

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Application of	)	
Rocky Mountain Power for Authority	)	Docket No. 10-035-124
to Increase its Retail Electric Utility	)	Test Period Phase
Service Rates in Utah and for	)	Direct Testimony of
Approval of Its Proposed Electric	)	Daniel E. Gimble
Service Schedules and Electric	)	For the Office of
Service Regulations	)	Consumer Services

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March 9, 2011

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, POSITION AND YOUR BUSINESS ADDRESS.

3 A. My name is Daniel E. Gimble. I am a Special Projects Manager with the Office of  
4 Consumer Services (Office or OCS). My business address is 160 E. 300 S., Salt  
5 Lake City, Utah.

6  
7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THE TEST PERIOD  
8 PHASE OF THIS CASE?

9 A. I provide the Office’s recommendation on the test period that should be approved  
10 by the Commission for setting revenue requirement in Docket 10-035-124,  
11 RMP’s 2011 General Rate Case (GRC). My testimony also identifies two  
12 important factors that should be considered by the Commission in determining  
13 the appropriate test period for this proceeding.

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15 II. OFFICE RECOMMENDATIONS

16 Q. PLEASE PROVIDE THE OFFICE’S TEST PERIOD PROPOSAL FOR THIS  
17 GRC.

18 A. For purpose of setting new rates in this proceeding, the Office proposes to use a  
19 forecast test period that is closer in time than the Company’s proposed test  
20 period that ends June 2012. We also recommend that the Commission require  
21 the use of a 13-month average rate base. Our test period proposal  
22 acknowledges that new capital investment and increases in net power costs  
23 appear to be key drivers underlying the Company’s rate request, but it strikes an  
24 appropriate balance between ratepayers and shareholders in achieving a fair and  
25 reasonable outcome. In particular, the Company has other cost recovery  
26 processes for major plant additions (MPA) and an energy balancing account  
27 (EBA) to address the costs of major plant investment and net power cost  
28 variations between rate cases.

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32 III. FACTORS SUPPORTING THE OFFICE'S RECOMMENDATION

33 Q. WHAT FACTORS SHOULD THE COMMISSION GIVE WEIGHT TO IN ITS  
34 EVALUATION OF WHAT TEST PERIOD TO USE FOR THIS GRC  
35 PROCEEDING?

36 A. The Office believes the Commission should give careful consideration and weight  
37 to the recently adopted cost recovery processes mentioned above. The  
38 Company can now seek outside of a GRC, cost recovery for major plant  
39 additions and a percentage of actual variations in net power costs from projected  
40 levels. These processes should substantially reduce the effects of regulatory lag  
41 on the Company's earnings between GRCs. The Office submits these two new  
42 mechanisms are very relevant factors that should be considered by the  
43 Commission in making its test period decision in this proceeding.  
44

45 Q. HOW DO THESE MPA AND EBA RATEMAKING PROCESSES ADDRESS  
46 REGULATORY LAG?

47 A. In combination, the MPA and EBA mechanisms serve to mitigate the effects of  
48 regulatory lag between GRCs. The MPA cases afford the Company an  
49 opportunity to receive expedited treatment of cost recovery associated with major  
50 capital projects before those assets are placed into rate base. In the recent 2010  
51 MPA I and II proceedings, the Company was able to reach a settlement with  
52 parties that increased rates through Schedules 40 and 97 by approximately  
53 \$79.8 million or 5.83%.<sup>1</sup> In addition, the recently-approved Utah EBA provides  
54 the Company with a mechanism to track actual variations in net power costs  
55 between GRCs in an interest-bearing deferral account and seek to recover up to  
56 70% of any deferred net power cost balance. Since net power costs represent a  
57 significant portion of the Company's Utah revenue requirement, the presence of  
58 an EBA provides the Company with an opportunity to recover a significant portion  
59 of actual variations in net power costs between GRCs.  
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<sup>1</sup> The Schedule 40 and 97 increases totaling 5.83% were offset by Schedule 98 (REC revenue), which limited the net increase applied on Utah customers' January 2011 bills to 3.44%.

