

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE)	
APPLICATION OF ROCKY MOUNTAIN)	
POWER FOR AUTHORITY TO)	DPU EXHIBIT No. 9.0
INCREASE ITS RETAIL ELECTRIC)	
UTILITY SERVICE RATES IN UTAH)	
AND FOR APPROVAL OF ITS)	DOCKET No. 08-035-38
PROPOSED ELECTRIC SERVICE)	
SCHEDULES AND ELECTRIC SERVICE)	
REGULATIONS)	

PRE-FILED DIRECT TESTIMONY OF

DR. WILLIAM A. POWELL

ON BEHALF OF THE

UTAH DIVISION OF PUBLIC UTILITIES

February 12, 2009

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ATTACHED EXHIBITS

DPU EXHIBIT	TITLE
9 . 1	SMUD ADJUSTMENT
9 . 2	ESCALATED LEVELIZATION
9 . 3	OREGON ENERGY TRUST FUND CREDIT (JULY 2008)
9 . 4	OREGON ENERGY TRUST FUND CREDIT (DECEMBER 2008)

1 PRE-FILED DIRECT TESTIMONY
2 DR. ARTIE POWELL
3 UTAH DIVISION OF PUBLIC UTILITIES

4 **Introduction**

5 **Q: Would you please state your name, employer, and position?**

6 A: My name is Dr. William, or Artie, Powell. I am the manager of the energy section
7 within the Division of Public Utilities (Division).

8 **Q: Would you please summarize your education and experience?**

9 A: I hold a doctorate degree in economics from Texas A&M University. Prior to joining
10 the Division, I taught courses in economics, regression analysis, and statistics both
11 for undergraduate and graduate students. I joined the Division in 1996 and have
12 since attended several professional courses or conferences dealing with a variety of
13 regulatory issues including, the NARUC Annual Regulatory Studies Program (1995)
14 and IPU Advanced Regulatory Studies Program (2005). Since joining the Division, I
15 have testified or presented information on a variety of topics including, electric
16 industry restructuring, incentive-based regulation, revenue decoupling, energy
17 conservation, evaluation of alternative generation projects, and the cost of capital.

18 **Scope and Summary of Testimony and Recommendations**

19 **Q: Do you have a summary of the adjustments and recommendations that you are**
20 **making in this case?**

21 A: Yes. On behalf of the Division, I am making three adjustments in this case to the
22 revenue requirement request of Rocky Mountain Power (“Company”). The first
23 adjustment deals with the Sacramento Municipal Utility District (SMUD) contract. In
24 previous proceedings, the Commission ordered a \$37 per megawatt hour price for
25 imputation. In this case, the Division is recommending a price of \$41.56 per
26 megawatt hour. The price is the result of a levelization method described herein,
27 which the Division recommends the Commission adopt going forward for the
28 remainder of the contract life. This adjustment reduces the Company’s filed
29 revenue requirement by approximately \$1.6 million system wide or approximately
30 \$644,000 on a Utah allocated basis.

31 The second adjustment deals with the Energy Trust of Oregon’s contribution
32 to the above market costs of the Goodnoe Hills Wind plant. In its December
33 supplemental filing in the current application, Rocky Mountain Power includes an
34 incremental increase in its O&M expense to offset partially the Energy Trust of
35 Oregon (ETO) contribution. This was similar to the Company’s ETO adjustment
36 made in a previous case, Docket No. 07-035-93. The Division removes this
37 incremental O&M expense from the Company’s revenue requirement and
38 recommends that the Commission open a separate docket to investigate the ETO
39 contribution and its implications under the inter-jurisdictional costs allocation
40 agreement among the various states, the Revised Protocol, approved by the

41 Commission in Docket No. 02-035-04. The adjustment reduces the Company's
42 revenue requirement by \$2.6 million system wide or approximately \$1.1 million on a
43 Utah allocated basis.

44 The third adjustment removes the above market costs of the Goodnoe Hills
45 wind plant. The above market costs (AMC) are estimated at \$12,000,000. The
46 Division recommends that these costs be removed from the company's rate base
47 and that the Company be allowed to defer the associated revenue impact of this
48 amount until issues surrounding the ETO contribution can be settled. The revenue
49 impact of this adjustment is approximately \$871,084 on a Utah allocated basis. This
50 recommendation is contingent on the Commission opening a docket to investigate
51 the ETO contribution and associated issues. If the Commission elects not to open
52 the recommended docket, the Division recommends that these AMC of the
53 Goodnoe Hills project be disallowed.

54 **SMUD Power Cost Adjustment**

55 **Q: You indicated that the Division is recommending that the Commission adopt a**
56 **\$41.56 per megawatt hour value for imputation of the SMUD contract. What**
57 **principles or basis are you using to justify this value?**

58 **A:** In past Commission orders dealing with the SMUD imputation, the Commission
59 appears to have emphasized two principles: that the information used to arrive at
60 the value for imputation is contemporaneous with the execution of the SMUD

61 contract and that the method is reasonable. The Division's recommendation
62 satisfies both of these conditions. As an added benefit, if the Commission adopts
63 the Division's methodology, the Division's recommendation would provide a method
64 for the SMUD imputation for the remainder of the life of the SMUD contract.

65 **Q: You mentioned two principles, contemporaneous information and a reasonable**
66 **method, would you please elaborate?**

67 A: Certainly. According to the Commission's order in Docket No. 99-035-10,¹ in 1987
68 the Company entered into a long term contract extending through 2014 with the
69 Sacramento Municipal Utility District (SMUD) under which the Company was to
70 deliver approximately 350,400 megawatt hours per year to SMUD. In addition to
71 the contract pricing, SMUD agreed to pay the Company an up-front payment of \$94
72 million.² However, instead of reducing rates to ratepayers, the Company retained
73 the up-front payment. As a result, the Commission determined that when executed,
74 the contract pricing was below market and concluded that, "the task before us is to

¹ The following discussion is taken from the Commission's "Report and Order," Docket No. 99-035-10, PacifiCorp 1999 General rate Case (Short Title), May 24, 2000, pp. 43-46.

² In its order in Docket No. 07-035-93, the Commission references an up-front payment of \$98 million. The difference of \$4 million appears to be interest payments received by the Company from SMUD, which SMUD agreed to make until the up-front payment of \$94 million was made. In other words, if the \$98 million were discounted to the beginning of the contract the value would equal the \$94 million up-front payment. Therefore, whether one uses the \$94 or \$98 million number in the levelization process, the final levelized value (if done correctly) should be the same. In its order in Docket No. 01-035-01, the Commission refers to \$94 million: "... Smud paid the Company \$94 million at the outset of the contract ..." (See pages 23-24).

