

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION)
OF ROCKY MOUNTAIN POWER FOR)
AUTHORITY TO INCREASE ITS RETAIL) Docket No. 20000-384-ER-09
ELECTRIC UTILITY SERVICE RATES IN) Record No. 12702
WYOMING APPROXIMATELY \$97.9)
MILLION PER YEAR OR 17.3 PERCENT)

FILED
PUBLIC SERVICE COMMISSION
OF WYOMING
JUN 09 2011

STIPULATION TESTIMONY OF

Bryce J. Freeman

On Behalf of the Wyoming Office of Consumer Advocate

Testimony Filed: June 9, 2011
Hearings Begin: June 20, 2011

1 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

2
3 A. My name is Bryce J. Freeman. My business address is 2515 Warren Avenue, Suite 304,
4 Cheyenne, WY, 82002. I am the Administrator of the Wyoming Office of Consumer
5 Advocate (OCA). The OCA is an independent consumer advocacy agency that was
6 created by an act of the legislature in the 2003 general session.

7
8 **Q. ARE YOU THE SAME BRYCE FREEMAN THAT PRE-FILED DIRECT**
9 **TESTIMONY IN THIS PROCEEDING ON APRIL 11, 2011?**

10 A. Yes, I am.

11 **Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL TESTIMONY?**

12 A. Since the filing of my direct testimony in this proceeding the parties have engaged in
13 discussions aimed at resolving the contested issues raised by the parties in their direct
14 cases, and in rebuttal and cross answer testimony. The purpose of my supplemental
15 testimony is to describe the agreement reached by the parties as a result of those
16 discussions, explain to the Commission how the agreement resolves the issues raised by
17 the OCA in its direct, supplemental and cross answer testimony, and to support the
18 agreement as a public interest resolution of all of the issues identified in this case. It is
19 my understanding that all of the active parties in the case have joined in the settlement
20 agreement and that only Senator Cale Case and the Department of Energy (DOE) have
21 not signed the Agreement. Further, it is my understanding that although DOE did not
22 sign the Agreement it is not opposed to the Agreement. Senator Case has not been an
23 active participant in the case and did not file testimony. To my knowledge no active party
24 continues to contest any issue that raised in the case. Because of the limited time
25 available between the filing of the Agreement and the filing of this testimony my intent is
26 to provide a high level review of the Stipulation and Agreement. OCA witnesses Parrish
27 and Zamora will be available during the hearing to respond to inquiries by the
28 Commission and its staff regarding specific issues raised in their testimony and answer
29 questions from the Commission.

1 **Q. ARE YOU ADOPTING THE TESTIMONY OF ANY OF THE OTHER OCA**
2 **WITNESSES?**

3 A. Yes. I am adopting the testimony of Charles W. Backofen on behalf of the OCA. Mr.
4 Backofen is a consultant hired by the OCA to review cost of service issues in this
5 proceeding. Since the parties have reached a stipulation regarding all issues in the case,
6 including those described in Mr. Backofen's testimony, I will be adopting his testimony
7 in order to avoid the time and expense associated with having Mr. Backofen appear at the
8 hearing. It is my understanding that many of the other parties in the proceeding will also
9 be consolidating their witness presentations in an effort to make the presentation of the
10 stipulation and agreement to the Commission as efficient as possible. I am not adopting
11 the testimony of OCA witnesses Parrish and Zamora and those witnesses will be available
12 during the hearing to respond to inquiries by the Commission and its staff regarding the
13 stipulation.

14 **Q. CAN YOU GENERALLY SUMMARIZE THE APPLICATION OF THE**
15 **COMPANY AND THE ISSUES RAISED BY THE PARTIES WITH RESPECT TO**
16 **THAT APPLICATION?**

17 A. Certainly. I'll be brief because at this stage of the proceeding I'm sure the Commission
18 and its advisory staff has a fairly thorough understanding of the contested issues in the
19 proceeding and the positions of the different parties on those issues. I would also refer
20 the Commission to the Summary of Contentions filed by the OCA in this case which
21 presents and exhaustive review of the positions of the various parties.

