Rocky Mountain Power
Docket No. 24-035-04
Witness: Shelley E. McCoy

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

---

Direct Testimony on Test Period of Shelley E. McCoy

January 2024

## INTRODUCTION AND WITNESS QUALIFICATIONS

**Q. Please state your name, business address, and present position with PacifiCorp dba Rocky Mountain Power ("PacifiCorp" or the "Company").**

A. My name is Shelley E. McCoy, and my business address is 825 NE Multnomah Street, Suite 2000, Portland, OR 97232. My present position is Director of Revenue Requirement.

**Q. Please describe your education and professional experience.**

A. I earned my Bachelor of Science degree in Accounting from Portland State University. In addition to my formal education, I have attended several utility accounting, ratemaking, and leadership seminars and courses. I have been employed by PacifiCorp since November of 1996. My past responsibilities have included general and regulatory accounting, budgeting, forecasting, and reporting.

**Q. What are your current responsibilities as Director of Revenue Requirement?**

A. My primary responsibilities include overseeing the calculation and reporting of the company's regulated earnings and revenue requirement, assuring that the interjurisdictional cost allocation methodology is correctly applied, and explaining those calculations to regulators in the jurisdictions in which the company operates.

**Q. Have you submitted testimony in any previous regulatory proceedings?**

A. Yes. I have provided testimony in multiple proceedings before the Public Service Commission of Utah ("Commission"). I have also provided testimony before the California, Oregon, Washington, and Wyoming public utility commissions.

## PURPOSE OF TESTIMONY

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

A. Rocky Mountain Power is preparing to file a general rate case on approximately April 30, 2024, for new rates to be effective January 1, 2025 (“2024 GRC”). My testimony identifies the three different test periods required for a General Rate Case under Utah Admin. Code R746-700-10.B.1 In addition, my testimony explains why, after evaluating a variety of different factors, using a test period that aligns with the rate-effective period is the only test period that produces rates that properly reflect the cost of providing service to our customers during the timeframe for which the rates are in effect. Therefore the Company proposes a test period for the 2024 GRC that uses the 12- months ending December 31, 2025, with a 13-month average rate base (“2025 Proposed Test Period”).

**Q. Why is the Company seeking a test period determination prior to filing the general rate case application?**

A. The Company is seeking a test period determination prior to filing the general rate case application, which will include the proposed revenue requirement and rates to simplify the filing, which allows the parties to more efficiently focus their resources on the relevant aspects of the case. A timely test period determination also allows the Commission, the Company and other parties to consider if the proposed timing for the general rate case will allow timely recovery of prudently incurred costs and benefits associated with items such as major wind and transmission capital investments. The Company’s 2025 Proposed Test Period is the only test period that allows the Company timely recovery of the majority of these costs and benefits without the need for multiple general rate cases or extensive use of alternative ratemaking mechanisms or accounting deferrals.

Absent prior determination of a test period, the Company is required to file the three separate test periods, as described later in my testimony, requiring parties to audit and review all three test periods and propose, evaluate and respond to adjustments to all three test periods. Also issues raised by parties related to test period selection require resources to be divided and constrains the 240-day statutory schedule.

A prior determination of a test period is particularly necessary in this case to enable the Company to identify generation resources for which specific information is required in accordance with the Commission Order in Docket No. 22-035-03. In that proceeding, the Commission granted the Company's request for a waiver of significant energy resource decision requirements for five projects pursuant to Utah Code Ann. § 54-17-501 and Utah Admin. Code R746-430-4. The Commission requires the Company to provide information required to evaluate the prudency of its resource decision at least 30 days in advance of a general rate case where prudence review is requested. One or more of the five projects could potentially be included in the Company's general rate case request based on the test period. Therefore, a prior determination is required so the Company can identify which resources will be included in the case and subject to a prudency review so the required information can be filed 30 days in advance.

## TEST PERIODS

**Q. What test period information is required under Utah Admin. Code R746-700-10(A) in a general rate case application?**

A. Utah Admin. Code R746-700-10(A) requires the Company to file three different test periods; (1) a historical test period for the 12-month period of actual, unadjusted of operations; (2) an alternative test period for the 12-month period ending on the last day of June or December, whichever is closest, following the filing date of the application; and (3) the Company's proposed future test period.

