

1 **Q. Are you the same Dana M. Ralston who submitted Direct Testimony in this**  
2 **proceeding?**

3 A. Yes.

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

5 A. The purpose of my testimony is to rebut the proposed adjustments of: 1) witness  
6 Mr. Kevin C. Higgins, representing the Utah Association of Energy Users  
7 Intervention Group (“UAE”), relating to escalation of operation and maintenance  
8 expense; 2) witness Mr. Matthew Croft, representing the Utah Division of Public  
9 Utilities (“DPU”), relating to the inclusion of the Huntington Unit 2 Duct  
10 Replacement Project in rate base; and 3) witness Mr. Richard S. Hahn, of La  
11 Capra Associates, testifying on behalf of the DPU.

12 **Q. Please describe Mr. Higgins’ proposed \$9,613,643 adjustment to PacifiCorp’s**  
13 **cost escalation component for projected inflation and the Company’s**  
14 **response.**

15 A. Mr. Higgins recommends that RMP’s non-labor O&M expense should be  
16 adjusted to remove the Company’s projected cost escalation increase for the test  
17 period. The impact of this adjustment is a reduction of \$9,613,343 to the Utah  
18 revenue requirement.

19 The O&M escalation adjustment provides the Company the opportunity to  
20 plan for inflation and other industry specific cost increases that are expected  
21 during the Company’s test period. Details on how the adjustment is calculated and  
22 additional arguments rebutting Mr. Higgins’ position are provided in the rebuttal  
23 testimony of Company witness Mr. Steven R. McDougal. However, my testimony

24 provides further explanation about why his adjustment harms the Company's  
25 thermal generation operations because it reduces the funding necessary to support  
26 the Company's thermal O&M activities anticipated in the test period forecast.

27 **Q. Please describe how Mr. Higgins' proposal to remove the Company's O&M**  
28 **escalation adjustment relates to the Company's O&M expense for the**  
29 **thermal generating units.**

30 A. As described in the rebuttal testimony of Mr. McDougal, Mr. Higgins' adjustment  
31 failed to consider the impact that removing the O&M escalation adjustment has  
32 on other aspects of the Company's case including the Incremental O&M  
33 adjustment. While Mr. McDougal argues against Mr. Higgins entire \$9.6 million  
34 exclusion of cost escalation, my testimony will provide evidence on why the  
35 portion of Mr. Higgins' adjustment relating to the incremental O&M costs for the  
36 Company's thermal plants deprives the Company of recovering costs that are  
37 prudent and necessary for the Company to maintain its operations.

38 **Q. Please describe why these costs are prudent and necessary for the Company**  
39 **to maintain its operations.**

40 A. The thermal generation portion of the Incremental O&M adjustment is not simply  
41 an inflation-only increase over the base period costs. These costs represent a  
42 legitimate run-rate increase attributed to the items listed in my direct testimony  
43 including environmental cost increases due to permit changes, sulfur content in  
44 the coal supply changes, coal mill maintenance, scale inhibitor, and jointly-  
45 owned, partner-operated generation plant O&M costs. These costs represent real  
46 operational and contractual cost increases required to properly maintain and

47 operate the thermal generation fleet for the benefit of our customers.

48 These costs are supported by the Company's review of plant level  
49 operating conditions, run rates for use of chemicals and certain specific events  
50 that demonstrate an overall increase in non-labor, non-overhaul O&M costs of  
51 approximately \$10.14 million (over the 12 months ended June 2011 historical  
52 level) which are necessary to maintain and to continue to operate the plants. The  
53 Company will incur these costs during the test period and as a result, they should  
54 be included in the revenue requirement as prudent and necessary costs of  
55 providing service.