75 find a rate, contemporaneous with the contract date, to use as the basis for revenue
76 imputation.”³

77 As the Commission’s order in that docket explains, “Imputing revenues to
78 compensate for the below-market contract ... has been common in several states
79 since 1987,” including Idaho, Oregon, and Utah.⁴ Prior to the 1999 rate case, both
80 Oregon and Utah had utilized a contemporaneous contract the Company had with
81 the Southern California Edison Company (SCE) as the basis for these revenue
82 imputations. However, in that case, Docket No. 99-035-10, the Division proposed an
83 imputation based on a then recently adopted imputation by the Idaho Commission
84 of \$19 per megawatt hour. The reason for the Division’s proposed departure from
85 previous practice was that the SCE contract had recently been renegotiated and, in
86 the Division’s view, no longer provided “a relevant contemporaneous comparison.”⁵
87 The Commission, however, rejected the Division’s proposal stating, “This rate [i.e.,
88 the \$19] is inappropriate because it is a non-firm rate [whereas] the SMUD contract
89 is a firm contract.”⁶ While the Division today agrees with the Commission’s decision
90 to reject the \$19 price because of its non-firm nature, the Division’s attempt appears

³ “Report and Order,” Docket No. 99-035-10, p. 45.

⁴ “Report and Order,” Docket No. 99-035-10, p. 44.

⁵ “Report and Order,” Docket No. 99-035-10, p. 44.

⁶ “Report and Order,” Docket No. 99-035-10, p. 45.

91 to have been to find a price that was contemporaneous with the execution of the
92 SMUD contract.

93 Interestingly, in Docket No. 99-035-10, the Committee also disagreed with
94 the Division's \$19 proposal noting that, "no reason is given by the Division to explain
95 why the mere fact of renegotiation should render the SCE contract rates useless for
96 the basis of imputation."⁷ As an alternative, the Committee recommended an
97 imputation price of \$30 per megawatt hour arguing that the price was appropriate
98 because the Commission had approved it as an appropriate rate to determine
99 whether special contracts were compensatory and it was based on the Company's
100 incremental costs. However, the Commission also rejected the Committee's
101 recommendations explaining that the proposed price "by the Committee is not
102 acceptable because it is an amount calculated at a later date."⁸ In other words, the
103 Commission rejected the Committee's proposal in that docket because the number
104 was not contemporaneous with the execution of the SMUD contract.

105 From this discussion it appears that one principle emphasized by the
106 Commission's order is that the information used for the imputation be
107 contemporaneous with the SMUD contract.

⁷ "Report and Order," Docket No. 99-035-10, p. 44.

⁸ "Report and Order," Docket No. 99-035-10, p. 45.

108 **Q: What price did the Commission order for imputation in Docket No. 99-035-10?**

109 A: In the end, the Commission ordered a price of \$37 per megawatt hour
110 corresponding to the renegotiated SCE contract. Although parties raised several
111 issues concerning the SCE contract in the Company's next general rate case, Docket
112 No. 01-035-01, the Commission again ordered a \$37 price for imputation.

113 **Q: You mentioned a second principle, that the method be reasonable. Would you**
114 **please elaborate on this principle?**

115 A: In its order in Docket No. 01-035-01, the Commission states, "We seek a reasonable
116 basis for imputation, once we decide an imputation must be made."⁹ This is a clear
117 statement that the Commission is looking for a reasonable method to use as the
118 basis for imputation of the SMUD contract.

119 **Q: Do you believe that imputation is warranted in this case?**

120 A: Yes. In its final order in Docket No. 01-035-01 the Commission, referring to Docket
121 No. 99-035-10, states, "In that Docket, the Commission did order imputation
122 because the contract obligated the Company to serve SMUD at \$16.85 per MWh at
123 the time it was entered, a rate much below the then-current rate for power."¹⁰
124 Contributing to this conclusion was the fact, as previously explained, that the
125 Company retained an up-front payment of \$94 million. The circumstances found in

⁹ "Report and Order," Docket No. 01-035-01, p. 24.

¹⁰ "Report and Order," Docket No. 01-035-01, p. 23.

126 previous dockets, namely, that the SMUD contract at execution was not
127 compensatory to ratepayers or was below the then-current market prices, has not
128 changed with time, nor could they.

129 **Q: What additional issues were raised in Docket No. 01-035-01?**

130 A: According to the Commission's order, the SCE contract renegotiation was in 1995
131 and the rate for the first year following the renegotiation was \$37 per megawatt
132 hour.¹¹ However, the Division and the Committee argued that, "the rate used
133 should correspond to test-year circumstances" and, according to the SCE contract
134 terms, "that rate is \$47.70."¹²

135 **Q: Did the Commission state why it did not choose the test-year price of \$47.70?**

136 A: Yes. In its order in Docket No. 01-035-01, the Commission states, "After the
137 testimony and argument in this case, there are enough questions about the SCE
138 contract as an appropriate reference that we will not depart from our previous
139 decision by increasing the imputation to \$47.70."¹³ The Company pointed out that
140 in Docket No. 99-035-10, the SCE contract test-year price was \$49.42, not the \$37
141 ordered for imputation.¹⁴

¹¹ "Report and Order," Docket No. 01-035-01, p. 24.

¹² "Report and Order," Docket No. 01-035-01, p. 24.

¹³ "Report and Order," Docket No. 01-035-01, pp. 25-26.

¹⁴ "Report and Order," Docket No. 01-035-01, pp. 24-25.

142 Although the Company supported the \$37 price for imputation in Docket No.
143 01-035-01, the Company argued that the SCE contract “should no longer be
144 considered a relevant benchmark for revenue imputation.”¹⁵ The Commission
145 concluded that, “We therefore believe arguments opposing further use of the SCE
146 contract are appropriately a subject for the next general rate case in which SMUD
147 revenue imputation arises.”¹⁶ To my knowledge, the next time the issue was
148 debated was in the Company’s 2007 general rate case, Docket No. 07-035-93.

149 **Q: Will you explain what price was set in the Commission’s order in Docket No. 07-**
150 **035-93?**

151 A: According to the Commission’s initial order on revenue requirement, the ordered
152 price was \$58.46 per megawatt hour. However, on reconsideration, the Commission
153 reverted to its previous value of \$37.¹⁷

154 **Q: Did the Commission give any explanation as to why it returned to the \$37 price for**
155 **imputation in the 2007 rate case?**

156 A: Yes, as the Commission explained in its order on reconsideration, it returned to the
157 \$37 price because of the potential incomplete development on record for the

¹⁵ “Report and Order,” Docket No. 01-035-01, p. 25.

¹⁶ “Report and Order,” Docket No. 01-035-01, p. 25.

¹⁷ “Order on Reconsideration,” Docket No. 07-035-93, pp. 3-9.

158 support of the \$58.46 and because of unanswered questions regarding parties'
159 ultimate recommendations.¹⁸

160 **Q: Will you please explain the Division's position on the SMUD contract in Docket No.**
161 **07-035-93?**

162 A: Yes, in rebuttal testimony the Division supported a price of \$54.16 per megawatt
163 hour. However, in surrebuttal testimony, the Division retracted this
164 recommendation and reverted to the Commission's previously ordered \$37 per
165 megawatt hour.¹⁹

166 **Q: Why did the Division retract its initial position?**

167 A: The Division's initial recommendation of \$54.16 was a modification of the
168 recommendation made by the Committee's witness Mr. Phil Hayet. While the
169 Division did not support Mr. Hayet's approach (or methodology) as the best
170 available approach for adjusting the SMUD imputation, the modified price (\$54.16)
171 was similar to a number the Division had derived using levelization techniques, and,
172 as it turned out, was also similar to the price initially ordered by the Commission
173 (\$58.46). However, since the Division did not offer direct testimony in Docket 07-

¹⁸ "Order on Reconsideration," Docket No. 07-035-93, p. 9.

