

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

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Docket No. 13-035-184

Direct Testimony and Exhibit of

**Greg R. Meyer**

On behalf of

**The Federal Executive Agencies**

May 1, 2014



**BEFORE THE  
PUBLIC SERVICE COMMISSION OF UTAH**

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<b>In the Matter of the Application of</b>	)	
<b>Rocky Mountain Power for Authority</b>	)	
<b>to Increase its Retail Electric Utility</b>	)	<b>Docket No. 13-035-184</b>
<b>Service Rates in Utah and for Approval</b>	)	
<b>of Its Proposed Electric Service Schedules</b>	)	
<b>and Electric Service Regulations</b>	)	
	)	

**STATE OF MISSOURI    )**  
**)**           **SS**  
**COUNTY OF ST. LOUIS )**

**Affidavit of Greg R. Meyer**

Greg R. Meyer, being first duly sworn, on his oath states:

1.     My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Federal Executive Agencies in this proceeding on their behalf.
  
2.     Attached hereto and made a part hereof for all purposes are my direct testimony and exhibit which were prepared in written form for introduction into evidence in the Public Service Commission of Utah, Docket No. 13-035-184.
  
3.     I hereby swear and affirm that the testimony and exhibit are true and correct and that they show the matters and things that they purport to show.

\_\_\_\_\_  
Greg R. Meyer

Subscribed and sworn to before me this 30<sup>th</sup> day of April, 2014.

\_\_\_\_\_  
Notary Public

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**Docket No. 13-035-184**

**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,  
3       Suite 140, 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 at  
6       Brubaker & Associates, Inc., energy, economic and regulatory consultants.

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

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

10  **Q    ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

11  A   I am appearing on behalf of the Federal Executive Agencies ("FEA"). The FEA  
12  represents numerous federal customers within the area serviced by Rocky

13 Mountain Power (“RMP” or “Company”). These entities include, but are not  
14 limited to, military installations, post offices and federal buildings. Mainly, Hill  
15 Air Force Base represents a significant customer to the Company.

16 **Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

17 A I am proposing to increase RMP’s Schedule 1 residential class revenues. I am  
18 also proposing to adjust RMP’s incentive compensation payments that should  
19 be included in customers’ rates. In addition, I am proposing to disallow certain  
20 bonus and award compensation payments. Finally, I am proposing to eliminate  
21 certain amortization expenses. In total, my adjustments will reduce RMP’s  
22 claimed revenue deficiency by \$19.7 million.

23 **Residential Revenues**

24 **Q DID RMP PROPOSE TO DECREASE FORECASTED REVENUES FOR THE**  
25 **RESIDENTIAL CLASS?**

26 A Yes. RMP is proposing to decrease forecasted residential revenues by  
27 \$30.9 million for the test year ending June 2015. The vast majority of the  
28 forecast adjustment is attributable to the Residential Schedule 1 customer class.

29 **Q DO YOU AGREE WITH RMP'S FORECASTED LEVEL OF USAGE FOR THE**  
30 **RESIDENTIAL SCHEDULE 1 CUSTOMER CLASS?**

31 A No, I do not. I believe RMP has significantly understated the level of usage for  
32 the Residential Schedule 1 customer class.

33 **Q WHAT IS THE BASIS FOR YOUR CONCLUSION?**

34 A I will discuss the historical usage levels of residential customers. I will also  
35 discuss the normalized levels of usage per Schedule 1 customers that RMP has  
36 calculated in past rate cases. Finally, I will discuss the effect normal  
37 temperatures have on the usage per customer. Based on these discussions, I  
38 recommend that RMP's proposed residential revenues should be increased by  
39 approximately \$22 million.

40 **Q PLEASE DISCUSS THE HISTORICAL USAGE LEVELS OF RESIDENTIAL**  
41 **CUSTOMERS.**

42 A I have prepared Table 1, which depicts the historical usage per customer for the  
43 residential class.

<u>Year</u>	<u>Avg. Number Customers</u>	<u>MWh Sold</u>	<u>MWh Per Customer</u>
2006	664,384	6,139,297	9.24
2007	681,587	6,560,978	9.63
2008	690,820	6,560,579	9.50
2009	695,952	6,495,687	9.33
2010	700,852	6,549,149	9.34
2011	707,371	6,650,646	9.40
2012	722,472	6,851,903	9.48
Rate Case RMP Proposed	753,374	6,401,383	8.50

Source: RMP Utah Annual Reports.

