

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. 11-035-200

Direct Testimony of Greg R. Meyer

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 Q WHAT IS YOUR OCCUPATION?

5 A I am a consultant in the field of public utility regulation and an Associate with
6 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

7 Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

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

9 Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

10 A I am appearing on behalf of the Federal Executive Agencies ("FEA"). The FEA
11 operates several facilities within Utah, specifically Hill Air Force Base, which receive

12 service from Rocky Mountain Power (“RMP” or “Company”). The rate increase
13 requested by RMP, if approved, would result in significant additional costs to the FEA.

14 **Introduction**

15 **Q WHAT AMOUNT OF INCREASE HAS RMP REQUESTED?**

16 A The overall increase requested by RMP is \$172.3 million.

17 **Q WHAT TEST PERIOD DID RMP SELECT FOR PURPOSES OF CALCULATING ITS**
18 **REVENUE REQUIREMENT?**

19 A The test period for this case is the 12 months ending May 2013 (June 2012 through
20 May 2013). RMP used a base period of the 12 months ended June 30, 2011.

21 **Q PLEASE IDENTIFY THE WITNESSES WHICH WILL PRESENT TESTIMONY ON**
22 **BEHALF OF THE FEA AND BRIEFLY DESCRIBE THE AREAS THAT EACH WILL**
23 **ADDRESS.**

24 A The following witnesses present testimony on behalf of the FEA.

25 ➤ Mr. Michael Gorman presented testimony on May 31, 2012 on cost of capital and
26 capital structure.

27 ➤ My testimony will address various revenue requirement issues.

28 **Q DO YOU BELIEVE THAT RMP HAS JUSTIFIED THE PROPOSED OVERALL**
29 **INCREASE OF \$172.3 MILLION?**

30 A No. Based on our analysis, RMP’s claimed revenue requirement and proposed rate
31 increase are significantly overstated.

32 **Q** **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

33 **A** I am providing testimony regarding several adjustments to RMP's revenue
34 requirement, namely:

- 35 1. An adjustment to disallow RMP's proposed operation and maintenance ("O&M")
36 expense escalation adjustment.
- 37 2. An adjustment to RMP's proposed level of overtime and premium pay.
- 38 3. An adjustment to RMP's proposed level of cash working capital ("CWC").
- 39 4. An adjustment to disallow RMP's proposed increase to uncollectible expense as a
40 result of RMP's increased revenue requirement.

41 I have prepared Table 1 which lists each of the revenue requirement adjustments the
42 FEA is proposing in RMP's filed case, and the value of each adjustment. Following
43 Table 1 is a short description of the adjustments.

| <u>Description</u> | <u>Value</u> <u>(\$000)</u> |
|-----------------------------|--|
| 1. Return on Equity | \$45,943 |
| 2. RMP's Capital Structure | 7,299 |
| 3. O&M Expense Escalation | 10,189 |
| 4. Overtime and Premium Pay | 1,542 |
| 5. Cash Working Capital | 1,470 |
| 6. Uncollectible Expense | <u>369</u> |
| Total Reduction | \$66,812 |

- 44 1. Return on Equity – Mr. Gorman is proposing a 9.25% return on equity as
45 compared to RMP's requested 10.2% return on equity.
- 46 2. Capital Structure – Mr. Gorman is proposing to remove common equity supporting
47 non-utility assets from the capital structure. Mr. Gorman is also proposing to
48 reflect new financing activities.
- 49 3. O&M Expense Escalation – I am proposing to disallow RMP's proposed
50 adjustment to O&M expense to reflect inflation.

51 4. Overtime and Premium Pay – I am proposing to adjust RMP's overtime and
52 premium pay level.

53 5. Cash Working Capital – RMP has included an allowance for working capital using
54 two methodologies. I recommend elimination of one methodology.

55 6. Uncollectible Expense – I am proposing to disallow the level of uncollectible
56 expense associated with RMP's increased revenue requirement.

