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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, Consisting of a General Rate Increase of Approximately $161.2 Million Per Year, and for Approval of a New Large Load Surcharge	**)** **)** **)** **)** **)** **)** **)** **)** **)**	**Docket No. 07-035-93** **Pre-filed Direct** **Test Year** **Testimony of** **Donna DeRonne** **For the Committee of** **Consumer Services**

January 25, 2008

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INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna DeRonne. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory analyst at Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous electric, water and wastewater, gas and telephone utility cases.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates, PLLC, was retained by the Utah Committee of Consumer Services (Committee) to review Rocky Mountain Power's (the Company or RMP) application for an increase in rates in the State of Utah. Accordingly, I am appearing on behalf of the Committee.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses: (1) the test year alternatives that the Commission can select from as set forth in the statutory provision addressing test year; (2) the Committee's position that the Company's proposed test year, if adjusted appropriately, can be reasonably reflective of the conditions RMP is likely to encounter during the rate effective period; and (3) reasons why it is imperative that the Commission resolve the test year issue in a timely manner.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY ON THE ISSUE OF TEST YEAR SELECTION BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH?

A. Yes. In Rocky Mountain Power's prior rate case, Docket No. 06-035-23, I submitted testimony on behalf of the Committee of Consumer Services regarding the appropriate test year.

<u>TEST YEAR ALTERNATIVES</u>

Q. WHAT TEST PERIODS WERE PRESENTED BY ROCKY MOUNTAIN POWER IN THIS DOCKET?

A. Consistent with previous agreements among the parties, Rocky Mountain Power provided its adjusted Results of Operations in this case for three separate periods. The first period consists of the historical twelve months ending June 30, 2007 with normalizing adjustments, which is the "Base Period." The second period is the "Mid Period", which is the twelve months ending June 30, 2008. The third period presented is the projected twelve months ending June 30, 2009, which is the test year requested by RMP in this case.

Q. WOULD YOU PLEASE BRIEFLY SUMMARIZE THE STATUTORY CHARGE TO THE COMMISSION WITH REGARDS TO THE SELECTION OF THE APPROPRIATE TEST PERIOD?

A. Yes. Section 54-4-4(3) of the Utah Statutes specifically states:

> (a) If in the commission's determination of just and reasonable rates the commission uses a test period, the commission shall select a test period that, on the basis of the evidence, the commission finds best reflects the conditions that a public utility will encounter during the period when the rates determined by the commission will be in effect.

Q. DO THE UTAH STATUTES SPECIFICALLY REQUIRE THAT A FUTURE TEST YEAR BE USED?

A. No, they do not. In addressing the establishment of the test year, the Utah Statutes in Section 54-4-4(3), specifically state:

> (b) In establishing the test period determined in Subsection (3)(a), the commission may use:
>
> > (i) a future test period that is determined on the basis of projected data not exceeding 20 months from the date a proposed rate increase or decrease is filed with the commission under Section 54-7-12;
> >
> > (ii) a test period that is:
> >
> > > (A) determined on the basis of historic data; and
> > > (B) adjusted for known and measurable changes; or
> >
> > (iii) a test period that is determined on the basis of a combination of:
> >
> > > (A) future projections; and
> > > (B) historic data.
>
> (c) If pursuant to this Subsection (3), the commission establishes a test period that is not determined exclusively on the basis of future projections, in determining just and reasonable rates the commission shall consider changes outside the test period that:
>
> > (i) occur during a time period that is close in time to the test period;
> >
> > (ii) are known in nature; and
> >
> > (iii) are measurable in amount.

According to the statutory language, the Commission can select from three basic test year options. These options include a historical test year adjusted for known and measurable changes, a future test year for which the end date does not exceed 20 months from the date the case is filed, and a mixed test year that is a combination of historical information and

future projections. While the future test year may not exceed 20 months from the date the case is filed, it may consist of almost any twelve month period prior to that 20 month limitation. A mixed test year also results in many test year options.

