiencing  
11 during that time frame?

12 A. These are generally routine maintenance  
13 and expense projects that you would experience in a  
14 steam-generating facility, repair and replacement of  
15 boilers, turbine replacements, boiler feed pump  
16 replacements, steam reheater tube replacements and so  
17 forth, are generally necessary upgrade and  
18 maintenance of your facilities. These are routine  
19 expenses.

20 MR. BROWN: Thank you. No further  
21 questions.

22 CHAIRMAN BOYER: Thank you, Mr. Lasich.  
23 You may step down.

24 THE WITNESS: Thank you.

25 CHAIRMAN BOYER: Next witness, Mr. Brown?

26

1 MR. SMITH: Mr. Bennion.

2 CHAIRMAN BOYER: Mr. Smith, I mean. I'll  
3 get the sequence here in a minute.

4 You're already raising your right hand.

5 (The witness was sworn.)

6 Thank you. Please be seated.

7 DIRECT EXAMINATION

8 BY MR. SMITH:

9 Q. Mr. Bennion, would you just state your  
10 full name and business address and by whom you're  
11 employed.

12 A. My name is Douglas Neal Bennion. I work  
13 for Rocky Mountain Power. I'm employed at 1407 West  
14 North Temple, Suite 270, here in Salt Lake City.

15 Q. And if I'm correct, you have, in this  
16 case, filed one piece of testimony as direct  
17 testimony in which you address issues related to  
18 network investment related to transmission and  
19 distribution; is that correct?

20 A. Yes, that's correct.

21 Q. And if we could refer to that as RMP-TP4,  
22 if I were to ask you the questions that are set forth  
23 in that written testimony, would the answers that are  
24 written therein be the same answers you would give  
25 today?

26

1           A.     Yes, they would be the same answers. I do  
2 have one change, though. I've had a position title  
3 change since I prepared this testimony.

4           Q.     Okay, would you just quickly describe  
5 that.

6           A.     Well, instead of being Managing Director  
7 of Network Reliability Investment Delivery, I'm now  
8 Vice-President of Network Reliability Investment  
9 Delivery.

10          Q.     Thank you. Have you prepared a short  
11 summary that addresses the specific issue today of  
12 proper test period as it relates to the transmission  
13 and distribution investments that you addressed?

14          A.     Yes, I have.

15          Q.     Could you please give that to the  
16 Commission.

17          A.     You bet, yes. Commissioners, primarily my  
18 summary of the testimony is the focus on the capital  
19 investments we're making in the transmission system,  
20 which is generally 345,000 volts below down to our  
21 distribution system serving the actual retail  
22 customer. And in my testimony covering the test year  
23 through June 2009, there are 38 specific projects  
24 that we noted in there. Of those, 25 are tied to the  
25 transmission system and 13 are tied to the

26

1 distribution system.

2 In summary, on the transmission system, 11  
3 of those projects are already completed. They're in  
4 the ground, they're providing used and useful service  
5 to our customers. The 14 remaining transmission  
6 projects are currently under construction. And I  
7 think to Mr. Reeder's point earlier, these projects  
8 are funded, the permits are there, the material has  
9 been ordered, and we actually are in the construction  
10 phase of those.

11 On the distribution side of the business,  
12 which is for projects greater than \$1 million, six of  
13 those distribution projects are already completed and  
14 in service, and seven are under construction. The  
15 two projects that we have in this particular rate  
16 case with later in-service dates, I'd like to just  
17 kind of summarize those to give you an idea of where  
18 they're at.

19 Both of them are transmission customers --  
20 or transmission projects, I should say. One has an  
21 in-service date of April 2009. The second one has an  
22 in-service date of June 2009. They're on the tail  
23 end of the test period, but the first project, Three  
24 Mile No, the project is currently under construction.  
25 We have the permits for that. The equipment is

26

1 ordered and will arrive. The transmission line  
2 routes have also been selected and the right-of-way  
3 agreement. So just being finished with the primary  
4 landowners in that area with no reason for concern  
5 that we wouldn't meet the April date.

6 The second project that's in there is here  
7 in the Salt Lake Valley. It's called our Oquirrh 345  
8 KV project. We have all the permits for that  
9 particular project. The land has been purchased, and  
10 we have recently submitted an RFP for an outside  
11 vendor that we would call an EPC.

12 Those bids went out on October 30th.  
13 We've received those and we're negotiating those  
14 terms with that particular vendor, with certainty  
15 around that that the in-service date of June 2009  
16 would be in that contract.

17 Beyond those particular projects, I  
18 typically talk about the planning process that we  
19 have in our overall planning agreement, but the plan  
20 that we have for June 2009 has not changed. The  
21 assumptions that we had in there and the things that  
22 we're looking to do by then are still real and alive  
23 today, but the projects we planned will be  
24 in-service.

25 That's my summary.

26

1           Q.     Maybe just one brief followup question,  
2     and that is: There's been some discussion of a  
3     possible recession.  Would that have -- if a  
4     recession were to come to Utah in the next year or  
5     two and hit the Utah economy, would it change in any  
6     material way the projects that you have testified to,  
7     both in terms of whether they will be done and the  
8     timing of them?

9           A.     The types of projects that I'm speaking  
10    about are for the general benefit of a wide geographic  
11    area, so we're talking about bringing power from the  
12    resources that our PacifiCorp Energy folks would  
13    bring to places like the Salt Lake Valley, and we  
14    would distribute it to existing customers.

15                   My experience right now is that our  
16    existing customers are using more power than they  
17    were years ago, so what I look at is the meters that  
18    are at our substations.  They continue to see the  
19    same reads we see a year ago and/or increase on a  
20    regular basis.  So our planning is to deal with that.

21                   MR. SMITH:  Okay.  That concludes our  
22    preliminary information with regard to Mr. Bennion.  
23    We would offer his direct testimony for the limited  
24    purpose of the test year issues.  That's Exhibit  
25    RMP-TP4.

26

1                   CHAIRMAN BOYER: Are there any objections  
2 to the admission of Mr. Bennion's testimony? Okay.  
3 Exhibit RMP-TP4 is admitted into evidence. Is the  
4 witness now available for cross-examination?

5                   MR. SMITH: Yes, he is.

6                   CHAIRMAN BOYER: Thank you, Mr. Smith.  
7 Mr. Proctor?

8                   MR. PROCTOR: No questions.

9                   CHAIRMAN BOYER: Mr. Ginsberg?

10                  MR. GINSBERG: No questions.

11                  CHAIRMAN BOYER: Mr. Dodge?

12                  MR. DODGE: No questions.

13                  CHAIRMAN BOYER: Mr. Reeder?

14                  MR. REEDER: No questions.

15                  CHAIRMAN BOYER: Mr. Ball?

16                  MR. BALL: No questions. Thank you.

17                  CHAIRMAN BOYER: Commissioner Allen?

18                  COMMISSIONER ALLEN: No.

19                  CHAIRMAN BOYER: Same question I asked the  
20 prior witness. The cost of these transmission  
21 projects are known and measurable at this point; are  
22 they not?

23                  THE WITNESS: Yes, they are.

24                  CHAIRMAN BOYER: And so these expenditures  
25 could also be used with either an historic or future  
26

1 mid-term test year; is that right?

2 THE WITNESS: Yes, they could.

3 CHAIRMAN BOYER: Thank you. Any redirect,  
4 Mr. Smith?

5 MR. SMITH: No.

6 CHAIRMAN BOYER: Thank you, Mr. Bennion.  
7 You may sit down. Let's see. There's one more in  
8 the pot, right?

9 MR. BROWN: One more witness and  
10 then we'll be to Mr. McDougal, correct.

11 CHAIRMAN BOYER: Let's proceed with that  
12 witness, and then we're going to give our reporter a  
13 break here for a moment.

14 MR. BROWN: Sounds good. The next witness  
15 will be Greg Duvall.

16 CHAIRMAN BOYER: Please raise your right  
17 hand, Mr. Duvall.

18 (The witness was sworn.)

19 CHAIRMAN BOYER: Thank you. Please be  
20 seated.

21 DIRECT EXAMINATION

22 BY MR. BROWN:

23 Q. Good morning. Could you please state your  
24 full name and current employment for the record.

25 A. My name is Gregory N. Duvall and I'm  
26



1 employed by PacifiCorp Energy, appearing on behalf of  
2 Rocky Mountain Power.

3 Q. And have you adopted pre-filed testimony  
4 in this proceeding?

5 A. I have. I've adopted the pre-filed  
6 testimony of Mark T. Widmer.

7 Q. And does a portion of that testimony  
8 support the Company's request for a selection of a  
9 test period of June 30, 2009?

10 A. Yes, it does.

11 Q. And that testimony's been pre-marked as  
12 RMP-TF5; is that correct?

13 A. That's correct.

14 Q. And do you have any changes to that  
15 testimony?

16 A. Nothing other than the qualifications,  
17 which were filed separately with this Commission.

18 Q. Could you give a brief background as to  
19 your qualifications, Mr. Duvall.

20 A. Well, I've been with the Company 28 years,  
21 and I've had positions mainly on the wholesale side  
22 of the business. I ran the net power cost group  
23 through the 1980s and into the early 19 -- actually  
24 until the mid-1990s. I'm in charge of load  
25 forecasting, long-range planning. At this point IRP

26

1 load forecasting forward price curves and net power  
2 costs.

3 Q. And if I ask you the same written  
4 questions that appear in the pre-filed direct  
5 testimony today, would your answers be the same?

6 A. They would.

7 MR. BROWN: We'd move to have RMP-TP5  
8 admitted into evidence for the limited purpose of for  
9 selection of test period.

10 CHAIRMAN BOYER: Are there any objections  
11 to the admission of Mr. Duvall's testimony for the  
12 limited purposes stated? Mr. Proctor? Mr. Ginsberg?

13 MR. GINSBERG: No.

14 CHAIRMAN BOYER: The table to my left?

15 MR. REEDER: No objections.

16 MR. DODGE: No.

17 MR. BROWN: No.

18 CHAIRMAN BOYER: That exhibit, then,  
19 RMP-TP5, is admitted into evidence.

20 Q. (By Mr. Brown) Do you have a brief  
21 summary, Mr. Duvall, of how your testimony that  
22 you've adopted supports the Company's selection of a  
23 June 30th, 2009 test period?

24 A. Yes, I do.

25 Q. Could you please provide that at this  
26

1 time.

2 A. Sure. I think from the perspective of net  
3 power costs, there are a lot of the pieces that have  
4 already been discussed flow into the net power cost  
5 study, the load forecast, the new resource additions  
6 that Mr. Lasich had talked about. And then there's  
7 also some other pieces that are known and measurable.  
8 They're basically changes to our contracts. And some  
9 of the contracts, the change we have, for example, a  
10 couple wholesale sales contracts, one with Sierra  
11 Pacific that terminates during this time frame,  
12 another one with Public Service Colorado that has  
13 some reductions involved in it.

14 We had some other contracts on the -- we  
15 had an exchange with the Clark County PUD that goes  
16 away during the time frame. There's a -- we had a  
17 deal with the Nebo plant. That goes away. So I  
18 think from a net power cost perspective, reflecting  
19 all of these things is fairly straightforward, and it  
20 has an impact on, obviously, the costs that face the  
21 Company.

22 So I guess, from my perspective, I believe  
23 that the forecast test period is the right test  
24 period from a net power cost perspective, and that  
25 given the pace of change, all the resource additions  
26

1 and the load growth and the contract changes, that  
2 the Company's facing the historic test period would  
3 certainly miss the mark.

4 That concludes my testimony.

5 MR. BROWN: Thank you. Mr. Duvall is  
6 available for cross and questions from the  
7 Commissioners and Chairman.

8 CHAIRMAN BOYER: Thank you. Any  
9 cross-examination, Mr. Proctor?

10 MR. PROCTOR: No, thank you.

11 CHAIRMAN BOYER: Mr. Ginsberg?

12 MR. GINSBERG: No questions.

13 CHAIRMAN BOYER: Mr. Reeder?

14 CROSS-EXAMINATION

15 BY MR. REEDER:

16 Q. Mr. Duvall, you begin with the historic  
17 power costs of the Company and build them up  
18 step-wise; do you not?

19 A. Well, that's -- I guess we start with the  
20 historic test period.

21 Q. And build up the costs for the net power  
22 costs step by step for events that you anticipate?

23 A. That's -- I guess that's true. Another  
24 way to put it, I guess, is that we take the, you  
25 know, the test period that we presented, we have

26

1 known items, the ones that I've mentioned, that we  
2 build into the net power cost study.

3 Q. But you begin with the power costs for the  
4 year just completed and step them up, or do you begin  
5 estimating what your costs will be in the future and  
6 developing? How do you begin, a bottom up or top  
7 down net power cost study?

8 A. I'm not sure that either one of those  
9 makes sense to me.

10 Q. Okay, I'll approach it a different way.  
11 Are your fuel costs for the year ending June 2008  
12 known and knowable?

13 A. For June 2008?

14 Q. Through the period June 2008, yes, sir.

15 A. Well, since that hasn't finished, they  
16 aren't known and knowable.

17 Q. Have you hedged your natural gas costs?

18 A. My understanding is we're pretty nearly  
19 100 percent hedged.

20 Q. So the selection of the test period won't  
21 affect one way or the other your natural gas costs.  
22 You've already hedged those costs, haven't you?

23 A. For the most part, right.

24 Q. With respect to coal, the same question.  
25 Haven't you pretty much hedged your coal costs? So

26

1 the selection test period won't have any effect on  
2 your coal costs, will it?

3 A. Well, they will, because when we determine  
4 the coal costs for the test period, our fuel resource  
5 folks, we give them a forecast of the expected usage  
6 at the plants.

7 Q. That's just consumption, not price,  
8 though, isn't it?

9 A. Right, consumption, but that goes to our  
10 fuel resource folks who review the contracts,  
11 reopeners, things like that. There's some other  
12 information on page 4 of my testimony that goes to  
13 exactly what they look at.

14 Q. And with respect to power purchases during  
15 the test year, have you financially hedged those  
16 power purchases or not?

17 A. Well, we don't -- in terms of system  
18 balancing, there's a fair amount of hedging. The  
19 other contracts are long-term, firm contracts, they  
20 have their own terms and conditions, and the ones  
21 I've mentioned do change as we go forward.

22 Q. Is the largest uncertainty in your net  
23 power costs the size of your load?

24 A. I don't know the answer to that.

25 MR. REEDER: Thank you. I have nothing  
26

1 further.

2 CHAIRMAN BOYER: Mr. Ball?

3 MR. BALL: Nothing, thank you, Chairman.

4 CHAIRMAN BOYER: Commissioner Allen?

5 COMMISSIONER ALLEN: Nothing.

6 CHAIRMAN BOYER: And I have nothing. Any  
7 redirect?

8 MR. BROWN: No, Chairman, thank you.

9 CHAIRMAN BOYER: Thank you, Mr. Duvall.

10 You may step down. We will take a ten-minute recess  
11 and then convene the Panel portion of the hearing.

12 (Recess)

13 CHAIRMAN BOYER: Let's go back on the  
14 record and convene the Panel portion of this hearing.  
15 I think a couple of things might help us expedite  
16 this portion of the hearing. One is we can swear all  
17 of the witnesses at one time. We can urge everyone  
18 to be very brief in their summaries because we have  
19 read the testimony and the rebuttal testimony, and so  
20 on and so forth.

21 Mr. Dodge asked off the record, before we  
22 start, whether we should go take one witness on the  
23 Panel and then let everyone ask questions of that  
24 person, then move to the next, or let everyone speak  
25 and then have sort of a free-for-all. Any other

26

1 suggestions on that? I was leaning towards the  
2 former rather than the latter; that is to say, finish  
3 with one witness and then move to the next witness.

4 But I'm totally open to suggestion.

5 Mr. Brown, do you have a preference?

6 MR. BROWN: I don't, no. I think your  
7 inclination on that approach, that's fine with us.

8 CHAIRMAN BOYER: Let's do that, then.

9 MR. GINSBERG: Since it's a Panel, will  
10 each witness have an opportunity at some point to  
11 respond to the other witnesses? Do you want to just  
12 -- I'm not sure how it becomes a Panel, then.

13 CHAIRMAN BOYER: Yes, if we don't do it  
14 that way; is that right?

15 MS. ZENGER: What if we all do our  
16 summaries and then all go through and ask questions.  
17 Summary then questions.

18 CHAIRMAN BOYER: How about that variation  
19 on the theme, Mr. Dodge?

20 MR. DODGE: My only thought is it's easier  
21 to ask the questions while the summary is still  
22 fresh. I don't mind the other, but you kind of lose  
23 a little of the focus on that witness' testimony if  
24 you do that. I don't know that anyone is faster or  
25 slower. It's more, I'm thinking, in terms of the

26



1 easiest way to proceed as a cross-examiner.

2 CHAIRMAN BOYER: I guess this is why we  
3 get the medium dollars on these decision-decisions.  
4 I mean, I like what Mr. Dodge is suggesting, but we  
5 give up the advantages of the Panel, I mean, when  
6 we're dealing with issues rather than individuals.  
7 Let's do this. Let's -- and we may regret it  
8 later -- but let's have each of the Panelists be  
9 sworn, give their summaries, and then, in an orderly  
10 fashion, we'll let, one by one, the witnesses ask  
11 their questions. And will there be cross-examination  
12 as well? So the lawyers are going to ask questions,  
13 the witnesses are going to ask questions of each  
14 other, and then the Commission will ask questions.

15 MR. GINSBERG: I didn't necessarily mean  
16 that witnesses ask questions. I guess they can if  
17 you want, but they at least have an opportunity at  
18 some point in the proceeding to make some comments on  
19 what others have said.

20 MR. REEDER: That may be helpful. It may  
21 be if we've got some of these Ph.D. economists in  
22 here talking among themselves, we might all be  
23 informed.

24 CHAIRMAN BOYER: We might indeed. Let's  
25 go as far as having each of the Panelists sworn and  
26

1 each of them give their very brief summaries at this  
2 point. Will all of you who are testifying please  
3 stand and raise your right hand. I see Mr. Higgins  
4 is in the back. Mr. Ball is going to testify. Okay,  
5 great.

6 (The witnesses were sworn)

7 Thank you. You may be seated. I think  
8 we'll start with the Company first, and then proceed  
9 as we did in the past, starting from my right, your  
10 left, and go around the room, and Mr. Ball can bat  
11 cleanup.

12 MR. SMITH: May I proceed, then?

13 CHAIRMAN BOYER: Please proceed,

14 Mr. Smith.

15 MR. SMITH: We've called Mr. McDougal.

16 DIRECT EXAMINATION

17 BY MR. SMITH:

18 Q. Would you state your name and position  
19 with the Company.

20 A. Steven R. McDougal. I am the Director of  
21 Revenue Requirements with Rocky Mountain.

22 Q. And you have filed, if I'm correct, two  
23 pieces of testimony in this proceeding thus far: Your  
24 original direct testimony, which we'll refer to as  
25 RMP-TP6, and I believe you had three exhibits

26

1 attached to that?

2 A. I did.

3 Q. And then a couple of days ago you filed  
4 some rebuttal testimony that goes directly to test  
5 period issues, and we'll refer to that as RMP-TP7; is  
6 that correct?

7 A. That is correct.

8 Q. Any corrections or changes that you need  
9 to make to either of those pieces of testimony?

10 A. No, there is not.

11 MR. SMITH: We would offer RMP-TP6 and the  
12 three attached exhibits, and RMP-TP7, the rebuttal  
13 testimony on test year issues, subject to  
14 cross-examination, and also for the limited purpose  
15 of the test period issues that are under  
16 consideration today.

17 CHAIRMAN BOYER: Thank you. Are there  
18 objections to the admission of these two pieces of  
19 evidence with exhibits for the limited purposes  
20 stated?

21 MR. PROCTOR: No objection.

22 CHAIRMAN BOYER: They are admitted, then,  
23 RMP-TP6 and 7, together with exhibits attached.

24 Q. (By Mr. Smith) Mr. McDougal, have you  
25 prepared a short summary that you can give to the

26

1 Commission and the parties today?

2 A. Yes, I have.

3 Q. Please proceed.

4 A. Okay. Basically, my testimony addresses  
5 both the need and the methodology that was utilized  
6 by the Company in calculating a forecast test period.  
7 In this filing, we used basically three test periods.  
8 We used a base, a Mid, and the proposed test period.  
9 We believe that the proposed test period, the test  
10 period ending June 30th, 2009, best reflects the  
11 conditions the Company anticipates it will encounter  
12 during the rate-effective period. As a result, that  
13 is the period that we are proposing.

14 In calculating that test period, the  
15 Company looked at all the items that have been  
16 brought out by the previous witnesses. We looked at  
17 the rate base, the plant additions, the changes in  
18 load and came up with a forecast. That forecast was  
19 based on historical information which has been  
20 escalated forward.

21 In calculating the rate base and the load  
22 in the test period, one of the things the Company has  
23 tried to do and maintain is a strict matching  
24 principle within that 12-month period. So if we look  
25 at the proposed test period, everything we are doing

26

1 in that test period has been governed by the matching  
2 principle, in that we are using the loads for those  
3 12 months, we are using our projected O&M, the  
4 projected net power costs, and the projected rate  
5 base for that 12-month period.

6 By doing that, it gives us a clean look at  
7 that 12-month period and what we anticipate the  
8 revenue requirement to be in that period. That  
9 period was selected because it best matches the  
10 rate-effective period which we anticipate to start in  
11 August of this year.

12 The other thing that we did, because we  
13 were looking at that 12-month period, we averaged all  
14 costs. So if an item, whether it be an inflationary  
15 item or whether it be rate-based, were to come  
16 on-line with three months left during the test  
17 period, it basically is reflected for three months,  
18 which are then averaged, so we only have one-fourth  
19 of that increase in our test period.

20 So everything has been averaged so that we  
21 are collecting, in that 12 months, the accurate costs  
22 for those 12 months. We are not putting in an  
23 increase in stating as soon as this wage increase or  
24 as soon as this plant comes on-line, the full cost  
25 comes on. That would be somewhat complex and require  
26

1 a lot of manual changes throughout the year. So we  
2 just look at the average for the 12 months. That's  
3 the basic methodology we are using in calculating  
4 this rate base.

5 Two other items before I conclude my  
6 summary, just to address a couple of the issues that  
7 have already been brought up. One of the issues -- I  
8 believe it was Mr. Reeder brought up the issue of our  
9 IGCC plant, that plant was written off in December of  
10 last year, which was outside of the historical  
11 period. Therefore, that writeoff is not in the rate  
12 case because it was not in our historical period, nor  
13 did we build it into our projections through an  
14 adjustment. So that writeoff is not included in this  
15 rate case for both the IGCC and for the IPP three.  
16 So that's outside of this test period.

17 The other item that was brought up by  
18 Commission Boyer was: Can we reflect the same changes  
19 through the use of a historic, a Mid-period or a  
20 forecast period? A lot of these capital additions  
21 are known. They are measurable. But the degree that  
22 they get reflected in rates depends upon the test  
23 period chosen.