¹⁹ See "Pre-Filed Rebuttal Testimony," James B. Dalton, On Behalf of the Utah Division of Public Utilities, Docket No. 07-035-93, DPU Exhibit 6.0R, May 9, 2008; and "Pre-Filed Surrebuttal Testimony," James B. Dalton, On Behalf of the Division of Public Utilities, Docket No. 07-035-93, DPU Exhibit 6.0SR, May 19, 2009.

174 035-93 on this issue, it did not present this levelization methodology in either
175 rebuttal or surrebuttal testimony as an alternative to Mr. Hayet's recommendation.

176 After the Division filed its rebuttal testimony in Docket No. 07-035-38, the
177 Division discovered a flaw in the way that it applied the levelization method to
178 justify its recommendation: the Division's analysis had only levelized part of the
179 SMUD contract, namely, the up-front payment. As was explained in the Division's
180 response to the Company's request for reconsideration, this resulted in incorrectly
181 adding two values together: a levelized price added to a simple nominal price.²⁰

182 **Q: Would you please elaborate on the Division's decision to retract its initial**
183 **recommendation in Docket No. 07-035-93?**

184 A: The Division used a method similar to that described by the Commission in its
185 revenue requirement order. As the Division explained in its response to the
186 Company's request for reconsideration of the SMUD imputation in the 2007 rate
187 case:

188 [T]he higher imputed price [\$58.46] is derived by adding
189 two separate prices: \$21.46 and \$37 (\$/MWh). The first
190 number, \$21.46, is the SMUD 2008 contract price based on,
191 among other things, PacifiCorp's share of the ongoing fuel
192 and production costs of the Jim Bridger plant. The second
193 price, \$37, is based on the Division's levelization of the \$94
194 million up-front payment received by PacifiCorp at the time

²⁰ "Response of the Division of Public Utilities to the Request for Reconsideration filed by Rocky Mountain Power," Docket No. 07-035-93, September 17, 2008, pp. 1-3.

195 the contract was executed in 1987. Because the first price
196 is a simple 'nominal' price and the second is an 'escalated'
197 price based on a levelization of the up-front payment,
198 adding the two together is, in the Division's opinion, like
199 adding apples and oranges and, thus, inappropriate.²¹

200 Adding these two prices together, prices that are derived in two unrelated manners,
201 was the flaw in the Division's analysis in Docket No. 07-035-93 and was the reason
202 for the Division retracting its initial recommendation in that docket.

203 **Q: Does the Division support the use of levelization to arrive at an appropriate price**
204 **for imputation of the SMUD contract?**

205 A: Yes, in fact, levelization is the basis of the Division's recommendation of \$41.56 in
206 this case.

207 **Q: Will you please explain how you arrived at the Division's recommendation of**
208 **\$41.56 per megawatt hour in this case, Docket No. 08-035-38?**

209 A: Yes. Briefly, I levelized both the up-front payment of \$94 million and the per
210 megawatt hour contract prices from the SMUD contract over the life of the contract.
211 I then added these two levelized values together to arrive at the \$41.56 per
212 megawatt hour price. Details are provided in attachments to this testimony, DPU
213 Exhibit 9.1. In Docket No. 07-035-93, in finding support for its initial
214 recommendation, the Division only levelized the up-front payment. The Division

²¹ "Response of the Division of Public Utilities to the Request for Reconsideration filed by Rocky Mountain Power," Docket No. 07-035-93, September 17, 2008, pp. 2-3.

215 added this levelized value of the up-front payment to the actual nominal price of the
216 SMUD contract for the test year in Docket No. 07-035-93. This addition is like adding
217 apples and oranges since, by construction, the SMUD contract prices would be
218 smaller than the corresponding levelized value in the initial years of the contract and
219 greater than the levelized value in the outer years. The Division's recommendation
220 in this case corrects this error by levelizing both the up-front payment and the
221 SMUD contract prices over the life of the contract.

222 **Q: Will you please explain the levelization process or methodology you used?**

223 A: Yes. Briefly, levelization is simply replacing a nominal (or actual) stream of values
224 with a constant or level value for each of the nominal values such that, the new
225 levelized stream and the original nominal stream have the same present value. In
226 mathematical terms, the present value, say PV, of a future stream of annual nominal
227 values, A_1, A_2, \dots, A_T can be written as

$$PV = \sum_{t=1}^T \frac{A_t}{(1+i)^t} \quad (1)$$

228 where "i" is the discount rate. If we replace the nominal stream $\{A_t\}$ with the level
229 value "A", and solve Equation 1 for the level value we get

$$A = PV \left[\frac{i(1+i)^T}{(1+i)^T - 1} \right] \quad (2)$$

230 where the bracketed term on the right is commonly referred to as the Capital
231 Recovery Factor (“CRF”).²²

232 **Q: From your explanation of levelization, there appears to be two key inputs, the**
233 **discount rate and the number of years over which the calculation is computed. Is**
234 **that correct?**

235 A: Yes. From Equation 2, the two inputs that affect the levelized value are the discount
236 rate, “i”, and the number of years, “T”, which are the same inputs that affect the
237 present value in Equation 1.

238 **Q: How many years are you using in your calculations?**

239 A: The SMUD contract runs from 1987 to 2014, so I am using 28 years.

240 **Q: If the SMUD contract runs to 2014, what contract prices are you using to represent**
241 **the future years of the SMUD contract?**

242 A: In response to DPU Date Request 25.7, the Company provided the annual SMUD
243 contract prices from 1987 through 2008. For the years 2009 through 2014, I
244 escalated the 2008 price using an inflation rate of 3%. For example, the 2009 price,
245 P_{09} , is equal to one plus the inflation rate times the 2008 price: $P_{09} = (1 + 0.03) * P_{08}$.

²² See, for example, Eugene L. Grant, W. Grant Ireson, and Richard S. Leavenworth, *Principles of Engineering Economy*, 6th ed. [The Ronald Press Company: New York, New York], 1976.

246 The price in 2010 is equal to the 2009 price times one plus the inflation rate, etc.

247 The SMUD contract prices are detailed in DPU Exhibit 9.1

248 **Q: Why use a three percent inflation rate?**

249 A: Three percent is often used as an approximate long-run inflation rate in the
250 economy. The average actual annual inflation rate according to the Consumer Price
251 Index from January 1990 to December 2008 was approximately 2.8 percent. Using
252 the actual inflation would have little or no impact on the levelized values.

253 **Q: What discount rate are you using?**

254 A: I am using 10.2 percent as a discount rate. This rate is the weighted cost of capital
255 approved by the Commission in the Company's 1989 general rate case, shortly after
256 the merger between Utah Power & Light Company and PacifiCorp.²³ Thus, the rate
257 is contemporaneous with the execution of the SMUD contract.

258 Additionally, the weighted cost of capital approximates the Company's
259 financial mix when building or financing its operations and, thus, is a reasonable
260 discount rate to value the SMUD contract. Additionally, the 10.2 percent is
261 contemporaneous with the execution of the SMUD contract.

