

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)	
)	
)	<u>Docket No. 07-035-93</u>
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)	<u>DPU Exhibit No. 3.0</u>
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Pre-Filed Direct Testimony of

Thomas C. Brill, Ph.D.

POLICY RECOMMENDATIONS

For the Division of Public Utilities

Department of Commerce

State of Utah

April 7, 2008

1 **Direct Testimony of Thomas C. Brill, Ph.D.**

2 **I. INTRODUCTION**

3 **Q. Please state your name and occupation.**

4 A. My name is Dr. Thomas C. Brill. I am employed by the Division of Public Utilities of
5 the Utah Department of Commerce as a Technical Consultant.

6
7 **Q. What is your business address?**

8 A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84114.
9

10 **Q. On whose behalf are you testifying?**

11 A. The Division of Public Utilities (Division).
12

13 **Q. Do you have any exhibits that you are filing that accompany your testimony?**

14 A. Yes. My resume is attached as Exhibit 3.1. Exhibit 3.2 summarizes the Division's
15 adjustments.
16

17 **Q. Please outline the projects you have worked on since coming to the Division.**

18 A. I joined the Division in June 2005 and participated in several of the ongoing task forces.
19 I managed the Division's team that investigated the proposed Power Cost Adjustment
20 Mechanism (PCAM) application (Docket No. 05-035-102). In 2006, I managed the
21 Division's team that investigated PacifiCorp's general rate case application (Docket No.
22 06-035-21). In 2007 and also 2008, I coordinated the Division's participation in the

23 Company's Requests for Proposals (RFP).¹ I am managing the rate case team for the
24 Division in this docket.

25
26 **Q. Have you previously testified before the Commission?**

27 A. Yes. I provided the Stipulation Settlement Testimony in Docket No. 06-035-21 on
28 August 17, 2006, which was the Company's previous general rate case.

29
30 **Q. What is the purpose of your testimony that you are now filing?**

31 A. My testimony introduces the Division's witnesses who testify in this phase of the docket,
32 as well as the two earlier phases of the docket, along with a brief explanation of the
33 adjustments recommended by each witness. I will present the Division's overall revenue
34 requirement recommendation. In addition, I present the Division's position and
35 recommendations regarding certain policy considerations, including reporting
36 requirements, future rate case filings, ratepayer safeguards, and scheduling issues for
37 future rate cases. I also present the Division's comments and recommendations on the
38 interim rate-spread to be used between this phase of the case and the rate design phase to
39 be conducted later this year.

40
41 **Q. What is the Division's recommendation for revenue requirement?**

42 A. The Division recommends the revenue requirement be set at \$46.1 million. Beginning
43 with the Company's revised filing of \$99.8 million, the Division arrived at \$46.1 million

¹ Docket Nos. 05-035-47 and 07-035-93.

44 with a \$22.4 return on equity (ROE) adjustment, a total of \$3.1 million in net power cost
45 adjustments, and a total of \$28.2 million in various auditing adjustments. Exhibit 3.2
46 outlines each of the Division's auditing adjustments which will be discussed in detail in
47 testimony provided by the pertinent Division witnesses.

48

49 **II. BACKGROUND AND OVERVIEW**

50

51 **Q. Will you briefly review the background and factual framework surrounding this**
52 **docket?**

53 **A.** Yes. On December 17, 2007, Rocky Mountain Power (the Company) filed an application
54 with the Utah Public Service Commission (Commission) for an increase to its retail rates
55 in Utah to recover additional annual revenues of approximately \$161.2 million or 11.3
56 percent. The Company's request was based on a forecasted test year ending June 30,
57 2009 and a ROE of 10.75 percent. The Division filed testimony that did not oppose using
58 the June 2009 test period proposed by the Company, as we determined that our auditors
59 could appropriately and adequately adjust revenues, expenses, rate base, or forecasts to
60 ensure that the test year best reflects the conditions that the Company will encounter
61 during the rate-effective period.

62

63 However, on January 11, 2008, the Utah Association of Energy Users (UAE Intervention
64 Group) requested a hearing for the Commission to determine the appropriate test period
65 to be used for purposes of this general rate case. A hearing was held on February 7,

66 2008, in which the intervening parties presented evidence regarding the appropriate test
67 period to be used in this matter. On February 14, 2008, the Commission issued its Test
68 Period Order requiring the Company to resubmit the rate increase application using a
69 calendar year 2008 test period. Therefore, on March 10, 2008, the Company filed a
70 revised overall revenue increase request of \$99.8 million. The Company's revised filing
71 included reductions for the depreciation settlement (Docket No. 07-035-13), the Deferred
72 Accounting Order (Docket No. 06-035-163) and (Docket No. 07-035-14), and changes to
73 the filing from the Commission's Test Year Order in this rate case.

