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	)))))))))	**Docket No. 08-035-38** **DPU Exhibit No. 3.0**

Pre-Filed Direct Testimony of

Thomas C. Brill, Ph.D.

DIVISION POSITION AND RECOMMENDATIONS

For the Division of Public Utilities

Department of Commerce

State of Utah

February 12, 2009

Direct Testimony of Thomas C. Brill, Ph.D.

I. INTRODUCTION

Q. Please state your name and occupation.

A. My name is Dr. Thomas C. Brill. I am employed by the Division of Public Utilities of the Utah Department of Commerce as a Technical Consultant.

Q. What is your business address?

A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84114.

Q. On whose behalf are you testifying?

A. The Division of Public Utilities (Division or DPU).

Q. Do you have any exhibits that you are filing that accompany your testimony?

A. Yes. My resume is attached as DPU Exhibit 3.1. DPU Exhibit 3.2 summarizes the Division's adjustments. DPU Exhibits 3.3 through 3.10 present information on auditing adjustments. DPU Exhibits 3.11 through 3.16 provide the JAM and its various templates.

Q. Please outline the projects you have worked on since coming to the Division.

A. I joined the Division in June 2005. I managed the Division's team that investigated PacifiCorp's (Company or PacifiCorp's dba Rocky Mountain Power) general rate case applications in 2006 and 2007 (Docket Nos. 06-035-21 and 07-035-93). Since 2007, I have coordinated the Division's participation in the Company's Requests for Proposals (RFP) in Docket Nos. 05-035-47, 07-035-94, and 08-035-95. I am managing the rate case team for the Division in this docket.

Q. Have you previously testified before the Commission?

A. Yes. I provided the Policy Recommendations Testimony in Docket No. 07-035-93 on April 7, 2008 in the Company's 2007 general rate case. I also provided the Stipulation Settlement Testimony in Docket No. 06-035-21 on August 17, 2006 in the Company's 2006 general rate case.

Q. What is the purpose of your testimony that you are now filing?

A. My testimony introduces the Division's witnesses who testify in this phase of the docket, as well as those who testified in the two earlier phases of the docket, along with a brief explanation of the adjustments recommended by each witness. I will present the Division's overall revenue requirement recommendation, as well as the Division's Global Insights O&M indices adjustment. In addition, I present the Division's recommendations regarding specific policy considerations.

Q. What is the Division's recommendation for revenue requirement?

A. The Division recommendation for revenue requirement is $52.5 million on a Utah allocated basis. Beginning with the Company's second supplemental filing of $116.1 million on December 8, 2008, the Division's first adjustment adopts a Company correction to its filed deferred income tax calculation, which reduces the Company's revenue requirement by $17.7 million on a Utah allocated basis. The Division then made a total of $45.9 million in adjustments to arrive at a revenue requirement recommendation of $52.5million. The Division adjustments were a $17.2 return on equity (ROE) adjustment, a total of $5.4 million in net power cost adjustments, and a total of $40.5

million in various auditing adjustments. Exhibit 3.2 summarizes each of the Division adjustments. These adjustments are discussed in detail in testimony provided by separate Division witnesses.

II. BACKGROUND AND OVERVIEW

Q. Will you briefly review the background and factual framework surrounding this docket?

A. Yes. On July 17, 2008, Rocky Mountain Power filed an application with the Utah Public Service Commission (Commission) for an increase to its retail rates in Utah of approximately $160.6 million, although this request was without reference to revenue increases from the Company's 2007 rate case. The Company's request was based on an historical base period of calendar year 2007, with a forecasted test year ending June 30, 2009. The Commission issued its Report and Order on Revenue Requirement in the Company's 2007 rate case, Docket No. 07-035-93, on August 11, 2008. The Company filed an update or first supplemental filing to its July 17, 2008 rate case application on September 10, 2008. The test year issue was heard in October 2008, and the Commission's Order on Motion for Test Period of October 30, 2008 established a calendar year 2009 test year with average rate base. In a memorandum on November 3, 2008 to the Commission, the Division sought clarification on the historical base period. The Commission, in its Third Scheduling Order of November 5, 2008, provided a clarification that the historical base period should be the 12-month period ending June 30, 2008. The Company submitted the June 2008 base period filing and the calendar year 2009 test year data on December 8, 2008.