56 **Q. Does the Company's Exhibit RMP\_\_\_(SRM-3), page 4.9.1 demonstrate why**  
57 **the inflation adjustment recommended by Mr. Higgins should be rejected?**

58 A. Yes. The exhibit shows that for the Company's coal-fired generation,  
59 gas/geothermal generation, and jointly-owned generation, the actual costs for the  
60 historical base year through June 2011 was \$174.04 million on a total Company  
61 basis. The PacifiCorp Energy budget through the May 2013 test period,  
62 unescalated and, based on run rates and the circumstances that I described in my  
63 direct testimony, is approximately \$184.18 million. This is an increase of  
64 incremental generation O&M of approximately \$10.14 million per year. An  
65 overall inflation adjustment is included later in the ratemaking process of  
66 computing the revenue requirement and this issue is discussed in the rebuttal  
67 testimony of Mr. McDougal. The proposed inflation factor adjustment is similar  
68 in magnitude to the PacifiCorp Energy budget increase for incremental generation  
69 O&M. The budget increase of \$10.14 million is based on real run rates using

70 more volumes of chemicals, grinding harder coal, and burning higher sulfur coal  
71 as discussed in my direct testimony. In other words, the cost increase is  
72 substantiated by real engineering and operations circumstances that the Company  
73 must deal with to keep these plants operating. It would be detrimental to the  
74 Company and its customers if the ratemaking practice of handling inflation on a  
75 more global basis, as Mr. Higgins suggest, were the basis on which expenses were  
76 calculated rather than the reality of real run-rate operations and higher chemical  
77 volumes and the other factors that I testify to in my direct testimony.

78 **Q. Are you suggesting that the Company's inflation adjustment should be**  
79 **disregarded?**

80 A. Certainly not. Inflation is a valid influence on costs and it should be factored in  
81 the development of the revenue requirement, as explained by Mr. McDougal.

82 **Q. What do you recommend with regard to the adjustment proposed by Mr.**  
83 **Higgins?**

84 A. Mr. Higgins is basing his argument on ratemaking principles and an objection to  
85 inflation factor adjustments. Mr. Higgins' adjustment should be rejected. In  
86 contrast, my expense calculations are based on the run rate statistics and the  
87 increased costs for chemicals to meet new environmental permit restrictions and  
88 the other factors that I have described in my testimony. The Company will incur a  
89 \$10.14 million increase in thermal generation O&M and the Commission should  
90 approve the recovery of this level of O&M costs.

91 **Q. What do you recommend with regard to the proposed adjustment for the**  
92 **Huntington Unit 2 duct replacement project proposed by Mr. Croft?**

93 A. The Company rejects this adjustment as unfounded, based on the response  
94 previously provided in Data Request DPU 57.1 and responses to Data Requests  
95 DPU 59.1, 59.2, and 59.3, dealing with this same subject. The Data Requests  
96 DPU 57.1, 59.1, 59.2, and 59.3 and the responses provided are shown in Exhibit  
97 RMP\_\_\_\_(DMR-1R) through Exhibit RMP\_\_\_\_(DMR-4R), respectively.

98 **Q. Do you believe these responses resolve the issue raised by Mr. Croft, that the**  
99 **Company had not explained the cause of the Huntington Unit 2 coal mill**  
100 **explosions?**

101 A. Yes.

102 **Q. What do you recommend with regard to DPU witness Mr. Hahn's proposed**  
103 **adjustments to plant additions?**

104 A. The Commission should reject this adjustment. I will specifically address his  
105 proposed adjustments to remove the entire costs of several thermal plant projects  
106 that are included in this case. Mr. Hahn's proposed adjustment should be rejected  
107 because each of the projects discussed below are necessary for the continued safe,  
108 efficient, and environmentally compliant operation of the thermal fleet.

