

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Alternative Cost Recovery for Major Plant Additions of the Ben Lomond to Terminal Transmission Line and the Dave Johnston Generation Unit 3 Emissions Control Measure)	Docket No. 10-035-13
)	
)	Direct Testimony of
)	Cheryl Murray
)	For the Office of
)	Consumer Services

April 26, 2010

1 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

2 A. My name is Cheryl Murray. I am a Utility Analyst for the Office of
3 Consumer Services. My business address is 160 East 300 South, Salt
4 Lake City, Utah.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. I present the Office's policy position regarding the allocation of the state's
7 share of incremental revenue requirement to be deferred in this case.

8 **Q. WHAT IS THE OFFICE'S POSITION REGARDING THE REVENUE
9 REQUIREMENT TO BE DEFERRED?**

10 A. The Office believes that the Commission should allow deferral of only the
11 approved amount following any adjustments calculated using the Rolled-In
12 method without the 1 percent rate mitigation cap. In the alternative, the
13 Commission must allow recovery for no more than what is allowed under
14 the revised protocol. The Company has not demonstrated that its request
15 is consistent with that methodology.

16 **Q. WHY IS THE OFFICE PROVIDING ALLOCATION
17 RECOMMENDATIONS WITHIN THIS SPECIFIC CASE?**

18 A. The Office considered recent Commission orders regarding
19 interjurisdictional cost allocation. In its October 19, 2009 Order, in Docket
20 No. 09-035-23 the Commission indicated its desire "to know if the
21 continued use of the 2004 Stipulation¹ mechanisms to set Utah revenue
22 requirement does and will produce results in Utah which are just,

¹ Docket No. 02-035-04.

23 reasonable, and in the public interest.” On November 9, 2009 the
24 Commission issued an Order Staying October 19, 2009 Order based on
25 parties’ responses that it would be difficult to adequately address the
26 issues in the time remaining to conclude the rate case.

27

28 The Commission further stated:

29 “Although constrained by the time remaining in this docket, we
30 intend to have inter-jurisdictional allocation issues addressed and the
31 reasonableness of any allocation established prior to our approval of any
32 future change in RMP’s rates.”²

33

34 Furthermore, Utah Statute 54-7-13.4 (4)(b)(i), which governs this
35 proceeding states:

36 “If the commission approves cost recovery of a major plant addition,
37 the commission shall determine the state’s share of projected net revenue
38 requirement impacts of the major plant addition, including prudently-
39 incurred capital costs and other reasonably projected costs, savings, and
40 benefits.”

41

42 Thus, if the Commission grants cost recovery in this case it will need to
43 determine the **state’s share** of projected net revenue requirement, which
44 will eventually result in a change in RMP’s rates as referenced in the

² November 9, 2009 Order, Docket No. 09-035-23, page 2.

45 November 9, 2009 Order. For these reasons, in response to the
46 Commission's Order the Office is providing its policy recommendation on
47 the reasonableness of the allocation methodology in this case.

48 **Q. DOES THE OFFICE BELIEVE THAT THE COMMISSION MUST RULE**
49 **ON THE APPROPRIATENESS OF CONTINUED USE OF REVISED**
50 **PROTOCOL IN THIS PROCEEDING?**

51 A. No. Since broader discussions within the MSP context are ongoing, we
52 do not present this as an overall recommendation to be applied broadly.
53 Rather, we simply address what we recommend to be most reasonable in
54 this isolated situation in an effort to be responsive to the Commission's
55 November 9, 2009 Order. Further, the Office does not believe that the
56 Commission is under any obligation to make a determination in this case
57 as to whether or not the Revised Protocol allocation method, and the
58 stipulation upon which it is based, is still in the public interest. It must only
59 determine the state's share of the net revenue requirement from the major
60 plant additions contained in this filing, and ensure that it results in just and
61 reasonable rates.

62 **Q. WHY DOES THE OFFICE DISAGREE WITH THE COMPANY'S**
63 **DECISION TO INCLUDE A ONE PERCENT ADDER TO REVENUE**
64 **REQUIREMENT IN THIS CASE?**

65 A. There have been ongoing discussions in the MSP forum examining how to
66 address the issue of whether revised protocol remains in the public
67 interest for Utah consumers. The position of the Utah parties, including

68 the Commission, appears to be a preference for the eventual move into
69 rolled-in rates.³

70

71 Utah Statutes require that if the Commission grants cost recovery in this
72 case, it will need to determine the state's share of projected net revenue.

73 Those net revenues should, as nearly as possible, be calculated to protect
74 ratepayers from overpaying for the resources in this case. Since an

75 eventual move toward rolled in rates appears to be the long-term

76 objective, using rolled in methodology without a 1 percent adder as a

77 basis for determining the state's share of the net revenue requirement in

78 this case would be reasonable. Removing the 1 percent will result in an

79 adjustment of \$326,917 from the Company's requested revenue

80 requirement as explained in the testimony of Office witness' Donna

81 Ramas.

82 **Q. IF THE COMMISSION REJECTS THE OFFICE'S POLICY**

83 **RECOMMENDATION, IS THE COMPANY'S CALCULATION OF THE**

84 **STATE'S SHARE OF NET REVENUE REQUIREMENT CORRECT**

85 **UNDER THE MSP METHODOLOGY?**

86 A. No. The Company did not properly follow the terms of the MSP settlement.

87 The Commission's Order in Docket No. 02-035-04 provides the stipulated

88 terms of calculating Utah Revenue Requirement using Revised Protocol.