262 **Q: Will you please explain how you use the inputs to arrive at the Division's**
263 **recommended price of \$41.56?**

²³ "Pre-Merger (1988 Test Year) General Rate Case," Report and Final Order, February 9, 1990, p. 18.

264 A: Yes. For simplicity, start with the \$94 million up-front payment.²⁴ Substituting our
265 input values, T = 28 and i = 0.102 into Equation 2 yields, \$10,264,476 as the levelized
266 value for the up-front payment:

$$\$10,264,476 = \$94,000,000 \left[\frac{0.102(1 + 0.102)^{28}}{(1 + 0.102)^{28} - 1} \right] \quad (3)$$

267 If we divide the level value of \$10.2 million by the contracted delivery amount of
268 350,400 annual megawatt hours, we get the levelized per megawatt hour value for
269 the up-front payment of \$29.29. Using a similar approach applied to the SMUD
270 contract prices over the life of the contract yields a levelized per megawatt hour
271 value of \$12.27. Adding these two levelized values together yields a total levelized
272 per megawatt hour value of \$41.56 (= \$29.29 + \$12.27). For convenience, these
273 calculations are summarized in Table 1. (For more details, see DPU Exhibit 9.1)²⁵

274 **Table 1: Levelized SMUD Values**

Discount Rate	SMUD Contract Prices	Up-Front Payment	Total
10.2%	\$12.27	\$29.29	\$41.56

275

²⁴ At the time the contract was signed, presumably 1987, the present value of the up-front payment over the life of the SMUD contract was simply the up-front payment, \$94,000,000.

²⁵ Slight differences between the values presented here, in Table 1, and DPU Exhibit 9.1 are due to rounding.

276 The Division’s recommendation (\$41.56), is similar to the \$42 identified by
277 Company witness Mr. Greg N. Duvall. On page 12 of his testimony, Mr. Duvall
278 states, “If the Commission decides to change its approach to SMUD contract pricing,
279 however, the Company recommends the price be set no higher than \$42/MWh for
280 the remaining life of the contract.” Mr. Duvall goes on to explain that his
281 recommendation of a maximum price of \$42 per megawatt hour is “supported by
282 combining a revenue imputation for the \$94 million using nominal levelization with
283 the sales revenue.”²⁶ The reference here to nominal levelization by Mr. Duvall, is
284 the same levelization method I previously described herein.

285 In his calculations, it appears that Mr. Duvall uses a discount rate of nine
286 percent.²⁷ While nine percent may be in a reasonable range of what the weighted
287 cost of capital may have been at the time the SMUD contract was executed, I have
288 some other concerns with Mr. Duvall’s application of the levelization methodology.

289 **Q: Mr. Duvall’s price of \$42 and your price of \$41.56 using the higher discount rate**
290 **are very similar. What concerns do you have with Mr. Duvall’s method?**

291 **A:** It appears that Mr. Duvall simply added the levelized value of the up-front payment
292 to the SMUD prices in a manner similar to the way the Division had in Docket No. 07-
293 035-93. As previously explained, this approach is like adding apples and oranges.

²⁶ “Second Supplemental Testimony of Gregory N. Duvall,” Docket No. 08-035-38, December 10, 2008, lines 263-268, p. 12.

²⁷ Company response to CCS data request 18.29.

294 Furthermore, the \$42 price called out by Mr. Duvall, is the price for 2009 and would
295 change in the future as the SMUD contract price changes. Thus, while Mr. Duvall's
296 \$42 price and the Division's price of \$41.56 derived herein are similar, the Division
297 recommends for consistency the adoption of levelizing both the up-front payment
298 and the SMUD price stream going forward.

299 **Q: What would the total levelized value be if you were to use a nine percent discount**
300 **rate in your method?**

301 A: The total levelized value would be approximately \$39.23 per megawatt hour. I
302 believe the difference between this number and Mr. Duvall's number has to do with
303 the apples and oranges problem previously explained. I have levelized both the up-
304 front payment and the SMUD price stream; I believe Mr. Duvall only levelizes the up-
305 front payment.

306 Furthermore, at the time the SMUD contract was executed, the Company
307 may have anticipated that its weighted cost of capital would vary over the life of the
308 SMUD contract. For example, if I used an eleven percent discount rate, the total
309 levelized value would be approximately \$43.17 per megawatt hour. Thus, a
310 reasonable range of values for the SMUD imputation may be between \$39 and \$43
311 per megawatt hour. The Division's recommendation is \$41.56.

312 **Q: Are there other levelization methods that could be considered to arrive at a**
313 **levelized price for the SMUD imputation?**

314 A: Yes, I am familiar with one other application or methodology of levelization. The
315 levelized method I previously described can be thought of as an annuity method
316 because the levelized value is constant for all periods. Mr. Duvall refers to this
317 method as nominal levelization. An alternative method escalates the levelized value
318 period-over-period by a specified inflation rate. This alternative method is
319 sometimes referred to as “real” levelization. While this term or phrase “real”
320 levelization is used in the literature,²⁸ the term is misleading, as an explanation of
321 the method will demonstrate.

322 To begin, a real interest rate, r , must be determined from the equation:²⁹

$$r = \frac{i - \pi}{1 + \pi} \quad (4)$$

323 where π is the inflation rate. This real interest rate is used to determine the present
324 value and the annuity or levelized value of the nominal stream as described in
325 Equations 1 and 2. Finally, inflation is factored back into the levelized value by
326 escalating each periodic value by the rate of inflation. As an example, I will apply
327 this method to the levelization and escalation of the up-front payment.

²⁸ See, for example, “Bid Evaluation Methods in Competitive Solicitations: A White Paper on Techniques Used to Evaluate Power Supply Proposals with Unequal Lives,” Boston Pacific Company, Inc.

²⁹ See, Irving Fisher, *The Theory of Interest*, [The Macmillan Company: New, York, New York], 1930. Fisher originally postulated the relationship between nominal and real interest rates as $(1 + i) = (1 + r)(1 + \pi)$. Solving this relationship for the real interest rate, r , yields the formula of Equation 4.

