

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 6.0SR
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PRE-FILED SURREBUTTAL TESTIMONY

JAMES B. DALTON

ON BEHALF OF THE

UTAH DIVISION OF PUBLIC UTILITIES

May 19, 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 surebuttal testimony?**

12 A. To withdraw my proposed \$2,507,364 NPC adjustment to the SMUD contract as  
13 contained in my rebuttal testimony (DPU Exhibit 6.0R).

14 **Q. Can you provide a brief explanation of why you are withdrawing your earlier**  
15 **adjustment?**

16 A. Yes. The Division initially supported CCS witness Phil Hayet in his argument that  
17 the current SMUD imputed contract price is not compensatory. Mr. Hayet points  
18 out that the Southern California Edison (SCE) contract, which served as a  
19 benchmark for the current imputed price expired in September 2006. He argues  
20 that the Commission should decide again on the proper basis for adjusting the  
21 price.

22           The Division expressed concern that Mr. Hayet's methods to index this  
23 price did not lead to the optimal outcome and argued that a more appropriate  
24 approach would be to increase the imputed price by applying the projected 46.4%  
25 rate of increase between the 2008 forecasted contract price and the 2001 contract  
26 price to arrive at the imputed value.

27 **Q.   If the Division argued for an increase of the \$37/MWh price, and has argued**  
28 **for an amended version of Mr. Hayet's adjustment, why are you proposing to**  
29 **withdraw your adjustment?**

30 A.   The Division believes that the reasonableness of the \$37/MWh imputed value can  
31 be best determined by looking at the real levelized value of the \$94 million  
32 payment the Company received at the contract's initiation. The Division chose to  
33 do this after it submitted its direct testimony, and after subsequent questions had  
34 arisen about how the imputed value was determined in 2001. The results of this  
35 analysis led us to conclude that the current Commission ordered value is  
36 reasonable.

37 **Q.   Can you show why this method is appropriate and led you to conclude that**  
38 **the Commission-ordered \$37/MWh imputed price is reasonable?**

39 A.   Yes. The Division argues that the levelized method best accounts for the future  
40 value of the stream of annual imputed income the Company should receive from  
41 the \$94 million lump sum payment. In other words, this method assumes that the  
42 Company should account for the annual levelized net present value of this

43 payment for each year the SMUD contract is in effect and apply this value as the  
44 appropriate imputed price in its GRID analysis.

45 The Division's analysis levelizes the net present value of the \$94 million  
46 payment over the contract period (1987 – 2014), and divides this annual levelized  
47 amount by the contract's required annual sale of 350,400 MWh to arrive at the  
48 imputed MWh price. The analysis assumes that nominal discount rates range  
49 from 8% to 9% (an estimated range for the value of the weighted cost of capital)  
50 and average inflation tracks the Consumer Price Index average annual inflation  
51 rate of 3% over the contract period. Under these assumptions, the resulting  
52 imputed price for 2008 would range from about \$34/MWh to \$38/MWh.<sup>1</sup> This  
53 appears to be in line with the Commission ordered \$37/MWh imputed price.

54 Initially, our analysis added the calendar year 2008 \$21.46/MWh contract  
55 price to these levelized values to arrive at the imputed price, which then would  
56 have ranged from about \$55/MWh to \$59/MWh. This led us to believe that the  
57 \$37/MWh imputed price is too low. However, it is erroneous to add the 2008  
58 contract price, as the actual levelized values (\$34/MWh to \$38/MWh) are the only  
59 amounts that should be imputed to reflect the current value of the \$94 million  
60 payment. Based on our analysis, the Division finds that the current imputed price  
61 is reasonable, and recommends that its earlier adjustment be withdrawn.

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<sup>1</sup> A levelized contract price stream is derived from the \$94 million payment using the PMT function within Excel, using the stated nominal discount rates, inflation rates, and calculating the real discount rate using the formula  $(r - i)/(1 + i)$ , where  $r$ =discount rate;  $i$ =rate of inflation.

62 **Q. Why did you not propose this method in your direct or rebuttal testimony?**

63 A. As noted earlier, the Division performed this complete analysis after it submitted  
64 its direct and rebuttal testimony and after additional intervenor questions  
65 regarding the propriety of the Commission-ordered imputed price were raised.

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

67 A. Yes it does.