BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority To Increase its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations, Consisting of a General Rate Increase of Approximately $161.2 Million Per Year, and for Approval of a New Large Load Surcharge	))))))))))	DOCKET NO. 07-035-93 Exhibit No. DPU 7.0 Direct Testimony and Exhibits Matthew Croft

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Testimony of

Matthew Croft

April 7, 2008

Q. Please state your name and occupation?

A. My name is Matthew Allen Croft. I am employed by the Utah Division of Public Utilities as a Utility Analyst.

Q. What is your business address?

A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84114.

Q. On whose behalf are you testifying?

A. The Division of Public Utilities ("Division").

Q. Please describe your education and work experience.

A. I graduated in December of 2007 from the University of Utah with a Bachelor of Arts degree in Accounting. I began working for the Division in July of 2007. I have assisted other Division analysts in Docket Nos. 07-035-14, 07-035-163, 07-035-04, and 07-035-13.

Q. Have you previously testified before the Commission?

A. No.

Q. What is the purpose of the testimony that you are now filing?

A. The purpose of my testimony is to propose and explain adjustments to Rocky Mountain Power's ("Company") filed Utah Revenue Requirement. I have audited several areas including plant in service, plant additions, hydro expenses, office supplies and expenses, pensions, and bad debt expense. My testimony describes adjustments to Office Supplies and Expenses, Wind Generation O&M expenses, forecasted plant additions and the Company's revenue forecast.

Q. Can you please summarize your adjustments?

A. Yes. The first adjustment is to FERC Account 921, Office Supplies and Expenses. This adjustment lowers the base year Office Supplies and Expense account by $332,424 (Utah Allocation). The second adjustment lowers the projected test year Wind Generation O&M expenses by $537,593 (Utah Allocation). The third adjustment updates the Company's original capital additions forecast with the actual capital additions that have occurred through February 2008. This adjustment reduces rate base for the test year. After running this adjustment through the JAM Model, the Company's revenue requirement was lowered by $7,589,881. My last adjustment reduces the Company's revenue forecast (not revenue requirement) for the test year by $2,613,141 which has the net effect of increasing the Company's revenue requirement**.** I explain below the rationale behind these adjustments.

Q. Do you have any attachments that you are filing that accompany your testimony?

A. Yes. DPU Exhibit 7.1.0 through 7.1.3 show how my adjustment to Office Supplies and Expenses was calculated. DPU Exhibit 7.2.0 shows how my adjustment to Wind Generation O&M was calculated. Exhibit 7.3.0 to 7.3.1 describes my adjustment to the Company's test year rate base.

Q. What is your reasoning for the $332,424 adjustment to FERC Account 921 for the base year?

A. The $332,424 consists of Utah's portion of nonrecurring expenses that were incurred due to the Mid-American Energy Holdings Company (MEHC) transaction. Following the MEHC transaction, the Company spent $778,548 for various projects related to office space in Portland and Salt Lake City. These projects consisted of $237,141.29 for the Lloyd office space consolidation, $151,017.58 for the North Temple office space reconfiguration, and $54,566.07 for the Utah One Center office space consolidation. These consolidation and reconfiguring costs are nonrecurring in nature and should therefore be removed from the base year which was used to forecast the December 2008 test year. If left in the base period, these costs will not only be included in the December 2008 test year but they will be escalated by the global insights escalation factor.

Q. How was the information regarding the office space consolidation and reconfiguration obtained?

A. The information was obtained during the Division's audit trip to Portland. The Division was provided with detailed information for various FERC accounts that originated from the Company's SAP accounting system. A spreadsheet entitled "Attach DPU 6.1 -1 2nd Supp 921" contained the information concerning FERC account 921. DPU Exhibit 7.1.1 is an excerpt from this file that shows the reconfiguration and consolidation expenses. As is shown in DPU Exhibit 7.1.1, the profit center description for these expenses is "MEHC Transaction."

Q. What is your reasoning for the $537,593 adjustment to the projected test year Wind Generation O&M expenses?

A. The December 2008 filing included O&M costs for both the Seven Mile Hill and Glenrock Wind Projects. The in-service date for both of these projects is projected to be at the end of December of 2008. Since the in-service date falls at the very end of the year there will essentially be no O&M costs associated with either project. The Company's response to DPU Data Request 38.2 also indicates that no O&M costs will be incurred. The Company's response states the following:

> At the time of the filing, the estimated in-service dates for Glenrock and Seven Mile Hill were in September of 2008. Based on the updated projections for the in-service date for these two projects, there would not be any O&M expenses in 2008 for Glenrock and Seven Mile Hill.

