- 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. 10-035-124 ORDER ON TEST PERIOD

ISSUED: March 30, 2011

By The Commission:

This matter is before us on UIEC's Motion Challenging Completeness of Filing and Proposed Test Year, filed February 8, 2011, and UAE's Request for Prompt Test Period Hearing and Expedited Consideration, filed February 14, 2011. In essence, both of these filings question the propriety of the test period on which PacifiCorp ("Company"), doing business in Utah as Rocky Mountain Power, bases its proposed rate increase. Because the selection of the appropriate test period is an essential threshold determination in this application, we issue our decision on test year selection now.

The Company's proposed test period is the twelve months ending June 30, 2012, using average period rate base ("June 2012 Test Period"). The Division of Public Utilities ("Division") supports this test period. Several other parties, including Utah Industrial Energy Consumers ("UIEC ") and UAE Intervention Group ("UAE"), support a more near-term test period, namely calendar year 2011 ("CY 2011 Test Period"). In compliance with Utah Administrative Code R746-700-10(A)(2), the Company's application also includes a revenue requirement forecast based on a 12-month test period ending June 30, 2011. Some parties favoring the CY 2011 Test Period also support this alternative test period.

Pursuant to the Commission's Scheduling Order issued February 23, 2011, the Commission received three rounds of written testimony on the test period issue between March 9, 2011, and March 21, 2011, and held a duly noticed evidentiary hearing on March 24, 2011. The following parties presented testimony: the Company, the Division, the Office of Consumer Services ("Office"), UIEC, and UAE.

The standard we apply in resolving the test period question is set forth in Utah Code Annotated ("UCA") § 54-4-4(3) which states:

> If in the commission's determination of just and reasonable rates the commission uses a test period, the commission shall select a test period that, on the basis of evidence, the commission finds best reflects the conditions that a public utility will encounter during the period when the rates determined by the commission will be in effect.

This subsection further provides where, as the Company proposes in this case, a forecast test period is used in setting rates, it must be determined on the basis of projected data not exceeding 20 months from the date the proposed rate increase is filed with the commission. In this instance, the outer boundary for the test period is September 24, 2012. The Company's June 2012 Test Period is within the 20 month boundary.

Based upon the evidence presented, we find the June 2012 Test Period (i.e., July 1, 2011, through June 30, 2012) best reflects the conditions the Company will encounter during the period the rates to be determined in this case will be in effect. We further find the test period forecasts should employ an average period rate base and note no party contests this approach. Our selection of the June 2012 Test Period results from a balancing of the factors relevant to selection of a test period identified in our October 20, 2004, Order in Docket No. 04-035-42. These factors are: the general level of inflation; changes in the utility's investment, revenues or expenses; changes in utility services; availability and accuracy of data to the parties; ability to synchronize the utility's investment, revenues and expenses; whether the utility is in a cost increasing or cost declining status; incentives to efficient management and operation; and the length of time the new rates are expected to be in effect.

While we have consistently applied the foregoing factors in selecting future test periods, their relative importance varies depending on the prevailing conditions and the evidence presented in each case. Similarly, the outcome the factors warrant is highly fact driven. We emphasize, therefore, our test period determination in this case is not precedent for any particular interval between the date of a general rate case application and the outer boundaries of test periods in future cases. We recognize the June 2012 Test Period embodies forecasts three to five months further in time than the test periods selected in recent cases. In future test period decisions we will have the benefit of the experience we gain from the somewhat longer term forecasts to be examined in this case. Additionally, the record includes references to test periods the Company has advocated or used in various other jurisdictions. Our decision is based on the statutory standards and regulatory policies and practices in this jurisdiction, and the evidence presented in this case.

