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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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| 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 |
|---|------------------------------|

SURREBUTTAL TESTIMONY OF KEVIN C. HIGGINS

[REVENUE REQUIREMENT]

[Public Version]

The UAE Intervention Group (UAE) hereby submits the Prefiled Surrebuttal Testimony of Kevin C. Higgins on revenue requirement issues.

DATED this 19th day of July, 2011.

/s/ _____
Gary A. Dodge,
Attorney for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 19th day of July, 2011, on the following:

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BEFORE
THE PUBLIC SERVICE COMMISSION OF UTAH

Surrebuttal Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 10-035-124

[Revenue Requirement]

[Public Version]

July 19, 2011

1 **SURREBUTTAL TESTIMONY OF KEVIN C. HIGGINS**

2

3 **Q. Please state your name and business address.**

4 A. My name is Kevin C. Higgins. My business address is 215 South State
5 Street, Suite 200, Salt Lake City, Utah, 84111.

6 **Q. By whom are you employed and in what capacity?**

7 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies
8 is a private consulting firm specializing in economic and policy analysis
9 applicable to energy production, transportation, and consumption.

10 **Q. On whose behalf are you testifying in this proceeding?**

11 A. My testimony is being sponsored by the Utah Association of Energy Users
12 Intervention Group (“UAE”).

13 **Q. Are you the same Kevin C. Higgins who pre-filed direct and rebuttal
14 testimony on the topic of revenue requirements on behalf of UAE?**

15 A. Yes, I am.

16 **Q. What is the purpose of your rebuttal testimony?**

17 A. My surrebuttal testimony responds to rebuttal testimony filed by RMP
18 witnesses Steven R. McDougal, Dean Brockbank, Stefan Bird, Erich D. Wilson,
19 and Chad A. Teply, as well as IBEW witness Gary Cox. As part of this
20 testimony, I update my revenue requirement adjustments relative to RMP’s
21 rebuttal case.

22 **Q. Please summarize the primary conclusions of your surrebuttal testimony.**

23 A. I am in agreement with RMP's treatment in its rebuttal testimony of test
24 period REC revenues in combination with a REC tracker; use of the Rolled-in
25 inter-jurisdictional cost allocation methodology; and miscellaneous asset
26 removals, i.e., the sale of facilities to Black Hills Power and the sale of Snake
27 Creek hydroelectric facilities to Heber Power. I also concur provisionally with
28 RMP's calculation of the deferred REC balance as of December 31, 2010.

29 I continue to disagree with RMP concerning the other adjustments in my
30 direct testimony. However, adjustments in the Company's rebuttal case cause my
31 wage and benefit expense adjustment to be reduced by about \$6.0 million to \$2.4
32 million, while increasing my natural gas swap disallowance by about \$3.8 million
33 to \$16.3 million.

34 **Q. Have you updated Table KCH-1 from your direct testimony, which**
35 **summarizes UAE's adjustments, to reflect your proposed adjustments to**
36 **RMP's rebuttal case?**

37 A. Yes, I have. This update is presented below as Table KCH-1S. I have
38 also updated a number of the exhibits presented in my direct testimony to reflect
39 my adjustments relative to the Company's rebuttal filing. These exhibits are
40 presented as UAE Exhibits RR 1.1 SR through 1.8 SR. Page 3 of UAE Exhibit
41 RR 1.7 SR is Confidential.