57 The fact that I do not address a specific revenue requirement issue should not
58 be interpreted as approval or acceptance by the FEA of any position taken by RMP
59 unless I state otherwise.

60 **O&M Escalation**

61 **Q DID RMP PROPOSE AN ADJUSTMENT FOR THE ESCALATION OF O&M**
62 **EXPENSES?**

63 A Yes. RMP proposes to increase Utah's revenue requirement by \$10.2 million to
64 reflect undocumented increases in non-labor expenses for projected inflation through
65 the test period.

66 **Q HOW DID RMP CALCULATE THE \$10.2 MILLION ADJUSTMENT?**

67 A The \$10.2 million adjustment is derived on a total company (PacifiCorp) cost basis.
68 RMP started with PacifiCorp's total expenses, less specific Federal Energy
69 Regulatory Commission ("FERC") account expenses and in-house labor. RMP then
70 applied IHS Global Insight Indices to the expense levels to adjust those expenses for
71 inflation through the test period. From that process, RMP is projecting that
72 PacifiCorp's O&M expenses will increase by \$25.0 million from June 30, 2011 through
73 May 31, 2013. The Utah allocated portion of the \$25.0 million inflation adjustment is
74 \$10.2 million.

75 **Q DO YOU AGREE WITH RMP'S PROPOSED INFLATION ADJUSTMENT FOR**
76 **UTAH?**

77 A No, I do not. It is purely speculative. I will demonstrate that RMP's projected
78 increase in expense levels has not been observed for Utah's expenses from
79 June 2010 through June 2011. Therefore, I propose that RMP's inflation adjustment
80 be disallowed.

81 **Q PLEASE DESCRIBE THE HISTORICAL LEVELS OF EXPENSE YOU ANALYZED.**

82 A I compared Utah's total O&M expense for each of the 12 months ended June 2010
83 and June 2011. From that total level of expense, I deducted specific FERC expense
84 accounts. I then deducted internal labor expense. Deducting these amounts
85 provided the level of expense subject to inflation as described by RMP.

86 Table 2 below lists the level of O&M expenses by year for the 12 months
87 ended June 2010 and June 2011.

| TABLE 2 | |
|----------------|--|
| Year | Adjusted O&M Expenses (\$000) |
| 2010 | \$288,217 |
| 2011 | \$258,987 |

88 As can be seen from Table 2 above, O&M expenses from 2010 to 2011 have
89 decreased. I have attached as Exhibit FEA-1 (GRM-1) the computation of the O&M
90 expense levels included in Table 2.

91 **Q REFERRING TO EXHIBIT FEA-1 (GRM-1), PLEASE DESCRIBE WHY YOU**
92 **DEDUCTED FERC ACCOUNTS 501, 503, 547, 555, 565, 924 and 925 AND**
93 **ELECTRIC O&M WAGES AND SALARIES.**

94 A I deducted FERC Accounts 501, 503, 547, 555, 565, 924 and 925 as those accounts
95 are not subject to escalation as provided in the Company's workpapers. FERC
96 Accounts 501, 503, 547 and 555, Fuel and Purchased Power expense, are reflected
97 in RMP's net power cost ("NPC") recovery clause. Likewise, FERC Account 565 –
98 Transmission of Electricity by Others – is also included in RMP's NPC clause.
99 Therefore, these accounts were deducted from PacifiCorp's total O&M expense.

100 FERC Accounts 924 (Property Insurance) and 925 (Injuries and Damages)
101 were also deducted from O&M expenses in RMP's calculation of its escalation
102 adjustment.

103 Utah's O&M wages and salaries were also deducted as these expenses were
104 not subject to inflation as described in RMP's direct testimony. Furthermore, RMP's
105 wages and salaries are annualized in a different expense section of the Company's
106 filing, and thus it would not be appropriate to also adjust these expenses for inflation.