III. INTRODUCTION OF WITNESSES AND ACCOMPANYING ADJUSTMENTS

Q. Please identify the Division's witnesses for the revenue requirement phase of this docket.

A. DPU witness 1.0 is Dr. Joni Zenger, who previously filed test year testimony in this case on October 7, 2008. DPU witness 2.0, Mr. Charles Peterson, filed testimony on January 8, 2009. His testimony addressed ROE and issues related to the cost of capital requested by the Company. DPU witness 4.0 is Mr. David Thomson. He will cover adjustments related to the amortization of certain pension costs, outside services expenses, and advertising costs. DPU witness 5.0 is Mr. Mark Garrett of The Garrett Group, Oklahoma City, Oklahoma, who was retained by the Division in this case to help with auditing procedures. Mr. Garrett will address adjustments for cash and other working capital, incentive compensation, incremental general operation and maintenance (O&M), customer advances for construction, and payroll, insurance, property tax, and deferred income tax expenses. DPU witness 6.0 is Mr. Jamie Dalton, who discusses adjustments related to net power costs. DPU witness 7.0 is Mr. Matthew Croft. He will address adjustments to the Company's Lead Lag Study as well as adjustments to the Company's forecasted capital additions. Mr. Croft also ran the Jurisdictional Allocation Model (JAM) for the Division. DPU witness 8.0 is Ms. Brenda Salter, who covers generation overhaul expense, miscellaneous general expense, and automated meter reader savings adjustments. DPU witness 9.0 is Dr. William (Artie) Powell, who will detail the Division's SMUD adjustment, as well as adjustments to the Energy Trust of Oregon's contribution to the Goodnoe Hills wind plant. The Division will introduce additional witnesses when appropriate in the cost of service and rate design phase of this case.

Q. Regarding the work of the Division witnesses, will you please provide an overview of the Division's adjustments?

A. Yes. On December 8, 2008 the Company submitted the June 2008 base period filing and the calendar year 2009 test year data, and the Division began working on the 2009 test period data in order to determine the reasonableness of the Company's adjustments and projections. As each witness will explain in their respective testimony, the Division's staff and consultant (collectively "Staff") worked to verify these adjustments to the Company's filing. The Division Staff is proposing specific adjustments to the Company's second supplemental filing of December 8, 2008.

Q. Has the Division proposed an adjustment related to Deferred Income Tax expense?

A. Yes. The Division has verified the Company's adjustment on the deferred income tax expense, which indicated that a $17.7 million adjustment is appropriate. This information was provided in response to Division Data Request 58.11 and is presented in DPU Exhibit 3.3. The adjustment corrects an error in calculating the capitalized interest for Avoided Costs and Contribution in Aid of Construction. In the original filing the Company calculated this amount based upon a 63 percent normalization level as opposed to the correct 100 percent level. Making the correction to 100 percent decreases the revenue requirement by the $17.7 million. Mr. Mark Garrett, DPU witness 5.0, will include this adjustment in his testimony.

Q. What ROE did the Division recommend for this case?

A. The Division is recommending an ROE of 10.75 percent, which, as previously mentioned, is supported by Division witness Mr. Peterson (DPU Exhibit No. 2.0). The table below sets forth the Division's recommendation regarding overall weighted average cost of capital (WACC) as discussed in Mr. Peterson's testimony (cf. page 7 in DPU Exhibit No. 2.0):

Component	Structure	Cost
Long-Term Debt	48.81%	6.07%
Preferred Stock	0.37%	5.41%
Common Stock	50.82%	10.75%
WACC	100.00%	8.45%

Q. Did the Company's second supplemental filing have a change in the way the Company forecasted expenses for O&M costs as compared to previous rate case filings?

A. Yes.

Q. Please explain.

A. In past filings the Company has provided forecasted future non-power O&M expenses by escalating historical O&M costs components by Global Insight indices or estimated percentage increase of wages and benefits. For the second supplemental filing the

Company used this same methodology but then in adjustment 4.23 of the filing reduced the forecasted calculation of non-power O&M expenses to a 2009 budget target amount.[1]

Q. What are the overall results of the Company's adjustment 4.23?

A. It reduces the Company's calculation for escalated and normalized year end 2009 non-power O&M costs by $50,617,040 total Company and by $21,533,151 for Utah.

Q. Why did the Company calculate future test period costs using previous rate case methods and then reduce those costs to the Company's 2009 budget target?

A. The Company's response to that question was provided in a response to a data request that was submitted by the Committee of Consumer Services (CCS) in its data request No. 27.55. The Company's answer was: "The Company adjustment for escalation appropriately reflects inflationary pressures the Company expects to experience in the test period. However, the Company is concerned about rising cost and customer rates during tough economic times and expects to partially offset these inflationary cost increases through efficiencies in its operating budget. The Company structured its filing and the adjustment of non-power cost O&M to 2009 target in such a way as to demonstrate the difference between the Company's 2009 budget and escalated historical costs."