22 Yet, it may still be worthwhile to summarize those issues to establish some context for the
23 stipulation that I will discuss at length later in my testimony. On November 22, 2010,
24 Rocky Mountain Power (RMP) filed an application requesting an increase in annual
25 revenues of approximately \$97.9 million or 17.3%. In its application RMP stated that the
26 primary drivers of its requested increase are new investments in generation, transmission
27 and distribution infrastructure and increases in net power costs to serve customer loads.
28 Key components of the Company's requested increase included a return on equity (ROE)
29 of 10.6%, a forecast test year ended December 31, 2011, forecast base net power costs of

1 approximately \$1.377 billion, and increased rate base investment of approximately \$1.4
2 billion, all on a total system basis.

3 On May 6, 2011 the Company filed rebuttal testimony which, among other things,
4 amended the amount of its requested annual revenue increase from \$97.9 million to \$80.1
5 million. The amended increase was based on a number of revisions including updated
6 fuel price curves and other modeling information, the quantification of Internal Revenue
7 Service bonus depreciation requirements, and the acceptance of a number of adjustments
8 proffered by the parties in their direct testimony responding to the Company's original
9 application.

10 **Q. MR. FREEMAN, HOW IS THE REMAINDER OF YOUR STIPULATION**
11 **TESTIMONY ORGANIZED?**

12 A. My testimony in support of the stipulation and agreement in this proceeding will follow
13 the progression contained in the Stipulation and Agreement beginning with the revenue
14 requirement and proceed through resolution of the major plant investments in the Gateway
15 transmission system, environmental controls at the Company's coal plants, cost of service,
16 reliability issues and finally, other smaller issues covered by the agreement. I should note,
17 however, that I will discuss the Renewable Energy Credit (REC) revenue issue in
18 conjunction with my discussion of the revenue requirement since it is an integral part
19 thereof.

20 **Q. DO YOU BELIEVE COMMISSION APPROVAL OF THE AGREEMENT IS IN**
21 **THE PUBLIC INTEREST?**

22 A. Yes, I do. Moreover, the OCA is no longer recommending adoption of those portions of
23 its testimony that are in conflict with this Stipulation and Agreement.

24 **Q. PLEASE PROCEED WITH YOUR DESCRIPTION OF THE AGREEMENT.**

25 A. As I indicated earlier the amended revenue increase requested by RMP in its application
26 was approximately \$80.1 million. The parties to the stipulation have agreed that RMP
27 should be allowed to increase its rates such that additional annual revenues in the amount
28 of approximately \$44.6 million are realized based on estimated sales as shown on the

1 Revenue Requirement Table on page 4 of the Agreement. The revenue increase is
2 calculated based upon an overall rate of return on rate base (ROR) of 8.00% and an
3 authorized Return on Equity (ROE) of 10.00% as shown in the Cost of Capital
4 Comparison also on page 4 of the Agreement. The agreed upon capital structure is the
5 Company's actual capital structure as described in the rebuttal testimony filed by Bruce
6 Williams on behalf of the Company.

7 **Q. ARE THE AGREED UPON ROE AND RETURN ON RATE BASE WITHIN THE**
8 **RANGE OF RETURNS RECOMMENDED BY THE COMPANY, THE OCA AND**
9 **WIEC?**

10 A. Yes. In its rebuttal filing the Company reduced its requested ROE to 10.5% and updated
11 its capital structure to reflect the impact of recent securities issuances and the impact of
12 federal bonus depreciation allowances that were only estimated in its original application.
13 These changes resulted in an amended overall requested return of 8.26%. In my direct
14 testimony I recommended an ROE of 9.5% and an overall return of 7.77% based on the
15 Company's capital structure as contained in its original application. However, I indicated
16 in my direct testimony that the Commission should update the capital structure when the
17 effects of the bonus depreciation allowance became known and quantifiable and which are
18 now known and incorporated into the Company's revised capital structure.

19 Mr. Gorman, on behalf of WIEC, recommended an ROE of 9.75% and an overall return
20 on rate base of 7.82%. Mr. Gorman's recommendation was based on an adjusted capital
21 structure containing more debt and less equity than that proposed by the Company in
22 either its original or amended filings.