42

43

Table KCH-1S

**Summary of Revenue Requirement Impact of UAE Adjustments
Relative to RMP Rebuttal Filing**

| | Adjustment |
|--|--------------------------|
| Adjustment to Reflect Rolled-In Allocation | Incl. in RMP Reb. |
| Klamath Hydroelectric Depreciation | (1,730,872) |
| Klamath Surcharge Situs Adjustment | (7,302,531) |
| Test Period REC Revenue Adjustment | Accept RMP Prop. |
| Ancillary Revenue Adjustment | (1,072,463) |
| Environmental Projects Disallowance | |
| Hunter Unit No. 1 Scrubber Upgrade | (295,035) |
| Hunter Unit No. 2 Scrubber Upgrade | (1,822,183) |
| Huntington Unit No. 1 Scrubber Upgrade | (2,516,349) |
| Dave Johnston Unit No. 3 SO₂ Project | (3,712,692) |
| Wage and Benefit Expense Adjustment (Incremental Impact) | (2,419,112) |
| O&M Escalation Adjustment | (7,577,081) |
| Natural Gas SWAP Disallowance | (16,313,418) |
| Sub-Total UAE Test Period Adjustments | (44,761,736) |
| 2010 Deferred REC Revenue (Feb. 22, 2010 - Dec. 31, 2010) | (42,575,299) |

44

45

46 **AREAS OF AGREEMENT WITH RMP**

47 **Q. Please identify the revenue requirement issues that you had contested in your**
48 **direct testimony, but as to which you are now in agreement with RMP based**
49 **on your review of RMP’s rebuttal testimony.**

50 **A.** I am in agreement with RMP’s treatment in its rebuttal filing of the
51 following revenue requirement issues:

- 52 • Test period REC revenues (in combination with a REC tracker)
- 53 • Use of the Rolled-in inter-jurisdictional cost allocation methodology
- 54 • Miscellaneous asset removals

- 55 ○ Sale of facilities to Black Hills Power
- 56 ○ Sale of Snake Creek hydroelectric facilities to Heber Power

57

58 In addition, I provisionally accept of RMP's calculation of the deferred REC
59 balance as of December 31, 2010.

60

61 **Test Period REC Revenues**

62 **Q. Please explain the extent of your concurrence with RMP with respect to the**
63 **treatment of test period REC revenues.**

64 A. My adjustment to Utah revenue requirement of approximately \$33.0
65 million for REC revenues in my direct testimony is based on my projection of
66 system REC revenues of \$110.5 million for the test period. In its rebuttal
67 testimony, RMP reduced its Utah revenue requirement by approximately \$18.5
68 million (relative to its direct filing) based on the Company's updated projection of
69 system REC revenues of \$86.1 million for the test period; at the same time, RMP
70 agreed to the concept of a REC tracker as proposed by DPU witness Brenda
71 Salter.

72 I continue to believe that the REC revenue adjustment proposed in my
73 direct testimony is more reasonable than RMP's update because the Company
74 does not use a reasonable price for incremental wind REC sales. At the same
75 time, I also believe that for purposes of this proceeding, RMP's updated REC
76 revenue projection, if taken in combination with the REC tracker proposed by Ms.

77 Salter (or the REC tracker proposed by OCS witness Donna Ramas), will produce
78 a reasonable resolution of this issue. Therefore, I am willing to accept RMP's
79 REC revenue adjustment, as proposed in the Company's rebuttal testimony, if it is
80 accompanied by either of these REC tracker mechanisms.

81 **Q. What is your recommendation if a REC tracker is not adopted?**

82 A. If a REC tracker is not adopted, then I continue to recommend that REC
83 revenues should be based on system projected REC revenues of \$110.5 million
84 for the test period.

85

86 **Rolled-in Inter-jurisdictional Cost Allocation Methodology**

87 **Q. RMP has agreed to determine the Utah revenue requirement using the**
88 **Rolled-in inter-jurisdictional cost allocation methodology as recommended**
89 **by you and other witnesses in direct testimony. Do you have any further**
90 **comments with respect to RMP's rebuttal testimony on this issue?**

91 A. Yes. In his discussion of this issue, Mr. McDougal also proposes to
92 change the method used under Rolled-in to apportion inter-jurisdictional cost
93 responsibility for state income taxes. Previously, under both the Rolled-in and
94 Revised Protocol methods, state income taxes had been *allocated* to jurisdictions
95 on the basis of "income before taxes" ("IBT"). When RMP developed the 2010
96 Protocol for inter-jurisdictional cost allocation, the state income tax allocation
97 based on IBT was changed to a direct *calculation* of each jurisdiction's state
98 income tax. Mr. McDougal now also proposes that, under the Rolled-in method,

99 inter-jurisdictional cost responsibility for state income taxes state income taxes be
100 calculated rather than allocated.