**Q. What test period does the Company propose to use in its 2024 GRC?**

A. The Company plans to file its 2024 GRC on or about April 30, 2024, for rates effective January 1, 2025. The Company proposes a future test period using the 12 months ending December 31, 2025. The historical test period would be 12-months ended December 31, 2023, and the mid test period closest to the filing date, as required under R746-700-10.A.2 would be 12-months ended June 30, 2024.

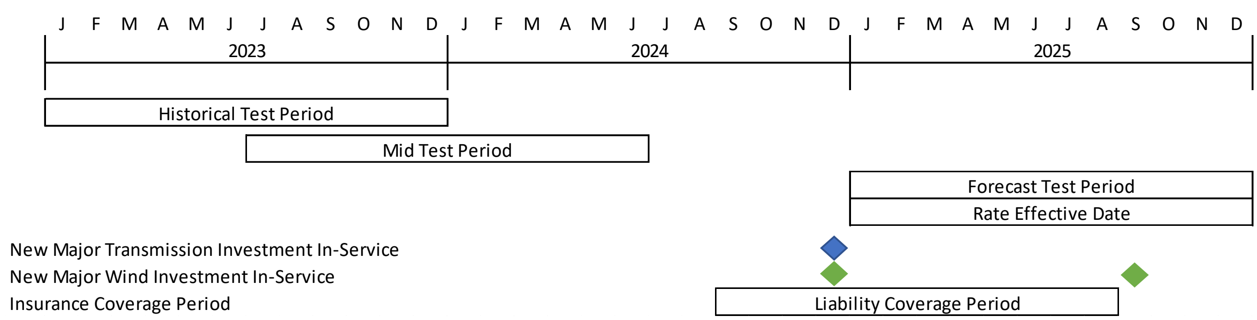
**Q. What are the major drivers for the 2024 GRC?**

A. The Company has identified one of the major drivers that necessitate the need for its 2024 GRC to be the major capital projects associated with the in-service of the 500 kV Gateway South transmission line which runs from Aeolus to Mona and multiple new wind projects expected to be placed in-service before 2025. Using the 2025 Proposed Test Period is the only test period that would properly align the costs of these investments with the net power cost and production tax credit benefits that would otherwise be provided to customers through the Energy Balancing Account ("EBA") mechanism. Additionally, the Company is experiencing an environment of cost increases and has experienced particularly acute cost pressures related to changes in net power cost and third-party liability insurance premiums. The 2025 Proposed Test Period best captures anticipated changes in net power cost for items such as forward market prices and fuel contracts. Furthermore, the 2025 Proposed Test Period ensures the third-party liability insurance premiums that will be paid on or around August 15, 2024, for coverage in 2024/2025 coverage period are aligned with the rate effective date.

**Q. Why is the Company recommending the 2025 Proposed Test Period?**

A. The 2025 Proposed Test Period aligns with the rate-effective period and properly reflects the cost of providing service to our customers. Table 1 below illustrates the three test periods in relation to the January 1, 2025, rate-effective date, along with the dates associated with the previously mentioned major drivers of the 2024 GRC.

**TABLE 1**




As shown, utilizing a historical test period or the alternative mid period results in the Company receiving no recovery for major prudent investments or cost expenditures that will be serving and benefiting Utah customers at the rate effective date. Any risk of forecasting error from using a forecast test period is greatly overshadowed by the denial to the Company of the recovery of these items.

**Q. Will the development of the 2025 Proposed Test Period be consistent with that of the Company's previous general rate cases in Utah?**

A. Yes.

**Q. Please explain how the Company plans to develop the revenue requirement for the 2025 Proposed Test Period.**

A. To calculate the 2024 GRC revenue requirement, the Company will begin with historical accounting information; in this case, the 12 months ended December 31, 2023, as the base period. The revenue requirement components in the historical period are analyzed to determine if an adjustment is warranted to reflect normal operating conditions expected to occur during the 2025 Proposed Test Period. Parties will have the opportunity to review all historical information and evaluate all adjustments to the future test period to make recommendations on the reasonableness of the forecasts. Therefore, approving a future test period will not disadvantage any party or presume an outcome to the adjustments in the proceeding. Parties will be free to review and audit the supporting information provided through the application, testimony, exhibits, and filing requirements under R746-700 (20) through (23) and propose adjustments to the costs included in the test period.