23 The return figures agreed upon by the parties, for both ROE and the overall return on rate
24 base fall within the range of return recommendations offered by the three return witnesses
25 in this case. The Commission should have confidence that the agreed upon return is fair
26 to both customers and the Company, and that when incorporated into the revenue
27 requirement agreed to by the parties, produces just and reasonable rates for customers.

28 **Q. PLEASE EXPLAIN THE OTHER ADJUSTMENTS SHOWN IN THE TABLE ON**
29 **PAGE 4 OF THE STIPULATION AND AGREEMENT.**

1 In addition to the return component which reduces the required annual revenue increase
2 by approximately \$7.7 million, the parties agreed to other expense adjustments that are
3 reflected in the Agreement. The parties agreed to incorporate the coal inventory and wage
4 and benefits adjustments recommended by the OCA, a combination of the adjustments
5 proposed by the OCA and WIEC regarding O&M escalation and wages and benefits, and
6 the adjustment proposed by WIEC regarding Combined Cycle Combustion Turbine
7 (CCCT) overhaul costs.

8 The parties also agreed to reduce net power costs by approximately \$8 million on a
9 Wyoming allocated basis to reflect the value of adjustments proposed by both the OCA
10 and WIEC. The parties believe that the \$8 million reduction in net power costs represents
11 a fair and reasonable settlement of the power cost related issues raised in the case. The
12 parties did agree however, that the amount of net power costs to be included in base rates
13 and used as a basis for comparison of actual net power costs in determining deferred net
14 power costs in the upcoming ECAM proceeding shall be approximately \$227.6 million on
15 a Wyoming allocated basis. Subtracting the above described adjustments from the
16 Company's filed rebuttal case results in an increase to base revenues of approximately
17 \$61.2 million annually.

18 **Q. HOW IS THE NET PRICE CHANGE OF \$44.6 MILLION SHOWN AT THE**
19 **BOTTOM OF THE REVENUE REQUIREMENT TABLE DERIVED?**

20 The largest adjustment to the Company's rebuttal position is the parties' agreement to
21 credit the REC revenues to customers in this rate proceeding rather than in a future Energy
22 Cost Adjustment Mechanism (ECAM) proceeding as directed by the Commission in its
23 order approving the ECAM in Docket Number 20000-368-EA-10. In that order the
24 Commission found, at paragraph 90, that:

25 The Commission notes the Company did not intend to forecast RECs or
26 SO₂ credits as components of base net power costs. (See Exhibit GND-2,
27 Note 1.) One result of this method of including these credits in the ECAM
28 is that the Company will have full use of any cash generated from these
29 credits until the interim ECAM rates go into effect, a result which arguably
30 differs in spirit from the type of commodity balancing account which

1 appears in the Commission' s Rule 250. The Commission expressly
2 approves this result, with the thought that the Company may find some
3 incentive in the arrangement, though not as lucrative an incentive as the
4 Company would wish. (Tr. Vol. III, pp. 608-609.)

5 The parties urge the Commission, for purposes of resolving this case, to permit the
6 crediting of REC and SO₂ revenues in this rate case proceeding rather than allowing the
7 Company to retain those revenues until the next ECAM application is filed. However, the
8 parties have also agreed to an accommodation which allows the Company to retain the
9 time value of the money that it would otherwise have realized had it been able to retain the
10 REC revenues until the time of the ECAM filing. This accommodation is defined in
11 proposed Schedule 93 which sets out how the difference between actual REC and SO₂
12 (herein after REC) revenues and forecast REC revenues will be accomplished. The idea is
13 to be able to credit the REC revenues in this case to customers while leaving the Company
14 indifferent in the process.

15 Essentially, the forecast REC revenue during a forecast period will be discounted for the
16 time value of money plus an incentive of 1.5% in exchange for customers bills' being
17 credited with the REC revenue at the beginning of the forecast period rather than at the
18 end. In all other respects the Schedule 93 works just like a standard balancing account
19 with actual REC revenues being trued up with forecast REC revenues and amortized over
20 a subsequent period. This accomplishes the goal of getting customers the REC revenue
21 credits up front while compensating the Company for the lost value of REC revenues
22 during the forecast period.

