

**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

Direct Testimony and Exhibits of

James T. Selecky

on Revenue Requirement

On behalf of

Utah Industrial Energy Consumers

Project 9424
May 26, 2011



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

12 Q **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

13 A This information is included in Appendix A to my testimony.

14 Q **WHAT SUBJECTS ARE ADDRESSED IN YOUR TESTIMONY?**

15 A My testimony addresses the revenue requirement associated with the capital
16 additions projected to be made after September 21, 2011 and through the end of the
17 June 30, 2012 test period.

18 Q **WHY DID YOU DEVELOP THE REVENUE REQUIREMENT FOR THE CAPITAL
19 ADDITIONS AFTER SEPTEMBER 21, 2011?**

20 A These capital additions should not be included in the development of RMP's test year
21 revenue requirement because they are projected to become commercial after the rate
22 increase in this case becomes effective, and thus are not used and useful. Legal
23 support for excluding these capital additions will be provided in UIEC's briefs or other
24 pleadings, wherein, based on my understanding, UIEC will explain that under Utah
25 law, just and reasonable rates can only be attained by assets that are providing value
26 for ratepayers at the time they are put into rate base.

27 Q **WHAT IS THE REVENUE REQUIREMENT ASSOCIATED WITH THE POST
28 SEPTEMBER 21, 2011 CAPITAL ADDITIONS?**

29 A Excluding the post September 21, 2011 capital adjustment reduces the revenue
30 requirement by \$21.858 million. This includes a reduction in return on the excluded
31 rate base plus associated taxes, book depreciation expense, O&M expense and
32 property tax.

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33 **Q HOW DID YOU DEVELOP THE REVENUE REQUIREMENT ASSOCIATED WITH**
34 **THE CAPITAL ADDITIONS?**

35 A In its filing, RMP provided monthly capital additions for production, transmission,
36 distribution, general, mining, and intangible plant from June 2010 through June 2012.
37 My analysis focused on the projected capital additions from September 2011 through
38 June 2012. These additions were provided in Exhibit RMP ____ (SRM-3).

39 Exhibit RMP ____ (SRM-3) also contains the depreciation rates for each
40 function so that the monthly depreciation expense associated with these capital
41 additions could be calculated. The calculated depreciation expense for these capital
42 additions was used to develop the accumulated depreciation reserve. The
43 accumulated depreciation reserve is subtracted from the gross plant in service to
44 develop the net plant component of rate base.

45 In addition, the accumulated deferred income taxes were estimated from the
46 capital additions. The resulting accumulated deferred taxes are an offset to rate base
47 and are part of the revenue requirement. Finally, the revenue requirement was
48 reduced for incremental O&M and property tax expenses associated with these
49 capital additions.

50 **Q PLEASE BRIEFLY EXPLAIN HOW YOU CALCULATED THE REVENUE**
51 **REQUIREMENT ASSOCIATED WITH THE POST SEPTEMBER 21, 2011 CAPITAL**
52 **ADDITIONS.**

53 A Consistent with RMP's case, I used a 13 month average to develop my rate base.
54 The plant in service, accumulated depreciation reserve and accumulated deferred
55 income taxes associated with the studied capital additions reflect a 13 month average
56 for a test period ending June 2012. To the rate base, I applied RMP's proposed

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57 pre-tax rate of return. I then added my depreciation expense, incremental O&M
58 expense and property tax expense. The total resulting amount reflects the estimated
59 revenue requirement associated with the post September 21, 2011 additions, which
60 should be disallowed.

61 **Q HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THE DEVELOPMENT OF**
62 **THE CAPITAL ADDITIONS FORECASTED FOR THE PERIOD SEPTEMBER 2011**
63 **THROUGH JUNE 2012?**

64 A Yes. Exhibit UIEC ____ (JTS-1) shows the monthly capital additions and the
65 resulting total plant balance for the period September 2011 through June 2012 for the
66 production, transmission, distribution, general, mining and intangible plant. Exhibit
67 UIEC ____ (JTS-1) also shows the Utah jurisdictional amounts by calendar year.