24 If an item is going to come on-line in  
25 August of this year, in August of '08, if we select a

26

1 Mid-period, there will be zero cost recovery for that  
2 item, even though that item is coming in at virtually  
3 the same time as what the order will be issued.

4 Likewise, if one comes in earlier, in, say, June of  
5 this year, if we use the test period, we have  
6 100 percent recovery of that item, it's reflected  
7 completely in rates and the item will have occurred  
8 before the Commission order.

9           If we choose a Mid-period, the way we do  
10 the averaging, we look at the 12-month period. If  
11 that item were coming on-line in June of this year,  
12 June of '08, we would only include that item for one  
13 month in our test period in our revenue requirement  
14 calculations. We would only include one-twelfth of  
15 the capital costs, or one-twelfth of any wage  
16 increase or any other item. So the test period we  
17 choose does have a big impact on how much of a  
18 recovery we get. I think that's an important  
19 distinction to make.

20           That basically summarizes my opening  
21 position.

22           MR. SMITH: Thank you. He's available for  
23 cross after we hear the other summaries.

24           CHAIRMAN BOYER: Let's proceed with  
25 Mr. Proctor. You have two witnesses, Mr. Proctor?

26

1                   MR. PROCTOR: Yes, thank you. The  
2 Committee would first call Cheryl Murray, please.

3                   DIRECT EXAMINATION

4 BY MR. PROCTOR:

5           Q.     Ms. Murray, are you employed by the  
6 Committee of Consumer Services?

7           A.     Yes.

8           Q.     And did you file, on January 25th, direct  
9 testimony that's been labeled CCS 1D-TY Murray,  
10 consisting of three pages?

11          A.     Yes.

12          Q.     If I was to ask you --

13                   CHAIRMAN BOYER: Mr. Proctor, could we get  
14 Ms. Murray to speak into the microphone there?

15                   MR. PROCTOR: Are we on now?

16          Q.     (By Mr. Proctor) If I was to ask you the  
17 same questions as were put to you in your direct  
18 testimony today, would your answers remain the same?

19          A.     Yes, they would.

20          Q.     Do you have any corrections or changes  
21 that you would like to make to your testimony?

22          A.     No, I do not.

23                   MR. PROCTOR: The Committee would offer  
24 into evidence the direct testimony of Cheryl Murray  
25 as marked.

26



1                   CHAIRMAN BOYER: Are there any objections  
2 to the admission of Ms. Murray's testimony?

3                   MR. BROWN: No objections.

4                   CHAIRMAN BOYER: Seeing none, that is --  
5 her testimony is admitted into evidence. Thank you.

6                   Q.     (By Mr. Proctor) Do you have an  
7 extraordinarily brief summary of your testimony?

8                   A.     Yes. It is the Committee's position that  
9 the Commission should order early in this proceeding  
10 on the test year issue to allow parties to more  
11 efficiently and effectively investigate and analyze  
12 the issues and present their case. That concludes my  
13 summary.

14                   MR. PROCTOR: May I call Ms. DeRonne?

15                   CHAIRMAN BOYER: Please. Ms. DeRonne,  
16 welcome back.

17                   THE WITNESS: Thank you.

18                                   DIRECT EXAMINATION

19 BY MR. PROCTOR:

20                   Q.     Ms. DeRonne, are you an outside  
21 independent consultant retained by the Committee of  
22 Consumer Services to provide expert testimony in this  
23 particular matter?

24                   A.     Yes, I am.

25                   Q.     And for what firm do you work and where  
26

1 are you located?

2 A. I work for the firm Larkin & Associates,  
3 PLLC. We're a certified public accounting and  
4 regulatory consulting firm located in the State of  
5 Michigan.

6 Q. Have you, at the request of the Committee,  
7 prepared direct testimony filed January 25th, 2008  
8 and marked CCS2D-TY, DeRonne?

9 A. Yes, I did.

10 Q. Consisting of 11 pages?

11 A. Correct.

12 Q. Do you have any corrections or changes  
13 that you wish to make to that testimony?

14 A. No, I do not.

15 Q. Did it also include an Appendix 1, which  
16 is the resume of Donna DeRonne?

17 A. Yes, it did.

18 Q. If I were to ask you today the same  
19 questions as you responded to in your direct written  
20 testimony, would your answers remain the same?

21 A. Yes, they would.

22 MR. PROCTOR: The Committee would move for  
23 the admission of the direct testimony of Donna  
24 DeRonne as marked.

25 CHAIRMAN BOYER: Are there objections to  
26

1 Ms. DeRonne's testimony as offered?

2 MR. BROWN: No objections.

3 MR. REEDER: No objection.

4 CHAIRMAN BOYER: It is admitted into  
5 evidence. Thank you.

6 Q. (By Mr. Proctor) Ms. DeRonne, do you have  
7 any summary of your testimony?

8 A. Yes, also a very brief summary. In my  
9 testimony I laid out the different test year options  
10 the Commission has under the statute, and indicated  
11 that the Committee's position, we do not oppose the  
12 test year proposed by the Company in this case, but  
13 we do anticipate that we would have adjustments and  
14 modifications to the information forecast contained  
15 within that test period.

16 Additionally, I'd also indicate that in  
17 the Committee's opinion, it's imperative and would be  
18 very beneficial if the Commission issued a decision  
19 on what the appropriate test year should be in this  
20 case as early as possible in the case for many  
21 reasons which are laid out within my testimony.

22 CHAIRMAN BOYER: Very good. Thank you,  
23 Ms. DeRonne.

24 Mr. Ginsberg?

25 MR. GINSBERG: Yes. We have one witness,  
26

1 Joni Zenger.

2 DIRECT EXAMINATION

3 BY MR. GINSBERG:

4 Q. State your name for the record.

5 A. Joni S. Zenger.

6 Q. And you prepared direct testimony which is  
7 marked DPU Exhibit 1 with seven exhibits; is that  
8 correct?

9 A. Yes.

10 Q. And Exhibit 1.3 and 1.4 have been revised?

11 A. Yes.

12 Q. And you also prepared rebuttal testimony  
13 which has been marked DPU Exhibit 1.0R?

14 A. Yes.

15 Q. With no exhibits?

16 A. Yes.

17 Q. And can you go through the corrections  
18 that you've made in Exhibit 1?

19 A. Yes. The corrections are just in my  
20 direct testimony. If you'll turn to page 15,  
21 line 293 of my testimony. The first word should read  
22 "pace" not "face." The fourth line down: "Increasing  
23 at a faster 'pace.'"

24 MR. BALL: Chairman, could we please have  
25 the reference again?

26

1 MS. ZENGER: Yes. Line 293, which is on  
2 page 15.

3 MR. GINSBERG: We did hand out corrected,  
4 full sets of the testimony and exhibits, so the ones  
5 you have should be corrected.

6 MS. ZENGER: There's additional ones here  
7 as well. So everyone found the line 293? Okay. On  
8 the same page, footnote 6, "Energy Information  
9 Administration," is the correction. It is not  
10 "association." And I wouldn't want to go on the  
11 record --

12 Q. (By Mr. Ginsberg) Would that be footnote  
13 16 rather than 6?

14 A. Footnote 16, yes, thank you.

15 Q. Were there any others?

16 A. Yes. On page 17, lines 331 and 332, it  
17 should read "Exhibit 1.4 and 1.5" rather than "1.3  
18 and 1.4." Did everybody get that one? Okay. And  
19 there's one last minor one. On page 4, line 52, also  
20 in footnote 1, our filing date was January 11th,  
21 2008, not 2007.

22 Q. Can you also explain the revisions to  
23 Exhibits 1.3 and 1.4?

24 A. Yes. Let's see. 1.4 was a representation  
25 of the Utah operations, and the 1.3 was a  
26

1 representation of total company operations,  
2 system-wide, and inadvertently the numbers became the  
3 same, and so I had to recorrect the Utah operations  
4 and put in the correct revenues and expenses. So 1.4  
5 revised represents the expenses and revenues the  
6 Company will incur during each of the three test  
7 periods.

8 Q. Were there any changes to Exhibit 1.0R,  
9 your rebuttal testimony?

10 A. No. No. And then just this, the 1.3, the  
11 plant additions, this, I also had gone through and  
12 calculated plant in service, but what I intended to  
13 file in my testimony were plant additions that would  
14 actually -- were capital expenditures would be spent  
15 during that period of time.

16 So 1.3 revised shows, in the Mid period,  
17 \$1.8 million in the forecasted period, \$1.3 million,  
18 and the number underneath it with the asterisk  
19 represents the 13-month rolled average.

20 Q. So if the questions that were in your  
21 testimony were asked, those would be the answers you  
22 would give?

23 A. Yes.

24 MR. GINSBERG: I would ask for admission  
25 of the testimonies and exhibits as marked.

26

1 MR. PROCTOR: No objection.

2 CHAIRMAN BOYER: Are there any objections  
3 to the admission of Dr. Zenger's testimony, together  
4 with exhibits? Very well, it is admitted into  
5 evidence.

6 Q. (By Mr. Ginsberg) Can you go ahead and  
7 give your summary, Dr. Zenger.

8 A. I don't know if I can make it as short as  
9 they did, but I wanted to really present what the  
10 Division did in this case, because it was kind of a  
11 novel case for us. We had the Questar case filed at  
12 almost the same time, and the Division started from  
13 ground one.

14 So in order to do that, I very first  
15 looked at the statute, Section 54-4-4, Subsection 3,  
16 to determine the guidelines for the test period, and  
17 found that known and measurable changes or future  
18 test years or a combination of the two could be  
19 included.

20 The Division did not present -- we're  
21 neutral as to the issue of if the test period needed  
22 to be decided upfront or not. We recognize there's  
23 maybe some benefits to the auditors, but we also  
24 realize that this could be decided as part of the  
25 revenue requirement or as the case progresses. So on

26

1 that issue we were mute, or neutral.

2 And let's see. The Division realizes that  
3 alternate test periods have been proposed, including  
4 the Calendar 2008 test period and the Mid-period  
5 ending June 2008 test period. There's also a variety  
6 of other test periods that could be used. When  
7 conducting our analysis, it was impossible for the  
8 Division to analyze every possible test period that  
9 could exist.

10 Therefore, the Division looked at the test  
11 periods that were filed by the Company and for which  
12 we had data to analyze. As I mentioned, I looked at  
13 the statute. I also referred to the Commission's  
14 order on October 28th, 2004, and it was in  
15 PacifiCorp's general rate case, docket 04-035-42. In  
16 that docket, the Commission identified several  
17 factors that need to be considered in selecting a  
18 test period.

19 So in order to determine the proper test  
20 period in this case, I looked at each of those  
21 factors and I tried to apply them to this case. The  
22 most relevant factor that I found is that the Company  
23 is in a cost-increasing status, and we expect the  
24 status to continue for the near future.

25 In my testimony I provide numerous

26



1 examples of increasing costs facing the electric  
2 industry generally, from rising costs to the price of  
3 wind turbines, to copper, to steel, to new  
4 technologies such as automatic meter reading.

5 I also reference the model IGCC plan and  
6 the exorbitant costs, which caused PacifiCorp to  
7 withdraw from that project. I looked at the  
8 population growth in our state in my testimony.

9 In fact, now it appears that the  
10 population calculations that I originally provided  
11 were low, because the Governor's Office of Planning  
12 and Budget just released new data, which shows that  
13 Utah's population should increase at the rate of  
14 3.1 percent in 2008 and 2.7 percent in 2009.

15 I also discussed how the Company must plan  
16 to build additional generation, distribution and  
17 transmission to keep up with increased demand as well  
18 as to replace aging infrastructure. The Company  
19 needs to build new plants, and by having the  
20 selective test period exclude these necessary plant  
21 additions, we are excluding both significant plant  
22 investment needed by the utility and the utility's  
23 opportunity to earn its authorized rate of return on  
24 that investment.

25 As I mentioned, the Division's auditors  
26

1 and staff can appropriately adjust the test period  
2 proposed by the Company. This could include bringing  
3 the expenses or rate base back to an earlier time  
4 period proposed by the Company in the event of a  
5 forecasting error or reducing the expense or rate  
6 base due to lack of supporting evidence.

7 A necessary condition with the forecasted  
8 test year is the ability of regulators and other  
9 parties to verify the accuracy and reliability of the  
10 Company's forecasts. So in the short time I had, I  
11 looked at the Company's forecasted peak demand in  
12 energy and I compared it to the actual demand in  
13 energy for both Utah and system-wide. This was a  
14 result of my Data Requests 2.7 and 2.8.

15 My variance calculations show that most of  
16 the forecast variation was due to weather, or was  
17 within an acceptable range below 3 to 5 percent, and  
18 there were few instances where the variation was due  
19 to other factors.

20 I also looked at actual and forecasted  
21 Utah retail sales for the period ending September  
22 30th, 2007 and found a variance of 3.3 percent. I  
23 sent out 22 total Data Requests and looked at as much  
24 information as I could to determine the Company's  
25 forecasting ability, and thus far I have not found

26

1 anything that would lead me to believe that the  
2 Company cannot reasonably continue to make accurate  
3 predictions of its expected future conditions, as it  
4 has for the last several years.

5 Yes, there are variations that I found  
6 that have occurred, but most have been justified due  
7 to weather, or have another justified condition. I  
8 found no evidence to convince me that an alternative  
9 test period would best reflect the conditions the  
10 utility will face during the rate-effective period.

11 Now, I don't believe that a forecast that  
12 is nearer in time or closer to the time of the filing  
13 of the rate case should be the ground to dismiss a  
14 test period, which may more closely reflect the  
15 conditions the utility will encounter. So, for  
16 instance, a 2008 test period would leave out \$441.  
17 [sic] million in system-wide plant additions that  
18 would need to be made during the months from January  
19 1st, 2009 to June 30, 2009, and this I found in my  
20 Data Request 5.2.

21 My Exhibit 1.3 shows that actual plant  
22 additions where capital expenditures will be made  
23 during each of the Mid and forecasted test periods in  
24 order to get the actual plant in service. SRM Steve  
25 McDougal's tab 8.7.11 identifies the major plant

26

1 descriptions for projects that are greater than \$5  
2 million that will be built during the Mid and future  
3 test periods. Large power projects require time as  
4 well as upfront costs for permitting, licensing,  
5 developers, construction, operations, etc.

6 Only the forecasted test period allows the  
7 full cost of these projects to be considered in the  
8 calculations and adjustments that we would make  
9 during this rate case.

10 I realize, as many of you do, that our  
11 economy appears to be in a state of change. The  
12 Federal Reserve has dropped interest rates numerous  
13 times. In fact, during the time I filed my live  
14 direct, rebuttal and surrebuttal, it had dropped  
15 another 75 basis points. Inflation is creeping, the  
16 housing starts are down, the credit crisis has  
17 created a massive problem for the nation.

18 Utah, however, is fortunate in that it has  
19 not been hit as hard as other states by these  
20 economic events. Utah still has unemployment rates  
21 that are low, and, in fact, we were recently ranked  
22 number one by Forbes magazine as far as job growth is  
23 concerned. No one can predict what the proposed  
24 Federal Government stimulus package will actually  
25 look like or when it will be implemented.

26

1                   These factors are definitely important,  
2           but do not provide any overwhelming evidence to use  
3           an alternative test period than the one that the  
4           Company has proposed. The future test period narrows  
5           the gap between the cost and the rates and the  
6           revenue, because the cost of new facilities are  
7           typically higher than the historical costs of  
8           existing facilities.

9                   For these reasons and those stated above,  
10          the Division does not object to the Company's  
11          proposed test period in this case.

12                   CHAIRMAN BOYER: Thank you, Dr. Zenger.  
13          Let's hear from Mr. Higgins now.

14                                   DIRECT EXAMINATION

15          BY MR. DODGE:

16                   Q.     Mr. Higgins, would you state your name and  
17                   on whose behalf you're testifying.

18                   A.     My name is Kevin C. Higgins. I'm  
19                   testifying on behalf of UAE.

20                   Q.     And have you prepared -- have you had  
21                   prepared your direct testimony, which we've marked  
22                   UAE Exhibit TP1 with an attachment 1.1?

23                   A.     Yes.

24                   Q.     And does that reflect your testimony here  
25                   today?

26

1           A.     Yes, it does.

2           MR. DODGE:   Your Honor, I'd move the  
3 admission of that exhibit.

4           CHAIRMAN BOYER:   Any objections to the  
5 admission of Mr. Higgins' testimony?

6           MR. PROCTOR:   No.

7           MR. BROWN:   No.

8           CHAIRMAN BOYER:   Okay, it is admitted.  
9 Thank you.

10          Q.     (By Mr. Dodge) Mr. Higgins, I'd ask that  
11 you do a brief summary of your testimony and any live  
12 surrebuttal that you wish to do at this time.

13          A.     Yes, thank you. My recommendation to the  
14 Commission is that the test period that should be  
15 used in this proceeding is a Calendar Year 2008 test  
16 period. That is a fully-forecasted test period, but  
17 it is one that is nearer in time than the test period  
18 being recommended by the Company, and I believe it is  
19 a preferred choice, because I do believe that we can  
20 have greater confidence in the projections that are  
21 nearer in time than projections that are further out  
22 into the future.

23                 If the Commission -- if for some reason  
24 the Commission determines that it's impracticable to  
25 implement a Calendar Year 2008 test period, then my

26

1 recommendation as to the next-best choice would be  
2 the Mid-period test period that has been filed by the  
3 Company in supporting its case. I believe that using  
4 a fully-projected test period that is relatively near  
5 in time represents an appropriate balancing of  
6 interests.

7 Utah is really in transition with respect  
8 to its treatment of test periods. Traditionally this  
9 state is one in which test periods were set on a  
10 historical basis, even without known and measurable  
11 changes. That's clearly going to be different in  
12 this case.

13 There's a statute that governs a test  
14 period, and I believe that in transitioning to a new  
15 approach, using a fully-forecasted test period that  
16 is near in time is an appropriate step for the  
17 Commission to be taking. I think that it  
18 appropriately balances some of the concerns the  
19 Commission itself articulated in 2004, namely that  
20 the use of a future test period creates concerns with  
21 respect to diminished economic examination and  
22 accountability, replacement of actual results of  
23 operations data with difficult-to-analyze  
24 projections, ability of parties to effectively  
25 analyze the Company's forecasts, dampening of the

26

1 efficiency incentive of regulatory lag, playing to  
2 the Company's strength from control of critical  
3 information, and shifting of the risks of the future  
4 to ratepayers.

5 I wish to specifically disagree with some  
6 of the conclusions presented by Dr. Zenger with  
7 respect to the Company's previous forecasts. In the  
8 prior rate case, PacifiCorp significantly  
9 underforecasted Oregon's demand and energy. A  
10 consequence of that was the SG factor, which is used  
11 to allocate about \$6-and-a-half billion worth of  
12 assets, at least as proposed in this case, the SG  
13 factor to Utah was overstated. And I believe that  
14 that type of misprojection is something that we wish  
15 to minimize.

16 So I do not believe that it is a  
17 reasonable characterization to say that the forecasts  
18 in the past have all been quite close to the mark,  
19 because that certainly was not the case with Oregon,  
20 using weather-normalized data.

21 Finally, I would just mention to the  
22 Commission that the issue of Idaho Power has come up  
23 in this case, and, coincidentally, I was a witness in  
24 that proceeding. It was the subject of Commission  
25 inquiry here today. And I would just mention briefly

26



1 that one of the issues in Idaho Power, the Idaho  
2 Power case, was that the staff in Idaho preferred to  
3 use an historic test period.

4 And, in fact, it recalculated the  
5 Company's revenue requirement using an historical  
6 test period, unlike what I'm recommending to you  
7 today, which is to use a projected test period, but  
8 one which is close in time. That concludes my  
9 summary. Thank you.

10 CHAIRMAN BOYER: Thank you, Mr. Higgins.

11 Mr. Reeder, would you like to introduce  
12 your witness?

13 MR. REEDER: If I may. I'd like to call  
14 Dr. Michael Lemmon.

15 DIRECT EXAMINATION

16 BY MR. REEDER:

17 Q. Dr. Lemmon, would you please state your  
18 name, your address and by whom you are employed and  
19 in what capacity.

20 A. Yes. My name is Michael Lemmon and I'm  
21 employed by the David Eccles School of Business at  
22 the University of Utah, and I'm here today on behalf  
23 of UIEC.

24 Q. What do you do at the David Eccles School  
25 of Business?

26

1           A.     I'm a professor, and I hold also the  
2     Wasatch Advisors endowed chair in the finance  
3     department. My two main activities are academic  
4     research and teaching.

5           Q.     And have you caused to be prepared for  
6     purposes of this case a document that's identified as  
7     UIEC Exhibit 1.1?

8           A.     Yes, I have.

9           Q.     And does that contain the testimony that  
10    you desire to present in this proceeding?

11          A.     Yes, it does.

12          Q.     If I would ask you the questions on those  
13    pages, would the answers be same as they're  
14    contained?

15          A.     They would.

16          Q.     Your -- the Exhibit UIEC 1.1 Appendix A,  
17    an attachment, and two graphs, as I recall, were  
18    those graphs and charts prepared by you, under your  
19    direction and control?

20          A.     I believe there's actually five graphs,  
21    and yes, they were prepared under my direction.

22                   MR. REEDER: We'd offer the exhibit and  
23    tender the witness. Oh, the summary.

24          Q.     (By Mr. Reeder) Dr. Lemmon, do you have a  
25    summary?

26

1           A.     Yes, I do.  I've been asked to basically  
2     comment on how the current economic conditions and  
3     uncertainty affect the Company's forecasts in regards  
4     to the use of a June 2009 test period.  In my  
5     opinion, there's now considerable and mounting  
6     evidence that current economic changes are not likely  
7     to be adequately captured by the Company's forecasts,  
8     which are largely based on data from a period of  
9     economic expansion.

10                     This, in my opinion, decreases the  
11     reliability of these forecasts, particularly in  
12     regards to reflecting the conditions that the utility  
13     will face during the period the rates will be in  
14     effect.  And based on this, I believe that something  
15     more in line with a Mid-year test period, or  
16     something that at least allows more current  
17     information to be reflected, best balances the  
18     Commission's charge of both providing the utility a  
19     fair rate of return and mitigating the risk to  
20     consumers.

21                     MR. REEDER:  Thank you.  With that, we  
22     would now offer the exhibit and tender the witness.

23                     CHAIRMAN BOYER:  Are there any objections  
24     to the admission of Dr. Lemmon's testimony?

25                     MR. BROWN:  Actually, yes.  The Company  
26

1 has some concerns I'd like to speak about.

2 CHAIRMAN BOYER: Proceed.

3 MR. BROWN: The Commission issued a  
4 scheduling order that provided for intervening  
5 parties to file direct testimony regarding test  
6 periods by January 25th. The only parties that filed  
7 testimony at that time were Mr. Ball, the Division,  
8 the Committee and UAE. UIEC did not provide  
9 testimony at that time. It wasn't until the rebuttal  
10 deadline that UIEC then provided the testimony of  
11 Dr. Lemmon and called it rebuttal testimony.