Given the statutory rate case processing schedule and the Company's announced intention to file annual rate cases, the rates we implement at the conclusion of this case in September 2011, may be in effect until the latter half of 2012 (although their full duration is uncertain). We will refer to this as the "Rate-Effective Period." The Company urges us to select the test period that most closely overlaps the Rate-Effective Period. By doing so, rates will be better aligned with the Company's expected costs of service. The Company represents it is in an increasing cost status. In particular, Company forecasts show it expects to encounter unusually high levels of plant investment and net power cost ("NPC") in the first half of 2012. Under such circumstances if the selected test period does not include forecast data from the first half of 2012, the rates in effect for the majority of the Rate Effective Period will not be synchronized properly with the Company's costs of service. This could deprive the Company of a fair opportunity to recover its costs.

UAE and UIEC recommend we select the CY 2011 Test Period. The Office also recommends a test period closer in time than the one the Company proposes, without advocating a specific time frame. In effect these parties argue we can ignore the Company's forecasts of higher levels of plant investment and NPC in 2012, even though the rates we set in this case likely will be in effect for at least half of that year. In their view the ability to synchronize the Company's investment, revenues and expenses in 2012 is adequately achieved through the Company's access to the major plant addition ("MPA") and energy balancing account ("EBA") ratemaking processes. While these processes are useful, their existence does not diminish our responsibility to select the test period that, under the unique circumstances of this case, meets the UCA § 54-4-4(3) criterion. As noted above, the test period we select must be the one that, on the basis of the evidence, best reflects the conditions the Company will encounter during the period the new rates will be in effect.

The Company forecasts it will invest $864 million in utility plant during the first six months of 2012, a rate of plant investment not adequately represented by forecast 2011 data. The Company testifies its 13-month average electric plant in service will be over $500 million higher during the June 2012 Test Period compared to the CY 2011 Test Period. If this is the case, rates in effect during 2012, if based on CY 2011 Test Period forecasts, would unreasonably under-recover plant investment costs. The vast majority of these forecasted costs are for projects that do not meet the MPA threshold. In fact only two potentially qualify, and the timing of their in-service dates in relation to the last general rate case decision is such that MPA applications would likely not be filed until after this case is decided. Hence, in this particular case the MPA process may not provide an adequate alternative means of recovering the forecasted plant additions.

The Company also points to its forecast of NPC to support its proposed June 2012 Test Period, noting the higher NPC accounts for the largest portion of the proposed rate increase in this case. The Company presents forecasts showing it expects its NPC to average $21 million dollars per month more during the June 2012 Test Period than the average for the twelve preceding months. While the newly-approved EBA pilot offers the Company a measure of protection against NPC under-recovery, we cannot ignore the Company and its customers are jointly at risk for any amount by which NPC exceeds the forecast embedded in rates. Accordingly, we will afford all parties the opportunity to test, through evidence examined in the revenue requirement phase, the validity of the projected NPC. Our selection of the June 2012 Test Period facilitates this inquiry.

UAE and UIEC maintain the CY 2011 Test Period will better promote the availability and accuracy of data, and will provide incentives for efficient management and operation (factors we routinely consider in test year decisions). UAE and UIEC both observe selection of the appropriate test year includes balancing customers’ interest in data reliability with the Company’s interest in forecasting far into the future in an increasing cost environment.

These parties also point out their relatively limited access to cost and revenue data in relation to the Company. Because the cost projections examined in the CY 2011 Test Period would be closer in time than those inherent in the June 2012 Test Period, UAE and UIEC believe them to be more reliable. UAE offers various examples of unanticipated events that have affected cost and revenue projections relied on in prior cases. In UAE’s opinion, using closer-in-time data provides both customers and the Company protection from the impacts of such events.

Regarding CY 2011 Test Period NPC, UAE testifies the largest element of the higher NPC in the June 2012 Test Period is electric swap costs, in UAE’s opinion one of the more speculative items in the Company’s NPC forecast. UIEC asserts the Company’s NPC forecast lacks detailed support and fails to address important issues like replacement plans for expiring contracts because the forecast extends too far into the future. With respect to plant additions, UIEC notes a closer-in-time test period enhances the likelihood forecasted future plant additions will be in service by the end of the test year and minimizes risk some plant will not be used and useful during the period rates are in effect.

