

1 **Witness Identification, Qualifications and Purpose of Testimony**

2 **Q. Please state your name, business address and present position with**
3 **PacifiCorp dba Rocky Mountain Power (“the Company”).**

4 A. My name is Steven R. McDougal. My business address is 1407 West North Temple
5 Street, Suite 330, Salt Lake City, Utah 84116. My present position is Director of
6 Revenue Requirement for PacifiCorp.

7 **Q. Please briefly describe your education and business experience.**

8 A. I received a Bachelor of Science degree in Accounting and a Master of
9 Accountancy degree from Brigham Young University with an emphasis in
10 Management Advisory Services. I have also attended various educational,
11 professional, and electric-industry related seminars in connection with my
12 employment.

13 I have been employed with PacifiCorp and its predecessor, Utah Power and
14 Light Company (“UP&L”), since 1983. My experience includes various positions
15 with regulation, finance, resource planning and internal audit. My primary
16 responsibilities currently include overseeing the calculation and reporting of the
17 Company’s regulated earnings or revenue requirement, assuring that the
18 interjurisdictional cost allocation methodology is correctly applied, and explaining
19 these calculations to regulators in the jurisdictions in which the Company operates.

20 **Q. Have you previously testified before this Commission or other state public**
21 **utility commissions?**

22 A. Yes. I have provided testimony in many dockets before this Commission. I have
23 also provided testimony before the California, Idaho, Oregon, Washington and

24 Wyoming public utility commissions.

25 **Q. What is the purpose of your testimony in this proceeding?**

26 A. The purpose of my testimony is to support approval by the Commission of the
27 Application for Approval of Purchase and Transfer Agreement and Power Supply
28 Agreement and Amendment of Certificate of Public Convenience and Necessity
29 (“Application”) filed with this testimony. In particular, my testimony describes
30 regulatory treatment of the transaction associated with the Purchase and Transfer
31 Agreement (“PTA”) and the Power Sales Agreement (“PSA”) entered into between
32 the Company and the Navajo Tribal Utility Authority (“NTUA”). The PTA is
33 Confidential Exhibit RMP___(LPM-1) to the testimony of Mr. Loren P. (“Lucky”)
34 Morse filed in support of the Application, and the PSA is Exhibit N to the PTA. As
35 explained in Mr. Morse’s testimony, both agreements have been amended, but the
36 amendments do not affect the issues discussed in my testimony.

37 **Summary of Testimony**

38 **Q. Please summarize your testimony.**

39 A. Rocky Mountain Power’s current sales of power to customers within the Navajo
40 Nation are treated for interjurisdictional cost allocation purposes like sales to other
41 customers in Utah for purposes of determining the Company’s revenue requirement
42 in Utah and other states. Revenues and distribution investment and expenses for
43 serving such customers have been assigned to Utah on a situs basis. The agreements
44 were negotiated in order to treat Utah customers and other Company customers in
45 a fair and reasonable manner.

46 In addition, there are certain aspects of the PTA under which the Company
47 may make payments to NTUA. The Company cannot proceed with the transaction
48 if it does not have assurance that those payments will be recoverable in its rates
49 from Utah customers. Therefore, I will explain why those payments, if they are
50 necessary, should be subject to recovery and why the Commission should indicate
51 in approving the PTA that payments made pursuant to the PTA are prudent and the
52 Company will be allowed to recover the payments from Utah customers.

53 **Background**

54 **Q. Please briefly describe the Company’s service to customers within the**
55 **Nation.**

56 A. As explained in more detail in the testimony of Mr. Morse, the Company, and its
57 predecessor, UP&L, have provided service to customers within the portion of the
58 Nation in San Juan County, Utah, for many years. This service has been provided
59 with the consent of the Nation and pursuant to the Company’s tariffs and
60 regulations reviewed and approved by the Commission utilizing easements
61 obtained from the Nation. Most of the service is to residential and small commercial
62 customers. However, service to the largest customer, Resolute Natural Resources
63 Company, LLC (“Resolute”), and its predecessors has been provided under the
64 Company’s Schedule 9.

65 **Q. How have the Company’s investments, revenues and expenses associated**
66 **with providing this service been treated by this Commission?**

67 A. They have been treated the same as the Company’s investments, revenues and
68 expenses associated with service to any other customers in the state of Utah. As a

69 result, revenues and distribution investment and expenses have been assigned to
70 Utah on a situs basis. The loads of customers within the Nation have been included
71 in the Utah jurisdiction, impacting allocation factors and the allocation of system
72 related costs.

73 **Q. How have they impacted rates in other jurisdictions?**

74 A. The revenues and situs distribution related investments and expenses have been
75 treated as Utah amounts and are not allocated to other states. The loads have been
76 included in the Utah jurisdiction, impacting allocation factors and the allocation of
77 system related costs. The Company is proposing to continue this treatment to keep
78 other states from being impacted by this transaction.

79 During the term of the PSA, there will be no significant changes to current
80 interjurisdictional cost allocations. Revenues, costs and loads associated with the
81 sale of assets and transfer of customers to NTUA pursuant to the PTA and with the
82 sale of power to Resolute or to NTUA pursuant to the PSA will be situs-assigned
83 to Utah during the term of the PSA.