12 Our concern is, as you heard in the  
13 summary from Dr. Lemmon, he's really addressing, for  
14 the most part, issues raised by the Company in their  
15 Application that was addressed, and should have been  
16 addressed, at the January 25th deadline by the  
17 intervening parties who filed testimony at that time.  
18 He does address the testimony filed by the Division  
19 and Committee in his testimony, but it's very  
20 limited.

21 And it's our position that that probably  
22 would be rebuttal testimony, but to file rebuttal  
23 testimony proposing the selection of a test period,  
24 as well as addressing issues raised by the Company in  
25 its Application, would be improper, puts UIEC at an

26

1 advantage over all other parties to this proceeding  
2 in terms of the parties have not had an opportunity  
3 to perform discovery, did not have an opportunity to  
4 provide rebuttal pre-filed prior to the hearing.

5 And so at the minimum, we would ask that  
6 the Commission restrict the admission of his  
7 testimony to simply those areas where he does address  
8 or he rebuts the Committee and the Division's  
9 testimony, as opposed to his testimony as a whole.

10 CHAIRMAN BOYER: What do you have to say  
11 to that, Mr. Reeder?

12 MR. REEDER: I think it is the case that  
13 both the Division and the Committee indicated a  
14 willingness to accept the Company's test year and to  
15 make adjustments. Our testimony addresses that  
16 position, and suggests that it may not be  
17 appropriate; that if we're going to have a test year  
18 decision -- and we don't necessarily think that a  
19 test year decision is necessary -- then we best have  
20 one that's short. Otherwise, we shall all contend  
21 that the evidence beyond the period of Mid-2008 is  
22 speculative and not reliable evidence that you can  
23 rely on.

24 Therefore, we think his testimony is  
25 appropriate, addressing the Division and the

26

1 Committee, who seem to be willing to accept the  
2 Company's test year.

3 CHAIRMAN BOYER: And as to the Company?

4 MR. REEDER: They've adopted the Company's  
5 growth assumptions. They've adopted the Company's  
6 position with respect to asset additions, as you see  
7 in Ms. Zenger's testimony. We're just attacking  
8 those assumptions.

9 CHAIRMAN BOYER: Let me be more clear.  
10 Mr. Brown has indicated that Dr. Lemmon's testimony  
11 does appear to be rebuttal to both the Committee's  
12 and the Division's testimony, but not to the  
13 Company's testimony. Have you something to say to  
14 that issue?

15 MR. REEDER: We have not tried to  
16 address -- we have not tried to rebut specifically  
17 the Company's testimony in this test year case,  
18 except as to say that the information that they're  
19 relying upon is speculative. I think that's the  
20 testimony that you would expect in this test year  
21 case when you see the case in chief.

22 I think we're making much ado about  
23 nothing with this whole notion on whether the  
24 testimony should be limited. The question is what's  
25 the appropriate test year. I don't think limiting it  
26

1 serves any purpose at all.

2 MR. BROWN: I think -- if I may respond  
3 just briefly.

4 CHAIRMAN BOYER: Go ahead and respond.

5 MR. BROWN: It really goes to the  
6 overarching concern of the Commission has rules, has  
7 deadlines set forth in the scheduling order. And if  
8 we start to slip those now, just because -- you know,  
9 a wolf in sheep's clothing is still a wolf, and  
10 direct testimony filed under the cloak of rebuttal is  
11 still direct testimony, the way it's been presented.

12 And our concern is if we start slipping  
13 those dates now, what do we do when we have three  
14 subsequent proceedings still in this case that we  
15 have to deal with when, you know, parties are allowed  
16 to miss deadlines or file things late? And that's  
17 really the overarching concern, Chairman.

18 CHAIRMAN BOYER: But in the Company's  
19 rebuttal testimony, however, it did address this very  
20 same issue of the test year and why the proposed  
21 forecast test year is appropriate. Isn't Dr. Lemmon  
22 rebutting that?

23 MR. BROWN: Well, I think a close look at  
24 his rebuttal testimony, it would be filed  
25 simultaneously, so he wouldn't be rebutting our  
26

1 rebuttal. He wouldn't know what that is until they  
2 were exchanged on February 4th. It seems to us that  
3 what he's really addressing in his rebuttal testimony  
4 is the Company's filed position, which it filed back  
5 in December, which the other intervening parties  
6 addressed on the January 25th deadline.

7 CHAIRMAN BOYER: We're going to caucus  
8 here for a moment. And we don't have a caucus room,  
9 so we're going to do it here at the bench.

10 (Brief discussion held off the record.)

11 We're going to admit the evidence into  
12 testimony, but during cross-examination -- and surely  
13 you've had an opportunity to read Dr. Lemmon's  
14 testimony -- you'll have an opportunity to  
15 cross-examine that witness. And what I'm thinking of  
16 doing, depending on how our time constraints are,  
17 after we've completed cross-examination, allow live  
18 surrebuttal to give the other Panelists an  
19 opportunity to respond to what they've heard today.  
20 Does that seem fair, seem like due process? It  
21 smells like due process to me.

22 MR. REEDER: We've got a roomful of Ph.D  
23 economists. We might just learn something if we let  
24 them talk to each other.

25 CHAIRMAN BOYER: Very well.

26



1 MR. HIGGINS: Don't bet on it.

2 CHAIRMAN BOYER: Okay.

3 MR. REEDER: Thank you. I've moved the  
4 admission. You've accepted it. This is available.

5 CHAIRMAN BOYER: We have. We still have  
6 Mr. Ball, who is going to be one of our Panelists  
7 today. Mr. Ball, will you need legal assistance in  
8 getting your written testimony into evidence?

9 MR. BALL: I think I can handle it,  
10 Chairman, if you'll allow me to. If I foul up,  
11 perhaps you'll point it out to me and we'll see what  
12 we need to do about it.

13 CHAIRMAN BOYER: Let's see how it goes.

14 MR. BALL: First, I wish to state my name  
15 and address. I am Roger J. Ball, and my address is  
16 1375 Vintry Lane, Salt Lake City, Utah, 84121.

17 Second, I'd like to say on whose behalf  
18 I'm appearing here today. I'm appearing on my own  
19 behalf as a residential ratepayer of PacifiCorp,  
20 which does business in Utah as Rocky Mountain Power.  
21 There is no other supplier of electricity to whom I  
22 can turn because RMP has a monopoly where I live. To  
23 the extent that there are other similarly-situated  
24 RMP ratepayers, their interest in these proceedings  
25 may align with my own.

26

1                   Third, I would like to identify the  
2 exhibits that I've already filed with the Commission  
3 and served on the parties in this docket. I'm the  
4 same Roger J. Ball who filed test year testimony  
5 marked as RJB Exhibit 1.0, consisting of 12 pages,  
6 including a service certificate, together with RJB  
7 Exhibit 1.1, one page detailing my qualifications and  
8 experience, on the 25th of January 2008. I also  
9 filed test year rebuttal testimony marked as RJB  
10 Exhibit 2.0, consisting of ten pages, including a  
11 service certificate, on the 4th of February 2008. My  
12 rebuttal testimony included some corrections to my  
13 earlier testimony. I have no further corrections.

14                   Fourth, I would like to say that if I were  
15 asked the same questions today that are in a  
16 pre-filed written testimony and rebuttal testimony,  
17 my answers would remain the same.

18                   Finally, I'd like to offer my testimony  
19 marked as RJB 1.0, qualifications and experiences  
20 marked as RJB Exhibit 1.1, and rebuttal testimony  
21 marked as RJB Exhibit 2.0, and ask that it be  
22 admitted into evidence.

23                   CHAIRMAN BOYER: Nicely done, Mr. Ball.

24                   Are there any objections to the admission  
25 of Mr. Ball's testimony, direct and rebuttal?  
26

1 MR. BROWN: No.

2 MR. PROCTOR: No objection.

3 CHAIRMAN BOYER: It is admitted into  
4 evidence. Do you have a short summary, Mr. Ball?

5 MR. BALL: Chairman, what I have notes for  
6 is a combination of summary of my testimony and  
7 surrebuttal to the other parties' rebuttal filed two  
8 or three days ago. May I proceed?

9 CHAIRMAN BOYER: Let's begin with your  
10 summary and we'll see where we are time-wise.

11 MR. BALL: With the greatest respect,  
12 Chairman, I would find that impossible to do without  
13 an hour or two's further preparation. It's all  
14 blended in together.

15 CHAIRMAN BOYER: Well, we're going to  
16 break at quarter to the hour.

17 MR. BALL: I'm happy to be interrupted at  
18 that time, Chairman, if I'm not done by then. With  
19 luck, I'll be done.

20 CHAIRMAN BOYER: Well, let's have you give  
21 your summary of your direct and rebuttal testimony,  
22 and then we'll move on to what the other parties have  
23 said, the other witnesses have said, after the lunch  
24 hour.

25 MR. BALL: I'm sorry, Chairman, it just  
26

1       isn't -- I'm just not set up to make that separation.  
2       I apologize. It's separated by issues, it's not  
3       separated between summary and surrebuttal. I  
4       apologize for that, but I had no idea when I was  
5       preparing this, up until 10:00 last night, that this  
6       was the order of things that you were going to adopt  
7       today. I'm afraid I have what I have.

8                   CHAIRMAN BOYER: Are you intending to read  
9       some treatise that you have in front of you?

10                   MR. BALL: I have notes, Chairman. I  
11       intend to use those notes to help me go through  
12       quickly.

13                   MR. REEDER: I, for one, have no objection  
14       if Mr. Ball says what he wants to say now and we  
15       break for lunch.

16                   CHAIRMAN BOYER: Anyone else? All right.  
17       Let's -- we didn't know until this morning how we  
18       were going to proceed, either. In fact, I'm changing  
19       as we proceed. But let's see how you can do. We  
20       have read your testimony. We've been schooled on the  
21       Julian calendar and so on and so forth. So I think  
22       you can be fairly parsimonious, if you would, please.

23                   MR. BALL: I'll be as quick as I can,  
24       Chairman.

25                   DIRECT TESTIMONY

26

1           BY MR. BALL: The first issue I want to  
2 address is whether or not Rocky Mountain Power has  
3 established its underearning. UCA 54-4-4, Subsection  
4 1 requires the Commission to conduct a hearing to  
5 determine whether existing rates should be changed  
6 before it sets about determining and ordering new  
7 ones.

8           That hasn't happened yet. That subsection  
9 requires that the Commission to find that rates  
10 are -- not will be -- inadequate before embarking on  
11 a rate case. It neither requires nor does it  
12 authorize the Commission to find that rates should be  
13 adjusted because projected returns fall below the  
14 authorized level.

15           Company Witness McDougal, on lines 329 and  
16 330 of his rebuttal testimony, says: "The Company  
17 relies on historic data to determine whether it is  
18 over or underearning." Across all of its litigated  
19 and settled cases this millennium, PacifiCorp's  
20 average increase is slightly less than half of what  
21 it requested. I find the conclusion inescapable that  
22 the Company routinely asks for at least twice as much  
23 as it needs.

24           On the 26th of July 2006 PacifiCorp asked  
25 the Commission to approve a "Black Box" stipulation  
26

1 including the rates operative from 11 December 2006  
2 to 30 June 2007, that affected its historic  
3 unadjusted data set, and a provision not to seek rate  
4 relief before 11 December '07, saying that all its  
5 terms and conditions, considered together as a whole,  
6 will produce fair, just and reasonable results.

7 PacifiCorp cannot now contradict its own sworn  
8 testimony before this Commission in docket 06-035-21  
9 to claim that the results produced during the July  
10 2006 to June 2007 year were not fair, just and  
11 reasonable. The Commission must find that Company's  
12 rates are adequate and dismiss the Application, and I  
13 have so recommended.

14 On to the question of what test period  
15 best reflects the rate effective period. UCA 54-4-4,  
16 Subsection 3, paragraph (a) requires the Commission,  
17 if it selects a test period at all, to select, on the  
18 basis of evidence, the one that best reflects the  
19 conditions the utility will experience while the  
20 rates are in effect. RMP asserts that the July '08  
21 to June '09 test period it seeks best aligns with the  
22 rate-effective period.

23 The Commission today doesn't know what the  
24 rate-effective period will be, so it cannot know what  
25 test period will best align with it. What it can  
26

1 know is that the Company's requested test period does  
2 not align perfectly with a rate-effective year  
3 beginning on or within a day or two of the 13th of  
4 August '08, because the dates don't match. Ranging  
5 over a three-year period, spanned by Rocky Mountain  
6 Power's historic unadjusted data set, its Mid-period,  
7 and its requested fully-projected test period, there  
8 are at least 24 possible 12-month test periods,  
9 beginning on the first day of the month and ending on  
10 the last. Only four have been addressed by any of  
11 the parties.

12           Unless substantial evidence is laid before  
13 the Commission to prove that none of the others is as  
14 good as or better than any of those four, the  
15 Commission cannot reasonably find that any of these  
16 best reflects the rate-effective period. Bold  
17 assertions from Rocky Mountain Power and the Division  
18 that '08-'09 best reflects the rate-effective period  
19 simply do not hold up to the legal standard of  
20 evidence established by the Utah Supreme Court in the  
21 Wage case.

22           Moreover, without knowing what the  
23 rate-effective period will be in this case, and that  
24 is uncertain at present, the Commission couldn't  
25 realistically evaluate which test period was best

26

1 reflective, even if it had evidence before it  
2 covering a wide range of possibilities. I agree with  
3 the Committee that we all need to know as early as  
4 possible in a rate case what the test period will be,  
5 but "quick and dirty" won't do when the mandate is to  
6 select the best.

7           The Commission has previously identified a  
8 number of concerns with out-of-period adjustments and  
9 future test periods. Those concerns apply quite  
10 sharply when the range of options before the  
11 Commission is so limited and the testimony far from  
12 comprehensive or objective, also when, as here, the  
13 Applicant has had all the time it chose to take to  
14 present the number it wanted the Commission to see in  
15 the format it wished to present them in to frame the  
16 argument as favorably as possible to itself, and when  
17 it has already argued in its petition for review of  
18 the scheduling order in this docket, that without  
19 restrictions on discovery requests, the turnaround  
20 time will be burdensome on the Company.

21           I'd like to surrebut Dr. Zenger's rebuttal  
22 testimony. I'm concerned because the Division seems  
23 convinced that the test period is for the Company to  
24 select, while UCA 54-4-4, Subsection 3 refers to the  
25 Commission nine times and a public utility just once  
26



1 in describing the selection of a test period.  
2 Dr. Zenger, on line 155 of her direct testimony  
3 states, quote: "The Company can select a test  
4 period," close quote. In her rebuttal testimony,  
5 lines 65 through 69, and again at lines 87 to 89 and  
6 93 to 95, she uses Rocky Mountain Power's preferred  
7 test period as a standard against which to evaluate  
8 Mr. Higgins' alternative recommendation.

9 The plain language of the subsection  
10 mandates that it is the Commission that shall select  
11 the test year. A utility may make whatever  
12 recommendations it wishes, but its preference should  
13 be awarded no deference beyond what is supported by  
14 evidence that it is the best of all possible choices.

15 I'm also concerned that Dr. Zenger  
16 testifies on behalf of the Division on lines 159  
17 through 163 of her rebuttal testimony that: "I would  
18 predict that if we were to use a Calendar 2008 test  
19 year, the Company would immediately begin preparing  
20 for its next rate case to be filed around August or  
21 so.

22 The Company may very well not agree to a  
23 stay-out provision using the 2008 Calendar test  
24 period. This would be administratively an  
25 inefficient use of the Company's time and resources,

26

1 as well as those of regulators and intervening  
2 parties."

3           According to legislative audit 2008/01,  
4 Figure 3.2, all the State's utility regulatory agency  
5 appropriations for fiscal year '08 total \$8.2  
6 million. I estimate, based upon past experience of  
7 working with Perf calculations while at the Committee  
8 of Consumer Services, that the total cost to  
9 ratepayers of this Company's and the State utility  
10 regulatory agencies' expenditures on regulating Rocky  
11 Mountain Power during July '07 to June of '08 will be  
12 in the region of \$10 million.

13           The cost to ratepayers of using the  
14 2008-2009 test period RMP has asked for is  
15 \$79,347,461 more than using the 2007-2008 that the  
16 Company has labeled Mid-period. Since I've seen no  
17 forecast for Calendar '08, I can only interpolate it  
18 may save ratepayers around \$40 million, compared with  
19 the utility's request. That's \$40 million compared  
20 with a \$10 million budget for the estimated figure  
21 for the regulatory process.

22           That four-to-one ratio of revenue  
23 requirement to regulatory expense isn't  
24 administrative inefficiency in my book. It  
25 represents the Committee, Division, Attorney General

26

1 and Commission doing what they're paid to do, to  
2 protect ratepayers. UIC Witness Lemmon appears to  
3 agree with me in his rebuttal testimony, page 4,  
4 line 24, through page 5, line 2.

5 I want to add that large industrial and  
6 commercial energy users may find rates certainty  
7 attractive for a number of reasons. One is the  
8 ability to cost their long-term sales contracts with  
9 greater confidence. But residential ratepayers like  
10 me see no benefit to our cash flow from paying more  
11 now in order to ensure rates don't go up again for a  
12 bit longer. I'm willing to pay reasonable rates, but  
13 no more than I must, because there are other things I  
14 need and want to do with my money right now and in  
15 the near-term future.

16 Given the uncertain prospect of recession,  
17 Professor Lemmon, on page 2, line 1 of his rebuttal  
18 testimony, refers to, quote: "The current level of  
19 economic uncertainty," close quote. Sorry, that  
20 isn't the closing. Yes, it is. And he also refers  
21 to the same thing on line 22 and page -- and expands  
22 on it on pages 3 through 4, line 20 through line 21  
23 on 4. In Utah and the United States generally, at  
24 present the best thing for the economy may be to  
25 leave as much money as possible in ratepayers'

26

1       pockets.

2                       President Bush and both chambers of  
3       Congress seem to agree, too, having decided to send  
4       taxpayers rebates as a stimulus measure. In that  
5       situation, why would the Commission want to tax us  
6       more heavily by increasing rates more than is just  
7       and reasonable.

8                       Chairman, I don't think I can get through  
9       my next section in a minute and a half.

10                      CHAIRMAN BOYER: You have five minutes.

11                      MR. BALL: Oh, okay. Thank you.

12                      Does regulatory lag and the 240-day limit  
13       in UCA 54-7-12-3C justify the conclusion of  
14       expenditures that will eventually be capitalized in  
15       future test period forecasts? Regulatory lag arising  
16       from the necessary time for a utility to prepare an  
17       Application, for regulators and interveners to  
18       analyze its data and for the Commission to decide the  
19       outcome is not a sufficient reason to select a  
20       fully-projected or even an historic with  
21       out-of-period adjustments test period. Ratepayers  
22       also suffer when rates are too high. The utility is  
23       protected by the 240-day limit that ratepayers do not  
24       enjoy.

25                      Contrary to the testimony of Mr. Walje

26

1 that, quote: "A forecast test period is essential to  
2 recognize the costs that the Company will incur when  
3 the new rates become effective," much of the increase  
4 Rocky Mountain Power seeks is related to investment  
5 in new plants planned for 2008 to 2009, but that may  
6 or may not come into service during that time frame.  
7 In his rebuttal testimony, Mr. McDougal writes at  
8 length about the inclusion of recovery and return on  
9 new investment only for those months when the  
10 resulting plant issues are useful, but I don't agree  
11 with him.

12               Such expenditure is capitalized, put into  
13 rate base, and depreciated over many years. It is  
14 wholly inappropriate for ratepayers to begin paying  
15 for such a plant before it becomes used and useful.  
16 Ratepayers cannot be recompensed for a Lake Side-type  
17 delay if depreciation and return on equity were put  
18 into rates ahead of time and there is a presumption  
19 in favor of future test years, as well as the rule  
20 against retroactive ratemaking.

21               Dr. Zenger's fear that the Company's  
22 reputation will suffer if it allows its capital  
23 program to slip, and that it might be penalized  
24 somewhere down the road is cold comfort. Because of  
25 turnover, regulatory memories are short compared with  
26

1 utility ones, and it's politically safer to penalize  
2 ratepayers than utilities. It's essential that the  
3 Commission act to protect ratepayers when this  
4 Application includes at least eight capital schemes  
5 projected to come into service between the 2006-7  
6 base period, according to Rocky Mountain Power  
7 Witness Lasich.

8           On lines 99 and 100 of her rebuttal  
9 testimony, Dr. Zenger says that the Company plans to  
10 spend almost \$4 billion on generation, distribution  
11 and transmission plants to meet load growth during  
12 the 12 months July '08 to June '09. Life is what  
13 happens while you're waiting for your plans to come  
14 to fruition.

15           No one can be certain when these projects  
16 will complete, and they shouldn't be in rates until  
17 they are complete, and the final, not forecast  
18 numbers, have been approved. The utility is scarcely  
19 harmed when it can accrue cost of work in progress as  
20 one of the expenses to be capitalized, and recovery  
21 return on stockholders' equity throughout the period  
22 the plant is in rate base.

23           Often a plant outlives its depreciation  
24 life, so ratepayers still benefit from it at the back  
25 end of the cycle. That much better reflects both the  
26

1 costs Rocky Mountain Power can expect to experience  
2 during the rate-effective period and the benefits  
3 customers will actually receive as they pay the  
4 rates.

5 I'd like to turn to my recommendation that  
6 the Commission balance any selection of a future test  
7 year with a reduction of return on equity. The  
8 Commission has never before set rates for PacifiCorp  
9 based on a projected test year, although three times  
10 it has approved "Black Box" settlements of rate cases  
11 in which the Company's Application sought a future  
12 test period. The rate of return on equity, in every  
13 case where the Commission has heard comprehensive  
14 testimony, has been based upon the risks the utility  
15 has faced when rates were based upon an historic test  
16 year.

17 The transition from an historic to a  
18 future test year represents a major shift of risk  
19 from stockholders to ratepayers, that is represented  
20 by the difference in revenue requirement between  
21 Rocky Mountain's requested test period and its  
22 historic period.

23 In his direct testimony, Rocky Mountain  
24 Power Witness Steven R. McDougal filed Exhibit SRM-1.  
25 Line 5 of page 1.0 declares the Company's forecast

26

1 revenue deficiency for the test year it is seeking to  
2 be \$161,229,086. He also filed Exhibit SRM-2. On  
3 page 1.0 of base period data, the utility's  
4 calculated revenue deficiency for the July '06 to  
5 June '07 year, adjusted for known and measurable  
6 changes, is \$72,250,644.

7           On the face of it, the excess cost to  
8 ratepayers of transferring risk to them from  
9 stockholders, if the Commission selects the future  
10 test period PacifiCorp has asked for, is the  
11 difference between those numbers: \$88,968,442, or  
12 almost \$89 million.

