

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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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 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	)	
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	)	DOCKET NO. 07-035-93
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	)	DPU EXHIBIT 6.0R
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PRE-FILED REBUTTAL TESTIMONY

JAMES B. DALTON

ON BEHALF OF THE

UTAH DIVISION OF PUBLIC UTILITIES

May 9, 2008

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5 **Q. Please state your name and employer for the record.**

6 A. My name is James B. Dalton. My employer is the Division of Public Utilities  
7 (Division) in the Utah Department of Commerce.

8 **Q. Are you the same James B. Dalton that previously filed Direct Testimony in**  
9 **this docket?**

10 A. I am.

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. The purpose of this testimony is to address Net Power Cost (NPC) issues raised in  
13 the testimony of Philip Hayet for the Committee of Consumer Services (CCS). In  
14 particular, I will discuss Mr. Hayet's proposed NPC adjustments to the  
15 Sacramento Municipal Utility District (SMUD) contract.

16 **Q. Can you provide a brief description of the SMUD contract?**

17 A. Yes. The contract, originally signed in 1987, provides that PacifiCorp will supply  
18 SMUD with 350,400 MWh of on-peak power annually through 2014.

19 **Q. Would you please describe Mr. Hayet's concerns regarding the SMUD**  
20 **contract?**

21 A. Yes. Mr. Hayet argues that the current SMUD contract price is not compensatory  
22 as the current price is below current wholesale market prices, and that the

23 resulting revenues are insufficient to cover the Company's cost to serve the  
24 contract. In this proceeding, the Company proposes to price the contract in GRID  
25 at the Commission-adopted \$37/MWh imputed price rather than the contract  
26 price. The Commission adopted this price in 2001 in Docket No. 01-035-01.  
27 However, Mr. Hayet is concerned that the \$37/MWh figure does not accurately  
28 account for both the Company's \$21.46 energy charge proposed for calendar year  
29 2008 *and* for the \$98 million payment that the Company received at the contract's  
30 initiation.

31 **Q. Please describe Mr. Hayet's argument that the \$98 million payment which**  
32 **was made to the Company from SMUD is not reflected in the current**  
33 **contract price.**

34 A. Mr. Hayet argues that since the Company received a lump sum payment of \$98  
35 million at contract execution and retained the funds for itself, the Company  
36 should share a commensurate amount of burden to ensure that the contract terms  
37 are compensatory, per Commission order. Previously, this issue was addressed  
38 with the Commission's adoption of a \$37/MWh imputed contract price in 2001.  
39 However, since the imputed price has not been adjusted for several years, Mr.  
40 Hayet argues that it is no longer compensatory, as wholesale prices have  
41 increased over the intervening period. He argues that unless an adjustment is  
42 made, ratepayers will continue to pay ever increasing costs of serving a below  
43 market contract.

44 **Q. What is the Division's assessment of Mr. Hayet's argument?**

45 A. The Division agrees with Mr. Hayet's assessment that the imputed price is not  
46 compensatory and therefore warrants adjustment. However, the Division  
47 disagrees with the method Mr. Hayet used to calculate the adjustment.

48 **Q. Why does the Division disagree with Mr. Hayet's adjustment methodology?**

49 A. Mr. Hayet recommends that the Commission index the imputed \$37/MWh price  
50 to the contractual SMUD price. However, the Division is concerned that Mr.  
51 Hayet's methods to index this price do not lead to the optimal outcome. In his  
52 analysis, Mr. Hayet notes that from 2001 to 2008 the actual contract price  
53 increased from \$14.66 per MWh to \$21.46 per MWh, an increase of \$6.80 per  
54 MWh. He recommends that the \$37/MWh imputed price be increased by this  
55 \$6.80 difference. This results in a new imputed price of \$43.8/MWh ( $\$6.80 +$   
56  $\$37$ ). Since the new imputed price exceeds the accepted imputed price by  
57 \$6.80/MWh, Mr. Hayet argues that \$2.38 million in total sales should be  
58 disallowed ( $\$6.8/\text{MWh}$  multiplied by the 350,400 MWh in contracted sales).

59 While the Division agrees with Mr. Hayet in principle, it believes that a  
60 more appropriate approach would increase the imputed price by an equal  
61 percentage. This is determined by calculating the percent increase in the in the  
62 new contract price and applying this same rate of increase to the imputed price.  
63 This method is preferable because it applies the same rate of change found in the  
64 projected 2008 contract price to the imputed price, thus ensuring a proportional

65 price increase. The proposed \$21.46/MWh contract price represents a 46.38  
66 percent increase over the earlier contract price of \$14.66. Mr. Hayet's method of  
67 adding \$6.80 to the \$37 imputed price results in a rate of increase of about 18.38  
68 percent, a rate that is significantly less than the projected 46.38 percent rate of  
69 increase between the 2008 forecasted contract price and the 2001 contract price.

70 **Q. What are the impacts of applying the 46.38 percent rate of increase to the**  
71 **current \$37 imputed price?**

72 A. Applying this percentage increase to the current \$37/MWh figure raises the new  
73 imputed price to \$54.16/MWh, a figure that is \$17.16 higher than the \$37/MWh  
74 imputed price. As this new price is \$17.16 higher than the compensatory price,  
75 there should be a \$6,012,864 reduction to system wide NPC (\$17.16 multiplied by  
76 the 350,400 MWh in contracted sales). This would reduce Utah-allocated NPC by  
77 about \$2,507,364.

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

79 A. Yes it does.