84 **Changes Resulting from the Transaction**

85 **Q. Please describe the changes that will result from the transaction?**

86 A. As a result of consummation of the PTA, Rocky Mountain Power will convey title
87 to the facilities used to provide service to customers within the Navajo Nation to
88 NTUA [REDACTED]. In addition, under the PSA, the Company is expected to
89 continue to provide power to NTUA to serve those customers for a period of ten
90 years through a service equivalent to Schedule 9 service under the Utah tariff.

91 **Q. What is the implication of this change for ratemaking in Utah?**

92 A. [REDACTED]

93 [REDACTED]

94 As the transfer of facilities and customers takes place over time, the
95 Company's expenses to serve the customers within the Nation will decline and
96 eventually disappear. A small portion of its revenues will also be gradually
97 converted from revenues under Schedules 1, 6 and 23 (residential and small
98 commercial) to revenues under Schedule 9. Because the vast majority of revenues
99 realized from sales to customers within the Nation are already on Schedule 9, this
100 change should also not have a significant effect.

101 The concern is that parties may advocate before the Commission that the
102 Commission should ignore the fact that the sales are Schedule 9 equivalent and treat
103 them as system sales for purposes of ratemaking, thus requiring a portion of the
104 revenues and costs associated with the sales to be allocated to other jurisdictions.

105 **Q. Why shouldn't the sales be considered as system sales and be allocated**
106 **among all of the Company's jurisdictions?**

107 A. The transaction is the result of an agreement entered into by the Company's
108 predecessor, UP&L, over 50 years ago. The agreement was required by a
109 governmental entity to allow UP&L to continue to provide service to customers in
110 Utah within the governmental entity's jurisdiction. Thus, the agreement was similar
111 to a franchise agreement with a municipality in Utah. There is no reason that other
112 jurisdictions should be affected by such an agreement.

113 **Q. Will consummating the PTA and providing power to NTUA under the PSA**
114 **be disadvantageous to Utah customers?**

115 A. No. The agreements were negotiated in order to treat Utah customers and other
116 Company customers in a fair and reasonable manner. For example, sales to NTUA
117 under the PSA are at Schedule 9 equivalent rates and will continue to be treated as
118 Utah revenues and loads. Therefore, Utah customers will not be harmed because
119 this treatment will continue for the balance of the term of Resolute’s MESAs and
120 thereafter so long as Schedule 9 equivalent sales are made. NTUA will also share
121 in some of the benefits through payments [REDACTED]

122 [REDACTED]

123 [REDACTED]

124 [REDACTED]. Because these payments are part of the consideration for the overall
125 transaction, it is fair and reasonable to find the agreements in their entirety prudent
126 and provide assurance to the Company that it will be able to recover payments made
127 to NTUA pursuant to the agreements in Utah rates if it is required to pay them.

128 **Q. Why should the Company be entitled to recover payments it is required to**
129 **make [REDACTED]?**

130 A. The Company and its customers will receive a benefit from the Company’s
131 continued service to Resolute during the term of the MESAs and the Company’s
132 continued provision of power to NTUA to serve the transferred customers under
133 the PSA following completion of the transaction. [REDACTED]

134 [REDACTED]

135 [REDACTED]
136 [REDACTED]
137 [REDACTED]
138 [REDACTED]
139 [REDACTED]
140 [REDACTED]
141 [REDACTED]
142 [REDACTED]
143 [REDACTED]
144 [REDACTED]
145 [REDACTED]
146 [REDACTED]
147 [REDACTED]

148 **Q. If the Company is required to pay amounts to NTUA [REDACTED]**
149 [REDACTED]
150 [REDACTED], **should the Company be allowed**
151 **to recover those expenses in rates?**

152 **A.** Yes. The Company’s agreement to make these payments, if necessary, is part of the
153 consideration for the PTA. Since the PTA is in the public interest, the Company
154 should be allowed to recover these costs in its Utah rates if it is required to make
155 them. In addition, if this transaction did not take place and the Company incurred
156 these costs in its continuing operation of its system, it would be entitled to recover
157 them in its Utah rates.

158 **Q. What if the Company and NTUA enter into a firm energy contract during**
159 **the term of the PSA? Does the Company require that the Commission**
160 **provide some assurance that costs and revenues from such a contract will be**
161 **Utah situs?**

162 A. No. If the Company and NTUA enter into a firm energy contract based on market
163 prices for power, such a contract would truly be a wholesale type contract and
164 should be treated the way other contracts of that sort are treated in the Company's
165 ratemaking among its various jurisdictions. The Company has structured the
166 transaction as it has in light of the terms of the Letter Agreement and in an effort to
167 provide a reasonable transition period. Once that transition period is over, NTUA
168 will likely no longer be a Schedule 9 equivalent customer. If not, there is no need
169 that it be treated as if it were one.

170 **Conclusion**

171 **Q. What do you conclude?**

172 A. The Company has carefully structured the transaction to assure that other Utah
173 customers will not be harmed by it. It is fair and appropriate that the transaction be
174 treated in the manner discussed above in my testimony for ratemaking purposes.
175 The PTA and PSA are the product of extensive and difficult negotiations between
176 the Company and NTUA. They represent a carefully balanced compromise of
177 complex issues and must be viewed together and in their entirety. Approval of the
178 transaction is in the public interest and the ratemaking treatment proposed by the
179 Company is just and reasonable.

180 **Q. What do you recommend?**

181 A. The Company recommends that the Commission approve the transaction agreed
182 upon between the Company and NTUA and provide assurance that in so doing it is
183 approving the ratemaking treatment of the transaction discussed in my testimony.

184 **Q. Does this conclude your direct testimony?**

185 A. Yes.