13           To the extent that the Commission selects  
14 a test period other than Rocky Mountain Power's base  
15 period, I am recommending that it offset the cost to  
16 ratepayers of that shift in risk by reducing the  
17 monetary value of the rate of return on equity it  
18 would otherwise authorize for the Company. If it  
19 does indeed select the test period sought by  
20 PacifiCorp, it should reduce return on equity by a  
21 dollar amount of \$88,968,442.

22           Of course, as accounting adjustments are  
23 applied in this proceeding, the numbers should change  
24 accordingly. Mr. McDougal rebuts my proposal on the  
25 grounds that I provided no analysis. I think I have  
26



1 now explained my rationale very clearly, and that his  
2 response amounts to -- only to a cry of, "No, he  
3 isn't." He resorts to kind of circular logic in  
4 proposing a risk adder of \$89 million if the  
5 Commission doesn't select the test period sought by  
6 the Commission.

7           The point is that for decades during which  
8 historic test periods were the norm, ROE was what it  
9 was and paid stockholders for the risk inherent in  
10 rates thus set. Moving test periods into the future  
11 results in calculable additional revenues for the  
12 utility at the expense of ratepayers. Stockholder  
13 risk is simultaneously mitigated -- I'm sorry, I'm  
14 slipping into American -- simultaneously mitigated.  
15 The value of this shift in risk is equal to the  
16 additional utility revenue. Only a teeny bit left.

17           CHAIRMAN BOYER: Very well. Let's wrap it  
18 up, then.

19           MR. BALL: A further little bit of  
20 surrebuttal of Mr. McDougal's rebuttal. On lines 282  
21 to 287 of his rebuttal testimony, Mr. McDougal argues  
22 for symmetry if the Commission adopts ratepayer  
23 safeguards in selecting a future test year. He  
24 disregards the fact that any variances are under  
25 Company control and ratepayers have none. Ratepayers

26

1 need regulatory safeguards. Stockholders should look  
2 to management to protect their interests.

3 That concludes my summary and surrebuttal  
4 testimony, Mr. Chairman. Thank you for your  
5 consideration. I'll be happy to be cross-examined as  
6 necessary.

7 CHAIRMAN BOYER: Thank you, Mr. Ball.  
8 Here's how I envision proceeding from this point  
9 forward. We'll break now until 15 minutes until  
10 2:00. This clock is a little slow, I've noticed.  
11 We're going to conclude the hearing today at 4:00  
12 sharp. I'd like to reserve some time for closing  
13 arguments.

14 I notice there are six parties. If you  
15 want to talk about it during the lunch break, I'm  
16 happy to accede to your desires there. Otherwise,  
17 I'll just arbitrarily give you each five minutes,  
18 which would be a half hour, which means, then, that  
19 we would conclude the cross-examination and  
20 surrebuttal, or whatever we're calling the  
21 opportunity for the Panelists to respond to their  
22 fellow Panelists, at 3:30. So you can do the math  
23 there and cut it up however you wish to do it.  
24 Mr. Brown, you look -- you have a quizzical look on  
25 your face.

26

1 MR. BROWN: Just listening intensely.

2 CHAIRMAN BOYER: Thank you. Thank you for  
3 that attention. We are now in recess, then, until  
4 quarter to 2:00.

5 (Noon recess.)

6 --ooOoo--

7 1:45 p.m. February 7, 2008

8 CHAIRMAN BOYER: Let's go back on the  
9 record. Okay. We had completed summaries of the  
10 Panel, and we've just had an offline discussion among  
11 the three of us, and we're thinking that what we  
12 would like to do at this point is let the Panelists  
13 do their Surrebuttal or Reply or Response or whatever  
14 we want to denominate it to the others in the hopes  
15 that it might cut down on cross-examination as we  
16 proceed. Does that sound like a fair approach?

17 MR. GINSBERG: I think that would be fine.

18 CHAIRMAN BOYER: I've got one vote, that's  
19 good enough for me. So we'll do that, we'll proceed  
20 with the Panelists' response to the other Panelists,  
21 beginning with the Company. We've kind of rearranged  
22 the order, but we'll begin at my right and work  
23 around the room over to now Mr. Smith in the far  
24 corner. Well, Mr. Smith's client, I understand that.

25 We are going to start with the Company's

26

1 member of this Panel, Mr. McDougal. Am I babbling to  
2 myself? Do we understand where we're going now?

3 MR. SMITH: We're with you.

4 COMMISSIONER BOYER: Okay. Mr. Smith,  
5 your client is on.

6 MR. MCDUGAL: Okay. As far as rebuttal  
7 to the comments made by others, I think that  
8 generally we agree with the comments made by most of  
9 the parties, the Committee and the DPU. We believe  
10 that starting with the forecast test period as  
11 proposed by the Company gives adequate opportunity to  
12 all of the parties to adjust going forward as they  
13 see fit.

14 We also believe if we look at some of the  
15 other comments that were made regarding the test  
16 period -- and you have to excuse me, I wasn't  
17 planning on this so I'm just looking through my notes  
18 real quickly -- if we look forward at the rate cases  
19 and if we look forward at the test period as proposed  
20 by the Company, we are not trying to get here to  
21 where we're having a full earnings of everything,  
22 we're bringing everything online. We're bringing  
23 online as we match.

24 And this test period proposed by the  
25 Company is not out of line with what we do in other  
26

1 forecasts. The question was asked earlier regarding  
2 what do we do in other states and how does this  
3 compare to other states. When we do forecasts in  
4 other states, particularly Oregon and California, we  
5 generally go out the exact amount of time as what  
6 we're going out here in this case here in Utah. When  
7 we filed the last case in Oregon, it was filed  
8 virtually at the same time as the last Utah case, it  
9 used Calendar Year '07. If I were to file another  
10 case right now in Oregon, I would use -- well, if I  
11 were to file it today, I would actually use Calendar  
12 Year '09 because of their suspension period.

13               So to look at the other cases that were  
14 filed last year and state the test periods don't  
15 align and aren't as far out as the Utah case has to  
16 deal with when the cases were filed, not having to do  
17 with any difference in how the Company treats the  
18 different states.

19               The same applies to the Wyoming case. In  
20 Wyoming we went through August of 2008. That case  
21 was filed six months earlier than Utah and that test  
22 period was decided by Stipulation in the prior  
23 Wyoming rate case which stated we would go 20 months  
24 from historical. So our test period in Utah is  
25 consistent with what we're doing in other states.

26

1                   One of the other issues brought up is a  
2                   lot has been said about economic uncertainty. We  
3                   know that the forecasts have an acceptable level of  
4                   accuracy. And these forecasts are the best we can  
5                   come up with and we believe they best reflect what  
6                   will be in the rate effective period. If adjustments  
7                   are made because of any economic uncertainty or  
8                   there's any changes, most changes have corresponding  
9                   offsets if we look at the total revenue requirement.

10                   For instance, if load growth were to  
11                   change, what we would do as a company in revising a  
12                   forecast would be to drop the load. You would then  
13                   drop the revenues, you would adjust your net power  
14                   costs and you would adjust your interjurisdictional  
15                   factors.

16                   The net impact of those generally is not  
17                   major as we make small changes in load, especially if  
18                   we look at the economic downturn of some of the  
19                   scenarios presented today where we talked about the  
20                   number of new connects. It was shown earlier that  
21                   the number of new connects in November and December  
22                   of last year were slightly below projection.

23                   One, as mentioned by Dr. Wright, we cannot  
24                   look at individual months. But even if we look at  
25                   those downturns, and say that there was 1,000 fewer

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1 homes, that 1,000 homes, with most homes using 6 or 7  
2 kilowatt hours, kW peak, would actually equate to  
3 under a 1 percent drop in total Company load. Total  
4 Company load is around 10,000 megawatts, that would  
5 equate to maybe 6 or 7 megawatts.

6 So there's a significant difference in the  
7 magnitude of what we're talking about here today.  
8 And some of these issues, even if they do  
9 materialize, are not the issues that will not drive  
10 the case. A lot of the load growth is driven by  
11 industrial customers, businesses, and those are the  
12 larger customers on our system.

13 So I believe, just to summarize, that the  
14 test period as proposed by the Company best reflects  
15 those conditions that we anticipate in the rate  
16 effective period.

17 I think that would be my Surrebuttal.

18 Thank you for the opportunity.

19 CHAIRMAN BOYER: Thank you, Mr. McDougal.

20 Mr. Ball, I think you've done your  
21 Surrebuttal. You'll have another opportunity at the  
22 end to make a closing statement.

23 Shall we move on to Mr. Lemmon then? And  
24 we'll go in reverse order this time. Dr. Lemmon,  
25 that would be. I apologize.

26

1                   MR. LEMMON: I don't have too much to say  
2 at this point. I think one thing that is in my  
3 report that was not brought out yet, there is --  
4 there does seem to be a discrepancy in the Company's  
5 load growth forecast, which are approximately 3  
6 percent a year, and the population growth forecasts  
7 that are in Dr. Zenger's report, which are 1.7  
8 percent per year through 2010, and that seems to me a  
9 fairly large discrepancy between the two sets of  
10 forecasts. And I did hear Dr. Zenger say that there  
11 were some new numbers today that were much higher.

12                   But I guess that's the point, right,  
13 things are changing rapidly and what weight should be  
14 put on extrapolating a trend based on historical data  
15 from a period of economic expansion, what weight  
16 should you put on extrapolating that into the future.  
17 And we can deal with more of that on cross.

18                   And the other point that I was struck by  
19 was it sounds like if we choose -- or if a future  
20 test period is chosen, there's an ability to sort of  
21 make all these adjustments to either bring it back to  
22 a present test period or vice versa. That seems to  
23 me to in some sense make the issue of what test  
24 period is chosen somewhat moot because if all you're  
25 going to do is take the forecasts and then readjust

26



1       them to reflect any new conditions, what's the  
2       purpose of forecasting in the first place?

3                       So I think that's about all I have to say  
4       at this point.

5                       CHAIRMAN BOYER: Thank you, Dr. Lemmon.  
6                       Mr. Higgins.

7                       MR. HIGGINS: Thank you, Mr. Chairman,  
8       I'll be very brief. I did have an opportunity to  
9       make comments the first time through.

10                      I would really just simply limit my  
11       comments right now to pointing out that a number of  
12       the parties have addressed the issue of accurately  
13       forecasting Utah, which is important. It's certainly  
14       important in conducting this kind of exercise. But  
15       if you're using a forecasted test period, it is not  
16       just -- you're not just trying to get Utah correct,  
17       you need to try to get Utah in relation to the other  
18       jurisdictions correct as well because this is a  
19       multi-jurisdictional utility.

20                      So you have the issue of identifying the  
21       basic parameters for the system and for Utah, but  
22       you're also allocating those costs across different  
23       jurisdictions. And for those reasons I believe that  
24       it also weighs in favor of doing a projection that's  
25       nearer in time, not only to get the Utah forecast

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1 correct, but to get Utah's relative proportion of  
2 cost responsibility as correct as possible.

3 Thank you.

4 CHAIRMAN BOYER: Thank you, Mr. Higgins.  
5 Dr. Zenger.

6 MS. ZENGER: First, I would like to  
7 respond to Dr. Lemmon about the population change.  
8 And when I filed my testimony in January, I went off  
9 the GOPB, Governor's Office, that's the Planning and  
10 Budget website, and they have a 2005 basis. Each  
11 year in Utah we present an Economic Report to the  
12 Governor as part of the Wasatch Economic Forum and  
13 other economists in the field. And so that report  
14 just got submitted in the interim time since I pulled  
15 my data from the population and since I filed my  
16 testimony.

17 So the same GOPB data now, like I  
18 mentioned earlier, projects 3.1 percent population  
19 change in 2008, 2.7 percent in '09, 2.5 percent in  
20 2010. And they actually project up to 2020 and it's  
21 around 2.5, 2.4, 2.4, 2.3, probably averaging around  
22 2.3, just looking at it briefly. So that was an area  
23 of change.

24 In fact, I mentioned when I did write my  
25 Direct Testimony for this case that in the interim  
26

1 time that I had to file my Rebuttal Testimony the  
2 Federal Reserve had already dropped the interest rate  
3 another 50 basis points. So things happen quickly.  
4 And when we started in January, these are a lot of  
5 the economic events that have happened in that much  
6 of a time period since you had joined -- or filed  
7 your testimony late in the case. So I hope that  
8 brings you up to my changes in my testimony.

9 And load growth, I did want to respond to  
10 Kevin Higgins regarding --

11 CHAIRMAN BOYER: Dr. Zenger, would you  
12 speak into your microphone, please.

13 MS. ZENGER: I did want to briefly respond  
14 to Kevin Higgins regarding the '08 test year. And  
15 Kevin Higgins and I both looked at various economic  
16 factors that were pointed out in your 2004 order so  
17 we did a similar analysis. I agree that the SG  
18 factor, if that's calculated incorrectly, that can  
19 have a huge impact. However, I think that it would  
20 be irrelevant in what test period you used. That  
21 mistake could happen if you used an '08, a Mid period  
22 or a future period. So I think that's just a factor  
23 that we need to look at and make sure that it's  
24 accurate regardless of which test period is used.

25 And then finally, I just wanted to go back

26

1 to one of my Data Requests, it was 4.1, I believe.  
2 Excuse me, it's Data Request 5.2 from the Division.  
3 And I asked -- I referenced a line in Mr. McDougal's  
4 testimony and I wanted him to provide me an estimate  
5 of how much plant addition would take place from the  
6 end of that Calendar Year 2008, at the end of  
7 December '08, those first six months, January through  
8 June of 2009, and he responded it was 441.1 million.  
9 And then in a later response, 50 million in net power  
10 costs.

11 So I wanted to point out if we did select  
12 a test year and cut it off there at the December  
13 2008, all that planned investment would not take  
14 place. And a lot of it, I have it broken down in  
15 detail, a lot of it is distribution and a good  
16 portion of the distribution is in Utah.

17 I think that's all I have. Thank you.

18 CHAIRMAN BOYER: Thank you, Dr. Zenger.

19 Ms. DeRonne?

20 MS. DERONNE: Yes. I do have a few brief  
21 comments based on what was said this morning. Well,  
22 I guess really two areas.

23 The first and main one is, during Mr.  
24 Reeder's discussion, I believe I heard him indicate  
25 that the Committee had agreed with or adopted on to

26

1 the Company's proposed test year load projections or  
2 load forecasts. And I wanted to make it clear that  
3 in my testimony we said that we felt that the  
4 Company's proposed test year could be adjusted and  
5 modified to become a questionable rate effective  
6 period. We in no way said we agreed with the load  
7 forecast. We do have some of the same concerns in  
8 this area. And we anticipate, we are early in our  
9 audit process and we're still conducting our review  
10 and analysis, but we anticipate we will recommend  
11 adjustments to amounts contained in the Company's  
12 filing.

13                   It brings me to a second area, too. That  
14 no matter what test year is selected, if it's the '08  
15 proposed by Mr. Higgins or the Company's proposed  
16 test year, the parties in this case are going to  
17 continue to review and audit and review all the  
18 information in this case in those forecasts and  
19 continue to get updates and see what's happening with  
20 economic conditions. And no matter which of those  
21 periods, parties would still have the ability to  
22 recommend adjustments based on what they see  
23 happening during their investigation up until the  
24 hearing phase.

25                   Thank you.

26

1 CHAIRMAN BOYER: Thank you, Ms. DeRonne.  
2 Ms. Murray?

3 MS. MURRAY: I don't have anything to add  
4 at this time. Thanks.

5 CHAIRMAN BOYER: Thank you, Ms. Murray.  
6 Let's proceed on this basis. Let's  
7 proceed with cross-examination beginning with the  
8 Company, I don't know whether that will be Mr. Smith  
9 or Mr. Brown or both, and work our way around the  
10 table. The Commissioners will ask questions. There  
11 will be time for brief redirect, if necessary, and  
12 then we'll go to closings. Does that sound  
13 satisfactory to everyone?

14 MR. BROWN: Cross-examination of Mr.  
15 McDougal first?

16 CHAIRMAN BOYER: No. Well, I guess we  
17 ought to provide him, shouldn't we, and let other  
18 people examine him. I was thinking of letting you  
19 folks go first with the other Panelists, but that  
20 would be -- either way is fine.

21 MR. DODGE: And for clarification, Mr.  
22 Chairman, do you intend to have people go by witness  
23 and each cross-examine or by attorney and  
24 cross-examine everyone?

25 CHAIRMAN BOYER: Let's do the latter and  
26

1 conserve what few benefits we have left of this Panel  
2 approach.

3 MR. REEDER: So you can attach anyone you  
4 wish?

5 CHAIRMAN BOYER: Yeah. Well, let's let  
6 the Company lawyers proceed.

7 MR. BROWN: The first questions would be  
8 directed toward the UAE witness, Mr. Higgins.

9

10

KEVIN HIGGINS,

11

called as a witness, was examined and

12

testified as follows:

13

14

CROSS-EXAMINATION

15

BY MR. BROWN:

16

Q. You're recommending the selection of a

17

forecast test period, correct?

18

A. That is correct.

19

Q. And what conditions -- or the

20

recommendation you have is the Calendar Year 2008?

21

A. Yes.

22

Q. And what conditions have you considered or

23

examined to determine that a Calendar Year 2008 test

24

period best reflects the conditions that the Company

25

will encounter during the rate effective period?

26

1           A.     Well, as described in my testimony, I do  
2 believe that it's useful to use a forecasted test  
3 period to provide the Company with an adequate return  
4 on its invested capital, but I believe that using a  
5 forecast that is closer in time to the present is  
6 going to provide a more reliable forecast for that  
7 purpose.

8           Q.     So it wasn't necessarily any specific  
9 conditions that the Company anticipates encountering,  
10 but rather the basis of your opinion is closer in  
11 time is a more reasonable choice for the test period  
12 selection?

13          A.     Yes. That's a significant component of  
14 it. I examined elements from the prior rate  
15 proceeding and asked myself, you know, the question,  
16 "Well, what if errors of a similar sort were made  
17 going forward, what kind of implications might that  
18 have in using a test period that one would have less  
19 confidence in?" So it really speaks to the level of  
20 confidence one has in the forecast.

21          Q.     If I understand your answer correctly, it  
22 was based upon historical information, not  
23 necessarily conditions or information based in the  
24 Company's filing; is that correct?

25          A.     The past factors, and my understanding of  
26



1 those factors, influenced my judgment on this. You  
2 know, it's not to say that one doesn't look at  
3 conditions going forward. In fact, again, I'm  
4 recommending using a forecast going forward for 2008.  
5 Of course, we're just at the beginning of that  
6 period.

7 Q. Do you have an opinion, Mr. Higgins, as to  
8 whether Utah is more likely to be resilient to a  
9 recession than any of the other Rocky Mountain Power  
10 states that it serves? Rocky Mountain Power not in  
11 the geographic sense but in the Company sense.

12 A. Can you clarify the last part of your  
13 question?

14 Q. Sure. Do you have an opinion as to  
15 whether Utah is more likely to be resilient to  
16 recession than any of the other states served by  
17 Rocky Mountain Power?

18 A. No, I haven't given tremendous thought to  
19 that question. I think that as a general  
20 proposition, my view is that Utah may be more  
21 resilient than Oregon, say. But I don't know that it  
22 would be more resilient than Wyoming.

23 Q. Wouldn't it be true under the SG  
24 allocation factor that if Utah is in fact more  
25 resilient to recession that the allocation factor

26

1 would be greater and more costs would be borne by  
2 Utah under that approach, that allocation?

3 A. If a recession winds up affecting the  
4 relationships among the SG factors and if that causes  
5 Oregon to be more hard hit through the SG factor,  
6 then in such an event that particular set of  
7 circumstances probably would not harm Utah with  
8 respect --

9 THE REPORTER: I didn't hear the last part  
10 of your answer. You're trailing off.

11 MR. HIGGINS: If there is an error in the  
12 SG forecast and if that error is as a result of  
13 Oregon having smaller demand than forecast, then that  
14 error is not likely to have caused harm to Utah.

15 Q. (BY MR. BROWN) My question wasn't so much  
16 if there was an error, it was assuming Utah is more  
17 resilient to recession, which is what you're inclined  
18 to think given your opinion today, wouldn't in fact,  
19 everything else being equal, that if under the SG  
20 allocation factors more costs would then be borne by  
21 Utah as a result?

22 A. Could you repeat that question? I was  
23 following your question, but I wasn't entirely sure  
24 what you were asking me at the very end.

25 MR. BROWN: Could the court reporter read  
26

1 that back, please?

2 (Reporter read back question as follows:

3 "Q My question wasn't so much if  
4 there was an error, it was assuming  
5 Utah is more resilient to recession,  
6 which is what you're inclined to think  
7 given your opinion today, wouldn't in  
8 fact, everything else being equal, that  
9 if under the SG allocation factors more  
10 costs would then be borne by Utah as a  
11 result?"

12 MR. HIGGINS: So it's the last part of  
13 your question, Mr. Brown, that I'm struggling with.  
14 So let me try my best to answer it.

15 Q. (BY MR. BROWN) No problem, take your  
16 time.

17 A. If there's a recession and if Utah is more  
18 resilient in that recession than other places, then  
19 one would expect in those conditions that after the  
20 fact the Utah SG factor would have been higher than  
21 what was forecast. If that turns out to be the case,  
22 then more costs would not have been allocated to Utah  
23 as a result of using a lower SG factor in the  
24 forecast.

25 Q. Okay. But if the SG allocation factor is  
26

1 higher, then after that allocation factor is set more  
2 costs would be?

3 A. Well, that's what I'm struggling with.  
4 The SG allocation factor is being set in advance,  
5 it's being set as part of the forecast. So it's not  
6 going to change if there is a recession. It's not  
7 going to be picked up until the next rate case.  
8 That's probably --

9 Q. I understand what maybe you're troubled  
10 with and I'll try to keep it simpler. And if Utah is  
11 more resilient to recession, and as a result of that  
12 in the next rate case or the next rate proceeding  
13 your SG allocation factors would reflect that and as  
14 a result be higher, correct?

15 A. They would be higher if measured over  
16 that.

17 Q. And in following that, as a result of the  
18 SG allocation factor being higher, then more costs  
19 would also then follow from that and be borne by  
20 Utah; is that correct?

21 A. It would depend on what period you were  
22 applying the SG factor to. In other words, if you  
23 were -- I'm trying to be cooperative with your  
24 question and not nitpicky here, but I want to be  
25 clear. If we have a subsequent rate case and if

26

1 you're using future test periods, you're going to  
2 refile a new SG factor that's looking forward. So  
3 you're not really going to be setting rates based on  
4 the SG factor that actually occurs.

5 So, you know, to illustrate, you have a  
6 projection of an SG factor now that covers a period  
7 that would end in June 2009. Real events are going  
8 to transpire. There may be a recession. If you look  
9 back on the data after the fact, you could  
10 recalculate what the SG factor would have been. Then  
11 you have a new rate case. You're going to file an SG  
12 factor for the next prospective period.