109 **Q. Why are the Naughton Unit 3 capital projects necessary when the Company**  
110 **has proposed to convert the unit to operate using natural gas?**

111 A. Although the Company plans to convert Naughton Unit 3 to a gas-fired unit,  
112 certain capital maintenance and improvement projects are necessary to maintain  
113 the coal-fired operation until the conversion begins. It is anticipated that the

114 conversion to gas will occur in early 2015. Until that time capital projects such as  
115 those totaling \$1.289 million included in Mr. Hahn's exhibit, are needed to keep  
116 Naughton Unit 3 operating and providing generation capacity for the system. The  
117 Mill Rebuild projects are generally done on an 18 month cycle. Those that are  
118 scheduled for 2011 and 2012 included in the current case are entirely useful for  
119 the period before the conversion. The project listed as "Naughton U3 OH Coal  
120 Combustion Dust CY11" was labeled as being specific to unit 3 when it should  
121 have been shown as a common project, necessary for the entire plant operation  
122 and will be renamed to reflect a common project. Therefore, these projects should  
123 be completed even though the decision has been made to convert Naughton 3 to  
124 natural gas.

125 **Q. What is the basis for including the Jim Bridger Unit 2 Replace Cooling**  
126 **Tower 12/13 project?**

127 A. This capital project is currently on schedule to be placed in service in May 2013.  
128 The APR documentation was provided in response to Data Request DPU 51.1,  
129 attached hereto as Exhibit RMP\_\_(DMR-5R). The Company's share of the  
130 approved amount is \$7.1 million which is consistent with the amount submitted in  
131 the case.

132 **Q. What is the basis for including the Naughton U0 BART Study for CAM**  
133 **project?**

134 A. This capital project was for an up-front BART study analysis required by the  
135 State of Wyoming, relating to the Naughton plant. Costs for the study were  
136 incurred in prior years, but not placed in-service, as study costs in and of

137 themselves can only be capitalized as a component of the capital project  
138 supported by the study. In December 2011, these study costs were transferred into  
139 the three capital projects the study supported. The Company's response to Data  
140 Request DPU 51.31, attached as Exhibit RMP\_\_\_\_(DMR-6R), includes a copy of  
141 the journal entry reflecting this transfer.

142 **Q. What is the basis for including the Currant Creek U2 CSA Variable fee 24k –**  
143 **CTB MI project?**

144 A. As provided in the Company's response to Data Request DPU 26.1, attached  
145 hereto as Exhibit RMP\_\_\_\_(DMR-7R), this capital project represents work that is  
146 required under the Contractual Services Agreement with General Electric when  
147 the unit reaches a total of 48,000 hours of operation. As was communicated in the  
148 Company's response to DPU Data Request 51.14, attached hereto as Exhibit  
149 RMP\_\_\_\_(DMR-8R) and 51.15, attached hereto as Exhibit RMP\_\_\_\_(DMR-9R),  
150 the Company is nearing the 48,000 hour level and anticipates that the Major  
151 Inspection overhaul will be done in October 2012. In this case the APR  
152 documentation is merely an extension of the commitment that the Company made  
153 when the contractual agreement was signed.

154 **Q. What is the basis for including the Cholla U4 Fabric Filter Bag Replace**  
155 **CY13 project?**

156 A. This project is planned based on the OEM schedule for bag replacement. The  
157 project is still planned to be placed in service in May 2013 but the APR  
158 documentation has not yet been received from the Operator of the plant.  
159 Preliminary information from the operator describes the purpose of this project as

160 necessary to ensure continued reliable performance of the fabric filter and unit  
161 compliance with the plant's Title V Air Permit. The existing fabric filter bags are  
162 nearing the end of their useful life and require replacement.

163 **Summary**

164 **Q. Are the operating cost and capital investments you have addressed**  
165 **reasonable and prudent and necessary to continue to maintain and operate**  
166 **the Company's generation assets?**

167 A. Yes. The Company has demonstrated that the level of cost recovery requested in  
168 this case is reasonable and that the adjustments proposed by intervenors that I  
169 have rebutted should be rejected by the Commission.

170 **Q. Does this conclude your rebuttal testimony?**

171 A. Yes