74

75 **III. INTRODUCTION OF WITNESSES AND ACCOMPANYING ADJUSTMENTS**

76

77 **Q. Please identify the Division's witnesses for the revenue requirement phase of this**
78 **docket.**

79 A. DPU witness 1.0 is Dr. Joni Zenger, who previously filed Test Year testimony in this
80 case on January 25, 2008. DPU witness 2.0, Mr. Charles Peterson, filed testimony on
81 March 31, 2008. His testimony addressed issues related to the cost of capital requested
82 by the Company. DPU witness 4.0 is Mr. David Thomson. He will cover adjustments
83 related to property tax expenses, rent expense, outside services, airplane expenses,
84 miscellaneous expenses, and customer operation and maintenance (O&M) expenses.
85 DPU witness 5.0 is Mr. Mark Garrett of The Garrett Group, Oklahoma City, Oklahoma.
86 Mr. Garrett is a consultant retained by the Division in this case to help with the auditing
87 process. He will address adjustments pertaining to the lead-lag study and its reduction to

88 cash working capital, incentives, and payroll expenses. DPU witness 6.0 is Mr. Jamie
89 Dalton, who discusses adjustments related to net power costs. DPU witness 7.0 is Mr.
90 Matthew Croft. He will address adjustments related to wind generation O&M expenses,
91 office supplies and expenses, and new plant additions. Mr. Croft also ran the Regulatory
92 Adjustment Model (RAM) and the Jurisdictional Allocation Model (JAM) for the
93 Division. DPU witness 8.0 is Ms. Brenda Salter, who covers membership dues. The
94 Division will also introduce other witnesses in Phase II of the case, which address cost of
95 service and rate design issues.

96

97 **Q. Regarding the work of the Division witnesses, will you please provide an overview of**
98 **the Division's adjustments?**

99 A. Yes. The Division began looking at the base period, July 1, 2006 through June 30, 2007.
100 Once the Company submitted the calendar year 2008 revised filing (on March 10, 2008),
101 the Division began working on the calendar year 2008 test period data to determine the
102 reasonableness of the Company's adjustments and projections. As each witness will
103 explain in their respective testimony, the Division's staff and consultant (collectively
104 "Staff") worked to verify these adjustments to the Company's filing. The Division Staff
105 is proposing specific adjustments to the Company's revised filing.

106

107 **Q. Please explain the methodology used to model the adjustments proposed by the**
108 **various Division witnesses.**

109 A. PacifiCorp's December 2008 JAM was used in conjunction with the various "template"
110 spreadsheets in order to model the adjustments proposed by the various Division
111 witnesses. The individual templates were provided under Mr. Steven McDougal's Direct
112 Supplemental Testimony, Exhibit RMP SRM-1S(a). The proposed adjustments (total
113 Company) were entered into their respective templates in order to come up with the JAM
114 Inputs. These JAM Inputs were then pasted into the Inputs Tab of the December 2008
115 JAM. The December 2008 JAM was then re-calculated using the Rolled-In method in
116 order to provide the December 2008 Rolled-In Revenue Requirement as required by the
117 Commission's Order in Docket No. 02-035-04 regarding inter-jurisdictional cost
118 allocation. In order to implement the Rate Mitigation Cap of 101.25 percent, the model
119 was then re-calculated under the Revised Protocol Method. A new Utah Capped Revised
120 Protocol revenue requirement was calculated after each adjustment in order to determine
121 the net effect of each adjustment. The Division's recommended revenue requirement of
122 \$46.1 million includes the Rate Mitigation Cap.

123

124 **Q. Did you prepare a summary of the Division's adjustments that you describe above?**

125 A. Yes, attached to my testimony, please find Exhibit No. DPU 3.2, which summarizes each
126 of the Division's adjustments. This spreadsheet first describes the type or name of the
127 adjustment in Column A and then states the Division witness who is proposing the
128 adjustment in Column B. Column C identifies the DPU Exhibit No, and Column D lists
129 the JAM Input Order. Columns F and G show the total Company and Utah allocation of
130 the proposed adjustments prior to entering them into the December 2008 JAM. Column H

131 shows the modeled effect of each adjustment under the Capped Revised Protocol. In
132 other words, Column H shows the capped revised revenue requirement effect after the
133 adjustments have been run through the December 2008 JAM.

