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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** **INTERVENOR IBEW LOCAL 57's MEMORANDUM BRIEFING REVENUE AND COST OF SERVICE ISSUES**

Comes now Intervenor, IBEW Local 57, and submits its Memorandum in support of its position as to the Revenue Requirement and Costs of Service issues, for purposes of determining rates and other appropriate orders in the above docket.

This matter came before the Public Service Commission at hearing, commencing on June 2, 2008 through June 5, 2008. Local 57 pre-filed direct testimony and exhibits of Byron Nielsen and Gary Cox, as well as the surrebuttal testimony of Gary Cox, all of which was admitted into the record without objection. Cross examination of Local 57's witnesses was waived by all parties.

Applicant Rocky Mountain Power ("RMP" or "Company" herein) did not file rebuttal testimony in response to Local 57's testimony.

I.

PRELIMINARY DISCUSSION OF UNPLANNED OUTAGE ISSUES

Local 57 did not submit specific revenue adjustments of its own. However, Local 57 addressed in the pre-filed direct testimony of Gary Cox, facts relevant to the prudence of the Company's maintenance and operation of its steam generation plants and consequential unreasonable power costs due to unplanned forced outages.

The forced outage issue was also the subject of proposed revenue adjustments of the Committee Of Consumer Services (CCS, herein). Specifically, CCS expert witness Randall Falkenberg, in his prefiled direct testimony, evaluated high power costs resulting from unplanned outages. See pages 69-73. Mr. Falkenberg wound up making a recommendation in that testimony, reducing the revenue requirement by $1.2M Company wide, related to Jim Bridger Plant unplanned outages which he felt had the highest unplanned outage rate which could not be justified. See page 7, of Falkenberg direct testimony.

The Company filed rebuttal testimony of Mark Mansfield to Mr Falkenberg's testimony. Mr Mansfield conceded the Company unplanned outages had increased substantially over the past decade. Pages 1 and 2, lines 20-29. He argued that the Company had a higher equivalent and capacity factors than comparable in its plant fleet than NERC comparable plants. Page 6 and 7.

Mr. Cox discussed Mr. Mansfield testimony in surrebuttal testimony at page 3, demonstrating the high plant equivalent capacity factors are costly, resulting from delayed plant overhauls, from 3 years per unit, as practiced by Utah Power and Light, to 7 years presently. He explained how this results in high forced outages.

Mr Falkenberg in his surrebuttal at page 51-52, felt Mr. Mansfield had not rebutted the prudence issues raised by himself and Mr. Cox with respect to unplanned outages. However he withdrew his specific adjustment relative to Bridger plant, and stated as follows:

> "This is a questionable strategy because unplanned outages can be scheduled at low cost times, while unplanned outages can happen anytime. An unplanned outage can cost many times more than a planned one. Should the Company experience system wide outages during the summer or winter peaks in the months ahead, this strategy may be to blame.
>
> Finally [RMP witness] Mr Mansfield certainly lends credence to the testimony of IBEW witness Mr. Gary Cox, who believes the Company has undertaken this questionable strategy as a cost cutting measure. I question the prudence of Mr. Mansfield's strategy and recommend the Commission do as well."

Mr Falkenberg concluded this line of testimony by stating:

> "Based on the testimony of Mr Cox and Mr. Mansfield, I believe that be far the most *significant issues* in this case is the question of the Company's overall maintenance practices and strategy. I seriously question whether reducing planned outages is a reasonable trade-off for increased forced outages.
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> I would have like to have analyzed the costs of reduced planned outages versus increase forced outages in this case. However, time is too short for that now. Consequently, I believe this issue should be investigated much more fully before proceeding with an outage adjustment. Rather, I recommend that the Company be required to justify the economics of its scheduled maintenance strategy and practices in the next general rate case." See Randall Falkenberg Surrebuttal Testimony at pages 52 and 53, lines 1334-1336. (italics added)

With the case in this posture, Local 57 shall address the evidence, its recommendations, and the positions of other parties with which it is concerned, regarding the unplanned outage issue and in the areas set forth below:

- The need for evaluation and implementation of improved service quality performance and reliability standards in distribution by the Service Quality Task Force.
- The critical need now for hiring, training, and staffing of skilled positions in the Company's generation plants.
- CCS adjustments to generation overhaul expenses and overtime.
- The propriety of holding the Company to maintenance commitments by earmarking costs for spending upon which rates are determined in this proceeding for generation expenses.

II.

THE NEED TO EVALUATE IMPROVED PERFORMANCE AND RELIABILITY STANDARDS.