101 I agree with Mr. McDougal that a direct calculation of each jurisdiction's
102 state income tax is superior to allocating income taxes. After many years of
103 analyzing cost allocation calculations, I have learned that it is potentially
104 hazardous to *allocate* income tax responsibility to customer groups. It is always
105 preferable to *calculate* income tax responsibility directly based on the income
106 attributable to the group being assigned the costs (in this case, the various RMP
107 jurisdictions). To allocate rather than calculate income tax cost responsibility
108 creates the possibility of anomalous results. I note that the general rate case
109 Settlement Agreement recently approved in Wyoming provides that the Revised
110 Protocol inter-jurisdictional cost allocation method (which is still relevant in
111 Wyoming) will also switch to a direct calculation of each jurisdiction's state
112 income tax.

113 **Q. In summary, what is your recommendation with respect to the treatment of**
114 **jurisdictional state income tax when using the Rolled-in method?**

115 A. The calculation of state income tax as proposed by Mr. McDougal should
116 be adopted. As Mr. McDougal notes, this reduces the Utah revenue requirement
117 by \$3,267,044 in the Company's rebuttal case.

118

119 **Miscellaneous Asset Removals**

120 **Q. In your direct testimony, you indicated that the Utah revenue requirement**
121 **should be adjusted to reflect the sale of certain facilities to Black Hills Power**
122 **and the sale of the Snake Creek Hydroelectric Generating Plant to Heber**
123 **Power. You further indicated that you would file supplemental testimony**
124 **addressing these adjustments. What is your position on the proper**
125 **adjustment for these sales?**

126 A. In his rebuttal testimony, Mr. McDougal agreed that adjustments for these
127 two sales are appropriate; consequently, he included adjustments for these
128 transactions in RMP's rebuttal revenue requirement. I accept the revenue
129 requirement adjustments presented for these two items by Mr. McDougal.

130

131 **CONTINUED AREAS OF DISAGREEMENT WITH RMP**

132 **Q. Based on your review of RMP's rebuttal testimony, please identify the**
133 **revenue requirement issues that remain areas of disagreement between UAE**
134 **and RMP.**

135 A. UAE and RMP continue to disagree concerning the following test period
136 revenue requirement issues:

- 137 • Klamath Hydroelectric Depreciation
- 138 • Klamath Surcharge Situs Adjustment
- 139 • Ancillary Revenue Adjustment
- 140 • Environmental Projects Disallowance

- 141 • Wage and Benefit Expense Adjustment (partial)
- 142 • O&M Escalation Adjustment
- 143 • Natural Gas Swap Disallowance

144 In addition, UAE and RMP disagree with respect to the Company's
145 proposed inclusion of deferred net power costs in this docket.

146

147 **Klamath Hydroelectric Depreciation**

148 **Q. How has RMP responded to your recommendation that it is premature to**
149 **accelerate the depreciation rate for the Klamath Hydroelectric Project assets**
150 **at this time because the reality and timing of dam removal remains**
151 **uncertain?**

152 A. RMP continues to advocate for accelerated depreciation even though
153 major milestones outside of the Company's control remain unresolved.

154 **Q. In responding to you and DPU witness Artie Powell on this issue, Mr.**
155 **McDougal claims that if the change to depreciation rates is postponed, the**
156 **impact on rates will increase exponentially because of the fewer number of**
157 **years to depreciate the plant [lines 1430-1432]. What is your response to this**
158 **statement?**

159 A. First, Mr. McDougal's statement presumes that dam removal is a foregone
160 conclusion, when in fact, the status of dam removal remains uncertain. Second,
161 Mr. McDougal's claim about costs increasing exponentially is unduly alarmist. It
162 is based on a presumption that if dam removal were to proceed, the only means to

163 effectuate depreciation recovery would be for all costs to be recovered within the
164 remaining expected life of the plant, when in fact, the schedule for depreciating
165 and/or amortizing remaining costs would be a matter of discretion by the
166 Commission. There is no need to rush to accelerate the depreciation rates of this
167 plant ahead of the legal process that must unfold before the dam removal plan is
168 set into motion.