328 Assuming that the inflation rate is three percent (0.03), the real interest rate
329 is

$$r = \frac{i - \pi}{1 + \pi} = \frac{0.102 - 0.03}{1 + 0.03} = 6.99\% \quad (5)$$

330 If this real interest rate is substituted into Equations 1 & 2, we get a “real” levelized
331 value (“LV”) for the up-front payment of \$7,737,584. The final step is to escalate
332 this real levelized value year-over-year by the inflation rate. The first year’s
333 escalated levelized value, “LV₁”, will be equal to

$$LV_1 = LV(1 + \pi) = \$7,737,584(1 + 0.03) = \$7,969,712 \quad (6)$$

334 Years two’s value will be $LV_2 = LV_1(1 + \pi) = \$8,208,803$; year three’s value will be
335 $LV_3 = LV_2(1 + \pi) = \$8,455,067$, etc. The same process applied to the SMUD contract
336 prices would yield a similar escalated levelized stream, which when combined with
337 the escalated stream for the up-front payment would yield an escalated implied
338 price or total value for the SMUD contract. For example, for the first year of the
339 contract (1987) the implied total value is equal to \$36.64 per megawatt hour; for
340 **2001** the implied value is \$55.42; and for **2009** the value is \$70.21. For

341 convenience, I have summarized for these three years the escalated levelized values
342 in Table 2. (See DPU Exhibit 2 for more details)³⁰

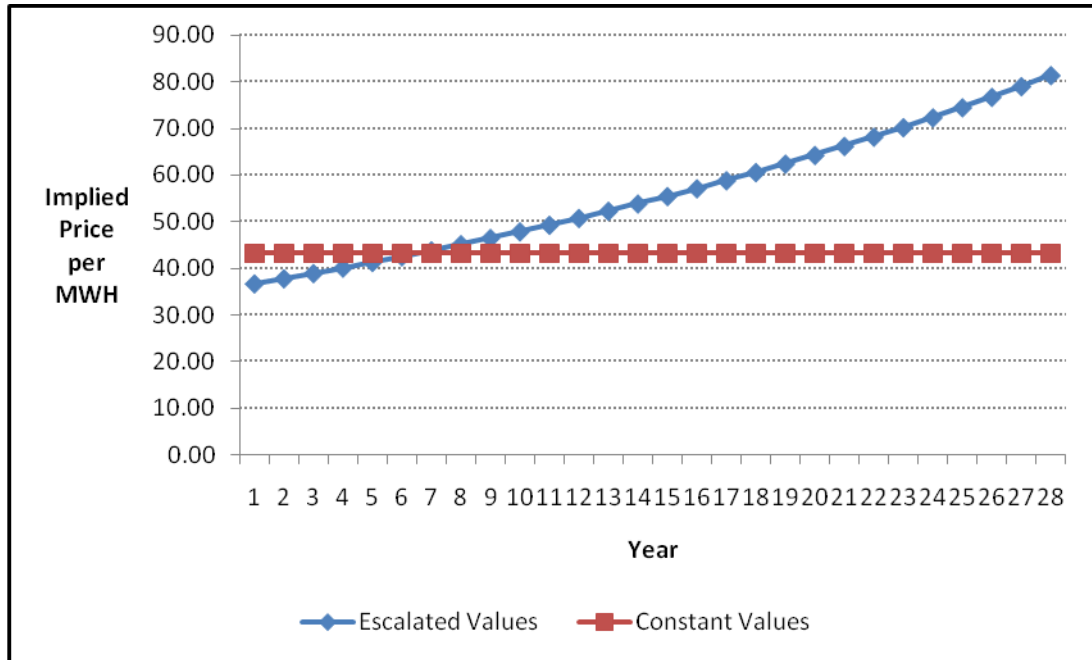
343 **Table 2: Escalated Levelized Values (10.2% Discount Rate; 3% Inflation Rate)**

Year	SMUD	Up-Front Payment		Total per MWh
	Price	Level Value	Per MWh Value	
1987	13.90	7,969,712	22.74	36.64
2001	21.02	12,054,904	55.42	55.42
2009	26.63	15,270,792	43.58	70.21

344 What is obvious, as the methods imply, is that relative to the annuity method
345 (which yields a constant value), the escalated values are smaller in the initial years
346 and larger in the outer years of the contract. This is illustrated in Figure 1.

³⁰ Slight differences between the values in Table 2 and DPU Exhibit 9.2 are due to rounding.

347 **Figure 1: Comparison of Levelization Methods**



348

349 **Q: You stated that under the annuity levelization the total price would be \$41.56 per**
350 **megawatt hour. What would be the total price if the Commission were to adopt**
351 **escalated levelization method?**

352 **A:** For the test year, calendar year 2009, the total price would be \$70.21 per megawatt
353 hour. This is illustrated in DPU Exhibit 9.2. (Also, see Table 2)

354 **Q. Do you believe there is a justification for the Commission to adopt the escalated**
355 **levelization method in this proceeding?**

356 **A:** No. Although this method is a valid method for comparing projects with different
357 length lives,³¹ I believe it would be fundamentally unfair to the Company to adopt

³¹ Boston White Paper.

358 this method at this particular time. While the two methods are algebraically
359 equivalent,³² the escalated method produces prices that are lower in the initial
360 years and higher in the outer years. If the escalated method had been adopted at
361 the outset of the contract as a basis for imputation, then I would agree that the use
362 of this method could be justified. However, to choose the method in midstream,
363 when we are on the high end of the escalated price stream appears to be unduly
364 punitive to the Company. The fair and reasonable approach, if levelization is
365 adopted, would appear to be the annuity method.

366 **Q: Do you have any other comments on the Division's levelization methodology or**
367 **SMUD recommendation?**

368 A: Yes. The Division believes that the annuity levelization methodology is consistent
369 with past Commission orders and is a reasonable method for arriving at revenue
370 imputation of the SMUD contract. First, the Division notes that the information
371 used to arrive at the \$41.56 value, namely the discount rate, SMUD contract prices,
372 and the up-front payment, were, or could have reasonably been, known at the time
373 the contract was signed and, thus, satisfies the Commission's concern that the
374 information be contemporaneous with the execution of the SMUD contract.

³² The two methods are equivalent in the sense that the present value over the entire length of the contract, 28 years, of the two methods will be the same allowing for the difference in discount rates. For example, the present value of the up-front payment in 1987 is \$94,000,000 regardless of which method is used. Compare DPU Exhibits 9.1 and 9.2.

375 Second, the method or technique is a common³³ way of valuing financial assets,
376 projects, or investment opportunities and is thus a reasonable methodology for the
377 proposed purpose discussed herein. Finally, if the Commission adopts the Division's
378 method of levelizing both the up-front payment and the SMUD contract prices, the
379 total price may be updated from time to time as circumstances warrant. For
380 example, if the SMUD prices in the years from 2009 to 2014 are significantly
381 different than estimated herein, the actual prices can be used to recalculate the
382 total levelized value.

383 **Q: Will you please restate the Division's recommendation for imputation of the**
384 **SMUD contract in this case?**

385 A: Yes. Based on the forgoing reasoning and calculations, the Division recommends
386 that the Commission adopt the annuity levelization method described herein, which
387 yields a total levelized value of approximately \$41.56 per megawatt hour. Applying
388 the \$41.56 value to the SMUD contract yields a \$1,597,824 system wide adjustment
389 to the Company's filed net power costs; or, using the System Generation (Revised
390 Protocol) or SG factor, approximately \$644,370 on a Utah allocated basis.

391 **ETO Contribution Adjustment**

392 **Q: Let's move on to the Energy Trust of Oregon (ETO) adjustment. What is the**
393 **Division's recommendation with regard to the Company's request that the Utah**

³³ See, Boston White Paper, or Grant et. al.