Byron Nielsen, Business Manager for Local 57's, reviewed in his direct testimony, Local 57's concern for improved and continued performance and reliability standards in the Company's distribution system. There is a need to evaluate and implement improvements.

In the Company's application, Doug Bennion represented in the context of SAIFI and SAIDI commitments, as to the frequency and duration of distribution outages, that the Company "has committed to further improve reliability through 2011." See Bennion Pre-file Direct at line 140-146.

Local 57 challenged this claim, contending the such commitments expired as March 31, 2008, and that there had been no evaluation or proposal of standards to take their place. See Direct testimony of Byron Nielsen at page 8, lines 21-26. Mr. Nielsen provided an extensive review of the history of the commitments, principally arising out of the Storm of December 2003. In regard to SAIDI, he demonstrated the Company failed to meet its target in 2007, primarily due to equipment failure and that the Company continues to be in the worst quartile of performers. See Nielsen Direct Testimony at page 9-10, citing the Final 2003 Storm report, discussed infra.

During hearings, on June 6, 2008, the Company filed proposed standards to replace existing standards. Local 57 waived cross of Mr. Bennion. At hearing the Company and parties stipulated it would refer its proposals to the Service Quality Task Force (SQTF), under a new docket number. The Commission was requested to extend the authority of the SQTF to review these proposals, including Local 57 in the discussions. See stipulation of the parties and representation to the record, taking administrative notice of the Company's June 6, 2008 filing at Tr. 279 -280 and Tr. 647-650.

Such action is appropriate and warranted to insure acceptable standards are put into place through 2011. Among other things, the Company proposes replacing expired SAIDI and SAIFI standards and commitments, to measuring only those it believes are controllable, as opposed to non-controllable events. This is altogether new and different than previous measures. SQTF can review appropriate benchmarks, standards, and costs benefits to the extent they are provided or warranted.

Local 57 is in agreement with such course of action. The Storm of December 2003 forced the Company and PSC to take stock of the necessity of preventive maintenance action and the setting of performance standards toward reliable service to customers. This should be continually evaluated, as there is always room for improvement. The Final Report of WCI to the DPU dated December, 31, 2007, of the December 2003 Storm, was generally favorable, although it noted that RMP was still in the bottom quartile of performers, and concern about the increasing large number of B type maintenance conditions that had been identified but not repaired. See pages 4 and 5 of the report, filed January 18, 2008 in docket 04-035-01.

The PSC should be informed of areas where harmful outages will occur before disaster strikes again. An effective and ongoing task force hopefully will serve that purpose as we go toward 2011 and merger commitments to improved service.

III.

CRITICAL MANPOWER SHORTAGES IN THE GENERATION SYSTEM MUST BE ADDRESSED NOW

Beyond the distribution system, Local 57 believes issues regarding outages and maintenance in the generation system have been overlooked, and that indeed disaster will strike again, by imprudent neglect of the existing generation system.

As previously discussed, the Company has employed a highly questionable strategy of delaying scheduled outages for plant overhauls, in order to cut costs. The trade off has been excessive power costs, and critical shortages of necessary manpower. Unplanned outages have resulted in well over a hundred million dollars each year in replacement power costs. See Direct Testimony of Cox, at pages 8-9 and Ex 2.3, attached thereto. This evidence has not been challenged and rebutted. The costs are only going to increase for the next rate case.

Nor has the Company challenged Local 57's evidence going to skilled manpower shortages in the generation system that it contends have resulted in these unreasonable power costs, unplanned outages, waste and energy inefficiency. The generation system currently lacks sufficient generation reserves. This is all the more reason to protect and make efficient existing power plants. However, this is not being done. Local 57 has endeavored to put the PSC on notice of the problems, and is willing to work toward a solution. But time is running short.

Skilled manpower shortages are due to the lack of training and hiring of replacements who have left the Company. Employees are leaving the Company due largely to an aging workforce and retirements. Mr. Cox's direct testimony identified a need to train or replace 89 employees or 27% of the generation workforce for RMP who will be gone in 5 years due to retirement. Direct Testimony at Page 6. The work force average age is 46.7 years, and it takes at least 3 years to train apprentices, and 3 more years after that to bring them up to speed as journeymen. Cox Direct Testimony at page 5. Meanwhile the know how of skilled workers to train replacements is being drained.

Compounding this problem is that the Company arbitrarily has frozen its manpower on a plant by plant basis, preventing prospective apprentices or needed journeyman from transferring in from other plants or being hired. Cox direct page 7, lines 4-11. Moreover, when an employee leaves, he might be replaced by an employee in another classification, such as what happened at the Carbon plant, when a mechanic went on long term disability was replaced by a manager. Cox Direct at page 3, line 13-18.