13 Now, part of the data supporting that  
14 would be the actuals. People could go back and look  
15 at what actually happened, it would be part of the  
16 historic base period, but what actually occurs is not  
17 necessarily going to be the new SG factor. I guess  
18 that's a long way of trying to say that.

19 Q. I mean, you would agree, the higher the SG  
20 allocation factor for Utah, the more costs they bear,  
21 correct?

22 A. Correct.

23 Q. And then with regard to your proposal in  
24 this case, Mr. Higgins, you would agree that it's  
25 only six months that separates your preferred test  
26

1 period and the test period proposed by the Company,  
2 correct?

3 A. Yes.

4 MR. BROWN: I have no further questions  
5 for Mr. Higgins.

6 CHAIRMAN BOYER: Does the Company have  
7 questions of any of the other Panelists?

8 MR. BROWN: We do. We have questions for  
9 UIEC witness, Dr. Lemmon, as well. We do not have  
10 any questions for the Division, the Committee, I  
11 believe. Maybe the Committee, but no questions for  
12 Mr. Ball at this time.

13 We'll proceed with Mr. Lemmon right now.

14 COMMISSIONER BOYER: Please.

15 MR. BROWN: And then we'll have Ted Smith  
16 ask the questions for the Committee.

17

18 MICHAEL LEMMON,  
19 called as a witness, was examined and  
20 testified as follows:

21

22 CROSS-EXAMINATION

23 BY MR. BROWN:

24 Q. Dr. Lemmon, have you had any experience  
25 testifying in a utility general rate case proceeding?

26

1 A. No, I have not.

2 Q. Any experience with electric utility rate  
3 regulation other than this proceeding?

4 A. No.

5 Q. Any experience testifying regarding the  
6 selection of a test period for purposes of setting  
7 utility rates?

8 A. No.

9 Q. On page 2, line 2 of your testimony, you  
10 make reference to the Commission's goals. I'm  
11 wondering what you believe to be the Commission's  
12 goals as referenced by you in your testimony.

13 A. It's my understanding that the Commission  
14 has the charge of assuring the utility a fair rate of  
15 return while also mitigating risk to the consumer or  
16 representing the consumer's interest as well.

17 Q. And in terms of your recommendation in  
18 this proceeding, you recommend a Mid year test  
19 period, correct?

20 A. I think I specifically say, I don't have  
21 my -- thank you.

22 MR. REEDER: Which page, Counsel?

23 THE WITNESS: I believe it's page 2 at the  
24 top.

25 Q. (BY MR. BROWN) Yes.

26

1           A.     And that -- yes, I did state that a Mid  
2 year test period I think would balance those  
3 interests, in my opinion, in that fashion.

4           Q.     And in terms of the Company's filing, were  
5 there any other empirical data or verifiable data?  
6 What information did you look at to determine that a  
7 test year ending June of '08 would best reflect the  
8 conditions the Company would experience during the  
9 rate effective period?

10          A.     So I based most of my opinion on the  
11 change in the current economic environment which  
12 shows that at least in the past few months trends are  
13 starting to change fairly significantly, especially  
14 on the residential side. And so it seems to me that  
15 extrapolating a trend line based on data from a  
16 period of economic expansion two years out into the  
17 future through June '09 is -- again, we don't know  
18 how things are going to turn out yet, but that that  
19 shifts additional risk onto the ratepayers and  
20 protects the Company's interests better.

21          Q.     And what's your understanding of, in terms  
22 of the Company's load growth forecast if -- you know,  
23 based upon your concerns about the economy at the  
24 time, if for some reason those load forecasts are  
25 overstated , what would be the impact on the

26



1 Company's revenue and net power cost?

2 MR. REEDER: I'm not sure I understand so  
3 I'm not sure he understands. I want to object that  
4 it's at least ambiguous to me. Maybe Dr. Lemmon  
5 tracks with you, but I need to track where you're  
6 going.

7 MR. BROWN: No problem. I'll be happy to  
8 restate it.

9 Q. (BY MR. BROWN) Would you explain the  
10 relationship between the Company's load growth  
11 forecasts, net power costs and revenue?

12 A. I can give you as an economist how I think  
13 about it.

14 Q. Sure.

15 A. So the load growth forecast multiplied by  
16 the usage per customer would give you forecasted  
17 revenues. If your forecasts turn out to be too low  
18 -- or too high, for example, then actual revenues  
19 will be lower. As well as your costs should be lower  
20 as well.

21 Q. On page 4 of your prefiled testimony you  
22 reference residential new connections as being less  
23 than the forecasted amount. I believe you had  
24 attached to your testimony, and it's marked as UIEC  
25 Exhibit 1.2, which references the five graphs?

26

1           A.     That's correct.

2           Q.     And would you agree that the information  
3     that flows into those graphs as well as the graphs  
4     indicate that the Company's forecasts for new  
5     connections for industrial and commercial customers  
6     are higher than was forecast?

7           A.     Yes, I would.

8           Q.     And are you aware that the Company's costs  
9     related to new commercial connections as well as new  
10    industrial connections is actually higher than the  
11    costs incurred for new residential connections?

12          A.     No, I'm not aware of the differential  
13    costs.

14                   MR. BROWN:  I have no further questions  
15    from Dr. Lemmon.

16                   CHAIRMAN BOYER:  Thank you.  Mr. Smith,  
17    you have a question?

18                   MR. SMITH:  Yes.  I just have one or two  
19    questions of Ms. DeRonne.

20

21                                   DONNA DERONNE,  
22                   called as a witness, was examined and  
23                                   testified as follows:

24

25                                   CROSS-EXAMINATION

26

1 BY MR. SMITH:

2 Q. If you could turn to page 6 of your  
3 testimony, I'm just trying to make sure I understand  
4 the Committee's position. As I understand your  
5 testimony, you've indicated that the Committee can  
6 work with a test period that ends in Mid 2009, but  
7 that the Committee would then fully audit it, would  
8 potentially make potential adjustments or undoubtedly  
9 make some adjustments and that you could also propose  
10 some safeguards that you believe would protect  
11 ratepayers from any kinds of risks that are  
12 associated with projecting the test period out that  
13 far? Is that a fair conclusion -- or summary?

14 A. A somewhat fair summary. I don't think it  
15 would protect them against any of the risk because  
16 there will be, whenever you use future test years,  
17 risks in basically every area of the revenue  
18 requirement calculation of items being inaccurate.  
19 But for some of the larger items where there may be  
20 more uncertainty with the forecasts or more concerns  
21 with accuracy of the projections, we envision that we  
22 may recommended safeguards.

23 We're still early in our investigation  
24 analysis of the different factors that go into the  
25 projections and forecasts. So at this time I can't

26

1 say what those safeguards will be, but we are  
2 thinking about that knowledge as we look at and  
3 conduct our audits.

4 Q. And that's something, if I understand it,  
5 you would propose based on your audit having looked  
6 at all of the facts as they come in and would present  
7 them in a later stage in this proceeding?

8 A. Yes. We anticipate that would be filed  
9 with our revenue requirement testimony that -- with  
10 our recommended adjustments. Again, if there's areas  
11 that we have a great deal of concerns with the  
12 forecasts, then yes, we may recommend safeguards at  
13 that time.

14 MR. SMITH: Thank you. That's all I have.

15 CHAIRMAN BOYER: Anything further from the  
16 Company?

17 MR. BROWN: No.

18 CHAIRMAN BOYER: Very well.

19 Mr. Ball, have you questions of your  
20 fellow Panelists?

21 MR. BALL: Yes. Just one or two. Thank  
22 you. I would like to ask Dr. Zenger a couple of  
23 questions, if I may, please.

24 JONI ZENGER,

25 called as a witness, was examined and  
26

1 testified as follows:

2

3

CROSS-EXAMINATION

4

BY MR. BALL:

5

6

7

8

Q. Dr. Zenger, in your summary testimony this morning you said something very like "I found no evidence of a better test period." What other test periods did you examine, please?

9

10

11

12

13

14

15

16

A. Just one moment. I'm looking for my summary. This is my draft summary so it may not be exact verbatim. But what I found and stated in my summary is that in analyzing the validity and accuracy of the Company's forecasts, I found no reason to not accept their ability to forecast accurately or within a reasonable 3 to 5 percent to the future out to 20 months.

17

18

19

20

21

So all of my examinations through the Data Requests, through the semiannual reports, and all the information that I have been able to analyze thus far has led me to believe there's -- I have not found instances where they have not forecasted accurately.

22

23

24

25

26

Q. Thank you.

In follow-up to that, did you in fact examine any other test period than the one recommended by PacifiCorp?

1           A.     We actually looked at the Calendar 2008  
2     test period.  In my Data Request, I believe it's 5.2,  
3     I asked the Company to provide us information and I  
4     -- hold on one second and I'll pull it up.  I think  
5     it's 3.8 or 9.  But I'll just tell you verbatim what  
6     I was told.  We asked the Company, "When you prepared  
7     this filing, did you consider a Calendar 2008 test  
8     year period?"

9                     And the response to us was, "No.  We did  
10    not even consider a 2008 period because we found that  
11    the conditions did not meet -- most closely matched  
12    the conditions that the utility would face during the  
13    rate effective period."  I didn't say that exactly  
14    right.  If I read Steve McDougal's response, which I  
15    have here, but that was to the effect.

16                    And so we did consider it and we did ask  
17    for them to run the net power costs for the Calendar  
18    Year 2008.  But as I continued on and was able to  
19    start analyzing the Data Requests that had come in,  
20    it came to me that the '09 would still be the most  
21    defensible period because a lot of those capital  
22    additions would be left out, that the Company needs  
23    to build to meet the growth to meet its load growth  
24    in its IRPN and to meet renewable standards and  
25    transmission commitments they've applied -- you know,  
26

1 they've agreed to do. So that was the extent of  
2 considering another period.

3 Q. In your testimony that the Division has no  
4 objection to the test year recommended by the  
5 Company, you're not representing, are you, that that  
6 is the best of all conceivable test periods in this  
7 case?

8 A. I can't say that it is the best of all  
9 conceivable periods in the case because my intern and  
10 I started looking at this and we figured you could  
11 file a test period on July 2nd through June 29th --  
12 anyway, there could be like 236 conceivable test  
13 periods. So I cannot say that ours, what we ruled on  
14 was the best out of anything possible in the  
15 universe. But what we found is what was filed by the  
16 Company and what we analyzed, ours was the most  
17 defensible in this case.

18 Q. Can I refer you to your Rebuttal Testimony  
19 and to lines 99 through 101? Well, and let me start  
20 with the question that begins on line 96. I've  
21 struggled repeatedly to understand quite what you're  
22 saying here.

23 The question talks about the effect of  
24 leaving \$441 million out of the forecast, refers to  
25 the fact that the Company has identified generation  
26

1 distribution and transmission plant costs, and then  
2 in the answer the Company has estimated it will incur  
3 total expenses of almost \$4 billion.

4 Can you tell me what that \$3.966 million  
5 number really is? Is it an expense item or is it an  
6 item that will end up being capitalized?

7 A. You know, I should have cited that one.  
8 And it came from Rick Walje's testimony and his  
9 presentation before the UAE. And I think I can pull  
10 that up quickly for you. Well, I think I also have  
11 this in my Exhibit 1.2. If you can be patient for a  
12 minute.

13 CHAIRMAN BOYER: Ms. Zenger, am I  
14 understanding you to say this was a remark made by  
15 Mr. Walje at some public meeting and not a part of  
16 the written testimony in this case?

17 MS. ZENGER: I think it's in both. So in  
18 the interest of time I will have to get back to you  
19 on that source.

20 Q. (BY MR. BALL) I wasn't actually asking  
21 about the source. I was asking whether the \$3.996  
22 million -- or billion is current expense or capital  
23 investment?

24 A. It's my understanding that that 3.966 is  
25 capital expense that needs to go just into plant

26



1 alone, not total expenses.

2 Q. So it would eventually be capitalized?

3 A. Yes.

4 Q. And that's during the 12 months ending  
5 June the 30th of 2009. Let's turn then to the \$441  
6 million. On lines 87 through 89 of your Rebuttal  
7 Testimony you say that, "The Company says it expects  
8 to spend \$441 million in plant addition costs during  
9 the first six months of 2009."

10 Now, is that \$441 million on the same  
11 basis as the \$3.966 billion? Is it money that is to  
12 be invested and will be capitalized or is it the  
13 depreciation expense and rate of return expense on  
14 the amount of capital investment in the first six  
15 months of '09?

16 A. Okay. If you could turn to my Exhibit  
17 1.5, and I have listed the Company's projected  
18 expenses and revenues, this is for total operations.

19 Q. Would you be kind enough to say again  
20 which exhibit?

21 A. Oh, excuse me. It's Exhibit 1.5 titled  
22 "Company's Projected Expenses and Revenues, Total  
23 Operations."

24 Q. Okay. I have 1.5.

25 CHAIRMAN BOYER: This is to your Direct  
26

1 Testimony, correct?

2 MS. ZENGER: Yes, this is to my Direct  
3 Testimony.

4 Q. (BY MR. BALL) I'm looking at your  
5 original Direct Testimony; is that accurate?

6 A. Yes.

7 Q. Go ahead, please.

8 A. So if you look at the forecasted test  
9 period from June -- July 1st through June of 2009,  
10 the Company claims that its expenses will be the  
11 \$3,966,105 that's in my testimony and the revenues  
12 will be during that period \$4,587,674,083. Those are  
13 found on tabs 2.2 of the filing. So what I'm saying  
14 is this \$441 million would just be a portion of this,  
15 but it would be the portion from January to June that  
16 would not be included.

17 Q. Thank you.

18 I'm really not trying to tie you up in  
19 knots here, Dr. Zenger, I'm just trying to be clear  
20 about what your testimony is. We're back to this  
21 word "expenses" now in your Exhibit 1.5. I would  
22 like you to draw a clear distinction in your mind,  
23 please, between the kind of expenses that any entity  
24 experiences in its current account and the money that  
25 it spends on capital projects that at some point in

26

1 time will be capitalized and go into rate base.

2 Can you help me understand which of those  
3 two the \$3.966 billion represents?

4 A. Okay. I'm hoping that I can do that for  
5 you. The 3.966 would be capital expenses. So it  
6 would include all of the plant addition, and I  
7 believe it includes operation and maintenance, OMAG  
8 expenses during that period. If you hang on I can  
9 pull the tab 2.2 and tell you exactly what it's  
10 composed of.

11 Okay. So on tab 2.2 there's a page for  
12 the base period, the Mid period and the test period.  
13 And what's reflected in my Exhibit 1.5 would be line  
14 61. So that would be total rate base. So that would  
15 include operating expenses, rate base, rate base  
16 deductions, everything through there. And the  
17 expenses would be line -- excuse me. The revenues  
18 would be -- I'm not sure I'm on the Mid period. Oh,  
19 the forecasted period. The forecasted period --  
20 okay.

21 So if you go through McDougal's filing  
22 there's the base period, the Mid and the forecasted  
23 and then there's a summary of the results through  
24 each of the periods. So if you pull out the summary  
25 page 2.2 on each, I'm looking at the forecast of one

26

1 right now, and the forecasted shows Total Revenues,  
2 \$4,587,674,083. What's included in that number is  
3 general business revenues, interdepartmental, special  
4 cells and other operating revenues.

5 The expenses, the 3,966 is on line 31, and  
6 that's Total Operating Expenses. Again, these are  
7 systemwide. And you can see everything that's  
8 included, steam, production plant, depreciation,  
9 taxes, everything from lines 8 down through 29. And  
10 then if you go to the far right column it gives the  
11 Utah revenues and expenses as well as the total.

12 Q. So, Dr. Zenger, am I to understand that  
13 the 3.966 billion for the 12-month period ending June  
14 the 30 of '09 is a number based upon comparable  
15 expense items to the \$441 million, but that the  
16 \$441 million represents the last six months of the  
17 period? And am I, therefore, to understand that the  
18 equivalent number for the first six months of that  
19 year is \$3.966 billion less \$441 million? In other  
20 words, that the Company plans to spend approximately  
21 \$3.5 billion on plant additions during the last six  
22 months of 2008?

23 A. Yes. In fact, on Data Request 3.8A  
24 that I received from the Company it's broken down by  
25 during those months, January through June of 2009,

26

1 Steam Production, I'll just round the numbers,  
2 \$130 million; Hydro Production, \$21,800,000; Other  
3 Production Total, \$12,406,000; Transmission Total,  
4 \$97.9, so almost a billion; Distribution Total,  
5 \$144,742,000.

6 So the total from the response 3.8 that I  
7 received from the Company shows \$407,192,057. So  
8 there may be some other expenses that were not  
9 listed. I asked specifically for plant in this one  
10 and perhaps I could defer to Mr. McDougal to answer  
11 the rest of that.

12 Q. So would you agree with me that opting for  
13 Calendar Year 2008 would in fact exclude something  
14 around 1/7th, or perhaps around 12 percent of the  
15 total amount that the Company plans on investing in  
16 the system during the '08-'09 proposed test year?

17 A. I can't say that. I haven't calculated  
18 it. But keep in mind that these periods are not  
19 cumulative. The historical is how much they're  
20 spending in the historical, just during those months.  
21 The Mid period, expenses and revenues just match up  
22 with the Mid period. And the RMP forecasted test  
23 period numbers just match up with that period. So I  
24 haven't done any calculations on percentages.

25 Q. Let's move away from numbers for a moment.

26

1 Do you agree with Mr. Rife's response to me this  
2 morning that Utah lags on the economic cycle?

3 A. Yes, I do in some regards. I think we  
4 benefit because our state economy is stronger. We've  
5 had a lot of jobs come to Utah, new companies.  
6 Procter & Gamble is coming. Our Governor has been  
7 very active in recruiting engineers and science  
8 programs. And I think the fact that our state is a  
9 stronger economy makes it so we're not hit as hard by  
10 some of the other factors. Not to say that we're not  
11 hit, we're seeing it in the housing sales and things.  
12 But I do think that we are a little insulated. I do  
13 have an Economic Report from the Governor, but I  
14 don't know if you want to read it.

15 CHAIRMAN BOYER: We've probably heard  
16 enough about the Governor's forecasts. Thank you.

17 Mr. Ball, we're running out of time here a  
18 little bit. Do you have questions of the other  
19 Panelists as well?

20 MR. BALL: No.

21 CHAIRMAN BOYER: Thank you.

22 Q. (BY MR. BALL) In your summary this  
23 morning, Dr. Zenger, you made a comment along the  
24 lines that Utah hasn't been hit as hard as the other  
25 states.

26

1                   My question for you is, if Utah, as you  
2 agree with Mr. Rife, if Utah lags on the economic  
3 cycle and an economic downturn has begun in the  
4 United States, wouldn't you expect that the full  
5 impact of that downturn has yet to arrive here in  
6 Utah?

7                   A.     One might expect that.  But on the other  
8 hand, Utah has been immune to some of the downturns  
9 in the economy.  So some of them may not even -- they  
10 may pass by our state if we're fortunate.

11                   MR. BALL:  Thank you, Mr. Chairman.

12                   CHAIRMAN BOYER:  Thank you, Mr. Ball.

13                   Mr. Reeder, do you have any questions of  
14 the Panelists?

15                   MR. REEDER:  I do.  I shall be quick and  
16 concise.

17

18                                 STEVEN MCDUGAL,  
19                   called as a witness, was examined  
20                                 and testified as follows:

21

22                                 CROSS-EXAMINATION

23                   BY MR. REEDER:

24                   Q.     Mr. McDougal, is it the case that the  
25 Company forecasts --

26

1                   CHAIRMAN BOYER: Mr. Reeder, would you  
2 speak into the microphone?

3                   MR. REEDER: That might help. Thank you.

4                   Q.       (BY MR. REEDER) Mr. McDougal, is it the  
5 case that the Company forecasts a growth rate for the  
6 State of Utah for the 12 months ending June 30, 2009  
7 at 6.1 percent on a weather adjusted basis and that  
8 it translates to an approximate average growth rate  
9 of 3 percent per year for the next two years?

10                  A.       It averages around 3 percent, yes.

11                  Q.       And that's based on Global Insight?

12                  A.       That was based upon the information  
13 provided by Michael Rife.

14                  Q.       Has there been a more recent release from  
15 Global Insight that deals with that forecasted growth  
16 rate?

17                  A.       Not that I am aware of.

18                  Q.       In connection with the discussion about  
19 used and useful this morning, are you familiar with  
20 the concept of used and useful?

21                  A.       Yes, I am.

22                  Q.       How, in your proposed averaging of costs  
23 over time, do you propose that to protect the  
24 customer and to protect the used and useful concept?

25                  A.       My understanding of the used and useful  
26



1 concept is that the customer should only pay for  
2 plant once they are used and useful. I also  
3 understand that if we read the legislation allowing a  
4 forecast test period, it allows companies to go out  
5 20 months in their forecasts. That 20 months, I have  
6 always envisioned, was somewhat developed by stating  
7 that the procedures here for a rate increase have  
8 generally taken around eight months and then your  
9 forecasts can go around 12 months beyond the rate  
10 effective period so that the test periods for your  
11 rate effective period match.

12 By going out 20 months, what you are doing  
13 is you are looking at the expenses in that additional  
14 12 months in the rate period and looking and saying  
15 if a project is going to be used and useful for two  
16 months, the last two months of the period, as many of  
17 the projects will be, that you take 2/12 of that  
18 amount and include that in the test period. So the  
19 customers pay for that throughout that test period  
20 rather than stating that in that 20 months the costs  
21 are going to go up in, for talking sake, let's say  
22 April of '09 and saying we will include zero through  
23 April of '09 and have a step change in the next  
24 month, so you will have a step change every month.  
25 We would average things so you would only include  
26

1 that for the two months that it will be in service.

2 Q. So if I understand you correctly, you're  
3 beginning to fold plant into rates before it becomes  
4 used and useful and you argue it's okay because we're  
5 averaging?

6 A. We are looking at what percentage. So  
7 over that 12 months customers will pay for two months  
8 towards that plant because it will be in service for  
9 that period.

10 Q. If '06 and '07 had been a recession year  
11 with all arrows pointing down, what technique would  
12 you use to project test years in this case?

13 A. We would have looked at it most likely in  
14 a similar manner as far as building up a load  
15 forecast and looking at all of our costs.

16 Q. You would have continued to project the  
17 loads downward and the growth downward?

18 A. Yes.

19 JONI ZENGER,

20

21 called as a witness, was examined

22 and testified as follows:

23

24 CROSS-EXAMINATION

25 BY MR. REEDER:

26

1 Q. Dr. Zenger, you are a Ph.D. economist?

2 A. Yes, I am.

3 Q. Is Utah in a recession?

4 A. Are you going to ask me to predict the  
5 stock market tomorrow, too?

6 Q. Well, you've read my questions then,  
7 haven't you?

8 Is Utah in a recession?

9 A. It depends who you ask.

10 Q. I'm asking you. What's your opinion as a  
11 Ph.D. economist?

12 A. I don't think Utah is quite there. I  
13 don't know that the country is quite there. But  
14 normally if you have two periods of negative growth,  
15 that would be a definition of a recession.