169 I note that Mr. Brockbank makes an argument that is similar to Mr.
170 McDougal's on lines 234-245 of his rebuttal testimony, to which I offer this same
171 response.

172

173 **Klamath Surcharge Situs Adjustment**

174 **Q. On lines 154-179 of his rebuttal testimony, Mr. Brockbank disagrees with**
175 **your view that PacifiCorp's Oregon and California customers are being**
176 **assessed for dam removal in furtherance of Oregon and California state**
177 **policies to remove this RMP system resource. What is your response?**

178 A. Mr. Brockbank attempts to draw a distinction between the policies of the
179 Governors and resource agencies in those states on the one hand and the actions
180 of the public utility commissions on the other. He then avers that in imposing
181 customer surcharges, the commissions were acting on their belief that the KHSA
182 provides superior cost and risk protections for customers as compared to
183 continuing on the path of relicensing the facilities.

184 While that may be the belief of the commissions, it does not undo the fact
185 that dam removal is inextricably linked to the state policies of Oregon and
186 California, and that in approving customer surcharges, the commissions (to their
187 credit) obligated Oregon and California customers to pay for the full amount of
188 PacifiCorp customer exposure to dam removal costs under the KHSA – not just a
189 pro-rata share of it. The nexus between the Oregon and California customer
190 surcharges and furtherance of policies in those two states is undeniable. As
191 Oregon and California customers have been obligated to pay for the full amount
192 of PacifiCorp customer exposure to these costs, the associated revenues should
193 appropriately be reflected as an offset in Utah rates.

194

195 **Ancillary Revenue Adjustment**

196 **Q. How has RMP responded to your proposal to include a full year’s worth of**
197 **revenue for the ancillary sales contract between RMP and Seattle City Light,**
198 **rather than assume that revenues fall to zero after December 31, 2011 as**
199 **RMP has done?**

200 A. RMP has not accepted my adjustment, but instead states that the Company
201 is currently in negotiations with Seattle City Light on a possible long-term
202 contract to replace the contract that is expiring, and if a new contract is timely
203 finalized, it will be included in the Company’s surrebuttal filing.¹

204 **Q. What is your response to RMP’s position?**

¹ Rebuttal testimony of Steven R. McDougal, lines 814-826.

205 A. The Company's position well illustrates how a test period that extends
206 significantly into the future can be used by a utility to disadvantage customers in
207 the ratemaking process. Because this long-term contract has not yet been
208 extended past December 31, 2011, RMP conveniently assumes that the value is
209 zero for the second half of the test period, even though the City of Seattle has
210 stated in public documents that it is "critical" that it acquire, prior to 2012,
211 transmission and/or integration and exchange services from RMP for the last ten
212 years of a wind purchase agreement, as noted in my direct testimony.

213 If a new contract with Seattle City Light is finalized prior to the filing of
214 RMP's surrebuttal testimony, then it is appropriate for my adjustment to be
215 updated. However, if a new contract is not finalized by that time, then the most
216 reasonable assumption for ratemaking purposes is to retain the revenues in the
217 revenue requirement at the status quo for the entire test period. Failure to make
218 this adjustment would unduly penalize customers simply because RMP's
219 proposed test period extends to June 30, 2012 in this proceeding.

220

221 **Environmental Projects Disallowance**

222 **Q. Has RMP accepted any portion of UAE's proposed disallowance of certain**
223 **environmental upgrade costs?**

224 A. No. UAE's response to RMP on this issue is presented primarily in the
225 surrebuttal testimony of Howard Gebhart.