## TEST PERIOD FACTORS

**Q. Why does the Company support the use of the 2025 Proposed Test Period?**

A. The Company's primary objective in determining a test period is to develop normalized results of operations based on a period of time that will best reflect the conditions during which the new rates will be in effect. The Company considered the following eight factors previously identified by the Commission in Docket No. 04-035-42 in its selection of test period:

- the general level of inflation;
- changes in the utility's investment, revenues, or expenses;
- changes in utility services;
- availability and accuracy of data to the parties;
- ability to synchronize the utility's investment, revenues, and expenses;
- whether the utility is in a cost increasing or cost declining status;
- incentives to efficient management and operation; and
- the length of time the new rates are expected to be in effect.[1]

In its Order on Test Period in Docket No. 07-035-93,[2] the Commission also expressed its desire to balance Company and customer interest. The Company's 2025 Proposed Test Period is the best option when considering these factors.

- **Level of Inflation** – While the Company has striven to absorb cost increases as much as possible, inflationary pressures from items such as labor costs due to increases in many of its union labor contracts still exist. Capturing the correct level of wages during the rate-effective period is critical in allowing the Company a fair opportunity to adequately recover the cost associated with providing service to all customers.
- **Changes in Utility Investment, Revenues, and Expenses** – As described earlier, changes in utility investment and expenses are a major driver for the 2024 GRC. The Utah service territory continues to grow with increasing customer demand for renewable resources. The Company has made significant capital investments to meet the changes in load while maintaining a continued focus on providing safe and reliable service to Utah customers. Furthermore, because of past, current, and future load change, the Company will have to acquire new generation and transmission resources,

[1] Order Approving Test Period Stipulation, Docket No. 04-035-42 (October 20, 2004).
[2] Order on Test Period, Docket No. 07-035-93 (February 14, 2008).

impacting not only the level of investment needed to be included in rate base, but also retail revenues, net power costs and operations and maintenance costs.

- **Changes in Utility Services** – No change in service levels is anticipated, however the Company continues to fund maintenance to allow for the provision of safe and reliable electric service to meet our merger commitments.
- **Availability and Accuracy of Data to Parties** – Adoption of the 2025 Proposed Test Period for the 2024 GRC will not compromise the parties' ability to obtain available and accurate data. Any risk of forecasting error associated with the 2025 Proposed Test Period should be weighed against the fact that if an earlier test period is adopted the Company would be denied cost recovery of significant cost drivers in the case.
- **Ability to Synchronize the Utility's Investment, Revenues and Expenses** – The synchronization or "matching" of a utility's revenues, expenses and investments in setting rates is a traditional rate making concept; however, it is one that cannot be viewed in isolation without taking into consideration the rate-effective period. The goal in setting rates should be to set rates that properly reflect the costs that will be incurred by a utility during the period in which the rate will be in effect. The idea that a purely historical test period may be properly synchronized between the revenues, expenses, and investment is correct, however, that may have very little to do with the costs that will be incurred when new rates go into effect. The important synchronization under the statute is aligning the revenue requirement determined for the test period and the prudent costs that will be incurred during the rate-effective period. This is important in the current regulatory environment where the Company has and continues to make

significant capital investments in projects that lower net power cost and provide production tax credit benefits.

- **Whether the Utility is in a Cost Increasing or Cost Declining Status** – As discussed above, while the Company has controlled and mitigated many cost components of the revenue requirement, changes as a result of new capital investment and significant increases in third-party liability insurance result in an overall cost-increasing status.
- **Incentives to Efficient Management and Operation** – The Company's management is continually looking for ways to increase the efficiency of the Company. The Company is adding investment to serve load reliably. To use a test period that does not align with the rate-effective date would be a disincentive to the Company in these efforts.
- **Length of Time New Rates Are Expected to Be in Effect** – The Company has not made a decision on any length of time the new rates are expected to be in effect; however, the Company has not filed a general rate case since Docket No. 20-035-04. That rate case resulted in an effective date of January 1, 2021, which will have been four years from the proposed rate effective date of January 1, 2025 of the 2024 GRC. The 2025 Proposed Test Period balances the need for timely recovery of prudent costs with these other considerations.

