

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
)	Pre-filed Direct
)	Revenue Requirement
)	Testimony of
)	Cheryl Murray
)	For the Committee of
)	Consumer Services
)	

April 7, 2008

1 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

2 A. My name is Cheryl Murray. I am a utility analyst on the staff of the
3 Committee of Consumer Services (Committee). My business address is
4 160 East 300 South, Salt Lake City, Utah.

5 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS**
6 **DOCKET?**

7 A. Yes, I presented testimony in the Test Year portion of this docket.

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. My testimony (1) presents the Committee's overall revenue requirement
10 recommendation in this case, which is explained in greater detail in the
11 testimony of Committee witness, Donna DeRonne; (2) introduces the
12 Committee's expert witnesses that sponsor various adjustments in specific
13 revenue requirement areas (cost of capital, net power costs, revenue, rate
14 base, etc.); and (3) addresses policy issues that the Committee
15 recommends the Public Service Commission (Commission) adopt.

16 **Q. PLEASE DESCRIBE THE COMMITTEE'S OVERALL**
17 **RECOMMENDATION FOR THE APPROPRIATE REVENUE**
18 **REQUIREMENT IN THIS DOCKET.**

19 A. Based on the Committee's analysis of Rocky Mountain's Power's (RMP or
20 Company) testimony and evidence provided in this case to date, we
21 recommend that the Company's revenue requirement for the Test Period
22 2008 should be increased by \$8,466,169. In other words, this

23 recommendation reduces the Company's requested \$99.8 million increase
24 by \$91.3 million to approximately \$8.5 million.

25 **Q. PLEASE INTRODUCE THE COMMITTEE'S EXPERT WITNESSES**
26 **THAT PROVIDE REVENUE REQUIREMENT TESTIMONY IN THIS**
27 **PROCEEDING.**

28 A. Five Committee witnesses provide expert testimony on revenue
29 requirement issues in this case.

30 Ms. DeRonne of Larkin and Associates, PLLC, sponsors testimony
31 summarizing the Committee's overall recommended increase in current
32 revenue requirement of \$8,466,169. In her testimony, she also
33 recommends specific adjustments in the area of operating expense, taxes
34 and rate base. The overall impact of Ms. DeRonne's adjustments, under
35 the revised protocol method, is a reduction to the Company's requested
36 revenue requirement of approximately \$21.5 million (Utah basis).

37 Mr. Helmuth Schultz, also of Larkin and Associates, PLLC, provides
38 testimony focusing primarily on employee and compensation issues. The
39 overall impact of his recommended adjustments, under the revised
40 protocol method, is a reduction to the Company's requested revenue
41 requirement of approximately \$12.8 million (Utah basis).

42 Mr. Daniel Lawton earlier submitted testimony in the cost of capital
43 phase of this docket recommending that the Company's rate of return on
44 equity be set at 9.85% and accepting the Company's proposed capital
45 structure. Mr. Lawton also recommended that the cost of debt be reduced

46 to 6.27%. Mr. Lawton's weighted cost of capital recommendation of
47 8.07% has been reflected in Ms. DeRonne's overall revenue requirement
48 results. Based on the Company's requested rate base, and under the
49 revised protocol method, the impact of Mr. Lawton's recommendations
50 reduces the Company's revenue requirement request by \$31,608,230
51 (Utah basis).

52 Mr. Randall J. Falkenberg and Mr. Philip Hayet recommend
53 approximately 30 adjustments to Net Variable Power Costs (NVPC)
54 resulting from a thorough and objective review of the Company's
55 Generation and Regulation Initiative Decision ("GRID") production cost
56 model, and various data and assumptions related to the model. These
57 adjustments are listed in Mr. Falkenberg's Table 1 recommending a
58 \$25,023,369 revenue requirement reduction (Utah basis).

59 **Q. HAVE THESE EXPERTS WORKED ON BEHALF OF THE COMMITTEE**
60 **IN PREVIOUS RMP RATE CASES?**

61 A. Yes. These experts have worked together for at least the last three RMP
62 rate cases. In particular, Ms. DeRonne, Mr. Schultz, Mr. Hayet and Mr.
63 Falkenberg have worked on variety of cases (e.g., general rate cases,
64 generation plant certification proceedings, IRP and avoided costs dockets,
65 excess net power cost/Hunter outage docket, deferred accounting cases,
66 etc.) since first being retained to address issues in the 1997 Utah rate
67 case.

68 **Q. HAS THE COMMITTEE RECOMMENDED ANY ADJUSTMENTS TO**
69 **THE COMPANY'S PROJECTED LEVEL OF CAPITAL SPENDING?**

70 A. No, the Committee has not proposed any adjustments to the Company's
71 forecasted level of capital investment. The Committee has, however,
72 recommended adjustments to the Operating and Maintenance (O&M)
73 expenses associated with a few capital projects. The Committee supports
74 the Company's need for investment in distribution, transmission and
75 generation plant. There is needed investment in these areas to ensure
76 that the Company is able to provide the level of service Utah customers
77 expect and deserve. Ms. DeRonne will describe the areas where
78 adjustments to O&M costs are recommended.