23 **Q. IS THERE SUFFICIENT EVIDENCE IN THE RECORD ON WHICH THE**
24 **COMMISSION CAN BASE ITS APPROVAL OF THE REVENUE**
25 **REQUIREMENT CONTAINED IN THE STIPULATION AND AGREEMENT?**

26 **A.** Yes, I believe there is. As the Commission and its Staff are aware there has been an
27 enormous amount of data generated by the parties and there are a large number of parties
28 in this proceeding. Collectively the parties have generated thousands of data requests and
29 filed the direct and cross-answer testimony of many witnesses. Only two parties, the OCA
30 and WIEC, submitted a full revenue requirement analysis for the Commission to consider

1 as an alternative to that proposed by the Company. In its rebuttal testimony amending its
2 original application the Company proposed a revenue increase of approximately \$80
3 million. The OCA recommended an annual revenue increase of approximately \$68
4 million while WIEC recommended approximately a \$30 million annual increase, both
5 based on their own individual analysis. It should be noted that WIEC's direct case
6 included the crediting of the REC revenues in this rate case, as discussed above, while the
7 OCA's case did not. Had the OCA chosen to credit the REC revenues in its direct case
8 our recommended increase would have been approximately \$51 million and the
9 Company's case would have been approximately \$63 million. The \$44.6 million revenue
10 increase agreed to by the parties is well within the range of increases supported in the
11 extensive record in this proceeding.

12 **Q. DID THE PARTIES AGREE TO ANY RATE BASE ADJUSTMENTS IN THE**
13 **STIPULATION AND AGREEMENT?**

14 The only impact on rate base, as compared to the Company's rebuttal filing is the result of
15 the coal inventory adjustment shown in the table on page 4 of the Agreement. This
16 adjustment reduces the rate base from the rebuttal position of approximately \$1.786
17 billion to \$1.782 billion. The parties agree that for purposes of earnings demonstrations
18 the rate base on which the Company is allowed to earn should be set at \$1.782 billion on a
19 Wyoming allocated basis.

20 **Q. DID THE PARTIES AGREE TO ANY COMPANY SPONSORED**
21 **ADJUSTMENTS IN THE STIPULATION AND AGREEMENT?**

22 A. Yes. The parties have agreed to adjustments related to the Klamath hydro project, a post
23 retirement benefits tax deferral adjustment, and investments in environmental controls at
24 the Company's coal plants and the Gateway Central (Populus to Terminal) transmission
25 project. I will describe each of these agreements in turn.

26 With regard to the Klamath project the parties have agreed to accept as reasonable the
27 Company's accelerated depreciation of the Klamath assets pending action by Congress.
28 The Klamath hydro project is scheduled to be retired and removed from service but the
29 agreement regarding its removal must be ratified by Congress before removal can begin.

30 The remaining value of the Klamath assets is being depreciated over the remaining life of

1 the project, which at this point is uncertain since Congress has not ratified the removal
2 agreement. The parties agree to accept as reasonable the Company's Klamath related
3 depreciation so long as Congress acts to ratify the Klamath Settlement Agreement within
4 a reasonable time frame, which has not been otherwise defined in the Stipulation. If not,
5 parties reserve the right to challenge these costs in a future rate case.

6 The parties have also agreed to accept as reasonable the Company's amortization of
7 certain post retirement benefits which were approved for deferral by the Commission in
8 Docket Number 20000-367-EA-10. Costs approved for deferral by the Commission are
9 not automatically approved for recovery. Nevertheless, the parties in this proceeding
10 agree that these costs are just and reasonable and should be included in the revenue
11 requirement for purposes of this settlement.

12 **Q. PLEASE DESCRIBE THE NATURE AND REASONS FOR THE AGREEMENT**
13 **ON MAJOR PLANT INVESTMENTS THAT BEGINS ON PAGE 5 OF THE**
14 **STIPULATION AND AGREEMENT.**

15 A. This portion of the agreement relates to investments the Company has made or plans to
16 make in environmental controls at its coal fired power plants and in the Gateway
17 transmission system. For purposes of this settlement the parties have agreed that the costs
18 related to environmental upgrades and the Populus to Terminal portion of the Gateway
19 transmission project reflected in the Company's forecast test period were prudently
20 incurred and are used and useful for serving customers.