Q. How does reducing the escalated costs to a budget amount affect adjustments made by intervenors to non-power O&M expenses in the second supplemental filing?

A. If an intervenor makes total adjustments of less than $50,617,040 total Company or $21,533,151 allocated to Utah to the escalated and normalized non-power O&M costs in

[1] See Tab 4 – O & M adjustments - adjustment 4.23's explanation and supporting exhibits in Steven R. McDougal Exhibit RMP__(SRM-2SS) for Docket No. 08-035-38.

the filing, such adjustments will not reduce the revenue requirement in the second supplemental filing. This is because the Company is using a lower 2009 budget target for the costs in this part of the filing. To have an effect on revenue requirement, the total adjustments to the escalated and normalized non-power O&M cost must be for more than $21,533,151 allocated to Utah or the intervenor adjustment must be to the 2009 budget target amount.

Q. Has the Division categorized its adjustments between those that affect the budget or normalize and escalated non-power O&M costs?

A. Yes. All Division non-power O&M adjustments have been assigned to either those that affect the escalated and normalized computed amount or the 2009 budget. (See DPU Exhibit 3.11, then go to the "Adjustments" tab and refer to "Adjustment 4.23"). The Division's adjustments to the non-power O&M expenses total $6.3 million and, therefore, in isolation will not reduce the Company's revenue requirement request in this case. However, depending on which adjustments the Commission approves from among all intervenors in the case, the Commission's decision may add to more than the $50 million in the Company's adjustment 4.23. Therefore, even though a party's adjustment to the escalated and normalized amount does not reduce the revenue requirement in this rate case, the Division believes that each adjustment should still be reviewed by the Company, other intervenors, and the Commission. Furthermore, the validity or lack of validity of the reasons for the adjustments should be considered in this case as to being proper or applicable to future rate cases escalation and normalization methodology. The adjustments that reduce the overall revenue requirement in this case have been summarized in Exhibit 3.2.

Q. Is there another reason why the Division has shown its adjustments to the non-power O&M escalated and normalized amount?

A. Yes. If the Commission accepts all or any of the Division adjustments and all or any of the other intervenor adjustments to the escalated and normalized O&M cost of the filing, it is possible that the total of all accepted adjustments could reduce the amount to below the 2009 budget target amount and thus would reduce the forecasted 2009 revenue requirement.

Q. Please explain the methodology used to model the adjustments proposed by the various Division witnesses.

A. PacifiCorp's December 2009 JAM was used in conjunction with the various "template" spreadsheets and Division work papers in order to model the adjustments proposed by the various Division witnesses. The individual templates were provided with Company witness Mr. Steven McDougal's Direct Prefiled 2nd Supplemental Testimony. These adjustments were then entered into the "Adjustments" tab in the JAM. The following exhibits correspond to these templates:

DPU Exhibit 3.11 – DPU JAM

DPU Exhibit 3.12 – DPU Retirement Spreadsheet

DPU Exhibit 3.13 – DPU Depreciation and Amortization Spreadsheet

DPU Exhibit 3.14 – DPU Rate Base Spread Sheet

DPU Exhibit 3.15 – DPU Labor Adjustment for JAM

DPU Exhibit 3.16 – DPU O&M Escalation Adjustment for JAM

Some of the adjustments proposed by the Division had the effect of changing the Company's adjustment 4.23. This change is also reflected in the "Adjustments" tab. The December 2009 JAM was then re-calculated using the Rolled-In method in order to provide the December 2009 Rolled-In Revenue Requirement as required by the Commission's Order in Docket No. 02-035-04 regarding inter-jurisdictional cost allocation. In order to implement the Rate Mitigation Cap of 101.06 percent, the model was then re-calculated under the Revised Protocol Method. A new Utah Capped Revised Protocol revenue requirement was calculated after each adjustment in order to determine the net effect of each adjustment. The Division's recommended revenue requirement of $52.5 million includes the Rate Mitigation Cap.

Q. Did you prepare a summary of the Division's adjustments that you describe above?

A. Yes. Attached to my testimony is Exhibit No. DPU 3.2, which summarizes each of the Division's adjustments. This spreadsheet originated from the "Adjustment Summary" tab in DPU Exhibit 3.11 (DPU JAM).

Q. Please describe the methodology that you used in entering the inputs into the JAM?

A. Each of the accounting adjustments were entered into the model in the order listed in DPU Exhibit 3.2. For instance, the first adjustment entered into the JAM was Mr. Peterson's adjustment to the Company's cost of capital and the last adjustment entered was the Lead Lag Study.