In Mr. Cox's surrebuttal testimony addressed an issue raised by CCS witness Helmut Schultz, in regard to his proposed adjustment related to manpower regarding 58 unfilled positions. Mr Cox demonstrated the critical need to fill many of these positions. He demonstrated that at a minimum 17 new skilled workers, as I and C Techs, Maintenance Mechanics, Electricians and Operators, had left and not been replaced, in Local 57 jurisdiction. See Cox Surrebuttal at page 5.

Mr. Schultz eventually relented from disallowing these positions at page 4 of his Surrebuttal testimony, presumably because if the Company went along with his recommendations, if properly calculated, it would result in an increase revenue requirement. See McDougal Rebuttal at page 40. But, Mr Schultz still has concerns and recommends the Company justify in future filings any increases above the Base Year employee level. See page 4 of Schultz surrebuttal.

If any micro managing of employee levels is warranted, it would be to authorize a mechanism that would facilitate more employees, not freezing them at historically inadequate levels to meet current and near future needs. Such a mechanism, at this point, would be toward earmarking costs recognized in this proceeding for maintenance. Local 57 is not ready to requests the Commission direct further hiring at this time, without further evaluation.

However, there have been prolonged vacancies of skilled plant positions, since 2005. See Supplemental Surrebuttal Exhibits IBEW Ex. 5.1-1 and -2, being RMP's response to IBEW Local 57, 5th data request, which shows:

> -At Hunter, a loss of 9 non-exempt positions since 12/31/05, 7 unfilled non-exempt positions existing in 2008, including one I and C Tech.

> -At Jim Bridger, only 279 of the 293 non-exempt positions are filled and this shortage is typical of the last 3 years. In particular, from 2006 to date, they have 4 fewer mechanics and 2 fewer I and C Techs.
>
> -At Huntington, in 2008, 164 employees, 4 short of budgeted positions, but from 2005 it has been 3 to 5 positions short.

Even the existing employee levels are substantially down from manpower cuts implemented by Scottish Power. Cox Direct, page 3, line 7-11. For example, at the Naughton Plant Utah Power and Light used to employ about 18 skilled maintenance craft personnel. It is now down to 6 journeyman including the only 2 generation apprentices the Company is training in Local 57 jurisdiction. (Utah, part of Wyoming and Idaho.) See Cox Direct at page 4, lines 2-12. Utah Power and Light used to have a heat improvement teams at each plant that spent half of its time looking for leaks and losses of energy, and fix them. Cox Surrebuttal at page 7, lines 142-154.

The same shortages are occurring in the contractor work forces, and they are unable to do the job. See Cox Direct page 7, lines 19-23 and Surrebuttal page 4 lines 80-91.

Company non-exempt employee levels have only recently increased, after falling year after to year from 2005 to a low point of 1795 overall in 2007, to 1864 employees presently. But this includes 16 new employees to staff Lakeside Plant, and hiring on the distribution side. See Cox Surrebuttal page 5 lines 110-115; and see Final Storm Report dated December 31, 2007, at page 26, stating RMP added 58 journeymen linemen positions from 2003-2006 and is pursuing new apprentices in this area. But the generation side continues to fall behind.

As a consequence of this and other cost cutting, the utility has been unable to maintain past maintenance practices for more regular plant overhauls. They have gone from 3 to 7 years per unit. Cox Direct page 2, lines 14-23 and Surrebuttal at page 3. It is undisputed the number of planned overhauls has decreased while the number of unplanned, more costly outages, have markedly increased. See Cox discussion of RMP witness Mansfield's testimony at Surrebuttal page 3. Inevitably the generation unit will break down, at unplanned times of high load and high power costs. This costs the Company and the customers, hundreds of millions of dollar in more expensive replacement power, as reflected in Mr Falkenberg testimony, supra. See also CCS Ex 4.12 and Falkenberg Direct testimony calculating these outages increase the cost to Utah rate payers by 23 million dollars, due to a 40% increase of 4 year average unplanned outage rates since 1999, and an 81% increase of outage rates over the last eight years. Falkenberg Direct, page 69-70.

Local 57 has just begun to address this problem. For this case, it did not have its own expert utility engineer or economist to evaluate these real costs or to make GRID studies. Understandably the PSC, the CCS, the Division and the utility may require more proof. CCS has devoted resources toward this issue and is to be commended. Who should take on the expense of proving that the management of the utility in these areas is prudent and that the costs of power for such unplanned outages should not be charged to customers? Considering the evidence in this case, certainly the Company should, by having the burden in upcoming rate case to justify its strategy of maintenance cost cutting in plants, as Mr Falkenberg recommended, and the expense of higher power costs.