21 In the future, however, the parties have agreed that further investments in the Gateway
22 transmission system and environmental upgrades at the coal plants should be subject to
23 additional scrutiny. Several witnesses in the case testified that the Company had not met
24 its burden of demonstrating that the investments in Gateway and the environmental
25 upgrades are the least cost means of supplying power to customers and recommended that
26 all or a portion of these investments not be allowed for recovery in customer rates.

27 Other parties argued that there is no viable means of examining the whole of these
28 investments and their impact on Wyoming customers since many of the facilities are
29 located outside Wyoming with a proportional share of the costs allocated back to
30 customers in the state. Still others argued that the extent of the environmental costs

1 cannot reasonably be known since federal environmental policies and rules are still
2 evolving.

3 In Wyoming the prudence of utility investments has traditionally been assessed after the
4 fact. When the Commission issues a Certificate of Public Convenience and Necessity
5 (CPCN) it has not historically made a determination of the prudence of that investment;
6 that determination is reserved for a later rate proceeding. Parties been active in CPCN
7 proceedings before the Commission insofar as they are satisfied in the knowledge that
8 they would have an opportunity to be heard in the context of future rate proceedings,
9 although with an increased burden, the utility having already made the investment.

10 The intent of the parties in this agreement is to provide for more robust review and
11 scrutiny of the investments made by the Company, specifically in the areas of
12 environmental controls and the Gateway transmission upgrades, while reducing the risk
13 that investments made by the Company will not later be found to be imprudent or not used
14 and useful for serving customers.

15 To accomplish that the parties have devised a protocol wherein the Company would file a
16 CPCN application for the purpose of determining the prudence and need for an investment
17 before it is made. Pursuant to this protocol, which varies slightly between the
18 environmental upgrades and the transmission upgrades as I will explain in a moment, if
19 the Commission, after a hearing, issues a CPCN for a project, then parties would be
20 foreclosed from challenging the prudence of that investment except to the extent that the
21 total cost of the project exceeds the estimated cost as proposed by the Company in the
22 CPCN proceeding.

23 **Q. WHAT ARE THE DIFFERENCES BETWEEN THE TWO CPCN**
24 **PROCEEDINGS?**

25 **A.** Regarding the Gateway investments the Company will file a CPCN application for
26 segments that are located in Wyoming. For segments that are located outside Wyoming
27 the Company will file an application for approval of non-traditional rate making under
28 W.S. 37-2-121. For segments that originate in Wyoming but terminate in another state the
29 Company will file a combination CPCN and non-traditional rate making application. The

1 specific Gateway segments for which the Company is required to file a CPCN or non-
2 traditional rate making application are enumerated in the Agreement.

3 With regard to the environmental controls the protocol is slightly different because all of
4 the environmental upgrade projects that meet the criteria for approval under the proposal
5 are located in Wyoming. Therefore, there is no need to rely on the non-traditional rate
6 making statute. Among other criteria set out in the stipulation, in order for an
7 environmental project to be eligible for approval under the CPCN treatment proposed in
8 the Agreement its cost must be estimated to be more than \$25 million. Additionally, the
9 Company would not be required to file an application for a CPCN for a project that is
10 already under construction. As shown in Tables A1 and A2 in attachment A to the
11 Agreement, only projects in Wyoming are estimated to cost in excess of \$25 million or are
12 not already under construction. However, under the terms of the Agreement the Company
13 has the option to seek a CPCN for environmental upgrades that do not meet the criteria for
14 mandatory filing, but has no obligation to do so. Of further note, it is explicitly the parties
15 intent that the Agreement apply only to environmental upgrades and investments
16 associated with Gateway transmission project. All other major plant investments, such as
17 wind or gas generation projects, would continue to be developed as they have been
18 developed historically.