IV. GLOBAL INSIGHTS O&M ADJUSTMENT

Q. Please explain the Division's Global Insights adjustment.

A. PacifiCorp's use of Global Insights indices for non-power O&M costs in the December 8, 2008 second supplemental filing[2] was compared to both the 2007 rate case (Docket No. 07-035-93) and the July 17, 2008 filing of the 2008 rate case. The Division recommends an adjustment that rolls back the Global Insight indices used in calculating the calendar year 2009 test year non-power O&M costs to the Global Insight indices that were released April 17, 2008 and used in the July 17, 2008 filing.

Q. Which O&M items are escalated using Global Insights O&M indices?

A. The Global Insights indices are used to escalate the base period non-labor, non-power O&M expenses out to the December 2009 test period. These indices cover the O&M expenses associated with steam production plant, nuclear production plant, hydro production plant, other production plant, transmission plant, and distribution plant, as well as customer accounts, customer service/information, sales, and administrative/general expenses (FERC accounts 500 through 935). In addition to Adjustment 4.15, Company witness Mr. McDougal included other escalation adjustments made to various FERC accounts. These include Mr. McDougal's adjustments to Affiliate Management Fee (page 4.14), WECC Fees (page 4.16), Compliance Expense (page 4.18), Solar Photovoltaic Program (page 4.19), and Employee Relocation Expense (page 4.20).

[2] Mr. McDougal's O&M Escalation Adjustment 4.15.

Q. What is your conclusion about the Global Insights O&M indices used in the December 2008 second supplemental filing?

A. The Global Insights O&M indices used in the December 8, 2008 second supplemental filing do not properly reflect economic conditions post-September 2008. Compared to the 2007 rate case filing and the July 17, 2008 rate case filing, the Global Insights O&M indices presented in the second supplemental filing are considerably higher. For operation, the average escalation rate in the 2007 filing was 2.3 percent. In the July 2008 filing the average operation escalation rate was 2.7 percent, but in the second supplemental filing in December 2008 the average jumped to 4.3 percent. For maintenance, the average escalation rate in the 2007 filing was 0.1 percent, while in the July 2008 filing the average maintenance escalation rate was 1.2 percent. However, in the second supplemental filing the average was 3.8 percent. However, the post-September 2008 economic downturn has been marked by declining commodity prices, rapidly declining producer price indices, and a slowing of inflation. As an example, Value Line is currently forecasting that both the Consumer Price Index and the Gross Domestic Product Deflator will increase at a 1.3 percent annual rate in 2009.[3]

Q. What was the release date of the Global Insights indices used in the December 8, 2008 rate case filing?

A. October 27, 2008.

Q. Should the Global Insights forecast released on October 27, 2008 have incorporated economic information that was known since at least mid-September?

[3]The Value Line Investment Survey, Part 3 Ratings and Reports, February 13, 2009 (available February 9, 2009), p. 2300.

A. Certainly Global Insights was aware of the downturn when it released its forecasts on October 27, 2008 but may have not had time to re-evaluate the forecasts before the scheduled release dates. Because the economic information was not incorporated, an adjustment is needed.

Q. What is your proposed adjustment for the Global Insights O&M indices?

A. The Division proposes to roll the Global Insights O&M indices back to their July 2008 rate case levels and, of course, adjust for the new historical base period and the new calendar 2009 test year. The July 17, 2008 rate case filing used Global Insights indices that were released on April 17, 2008.

Q. Why do you roll back the Global Insights data to those filed by the Company in July 2008?

A. Upon reviewing the confidential Global Insights data used in Rocky Mountain Power's December 2008 filing, the Division became concerned that the forecast rates of increase were often 50 percent to more than double what was provided in earlier filings by the Company in this Docket and in the previous general rate case. The rates of increase appear to the Division to have no justification given what appears to be going on in the economy. As indicated above, the current Value Line forecast is for an inflation rate of 1.3 percent in 2009. Other reports in the financial media seem to support the lower inflation rates. The July 2008 filing had forecast growth rates of about 2.7 percent for operation and about 1.2 percent for maintenance. Given that inflation for 2009 may be less than 2.0 percent, if some real growth is included in the O&M growth rates, then the 2.7 percent rates appear much more reasonable than growth rates that are significantly higher. Therefore, the Division proposes as a conservative adjustment to use the earlier growth rates from the July 2008 filing as more representative of current economic conditions than the forecasts from a few months later.

