Justification for Rocky Mountain Power Test Period Request

The Public Service Commission of Utah ordered Rocky Mountain Power in its Order on Motion for Approval of Test Period issued October 30, 2008, in the Company's last rate case, Docket No. 08-035-38, to present the test period for resolution prior to filing its "other material (e.g., revenue requirement information, rate proposals and rate schedules and tariffs)" in its next general rate case. Due to the timing for the filing of this other material in June, we hope to timely resolve through a technical conference or hearing the test period to use in this case. To that end, the Company provides the following summary information and justification for its proposed test period. The Company will provide additional support for the requested test period as required by the Commission:

Rocky Mountain Power proposes to use a twelve month ending December 31, 2010, forecast test period with a thirteen month average rate base in this general rate case. In accordance with the Commission's order, it plans to file other material in the case on or about June 15, 2009.

A forecast test period allows for better matching of costs with revenues during the rate effective period. It is essential for the financial integrity of the Company to have rates set on costs that reflect the time period that the rates will be in effect. A forecast test period is exceptionally important during a period of major construction and rising power costs. In the current environment a future test period is the only adequate method to reflect the costs the Company will necessarily incur in the rate effective period to provide the level of service required by its customers. Although load growth in the Utah service territory has moderated somewhat in the near term, the Company expects load growth over the forecast period to continue. The need to serve growing load requires the Company to acquire new generating resources. Significant new investments in transmission and distribution systems are required to integrate these new resources, connect new customers and ensure continued reliability. During this period of increased capital investment and rate base growth, a historical test period cannot adequately capture the conditions that the Company will experience during the rate effective period; rather use of a historical test period would result in the under-recovery of the true cost of service.

The primary objective of determining a test period is to develop normalized results of operations based on a period of time that will best reflect the conditions during which time the new rates will be in effect. Many factors must be considered to determine which test period best reflects those expected conditions. This Commission previously identified eight such factors, including:

(1) the general level of inflation;
(2) changes in the utility's investment, revenues, or expenses;
(3) changes in utility services;
(4) availability and accuracy of data to the parties;
(5) ability to synchronize the utility's investment, revenues, and expenses;

(6) whether the utility is in a cost increasing or cost declining status;
(7) incentives to efficient management and operation; and
(8) the length of time the new rates are expected to be in effect.

In its Order on Test Period issued February 14, 2008 in Docket No. 07-035-03, the Commission also expressed its desire to balance Company and ratepayer interests. The Company proposes the Test Period in this case after consideration of the current regulatory environment, state statutes governing test period development, and the business factors identified above by the Commission.

Below is a brief discussion of the factors identified by the Commission and an explanation of how the Company evaluated its proposed Test Period based on these factors. If the Commission requires, the Company will provide additional information on each of these factors.

• **Level of Inflation –** Although the Company is striving to absorb cost increases as much as possible, inflationary pressures continue and need to be reflected in test period cost projections. Based on the latest Global Insight indices, non-labor costs for the utility sector are projected to remain relatively flat between 2008 and 2010. However, the Company will still experience price increases in the labor area due to negotiated increases in many of its union labor contracts.

• **Changes in Utility Investment, Revenues, and Expenses –** Although load growth in the Utah service territory has moderated somewhat in the near term, Utah, notwithstanding the current economy, continues to grow and long term load growth is expected to continue. Because of past, current, and future load growth the Company will have to acquire new resources, impacting not only the level of investment needed to be included in rate base, but also retail revenues, net power costs and operation and maintenance costs.

This case includes nearly three billion dollars in new plant investments the Company has made or will make between the December 31, 2008, historical base year and December 31, 2010, the end of the test year. Only a portion of the 2009 investment, and none of the 2010 investment is included in current rates. This level of investment puts significant financial pressure on Rocky Mountain Power.

New generation resources scheduled to be on line by December 2010 and not included in current rates include the McFadden Ridge wind project and the remaining investment in High Plains, Glenrock III, and Rolling Hills wind projects as well as over $400 million in new emission controls at existing plants.

The Company continues to make significant transmission and Utah distribution and other investments including the Three Peaks Substation, the St. George to Red Butte 138 kV line and the Dave Johnston to Casper 230 kV rebuild.

• **Changes in Utility Services –** While no change in service levels is anticipated the Company continues to fund maintenance to allow the provision of safe and reliable electric service and meet our merger commitments notwithstanding the growth in customers and load we continue to experience.

• **Availability and Accuracy of Data to Parties –** The Company remains open and willing to share information with the parties involved in the case. The Company has agreed to provide, upon the terms and approval of the 2008 general rate case stipulation, answers to Master Data Request A concurrent with filing of the other material and to Master Data Request B within 30 days after the filing of the other material, with certain power cost information provided earlier than the 30 days. The Company is committed to responding to additional data requests from the parties in a timely manner. The accuracy of data in our cases is supported by past variance reports which demonstrated that actual non-power cost operations and maintenance expense levels were within 1% of the forecast level in the rate case and rate base actually exceeded the rate case levels by $185 million. The impact of the Company's capital expenditure program will continue to put pressure on the Company's earnings even with the use of forecasted test periods.

• **Ability to Synchronize the Utility's Investment, Revenues, and Expenses –** It is important to synchronize the Company's investment, revenues and expenses with the level anticipated during the rate effective period. In order to synchronize all components of the revenue requirement with the rate effective period, it is essential that the Company be allowed to use forecast test periods extending twenty months beyond the date of filing. In this case, the forecast test period will extend just over 18 months beyond the date of filing

• **Whether the Utility Is in a Cost Increasing or Cost Declining Status –** While some of the cost pressures have moderated in recent months, the Company is still in a rising cost environment. The Company is experiencing significant cost pressures arising from its continued capital investment program. In addition, the Company faces cost pressures from increasing labor costs and other costs. These increases are only partially offset by any increases in revenue associated with load growth.

• **Incentives to Efficient Management and Operation –** The Company management is continually looking for ways to increase the efficiency of the Company. The Company has reduced many costs related to employees and the overall number of employees; adjustments for these savings are included in the proposed Test Period. The Company is adding investment to serve load growth and improve reliability and needs the level of investment included in the proposed Test Period. To not allow the proposed test period would be a disincentive to the Company in these efforts.

• **Length of Time New Rates Are Expected To Be in Effect –** The Company has not made any decision on the length of time the new rates are expected to be in effect. Future rate cases will be filed based on Utah jurisdictional earnings and the Company's ability to get timely recovery of its costs.