68 The Exhibit UIEC ____ (JTS-1) shows that RMP is projecting that significant
69 capital additions will be placed in service after September 21, 2011. For example, in
70 April and May 2012, RMP is projecting pollution control additions of \$98.5 million and
71 \$129.0 million, respectively. Similarly, transmission additions in May and June 2012
72 are projected to be \$102.2 million and \$87.5 million, respectively. It is uncertain
73 whether these additions will be placed in service as projected.

74 The September 2011 capital additions were reduced by 70% since I was
75 focusing on post September 21, 2011 capital additions.

76 **Q** **HAVE YOU PREPARED AN EXHIBIT THAT SHOWS A DEVELOPMENT OF THE**
77 **DEPRECIATION EXPENSE ASSOCIATED WITH THE SEPTEMBER 22, 2011**
78 **THROUGH JUNE 2012 CAPITAL ADDITIONS?**

79 A Yes. Exhibit UIEC ____ (JTS-2) shows the resulting monthly and total depreciation
80 expense associated with the capital additions that are projected to be placed in
81 service from September 22, 2011 through June 2012. The amounts are shown both
82 on a total Company basis and on a Utah jurisdictional basis.

83 **Q** **USING THE DEPRECIATION AND AMORTIZATION EXPENSES ASSOCIATED**
84 **WITH THE POST SEPTEMBER 21, 2011 CAPITAL ADDITIONS, DID YOU**
85 **DEVELOP A DEPRECIATION RESERVE?**

86 A Yes. The monthly depreciation expense from September 22, 2011 through June
87 2012 is used to calculate the accumulated depreciation reserve.

88 **Q** **HOW DID YOU CALCULATE THE ACCUMULATED DEFERRED TAXES**
89 **ASSOCIATED WITH THE CAPITAL ADDITIONS POST SEPTEMBER 21, 2011?**

90 A The Utah jurisdictional capital additions were separately identified for 2011 and 2012.
91 For the 2011 capital additions, I assumed that RMP would be able to expense for tax
92 depreciation purposes 100% of the additions. This is referred to as bonus
93 depreciation and is part of the Federal government's economic stimulus law. For the
94 2012 capital additions, the bonus depreciation is 50%. The 50% that does not qualify
95 for bonus depreciation is depreciated per the normal tax depreciation schedules. I
96 assumed a 5% tax depreciation rate for this portion. The development of the
97 accumulated deferred income taxes is shown on Exhibit UIEC ____ (JTS-3).

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98 It should be noted that this is only an estimate of the accumulated deferred
99 taxes. I would recommend that the Commission require RMP to calculate the amount
100 of accumulated deferred taxes using its tax model to develop a more accurate
101 estimate of the accumulated deferred income taxes.

102 **Q EARLIER IN YOUR TESTIMONY YOU STATED THAT YOU MADE AN**
103 **ADJUSTMENT TO THE OPERATION AND MAINTENANCE EXPENSE**
104 **ASSOCIATED WITH THE POST SEPTEMBER 21, 2011 CAPITAL ADDITIONS.**
105 **WHAT IS YOUR PROPOSED ADJUSTMENT TO O&M EXPENSE?**

106 A I am proposing to remove the incremental generation and transmission O&M expense
107 for projects that are projected to go into service after September 21, 2011. Exhibit
108 RMP ____ (SRM-3), page 4.15 shows the incremental generation and transmission
109 O&M expense for the projects that went into service after September 21, 2011.
110 These projects include the Naughton Unit 2 Scrubber, DJ Scrubber – Unit 4 and the
111 Naughton Unit 1 Scrubber. The incremental O&M expense for these projects is
112 \$2.313 million on a total RMP basis and \$1.002 million on the Utah jurisdictional
113 basis.

114 **Q HAVE YOU INCLUDED ANY OTHER ITEM IN THE REVENUE REQUIREMENT?**

115 A Yes. I made an adjustment for property taxes. I have calculated a test year June
116 2011 property tax rate from the estimated June 2012 test year property tax expense
117 and total plant in service. I then applied this property tax rate to the capital additions
118 that are excluded from the June 2012 test year. This provides a reduction in the
119 property tax of \$974,000.