107 **Q DURING THE PERIOD FROM 2008 THROUGH TODAY, HAS PACIFICORP FILED**
108 **WITH VARIOUS COMMISSIONS TO HAVE THEIR RATES INCREASED?**

109 A Yes. As shown on Exhibit FEA-2 (GRM-2), since 2008, PacifiCorp has had 21 rate
110 case increases in the various jurisdictions in which it operates. Three of those rate
111 cases have yet to receive rate orders. The other 18 rate cases resulted in increases
112 ranging from \$4.1 million to \$117.0 million. In the Utah jurisdiction, RMP has had four
113 rate case increases since 2008.

114 **Q WHAT IS THE IMPORTANCE OF PACIFICORP'S RATE CASE HISTORY?**

115 A I described the rate case history of PacifiCorp to illustrate that this utility is frequently
116 filing cases in its various jurisdictions to increase its rates. Inherent in those filings is
117 a review of the most current O&M expense level. To the extent that PacifiCorp
118 continually files rate cases, changes in the current O&M expense level is being
119 addressed and the need for an inflation adjustment is diminished.

120 **Q ARE YOU GENERALLY IN FAVOR OF INFLATION ADJUSTMENTS?**

121 No. I do not believe they portray the complete picture. An inflation adjustment
122 cannot account for technological advances which occur in the industry. An inflation
123 adjustment also cannot reflect any increased productivity of the PacifiCorp workforce.
124 By referring back to Table 2 above, it is obvious that to some degree these factors
125 must be influencing the decrease in total O&M expenses from June 2010 through
126 June 2011. In addition, inflation adjustments tend to shift the risk associated with the
127 operation of the utility from investors to ratepayers.

128 **Q DO YOU HAVE ANY FURTHER ANALYSIS TO SUPPORT YOUR ARGUMENT?**

129 A Yes. Referring to the IHS Global Insight Indices for 2010 and 2011, one will notice
130 that each index listed for calendar years 2010 and 2011 were positive percentages.
131 This would suggest that expenses from 2010 to 2011 should have increased. Yet, as
132 shown on Table 2, Utah's actual expenses declined.

133 I contend that expenses should be analyzed for variances and adjustments
134 proposed, which relate to specific causes of either an increase or decrease in O&M
135 expenses. I believe on many occasions a utility proposes an inflation adjustment as

136 an expedient way to increase its rate request, rather than performing analyses to
137 specifically identify the true cause for the expense variations.

138 **Q PLEASE SUMMARIZE YOUR POSITION.**

139 A RMP's proposed inflation adjustment is unjustified and should be eliminated. I have
140 shown that Utah's actual expenses are not increasing and that PacifiCorp has had
141 ample opportunity to address changes in the level of O&M expenses through
142 numerous rate case filings, thereby eliminating the need for an inflation adjustment.

143 **Overtime and Premium Pay**

144 **Q WHAT LEVEL OF OVERTIME AND PREMIUM PAY IS RMP REQUESTING IN THIS**
145 **RATE CASE?**

146 A RMP is requesting a level of overtime and premium pay totaling \$67.7 million for the
147 test period.

148 **Q DO YOU AGREE WITH THE AMOUNT RMP HAS PROPOSED?**

149 A No. I believe the level proposed by RMP is excessive. I am proposing to reduce the
150 level of expense proposed by RMP for overtime and premium pay by approximately
151 \$1.5 million.

152 **Q WHAT IS THE BASIS FOR YOUR ADJUSTMENT?**

153 FEA submitted Data Request No. 1.10 which asked for the overtime hours and
154 dollars for the June and December periods from December 2005 through December
155 2011. After reviewing this data, I believe the level of overtime and premium pay for
156 the 12 months ended December 2011 is an appropriate level.