Whatever power costs models the Company relies on in the future, should reflect on the trade off of power costs for less maintenance. But the PSC should also take into account harder to measure losses of energy due to waste and inefficiency. Such waste runs contrary to public policy, and RMP own position in regard to Utah State and its partnership in the Regional Climate initiative and energy efficiency policies, as detailed in Cox Surrebuttal at page 7 and 8.

While Local 57 is not requesting the PSC require the RMP hire or begin training a certain number of employees now, the Company as well should have the burden of justifying its employee compliments in view of the critical shortages it has, and a history of unfilled but budgeted positions, as recommended by Mr Schultz.

Local 57 does recommend that the money earmarked for plant maintenance positions should be earmarked for spending at a minium, and if it fails to do so, the PSC should scrutinize the reason for this failure in the next rate case for any appropriate adjustments. Appropriate FERC accounts for this purpose are discussed, infra.

IV.

THE PSC SHOULD NOT ACCEPT CCS ADJUSTMENTS TO OVERTIME AND OVERHAUL EXPENSES

CCS's experts differ from Local 57 position as regard to Overtime and Overhaul expenses. We believe its evidence, in this regard is insufficient, and at cross purposes with itself and the need of the Company to maintaining and operate its generation plants, and delivering power in Utah.

Overtime (OT)

CCS challenged the Company's OT costs, and sought an reduction of $1.9M. This was addressed by its witness, Helmuth Schultz, based on his testimony that the cost of overtime was historically excessive and should not include excessive costs for storms without weather normalization.

In addressing his adjustments Mr Schultz refers to CCS data request 9.12, inquiring of the Company to explain why overtime had been increasing in 2006 and 2007. See Schultz Direct testimony at page 14-15 and is Surrebuttal Testimony at pages 13, lines 273-314.

The Company response to DDS data request 9.12 is at Union Cross Exhibit 1. That response breaks down the overtime incurred by Business Units, that is, Rocky Mountain Power (RMP), Pacific Power (PP) and Pacific Energy (PE). PE is the Power Supply, generation side of the holding company. RMP is Power delivery in Utah Idaho and Wyoming. PP is Power Delivery in the Pacific Power service area. See also Wilson testimony at Tr. 247-248.

In the response, the Company explained the distribution costs for PP was increased largely due to storms on the Pacific Coast, but that this was charged to the Distribution O and M accounts, assigned only to the states affected, that those served by PP. The response also stated PE's overtime was attributed to reductions in workforce and unfilled budgeted positions. These cuts are corroborated by Local 57, as discussed supra. See also RMP witness Wilson's testimony justifying overtime due to the lower staffing complement at Tr. 245-248. See also RMP witness McDougal's Rebuttal Ex SMR-1R-RR at page 11.57 showing overall decreases of 300 employees from July, 2006 to through June 2007, to a level of 5589.

Mr. Schultz questions if the storm charges were indeed charged to the Pacific Coast states because labor charges to certain costs centers. He explained the labor cost are all reflected on a ongoing forward basis, so he allowed for OT based the 2005 costs, plus a 3% annual increase, effectively reducing Utah charges by $1.9M. Direct testimony at 14-15. He did not look into the detail of the allocations the Company purported to make. Tr. 398. However, as CCS witness DeRonne said, the key to making revenue adjustments is that you get the right allocation factors for the multiple FERC accounts to which the charges are made. Tr. 606 , lines 17-20. As in generation overhauls, the FERC accounts can include both labor and non labor charges. Tr. 607.

In summary, CCS adjustments for overtime, entirely disregards manpower decreases since 2005, and for that matter storm activity since that time, without a more rigorous analysis. Allocations factors and adjustments, the Company otherwise made in its filing for the distribution system were not more closely evaluated. The Company's needs to pay for increasing overtime. This need cannot be so easily discounted and the adjustment recommended by CCS should be denied.

Overhaul Expense

The Company went along with CCS recommendations to calculate and recover costs on 4 year average for overhaul expenses, recommended by CCS expert Ms. Donna DeRonne. However, RMP witness McDougal states Ms. DeRonne's calculations and recommendations were not proper or consistent with her recommendation, and left out allowances for new generation brought on during that period, escalation costs, and 2008 dollar valuation and adjusted for on the basis of calendar years.

