

- 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)
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DOCKET NO. 08-035-38

ORDER ON MOTION FOR APPROVAL OF TEST PERIOD

ISSUED: October 30, 2008

By the Commission:

This matter is before us on Rocky Mountain Power's (RMP) Motion for Approval of Test Period and supporting testimony (Test Period Motion) wherein RMP requests we approve the test period used in its filing in this case, i.e., using 12 months ending June, 2009, with an end-of-period rate base. Pursuant to our August 26, 2008, Supplement to the August 1, 2008, Scheduling Order, the Division of Public Utilities (DPU), the Committee of Consumer Services (CCS), the Utah Industrial Energy Consumers (UIEC), and the UAE Intervention Group (UAE) responded to the Test Period Motion through written testimony and pleadings, RMP submitted reply testimony and pleading, and a hearing on the Test Period Motion was held October 28, 2008. Appearing at the hearing were Katherine A. McDowell and Yvonne R. Hogel, for RMP; Patricia Schmid, Assistant Attorney General, for the DPU; Paul Proctor, Assistant Attorney General, for the CCS; Robert Reeder for the UIEC; and Gary Dodge for the UAE.

In the interest of an expeditious order for the benefit of all parties, we will not summarize the individual parties' positions or arguments in this order. They are available in the record. Instead, we will refer to parties' positions or arguments only insofar as it may be helpful

in understanding our discussion and decision. Effectively, the parties place before us a choice between three alternative 12-month test periods – two ending June of 2009, with the first using an end-of-period rate base, the second using average-over-the-period rate base, and the third proposed test period is one ending December of 2009, using an average-over-the-period rate base.

Opposition to RMP's proposed test year is focused on RMP's advocacy of using an end-of-period, or June of 2009, rate base value rather than a traditional average-over-the-test-period value. This is said to exhibit a selection bias or adjustment which increases the company's expenses, and corresponding revenue requirement, without reflecting other components of a revenue requirement which, if also measured or projected to the end of period, are argued to counter the revenue requirement increasing effect of using end-of-period rate base. It is argued this distorts the revenue requirement calculation in RMP's favor. Opposing parties argue RMP's selection of the June of 2009 rate base violates the matching principle in setting a utility revenue requirement. RMP counters that use of the end-of-period rate base estimate is appropriate in this case even if it varies from the traditional application of the matching principle. RMP argues that the significant capital expenditures it is undertaking at this time justify a departure from the matching principle in setting a revenue requirement. RMP argues, without use of a June of 2009 rate base value in the revenue requirement calculation, any rates set in this case would fail to provide an opportunity to recover its increased capital expenses associated with new RMP projects already scheduled to provide service during the rate effective period.

While RMP acknowledges that a test period ending in December, 2009, would be an appropriate test period, it does so with the caveat that selection of this time period would require RMP to revise its data filed in this case. RMP's filing relies upon supporting information which is only projected to the end of June, 2009. Use of the alternative test period would require RMP to revise its information to account for the July to December, 2009, time period. RMP opposes use of this alternative test period if the need to revise data causes an adjustment to Utah Code §54-7-12(2)(c)'s 240-day clock, which directs the Commission to complete the revenue requirement determination within 240 days of a utility's filing of schedules. At this point in these proceedings, the Commission has applied §54-7-12's 240-day clock as starting from September 11, 2008. RMP argues that resetting the 240 day clock, because of a need to revise data for a December, 2009, ending test period, would be unfairly detrimental to its interests in asking for rate relief in this docket. RMP notes the significant driver for the need to adjust rates and increase its revenue requirement is the capital asset intensive building program it has undertaken to meet increased, and increasing, customer demand. RMP argues any delay in the effective date for rate relief, which is intended to help recover these higher capital expenses, contributes to attrition of its revenues and corresponding earnings.

Based on the arguments and testimony received from the parties, we conclude that the use of a 2009 test period beginning in January and ending in December, with an average test period rate base, is appropriate. As advocated or acknowledged by parties, a January to December, 2009, test period is a test period which can be used in this docket. This provides RMP with an average-over-the-period rate base value which is effectively similar to the end-of

June-2009 figure advocated by RMP. From RMP's viewpoint, it provides a rate base level which RMP would view as reflective of the rate base which likely would be used to provide service to customers when rates set in this case would become effective and responds to RMP's concerns of earnings attrition. From the viewpoint of the other parties, it would follow an appropriate application of the matching principle for revenues and expenses in setting RMP's revenue requirement.

