

1 **Q. Are you the same Steven R. McDougal who has previously testified in this**  
2 **proceeding?**

3 A. Yes.

4 **Purpose of Testimony**

5 **Q. What is the purpose of your supplemental testimony?**

6 A. My supplemental testimony explains the revisions made to the Company's filing  
7 to reflect the Commission's revenue requirement order in Docket No. 07-035-93.  
8 In the Company's supplemental filing the overall required revenue increase is  
9 calculated to be \$114.5 million. My supplemental testimony and exhibits provide  
10 the following:

- 11 • The calculation of the \$114.5 million rate increase required over Rocky  
12 Mountain Power's current rates effective August 13, 2008, as a result of  
13 the Commission's order in Docket No. 07-035-93.
- 14 • Replacement pages for Exhibit RMP\_\_(SRM-2) supporting the  
15 Company's revised Utah revenue requirement of \$1.584 billion.
- 16 • Explanation and support for incremental adjustments made to the  
17 Company's original filing that are required to reflect the Commission's  
18 order in Docket No. 07-035-93. I also provide justification for not  
19 including certain adjustments in this supplemental filing that were part of  
20 the Commission's order in that case.

21

22 **Required Revenue Increase**

23 **Q. Please explain the calculation of the revenue increase supported by the**  
24 **Company's supplemental filing.**

25 A. Exhibit RMP\_\_\_\_(SRM-1S) summarizes the revised revenue increase calculation  
26 as supported by the Company's supplemental filing. Based on revisions  
27 supported in the Company's supplemental testimony and exhibits, the Company is  
28 now seeking an overall revenue increase of \$114.5 million in this case.

29 **Q. Has the Company altered any of the major revenue requirement components**  
30 **from the original filing?**

31 A. No. Basic revenue requirement components, such as test period and allocation  
32 methodology, have not been changed.

33 **Q. Did the Company make any changes to its original filing that were not**  
34 **directly identified in the Commission's order in Docket No. 07-035-93?**

35 A. Yes. Certain updates were made to the net power cost study as explained in the  
36 supplemental testimony of Company witness Greg Duvall.

37 **Supplemental Adjustments**

38 **Q. Please describe the supplemental adjustments made by the Company and**  
39 **how they are to be incorporated into the filing.**

40 A. After review of the Commission's order in Docket No. 07-035-93, the Company  
41 proposes supplemental adjustments to the following revenue requirement items as  
42 filed in this case:

- 43           • Present Revenue  
44           • Employee Relocation Expense  
45           • Injuries and Damages  
46           • Employee Office Reconfiguration

- 47 • Leaning Juniper Warranty
- 48 • Medical Costs
- 49 • Other Salary Overhead
- 50 • Income Tax Expense
- 51 • Renewable Energy Tax Credit
- 52 • Incremental Generation O&M
- 53 • Green Tag Revenue
- 54 • Little Mountain Revenue
- 55 • Net Power Costs

56 The impact of these adjustments is incremental to the Company's original filing.  
57 To the extent a similar adjustment was included in the original filing, the  
58 supplemental adjustment has been calculated incrementally to the original  
59 adjustment. Exhibit RMP\_\_\_\_(SRM-2S) contains summary lead sheets for each  
60 adjustment, which are explained in detail below. Electronic versions of the  
61 models supporting Exhibit RMP\_\_\_\_(SRM-2S), with all formulae intact, are  
62 provided as workpapers on the enclosed CD.

63 **Q. Please describe each of the adjustments made in the Company's**  
64 **supplemental filing as a result of the Commission's order in Docket No. 07-**  
65 **035-93.**

66 A. **Present Revenue (page 12.1)** – This adjustment reflects the \$36.1 million  
67 revenue increase granted in Docket No. 07-035-93 applied to the forecasted load  
68 for the Test Period ending June 30, 2009.

69 **Employee Relocation Expense (page 12.2)** – Consistent with the Commission's  
70 order, this adjustment normalizes the cost to provide relocation programs to  
71 Company employees. Test Period relocation costs in the original filing were  
72 based on the amount expensed in 2007, escalated for inflation. This adjustment  
73 adjusts the Test Period to a five year historical average level of expense

74 **Injuries and Damages (page 12.3)** – In its order the Commission accepted an  
75 adjustment to reflect injuries and damages expense based on a three year average  
76 of actual claims paid by the Company. The Company’s original filing in this case  
77 includes injuries and damages based on a three year average of the net accrued  
78 expense. This supplemental adjustment restates injuries and damages expense  
79 based on a three year average of net claims paid by the Company.

80 **Employee Office Reconfiguration (page 12.4)** – The Commission accepted an  
81 adjustment to remove office reconfiguration expense transactions booked during  
82 the Base Year which were labeled “MEHC transaction.” These transactions  
83 caused the level of office reconfiguration expense in the case to be overstated.  
84 Similarly, this supplemental adjustment reduces office reconfiguration costs in the  
85 Test Period in this case by removing transactions that were labeled “MEHC  
86 transaction” in the historical period.

87 **Leaning Juniper Warranty (page 12.5)** – In its order the Commission reduced  
88 operating and maintenance expense related to the Leaning Juniper wind plant by  
89 removing Test Period costs for the warranty that expires in September 2008. This  
90 supplemental adjustment removes nine months of the annual cost of this warranty  
91 from the Test Period in this case.

92 **Medical Costs (page 12.6)** – In its order the Commission recomputed the  
93 escalation rate for Company medical costs beyond the Base Year using an average  
94 of rates projected by Hewitt Associates and Tower's Perrin. The average annual  
95 rate equals 7.35 percent, or 11.025 percent for 18 months. This supplemental  
96 adjustment recalculates medical costs for the Test Period in this case based on the

97 same escalation of historical costs.