Ms. DeRonne's bottom line seems to be the costs vary from year to year, notwithstanding these escalation factors and that inflation goes up, and the Company is still asking for more than they have actually budgeted for this amounts and should be limited by he proposed adjustment. Tr. 610-611. Ms. DeRonne's adjustment actually exceeds by $2M what the Company had actually budgeted to incur in 2008. (DeRonne Surrebuttal testimony, lines 261-277).

The Company responds, in part, that as the normalized cost is based on 4 year average, rather than budget, the higher average figure is appropriate, just as a lower average figure would be when the budget is higher. See McDougal cross at pages 74-75.

Local 57 concurs with the Company. Simply because actual expenditures vary from year to year, one cannot exclude escalation factors from the over all average. And if that is the accepted method of determining the adjustment, actual projected budget does not come into the picture. In both case, it is mixing apples and oranges.

Budget projections are as well based on realistic revenue projections, and the additional revenue based on the four year averages employed in this case, could be cause the projections to be re-evaluated.

Moreover, Local 57 and CCS have both raised serious issues about the Company's strategy in extending planned overhauls. If the Company should agree it could afford to spend more on planned overhauls, and this is money well spent in saving other costs and forms of energy, it should have the latitude to begin now to address this problem. The spending should ultimately save ratepayer in power costs and prolong the life of the plants. Accordingly, the Company's figure, as adjusted in its rebuttal testimony, is appropriate, particularly if these funds are earmarked for that overhaul expense and not applied to other costs.

V.

THE PSC SHOULD EARMARK FUNDS FOR GENERATION MAINTENANCE.

Local 57 in its direct testimony sought maintenance commitment in distribution and generation FERC accounts, to insure the money was actually spent in these areas. It is withdrawing earmarking distribution accounts. But earmarking appropriate generation FERC accounts is justified, as argued above.

If the Company does not make the expenditures, this can be reviewed in the next rate case, as was the agreed strategy for GC 06-035-21. This is the strategy Ms DeRonne subscribed to in the prior rate case, as set forth in her testimony in support of the stipulation regarding maintenance commitments, recounted by Byron Nielsen testimony, page 3.

Mr. Nielsen identified FERC accounts which appeared to be appropriate, being 511-514 for steam plants. Based on the further evidence in this hearing, and review of the accounts, it would appear appropriate to add 506, which is used for miscellaneous costs, 510 which would allow for Maintenance supervision and Engineering, as well as 545 and 554, used according to Ms DeRonne, and applying to hydro maintenance and other misc. See CCS Ex 2.8 to DeRonne Direct testimony and DeRonne Tr. at 607.

CCS in the Pre-filed Rebuttal testimony of Cheryl Murray, at pages 10-11, lines 219-233, also stated in regard to maintenance issues raised by Local 57, "If [Nielsen and Cox] testimony is supported with adequate evidence, a remedy such as earmarking funds for maintenance may be order."

Local 57 believes the evidence does demonstrate a need to earmark the funds, and by this mechanism the Company may begin to fill needed jobs in plant maintenance or step up the overhaul schedule.

VI.

CONCLUSIONS AND SUMMARY OF RECOMMENDATIONS:

IBEW Local 57 has endeavored to bring to the attention of the Commission, the utility, the customers and other stakeholders, matters in the public interest which it genuinely believes is in everyone's interest and which will result in more prudent operations of the utility, better performance and reliability and substantial saving to the customers, and will benefit the environment. Accordingly it submits its recommendations, as follows:

1. Authorize the Service Quality Review Task Force, and interested parties, including Local 57, to evaluate current, proposed and improved performance and reliability standards in the distribution system to which the Company should be committed, in accordance with its original mandate.

2. In the next general rate case, require the Company to justify the prudence and economics of its power plants scheduled maintenance strategy and practices, in the context of higher power costs arising from forced, unscheduled outages; cost cutting of critical manpower shortages, inadequate training and hiring of skilled employees due to retirements; and the degrading the useful life and energy efficiency of the plant, and a cost to ratepayers and the environment. In this regard the recommendations of CCS witnesses Falkenberg and Schultz as regard to assigning the burden of justifying its planned outage strategy and unfilled employee positions, should be accepted.

3. Deny the adjustments proposed by CCS with regard to generation overhaul expenses and overtime.

4. Require the Company to commit to making expenditures based on allowed costs for appropriate FERC accounts, to maintenance of its generation system.

Dated this 19th day of June, 2008.

s/__________________________
Arthur F. Sandack

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 19th day of June, 2008, to all persons identified on the service list and group email used by the DPU in its service list in its response to the PSC's request of June 3, 2008, on June 5, 2008 in this matter.

s/__________________________
Arthur F. Sandack