In selecting the appropriate test year, therefore, the key criteria for the Commission is that the test year, based on the evidence presented, needs to reflect the conditions that will be encountered by a utility during the rate effective period.

<u>TEST YEAR RECOMMENDATION</u>

Q. WHAT IS THE COMMITTEE'S POSITION WITH REGARDS TO THE TEST YEAR REQUESTED BY RMP IN THIS CASE?

A. As previously indicated, RMP has requested a future test year ending June 30, 2009. The forecasted test period was presented by the Company in Exhibit RMP__(SRM-1). It is the Committee's view that the information and calculations presented in Exhibit RMP__(SRM-1) can be adjusted such that the requested period can be reasonably reflective of the conditions RMP will face in the rate effective period.

Section 54-4-4(3)(a) of the Utah Statutes requires that the Commission select a test period that, on the basis of the evidence, it finds best reflects the conditions that a utility is expected to encounter during the rate effective period. Given the degree of growth in customer levels and loads, coupled with the need for a significant amount of capital investment in RMP's system in the areas of distribution, transmission and

generation, the twelve month period requested by RMP can be reasonably reflective of the rate effective period if reasonable projections, forecasting methodologies, and assumptions are utilized in deriving the forecasted amounts. If the future test period is selected, appropriate ratepayer safeguards should also be put in place.

Q. WHAT TYPES OF POTENTIAL RATEPAYER SAFEGUARDS DO YOU ENVISION AT THIS TIME?

A. While the Committee is still in the process of analyzing the Company's recent responses to discovery regarding projected capital and O&M/A&G expenditures and a significant amount of analysis and discovery remains to be conducted, there is a concern that the substantial level of projected expenditures contained in the filing may not be achieved. If a future test year is adopted by the Commission, the Committee believes that safeguards should be established in this case to protect ratepayers in the event that actual capital spending falls substantially short of projected levels and actual costs in the areas of O&M/A&G fall short of budgeted levels. Safeguards could take various forms. Three types of potential safeguards to protect customers include: (1) the phasing-in of rate recovery of costs ascribed to particular major projects in the outer months of the future test year based on achieved project milestones; (2) the establishment of deferral mechanisms (perhaps in the form of a regulatory liability) to mitigate future cost increases; or (3) customer credits (refunds)

on bills essentially reflecting the difference between amounts collected in rates and actual spend levels in certain areas. As the Committee continues its analysis, potential safeguards will be developed and further addressed in its revenue requirement testimony.

<u>TIMELINESS OF TEST YEAR RESOLUTION</u>

Q. IN YOUR EXPERIENCE ADDRESSING REVENUE REQUIREMENTS IN UTILITY RATE CASE PROCEEDINGS, WHAT TYPES OF TEST YEARS HAVE YOU ADDRESSED?

A. As regulatory policies and practices can differ somewhat between the various state jurisdictions, I have addressed many different test periods. These have included historic test years, historic test years with limited post-test year adjustments, mixed test years consisting of part actual and part forecasted information, and future test periods. However, in each of the proceedings, the test year that is being utilized for the development of the revenue requirement is typically known at the on-set of the case or close thereto. This gives some certainty as to the direction of the review process. Parties know what test period to use for their review, analysis and adjustments in making an appropriate revenue requirement determination. Certainty with regards to the test period is imperative to the review process.

Q. WHY IS IT IMPERATIVE THAT THE ISSUE OF TEST YEAR BE RESOLVED EARLY IN THE CASE?

A. There are many factors making it imperative that the resolution of the test period be determined early in the rate case schedule. An unresolved test period will result in a very inefficient audit and review process, greatly increasing the costs associated with the review of the rate case filing. Parties would need to perform a detailed audit and review of all potential test periods. While each of the periods used in building-up to the future test period would need to be reviewed regardless, different periods will incorporate differing assumptions and forecasts. It would not be possible for parties to quantify and present each and every recommended adjustment or revision in each and every potential twelve-month test period option available.