16 Q. You've just heard the testimony of the  
17 Company that the forecast used in this case is a  
18 forecasted growth rate of 3 percent a year in each of  
19 the two forecasted years, have you not?

20 A. Yes. And did you mean forecasted load  
21 growth or population growth?

22 Q. I think they forecasted -- well, correct  
23 me. What is the state forecast? 3 percent rate of  
24 growth. What is the growth that they're measuring,  
25 load or --

26

1 MR. GINSBERG: What's your question?

2 Q. (BY MR. REEDER) What do you understand it  
3 to be?

4 A. Well, I don't know if you're referring to  
5 population growth or to load growth, which --

6 Q. I'll read the question. "All classes are  
7 forecast to increase 6.1 percent." What do you  
8 understand that to be?

9 MR. GINSBERG: What page are you on?

10 THE WITNESS: What page is that on?

11 Q. (BY MR. REEDER) I'm reading from Michael  
12 Rife's testimony at page 7. It also is a line in  
13 that forecast. You're familiar with that 3 percent  
14 per year growth? The real question is, if you're  
15 familiar with that, then I want to know why on  
16 page --

17 MR. GINSBERG: Let her look at his  
18 testimony.

19 Q. (BY MR. REEDER) Okay.

20 A. Page 7 did you say?

21 Q. Yes.

22 A. Page 7 are all the tables.

23 Q. Page 7 of Dr. Michael Rife's testimony?

24 A. You gave me the wrong one. Sorry.

25 CHAIRMAN BOYER: I'm not quite sure we're

26

1 asking the right witness this question.

2 MR. REEDER: She can simply accept what  
3 Mr. McDougal said, that they forecasted 3 percent.

4 MR. GINSBERG: But her question was, 3  
5 percent forecast of what? She didn't know what it  
6 was.

7 MS. ZENGER: I need to know what I'm  
8 agreeing to before I agree to something.

9 MR. REEDER: Mr. McDougal's 3 percent  
10 growth was of what?

11 MR. MCDUGAL: My understanding of Michael  
12 Rife's testimony is we were talking about  
13 approximately 3 percent per year growth in our energy  
14 usage.

15 Q. (BY MR. REEDER) Okay. Dr. Zenger, let's  
16 look at your testimony now.

17 A. Okay.

18 Q. Page 14, Population Growth.

19 A. I'm there.

20 Q. Is that population growth that you  
21 forecast of 1.7 percent for those out years related  
22 in any way to the 3 percent forecasted by the  
23 Company?

24 A. Now, did you say load growth?

25 MR. GINSBERG: He said energy?

26

1 MS. ZENGER: Energy growth, okay.

2 Q. (BY MR. REEDER) Load growth.

3 A. Okay. Yes, there would be a correlation.  
4 And as I described before, my population calculation  
5 here was based on GOPB's most recent posting. And  
6 there has since been a more updated one so it would  
7 actually be 3.7.

8 Q. So the Governor has increased his growth  
9 rate from the numbers you used of 3.7 so that they  
10 agree with the same numbers that Global Insight used  
11 in April of 2007? Is that what this record should  
12 reflect?

13 A. I wouldn't say the Governor does it, but  
14 the Governor's Office of Planning and Budget keeps  
15 data all year long and on an annual basis they  
16 provide a report and we update the population numbers  
17 and the growth rates.

18 Q. Could you explain to me why, a Ph.D.  
19 economist, Global Insight would start with higher  
20 numbers than the Governor and the Governor would come  
21 to Global Insight's number, why would that happen?

22 A. I'm not sure why Global Insight would  
23 start with higher numbers. I know for a fact that  
24 the census predicts lower numbers for Utah than we  
25 really are expected to have and currently have.

26

1 Q. Do the differences trouble you in any way  
2 as a Ph.D. economist in forecasting prices for a  
3 regulated entity?

4 A. Yes, I would be concerned. I would want  
5 to look at the Global Insight, you know, the most  
6 current Global Insight to see where their information  
7 was from.

8 Q. Have you done that?

9 A. I -- I don't know if it was a current one,  
10 but I did review one. So it may not have been the  
11 current one.

12 Q. Let's look at page 10 from your Direct  
13 Testimony. There your discussion is of an example of  
14 the increasing costs PacifiCorp faces justifying the  
15 use of a future test year, line 198?

16 A. Yes.

17 Q. It's true that plant has been canceled,  
18 isn't it?

19 A. I don't know if it's canceled since I  
20 wrote my testimony. I heard that it was either put  
21 on hold or the costs became too exorbitant that they  
22 had to stay it and may consider it at another time.

23 Q. As a regulator charged with protecting the  
24 ratepayer from the monopoly, can you tell me how you  
25 propose to protect and preserve the used and useful  
26

1 concept in this jurisdiction using a forecasted test  
2 year as you do?

3 A. Okay. So straying from this previous  
4 question entirely?

5 Q. Moving right along, new topic, yes. In  
6 the interest of time I'm going right through.

7 A. Okay. I was still thinking of this  
8 project. And I would say on this project it would be  
9 in the interest of ratepayers if the DOE and  
10 organizations and Rocky Mountain Power, who has  
11 volunteered on projects like these, if they can in  
12 fact find power sources that don't pollute the air.  
13 That would be in the public interest.

14 Q. Would you agree with me that no asset  
15 should be rate based until it's used and useful?

16 MR. GINSBERG: I think I would object that  
17 you're asking her a legal conclusion.

18 MR. REEDER: I'm asking for her conclusion  
19 as the regulator.

20 CHAIRMAN BOYER: Overruled. We can get  
21 her opinion on this.

22 MS. ZENGER: Let me answer your question  
23 by saying that large generation projects or  
24 transmission or whatever projects don't happen in a  
25 vacuum. So the Company needs to start and there's

26



1     permitting licenses, there's, you know, right-of-way,  
2     there's bidding of construction plans and there's --  
3     I mean, there's a whole entire cycle of costs that go  
4     into making a big, large project.  And this is  
5     discussed in Steve McDougal's Surrebuttal, I believe,  
6     or Rebuttal.

7                     So to determine where is that used and  
8     useful, well, we got the permit so this is used and  
9     useful, I don't know if I can make that  
10    determination.  But if you mean like when the power  
11    comes on from this new plant, then it would be used  
12    and useful, then there's that interpretation.

13                    Q.     (BY MR. REEDER)  Isn't it true that costs  
14    for plant investment is capitalized and to allow pay  
15    of DUC that is capitalized and it doesn't fold into  
16    rate base and thus become a revenue item until it  
17    becomes used and useful?

18                    A.     You know, I will defer that to our  
19    accountant.

20                    Q.     Fair enough.

21                             You testified in your summary that a  
22    margin of error of 3 to 5 percent in a forecast was  
23    acceptable?

24                    A.     Yes.

25                    Q.     What's the source of that?

26

1           A.     It's just a generic statistic, predictive  
2 fact. I mean, you can do a bell curve and have a 2.5  
3 percent on each side, you can have a 3 percent. It's  
4 just -- you know, it's just a general, just --

5           Q.     Would you look to Exhibit 1.5? Do you  
6 have Exhibit 1.5?

7           A.     Yes.

8           Q.     Recognizing that you're an economist and  
9 not an accountant, can you tell me what 5 percent of  
10 \$4 billion is? Isn't it true that it's in excess of  
11 \$200 million more than the rate increase in this  
12 case?

13          A.     I agree it's a long number, it's a big  
14 number. And I do cite that in my testimony, that  
15 even though the variance may be small, to take heed  
16 that the numbers can become quite large. I did state  
17 that in my testimony.

18                                 DONNA DERONNE,  
19                                 called as a witness, was examined and  
20                                 testified as follows:

21

22                                 CROSS-EXAMINATION

23                                 BY MR. REEDER:

24           Q.     Ms. DeRonne, does the Division -- or the  
25 Committee have a preference for a year in this case

26

1 and, if so, what is that year? I apologize for  
2 moving so quickly, but I'm trying to do it.

3 CHAIRMAN BOYER: Actually, we appreciate  
4 it, Mr. Reeder.

5 THE WITNESS: As in the test year?

6 Q. (BY MR. REEDER) Yes. Do you have a  
7 preference --

8 A. As indicated in my testimony, we would not  
9 object to the Company's period as long as we can make  
10 appropriate adjustments to that.

11 Q. I understand what you won't object to.  
12 What would you like to do?

13 A. What we would like to do is have a test  
14 year decided quick and early in this case so that we  
15 can proceed with our analysis and investigation --

16 Q. Would your preference be as an historic  
17 year?

18 A. Pardon?

19 Q. Would your preference as an accountant be  
20 an historic year?

21 MR. PROCTOR: Objection. At this point  
22 the examination with respect to this witness is on  
23 something to which this witness has not testified.  
24 She had stated what her recommendations were and what  
25 the Committee had decided to do. So trying to get

26

1 her to admit that she may personally have another  
2 preference is irrelevant to this particular  
3 proceeding and her testimony.

4 MR. REEDER: This case is about what is  
5 the appropriate test year. She needs to tell us what  
6 the appropriate test year is in the mind of the  
7 Committee. She can't sit here and say "We don't  
8 object to the Company's" unless she is willing to  
9 say, "I support the Company's position."

10 Q. (BY MR. REEDER) What is your position,  
11 Committee?

12 MR. PROCTOR: Well, with all due respect  
13 to Mr. Reeder, Mr. Chairman, I think she in fact can  
14 make that statement and I believe the objection is  
15 appropriate on the grounds that the question is  
16 irrelevant to what, in fact, the Committee's  
17 testimony in this particular case has been and what  
18 its position is. And that was to -- is willing to  
19 work with the test year or test period proposed in  
20 the Application. And whether or not we have some  
21 other opinion as a Committee, as a governmental  
22 agency, or whether Ms. DeRonne has a personal opinion  
23 is irrelevant.

24 CHAIRMAN BOYER: I would love to hear the  
25 answer to this question, but I believe Mr. Proctor is

26

1 correct and I'm going to have to sustain the  
2 objection. It's beyond the scope of both Direct and  
3 her Surrebuttal or whatever it was that you gave  
4 earlier today.

5 Q. (BY MR. REEDER) Ms. DeRonne, do you  
6 object to the use of an historic test year?

7 MR. PROCTOR: Well, again, I'm going to  
8 have to object. Is he talking to Ms. DeRonne  
9 personally or in her status as a CPA?

10 MR. REEDER: If it's her opinion alone she  
11 can qualify it.

12 MR. PROCTOR: This witness is sponsored by  
13 the Committee. This witness cannot bind the  
14 Committee of Consumer Services by testimony in this  
15 particular proceeding. It is irrelevant and I would  
16 suggest it is inadmissible because it has no  
17 probative value to your decision that you must make.

18 CHAIRMAN BOYER: I think you need to lay a  
19 little foundation here. You can ask if the Committee  
20 has a position on that.

21 MR. REEDER: I tried to and I think you  
22 told me that I can't ask that question. So now I'm  
23 asking, well, do you object to any of the other test  
24 year periods here or is the only one you don't object  
25 to the Company's period?

26

1                   CHAIRMAN BOYER: The question is what do  
2 you mean by "you"?

3           Q.       (BY MR. REEDER) Recognizing she does not  
4 speak for the Committee, but she is a accountant  
5 trained in regulatory affairs.

6                   And recognizing that you are an expert,  
7 have been held out as an expert and that you are not  
8 an officer of the Committee, do you object to any of  
9 the other test periods in this case?

10                  MR. PROCTOR: There are several different  
11 questions in there. I believe that it would be  
12 appropriate if Mr. Reeder were to ask whether or not  
13 the Committee has a view on the other test periods  
14 that have been proposed and Ms. DeRonne can speak to  
15 those if, in fact, she had had discussions with the  
16 Committee and Committee staff pertaining to that  
17 issue.

18           Q.       (BY MR. REEDER) Answer Mr. Proctor's  
19 question. I'm happy with that, too.

20                  CHAIRMAN BOYER: I thought that was your  
21 question.

22           Q.       (BY MR. REEDER) Go ahead.

23                  CHAIRMAN BOYER: Do you understand the  
24 question?

25                  MS. DERONNE: Hopefully I'm answering this

26

1 the way you asked, but if not, please feel free to  
2 interrupt and tell me so.

3 We had some discussions with the  
4 Committee. And, again, we weren't opposing the  
5 Company's proposed test year. With regards to the  
6 historic period question you asked, me personally,  
7 and again, this may not necessarily be the  
8 Committee's position, but me personally, I've  
9 testified in rate case proceedings throughout the  
10 country, I would have serious concerns with the  
11 historic test period in this case.

12 This is a growing cost company. A lot of  
13 the investment that they're incurring is causing the  
14 overall revenue requirement structure to go up and  
15 they're an increasing cost company. In my opinion --  
16 and this is my opinion again, not necessarily that of  
17 the Committee -- I don't feel that an historic test  
18 year with no known and measurable adjustments could  
19 be made reflective, best reflective of the rate  
20 effective period. I think it would be an extremely  
21 difficult challenge and you would have serious issues  
22 with the matching principle, in this case matching  
23 the revenues, expenses and investments that we need  
24 to go into a test period.

25 Q. (BY MR. REEDER) Go on and tell us what  
26

1 you think would.

2 A. What would what? Could you ask a full  
3 question?

4 Q. What would match?

5 A. And again, the Committee has not taken a  
6 position that the Company's period would best match,  
7 we think there could potentially be other periods  
8 because there's an endless potential of test periods  
9 within those statutes. What we did say is we do  
10 think that the Company's test period could be  
11 adjusted to be reflective of the rate effective  
12 period. We do not take a position or conduct a full  
13 analysis of what would be -- this is the exact best  
14 period that could be used.

15 Q. Would any of the periods about which the  
16 Company has filed testimony be acceptable, then, to  
17 you as a professional?

18 A. As a professional? Again, I did indicate  
19 in my testimony that I feel the Company's proposed  
20 test year could be adjusted to be acceptable.

21 Q. And could others be adjusted?

22 A. They could. I know UAE has recommended a  
23 2008 test year, but during the course of the  
24 analysis, if that's what the Commission determines  
25 should be used. Again, we would have to have a

26



1 filing made quickly so we have everyone starting on  
2 the same starting page with test year and working off  
3 the same numbers as the starting point.

4           However, I do have -- and this is my  
5 personal view and not necessarily the Committee's  
6 view -- some of the investments that are going in  
7 place, like the wind farms and the timing of those  
8 projects, I would have concerns of them being able to  
9 be factored into a 2008 test period appropriately.

10

11

KEVIN HIGGINS,

12

called as a witness, was examined

13

and testified as follows:

14

15

CROSS-EXAMINATION

16

BY MR. REEDER:

17

Q. Mr. Higgins, what's the impact of the

18

factor selection in this case and can you quantify

19

what a 1 percent error factor in the factor selection

20

means in terms of revenue impact in this case?

21

A. You're referring, I assume, to the SG

22

factor?

23

Q. Yes.

24

A. The SG factor is applied to a large part

25

of rate base as well as a large part of expenses,

26

1 generation and transmission related. In this  
2 particular case, the SG factor is applied to about  
3 \$6.6 billion worth of rate base company-wide. One  
4 percent misprojection of the SG factor, similar to  
5 the misprojection that occurred in the previous rate  
6 case for Utah, would translate into about a \$16  
7 million impact. That is, if you overstated the SG  
8 factor by 1 percent, it would overallocate  
9 company-wide costs to Utah by about \$16 million.

10 Q. Is there any way for us to know what the  
11 magnitude or the impact could be given a declining  
12 economy both in Oregon and Utah, what that impact  
13 could be out '08-'09?

14 A. I don't have -- I don't have a great deal  
15 of confidence in what that actual SG factor -- I  
16 don't have a great deal of confidence in our ability  
17 to predict that SG factor into '09.

18 Q. Even not a projection as to Oregon's  
19 growth or lack thereof by '90, no one will, will  
20 they?

21 A. I think it would be a pretty tough call.

22 MR. REEDER: Nothing further. Thanks.

23 CHAIRMAN BOYER: Thank you, Mr. Reeder.

24 Mr. Dodge.

25 MR. DODGE: I'll start with Mr. McDougal.

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STEVEN MCDOUGAL,

called as a witness, was examined and

testified as follows:

CROSS-EXAMINATION

BY MR. DODGE:

Q. Mr. McDougal, on your testimony, page 7, around line 148, you basically say that in your view, to the extent possible, the test period should align with the first year of the rate effective period; is that a fair characterization?

A. Yes, it is.

Q. What do you base that on? Why is that a preferred -- is that the primary factor that, in your view, the Commission ought to look at is whether the test period closely aligns with the rate effective period, the first year anyway?

A. I do think it's one of the major factors that should be considered because what we are trying to project is what rates should customers be charging during a rate effective period. The rates in this case will take effect in August of this year. If we look at the period when rates will become effective, that to me becomes the best look at the rate effective period. And you can debate different

1 principles, but that, to me, is the best one.

2 Q. And so if that's an overriding factor,  
3 that will always say a 20-month out test period,  
4 roughly 20 months out, correct? Because it's always  
5 going to be closer, like you said, eight months plus  
6 12, it's always going to be 20 months out if the fact  
7 they look at primarily is which period aligns the  
8 best?

9 A. I wouldn't say it's an overriding factor,  
10 but it's definitely one of the major factors that  
11 should be viewed.

12 Q. What factors would cause you to conclude  
13 something other than a roughly 20 month out projected  
14 period would be the most appropriate?

15 A. I can't think of any right off. Because  
16 as long as we are trying to project costs, the  
17 customers are going to pay during a rate effective  
18 period. The best projection of that rate effective  
19 period is to look at that period itself.

20 Q. So is that your view of the Utah statute  
21 that says the period that's most reflective of the  
22 rate effective period, that in fact it will always  
23 lead to the 20 month out selection?

24 A. There may be times when the Commission  
25 finds that other test periods better align, but I

26

1 tend to think they should be rare.

2 Q. But you can't think of an example?

3 A. I can't think of a time when I would  
4 propose that.

5 MR. DODGE: May I approach, Mr. Chairman?

6 CHAIRMAN BOYER: You may.

7 MR. DODGE: I'll start here. And in the  
8 interest of time I'll talk while I pass these out.

9 Q. (BY MR. DODGE) Mr. McDougal, I read  
10 what -- I hear what you're saying as suggesting that  
11 basically you start with the presumption that the 20  
12 month out is the best one because it --

13 So you start with the presumption that the  
14 20 month out test period is the best because it's the  
15 one that will most closely align with the rate  
16 effective period.

17 I've handed you what I will ask to be  
18 marked as, just for cross-examination purposes, as  
19 UAE Cross Exhibit Number 1 or Cross-Examination  
20 Exhibit Number 1, and I'll represent to you that that  
21 reflects pages from the Senate Journal and the House  
22 Journal associated with Senate Bill 61.

23 Do you understand that to have been the  
24 Bill that adopted the test period language that you  
25 referenced in your testimony?

26

1           A.     That is my understanding.

2           Q.     And if you read both at the bottom of the  
3 first page and on the second page the intent  
4 language, the legislature made it very clear there  
5 was no presumption for or against either an  
6 historical nor a future test period, correct?

7           A.     Which page exactly are you on?

8           Q.     On the front page, if you look at the very  
9 bottom, Intent Language to Senate Bill 61. I'll read  
10 it out loud. "The intent of the legislature in  
11 passing S.B. 61, Public Utility Related Amendments,  
12 is to have the Public Service Commission select a  
13 test period for setting utility rates based on the  
14 best evidence presented to the Public Service  
15 Commission without any presumption for or against  
16 either a historical or a future test period."

17                    You don't accept that intent, do you?

18           A.     I believe that it could be possible to use  
19 a historic adjusted. Even in the adjustments, what  
20 you are trying to do is do adjustments to make it  
21 look like the rate effective period. Now, if costs  
22 are completely flat, there is no inflation. So there  
23 is some theoretical standpoints. But I believe the  
24 Commission needs to look at what the rate effective  
25 period is.

26

1           Q.     But again, you put that factor above all  
2     others, the one that closest aligns the test period  
3     with the rate effective period and basically discount  
4     all others except in the context where there's  
5     absolutely flat inflation, no inflation, no  
6     depression, deflation?  If it's perfectly flat, it's  
7     the only situation where you could imagine that  
8     another test period would be appropriate; is that  
9     correct?

10           MR. SMITH:  Your Honor, I'm going to  
11     interpose an objection.  This is getting into a  
12     purely hypothetical discussion of what some other set  
13     of circumstances, other than the ones that have been  
14     presented here today, might be.  That is not the  
15     question before the Commission now.  The question is  
16     what test period should be chosen given the evidence  
17     on the record in this case.  And that is -- so the  
18     question that Mr. Dodge has asked is asking him to  
19     hypothesize in a situation that simply isn't before  
20     the Commission and does not exist at this time.

21           MR. DODGE:  Mr. Chairman, if I may, as you  
22     well know, experts can be asked to hypothesize to  
23     test the premises of the conclusions and opinions  
24     they've given.  It's a totally appropriate question.

25           CHAIRMAN BOYER:  I'm going to overrule and  
26

1 let Mr. McDougal answer that.

2 Q. (BY MR. DODGE) And I'll move on, but I  
3 just want it clear. If you disagree with my  
4 characterization of you, as I read you, you're saying  
5 you can almost not imagine a circumstance when it  
6 wouldn't meet a 20-month historical test rate that  
7 best reflects, notwithstanding the legislative  
8 statement, that there's no presumption?

9 A. When I look at the test periods  
10 proposed by the Company in this hearing and I look  
11 at a Mid period with a requirement of approximately  
12 \$80 million, a little bit over that, and then I look  
13 at a test period from the forecast period of about  
14 \$160 million, that tells me as a representative of  
15 the Company that our costs are increasing  
16 significantly and the "best reflects" has to go to  
17 the forecast period. If I were to --

18 Q. You're assuming -- go ahead.

19 A. Now, if I were to run that same scenario  
20 and they were both to come out at virtually the same  
21 dollars, then I think the Commission could go with  
22 whichever one it decided. But when I look at that  
23 kind of a magnitude of difference, I believe the  
24 forecast period definitely best reflects the  
25 conditions that we would encounter.

26



1 Q. And you're assuming, of course, the  
2 accuracy of all your projections that haven't yet  
3 been tested?

4 A. Yes.

5 Q. What will be your revenue requirement in  
6 the year 2009 to the dollar?

7 A. To the dollar?

8 Q. To the hundred million dollars? Do you  
9 have any clue what your actual revenue requirement  
10 will be or your revenues or your loads or your  
11 expenses?

12 A. I believe the projections we are giving  
13 are an accurate estimation.

14 Q. Accurate?

15 A. Now, does that mean they're right on?  
16 No.

17 Q. What's the difference between "right on"  
18 and "accurate"?

19 A. I believe that, you know, there always is  
20 going to be a margin of error. Now, what that  
21 magnitude is I don't know exactly. That's one of the  
22 reasons that the parties are looking at it. But I  
23 believe that this reasonably forecasts and I believe  
24 that it is our best estimate of what our revenue  
25 requirement will be during the rate effective period.