Q. What were the adjustments based upon the earlier Global Insights indices?

A. This adjustment updates page 4.15.8 of Mr. McDougal's Exhibit RMP_ (SRM-2SS). These adjustments cover steam production plant, nuclear production plant, hydro production plant, other production plant, transmission plant, distribution plant, customer accounts, customer service/information, sales, and administrative/general and are found in DPU Exhibit 3.10. This change in indices decreases Mr. McDougal's Adjustment 4.15 O&M escalation by ($6,359,125) on a Utah allocated basis.

Q. How do you account for the escalation adjustment for those accounts outside of Mr. McDougal's O&M Escalation Adjustment 4.15?

A. DPU Exhibit 3.4 summarizes the O&M expense adjustments found outside of Mr. McDougal's adjustment 4.15. These adjustments are detailed in DPU Exhibits 3.5 through 3.9 and cover the escalation changes to Mr. McDougal's Adjustments 4.14, 4.16, 4.18, 4.19, and 4.20. DPU Exhibit 3.5 covers the Affiliate Management Fee and makes an adjustment of $17,402. DPU Exhibit 3.6 is an adjustment of $4,523 for WECC Fees. DPU Exhibit 3.7 is an adjustment of $7,772 for Compliance Expense. DPU Exhibit 3.8 is an adjustment of $8,078 for the Solar Photovoltaic Program. DPU Exhibit 3.9 is an adjustment of $6,570 for Employee Relocation Expense.

Q. Did you consider rolling the Global Insights indices back to the December 2007 values adjusting for the new historical base year and new calendar year 2009 test year?

A. Yes, however the roll back to the July 2008 filing was chosen as a more moderate compromise. The escalation rates in the July 17, 2008 filing were similar to those in the December 2007 rate case filing, suggesting moderate inflation. A roll back all of the way to the December 2007 rate case filing, however, results in a forecast horizon to December 2009 that was considered to be too far into the future. It is worth noting, however, that the Division considered the Global Insights O&M indices in the 2007 rate case application to be more appropriate than those O&M indices in the October 27, 2008 release and used in the Company's second supplemental filing of December 8, 2008. This was due to the somewhat unique, and unforeseen, economic conditions after the post-September economic downturn, which made the Global Insights O&M indices of October 27, 2008 out of date upon release.

V. THE DIVISION'S POLICY RECOMMENDATIONS

Q. Are there any policy issues that you would like to request the Commission to consider or implement?

A. Yes.

Q. Will you please discuss your policy recommendations with respect to the Master Data Requests (MDR)?

A. The Division continues to maintain that the MDR-A and MDR-B should accompany a general rate case filing. In addition, an agreement between the Company, the Division, and the Committee specifies that the Company will file a variance report along with its semi-annual report. While the variance report contains useful information that will reduce the number of data requests that the Company receives in a general rate case, Division auditors still need the MDRs in order to complete their analysis and investigation of the case in a timely manner. The Division recommends that the Commission order the Company to submit the MDRs as a permanent requirement of future rate case filings to be made contemporaneously with the application for a rate change. Without the information contained in the MDRs, parties would immediately begin requesting data from the Company. This would only delay the process, when in fact the auditors must complete their analysis in a timely manner, according to the 240-day statutory clock.

Q. Early resolution of the test year issue has been a previous Division recommendation. Does this remain the case?

A. Yes. The Division looks forward to a test year procedural process that will provide for early resolution of the appropriate test year.

Q. What is the Division recommending with respect to the lead-lag study and cash working capital?

A. At this time the Division is recommending a cash working capital adjustment based on the recommendations of the Division's consultant The Garrett Group as represented in DPU witness Mark Garrett's testimony and DPU witness Matthew Croft.

Q. Mr. Garrett's recommendation includes an adjustment for cash working capital that includes interest expense. This results in a negative balance for cash working capital. Isn't it a departure from previous practice before the Commission to include interest expense in cash working capital?

A. It is a departure from recent practice. However, the Division believes that its consultant has made a persuasive and compelling argument to include interest expense; therefore the Division fully supports the Garrett Group adjustment.

VI. CONCLUSION

Q. In conclusion, please restate the Division's recommendation for revenue requirement.

A. The Division recommendation for revenue requirement is $52.5 million. Beginning with the Company's second supplemental filing of $116.1 million on December 8, 2008, the Division verified the Company's $17.7 million deferred income tax expense adjustment and arrived at $98.6 million for the Company's initial revenue requirement request. The Division then made a total of $45.9 million in adjustments to arrive at a revenue requirement recommendation of $52.5 million. The Division adjustments were a $17.2 ROE adjustment, a total of $5.4 million in net power cost adjustments, and a total of $40.5 million in various auditing adjustments.

Q. Does this complete your testimony?

A. Yes it does.