The calculation of this adjustment can be found on DPU Exhibit 7.2.0.

Q. What is your reasoning for the reduction in the Company's rate base for the test year?

A. In response to CCS data request 16.8, the Company sent a spreadsheet indicating the actual dollars spent on capital additions for the months July 2007 through February 2008. Specifically, the response included dollars spent on Steam, Hydro, Other, Transmission, Distribution, Intangible, Mining, and General plant capital additions. After comparing the Company's actual capital additions to the forecasted capital additions, it was found that the Company spent approximately $144 million less than what it had forecasted for the period July 2007 through February 2008. This calculation is shown in DPU Exhibit 7.3. To compensate for this variance, this adjustment changes the Company's capital additions forecast which therefore affects the projected rate base for the test year. It should be noted that the capital additions forecast was only adjusted through February 2008. In essence, this adjustment is a form of a "true-up" to the company's forecast through December 2008.

Q. How was the revenue requirement impact calculated from the capital additions adjustment?

A. The Company uses three templates (Rate Base, Depreciation, and Retirements) which calculate "JAM inputs." These JAM inputs are then entered in the JAM Model to calculate the revenue requirement. It is noted that the $7.6 million impact to revenue requirement was calculated using Mr. Charles Petersen's recommended ROE of 10.1%.

The actual capital additions included in the Company's response to CCS 16.8 were used to replace the forecasted capital addition numbers within the three templates. The Company's response to CCS 16.8 did not include allocation factors for the actual plant additions. DPU Exhibit 7.3.1 provides an explanation for how the allocation factors were calculated for the various capital addition items. It is recognized that the allocation factors used are estimates, but these estimates should closely resemble what the company would use.

Q. Would your proposed adjustment be materially different if the company were to provide different allocation factors?

A. It is not expected that using company provided allocation factors would materially affect this adjustment. It would be preferred however, to use the Company's allocation factors.

Q. Should the Company be expected to be exact in their forecast of capital additions?

A. No. As with many forecasts there will probably be some variation with what the actual results are. In this case, however, there is a very large variance that covers eight of the eighteen forecasted months and affects revenue requirement by approximately $7.6 million.

Q. The company has forecasted a total dollar amount to be spent on capital additions through December 2008. Despite under-spending for the first eight months is it possible that the company could spend that total dollar amount by the end of December 2008?

A. It is possible that the company could spend its total forecasted amount or close to its total forecasted amount for capital additions through December 2008. It should be noted, however, that this would in effect be granting the Company permission to change its forecast and remove much of the risk it has to meet its own projections of *where* the money is spent. Essentially, the Commission would be approving expenditures in one area or manner and, ex-post, the Company could decide to spend the money in an entirely different fashion. For example, suppose the Company had originally forecasted $1 million for capital additions for steam plant equipment to be placed in service in December 2007. Suppose that during December 2007 it was determined that the steam plant equipment was no longer needed. If the Company were allowed to spend its total amount through the test year, that $1 million could be spent however the Company wanted, thus giving the Company no responsibility as to how it spends rate payers' money.

Q. Are you recommending that the Commission micro-mange the way the Company allocates its monies?

A. Certainly not. All I am saying is that the Company should be held to its forecasts. I realize that variances from the forecasts over the test year will occur. However, the total amount projected for capital additions through the end of the test year is based on adding up the forecasted projections for each month. The forecast of the future test year that the Company provides as the basis of its revenue request is all regulators have to evaluate the Company's revenue requirement. If the first eight months (July 2007 – February 2008) of actual expenditures are significantly different from what was forecast, then it seems reasonable to expect the end total to change. The $144 million variance, in my opinion, is a significant departure from the original forecast submitted by the Company and, thus, justifies adjusting the Company's forecasted rate base balance for the test year.

Q. What is your reasoning for the $2,613,141 adjustment to the Company's forecasted revenue?

A. In response to DPU Data Request 45.1 the company stated that the Clark Storage Agreement was terminated on December 8, 2007. This agreement, however, was left in the Company's original revenue forecast through the test year. Since the agreement will no longer be in place, the Company's forecasted revenue was overstated for the test year. This has the effect of raising the revenue requirement by $2,613,141.

Q. Does this conclude your direct testimony?

A. Yes.