26

1           Q.     So let's talk about that.  You say there  
2 will always be some margin of error.  You're going to  
3 be off, the question is high, low, by how much,  
4 right?  In the past when this Company has been told  
5 by this Commission for decades to use an historical  
6 test period, the Company complained mildly about the  
7 fact that regulatory lag worked to its detriment, did  
8 it not?

9           A.     I was not involved in those dates.

10          Q.     How long have you been with the Company?  
11 I forget.

12          A.     I've been with the Company around 20  
13 years, but I wasn't involved in the rate cases back  
14 in that time period.

15          Q.     Even if you weren't involved in the rate  
16 cases, did you never hear the company complaining  
17 about the --

18          A.     I have heard the regulatory lag  
19 implications since I entered regulation in the early  
20 '90s.

21          Q.     And the utility complains about it when  
22 it's an historical test period because it puts the  
23 burden of the misprojections or the difference  
24 between actual and what's used in the rate case on  
25 the shoulders of the utility, correct, if it's an

26

1 historical event?

2 A. I wouldn't say the misprojections. I  
3 would state that in a period of rising costs,  
4 regulatory lag has a negative impact on the Company.

5 Q. In other words, it's a risk the Company  
6 takes in an historical test period. The risk is that  
7 actual revenues, expenses, loads, et cetera, may  
8 differ from what was used in setting rates, correct?

9 A. Yes. Because of the rising costs it  
10 covers, there is a significant risk to the Company  
11 associated with regulatory lag.

12 Q. And your request, as the Company, is to  
13 reverse that and put the risk of misprojections on  
14 the ratepayer, correct?

15 A. No.

16 Q. How are you not doing that?

17 A. Well, what we are saying is not to put the  
18 risk on the ratepayer. What we are stating is we  
19 want this Commission to choose the test period that  
20 best reflects what should be occurring with what the  
21 best forecasts are during the rate effective period.

22 Q. Stay with my question, please. The risk  
23 that the amount of loads you project, revenues you  
24 project and costs you project in the rate case will  
25 vary from the actual is being shifted to the

26

1 ratepayers under your proposal; is that not true?

2 A. I think the risks stay with both  
3 ratepayers and with the Company.

4 Q. How so? Let me give you an example. You  
5 say the rate effective period is roughly August of  
6 '08 through August of '09, the first year of it. By  
7 the time we will even know whether your projections  
8 are close we will be at least seven or eight months  
9 into that rate effective period, will we not?

10 A. Yes.

11 Q. And then by the time, even if a rate case  
12 were filed that day, by the time the Commission could  
13 change rates it would be an additional eight months,  
14 correct?

15 A. I believe the Commission actually has  
16 authority, based upon certain burdens of proof, that  
17 it can actually adjust rates on an interim basis at  
18 the beginning of the period not -- for the full 240  
19 days.

20 Q. Take away interim. There are standards  
21 there that I don't want to talk about now.

22 A. Okay.

23 Q. And if we don't have this situation under  
24 the statute and the case law that permits an interim  
25 rate increase or decrease, you're talking at least 16

26

1 months basically from the time rates become effective  
2 until the Commission can change it?

3 MR. SMITH: I do object to that question.  
4 I'm not sure how we can surgically remove the interim  
5 rate increase, say, rate reduction provisions from  
6 the statutes that very well may apply.

7 MR. DODGE: I did it. My question removed  
8 it. Please remove --

9 MR. SMITH: Your Honor, then I object  
10 because that is in the statutes and the question is  
11 improper.

12 MR. DODGE: Well, and how so? I can ask  
13 whatever question I want given the objection that's  
14 based on the rules.

15 MR. SMITH: Well, I'm objecting to it  
16 because it assumes a provision of the statute that is  
17 there or is not. That's not a -- you can't assume  
18 that. The statute says what it says.

19 MR. DODGE: Mr. Smith, you've been a  
20 lawyer way too long to say you can just object  
21 without giving a basis.

22 Well, there's no legal basis for your  
23 objection and I request that it be overruled.

24 CHAIRMAN BOYER: Well, I'm going to  
25 sustain the objection. We get the point. I think we

26

1 understand the point you're making. And in the  
2 interests of time I must move forward if you all want  
3 to have closing arguments. Because the Commission  
4 has a few questions as well and I don't want to cut  
5 Mr. Proctor short or Mr. Ginsberg.

6 MR. DODGE: Well, your Honor, in fairness,  
7 being the last one here and having had the Company  
8 take the entire morning, I feel that's slightly  
9 unfair for those of us who are resisting this  
10 onslaught of all the other parties. But if that's  
11 what you -- if you cut me off, you may, because  
12 you're the Chair, I think it's unfair.

13 CHAIRMAN BOYER: Well, I'm not terminating  
14 your cross-examination. I'm sustaining --

15 MR. DODGE: Well, I would like him to  
16 answer the question. He disputed my assertion that  
17 it puts the entire burden or the entire risk of  
18 missed projections onto the ratepayer reversing what  
19 used to be the case and he won't admit that. And I  
20 would like --

21 CHAIRMAN BOYER: Well, we understand that.  
22 But you're finding yourself in the position of trying  
23 to prove your case through cross-examination.

24 MR. DODGE: Which is perfectly acceptable  
25 if it's something he testified about.

26

1                   MR. SMITH: But the problem is the witness  
2                   said he did not agree with your assertion and you  
3                   don't like the fact that he didn't say he agreed with  
4                   your assertion.

5                   MR. DODGE: Your Honor, I'll move on.  
6                   That's ludicrous, but I'll move on if you want me to.

7                   Q.       (BY MR. DODGE) Mr. McDougal, let's say  
8                   you just pretend that you agreed me that it shifts  
9                   that risk to ratepayers.

10                  MR. SMITH: I object.

11                  MR. DODGE: Well, let me finish my  
12                  question.

13                  MR. SMITH: Well, I mean --

14                  MR. DODGE: Let me finish my question,

15                  MR. SMITH: Well, I mean, it's  
16                  objectionable --

17                  MR. DODGE: Let me finish my question.

18                  MR. SMITH: -- if you're asking him to  
19                  pretend things.

20                  MR. DODGE: Your Honor, could I request  
21                  that Mr. Smith cite some rule or something? I've  
22                  never been in a case where people object without  
23                  giving the basis.

24                  CHAIRMAN BOYER: One can use  
25                  hypotheticals. Proceed, Mr. Dodge.

26

1                   MR. DODGE: That's what I mean. I'm using  
2                   hypotheticals. You went to a different law  
3                   university than I did.

4                   Q.       (BY MR. DODGE) Assume with me that the  
5                   risk is shifted to ratepayers by your proposal.  
6                   Should that be accompanied by a reduction in the rate  
7                   of return to account for that lower risk, in your  
8                   opinion?

9                   A.       First off, I don't believe the risk, as  
10                  I've stated, is being transferred because the Company  
11                  has equal risk that we are still going to underearn  
12                  and we are still filing reports every six months  
13                  where we actually do pro forma looks so people  
14                  actually know in advance. So I don't buy your  
15                  premise.

16                  Even if I did buy your premise, I don't  
17                  buy the ROE type of argument, that the ROE should be  
18                  adjusted to reflect that risk because the ROE is  
19                  based upon comparable companies and other items that  
20                  will be testified by other witnesses, and it's not my  
21                  opinion that that should be adjusted based upon the  
22                  test period selected in this proceeding.

23                  Q.       Your view is a reduction in Company risk  
24                  is irrelevant to the ROE?

25                  A.       I believe that what we are looking at is a  
26



1 variety of companies in coming up with the ROE and  
2 there are a whole variety of things from safety to  
3 PCAM mechanisms, other items. We have not looked at  
4 Utah and said, "Well, let's add a risk adder for this  
5 and this." We haven't looked at every individual  
6 component and so I don't think it's appropriate to  
7 start now.

8 Q. All other things being equal, should a  
9 reduction in the risk be reflected with a lower  
10 return on investment?

11 MR. BROWN: I'm going to object and I'll  
12 give a legal basis and, that is, it's outside the  
13 scope of this proceeding. The proceeding is set up  
14 to determine selection of test period. Mr. McDougal  
15 did not sponsor testimony regarding return on equity.  
16 We have other witnesses to do that. Now, we have a  
17 subsequent proceeding set up in this case in May to  
18 deal with these issues.

19 MR. DODGE: I'll withdraw it. The  
20 objections are going to prevent me from asking any  
21 questions so I need to move on. In the interest of  
22 time, Mr. Chairman, if I may approach.

23 CHAIRMAN BOYER: You may.

24 MR. DODGE: I was going to stand up  
25 because I'm at my best standing up walking around and  
26

1 I was going to use that light board, but I decided to  
2 try to save time by making copies of this instead.  
3 And these questions are for Dr. Zenger.

4

5 JONI ZENGER,  
6 called as a witness, was examined  
7 and testified as follows:

8

9 CROSS-EXAMINATION

10 BY MR. DODGE:

11 Q. Dr. Zenger, I'm going to start, and I  
12 handed you this, but I'm not going to ask you to  
13 refer to it for just a moment. I'm going to start by  
14 asking you to turn to your Direct, page 18, lines 356  
15 to 357. You may not need to turn there, but I'm  
16 referencing where you state that the Company's  
17 forecasts are accurate, quote, "within 3 percent,"  
18 correct? That's what your testimony states?

19 A. Yes.

20 Q. And you reference your Exhibits 1.6 and  
21 1.7 in making that statement, correct?

22 A. Yes.

23 Q. And I would like you to turn to your 1.6  
24 and 1.7. And I'll start with 1.7, page 1 of 1 at the  
25 bottom, and represent for those that are getting

26

1       there that this is your variance analysis based on  
2       the Company's projection of energy, correct?

3             A.     Yes.

4             Q.     And I note, for example, in the state of  
5       Oregon in your variance analysis that's 5.67 percent,  
6       which is not within the 3 percent. Now, your 3  
7       percent was qualified by weather-related events. Is  
8       it your testimony that the difference between 5.67  
9       and 3 is all weather?

10            A.     No. If you go to my Data Requests 2.7,  
11       2.8 and 2.9 of the Company, I took all of these, this  
12       -- excuse me. If you go to my DPU Data Request 2.7,  
13       2.8 and 2.9, I took all of the variances and put them  
14       in a table and asked the Company to fill in an  
15       explanation for the variance in each of these. And  
16       the first one in 2.7, if you have a copy of it, you  
17       look through Temperature Warmer Than Normal,  
18       Temperature Colder Than Normal, there were some  
19       others. So I did send a third follow-up Data Request  
20       to ask what that "other" meant and it's -- and the  
21       Company responded, "The Other category includes usage  
22       per customer and/or customer mixed deviations."

23                    So when I say the 3 percent, then I had to  
24       follow up with the Company to get an explanation of  
25       the variances of all of those and if it were, in

26

1 fact, a weather-related event.

2 Q. But for confirmation, although your  
3 testimony says the variances were within 3 percent  
4 excluding weather, that's not completely accurate, is  
5 it? In fact, I think in your summary you said within  
6 3 to 5 percent.

7 A. Yes. Well, I looked at several factors  
8 and I didn't just look at the demand in energy, I  
9 looked at system sales and other things.

10 Q. If you'll turn to Exhibit 1.6, page 1 of  
11 2, this is now the same variance analysis but on  
12 demand?

13 A. Right.

14 Q. And on that one, for example, Oregon shows  
15 a 12.2 percent variance, correct?

16 A. Yes.

17 Q. And again, not all but 3 percent is  
18 weather related, is it?

19 A. Let's see. I would have to go to the Data  
20 Request that I sent as a follow-up.

21 Q. Well, let me try a different way. I'll  
22 withdraw that question.

23 Did you review Mr. Higgins' analysis where  
24 he did a weather normalized analysis of Oregon demand  
25 projected in the last rate case versus actual?

26

1 A. No, I didn't.

2 Q. Would you agree --

3 A. The last rate case?

4 Q. Well, in his testimony in this case.

5 A. Oh, in this case?

6 Q. He did a variance analysis based on  
7 weather normalized data of the Oregon capacity -- or  
8 the demand factor, the SG factor versus the actual.

9 A. Yes. I have that in front of me.

10 Q. And that's 7 point some odd percent, isn't  
11 it, on a weather normalized basis?

12 A. Perhaps I don't have the right document.  
13 I have the SG factor.

14 Q. But would you agree with me that if one  
15 wanted to look at factors other than weather the best  
16 way to do it is weather normalized data?

17 A. Yes.

18 Q. And if in that analysis in fact they  
19 overestimated it -- excuse me, underestimated Oregon  
20 capacity, their contribution to coincident peak by  
21 7.3 or 4 percent, you would agree that that allocates  
22 a great deal of dollars towards Utah, correct?

23 A. Yes. And I would send a follow-up Data  
24 Request asking if there was something, some condition  
25 that we did not know of or some explanation for it.

26

1           Q.     The documents I handed you, Ms. Zenger,  
2     and I will go through them quickly in the interest of  
3     time. The first one is a report, an order of this  
4     Commission approving a test period in October '04.  
5     You refer to that and I'm confident you've read that  
6     document, correct?

7           A.     Yes. I have it in my folder.

8           Q.     And I'm going know now turn to the  
9     documents following it.

10           MR. DODGE: And I would ask, Mr. Chairman,  
11     that this be marked UAE Cross-Examination Number 2  
12     and it can be the entire thing. I'm not going to  
13     move the admission of these, you can take  
14     administrative notice. They're for illustrative  
15     purposes. But so we can reference to them --

16           CHAIRMAN BOYER: That would be fine.

17           MR. DODGE: -- as UAE Cross-Examination  
18     Number 2?

19           Q.     (BY MR. DODGE) So the document following  
20     the Order is something that's got potential test  
21     periods. And in doing this I'm going to reference a  
22     point in your testimony where you took issue with Mr.  
23     Higgins' statement that the Company's proposed test  
24     period in this case is aggressive. Do you recall  
25     that?

26

1           A.     Yes, I do.

2           Q.     I would like to walk through just briefly.

3     Accepting both yours and Roger Ball's notion that  
4     there are many, many different test periods, the main  
5     ones that could have been considered in this case I  
6     would suggest are here, and you tell me if you  
7     disagree.

8                     The first one would be an historical with  
9     no known and measurable which, as it's stated here,  
10    is not allowed by statute?

11          A.     Right.

12          Q.     But you'll agree, will you not, that that  
13    is the test period used in the last litigated rate  
14    case in Utah and for decades before that?

15          A.     I couldn't say that.

16          Q.     You don't know?

17          A.     I don't know.

18          Q.     Okay. Then I'll move on.

19                     Number 2 would be the same period,  
20    historical data with known and measurable changes,  
21    and I have, quote, "close in time" because that's  
22    what the statute says. That's the Company's base  
23    period and that would be another potential test  
24    period that could be used here, correct? Correct?

25          A.     Yeah.

26

1 Q. And the third one would be mixed. The  
2 statute directly allows a mixed test period, correct?

3 A. Right.

4 Q. And that would be, for example, 2007. So  
5 it has some actual settlement projected data,  
6 correct?

7 The fourth would be a projected period  
8 starting in -- and again, I'm using only periods that  
9 rely on semiannual filings because that's typically  
10 what the utility filing is based on, correct?

11 So the next one would be 7/07 to 6/08.  
12 That would be a projected test period although it  
13 would end just seven months after the filing,  
14 correct? And this is what the Company calls their  
15 Mid period?

16 A. Yes.

17 Q. UAE has proposed this as an alternative  
18 and UIEC has proposed this test period, okay?

19 The fifth would be to the Calendar Year  
20 2008, which is also a projected test period ending  
21 approximately 13 months after the filing date. This  
22 is UAE's primary proposal; is that your  
23 understanding?

24 A. Yes.

25 Q. Was it your understanding that prior to  
26



1 2003 this was actually slightly in excess of the  
2 maximum allowed under Utah law?

3 A. It was my understanding that Utah law, you  
4 could go out 20 months from the date of filing.

5 Q. After 2003. Was it your understanding  
6 before that it was 12 months? Let me just represent  
7 that to you, that prior to that change in the law the  
8 20 was 12.

9 A. Okay.

10 Q. And so this test period that UAE proposes  
11 is slightly more than what would be allowed at any  
12 time in the state up to 2003.

13 And then the other test period, the one  
14 that the Company has proposed, is the one that ends  
15 19 months, roughly, after the filing date.

16 How is it you can resist the notion that  
17 moving from the first test period, number 1, which  
18 was the last litigated ruling by this Commission to  
19 number 6, is not an aggressive test period?

20 A. Well, I think we can first cross off  
21 number 1.

22 Q. That's what I said, number 1 is not  
23 available.

24 A. Right.

25 Q. But it's still what the Commission did the  
26

1 last time it had this before it.

2 A. Well, we know -- anyway, in this case  
3 number 1 is not allowable so --

4 Q. So can you think of a more aggressive test  
5 period? Because you resisted that phrase I want to  
6 understand your resistance. Is there a more  
7 aggressive test period that this Commission could  
8 adopt? Maybe one month?

9 A. I think one and-a-half months out further,  
10 wouldn't that be exactly 20 months?

11 Q. So if we said that was good, would you  
12 accept it as aggressive?

13 A. Well, I may have accepted it if you  
14 mentioned it at one time, but nowhere in the  
15 Company's filing did I hear them call their  
16 forecasted test period an aggressive test period, the  
17 aggressive test period. So that's why in Mr.  
18 Higgins' testimony when every time I saw that, over  
19 ten times or so, you know, it to me was something I  
20 hadn't seen before and it left me with a negative  
21 connotation that it was -- it wasn't within the law  
22 or something when, in fact, I checked and you could  
23 go out 20 months.

24 Q. But you can understand how a ratepayer  
25 might say moving to number 1 from number 6 in one

26

1 fell swoop is aggressive?

2 A. Yeah.

3 Q. Thank you.

4 The next page, and I won't spend a lot of  
5 time on this, these are quotes taken out of the  
6 Commission's 2004 Order listing the concerns the  
7 Commission had in 2004 and decided the 1992 case with  
8 both out of period adjustments and with projected  
9 test periods.

10 I won't go through each of them, but my  
11 question is, and I've got a column here, is it still  
12 applicable, this concern. And I was going to go  
13 through this, I won't in the sake of time. But did  
14 you review these concerns the Commission expressed in  
15 that 2004 Order and reach any conclusions as to  
16 whether they're still legitimate concerns?

17 A. You know, I did review them and I even  
18 went back to the '90 Order to try to interpolate how  
19 we got to where we are, why inflation would be listed  
20 as one now and that. And so there's -- I don't have  
21 a clarity from the Commission whether these are, in  
22 fact, you know, items we need to check off or not  
23 because after this test period stipulation, the  
24 Commission accepted the Stipulation, there was no  
25 Commission Order.

26

1                   So, you know, in my mind some of these  
2 would be concerns, but I don't know that there's  
3 anything authoritative that they are or not. In  
4 fact, that's what I was hoping we could get from this  
5 proceeding.

6           Q.     Then the last thing in this exhibit is  
7 that in that same 2004 Order, the Commission listed  
8 nine factors that they said should be included among  
9 others. And this is post 2003 law that included the  
10 20-year test period and the requirement that it be  
11 most reflective. The Commission gave these nine  
12 factors. Now, you did discuss these in your  
13 testimony, correct?

14          A.     Yes.

15          Q.     The one that Mr. McDougal references, the  
16 one he primarily focuses on is the one that's closest  
17 in time. Do you see that listed in these nine?

18          A.     You mean the one that Mr. Higgins  
19 represented?

20          Q.     No, that Mr. McDougal advanced. He thinks  
21 this is one of the most important factors, and I  
22 won't try and paraphrase his testimony, you listened  
23 to him, is to line up the projected test period with  
24 the rate effective period?

25          A.     No. But that's also how I characterize  
26

1 Mr. Higgins.

2 Q. As what?

3 A. Close in time.

4 Q. But he is saying closer in time to now, to  
5 today, the less you are worried about projecting,  
6 correct?

7 A. Well, I wasn't sure because he mentioned  
8 near in time, closer in time throughout it. So I  
9 wasn't sure.

10 Q. In your testimony you agreed with Mr.  
11 Higgins that as a general matter the further you try  
12 and project the more problems, correct?

13 A. Yes. It's just a given probability  
14 factor.

15 CHAIRMAN BOYER: Let me interrupt at this  
16 moment, Mr. Dodge.

17 How much cross-examination do you have,  
18 Mr. Ginsberg and Mr. Proctor?

19 MR. GINSBERG: I don't have a whole lot,  
20 maybe 10 or 15 minutes total. I don't know. I'll  
21 try and be real brief.

22 MR. DODGE: And I was to the end of mine.

23 CHAIRMAN BOYER: We're going to have to  
24 continue this hearing, obviously. So I don't know  
25 when we'll have an available date because we're  
26

1 meeting with another group of folks tomorrow morning,  
2 as it turns out, in another rate case.

3 MR. PROCTOR: Mr. Chairman, I have no  
4 cross-examination, but I do in its stead, if they  
5 want to spend their time on cross-examination, that's  
6 certainly up to them. I would like five minutes to  
7 explain why we're here and how we might be able to  
8 resolve this controversy through a closing statement.

9 CHAIRMAN BOYER: I was looking forward to  
10 those. The Commission has a few questions as well.  
11 But if Mr. Ginsberg goes 15 and 5 and --

12 MR. GINSBERG: I can be less.

13 MR. DODGE: Mr. Chairman, that was the end  
14 of my testimony -- or cross-examination.

15 CHAIRMAN BOYER: Mr. Ginsberg?

16

17 STEVEN MCDUGAL,  
18 called as a witness, was examined and  
19 testified as follows:

20

21 CROSS-EXAMINATION

22 BY MR. GINSBERG:

23 Q. I guess the first thing I would like to  
24 find out from the Company, Mr. McDougal, is the  
25 process it would have to go through in order to

26

1 refile or update your case to the 2008 test year.

2 A. In order to calculate a 2008 test period,  
3 most of the information is available, it's just a  
4 matter of recalculating everything. There's a couple  
5 of bits of information that would have to be redone  
6 and that would be -- we would have to restate all the  
7 rate base and recalculate the 13-month average. Then  
8 we're going to have to calculate the power costs for  
9 those exact 12 months and we would have to redo the  
10 deferred income taxes.

11 By the time we did all of those and then  
12 tried to get a complete book together so it's a  
13 comparable book, review it and make sure that there  
14 aren't spelling errors and other errors, it's  
15 probably going to take approximately four weeks, I  
16 would think, to get it out to the 2008 test period,  
17 to get out the full book and everything that's been  
18 requested.