61 Q. THE COMMISSION HAS PREVIOUSLY IDENTIFIED EIGHT FACTORS IT  
62 EVALUATES IN DETERMINING THE APPROPRIATE TEST PERIOD FOR A  
63 GIVEN GRC. DO YOU HAVE ANY COMMENTS ON ANY OF THESE  
64 FACTORS?

65 A. Yes. In Mr. McDougal's Direct testimony (page 15, lines 335-340), he discusses  
66 the factor, "Length of Time New Rates are Expected to be in Place." He  
67 represents that the Company has not decided how long these rates will be in  
68 effect; in other words when the Company would file its next Utah GRC seeking a  
69 rate change. However, Rich Walje, RMP's CEO, recently announced in an essay  
70 in Utah newspapers that RMP's Utah customers should expect annual rate  
71 increases.<sup>2</sup> Accordingly, the longevity of any rate change in the instant case may  
72 be a matter of months rather than years. Mr. Walje's essay is underscored by  
73 the Company's February 15, 2011 legal brief responding to UIEC's motion and  
74 UAE's request relating to the determination of test period, wherein the Company  
75 states on page 13 that "it anticipates filing annual rate cases" in Utah.

76 Given the expectation of frequent rate filings, which the Commission in its  
77 test period order in Docket 07-035-93 stated isn't necessarily a bad thing<sup>3</sup>, a  
78 closer in time forecast period for establishing a new revenue requirement level  
79 seems to be more in line with recent views of this Commission on the test period  
80 issue and more reasonably balances the interests of ratepayers and  
81 shareholders than a test period that is further out in time.

82

83 IV. WYOMING 2010 GRC

84 Q. IS THERE ANY OTHER FACTOR THAT HAS A DIRECT BEARING ON THE  
85 COMMISSION'S TEST PERIOD DECISION IN THIS PARTICULAR GRC?

86 A. Yes. The Company filed its Wyoming GRC about two months before filing the  
87 Utah GRC filing. The Office understands that the Company proposed a 2011

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<sup>2</sup>Mr. Walje's essay was recently published in the Salt Lake Tribune on February 12, 2011, Deseret News on March 1, 2011, Standard Examiner on February 22, 2011 and Emery County Progress on February 22, 2011.

<sup>3</sup>On page 4 of the Test Period Order in 07-035-93, the Commission states "In this time of expanded utility investment, potentially increasing costs and greater uncertainty of economic conditions, more frequent rate cases may be necessary to ensure just and reasonable rates."

88 calendar year test period be used in Wyoming with a 13-month average rate  
89 base. This calendar year 2011 test period has been adopted by the Wyoming  
90 Commission -- a test period which is six months shorter than the test period  
91 proposed by the Company in Utah.

92

93 Q. CAN THE COMPANY REQUEST EXPEDITED RATE RECOVERY OF MAJOR  
94 PLANT ADDITIONS OUTSIDE OF GRCS IN WYOMING?

95 A. Wyoming does not have a MPA process that enables the Company to request  
96 expedited rate recovery of major plant investment outside of GRCs.

97

98 Q. WOULD THE FIRST 12 MONTHS OF THE RATE EFFECTIVE PERIOD FOR  
99 THE WYOMING AND UTAH GRCS BE SIMILAR?

100 A. Yes. According to the Company's response to DPU 6.31, the first 12 months of  
101 the of the rate effective period in the Wyoming case is September 2011 to  
102 September 2012.<sup>4</sup> The first 12 months of the rate effective period in the Utah  
103 case will likely be October 2011 to October 2012.<sup>5</sup>

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105 V. TIMING OF THE TEST PERIOD DECISION

106 Q. GIVEN THE TEST PERIOD HEARING DATE IS SCHEDULED TWO MONTHS  
107 AFTER THE COMPANY FILED ITS GRC, IS THERE A SENSE OF URGENCY  
108 IN RECEIVING A TEST PERIOD DECISION FROM THE COMMISSION?