394 **Commission allow in rates an amount to offset the Energy Trust of Oregon's**
395 **contribution to the above market cost of the Goodnoe Hills wind plant?**

396 A: The Division recommends that the Commission reject the Company's proposed
397 adjustment, or contribution, to offset the ETO contribution to the Goodnoe Hills
398 wind project. This has the effect of reducing the Company's revenue requirement in
399 this case by approximately \$1.1 million on a Utah allocated basis. In making this
400 recommendation to the Commission, the Division is not recommending that the
401 Commission decide whether offsetting the ETO contribution is or is not in the public
402 interest. Rather, the Division is recommending that the Commission decline to make
403 a decision based on the insufficient evidence put forth by the Company in this case.
404 Furthermore, for reasons discussed herein, the Division also recommends that the
405 Commission open a separate docket to allow for a thorough investigation into the
406 implications of the ETO contribution, and allow parties an opportunity to make
407 recommendations that could be implemented in a subsequent rate case or other
408 appropriate proceeding.

409 The evidence in this case, Docket No. 08-035-38, proffered by the Company
410 consists of a couple of short explanations by Company witness Mr. McDougal. For
411 instance, in his testimony filed in July 2008, Mr. McDougal states,

412 This adjustment [Incremental Generation O&M
413 adjustment 4.13] includes the impact of funding provided by
414 the Energy Trust of Oregon ("ETO") associated with the

415 Goodnoe Hills wind plant in exchange for additional
416 renewable energy credits allocated to Oregon customers
417 after the first five years of operation. The amount of funding
418 included in the current case is \$2,473,254 on a total
419 Company basis. If Utah elects to displace the ETO funding, as
420 described by Mr. Tallman in Docket No. 07-035-93, then this
421 amount will need to be **added** to the test period revenue
422 requirement.³⁴

423 Again, in Mr. McDougal's testimony filed in December, he states,

424 The Incremental Generation O&M adjustment assumes
425 Utah displaces funding provided by the Energy Trust of
426 Oregon ("ETO") associated with the Goodnoe Hills wind
427 plant in exchange for additional renewable energy credits
428 allocated to Oregon customers after the first five years of
429 operation. If Utah elects to displace the ETO funding, as
430 described by Mr. Mark R. Tallman in Docket No. 07-035-93,
431 then approximately \$1.1 million on a Utah allocated basis
432 must be **deducted** from the Test Period revenue
433 requirement.³⁵

434 While Mr. Tallman's testimony in the 2007 rate case is considerably longer,
435 consisting of approximately a dozen questions and answers contained in lines 405 to
436 489 on pages 19 through 22 of his rebuttal testimony,³⁶ the Commission declined
437 the Company's proposed adjustment because (as the Commission explained) the
438 Company failed to provide sufficient evidence to support the adjustment:

³⁴ Direct Testimony of Steven R. McDougal, Docket No. 08-035-38, July 2008, lines 593-599, p. 26. (Emphasis added).

³⁵ Second Supplemental Direct Testimony of Steven R. McDougal, Docket Number 08-035-38, December 2008, lines 262-269, pp. 12-13. (Emphasis added).

³⁶ "Rebuttal Testimony of Mark R. Tallman, Wind Issues," Docket No. 07-035-93, May 2008.

439 We do not have sufficient information on the record to
440 make this [adjustment] at this time. First of all, it is our
441 understanding the Revised Protocol cost allocation
442 agreement addresses State Portfolio Standards. The record
443 is not clear how the Company's proposal fits with the multi-
444 state agreement on REC revenue allocation. ... We are
445 interested in knowing whether there are alternatives to
446 addressing the Energy Trust of Oregon's funding, whether it
447 is a prepayment for the sale of future RECs, whether it
448 addresses above market costs, and if so, whether this fact
449 needs to be considered.

450 Second, ... the Company provides no evidence
451 demonstrating, through cost-benefit analysis, this proposal is
452 in the public interest. ...

453 Finally, because the issue addresses the disposition of
454 REC revenue five years hence, we conclude we may await
455 further evidence on the costs and benefits of this
456 expenditure to Utah ratepayers prior to rendering a
457 decision.³⁷

458 Since the Company has provided no new evidence to support its adjustment in
459 this case, there is no justification or basis for the Commission to determine whether
460 or not contributing to or offsetting the ETO's contribution is in the public interest of
461 Utah.

462 **Q: How much is the ETO contribution to Goodnoe Hills?**

463 **A: According to the Company's response to an Oregon staff data request, the ETO**
464 contribution is for an amount up to \$4.5 million.³⁸ This is also confirmed by

³⁷ Order on Reconsideration, Docket Number 07-035-93, October 13, 2008, pp. 17-18.

³⁸ Company's response to OPUC Data Request 6, Docket No. UE-200, April 17, 2008.

465 statements of the ETO Board and would be paid out over the first six months of
466 commercial operation of the plant.³⁹

467 **Q: Relative to the 2007 rate case, Docket No. 07-035-93, has the Company changed**
468 **the way it accounts for the ETO adjustment in this case, Docket No. 08-035-38?**

469 A: Yes, the Company has changed how it accounts for the ETO adjustment. In Docket
470 No. 07-035-93, the Company assumed that Utah would **not** contribute to offset the
471 ETO contribution and, therefore, the Company subtracted Utah's allocated share of
472 the contribution out of O&M expense in the Company's adjustment 4.13. For
473 convenience, I have included a page from the Company's adjustment 4.13 as an
474 attachment to this testimony, DPU Exhibit 9.3. As can be seen in this exhibit, the
475 Company's adjustment was a reduction of approximately \$2.5 million. In its July
476 2008 filing in this case, Docket No. 08-035-38, the Company treated the ETO
477 adjustment in a similar manner. However, in its December filing in this docket, the
478 Company reversed how this adjustment is accounted for. In the December filing, the
479 Company assumes that Utah **will** contribute to offset the ETO contribution and thus
480 increases Utah's allocated O&M expense by approximately \$1.1 million. The system
481 adjustment to O&M expense is approximately \$2.6 million, which can be seen in the
482 Company's adjustment 4.23, which I have attached to this testimony as DPU Exhibit
483 9.4.

³⁹ "Board Decision Authorizing Funds for PacifiCorp's Goonoe Hills Wind Projects," Energy Trust of Oregon, Inc., August 23, 2006.

484 In other words, at this time, if the Commission declines the Company's
485 proposal to have Utah contribute to offset the ETO contribution, the Company's
486 revenue requirement in this case needs to be decreased by \$1.1 million. The
487 Division recommends that this adjustment, decreasing the Company's revenue
488 requirement, be made on similar grounds found by the Commission in Docket No.
489 07-035-93, a lack of sufficient evidence to support the Company's proposal.

490 **Q: Do you have any comments on why the Company changed the way in which the**
491 **adjustment is presented?**

492 A: I believe the Company is simply trying to emphasize that it wishes the Commission
493 would make a decision as to whether it will allow in Utah rates an amount that
494 offsets the ETO contribution to the above market costs of Goodnoe Hills. However,
495 as previously illustrated, the Company has not provided enough information in this
496 case for the Commission to make that decision. Instead, for this reason and other
497 reasons discussed herein, the Division recommends that the Commission decline the
498 Company's adjustment, which reduces the Company's revenue requirement in this
499 case by \$1.1 million on a Utah allocated basis, and open a separate docket to
500 investigate whether making a contribution to offset the ETO contribution is in the
501 public interest of Utah.