157 Q WHY DO YOU BELIEVE THE LEVEL FOR YEAR ENDED DECEMBER 31, 2011 IS
158 APPROPRIATE?

159 A Based on the information provided in FEA Data Request No. 1.10, the level of
160 overtime and premium pay dollars for the 12 months ended December 31, 2011 is the
161 highest level of expense incurred by PacifiCorp since 2005. The hours associated
162 with that level of expense are also the highest level recorded dating back to 2005.
163 Table 3 shows the dollars and hours of overtime and premium pay in 12-month
164 periods from December 2005 through December 2011.

| <u>12 Months Ended</u> | <u>Hours</u> | <u>Amount (\$000)</u> |
|-------------------------------|---------------------|------------------------------|
| December 2005 | 394,010 | \$52,498 |
| June 2006 | 397,507 | 57,638 |
| December 2006 | 391,373 | 62,492 |
| June 2007 | 402,820 | 61,082 |
| December 2007 | 428,202 | 63,503 |
| June 2008 | 436,677 | 66,082 |
| December 2008 | 435,689 | 64,755 |
| June 2009 | 430,629 | 61,911 |
| December 2009 | 417,618 | 57,414 |
| June 2010 | 420,921 | 58,885 |
| December 2010 | 435,676 | 62,781 |
| June 2011 | 441,578 | 65,327 |
| December 2011 | 460,857 | 66,146 |

165 I believe that the actual levels for the 12 months ended December 2011, which reflect
166 the highest levels of overtime and premium pay achieved dating back to 2005, are the
167 maximum amounts that should be included in RMP's cost of service. I, therefore,
168 propose that RMP's claimed overtime and premium pay be reduced by approximately
169 \$1.5 million from RMP's requested level of \$67.7 million.

170 **Working Capital**

171 **Q DID THE COMPANY INCLUDE AN ALLOWANCE FOR CWC IN ITS DIRECT**
172 **FILING?**

173 A Yes. RMP witness Steven R. McDougal presented direct testimony which includes
174 an allowance for CWC of \$18,657,920 in rate base, based on a lead-lag analysis. In
175 addition, RMP is requesting \$15,837,329 of Other Working Capital. In total, RMP is
176 requesting \$34,495,249 of CWC.

177 **Q DO YOU CONTEST THE INCLUSION OF THIS AMOUNT IN RMP'S RATE BASE?**

178 A Yes, I do. RMP is requesting an allowance for CWC using two different
179 methodologies. I am recommending that the Other Working Capital amount of
180 \$15,837,329 be disallowed because it is merely another method to determine CWC
181 and should not be included in addition to CWC based on a lead-lag analysis. By
182 including both methods, the Company is attempting to double-recover an allowance
183 for CWC.

184 **Q PLEASE EXPLAIN WHY YOU PROPOSE TO DISALLOW THE \$15,837,329 OF**
185 **OTHER WORKING CAPITAL.**

186 A The \$15,837,329 of Other Working Capital is comprised of netting selective assets
187 and liabilities of RMP. Specifically, RMP has requested working capital recognition of
188 accounts receivables and payables. These components are already reflected in the
189 CWC allowance calculated by a lead-lag study. RMP is requesting double-recovery
190 of CWC.

191 **Q WHY IS AN ALLOWANCE FOR CWC NECESSARY?**

192 A The purpose of including CWC in rate base is to allow a utility to earn a rate of return
193 on the amount of cash necessary for day-to-day operations that is “supported by
194 capital on which investors are entitled to a return.”¹ A lead-lag study determines who
195 provides the amount of cash that is necessary to fund operations on a day-to-day
196 basis. If a utility spends cash for an expense to provide service before the ratepayer
197 provides cash for utility service provided, the shareholder must supply that cash.
198 However, if the utility receives cash from the ratepayer for utility service provided
199 before the utility must pay cash for expenses incurred to provide that service, then
200 ratepayers have provided the cash.