44 As can be seen from the above table, RMP is proposing a significantly  
 45 reduced level of residential usage as compared to actual amounts from the  
 46 period 2006-2012. The forecasted annual usage level (MWh sold) proposed by  
 47 RMP has only been realized once (2006) during the historical period. However,  
 48 in 2006, RMP was serving approximately 89,000 less customers than RMP has  
 49 forecasted for the 2015 test year. Furthermore, the average use per customer  
 50 (8.50 MWh) has not been that low for any year dating back to 2006. RMP's  
 51 forecasted level of usage is simply too low and thus RMP has not recognized a  
 52 sufficient level of residential revenues, thereby increasing RMP's requested  
 53 revenue deficiency.

54 Q DO THE LEVELS YOU PRESENT IN TABLE 1 REPRESENT NORMALIZED  
55 USAGE PER CUSTOMER?

56 A No. Those levels reflect actual consumption for the residential class. Those  
57 totals also include more residential customers than just Schedule 1 customers.  
58 However, as I stated previously, Schedule 1 customers are the vast majority of  
59 the total residential customers.

60 Q HAVE YOU REVIEWED ANY DATA RELATING TO THE NORMALIZED  
61 USAGE FOR THE SCHEDULE 1 CUSTOMERS?

62 A Yes, I have. Table 2 shows the historical normalized usage per customer for  
63 Schedule 1 customers from previous RMP rate cases.

<u>Docket Number</u>	<u>12 Months Ended</u>	<u>Avg. Number Customer</u>	<u>MWh Sold</u>	<u>MWh Per Customer</u>
07-035-93	June 2007	639,750	5,815,727	9.09
08-035-38	December 2007	650,783	5,899,418	9.07
09-035-23	December 2008	661,146	6,213,680	9.40
10-035-124	June 2010	666,328	6,235,117	9.36
11-035-200	June 2011	673,256	6,368,887	9.46
13-035-184	June 2013	690,735	6,248,405	9.05
13-035-184	June 2015 Forecast RMP Proposed	709,317	5,992,207	8.45

Source: RMP Rate Case Filings.

64           The above table lists the normal levels of MWh sold for the average  
65           number of Schedule 1 customers from the listed RMP rate cases. As can be  
66           seen from the table, the level forecasted by RMP for the test year of June 2015  
67           is significantly lower than the previous normals calculated by RMP.

68           There has not been such a dramatic reduction in actual normalized  
69           usage per customer for any of the study periods. The actual normalized usage  
70           per customer has fluctuated both up and down over the years, but not to the  
71           degree proposed by RMP in this case. I have prepared  
72           Exhibit FEA\_\_\_\_(GRM-1) which shows the movement of the actual normalized  
73           usage from June 2007 through June 2013 and the forecasted amount for June  
74           2015. The graph reveals the significant reduction that RMP is proposing.

75           In addition, the total level of MWh sold forecasted by RMP in this case  
76           (5.992 million) is less than the previous four normal calculations. One must go  
77           back to December 2007 to find a lower level of normalized MWh sales than the  
78           one forecasted for the test year June 2015. However, in December 2007, RMP  
79           was serving approximately 651,000 average Schedule 1 customers compared  
80           to the 709,000 average Schedule 1 customers forecasted for June 2015.  
81           Serving 58,000 more customers and forecasting less total sales is too significant  
82           of a decrease in annual sales.



83 **Q IN TABLE 2, YOU SHOW A DECREASE IN NORMALIZED USAGE PER**  
84 **CUSTOMER FROM JUNE 2011 (9.46) TO JUNE 2013 (9.05). CAN YOU**  
85 **OFFER A POSSIBLE EXPLANATION FOR THIS DECREASE?**

86 A Yes. In 2012, RMP experienced the warmest winter in recent history. During  
87 2012, the heating degree days for the winter period were 4,664. This low total  
88 of heating degree days has not been experienced dating back to 1948.