98 **Other Salary Overhead (page 12.7)** –The Commission accepted an adjustment  
99 to recalculate other salary overhead expense in the case based on the two year  
100 average of historical costs rather than the Company's projection. This adjustment  
101 calculates the two year historical average of other salary overhead consistent with  
102 the order and reduces the Test Period expense in this case to the average level.

103 **Income Tax Expense (page 12.8)** – This adjustment captures the tax impacts of  
104 the supplemental adjustments described in this testimony. In addition, one  
105 deferred tax expense item related to environmental liability was incorrectly  
106 allocated on an ‘other’ factor in the original filing. This adjustment correctly  
107 allocates it on an ‘SO’ allocation factor.

108 **Renewable Energy Tax Credit (page 12.9)** – Tax credits are included in the  
109 Company’s filing for energy production of certain renewable resources based on  
110 the net power cost study. An adjustment is required to synchronize these tax  
111 credits with the supplemental net power cost study included in this filing.

112 **Incremental Generation O&M (page 12.10)** – Part of the operation and  
113 maintenance expense for new resources is calculated based on resource dispatch  
114 in the Company’s net power cost study. A small adjustment is required to  
115 synchronize the incremental generation operation and maintenance expense  
116 included in the Test Period with the supplemental net power cost run provided in  
117 this filing.

118 **Green Tag Revenue (page 12.11)** – Revenue from the sale of renewable energy  
119 credits is included in the Company’s case based on the energy production of

120 certain renewable resources as modeled in the net power cost study. A small  
121 adjustment is required to synchronize green tag revenue with the supplemental net  
122 power cost study included in this filing.

123 **Little Mountain Revenue (page 12.12)** – This adjustment is required to  
124 synchronize steam revenue related to the Little Mountain plant with the  
125 supplemental net power cost study included in this filing.

126 **Net Power Costs (page 12.13)** – The Company has performed a supplemental net  
127 power cost study based on the Commission’s order and this adjustment  
128 incorporates the incremental change into the supplemental filing. Company  
129 witness Greg Duvall explains the revisions made by the Company in his  
130 supplemental testimony.

131 **Q. Did the Commission order in Docket No. 07-035-93 include adjustments that**  
132 **the Company has elected not to reflect in this supplemental filing?**

133 A. Yes. The Commission’s order included adjustments to revenue requirement for  
134 return on equity, property taxes, and generation overhaul expense. The Company  
135 is not proposing supplemental adjustments for these items in this filing.

136 **Q. Please explain why the Company is not revising its requested return on**  
137 **equity in this case.**

138 A. The Company believes that based on the evidence and circumstances addressed in  
139 this case, the return on equity should be set at the 10.75 percent level supported  
140 by Company witness Dr. Samuel C. Hadaway.

141

142 **Q. Please explain why the Company is not revising the calculation of property**  
143 **taxes included in the Test Period.**

144 A. The Company believes the level of property taxes allowed by the Commission in  
145 the revenue requirement order in Docket 07-035-93 significantly underestimates  
146 the level that will be paid. The Company continues to support the property tax  
147 costs for the twelve month period ending June 30, 2009 included in the original  
148 filing of this case. The property tax costs in this case were estimated using  
149 methods similar to those employed when estimating property tax costs for its  
150 2007 general rate case. These methods give necessary consideration to the affect  
151 that changes in the level of operating property and net operating income may have  
152 on state by state assessed values. The Company expects to provide a revised  
153 estimate, to the extent necessary, when 2008 assessments and tax rates are  
154 finalized.

155 **Q. Please explain why the Company is not revising the calculation of generation**  
156 **overhaul expense included in the Test Period.**

157 A. In setting rates, the Commission must determine amounts the Company will  
158 expend during the period the rates will be in effect. The Company believes the  
159 Commission's failure to account for inflation by escalating four-year-old  
160 expenses to current dollars in determining generation overhaul expenses was  
161 inappropriate.

162 In its Order in Docket No. 07-035-93, the Commission approved an  
163 amount for generation overhaul using a four-year historical average of generation  
164 overhaul expenses, and also approved the generation overhaul expenses

165 associated with new generating plants. However, the Commission did not accept  
166 the adjustment of historical expenses to account for inflation.

167 There is no reasonable basis to exclude inflation from the overhaul  
168 expense adjustment. Costs incurred in previous years must be escalated to  
169 account for inflation because the value of the dollar in the test period will be less  
170 than the value of the dollar in historical years. Company incurred expenses four  
171 years ago would cost more in test-year dollars to pay the same expense. Failing to  
172 account for inflation understates the amount of overhaul expenses the Company  
173 can expect to incur in the future. Thus, the escalation sought by the Company  
174 addresses solely the issue of inflation. This is a separate and distinct issue from  
175 the variance in the overhaul costs for each of the four years in the historical  
176 analysis.

177 The four year average of historical costs is used to account for variations  
178 in overhaul expenses from year-to-year. Escalation, on the other hand, is not  
179 intended to address the year-to-year variance in the expenses incurred nor does it  
180 do so. Escalation accounts for the fact that maintenance performed four years ago  
181 would cost more if performed today because the value of the dollar has decreased  
182 in the ensuing four-year period. Using a four year average of historical costs  
183 without bringing those costs to current dollars essentially sets costs at a level  
184 approximately two years prior to the test period and defeats the purpose of a  
185 forward looking test period.

186 **Q. Does this conclude your supplemental testimony?**

187 A. Yes.