226 **Q. On lines 815-816 of his rebuttal testimony Mr. Teply asserts that there is an**
227 **inconsistency between the costs disallowance recommended by you for the**
228 **Dave Johnston Unit 3 environmental upgrades and Mr. Gebhart's testimony**
229 **on this subject. How do you respond?**

230 A. There is no inconsistency between Mr. Gebhart's discussion and my
231 adjustment. My adjustment is based on removal of the revenue requirement
232 impacts in this proceeding of the incremental cost of this project compared to an
233 available option that was considered cost effective by the Wyoming Department
234 of Environmental Quality and Mr. Gebhart. My understanding is that the
235 baghouse component of the Dave Johnston Unit 3 investment was an integral part
236 of the SO₂ removal project that Mr. Gebhart analyzed. However, the costs I have
237 proposed for disallowance are limited to the portion of Dave Johnston Unit 3
238 costs that were in excess of the cost-effective alternative referenced above.

239 **Q. RMP witnesses also complain that some of your environmental adjustments**
240 **relate to projects first considered for inclusion in rate base in prior dockets.**
241 **How do you respond?**

242 A. Without addressing legal issues, I believe this complaint is misplaced. To
243 my knowledge, the prudence of these projects has not previously been addressed.
244 With respect to investments considered in the context of the major plant addition
245 case last year, while the net revenue requirement impacts of those investments
246 were permitted into rates by stipulation, it is my understanding that the stipulation
247 included a reservation of rights as to other issues.

248 **Q. Do you have any changes in your recommended adjustment for**
249 **environmental upgrade costs based on RMP's rebuttal filing?**

250 A. No, I do not.

251

252 **Wage and Benefit Expense Adjustment**

253 **Q. Has RMP revised its wage and benefit expense in its rebuttal testimony?**

254 A. Yes. Relative to its direct filing, RMP has reduced its Utah revenue
255 requirement by approximately \$6 million as a result of further wage and benefit
256 expense adjustments. Consequently, only \$2.4 million of my original \$8.4
257 million adjustment remains applicable to the Company's rebuttal filing.

258 **Q. How has RMP responded to your recommendation to allow for a wage and**
259 **benefit expense increase based on the overall rate of wage and benefit**
260 **increases experienced over the period 2007-2010?**

261 A. As discussed in the rebuttal testimony of Mr. Wilson, RMP disagrees with
262 using the past experience of the Company to project what is reasonable going
263 forward. Instead, RMP has accepted a number of the wage and benefit
264 adjustments proposed by Ms. Ramas on behalf of OCS.

265 **Q. Do you have any further comments on this issue?**

266 A. Yes. While the astute line item adjustments proposed by Ms. Ramas have
267 resulted in concessions by RMP that its direct filing was overstated, it remains the
268 case that the oversight of RMP's wage and benefit expenses in the test period will
269 be in the hands of the Company's management. This fact is underscored by the

270 rebuttal testimony of IBEW witness Gary Cox, who discusses the Company's
271 decisions to outsource various projects. Management's ultimate decisions
272 regarding incentive compensation, filling of unfilled positions, hiring out work to
273 independent contractors, and so forth, are extremely difficult for parties or the
274 Commission to anticipate, particularly given the forward extent of the projected
275 test period being used in this case. I continue to believe that it makes sense for
276 the Commission, in setting a reasonable wage and benefit increase in rates in this
277 case, to be guided by the results of RMP's recent track record in managing its
278 wage and benefit expense, as I have proposed.

279

280 **O&M Escalation Adjustment**

281 **Q. Mr. McDougal describes your proposal to remove its O&M escalation**
282 **adjustment as “overreaching” and states it would result in chronic under**
283 **recovery of costs. Do you wish to respond to the Company's position?**

284 A. I disagree with the Company's characterization. RMP's O&M escalation
285 adjustment is an index-based mark-up of its actual base period costs that
286 guarantees inflation before it occurs. The cost increases represented by the
287 escalation factors may or may not come to fruition. This gratuitous escalation of
288 costs proposed for customer recovery is an unfortunate byproduct of the use of a
289 projected test period, which is intended for a different purpose: the amelioration
290 of regulatory lag on the recovery of investment in new plant.

291 **Q. Mr. McDougal is also critical of your arguments concerning the relatively**
292 **low level of core inflation. Do you have a response on this point?**

293 A. Yes. Mr. McDougal contends that compared to the IHS escalation factors
294 included in RMP's adjustments, core inflation is too broad to be an accurate
295 predictor of the specific cost pressures the Company will experience during the
296 test period.