19 MR. GINSBERG: I do have questions for Mr.  
20 Higgins and maybe I can do those next.

21 KEVIN HIGGINS,  
22 called as a witness, was examined  
23 and testified as follows:

24 CROSS-EXAMINATION

25 BY MR. GINSBERG:

26

1           Q.     You've basically said in your summary in  
2     answer to some questions that you thought it was  
3     important in this case that we use a forecasted test  
4     year; is that right?

5           A.     I think it's reasonable to use a  
6     forecasted test period in this case.

7           Q.     But in actuality what you're proposing is  
8     a little bit different than the forecasted test year,  
9     that is the Mid period, and you're proposing that  
10    it's important to include part of the rate effective  
11    period, are you not?

12          A.     When you say "include part of the rate  
13    effective period" you mean?

14          Q.     Your proposed test year includes four  
15    months of the rate effective period?

16          A.     That is correct.

17          Q.     You rejected, for whatever reason, using  
18    the Mid period which doesn't include any of the rate  
19    effective period?

20          A.     I didn't reject the Mid period. I said it  
21    would be an alternative to your Calendar 2008, but I  
22    did think Calendar 2008 was preferable in the  
23    circumstances.

24          Q.     Why was it preferable?

25          A.     Well, I believe that it would balance some  
26



1 of the concerns that the Company has presented with  
2 respect to its ability to recover the costs of its  
3 new investment.

4 Q. So you agree that the new investment, the  
5 capital expenditures should get reflected in rates  
6 going out beyond the -- into the rate effective  
7 period, your objection is that it just shouldn't go  
8 out an additional eight months?

9 A. Yes. I think, you know, going out four  
10 months is reasonable.

11 Q. Did you look at what will occur in that  
12 additional eight months and what will be left out?

13 A. I did not do a comprehensive analysis of  
14 that. I reviewed generally the Company's filing on  
15 it.

16 Q. You heard the testimony of the \$400  
17 million of capital expenditure and there would be  
18 other items left out, would you agree?

19 A. I heard that. I can't validate that  
20 number, but certainly the Company has got investment  
21 projections for 2009, I'm sure 2010 and 2011, and at  
22 some point we would cut that off.

23 Q. Well, the statute does that?

24 A. The statute does that. But even absent  
25 the statute you'd have -- you'd be wanting to cut

26

1 that off at some reasonable point.

2 Q. But you thought it was important enough to  
3 include something more than the Mid period which  
4 would include none of the rate effective period to  
5 capture capital investments that were being included?

6 A. Yes.

7 Q. What factors would you need in order to  
8 decide to go out and include the full rate effective  
9 period that's being proposed by the Company?

10 A. Well, I guess I would like to see Utah  
11 gain some experience in using even what I would call  
12 a closer in time or modest test period first. I  
13 would think that if over time there's a comfort level  
14 that is developed with using the forecast, a closer  
15 forecast, then the Commission could reassess at a  
16 later period as to whether or not something further  
17 into the future would be warranted or not.

18 Q. So other than we haven't done any of these  
19 except by stipulation, that's your only objection?

20 A. That's not my only objection. It's an  
21 overriding factor influencing what I've recommended.

22 Q. Your test year, though, you agree, is  
23 fully forecasted anyway?

24 A. Yes, it is. It's a fully projected test  
25 period.

26

1           Q.     So it's subject to the same criticism that  
2     you included in, I think it's on page 9 of your  
3     testimony, that it might include investments that  
4     occur after the rates go into effect, it will include  
5     inflation that will occur after rates go into effect?

6           A.     Yes, I am.

7           Q.     But subject to the same possible  
8     criticisms that you made for any forecasted test  
9     year?

10          A.     Yes, Mr. Ginsberg, and I pointed that out  
11     in my testimony.

12                   MR. GINSBERG:  I think that's all.

13                   CHAIRMAN BOYER:  Thank you, Mr. Ginsberg.

14                   I think what we'll do is go to the  
15     Commission questions and give the last few minutes to  
16     Mr. Proctor to use as he has chosen.  And if the rest  
17     of you feel deprived of an opportunity to make your  
18     closing arguments, we will allow a post trial or a  
19     hearing written closing statement, if you like, to be  
20     filed by Monday or something like that, if that works  
21     for you.

22                   I do promise that in going forward --  
23     we're going to be meeting fairly often here this year  
24     in this case or another.  Do you think we should go  
25     to the old Supreme Court standard and give each party

26

1 an allocation of time and have someone with a stop  
2 clock marking it down? I was hoping that having set  
3 the expectation this morning that self-discipline  
4 would have taken care of the issue. I'm sympathetic  
5 to Mr. Dodge and his concern that he didn't get as  
6 big a bite at the apple as the Company. Any thoughts  
7 on that at this point?

8 MR. GINSBERG: I have a thought. I would  
9 hope that you wouldn't go to that kind of --

10 CHAIRMAN BOYER: It's fairly Draconian.  
11 I don't want to administer it, but --

12 MR. GINSBERG: I think what a lot of  
13 people didn't expect to happen this morning was  
14 spending the morning with the Company witnesses that  
15 essentially no one had questions for and it took  
16 basically half the day.

17 CHAIRMAN BOYER: Okay. Thank you.

18 Commissioner Allen, have you questions?

19 MR. BALL: Chairman, I just have a little  
20 input on your question a minute ago. Perhaps it  
21 would help if the Commission could signal, as in this  
22 case it issued a document saying it was going to hold  
23 this hearing, perhaps that in future might be a good  
24 opportunity to tell participants what the  
25 Commission's expectation for the day is. We've spent  
26

1 a bit of time today just handling process, and maybe  
2 we could avoid that.

3 Another thing, quite frankly, is you kind  
4 of suggested that I was using up rather a lot of time  
5 on cross-examination. I think if we would run a stop  
6 clock on it, what you would have found is the  
7 questions were quite brief and to the point, but the  
8 answers were rather lengthy in terms of the time that  
9 they consumed. There's no criticism there, that's  
10 just the way it is. I don't know how to manage that.  
11 If any party has got any suggestions on that, that  
12 might be helpful to me in the future.

13 Thank you, Chairman.

14 CHAIRMAN BOYER: We'll take that into  
15 consideration.

16 Commissioner Allen had one question.

17 COMMISSIONER ALLEN: Thank you, Mr.  
18 Chairman.

19 I have one question. I'm looking for a  
20 little more evidence on this growth projection  
21 because we're dealing with risk here and we're trying  
22 to look at this test period.

23 And, Dr. Lemmon, your testimony brings to  
24 doubt some of these issues that -- or brings to the  
25 forefront some of the doubts we have about the

26

1 stability of the economy. One of the things I'm  
2 asking in the back of my mind in terms of Utah and  
3 our Utah issues here -- and if this is not an area of  
4 your expertise, that's fine, just let me know -- but  
5 is Utah's higher birth rate and the eco boom that we  
6 have going on or could be going on here, is that  
7 going to give us some resiliency and are we still  
8 going to see growth or is it just too hard to  
9 predict? Do you have some feedback on that, what our  
10 risk there is, or mitigated risk?

11 MR. LEMMON: I think that is pretty far  
12 beyond my expertise. All I have seen are the  
13 projections both of the Company and some of the  
14 Governor's projections and there are some  
15 discrepancies. But I don't have an opinion on the  
16 birth rates.

17 COMMISSIONER ALLEN: Thank you. I just  
18 wanted to give you that chance if you did.

19 CHAIRMAN BOYER: Mr. Campbell?

20 COMMISSIONER CAMPBELL: We've talked a lot  
21 about trying to establish a test year that will best  
22 reflect the rate effective period, and I haven't  
23 heard anybody, except maybe the Company, define what  
24 a rate effective period is. Is it one month after we  
25 establish the rate, is it six months, is it 12

26

1 months, is it two years, is it five years?

2 I know Mr. Ginsberg touched on this right  
3 towards the end of his cross, but I would be  
4 interested what the other parties believe the  
5 definition of the rate effective period is.

6 MR. HIGGINS: Commissioner Campbell, by  
7 convention, I believe most parties generally view, at  
8 least I view the rate effective period as that period  
9 starting with the advent of new rates. And for  
10 analytical purposes one may choose to view that as a  
11 one year, 12-month period, but I don't know that it's  
12 necessarily limited to that. But it is the period at  
13 which new rates take effect. At least in the common  
14 usage in the business that's typically how I've seen  
15 it referenced.

16 COMMISSIONER CAMPBELL: Ms. DeRonne, in  
17 your experience in going around various states, when  
18 you set rates is it presumed that that covers the  
19 following 12 months?

20 MS. DERONNE: Yeah, most states that I  
21 participate use future test years. They will call it  
22 the rate year, and so the rate effective period will  
23 be the first 12 months after the date rates go into  
24 effect.

25 COMMISSIONER CAMPBELL: Mr. McDougal, I

26

1 would like to ask you a question, but it actually  
2 relates to Ms. Zenger's Exhibit 1.5. I don't know if  
3 you have that Exhibit 1.5, but since she is  
4 referencing the Company's filing I want to just -- I  
5 don't have the rationale for what's happening here.

6 On this exhibit it shows that we're  
7 starting at revenues of \$3.9 billion, jumping up to  
8 \$5.6 billion and jumping down to \$4.5 billion, you  
9 know, a billion here, a billion there. What's  
10 causing us to be moving a billion dollars between  
11 these years?

12 MR. MCDOUGAL: What she is doing here is  
13 pulling data from our results of operations and these  
14 are the revenues and expenses. A large part of what  
15 is driving the difference, and I have not looked into  
16 it in detail, but generally it has to do with our net  
17 power costs and what our purchases and sales are. So  
18 generally when you see the revenues go up, you also  
19 see the expenses go up.

20 What that tells me is generally what is  
21 happening is, based upon our positions and the way we  
22 are running the grid model, we are seeing a lot of  
23 purchased power and a lot of sales just trying to  
24 balance the system within the grid model. And so  
25 that's impacting both sides. And that's how come

26



1 you're seeing that Mid period go up both on the  
2 expense and on the revenue side because the \$3.966  
3 million is purely the O&M operating expenses of the  
4 Company, and that's reflected in the power costs on  
5 both sides.

6 COMMISSIONER CAMPBELL: So that reflects  
7 your wholesale business?

8 MR. MCDUGAL: Yes.

9 COMMISSIONER CAMPBELL: And would you  
10 provide for this record what the revenue requirement  
11 impact is of \$441 million of capital expense?

12 MR. MCDUGAL: Yeah, I can calculate it or  
13 approximate the rate base component is around 12  
14 percent. So it's around \$48 million. Now, of that  
15 \$440 million, that is the amount that is projected  
16 between January 1st of '09 and June 30th of '09.  
17 That is not going to be an in revenue requirement  
18 440, it's actually going to be less than half of  
19 that. But at the same time, moving from December to  
20 June there's a lot of assets that will be put in  
21 during the last six months, during actually all of  
22 Calendar Year '08 we will get a larger recovery. So  
23 you actually have to look at both components to  
24 figure out what the revenue requirement difference of  
25 capital is moving six months forward.

26

1                   COMMISSIONER CAMPBELL: Thank you. I just  
2 wanted to clarify the record on that point.

3                   CHAIRMAN BOYER: My first question is to  
4 all of the Panelists other than the Company Panelists  
5 here. To set the context, in Federal Government, for  
6 example, budgets are set for agencies and at  
7 year-end, lo and behold, they usually expend most of  
8 the funds there. But if one were to look at the  
9 expenditures, they tend to accelerate at the end of  
10 the fiscal year. In other words, people accelerate  
11 costs and so on so as to meet their budget  
12 projections.

13                   Have any of you looked into the Company's  
14 financials to see if that is occurring there? The  
15 projections we've got, we've got a lot of testimony  
16 on how close or how high they are, plus or minus 2,  
17 3, 5 percent. Have any of you looked at that?

18                   Apparently not. It's a pretty good  
19 question, though, isn't it?

20                   MS. DERONNE: Just briefly. In prior  
21 cases I have looked at their monthly earnings reports  
22 and I don't recall seeing any months where all of a  
23 sudden there's a big jump or a big catch-up. It  
24 would vary from month to month, what I found in the  
25 prior cases.

26

1                   CHAIRMAN BOYER: Okay. And, Mr. Dodge,  
2 did you want to offer Cross Exhibit Number 1 into  
3 evidence?

4                   MR. DODGE: I think it's something of  
5 which you can take administrative notice so I didn't  
6 feel the need to offer it.

7                   CHAIRMAN BOYER: Right. Thank you.

8                   And I know the Company's position on this  
9 question as well, but what effect does using a future  
10 test year for ratemaking purposes have on the  
11 Company's incentive to manage its costs? There was  
12 some testimony in the Company witnesses' testimony,  
13 but what about you other Panelists?

14                   Dr. Zenger?

15                   MS. ZENGER: Yes. Mr. Chairman, I  
16 addressed it in my testimony. And I think that the  
17 Company has the same incentive or even more incentive  
18 to meet their costs and to be efficient because we  
19 will be looking now, you know, at their budgets, at  
20 their costs, at their variance reports. And so in  
21 the event they want to come and file a future rate  
22 case on a forecasted test period, I mean, we're going  
23 to be watching them like a hawk.

24                   And so I think they have the same inherent  
25 incentives that they already had to try to be more

26

1 efficient if they can, but at the same time try to  
2 perform as they have forecasted to us.

3 COMMISSIONER BOYER: And is your answer  
4 the same regardless of whether it's a forecast year  
5 that's 20 months out from filing or 18 months out or  
6 12 months out?

7 MS. ZENGER: Well, I think the further  
8 they go out, you know, the more -- it's that law we  
9 talked about, the further you go out, the higher the  
10 chance of a forecast error. So if the test period  
11 goes out for the full 20 months, I think they have  
12 even more incentive to say, "Look, we can make our  
13 predictions and our budgets and our results of  
14 operations and we can do this and these are our  
15 results and they are accurate." So I think the  
16 further you go out past the 20 months, they do have  
17 even more incentive.

18 CHAIRMAN BOYER: Mr. Higgins?

19 MR. HIGGINS: Mr. Chairman, the Company  
20 has the same incentive to be efficient whether you're  
21 using historic test period or future test period  
22 because in both cases the Company is able to put the  
23 savings in its pocket, if you will, until the next  
24 rate case.

25 I do think a distinction between the two,  
26

1       though, is that if you use a future test period, the  
2       further into the future you're going, in all  
3       likelihood the more inflation you're building into  
4       your rates. And, therefore, the savings that the  
5       Company might benefit from through greater efficiency  
6       would actually produce a better, a bigger benefit to  
7       the Company, if you will, using a future test rate.

8                 So the incentive to be efficient is the  
9       same in both cases. The payoff is bigger to the  
10      Company in the future test period because you would  
11      have built rates assuming a different level of  
12      efficiency, a lower level of efficiency, if you will.

13                CHAIRMAN BOYER: Thank you.

14                I just have one last question. I was  
15      going to ask a question on accuracy the further out  
16      one predicts, but I think that's been asked and  
17      answered.

18                If the testimony we've heard today is  
19      correct and we are in a period of increasing costs  
20      for fuel, labor and materials, increasing demand,  
21      finding new resources and all those sorts of things,  
22      it's entirely possible that we'll be having more and  
23      more frequent rate cases in the future.

24                Does that affect -- if, for example, we  
25      have annual rate cases for Rocky Mountain Power ,

26

1 does that change anyone's view on what the test year  
2 should be? Should we do a closer, Mid term, 20  
3 months out? Does it make any difference to anyone?

4 Ms. DeRonne?

5 MS. DERONNE: I don't think that that  
6 should necessarily influence this. You want to make  
7 sure they have enough revenue to cover their costs  
8 and make sure you're investing in the system so you  
9 don't have a reduction in the quality and the  
10 customer service. And if that does, in fact, result  
11 in annual rate cases, that could be a result. But,  
12 again, we don't know that these cost increases are  
13 going to continue indefinitely into the future.

14 There was a period in the '90s where the  
15 Company went a lot of years without coming before the  
16 Commission for a rate increase. So that could very  
17 well reverse itself once they catch up on some of  
18 these transmission and distribution upgrades that  
19 they're undergoing now.

20 CHAIRMAN BOYER: And one last question for  
21 you, Ms. DeRonne. You mentioned in your testimony  
22 that you found no reason to object to the Company's  
23 proposed test year, but suggested safeguards. As I  
24 heard your testimony today, I suppose those are under  
25 consideration at this point in time? You don't know

26

1 what they would look like, or are we talking  
2 balancing accounts?

3 MS. DERONNE: You know, I did some  
4 potential types in my testimony. But, again, until  
5 we look more to the forecasts and where -- we're more  
6 concerned with the forecasts, that they need to be  
7 further developed. And also discussed with the  
8 Committee too.

9 CHAIRMAN BOYER: Thank you.

10 Mr. Proctor, the floor is yours.

11 MR. PROCTOR: Thank you, Mr. Chairman and  
12 Commissioners.

13 As the witnesses for the Committee have  
14 said, we believe we will complete our statutory  
15 mandate with the test period presented in the  
16 Application. That's why we did not request a test  
17 year hearing.

18 In summary, our request is, please let us  
19 know what the test period is. And there are good  
20 reasons for that. A lot of the evidence that you've  
21 heard today relates to economic uncertainty in very  
22 specific ways with respect to whether or not one can  
23 precisely measure the capital investment and the  
24 experiences in the utility in the period of June  
25 '07 -- or '08 to June '09. And to a great extent

26

1 such an examination is premature. And it's certainly  
2 not probative in this particular case of what the  
3 test period should be.

4           Those are issues that are explored later  
5 through examination, audit and adjustments which,  
6 beginning with your 2004 Order, and through all the  
7 testimony that's been presented here today, no one  
8 questions the right of any party to examine, audit  
9 and request adjustments on the basis of forecasts,  
10 planning or economic uncertainty as it unfolds during  
11 the course of this case.

12           And the economic uncertainty would exist  
13 with respect to a 2008 test period as much, perhaps  
14 even more, than it would for the 2009 period because  
15 there is less time for the economic turmoil to run a  
16 course and begin to change direction, perhaps, or  
17 level off.

18           So it cuts both ways in many respects, but  
19 the important part is not to determine whether or not  
20 the Company has stated the best conceivable test  
21 period. That isn't the statutory requirement. In  
22 fact, I would suggest to you that the fundamental  
23 statutory interpretation rejects that as being the  
24 goal of setting a test period.

25           The important part for the Committee is to  
26



1 make certain that when one is adjusting revenue  
2 components, even by a small amount, that they're done  
3 to the same test period. When you look at the  
4 revenue requirement or the investment, capital  
5 investment schedule on an issue by issue or project  
6 by project basis, because small changes can result in  
7 big amount differences, that we're dealing with the  
8 same test period. Those differences are going to be  
9 exaggerated dramatically if one party is functioning  
10 with a 2008 and another party is dealing with the  
11 '08-'09 period. That's very important so that there  
12 is an undertaking of the audit and adjustments on a  
13 common period of time.

14           Again, the Committee has found that it can  
15 perform its statutory mandate with the test period  
16 that has been recommended. I have no doubt that we  
17 would do the same if you were to find, as you've been  
18 asked to do, and I believe therefore you must do, a  
19 different test period, so long as it is done quickly.

20           So that to the extent that it's projected,  
21 there's going to be an internally consistent test  
22 period for the Company to prepare its case and  
23 there's going to be the ability for the intervenors  
24 and the regulatory authorities to determine the rate  
25 changes that are needed in order to come up with just  
26

1 and reasonable rates based upon that test period.

2           Look at your 2004 Order. There are nine  
3 factors you've stated that are to be considered when  
4 determining the test period that best reflects the  
5 conditions to be encountered during the rate  
6 effective period. The rate effective period we know  
7 is going to be, at a minimum, 240 days from the date  
8 that these rates go into effect. So August through  
9 roughly April, early May, a month and-a-half perhaps  
10 shy of the June 30, 2009 date. That's just statutory  
11 limits to what's going on.

12           So if the parties have a consistent test  
13 period that they can frame and deal with on the  
14 merits, knowing that there is no limit to questioning  
15 forecasts, for example, and a continual scrutiny in  
16 light of the circumstances nationally, regionally and  
17 state-wide, including the impact upon them, then the  
18 end result will be a manageable case because the  
19 Commission will be informed in a consistent, thorough  
20 manner. And that's really the whole purpose of  
21 establishing a test year.

22           And particularly, again, please let us  
23 know what it is now so that we can begin the more  
24 important part of the case.

25           Thank you very much.

26

1                   CHAIRMAN BOYER: Thank you, Mr. Proctor.

2                   And thank all of you.

3                   With respect to the post hearing summary,  
4                   we're not looking for a 50-page post trial brief  
5                   here, we're looking for basically the summation that  
6                   you would have given had we had time today.

7                   And that will conclude this hearing.

8                   We'll see many of you tomorrow.

9                   MR. BROWN: In terms of timing on  
10                  the brief?

11                  CHAIRMAN BOYER: Well, I suggested Monday.  
12                  Is that an adequate time? You've probably already  
13                  composed it in your mind's eye, but if you need more  
14                  time.

15                  MR. BALL: I would appreciate a couple  
16                  more days longer, your Honor.

17                  CHAIRMAN BOYER: Let's say Wednesday,  
18                  then, of next week. Just do the best you can. Your  
19                  memory is good note taking. But it will be Wednesday  
20                  of next week and I don't know what that date turns  
21                  out to be.

22                  Thank you very much.

23                  (The proceeding adjourned at 4:15 p.m.)

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C E R T I F I C A T E

STATE OF UTAH )  
: ss.  
COUNTY OF SALT LAKE)

This is to certify that the foregoing Public Service Commission hearing held before Chairman Boyer, Commissioner Campbell and Commissioner Allen was held in the State of Utah;

That the above-named proceedings were taken by me in stenotype, and thereafter caused by me to be transcribed into typewriting, and that a full, true, and correct transcription of said testimony so taken and transcribed is set forth in the foregoing pages.

I further certify that I am not of kin or otherwise associated with any of the parties to said cause of action, and that I am not interested in the event thereof.

Witness my hand and official seal at Salt Lake City, Utah, this 20th day of February, 2008.

My commission expires:  
May 24, 2011

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Kathy H. Morgan, CSR, RPR

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C E R T I F I C A T E

STATE OF UTAH            )  
                              : ss.  
COUNTY OF SALT LAKE)

I, LANETTE SHINDURLING, a Registered Professional Reporter, Certified Realtime Reporter and Notary Public in and for the State of Utah, residing at Salt Lake City, Utah hereby certify;

That the foregoing proceeding was taken before me at the time and place herein set forth, and was taken down by me in stenotype and thereafter transcribed into typewriting;

That pages 131 through 235, contain a full, true and correct transcription of my stenotype notes so taken.

I further certify that I am not of kin or otherwise associated with any of the parties to said cause of action, and that I am not interested in the event thereof.

WITNESS MY HAND and official seal at Salt Lake City, Utah, this 10th day of March, 2008.

LANETTE SHINDURLING, RPR, CRR  
Utah License No. 103865-7801