109 A. Yes. Three rounds of pre-filed testimony on test period issues will have been  
110 received by the Commission prior to the March 24, 2010 hearing date. The  
111 Office strongly urges the Commission to promptly announce its test period  
112 decision from the bench (followed later by an order) so parties know the test  
113 period data they will be analyzing to prepare their respective cases. The  
114 Commission will also have to consider how to manage the case going forward, if

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<sup>4</sup>In the 2010 Wyoming GRC, the Company is requesting new rates be effective on September 22, 2011, which is 10 months from the November 22, 2010 filing date (Wyoming Docket 20000-384-ER-10, Direct, Testimony of Mr. Brian Dickman, pg. 7, line 18)

<sup>5</sup>Per the 240-day time period associated with the Utah GRC, a Commission Order would be published in September 2011 and new rates would likely go into effect in October 2011.

115 the Company is required to prepare and file revenue, expense and rate base  
116 data using a different test period.

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118 Q. IF THE COMMISSION WERE TO DECIDE IN FAVOR OF THE SAME TEST  
119 PERIOD BEING USED IN THE WYOMING GRC, WOULD IT BE A  
120 SIGNIFICANT BURDEN ON THE COMPANY TO SWIFTLY RE-FILE ITS  
121 CASE?

122 A. Since the Company has already filed information based on a calendar year 2011  
123 test period in Wyoming, it presumably has much of the data required to quickly  
124 prepare and re-file its case in Utah.

125

126 Q. HOW WOULD PARTIES BE IMPACTED BY A SIGNIFICANT DELAY IN THE  
127 COMPANY RE-FILING ITS CASE?

128 A. Since the discovery-audit process has been underway for two months and direct  
129 testimony is due from non-Company parties on May 26, 2011, anything beyond a  
130 two-week delay would significantly disadvantage all parties other than the  
131 Company.

132

133 Q. WHAT OPTIONS DOES THE COMMISSION HAVE TO REMEDY THIS  
134 DISADVANTAGE?

135 A. The Commission can either stop the 240-day clock until such time as the  
136 Company prepares and re-files data that complies with the ordered test period or  
137 require the Company to swiftly re-file its case by a time certain. Under either  
138 option the Commission will have to ensure that the Company's re-filed case is  
139 complete and not subject to further updates.

140

141 Q. WHAT DOES THE OFFICE RECOMMEND?

142 A. The Office recommends that the Commission rule quickly on the matter of the  
143 appropriate test period to be used in this GRC. If the Commission orders a  
144 calendar year 2011 test year, the Order should include a two-week deadline for

145 re-filing and impose the requirement that delays beyond the two-week re-filing  
146 period will stop the 240-day time period.

147

148 VI. OTHER ISSUES

149 Q. ARE THERE ANY OTHER ISSUES THE COMMISSION SHOULD CONSIDER  
150 IN ITS DECISION ON TEST PERIOD?

151 A. Yes, there remains the issue of what rate base will be used in connection with  
152 the Commission's decision on test period. The Office recommends that a 13-  
153 month average rate base be used to synchronize revenue, expense and rate  
154 base in conjunction with any test period the Commission orders be used in this  
155 GRC.

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157 VII. SUMMARY

158 Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS FOR THE TEST  
159 PERIOD PHASE OF THIS PROCEEDING.

160 A. The Office recommends that under current regulatory circumstances, the  
161 Commission should generally require test periods that are closer in time to the  
162 present. In this GRC the Office is not challenging the use of a future test period,  
163 we simply recommend a shorter time period than proposed by the Company. In  
164 addition, the Company now has the MPA and EBA mechanisms that provide it  
165 the opportunity to request cost recovery of major plant additions and 70% of  
166 increases in net power costs that occur in between GRCs. These mechanisms  
167 serve to greatly mitigate concerns about regulatory lag.

168 The Office also notes that the contemporaneous Wyoming general rate  
169 case was filed based on a calendar year 2011 test year. Thus, re-filing with 2011  
170 data should not present an onerous requirement for the Company. However, the  
171 Commission should clearly indicate a deadline by which the data must be re-filed  
172 and stop the 240-day time period if it will take the Company longer than two  
173 weeks to re-file the required information.

174

175 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THE TEST PERIOD  
176 PHASE OF THIS CASE?

177 A. Yes it does.