134

135 **Q. Please describe the methodology that you used in preparing the inputs into the**
136 **JAM?**

137 A. Yes, each of the accounting adjustments were entered into the model in the order listed in
138 Column D. For instance, adjustments relating to Capital Cost were entered into the
139 model first, followed by rate base adjustments and finally expense adjustments in order to
140 accurately reflect the net effect of each adjustment.

141

142 **Q. What ROE is the Division's recommending for this case?**

143 A. As shown on line 3 in Column A, the Division is recommending an ROE of 10.1%,
144 which, as previously mentioned, will be supported by Division witness Mr. Peterson
145 (DPU Exhibit No. 2.0.)

146

147 **IV. THE DIVISION'S POLICY RECOMMENDATIONS**

148

149 **Q. Are there any policy issues that you would like to request the Commission to**
150 **consider or implement?**

151 A. Yes. Dr. Zenger, in her Direct Testimony on Test Year (DPU Exhibit No. 1.0), identified
152 the Division's need to have access to the Company's forecasts and actual data in order to

153 monitor the Company's performance relative to its forecasts.² The Division
154 recommends that the Company file detailed variance reports comparing its actual results
155 with those forecasted in the rate case; these should be submitted with the Company's
156 results of operations which are filed semi-annually. The variance reports are useful in
157 order to track the earnings of the Company and to track Company forecasts. A detailed
158 description of the type of reporting that we are recommending is described in the Test
159 Period Stipulation in Docket No. 04-035-42 (which also addresses the Company's
160 changed fiscal year due to the MidAmerican merger):

161 PacifiCorp agrees to file with the Parties by December 1, 2005
162 actual FY2006 revenue, expense, capital, customer loads and net
163 power cost information (without normalizing, annualizing or
164 Commission-ordered adjustments) for the first six months of FY
165 2006 (April 1, 2005 to September 30, 2005). The above
166 information will be provided to the Parties on both a total company
167 and Utah-allocated basis. PacifiCorp also agrees to file with all
168 Parties by December 15, 2005, a report for the following functional
169 categories: steam, hydro, other production, power supply,
170 transmission, distribution, customer service, customer accounting
171 and administrative and general expenses. The report will compare
172 PacifiCorp's 6 months actual results (April through September
173 2005) and 6 month forecast (October 2005 through March 2006)
174 with the Commission's Joint Numerical Exhibit and PacifiCorp's
175 original filed forecast. Each of these six month periods (actual and
176 forecast) will be provided separately and on a 12-month combined
177 basis. The report will also provide an explanation of any variances
178 that exceed 10% between the data provided and PacifiCorp's
179 original filed forecast.³
180

181 Simultaneously with the Company's semi-annual results of operations, the Division
182 recommends that the Company continue to file semi-annual variance reports (similar to

² Direct Testimony of Joni S. Zenger, Ph.D., DPU Exhibit 1.0, pp. 18-19, lines 368-371.

³ Test Period Stipulation, Docket No. 04-035-42, October 7, 2004, pp. 14-15.

183 those filed under Tab 11 of the Results of Operations) that contain the following
184 information: capital expenditures, demand and energy usage, expected fuel costs,
185 operating and maintenance expenses by FERC account, power purchases, and revenues.
186 In order for the information to be useful to the Division as an analytical tool, the variance
187 reports need to be consistent, in Excel format, and clearly identify the forecasted data
188 versus actual data. The format of the data provided in the variance reports needs to be
189 comparable to the results of operation information, as provided in general rate case
190 filings. In addition, the O&M portion of Tab 11 of the Company's Semi-Annual Report
191 filing needs to be broken down in further detail, as described above, in order for it to be
192 an acceptable analytical tool. This would allow the Division and other parties to look at
193 the Company's forecasting assumptions and accuracy of forecasts between rate cases.
194 With the test year issue coming early in the rate case, this also would facilitate the ability
195 of the parties to determine the appropriate test year in future rate cases.