502 **Q: You indicated that the Company increased O&M expense in this case by**
503 **approximately \$2.6 million and allocated approximately \$1.1 million to Utah as an**

504 **offset to the ETO contribution. Can you explain how the Company arrives at these**
505 **numbers?**

506 A: The Utah allocation is simply the SG factor times the system allocation of \$2.6
507 million: allowing for rounding, \$1.1 million is approximately 40.328% of \$2.6 million.
508 However, I do not understand the basis for the system amount of \$2.7 million.
509 Applying the SG factor to the ETO contribution of \$4.5 million yields \$1.8 million. So,
510 even if you accept that the Goodnoe Hills project is online for the entire test period,
511 there appears to be a discrepancy between the two numbers: the \$2.6 million the
512 Company has included in the case and the \$1.8 million from applying the SG factor
513 that the Company uses to allocate the costs to Utah. This is one of the unanswered
514 questions surrounding the ETO contribution and is one reason why the Division is
515 recommending that this issue be taken up in a separate docket.

516 This apparent discrepancy may be partially due to the manner in which the
517 Company accounts for the offset. As I previously explained, the Company, in its
518 December filing in this case, increases O&M expense by \$2.6 million as an offset to
519 the ETO contribution. Given the ETO's stated purposes, I believe the entire ETO
520 contribution should be booked as an offset to rate base. The ETO has stated that its
521 intent to contributing to the above market costs is to purchase renewable energy

522 credits (RECs) for the benefit of Oregon customers.⁴⁰ If the Commission decides to
523 allow some offset in rates, it should decide how the ETO contribution will be
524 accounted for. This is another reason for opening a separate docket to explore fully
525 the potential options.

526 **Q: Is there any evidence that the ETO contribution was intended to offset rate base?**

527 A: Yes. Attached to minutes of the ETO Board is a letter addressed to the Oregon
528 Public Service Commission. In part the letter states,

529 Commission staff and PacifiCorp, in consultation with
530 the Energy Trust, have suggested the following: ...

531 3. Oregon Allocation of Capital Costs – In consideration
532 of the ETO funding, PacifiCorp will not seek or support
533 including in Oregon retail rates any portion of the Above
534 Market Costs associated with ETO grants.⁴¹

535 **Q: Is the Division recommending that, if Utah decides to offset the ETO contribution,**
536 **the offset should be against the Company's rate base?**

537 A: No. As explained previously, the Division is recommending that the Commission
538 open a separate docket to investigate these issues.

539 However, if the Commission does decide in this case to allow a Utah offset to
540 the ETO contribution, then I would recommend that the adjustment be made

⁴⁰ "Board Decision Authorizing Funds for PacifiCorp's Goodnoe Hills Wind Projects," Energy Trust of Oregon, August 23, 2006, p. 2.

⁴¹ "Board Meeting Minutes – 67th Meeting," Energy Trust of Oregon, Inc., August 23, 2006, p. 10. Emphasis added.

541 through a reduction to the Company's rate base. While I have not completed any
542 analysis determining the impact of such an approach, I would suggest that the
543 Company's rate base be reduced by the entire ETO contribution of \$4.5 million
544 netted against Utah's allocated share.

545 **Q: Will you elaborate on the purpose of the ETO contribution?**

546 A: In resolution #401, the ETO Board states, "In April 2006, Energy Trust and PacifiCorp
547 entered into a Master Agreement reserving funds to offset the above-market costs
548 of new renewable energy projects that benefit PacifiCorp's Oregon Customers."⁴² In
549 exchange for the ETO contribution, the resolution indicates that PacifiCorp will
550 "work in good faith to develop and support, for its Oregon related filings, ratemaking
551 mechanisms or assignments, such as green tags and other environmental attributes,
552 which appropriately benefit Oregon ratepayers commensurate with Energy Trust's
553 contribution to the above-market costs."⁴³ In other words, in exchange for the ETO
554 contribution, the ETO is expecting that the Company will allocate to Oregon green
555 tags or RECs with what the ETO has determined is commensurate with its
556 contribution.

⁴² "Board Decision," April 23, 2006, p. 3. Note Rocky Mountain Power is the Utah dba of PacifiCorp.

⁴³ "Board Decision," April 23, 2006, p. 3.

557 **Q: Was the Utah Commission or its staff, or other parties in Utah invited to**
558 **participate or comment on the ETO determination of what portion of the RECs**
559 **from Goodnoe Hills it believes Oregon is entitled?**

560 A: No.

561 **Q: Do you believe that these agreements between the ETO and the Company are**
562 **potentially inconsistent with the current interstate allocation agreement known as**
563 **the Revised Protocol?**

564 A: Yes.

565 **Q: Would you please elaborate?**

566 A: Again, in the letter attached to ETO Board minutes, the ETO states,

567 6. MSP Standing Committee Actions – PacifiCorp, the
568 ETO and Oregon Commission Staff support the MSP standing
569 Committee’s ongoing workgroup on inter-jurisdictional
570 allocation issues related to above-market costs of renewable
571 and emerging renewable portfolio standards. Parties
572 recognize that future agreements between the ETO and
573 PacifiCorp will be informed by the multi-state workgroups
574 effort. As part of the work-group efforts, PacifiCorp, with
575 the Oregon Commission staff, **will support** the principles and
576 concepts outlined above in the development of a long-term
577 mechanism that balances costs, risks and benefits among the
578 states, including recognition of the benefits associated with
579 renewable projects and to the other states of the up-front
580 funding of the above market costs provided by the ETO for
581 these projects.⁴⁴

582 One of those principles is contained in item four of the same letter:

⁴⁴ “Board Meeting Minutes,” August 23, 2006, p. 11.

583 4. Non-Energy Attributes ... After year five, 54.9% of the
584 Non-Energy Attributes associated with the Projects would be
585 retired on behalf of Oregon customers, or, if PacifiCorp sells
586 Oregon's share of Non-Energy Attributes, Oregon customers
587 would receive 54.9% of the revenues of Non-Energy
588 Attributes from the Projects, unless and until one or more
589 other states elect to fund a portion of the above-market
590 costs (as defined by the ETO above-market methodology).⁴⁵

591 Again, ignoring the circularity of the definition of what is being allocated to
592 Oregon and the practical problems it implies, no Utah party to my knowledge was
593 invited to participate in developing the ETO's methodology of determining the above
594 market costs. Certainly, neither the Utah Commission nor the MSP Standing
595 Committee have approved or agreed upon this methodology. In fact, the allocation
596 of RECs is an ongoing topic of debate among participants in the MSP workgroup on
597 Resource Choice. Furthermore, the practical effect of the Company's proposal to
598 offset the ETO contribution (and the consequences if Utah decides not to) appears
599 to be a partial allocation of a resource, or at least the non-energy attributes of that
600 resource, as opposed to the allocation of the costs. Utah parties have consistently
601 taken the position in MSP discussions that the Company's resources constitute an
602 integrated system and should be treated that way for allocation purposes: it's the
603 costs of those resources that are allocated among the states, not the resources
604 themselves.

⁴⁵ "Board Meeting Minutes," August 23, 2006, p. 10.