79 **Q. THE COMMITTEE HAS RECOMMENDED ADJUSTMENTS TO THE**
80 **COMPANY'S PROPOSED EMPLOYEE COMPLEMENT IN THE TEST**
81 **YEAR. PLEASE COMMENT ON THAT ISSUE.**

82 A. Although the Committee is recommending adjustments in the area of
83 employee complement and labor costs, we want to make clear that we
84 support the Company's need to have a qualified workforce and adequate
85 employee levels to provide safe, reliable and high quality service to Utah
86 customers. It is the Committee's view that Mr. Schultz's recommendations
87 regarding employee levels are well supported based on the evidence
88 provided by the Company. Mr. Schultz provides the analysis underlying
89 his recommendations in his testimony.

90 **Q. DOES THE COMMITTEE HAVE ANY POLICY RECOMMENDATIONS**
91 **BASED ON THE COMPANY'S FILING?**

92 A. The Committee makes two main policy recommendations for future filings.

93 **Q. PLEASE DESCRIBE THOSE RECOMMENDATIONS.**

94 A. Our first recommendation relates to changes the Company has made to
95 accounting procedures. While investigating this case, we became aware
96 the Company has changed the way it normalizes asset basis differences
97 for deferred income taxes, changing from 40% normalization to 100%
98 normalization. This change in the accounting procedures was
99 incorporated in the Company's filing, but was not accompanied by any
100 supporting testimony notifying parties of the change, or the reason for the
101 change. The Company merely indicated in Steven McDougal's testimony,
102 at page 43, that it has implemented full normalization of basis differences
103 on a prospective basis for purposes of calculating deferred income taxes
104 on capital additions, with no discussion of why the change is being made,
105 what was done and approved historically, or what the impact of the
106 proposed change is on revenue requirement. While the Committee is not
107 challenging this change in the Company's accounting procedures, it has
108 also not yet determined its policy on this particular issue. However, my
109 purpose here is to call attention to the need for supporting testimony and
110 evidence when the Company alters past accounting practices.

111 The Committee recommends that the Commission require the
112 Company to explain and support, in direct testimony, any proposed

113 substantive accounting change. This is particularly important if the
114 change is not required to comply with Generally Accepted Accounting
115 Principles (GAAP) or other readily known accounting requirements or
116 guidelines.

117 **Q, WHAT IS THE COMMITTEE'S SECOND POLICY RECOMMENDATION?**

118 A. The Committee's second recommendation relates to the amount and level
119 of information that the Company provides with its general rate case
120 applications.

121 In order for parties to effectively analyze and investigate the
122 Company's filing, adequate information must be provided in a timely
123 manner. The Company has control of all information upon which it bases
124 its case, and in order to adequately prepare and support its filing, one
125 must assume that it utilizes the appropriate data and documents. Based
126 on this filing and the last general rate case, Docket No. 06-035-21, it is the
127 Committee's view that having adequate information, such as that
128 contained in the Master Data Requests (MDRs), at an early stage of the
129 case is essential. The data requests in the MDRs were created in a
130 collaborative process based on parties' needs for information to evaluate
131 the Company's filing. The starting point was data requests that the
132 Company viewed as the general set of questions that were usually
133 submitted shortly after the case was filed. There was an agreement
134 among the parties as to the timing of when the Company would respond to

135 the various MDRs¹. Through stipulation, the agreement to provide the
136 MDRs was extended to include this case. There is no agreement to
137 provide those responses beyond this Docket. It is the Committee's
138 position that this information is essential as support for the Company's
139 case and should be required with every application for a general rate
140 case. The filing should not be deemed complete and the 240 day timeline
141 should not begin until parties receive that supporting documentation.

142 **Q. IS THERE ANY ADDITIONAL INFORMATION THAT THE COMMISSION**
143 **SHOULD REQUIRE THE COMPANY TO PROVIDE WITH OR BEFORE**
144 **IT FILES ITS NEXT GENERAL RATE CASE?**

145 A. Yes. In deriving the cash working capital request in its case, the Company
146 relied on a lead/lag study that was filed in May 2004 and was conducted
147 based on information using the fiscal year ended March 31, 2003. Since
148 that time PacifiCorp has undergone numerous structural and
149 organizational changes and is under new ownership. The Committee
150 recommends that the Commission require the Company to file a new
151 lead/lag study with its next rate case filing utilizing current information, and
152 that absent such a new lead/lag study, cash working capital not be
153 allowed in the next general rate case. Ms. DeRonne explains this issue in
154 more detail in her testimony.

155 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

156 A. Yes.

¹ The agreement pertained to Docket No. 06-035-21.