196
197 **Q. Wasn't there already a commitment put in place that addresses the variance**
198 **reports?**

199 A. Yes there was. In Docket No. 06-035-21, certain parties signed a Stipulation filed on
200 July 21, 2006 and accepted by the Commission with the Report and Order dated
201 December 1, 2006. Part of the Stipulation included a side letter, also dated July 21, 2006,
202 memorializing the commitments and agreements in the Stipulation. In my Stipulation

203 Testimony dated August 17, 2006, I describe the variance report commitment (bold and
204 italics added):⁴

205 PacifiCorp further agrees that it will provide information on certain
206 items that may vary from the information in the forecasted revenue
207 requirement in Docket No. 06-035-21. The Company will include
208 a new tab in its Results of Operations Report filed on September
209 30, 2007, for the period ending June 30, 2007, on a *one-time basis*
210 that will include the following factual information:

- 211
- 212 • MEHC corporate charges incurred,
- 213 • Demand and energy loads,
- 214 • Manpower levels and associated benefit costs, and
- 215 • Capital additions
- 216

217 As one can see, this agreement was on a one-time basis and was part of the reason that
218 the Division supported the fully forecasted test period in that docket. We are
219 recommending that the Commission adopt a similar filing requirement as an ongoing
220 reporting requirement in order for the Division and other parties to be able to evaluate the
221 Company's forecasts, especially in the event that a fully forecasted test period is filed in
222 future rate cases. This is not intended to add to the Company's burden, but could perhaps
223 even reduce the number of data requests and discovery required during general rate cases.
224 I believe this commitment needs to be made a permanent policy going forward, and we
225 recommend that the Commission institutionalize this commitment in this rate case. The
226 Division recommends that the Company submit a 2-year forecast based on their annual
227 results of operations. This will allow the Division to determine if the Company is likely
228 to over or under earn. This should be of sufficient detail for the Division to determine if
229 a show cause motion is warranted to adjust rates.

⁴ Stipulation Testimony of Thomas C. Brill, Ph.D., Docket No. 06-035-21, pp. 9-10, lines 186-196.

230

231 **Q. In Dr. Zenger's Testimony, she mentioned that there might be other policy matters**
232 **that the Division's policy witness would address. Will you please discuss those**
233 **concerns?**

234 A. Yes. In the event that the Company files an application for a rate increase using a fully
235 forecasted test period, we believe that potential ratepayer safeguards need to be
236 implemented. For example, if a generation plant does not go online as scheduled, the
237 level of projected expenditures contained in the rate case filing may not be achieved.
238 There should be a safeguard put in place in the event that actual costs in the areas of
239 capital expenditures on operation and maintenance fall short of budgeted or forecasted
240 amounts.

241

242 **Q. How do you recommend this type of safeguard be put in place?**

243 A. I recommend that major projects, such as generation plant and other large capital
244 projects, be put in rates on a phased-in basis. This means that rates would be recovered
245 for costs assigned to particular major projects in the latter portion of the test period or as
246 project milestones are reached throughout the project. This means that if a major project
247 is planned, there would be milestones assigned to that project. As the Company meets
248 each milestone of the project, then the costs would be phased-in at that time. This would
249 both assure ratepayers that they are not paying for projects which could be delayed, as
250 well as keep the Company on a Company-determined timeline for meeting each stage of
251 the project.

252

253 **Q. Will you please now turn to the task forces that were established to address electric**
254 **rate case issues, after the implementation of UCA § 54-4-4(3)?**

255 A. Yes, as a result of the 2004 general rate case (Docket No. 04-035-42) and in order to
256 implement the new legislation that allowed the use of a 20-month projected test period, a
257 task force was established to develop and propose rules relating to the timing and
258 procedural requirements that should be considered with regard to filing requirements,
259 discovery, and timing of the test period hearing.⁵

260

261 **Q. What were the results of the work performed in the task forces?**

262 A. The task forces filed task force reports with the Commission, along with several filing
263 requirement attachments, known as Attachments A through E respectively. The
264 attachments contained revenue requirement filing information, additional cost of service
265 filing information, and data request filing information that were developed
266 collaboratively. The attachments were filed as part of the Stipulation of the parties, with
267 a consensus approving Attachment A, but with no agreement on the requirements of the
268 other attachments. The Commission issued a Motion for Approval of the Stipulation and
269 the associated attachments on January 30, 2006.⁶ The terms of the Stipulation specified
270 that the agreements were to apply only to the Company's next general rate case
271 application. However, the Company voluntarily provided the filing information as part of
272 this rate case.

⁵ UCA § 54-4-4(3).

⁶ Motion for Approval of Stipulation on Filing Requirements, Discovery, and Timing of Test Period Hearing, Docket No. 04-035-42, January 30, 2006.