89 Company witness Brown has testified that RMP developed its residential  
90 revenue forecast based on 20 years of weather data through 2012. Therefore,  
91 the extremely warm weather in 2012 has been reflected in RMP's weather  
92 normalized calculations. I believe this factor is a significant contributor to the  
93 decrease in usage from June 2011 to June 2013. However, to suggest that  
94 normalized usage will then decrease by an additional 600 kWh a year from the  
95 normalized level at June 2013 to the forecasted test year is an unrealistic  
96 assumption.

97 **Q PLEASE DESCRIBE YOUR PROPOSED ADJUSTMENT.**

98 A I propose to annualize Schedule 1 customer revenues by using a kWh per  
99 customer consumption level of 8.75 MWh per year. This level of consumption  
100 is approximately 50% of the decrease from the actual normalized level at  
101 June 2013 and the forecasted level proposed by RMP for the 2015 test year.  
102 This level of consumption still recognizes customer conservation. Using the  
103 8.75 MWh amount results in an annual consumption level of 6,206,524 MWh for

104 the Schedule 1 residential customers. This amount is more reasonable and  
105 representative of ongoing levels based on historical amounts.

106 Based on the above level of consumption, I am proposing an increase in  
107 RMP's revenues of \$22 million. I am also proposing an increase to fuel expense  
108 and purchased power for the increased usage I am proposing above the levels  
109 forecasted by RMP. I have calculated that fuel and purchased power expenses  
110 represent approximately 39% of RMP's revenues. Therefore, I have reduced  
111 the \$22 million revenue increase to account for additional fuel and purchased  
112 power expenses, resulting in an approximate \$13.4 million reduction to RMP's  
113 revenue deficiency.

114 **Incentive Compensation**

115 **Q PLEASE EXPLAIN THIS ISSUE.**

116 A RMP is requesting the recovery of the cost of its Annual Incentive Plan ("AIP").  
117 For purposes of this rate case, RMP is requesting recovery of approximately  
118 \$9.5 million of AIP costs. The Company also has a long-term incentive plan,  
119 but is not requesting recovery of the costs in this case.

120 **Q WHAT JUSTIFICATION DOES RMP ASSERT FOR INCLUDING THE AIP**  
121 **COSTS IN THE RATE CASE?**

122 A RMP states that including the AIP costs combined with the base compensation  
123 for employees positions itself to provide pay at or near the market average.  
124 RMP claims competitive compensation is critical to attracting and retaining

125 qualified employees. The purpose of the AIP is to encourage **superior**  
126 **performance** by placing some portion of an employee's compensation "at risk."

127 **Q WHAT DO YOU BELIEVE SHOULD BE THE GOAL OF INCENTIVE**  
128 **COMPENSATION?**

129 A I agree that incentive compensation should be granted for superior  
130 performance. I also believe that the superior performance must be measured  
131 in quantifiable terms or goals. By measuring superior performance in this  
132 manner, RMP can demonstrate to the ratepayers who are paying the AIP costs  
133 that the benefits from this plan, as reflected in RMP's service and the costs to  
134 produce electricity, are of greater value than the AIP costs. I also believe that  
135 any incentive compensation costs relating to the financial gain of the utility  
136 should not be included in customer rates.

137 **Q WHAT PERFORMANCE CRITERIA IS USED TO DETERMINE AIP**  
138 **AWARDS?**

139 A Based on the Company's response to FEA Data Request 1.22 (a), performance  
140 awards are based on achieving the goals as follows:

141 (a) PacifiCorp's Annual Incentive Plan (AIP) provides performance  
142 awards based on the following: achieving the goals of PacifiCorp,  
143 Pacific Power, Rocky Mountain Power and PacifiCorp Energy;  
144 achieving individual goals; overall individual performance; company  
145 management of risk and safety; and success in addressing new  
146 issues and opportunities that may arise during the course of the year.  
147 Goals are set and tied to the scope and responsibilities of each job  
148 the employee is required to perform. Awards are made based upon  
149 measurable achievement of results.

150 (b) The goals are weighted as 100 percent operationally focused. These  
151 are split 70 percent based on the specific job requirements and 30  
152 percent consistent across all employees, tied to performance factors  
153 (Customer Service, Leadership, Job Knowledge, etc ... )

154 In addition, the minimum filing requirements state that "All participants  
155 will have an award opportunity based upon company, business unit and  
156 individual performance as measured and assessed by senior management."