## CHANGES IN UTILITY INVESTMENT, REVENUES, AND EXPENSES

**Q. Can you provide specific detail on the changes in utility investment, revenues, and expenses the Company is experiencing?**

A. As I mentioned, the primary drivers of the 2024 GRC are new capital investments and increased expenses for net power costs and third-party liability insurance premiums. I will discuss these drivers in more detail.

**Q. Please explain the impact of the different test periods with regards to the major wind and transmission cost and benefits.**

A. The Company will be investing over $3.5 billion in major wind and transmission assets that are expected to be placed in-service before or during the 2025 Proposed Test Period. These projects will reduce operating costs and provide customers long-term net power cost benefits and tax credits. As illustrated in Table 1 above, these projects would be completely unrecovered using any test period other than the 2025 Proposed Test Period.

**Q. Please explain the impact of the different test periods with regards to net power costs.**

A. Changes in purchased power expense, fuel expense, wheeling expense, and wholesale sales revenues have resulted in significant net power cost increases since setting the base included in customer rates from the 2020 GRC. While the EBA is a ratemaking mechanism that allows for recovery of the variance between the net power costs collected in customer rates versus actual incurred net power costs, customer recovery ultimately lags incurred expenses. This is a concept commonly referred to as regulatory lag. "Regulatory lag" refers to the time difference between when costs are incurred and when they are included in rates. As it relates to net power costs, the Company is required to use cash reserves to fund the incurred expenses before recovery is received from customers. This material cash funding strains the future liquidity of the Company. Aligning the forecasted net power costs with the 2025 Proposed Test Period accurately captures projected changes to these operating costs, such as the zero-fuel cost associated with new wind investments and reduce regulatory lag. Reducing regulatory lag is a significant contributor in the Company's ability to minimize future rate case filings.

**Q. Please explain the impact of the different test periods with regards to third-party liability insurance premiums.**

A. As presented in Docket No. 23-035-40, the Company has experienced significant increases to the cost of third-party liability insurance. The third-party liability insurance premiums paid on or around August 15, 2024, will be for coverage during the 2024/2025 period. A 2025 Proposed Test Period is the only test period that would allow the Company the opportunity to recover this prudent expense. Furthermore, as illustrated in Table 1 above, the 2025 Proposed Test Period would most closely align the coverage period of the premiums with the rate effective date of customer rates.

**Q. If the Company were to use a different period other than calendar year 2025, what would be the impact?**

A. Using a test period other than the 2025 Proposed Test Period would expose the Company to significant regulatory lag. More than anything else, regulatory lag is the result of the ratemaking process, including selection of an improper test period. If new rates do not reflect the costs being incurred at the time the rates are in effect, regulatory lag is created.

**Q. If the Company's proposed test period is not approved, what are the other options the Company has to recover its prudently incurred costs?**

A. Given the current period of increased investment and expenses, using any test period other than the one that aligns with the rate-effective date, deprives the Company of timely cost recovery of prudently incurred costs that are necessary to serve customers. More importantly, using any other test period does not reflect the true cost to serve customers during the rate-effective period and gives poor price signals to customers. In response, the Company would need to file another rate case, possibly immediately after the current rate case, or would need alternative ratemaking mechanisms allowing recovery of these prudent cost pressures.

## SUMMARY OF RECOMMENDATIONS

**Q. Please summarize your recommendations to the Commission.**

A. I recommend that, based on the reasons above, the Commission approve the Company's 2025 Proposed Test Period. This affords the Company the reasonable opportunity to recover its prudently incurred costs required to provide service to customers and earn a reasonable return on investment during the period rates will be in effect. In addition, using the Company's 2025 Proposed Test Period is the only test period that fully matches the cost and benefits of the major capital investments expected to be placed in-service before December 31, 2025.

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

A. Yes.