201 **Q PLEASE SUMMARIZE YOUR TESTIMONY REGARDING CWC.**

202 A I recommend the Commission recognize the CWC allowance supported by a lead-lag
203 study of \$18,657,920. I also recommend that the Commission disallow RMP’s
204 request for additional CWC of \$15,837,329 as this amount is duplicative of the results
205 contained in the lead-lag study. If disallowed, RMP’s cost of service would be
206 reduced by \$1.5 million utilizing FEA witness Gorman’s capital structure (49% debt,
207 51% equity) and rate of return (9.25% ROE).

¹WUTC v. PacifiCorp, Docket No. UE-050684, Final Order ¶ 189 (April 17, 2006) (stating, “[w]e agree with Staff that the objective is to quantify the amount of working capital and current assets supported by capital on which investors are entitled to a return.”).

208 **Uncollectible Expense**

209 **Q DID RMP PROPOSE TO ADJUST UNCOLLECTIBLE EXPENSE IN ITS COST OF**
210 **SERVICE?**

211 A Yes. RMP proposed to increase uncollectible expense to reflect the increase in
212 normalized revenues. In addition, RMP proposed to increase uncollectible expense
213 by \$369,000 for the increase in revenue requirement resulting from this rate case.

214 **Q DO YOU AGREE WITH RMP'S ADJUSTMENT?**

215 A No. I am opposed to RMP's proposed adjustment to increase uncollectible expense
216 for the projected increase in revenue requirement in this rate case.

217 **Q WHAT IS THE BASIS FOR YOUR OPPOSITION?**

218 A I have several reasons why I oppose that adjustment. First, RMP witness A. Richard
219 Walje in his direct testimony on page 12 presents a chart which shows that the
220 uncollectible rate for Utah operations has consistently declined since June 2009. A
221 declining trend in the uncollectible rate does not support the proposal to increase
222 uncollectible expense due to an increased revenue requirement. There is not a linear
223 relationship between the two. A decrease in the uncollectible rate generally would
224 suggest that uncollectible expense (write-offs less recoveries) has also decreased.

225 Second, net write-offs from the 12 months ended June 2010 to the 12 months
226 ended June 2011 have decreased by approximately \$900,000 while revenues
227 increased.

228 Third, RMP witness Walje's direct testimony, page 10, states, "Every \$1 spent
229 on at-risk customer balances and past due collection activities saves the Company \$5

230 in bad debt expense.”² To the extent PacifiCorp can achieve these results, I believe
231 there should be further investigation to determine if additional funds should be
232 expended to reduce bad debts even further. This also shows that items other than
233 changes in revenue result in changes in uncollectibles.

234 Fourth, RMP described changes to their uncollectible policies in their Test
235 Period Information for a General Rate Case Application R746-700-22. I have
236 included the language which describes the changes.

237 “Rocky Mountain Power has made an additional effort to contact
238 customers during the collection process. During the last several years,
239 a 48 hour field notice has been delivered to residential customers
240 before disconnection for non-payment. In October 2009, an additional
241 step was added before the 48 hour field notice: an automated phone
242 call is now made to residential and business customers who are
243 pending disconnecting informing them they should contact the
244 Company as soon as possible. This has been very successful. The
245 Company has received many customer calls either to make a payment
246 or payment arrangements, thus canceling the disconnection notice.

247 In November 2010, The Company also enhanced the 48 hour
248 field notice to include business customers; previously this was
249 provided to residential customers only. This effectively gives a
250 business customer 48 hours to make a payment before service is
251 disconnected.

252 All other collection and write-off policies have remained
253 unchanged.”

254 As can be seen from the above language, RMP has initiated changes since October
255 2009 which have successfully reduced uncollectible expense. The latest change in
256 November 2010 will provide business customers with a 48-hour notice prior to

²The FEA submitted FEA Data Request No. 1.1 seeking all analyses or studies to support this statement. The Company response included the following:

| | PacifiCorp Collection Agency Expense | Pacific Collection Agency Recoveries |
|------|--------------------------------------|--------------------------------------|
| 2009 | \$1,050,026.00 | \$5,368,467.67 |
| 2010 | \$ 968,754.00 | \$5,034,650.07 |
| 2011 | \$1,010,927.00 | \$5,621,136.46 |

Note: This data is total expense and recoveries from collection agencies that are utilized throughout our entire PacifiCorp service territory.