157 **Q HAVE YOU EXAMINED THE GOALS OF PACIFICORP, PACIFIC POWER,**  
158 **AND ROCKY MOUNTAIN POWER?**

159 A The only goals that were provided by RMP were those of three executive  
160 positions from these three companies.

161 **Q WHAT IS YOUR EVALUATION OF THESE GOALS?**

162 A Many of the goals are unrelated to improving performance with regard to such  
163 things as safety, reliability and operations. Many of the goals relate to  
164 accomplishing specific tasks or performing duties that would be expected for  
165 normal operations and would be included in standard job requirements. Many  
166 of the goals I reviewed do not appear to incent superior performance and some  
167 goals relate to financial metrics.

168 **Q FROM YOUR EXAMINATION OF THE INFORMATION PROVIDED BY RMP,**  
169 **WERE YOU ABLE TO DISCERN HOW MANAGEMENT EVALUATED**  
170 **PERFORMANCE AGAINST THESE GOALS TO DETERMINE WHETHER AN**  
171 **AWARD WAS MADE?**

172 A No. There does not appear to be any specific weighting assigned to the specific  
173 goals or information regarding how performance is compared to the goals.  
174 However, it is clear that management is able to exercise a high level of  
175 discretion with regard to the AIP awards

176 **Q PLEASE ELABORATE ON YOUR STATEMENT REGARDING**  
177 **MANAGEMENT DISCRETION.**

178 A In FEA Data Request 1.22, RMP was asked to provide the criteria it uses to  
179 determine if goals are achieved. In response, RMP stated that the criteria was  
180 “management’s assessment of individual performance against each defined  
181 goal.” Also, the incentive plan documents state that the incentive plan is  
182 discretionary and may be terminated or modified by PacifiCorp with or without  
183 cause or notice.

184 **Q WHAT IS YOUR RECOMMENDATION REGARDING THE COST OF AIP?**

185 A I recommend that the Commission disallow 33% of the cost of AIP. I do not  
186 believe the Company has adequately justified this cost. It is not clear how  
187 management assesses actual performance against the goals I was unable to  
188 determine the weight that is assigned to financial goals versus safety and

189 operational goals. Furthermore, several goals did not lend themselves to  
190 superior performance, but would be viewed merely as a job requirement.

191 **Q ARE YOU PROPOSING TO REDUCE RMP'S AIP PAYMENTS TO ITS**  
192 **EMPLOYEES?**

193 A No. I am only proposing to limit the amount of RMP's AIP payments that  
194 customers should have included in their rates. The portion I am disallowing  
195 from customer rates can be funded by RMP shareholders.

196 **Q WHAT IS THE EFFECT OF YOUR PROPOSED ADJUSTMENT TO RMP'S**  
197 **AIP COSTS?**

198 A I am proposing to reduce RMP's AIP costs of \$9.5 million by approximately \$3.2  
199 million, and therefore reduce RMP's revenue deficiency by \$3.2 million.

200 **Other Bonus and Award Compensation**

201 **Q PLEASE EXPLAIN THIS ISSUE.**

202 A RMP has included other bonus and award compensation in the cost of service.  
203 Some of this cost is associated with allocations from MidAmerican Energy  
204 Company and MidAmerican Energy Holdings Company.

205 **Q ARE YOU PROPOSING AN ADJUSTMENT TO THESE COSTS?**

206 A Yes. I recommend that these costs be disallowed.

207 **Q WHY ARE YOU RECOMMENDING A DISALLOWANCE OF THESE COSTS?**

208 A There is no set criteria or plan documentation associated with these other  
209 awards and bonuses. This compensation appears to be in addition to the AIP  
210 compensation discussed above and no plan documentation has been provided.  
211 As a result, these costs are completely at management's discretion and do not  
212 reflect any level of certainty that these expenses will exist on a recurring basis.  
213 These costs are not appropriate for inclusion in the on-going cost of service.

214 Incentive costs for the parent and holding companies are generally based  
215 on the performance of multiple subsidiaries. As a result, there is not sufficient  
216 linkage between the awarded compensation and the specific performance of  
217 RMP. The degree to which the performance of RMP was considered, if at all,  
218 in the determination of these incentive awards is unknown. Therefore, the  
219 benefits to RMP customers, as a result of the incentive costs being allocated  
220 from the parent and holding company, is indeterminable.