We acknowledge extending the forecast period six months may affect forecast reliability. In this instance, however, we must also consider the predicted substantial increases in plant investment the Company forecasts to be necessary in early 2012, particularly the significantly increased investment projected as necessary for compliance with air quality requirements. The substantial mismatch of costs and revenues that could exist if we do not examine these forecasts in this proceeding weighs in favor of the June 2012 Test Period. Additionally, the Division’s testimony, based on analytical examination of these forecasts, provides a measure of assurance any diminution in forecast reliability can be managed through specific adjustments identified and tested in the revenue requirement phase of this case.

In contrast to UIEC and UAE, the Division supports the Company's June 2012 Test Period, relying in part on its evaluation of the Company's plant investment and NPC forecasts -- forecasts it intends to test more thoroughly during the revenue requirement phase. The Division's testimony analyzes the Company's higher forecasts of gross plant in service during the June 2012 Test Period. The Division testifies it understands much of this projected new investment is related to transmission plant or environmental protection equipment. If the Company has little or no discretion in the timing of these investments, to meet system reliability or other standards, and the CY 2011 Test Period is used as the basis for the rates set in this proceeding, the Company could incur these costs without a reasonable chance of cost recovery. If, on the other hand, use of the CY 2011 Test Period induced the Company to postpone certain plant investments to the detriment of reliability or the environment, customers may not be well served. The Division concludes in either scenario the public interest weighs against the more near-term test period. We agree. In this case, selection of the CY 2011 Test Period could create incentives for management to withhold plant investment necessary to reliable service and environmental safety or risk incomplete cost recovery.

The Division buttresses its support of the June 2012 Test Period with analysis comparing the Company's forecasts of plant additions, load growth, and NPC with actual data. The Division also identifies major causes of the cost increases present in the June 2012 Test Period forecasts. The Division's over-arching conclusion from this analysis is the June 2012 Test Period forecasts reasonably reflect the conditions the Company will face during the Rate

Effective Period, provided the forecasts are subject to necessary adjustments. In the Division's view, any necessary forecast adjustments can be identified during the revenue requirements phase of this case. This conclusion by the Division is a key element of our reasoning in selecting the June 2012 Test Period.

In light of the disproportionately higher costs in the first half of 2012 identified in the Company's forecasts, the ability to synchronize the Company's investment and expenses with the revenues it derives through rates is an integral factor in our decision. Indeed, this factor bears directly on our statutory charge to select a test period that best reflects the conditions the public utility will encounter while the rates are in effect. We note, however, the validity of the Company's forecasts remains to be established on this record. We trust and expect the reservations and even skepticism expressed by some parties will result in thorough evaluation of the Company's cost and revenue forecasts and, where appropriate, the proposal of substantiated adjustments and alternatives. We ask parties to include in their analysis of the Company's June 2012 Test Year revenue requirement rigorous examination of all forecast components, inputs and assumptions. In particular, parties should examine the following:

1. The forecast of plant additions;
2. The forecast of NPC, particularly electric swaps;
3. The forecast of state loads and the inter-jurisdictional allocation factors; and,
4. The forecast of REC revenues.

To aid parties in their analysis, we will direct the Company to file its next Semi-Annual Results of Operations Report on April 15, 2011, together with a cost of service study covering the same period (calendar year 2010). Additionally, we place all parties on notice that as we consider the evidence supporting forecasts in this proceeding, especially deviations from historical trends, we will give substantial weight to data reflecting actual, verifiable experience.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED:

1. July 1, 2011, through June 30, 2012, using average period rate base, shall be the test period in this docket.

2. The Company shall file its next Semi-annual Results of Operations Report on April 15, 2011, together with a cost of service study covering the same period (calendar year 2010).

DATED at Salt Lake City, Utah, this 30th day of March, 2011.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#71834