273

274 **Q. Will you please describe the recommendations from the Discovery Task Force**
275 **Report?**

276 A. Yes. The task force report made several recommendations, including the following:

277 . . . that the commission and the Parties evaluate their experience
278 with the additional filing obligations, data requests and other
279 discovery mechanisms that will or may be used in PacifiCorp's
280 next general rate case. Experience gained in that proceeding will
281 undoubtedly be useful in evaluating which proposed mechanisms
282 are useful for their designed purposes.⁷
283

284 **Q. Based on the Division's experience in the last general rate case, as well as in this**
285 **current case, what are your recommendations with respect to the above-referenced**
286 **mechanisms?**

287 A. The Division was able to begin our audit before the Company filed in this case because,
288 the Company filed 30 days advanced notice of the rate case filing, as was the case in
289 Docket No. 06-035-21. In its initial filing, the Company also filed the base period and
290 proposed test year results of operations and also identified the major drivers that led to
291 the proposed rate increase. This allowed the Division to begin asking for targeted data
292 requests within the scope of our initial audit. The Company voluntarily provided
293 responses to Master Data Requests A and B as agreed to by the Discovery Task Force. In
294 addition, the Company allowed the Division to have access to its SAP accounting system,
295 RAM/JAM models, GRID model, and Cost of Service Model. We were able to meet

⁷ Discovery Task Force Report, Docket No. 04-035-42, January 31, 2005, p. 3.

296 with the Company's witnesses and ask and clarify questions that we posed regarding the
297 various models.

298
299 Again, the terms of the Stipulation in Docket No. 04-035-42, regarding the filing
300 requirements, test year, and discovery task forces stated that the Company would file the
301 advance notice, documents, master data sets, etc. for only the next rate case. Currently,
302 there is nothing binding the Company to pre-file or to present this information to the
303 parties for any subsequent rate case filings. We propose that these specific filing
304 requirements be made a permanent part of future general rate case filings. As an
305 alternative, the Division recommends that the Commission initiate a rule making to
306 determine the filing requirements for both Questar and PacifiCorp.

307
308 **Q. Were there any particular policy issues with regard to scheduling that were**
309 **problematic in this case?**

310 A. Yes, the Test Year Task Force Report stated that the test period decision should be made
311 within 65 days of the rate case filing. There are legitimate reasons for having this issue
312 decided up front, such as having intervening parties working on the same data set.
313 However, in this instance, the Division had a little less than two weeks to make the test
314 year period determination. Some parties expressed that this was too little time to make a
315 decision on test year. It is not clear whether this decision, as some parties have
316 suggested, could be decided as part of the revenue requirement phase, but it should be
317 considered.

318

319 Furthermore, the delay in receiving the amended filing due to the Commission's order on
320 test year in this case was problematic. At the hearing on test year, when asked if the
321 delay would be a problem, the Division indicated that it would be able to complete its
322 work in a timely manner. However, the amended filing was not received until March 10.
323 As a result, the Division conducted its investigation in a timeframe that was shortened
324 considerably. The Division was able to complete its investigation because of the
325 contribution by its outside consultant. In November 2007, when the Division became
326 aware that both Questar and PacifiCorp were likely to file rate cases at about the same
327 time, the Division decided to hire a consultant to help with the auditing in either or both
328 of the cases. In other words, the Division hired a consultant because two rate cases
329 would be occurring simultaneously. If the Division had not hired a consultant early on to
330 help with the auditing in both cases, we may not have been able to complete our audit in
331 a timely manner.

332

333 **Q. What do you recommend with respect to the scheduling of the test period issue?**

334 A. Though difficult, the Division believes that deciding the test year within the 65 days is
335 doable. However, it would be helpful to receive further instruction from the Commission
336 on how to determine the test period that best reflects the conditions the Company will
337 face when the rates go into effect. In closing remarks during the Test Year Hearing, the
338 Division stated:

339 The DPU also believes that the choice between the June 2009 or
340 December 2008 periods is essentially a policy decision of the

341 Commission. Although the decision needs to be based on the
342 record, the Commission is free to emphasize certain factors over
343 others. The emphasis given may drive the test year decision. The
344 DPU urges the Commission to make its decision quickly and when
345 it writes its Order on these issues to provide guidance to the parties
346 so that test years and test year disputes can be more efficiently
347 managed.⁸
348