297 This argument is beside the point. I am not proposing to use the core
298 inflation rate as a substitute for the IHS escalation factors. Rather, in my direct
299 testimony, I acknowledged that in a severe increasing-cost environment, some
300 consideration for O&M inflation in a projected test period would probably be
301 necessary. I discuss the low level of core inflation to demonstrate that
302 inflationary pressures are *not* at such a level; the current level of core inflation
303 does not warrant an exception to my general recommendation against grossing up
304 a utility's actual base period costs by an index factor and passing these costs on to
305 customers.

306 **Q. On lines 1085-1089 of his rebuttal testimony, Mr. McDougal cites Wyoming**
307 **as an example of a jurisdiction in which the Company's requested O&M**
308 **escalation methodology is utilized. Do you agree?**

309 A. I agree that the adjustment was utilized by the Company in its application,
310 but the adjustment is not included in the rates approved by the Wyoming
311 Commission in its most recent rate case order, which was resolved by stipulation.

312

313 **Natural Gas Swap Disallowance**

314 **Q. Have you reviewed RMP's rebuttal testimony on the topic of natural gas**
315 **swap disallowances?**

316 A. Yes, I have.

317 **Q. What observations do you offer based on your review?**

318 A. Three other parties besides UAE – DPU, OCS, and UIEC – propose
319 hedging adjustments. RMP's rebuttal appears directed to two major themes: (1)
320 disputing the contention of some parties that the Company's hedging program has
321 resulted in net costs over time; and (2) arguing against a disallowance in this
322 proceeding because it would constitute an after-the-fact judgment.

323 **Q. Do you have any response on these general themes?**

324 A. As I did not attempt to measure the cumulative benefit or cost of RMP's
325 hedging program over time, I have no comments on that topic. With respect to
326 the second theme – the appropriateness of a disallowance in this proceeding, I
327 wish to add some perspective.

328 I raised concerns about the Company's gas swap costs in RMP's 2008
329 general rate case, Docket No. 08-035-38, but I did not recommend a disallowance
330 at that time; instead, parties agreed as part of a stipulation to request that the
331 Commission open a docket on RMP's natural gas price risk management; and
332 RMP agreed to a process to allow interested parties to review the Company's
333 policies and procedures and other aspects of natural gas price risk management,
334 prior to the filing of the Company's next general rate case.

335 As discussed by Mr. Bird in his rebuttal, a considerable review of RMP's
336 hedging practices has taken place since the 2008 case, but concerns about the
337 aggressiveness of RMP's hedging practices among Utah stakeholders have not
338 abated. I believe it is a measure of the basic fairness of the Utah stakeholders that
339 disallowances for gas hedging losses were not proposed at the inception of these
340 large losses, but that a process for review was initiated. It is clear that many Utah
341 parties are in basic disagreement with RMP's corporate preference for aggressive
342 hedging, but customers and their advocates do not run the Company. At some
343 point, it reasonable for customers to resist having the cost of RMP's corporate
344 preferences imposed on them, particularly when those preferences lie outside the
345 normative range of behavior.

346 **Q. RMP has updated its net power cost calculation in its rebuttal. Have you**
347 **recalculated your swap disallowance using the updated GRID run?**

348 A. Yes. In the updated GRID run, RMP's projected gas purchases decline;
349 thus, an even greater percentage of its projected monthly gas consumption is more
350 than 75% hedged. This increases the revenue requirement reduction from my
351 recommended disallowance to **\$16,313,418**.

352

353 **DEFERRED REC REVENUES AND NET POWER COST**

354 **Q. Have you reviewed the supplemental direct testimony of Mr. McDougal filed**
355 **in this docket in June 2011?**

356 A. Yes. Mr. McDougal's supplemental direct testimony responds, in part, to
357 my proposal (and that of Ms. Ramas) to begin crediting customers for the value of
358 REC revenues deferred since February 22, 2010.