Additionally, if a twelve-month period is selected for the test year which differs from the three test periods presented by the Company in its filing in Exhibits RMP__(SRM-1) and (SRM-2), a great deal of revisions and calculations in many areas must be made to present a complete twelve-month period with all of the aspects of the revenue requirement calculation being coordinated and matched.

Q. COULD YOU PLEASE GIVE SOME EXAMPLES OF HOW ADJUSTMENTS WOULD HAVE DIFFERENT IMPACTS IN DIFFERENT TEST PERIODS?

A. Yes. For example, the sales forecast differs depending upon the period selected. According to the Direct Testimony of RMP witness G. Michael

Rife, in order to forecast sales to Industrial and Other Sales to Public Authorities customer classes, the Company consults with the account managers assigned to each of the large power users regarding the customer's projected energy consumption. The forecasts of monthly sales and consumers may also be adjusted by the Company forecaster. The number of industrial customers and level of sales will vary depending upon the 12-month period selected. Additionally, the level of sales will impact the power costs incorporated in the filing. It also impacts the system loads and system peaks which thereby impacts the jurisdictional cost allocation factors.

Another example is the addition of generation sources. The Company is adding new wind facilities in different months in this case. The addition of a wind facility impacts plant in service, accumulated depreciation, depreciation expense, income taxes, OMAG, power costs and labor costs. Depending upon the twelve month period selected, the impact of the addition of the plant will differ. As an average rate base is used, analysts must know how many months the addition should be included in plant in service, accumulated depreciation and depreciation expense, among other factors. If parties recommend adjustments to any of the generation source additions, such as revised cost estimates or revised in-service dates, the impact on revenue requirement will be different for each distinct twelve-month period selected.

Almost every adjustment made in the filing and every forecast will vary in differing test periods. Some adjustments will differ more substantially than others depending upon the nature of the forecast and the differing conditions between periods. Some differences may be as simple as incorporating alternate escalation factors, but some will be much more complex. If parties advocate different test periods in the case, the adjustments will not be comparable making the hearing process and final revenue requirement calculation unwieldy.

Q. WOULD PARTIES BE PUT AT A DISADVANTAGE SHOULD THE TEST PERIOD THEY ARE ADVOCATING NOT BE SELECTED?

A. If the Commission does not resolve the test year issue early in the case, parties that utilize a test period that differs from the one ultimately utilized by the Commission in reaching its final decision would be put at a great disadvantage. The quantification of adjustments or revisions they are advocating may differ substantially between potential test periods. Under the existing legislation, an almost endless number of potential test periods exist. It is not feasible or practical for parties to present their recommended adjustments in numerous potential undetermined twelve-month periods.

Q. WOULD FAILURE TO RESOLVE THE ISSUE OF TEST YEAR EARLY IN THE PROCEEDING ALSO MAKE THE COMMISSION'S

OBLIGATION TO DETERMINE A FAIR AND REASONABLE REVENUE REQUIREMENT MORE DIFFICULT?

A. Yes, substantially so. If parties present their recommended adjustments and revenue requirements based on different test periods, the Commission may not have all of the facts and evidence necessary in the record to incorporate all of the adjustments it determines are necessary and appropriate in the test period it ultimately determines is best reflective of the conditions in the rate effective period. The quantification of almost every aspect considered in a rate case proceeding will be different depending on the test period. It will also be much more difficult to ensure that there is a matching of the different components of the ratemaking formula. For example, the addition of a generation source impacts rate base, labor costs, operation and maintenance costs, potential income tax benefits or tax credits, purchased power and fuel costs. The impact will vary depending upon the twelve-month period selected and where the addition would fall within the twelve-month period given an average test year.

Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY ON TEST YEAR ISSUES?

A. Yes.