605 These agreements with the ETO may pre-determine what positions the
606 Company can take going forward in MSP workgroup and allocation discussions.
607 However, under the Revised Protocol the Company is already obligated to support
608 the inter-jurisdictional allocation agreed upon by the several states (other than
609 Washington). This is another reason why the Division is recommending that the
610 Commission open a separate docket to investigate the effects that the ETO
611 agreement.

612 **Goodnoe Hills Above Market Cost Adjustment**

613 **Q: You have mentioned several times that the ETO contribution was toward the**
614 **Above-Market Costs (“AMC”) of the Goodnoe Hills plant. Is that correct?**

615 A: Yes. It is my understanding that the ETO contribution was explicitly made as a
616 contribution to offset what the ETO determined to be the AMC of the project.⁴⁶

617 **Q: What is the AMC of the Goodnoe Hills project?**

618 A: According to ETO Board minutes, the ETO contribution is “somewhere between 30-
619 45% of the total project costs.”⁴⁷ For purposes of calculation, I assume this to mean
620 that the ETO contribution is approximately 37.5% of the total AMC of the project.
621 Given this assumption, the total AMC would be approximately \$12,000,000 (=
622 4,500,00/0.375). If the Commission takes this issue up in a separate docket, as the

⁴⁶ See for example, “Board Decision, August 23, 2006, p. 1.

⁴⁷ “Board Meeting Minutes,” August 23, 2006, p. 7.

623 Division suggests, the Commission's determination of the AMC will likely be different
624 from this.

625 **Q: How much of the total AMC has the Company included in this case, Docket No. 08-**
626 **035-38?**

627 A: My understanding is that the Company has included the entire amount in the case.
628 Applying the SG factor to the \$12 million implies that approximately \$5 million of the
629 AMC has been allocated to Utah in this case.

630 **Q: Should Utah ratepayers pay any of the AMC for the Goodnoe Hills plant?**

631 A: My initial reaction is no, Utah ratepayers should not pay any of the AMC. Certainly,
632 this would be my response if the Goodnoe Hills plant had been explicitly acquired to
633 satisfy another state's renewable portfolio standard or some other regulatory
634 obligation. Under the Revised Protocol, AMC of plants acquired to satisfy state
635 specific regulatory mandates are situs allocated.

636 However, it appears that the Goodnoe Hills plant, among other wind plants,
637 may have been acquired to satisfy the direction of the Company's IRP analysis or the
638 general MidAmerica acquisition commitment to increase renewable resources on
639 the Company's system. In response to a data request from Oregon staff, the
640 Company states, "Each renewable resource included in the filing was pursued with
641 the intent of meeting the 1400 MW acquisition target defined in the Company's

642 preferred portfolio beginning in the 2003 Integrated Resource Plan.”⁴⁸ This is one
643 more reason to open a separate docket and investigate the issues surrounding the
644 ETO contribution.

645 **Q: Will you please explain the Division’s recommendation regarding the AMC of the**
646 **Goodnoe Hills wind plant?**

647 A: The Division’s recommendation is contingent upon the Commission adopting the
648 Division’s recommendation to open a separate docket to investigate the effects of
649 the ETO contribution. If the Commission does not open a separate docket, then the
650 Division recommends that the entire AMC of the Goodnoe Hills plant be disallowed
651 by reducing the Company’s rate base in this case. Disallowing the entire amount
652 would reduce the Company’s revenue requirement by about \$871,085 on a Utah
653 allocated basis. The Division acknowledges that disallowing all of these costs may
654 have implications for the allocations of REC revenue in the future. For example, if
655 the Commission disallows the AMC, then under the Revised Protocol this may mean
656 fewer RECs are allocated to Utah in the future. If the Commission decides to open a
657 separate docket, as the Division recommends, then there are a couple of options
658 that the Commission may consider.

659 First, the Commission could allow the entire amount of AMC into rate base
660 and credit to customers the revenue impact (approximately \$871,085) of the AMC

⁴⁸ Company response to OPUC Data Request 1, Docket No. UE-200, April 17, 2008.

661 until the Commission determines whether it wishes to allow an offset to the ETO
662 contribution in rates. If the Commission determines to allow the offset, then the
663 credit could be discontinued. If the Commission decides not to allow the offset,
664 then the credit could continue until such time as the Company's rate base could be
665 adjusted and Utah rates could be set accordingly in a future rate case.

666 Second, the Commission could order the Company to decrease its rate base
667 in this case by the AMC and allow the Company to defer the revenue impact of the
668 amount until the Commission decides whether or not to allow the offset in rates. If
669 the Commission decides to allow the offset, then the Company would be allowed to
670 amortize the deferral over some period. If the Commission decides not to allow the
671 offset in rates, then the Company would need to write off the deferral.

672 Of these two options, the Division is recommending that the Commission
673 adopt the second option and allow the Company to defer the revenue requirement
674 impact associated with the AMC of the Goodnoe Hills plant. Using a rough rule of
675 thumb that the annual revenue requirement impact is approximately 18% of rate
676 base and using the SG factor,⁴⁹ the Company would be allowed to defer on an
677 annual basis approximately \$871,085 (= \$12,000,000*0.18*0.40328). This
678 adjustment is included with other Division rate base adjustments detailed in Mr.

⁴⁹ Eighteen percent is an approximation taking into account the depreciation and deferred tax effects of an incremental adjustment to rate base. This figure of \$871,085 would need to be adjusted by the Company's tax department and supplied at a later date.

679 Matt Croft's testimony, and summarized in Dr. Thomas Brill's testimony; see, DPU
680 Exhibits 3.12, 3.13, 3.14, and 7.2.

681 **Q: Of these two alternatives, why is the Division recommending the latter?**

682 A: There are a couple of reasons why the Division favors the deferral option. First, the
683 deferral option balances the interests of ratepayers and the Company's
684 shareholders. Under the ETO agreement with the Company, the RECs or the
685 revenue from selling the RECs are allocated according to the Revised Protocol for the
686 first five years of the plants operation. After the first five years, the ETO agreement
687 contemplates allocating additional RECs to Oregon. If the Commission were to
688 adopt the credit method described herein and then decided not to allow an offset in
689 rates to the ETO contribution, then it could be argued that Utah ratepayers were
690 receiving benefits for which they did not pay. Furthermore, the Company would be
691 out the costs associated with the plant that over the intervening time should have
692 been allocated to Utah.

693 The second reason also has to do with this aspect of the ETO agreement: the
694 additional allocation of RECs does not begin until after the first five years of the
695 plant's operation. As the Commission stated in its order on reconsideration in
696 Docket No. 07-035-93, "because the issue addresses the disposition of REC revenue
697 five years hence, we conclude we may await further evidence on the costs and

698 benefits of this expenditure to Utah ratepayers prior to rendering a decision.”⁵⁰ This
699 conclusion still seems valid. Since the issue is dealing with RECs five years hence, the
700 Commission has time to open a separate docket to investigate the issue of the ETO
701 contribution and its effect on Utah ratepayers and how to best proceed. In the
702 mean time, the Commission can allow the Company to defer the appropriate
703 amount and hold both the Company and ratepayers harmless.

704 **Q: Does this conclude your testimony?**

705 **A:** Yes, it does.

⁵⁰ “Order on Reconsideration,” Docket No. 07-035-93, p. 18.