359 **Q. Do you have any response to the issues raised by Mr. McDougal?**

360 A. Yes, I have several. First, on lines 189-190 of his supplemental direct
361 testimony Mr. McDougall indicates that UAE "possibly" may have suggested that
362 the crediting of deferred REC revenues should occur in base rates. I do not know
363 the origins of this inference, as I state clearly on lines 980-985 of my direct
364 testimony that the deferred REC revenues should be credited to customers
365 through a sur-credit. UAE is not proposing that the crediting of deferred REC
366 revenues should occur in base rates

367 Second, I provisionally agree to a correction in my estimate of the balance
368 of Utah REC revenues on December 31, 2010. In my direct testimony, I had
369 estimated this balance to be \$42.1 million. However, according to Confidential
370 Exhibit RMP__SRM-6R, this balance is \$39.5 million.

371 The difference is largely due to differing assumptions concerning Utah's
372 share of system REC revenues. Because California, Oregon, and Washington
373 RPS standards do not apply uniformly to all REC-eligible resources, Utah's share
374 of system REC revenues differs by resource. For example, Utah's share of REC
375 revenues derived from wind sales is greater than its share of REC revenues from
376 geothermal sales. In my estimate, I had attributed all incremental REC revenues
377 (relative to the test year RECs) to sales of new wind RECs, as I believed that was

378 consistent with RMP's depiction of how deviations from its REC revenue forecast
379 would occur. Instead, RMP reports that a material portion of incremental REC
380 sales came from geothermal and hydro resources. Assuming this is correct, my
381 estimate needs to be revised downward to account for Utah's smaller share of the
382 REC revenues from these resources relative to wind.

383 To maintain an apples-to-apples comparison with my direct testimony, I
384 have recalculated the deferred REC credit, including interest, for a one-year sur-
385 credit period. This credit is reported in Table KCH-1S as **\$42,575,299**. Although
386 I have calculated this credit for a one-year period, I do not object to the
387 amortization being extended to two years as proposed by Mr. McDougal.

388 **Q. What other aspects of Mr. McDougal's supplemental testimony do you wish**
389 **to comment on?**

390 A. Mr. McDougal proposes that the Commission determine the ratemaking
391 treatment of the deferred REC account and RMP's proposal to recover deferred
392 net power costs dating from February 2010 in this case by ordering amortization
393 of the estimated balances in both accounts as of September 20, 2011. UAE
394 opposes this proposal because the parties do not have time in the context of this
395 docket to investigate the various elements of NPC deferred since February 2010.

396 In the alternative, if the Commission decides not to determine the
397 ratemaking treatment of the deferred net power cost account in this case, Mr.
398 McDougal proposes that the Commission remove the issue of the ratemaking
399 treatment of the deferred REC account from this case and determine the

400 ratemaking treatment of the deferred net power cost and deferred REC account in
401 consolidated proceedings in Docket Nos. 09-035-15 and 10-035-14.

402 UAE strongly opposes Mr. McDougal's alternative proposal. The REC
403 deferral matter stands on its own and should be determined on its merit in this
404 docket without linkage to RMP's net power cost deferral claim. UAE timely
405 raised the issue in its direct testimony in this docket, the parties have all had
406 ample opportunity to address it, and the deferred balance should be returned to
407 ratepayers as soon as possible.

408 I will not attempt to comment on the legal aspects of the Company's
409 proposal. However, I note that at a substantive level, any claim by RMP that
410 these two matters are inherently linked is inconsistent with the Company's own
411 actions that were undertaken at its sole initiative. Namely: (1) RMP did not
412 include REC revenues in its EBA proposal until after the request for REC deferral
413 was filed by UAE; (2) RMP did not include REC revenues in its request for
414 deferred accounting of NPC deviations; and (3) RMP did not file separately for
415 deferred accounting treatment for incremental REC revenues. If fairness dictates
416 that these two items are necessarily linked, as RMP claims, then why weren't they
417 linked in the Company's own filings?

418

419 **Q. Does this conclude your surrebuttal testimony?**

420 **A.** Yes, it does.