349 The Commission's Order, which set the calendar year 2008 as the test period in this case,
350 states: "this finding is based on an evaluation and balancing of factors relevant to
351 selection of a test period identified in our October 20, 2004, Order in Docket No. 04-035-
352 42."⁹ It would be helpful if the Commission explained what weight to give to each factor
353 or how these factors can be balanced in order to avoid future test year disputes and
354 changes in test year in mid-case.
355

356 **Q. Does the Division have any other recommendations with respect to the test period**
357 **decision and the overall rate case timeline?**

358 A. Yes, in the event that the Commission selects a test period other than the test period filed
359 by the Company in its original application, the Division recommends that the 240-day
360 statutory clock be stopped and then started again once the Company has filed all the
361 necessary information for the new test year. This will allow our auditors and analysts
362 sufficient time to make a full recommendation on the appropriate just and reasonable
363 revenue requirement, net power costs, cost of capital, etc. With the original rate case
364 application filed on December 17, 2007, the 240-statutory deadline to complete the case
365 and have the final Commission order would be on August 13, 2008. In this docket, the

⁸ Closing Argument of the Utah Division of Public Utilities Regarding Test Year, February 13, 2008, p. 4.

⁹ Order on Test Period, Docket No. 07-035-93, February 14, 2008, p. 2.

366 Commission ordered the Company to re-file its application using the calendar year 2008
367 test period, and the Company filed its calendar year 2008 results of operations on March
368 10, leaving only 156 days before the August 13 deadline. The Division's auditors
369 traveled to Portland on February 11-15 to conduct auditing procedures, but had to first
370 verify rate case assumptions. With the compressed time schedule, our audit adjustments
371 were ultimately based on statistical analysis more than the detailed audit procedures that
372 we would have worked on had there been the complete 240 days to complete the revised
373 test period case.

374

375 **Q: Does stopping and starting the regulatory clock present some legal issues?**

376 A: It may. As an alternative to starting and stopping the clock, the Company could file its
377 test year case in advance of filing the rate case. For example, the Commission could
378 order the Company to file a 60-day notice of intent to file a rate case. At the same time,
379 the Company could file the information for its proposed test year, which could be decided
380 within the first 30 days of the rate case. This alternative would allow more time for the
381 parties to investigate the appropriate test year within the time allotted.

382

383 **V. OTHER RATE CASE CONSIDERATIONS**

384

385 **Q. Since about 1982, the Company has used a partial normalization method for**
386 **deferred taxes. However, in this case, the Company has switched to 100 percent**
387 **normalization. How did the Division discover this change in policy?**

388 A: The Division's consultant, Mr. Garret, brought it to our attention. Normally, the
389 Company would indicate that it was making a policy change of this nature. In fact, the
390 Master Data Request indicates that the Company is not making any policy changes.
391 According to PacifiCorp's calculations, the change to 100 percent normalization lowers
392 the revenue requirement by about \$14 million in this case. This adjustment is reflected in
393 the Company's revised revenue request of \$99.8 million.

394

395 **Q: Does the Division have a recommendation on this issue at this time?**

396 A: The Division has been studying the issue since it came to our attention, but has not been
397 able to determine the long-run potential effect that 100 percent normalization may have
398 on ratepayers or the Company. Therefore, the Division recommends that the adjustment
399 be accepted for this rate case only. The Division intends to continue its study of the issue
400 and make a formal recommendation to the Commission in the next PacifiCorp general
401 rate case. The Division recommends that the Company, in its next rate case filing,
402 present both 40 percent and 100 percent normalization cases to determine the effect on
403 revenue requirement.

404

405 **Q: The Commission requested comments on how the revenue requirement should be**
406 **spread. Does the Division have a recommendation?**

407 A: After its review of the Cost of Service study, the Division remains concerned with an
408 equal percentage spread. In the past, plus or minus 10 percent in the rate of return index
409 (RRI) served as a rule of thumb to justify increases or decreases equal to the average

410 increase or decrease indicated by the Cost of Service study. In this case, several
411 schedules fall outside that 10 percent range. For example, looking at the Company's
412 amended cost of service filing in this case, the RRI for schedule 6 is 1.23, which supports
413 a smaller-than-average increase, and the RRI for schedule 9 is 0.77, which supports a
414 larger-than-average increase. Therefore, the Division recommends that the revenue
415 requirement be spread equally on an interim basis only.

416

417

VI. CONCLUSION

418

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

420 **A.** Yes it does.