221 **Q WHAT IS THE EFFECT ON THE COST OF SERVICE AS A RESULT OF**  
222 **ELIMINATING THESE OTHER BONUS AND AWARD COMPENSATION**  
223 **COSTS?**

224 A This adjustment will decrease RMP's cost of services by approximately  
225 \$600,000, and thus reduces RMP's claimed revenue deficiency by the same  
226 amount.

227 **Amortization Expense**

228 **Q PLEASE EXPLAIN THIS ISSUE.**

229 A The Commission has previously authorized RMP to capitalize or defer costs and  
230 establish a regulatory asset or liability. These deferred amounts are recognized  
231 in the on-going cost of service through a multi-year amortization. In some  
232 cases, the unamortized balance was allowed to earn a return through inclusion  
233 in the rate base.

234 **Q WHAT IS THE CURRENT STATUS OF THESE AMORTIZATIONS?**

235 A In response to FEA Data Request 1.3, RMP provided a summary of the current  
236 amortizations. Several of the amortizations will continue to be recognized  
237 through periods which are beyond the forecasted test year period for this case.  
238 As a result, these amortizations should be recognized in the on-going cost of  
239 service. However, two of the amortizations will expire before new rates are  
240 established in this rate case. These amortizations should be eliminated from  
241 the on-going cost of service to avoid over-collection of the amount being  
242 amortized.

243 **Q PLEASE IDENTIFY THE AMORTIZATIONS WHICH ARE EXPIRING.**

244 A The following amortizations will expire before new rates are established in this  
245 rate case:

- 246 1. The regulatory asset associated with the Naughton Unit 3 emission costs  
247 will be fully amortized in August 2014.
- 248 2. The regulatory asset associated with the tax impact of healthcare reform  
249 changes to the deductibility of Medicare retiree drug subsidies will be fully  
250 amortized in September 2014.



251 **Q** **WHAT IS THE RATIONALE FOR PROPOSING THESE ADJUSTMENTS TO**  
252 **THE AMORTIZATIONS?**

253 A Amortizations are established to collect or refund monies over a multi-year  
254 period. When these amortizations are granted, there should be an expectation  
255 to collect or reimburse only those funds which comprised the amortized amount.  
256 Amortizations should not be a mechanism to enhance a utility's earnings. My  
257 proposed adjustments do not allow or minimize the possibility of the utility  
258 enhancing its earnings through expiration of amortizations.

259 **Q** **WHAT IS YOUR RECOMMENDATION FOR THOSE AMORTIZATIONS**  
260 **WHICH EXPIRE BEFORE RATES ARE SET IN THIS RATE CASE?**

261 A I propose to disallow those amortizations in their entirety.

262 **Q** **WHAT IS THE RESULT OF YOUR RECOMMENDATIONS?**

263 A My recommendation will ensure that RMP ratepayers do not pay excessive  
264 rates for recovery of amortizations which expire before new rates are  
265 established in this case. My recommendation will not allow RMP to record  
266 excessive earnings above the rate of return authorized by this Commission  
267 simply due to the expiration of an amortization.

268 **Q** **WHAT IS THE EFFECT ON THE COST OF SERVICE AS A RESULT OF**  
269 **ELIMINATING THESE EXPIRING AMORTIZATIONS?**

270 A Amortization expense and the cost of service for this case will decline by  
271 approximately \$2.5 million as a result of eliminating these amortizations. I also  
272 propose that if there is an unamortized balance in RMP's proposed rate base  
273 for either of these amortizations, that the rate base be adjusted to exclude the  
274 unamortized balance.

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

276 A Yes.

**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,  
3       Suite 140, 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  
10       Degree in Business Administration, with a major in Accounting. Subsequent to  
11       graduation I was employed by the Missouri Public Service Commission. I was  
12       employed with the Commission from July 1, 1979 until May 31, 2008.

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

17           As an Auditor V, I conducted audits and examinations of the accounts,  
18       books, records and reports of jurisdictional utilities. I also aided in the planning  
19       of audits and investigations, including staffing decisions, and in the development

20 of staff positions in which the Auditing Department was assigned. I served as  
21 Lead Auditor and/or Case Supervisor as assigned. I assisted in the technical  
22 training of other auditors, which included the preparation of auditors'  
23 workpapers, oral and written testimony.

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

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

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

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

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