257 disconnection. These increased collection activities should also aid in reducing or
258 maintaining uncollectible expense.

259 Finally, RMP has provided no analysis which supports the claim that
260 uncollectibles will increase as a result of an increase in revenue requirement.

261 **Q PLEASE SUMMARIZE YOUR POSITION.**

262 A I have provided several reasons why the assumption that an increase in revenue
263 requirement will not correspond to an increase in uncollectible expense. I have
264 shown that uncollectibles have decreased in both dollars and the uncollectible rate,
265 as a result of the Company's collection efforts supported by its claim that \$1 spent on
266 collection can save \$5 of uncollectibles. For all of the above reasons, I propose that
267 RMP's uncollectible adjustment for the increase in revenue requirement be
268 disallowed.

269 **Q DO YOU HAVE ANYTHING FURTHER ON THIS ISSUE?**

270 A Yes. As of June 30, 2011, RMP had a bad debt reserve of approximately \$1.9
271 million. To the extent that uncollectibles increase beyond the amount included as the
272 normalized level in the cost of service, RMP still has an adequate reserve to cover
273 that increase.

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

275 A Yes, it does.

Qualifications of Greg R. Meyer

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

2 A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q PLEASE STATE YOUR OCCUPATION.**

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

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 A I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree
10 in Business Administration, with a major in Accounting. Subsequent to graduation I
11 was employed by the Missouri Public Service Commission. I was employed with the
12 Commission from July 1, 1979 until May 31, 2008.

13 I began my employment at the Missouri Public Service Commission as a
14 Junior Auditor. During my employment at the Commission, I was promoted to higher
15 auditing classifications. My final position at the Commission was an Auditor V, which I
16 held for approximately ten years.

17 As an Auditor V, I conducted audits and examinations of the accounts, books,
18 records and reports of jurisdictional utilities. I also aided in the planning of audits and
19 investigations, including staffing decisions, and in the development of staff positions in
20 which the Auditing Department was assigned. I served as Lead Auditor and/or Case

21 Supervisor as assigned. I assisted in the technical training of other auditors, which
22 included the preparation of auditors' workpapers, oral and written testimony.

23 During my career at the Missouri Public Service Commission, I presented
24 testimony in numerous electric, gas, telephone and water and sewer rate cases. In
25 addition, I was involved in cases regarding service territory transfers. In the context of
26 those cases listed above, I presented testimony on all conventional ratemaking
27 principles related to a utility's revenue requirement. During the last three years of my
28 employment with the Commission, I was involved in developing transmission policy
29 for the Southwest Power Pool as a member of the Cost Allocation Working Group.

30 In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a
31 Consultant. Since joining the firm, I have presented testimony and/or testified in the
32 state jurisdictions of Florida, Idaho, Illinois, Indiana, Maryland, Missouri and
33 Washington. I have also appeared and presented testimony in Alberta and Nova
34 Scotia, Canada. These cases involved addressing conventional ratemaking
35 principles focusing on the utility's revenue requirement. The firm Brubaker &
36 Associates, Inc. provides consulting services in the field of energy procurement and
37 public utility regulation to many clients including industrial and institutional customers,
38 some utilities and, on occasion, state regulatory agencies.

39 More specifically, we provide analysis of energy procurement options based
40 on consideration of prices and reliability as related to the needs of the client; prepare
41 rate, feasibility, economic, and cost of service studies relating to energy and utility
42 services; prepare depreciation and feasibility studies relating to utility service; assist
43 in contract negotiations for utility services, and provide technical support to legislative
44 activities.

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

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