We recognize our selection of a calendar-year-2009 test year does require the use of data applicable to a July-to-December, 2009, period (necessarily referencing a corresponding July-to-December period in the base case) which is not contained in RMP's current filing. However, we are not as pessimistic as RMP as to when this data can be made available to and analyzed by other parties and the impact upon the schedule set in this docket. At hearing, RMP witnesses testified that RMP had already made projections and undertaken an analysis of a test period ending December, 2009. Witness responses also reflected that this information has already been provided in response to data requests. We conclude that use of a calendar-year-2009 test period can be accommodated in the overall 240-day time period, which started September 11, 2008, but will require adjustment of the testimony filing dates and hearing dates which were previously set in this docket. We will issue a revised schedule contemporaneously with this order.

We also address one matter in this order gleaned from past general rate proceedings, the additional experience gained in conducting Docket No. 07-035-13, and in this docket. Participants engaged in utility regulation, especially in regards to general rate cases, face

a number of daunting realities. These include: the increasing complexity of electricity markets; the increasing complexity of electric utility operations; the increasing complexity to harmonize and the potential for conflicts arising from multi-state utility operations and varying statutory provisions and policy goals of the different states; the increased number of factors which are to be considered and interrelated in arriving at decisions in regulating utilities, in setting a revenue requirement, and in designing rates which are all required to be just and reasonable; the increasing complexity and sophistication of tools and analysis applied to evaluate past expenses, revenues and rate design and to arrive at or project future ones; and the absolute magnitude and the relative magnitude of the sums arising from differences in the evaluation of existing and future electric utility operations.

The difficulty in dealing with these aspects of today's utility regulation, in the context of acknowledging and accommodating the different interests of the utility, customers and society, is heightened through the use of a means, itself, intended to address some of these aspects – a projected test year (irrespective of whether it is partially or fully forecast). Early resolution of the appropriate test year to be used benefits all involved in a general rate proceeding. The utility and other participants then have opportunity to focus their attention and analyses on information which will be directly relevant in setting rates, rather than dealing with other information which, contingent upon the test year selected, may or may not be relevant or useful. We and participants have attempted to deal with this (in stipulations involving the preparation and exchange of information, in case scheduling, in test-year selection hearings, etc.) with conflicting views of success. We conclude we will order a procedural process for all future

RMP general rate cases by which identification and selection of the test period to be used in the case will be the first item for resolution prior to the submission of other material (e.g., revenue requirement information, rate proposals and rate schedules and tariffs) and our resolution of other disputes. Once the test year is approved by the Commission, the company will then file the remaining aspects of the case: the change in revenue requirement the company deems appropriate, in light of the designated test year; the rate design which the company proposes to use for rates, charges, fees, etc.; and the proposed rate schedules and tariff provisions to effectuate the company's rate design.

This procedure will allow the company to explore possible, reasonable test year alternatives and propose the one which it believes is most reflective of the period in which future rates will be effective. Other participants will have opportunity to agree or disagree with the company's selection, the Commission can resolve any dispute on the selection, and all may then focus on and analyze what the selected test year portends for the reasonable expenses and revenues which, combined, establish the revenue requirement and direct the future rates that need to be set. This process is similar to what the legislature requires of the company when it is seeking to acquire a significant energy resource. The company prepares a benchmark against which alternative resources will be judged and it prepares and submits a proposed process by which the company will solicit resource bids. That proposal is open to review by others and the Commission resolves any disputes and ultimately approves a solicitation process the company is to use. The company then follows the approved solicitation process and applies it to obtain responses to its resource solicitation. The company then evaluates and selects the resource

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which it believes is most appropriate for its needs and consistent with the evaluation criteria which indicates it is a reasonable result. The company then seeks Commission approval of the chosen resources, whose costs may then be recovered in future rates.

Wherefore, based on our discussion above and conclusions made thereon, we enter this ORDER, whereby we:

1. Order the use of a January through December, 2009, test period, using average test period rate base, for use in the determination of Rocky Mountain Power's revenue requirement in this docket.
2. Order Rocky Mountain Power to provide revised base case and test year information to reflect the test year selection we have made herein and to file corresponding revisions to its application submission with the Commission, and serve the same upon all parties, on or before December 1, 2008.
3. Order that in future Rocky Mountain Power rate case applications, the procedural process we describe in this order will be followed to select the appropriate test year to be used in such rate making cases.

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DATED at Salt Lake City, Utah, this 30th day of October, 2008.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary

G#59670