89 1. *Calculation of Utah Revenue Requirement*

³ See Attachment VII b. Draft Meeting Summary from MSP Commissioners' Forum pages 3 and 5.

90 The Company's Utah revenue requirement will be the **lessor** [sic]
91 of that calculated using the Rolled-In method multiplied by the
92 applicable percentage Rate Mitigation Cap or that calculated using the
93 Revised Protocol method multiplied by the applicable percentage Rate
94 Mitigation Premium. [emphasis added]

95
96

2. Rate Mitigation Cap

97 The Rate Mitigation Cap applied to the results of the Rolled-In
98 method is 101.50 percent for the period from the effective date of the
99 final Commission order in the first general rate proceeding filed after
100 the effective date of the Stipulation through the Company's fiscal year
101 2007, 101.25 percent for fiscal years 2008 and 2009 and 101.00
102 percent for fiscal years 2010 through 2014.

103
104

3. Rate Mitigation Premium

105 For the Company's fiscal years 2010 through 2012, the Rate
106 Mitigation Premium applied to the results of the Revised Protocol
107 method is 100.25 percent. For all other fiscal years, the Rate Mitigation
108 Premium is 100.00 percent.
109

110 The Commission's order makes clear that revenue requirement will be
111 determined on the **lessor** of rolled in with a rate mitigation cap or revised
112 protocol with a rate mitigation adder.

113

114 In this case the Company has not demonstrated whether rolled-in with a 1
115 percent rate mitigation cap or revised protocol with a .25 percent rate
116 premium would result in lower revenue requirement. In general rate cases
117 the Company provides its case using both methods, no less should be
118 accepted in a major plant addition case.

119 **Q. DOES THE OFFICE BELIEVE THERE IS SIGNIFICANT DIFFERENCE**
120 **BETWEEN REVENUE REQUIREMENT ESTABLISHED USING**
121 **ROLLED-IN AND REVISED PROTOCOL?**

122 A. Considering the allocation factors involved intuitively the difference
123 between rolled-in and revised protocol would likely be minimal. Also, in
124 discussions regarding the model Mr. McDougal has indicated that there
125 should be little difference in the results of the two methods. However, the
126 Company did not present its revenue requirement using both methods. As
127 Ms. Ramas explains in her testimony, there are problems with the JAM
128 model provided by RMP when attempting to derive the revenue
129 requirement impacts using the model under the revised protocol
130 methodology.⁴ Since the Company did not provide revenue requirement
131 results using both methods and the JAM model did not perform
132 appropriately to allow determination of revised protocol we must regard
133 these results as a proxy.

134
135 If revenue requirement is the same under either method, a 1 percent
136 adder will increase revenue requirement more than a .25 percent adder
137 and is not appropriate as per the Commission's order. If the Commission
138 chooses not to outright disallow the 1 percent adder, at a minimum the
139 Company should be required to use the lower of the rate mitigation cap or
140 the rate mitigation premium in this case. If indeed the calculation under
141 revised protocol and rolled in results in the same number, then an
142 adjustment of \$245,188 would be necessary to change the adder from 1
143 percent to 0.25 percent.

⁴ Due to problems with the Company provided JAM model the Office was unable to verify which method would result in lower revenue requirement in this case.

144

145 While we recognize that the impact in this case is not significant, in future
146 cases the difference could be much larger and it is an important principle
147 for the Commission to consider.

148 **Q. DOES THE COMPANY EXPLAIN THE BASIS FOR ITS DECISION TO**
149 **INCLUDE A ONE PERCENT ADDER IN THIS DOCKET?**

150 A. Yes. Steven McDougal testifies that “[T]he capital included in this major
151 plant addition filing is allocated on a system generation (“SG”) factor which
152 is the same under both revised protocol and rolled-in allocation
153 methodologies”.⁵ He goes on to say that he has computed the Utah
154 allocated revenue requirement for each project using Rolled In multiplied
155 by 101 percent as that is how revenue requirement was calculated in the
156 last two rate cases, Dockets 08-035-38 and 09-035-23.

157 **Q. DOES THE OFFICE AGREE THAT THE METHOD FOR DETERMINING**
158 **REVENUE REQUIREMENT IN MAJOR PLANT ADDITION CASES**
159 **SHOULD BE THE METHOD USED IN THE PRIOR RATE CASE?**

160 A. No. The issues of a major plant addition case are viewed in isolation as
161 opposed to the elements of a general rate case. The Commission should
162 order the allocation method it deems appropriate, making an effort to
163 ensure that Utah ratepayers are not required to pay more than their fair
164 share of the costs of major plant additions. Additionally, once the major

⁵ Direct Testimony of Steven R. McDougal Page 4, lines 87-89.

165 plant addition goes into general rates it will be allocated on whatever
166 Commission approved method is in effect at the time.

167 **Q. WHAT IS THE OFFICE'S OVERALL REVENUE REQUIREMENT**
168 **RECOMMENDATION IN THIS CASE?**

169 A. The Office recommends that the Commission not allow the inclusion of a 1
170 percent adder to revenue requirement in this case. Removing the 1
171 percent adder reduces the Company's requested revenue requirement by
172 \$326,917. When combined with the adjustments recommended by Ms.
173 Ramas and Mr. Falkenberg the Office's overall revenue requirement
174 recommendation is \$31,116,505 or a reduction from the Company's
175 request of \$1,902,088.

176 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

177 A. Yes.