120 **Q** **WHAT IS THE TOTAL REVENUE REQUIREMENT ASSOCIATED WITH THE POST**
121 **SEPTEMBER 21ST CAPITAL ADDITIONS?**

122 **A** The revenue requirement associated with the projected post September 21, 2011
123 capital additions is \$21.858 million. This is shown on Exhibit UIEC ____ (JTS-4).
124 This is the amount that should be reduced from the revenue requirement for the June
125 2012 test year as a result of excluding the projected post September 21, 2011 capital
126 additions.

127 **Q** **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

128 **A** Yes, it does.

Qualifications of James T. Selecky

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A James T. Selecky. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation and am a managing principal
6 with the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory
7 consultants.

8 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL
9 EMPLOYMENT EXPERIENCE.**

10 A I graduated from Oakland University in 1969 with a Bachelor of Science degree with
11 a major in Engineering. In 1978, I received the degree of Master of Business
12 Administration with a major in Finance from Wayne State University.

13 I was employed by The Detroit Edison Company (DECo) in April of 1969 in its
14 Professional Development Program. My initial assignments were in the engineering
15 and operations divisions where my responsibilities included evaluation of equipment
16 for use on the distribution and transmission system; equipment performance testing
17 under field and laboratory conditions; and troubleshooting and equipment testing at
18 various power plants throughout the DECo system. I also worked on system design
19 and planning for system expansion.

20 In May of 1975, I transferred to the Rate and Revenue Requirement area of
21 DECo. From that time, and until my departure from DECo in June 1984, I held

1 various positions which included economic analyst, senior financial analyst,
2 supervisor of the Rate Research Division, supervisor of the Cost-of-Service Division
3 and director of the Revenue Requirement Department. In these positions, I was
4 responsible for overseeing and performing economic and financial studies and book
5 depreciation studies; developing fixed charge rates and parameters and procedures
6 used in economic studies; providing a financial analysis consulting service to all
7 areas of DECo; developing and designing rate structure for electrical and steam
8 service; analyzing profitability of various classes of service and recommending
9 changes therein; determining fuel and purchased power adjustments; and all aspects
10 of determining revenue requirements for ratemaking purposes.

11 In June of 1984, I joined the firm of Drazen-Brubaker & Associates, Inc.
12 (DBA). In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It
13 includes most of the former DBA principals and staff. At DBA and BAI I have testified
14 in electric, gas and water proceedings involving almost all aspects of regulation. I
15 have also performed economic analyses for clients related to energy cost issues.

16 In addition to our main office in St. Louis, the firm also has branch offices in
17 Phoenix, Arizona and Corpus Christi, Texas.

18 **Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY**
19 **COMMISSION?**

20 **A** Yes. I have testified on behalf of DECo in its steam heating and main electric cases.
21 In these cases I have testified to rate base, income statement adjustments, changes
22 in book depreciation rates, rate design, and interim and final revenue deficiencies.

23 In addition, I have testified before the regulatory commissions of the States of
24 Colorado, Connecticut, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland,

1 Massachusetts, Minnesota, Missouri, New Hampshire, New Jersey, North Carolina,
2 Ohio, Oklahoma, Oregon, Tennessee, Texas, Utah, Washington, Wisconsin, and
3 Wyoming, and the Provinces of Alberta, Nova Scotia and Saskatchewan. I also have
4 testified before the Federal Energy Regulatory Commission. In addition, I have filed
5 testimony in proceedings before the regulatory commissions in the States of Florida,
6 Hawaii, Kentucky, Montana, New York, Pennsylvania, Virginia and the Province of
7 British Columbia. My testimony has addressed revenue requirement issues, cost of
8 service, rate design, financial integrity, accounting-related issues, merger-related
9 issues, and performance standards. The revenue requirement testimony has
10 addressed book depreciation rates, decommissioning expense, O&M expense levels,
11 rate base adjustments, working capital, and post test year adjustments. In addition, I
12 have testified on deregulation issues such as stranded cost estimates.

13 **Q ARE YOU A REGISTERED PROFESSIONAL ENGINEER?**

14 **A** Yes, I am a registered professional engineer in the State of Michigan.

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CERTIFICATE OF SERVICE

(Docket No. 10-035-124)

I hereby certify that on this 26th day of May 2011, I caused to be emailed, a true and correct copy of the foregoing **DIRECT TESTIMONY AND EXHIBITS OF JAMES T. SELECKY ON REVENUE REQUIREMENT ON BEHALF OF UIEC** to:

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