19 **Q. WHY DID THE PARTIES PROPOSE THE AGREEMENT ON THE GATEWAY**
20 **PROJECT IN THIS MANNER?**

21 A. The parties are keenly aware of the current state of Wyoming law and the Commission's
22 reluctance in past proceedings to exercise its Certificate Authority over utility facilities
23 that are located in whole or in part in other states. Some might argue that the Commission
24 has sufficient authority under the existing CPCN statute to accomplish what is
25 contemplated in the Agreement. Nevertheless, I believe since this issue is so important to
26 the parties that we intended for the Commission to have maximum flexibility in
27 addressing how to approach considering and implementing the CPCN provisions of the
28 Agreement as they relate to the Gateway investments.

29 **Q. ARE THESE PROVISIONS OF THE AGREEMENT CONSISTENT WITH THE**
30 **POSITION TAKEN BY THE OCA IN ITS DIRECT TESTIMONY?**

1 A. Yes, I believe so. In my direct testimony I devoted a good deal of my analysis to the
2 Company's investments in both the Gateway system and the environmental upgrades.
3 Although it was a complex analysis, my ultimate conclusion was that, based on the
4 evidence available to me, the Company's investments in both the Gateway system and the
5 environmental controls were prudently made and will provide benefits to customers net of
6 the cost of those projects. The parties ultimately agreed to include those investments in
7 the rates paid by Wyoming customers.

8 That is not to say that things may not change in the future. Federal environmental rules
9 and regulations continue to evolve and none of us really knows what will ultimately be
10 required to bring the Company's coal fleet into compliance with those evolving
11 regulations. The biggest risk, of course, is carbon regulation. If a draconian federal
12 carbon regulation scheme was imposed on coal fired generation it might change the
13 economics of continuing to run the Company's existing coal plants. There are other,
14 smaller risks that might also, in the aggregate, change the economics of coal.

15 I do not believe, based on the evidence in this case, that it would be wise to direct early
16 retirement of the coal plants and in order to keep them running the parties have agreed that
17 the investments requested by the Company to be recovered in this case are prudent and in
18 the public interest. But, I also agree that it is wise to continually assess the viability of
19 continuing to run the coal fleet which will require additional investments in emissions and
20 ash disposal systems as well as compliance with water use regulations. The terms of the
21 stipulation will afford the parties and the Commission the opportunity to do this
22 monitoring pursuant to a protocol that is fair and consistent to all involved.

23 Likewise, for the Gateway investments I concluded in my direct testimony that the
24 Company's investment in the Populus to Terminal transmission segment was necessary
25 for the Company to continue providing safe and reliable service to retail customers in its
26 six state service territory, including those in Wyoming. Further, I concluded that
27 customers would benefit from these investments through improved reliability, better
28 access to markets to buy and sell wholesale power, improved reserve sharing capabilities,
29 and access to more diverse and less expensive generation resources. All of these
30 enhanced system capabilities should assist the Company in providing customers with least
31 cost electric service. The parties to the Stipulation agreed that the Company's investment

1 in the Populus to Terminal project is prudent, is used and useful for serving customers and
2 should be included in the rates charged to Wyoming customers.

3 But, as with the investments in environmental controls, things may change. Certainly the
4 locational economics of generation resources can change over time, as can public policy
5 preference regarding those resources. What appear to be economic generation resources
6 today that would be enabled by additional transmission investments may become
7 uneconomic in the future based changing circumstances, fuel prices or public policy
8 preferences. Notwithstanding the fact that the parties have agreed that the investment in
9 the Populus to Terminal segment is prudent and used and useful for serving customers, I
10 believe it would be wise for the Commission to continually assess these factors, and
11 others, to determine whether or not investment in the other Gateway segments is in the
12 public interest. The terms of the Agreement will allow the parties and the Commission to
13 do that.

14 **Q. MR. FREEMAN, ARE THE PARTIES ASKING THE COMMISSION TO PRE-**
15 **APPROVE THE INVESTMENTS THAT YOU DESCRIBED EARLIER?**

16 A. To a large extent, yes I believe we are. Except for the portion of any cost in excess of the
17 estimated costs contained in the Company's CPCN application the parties have agreed not
18 to challenge the prudence of the costs associated with either the future environmental
19 upgrades or the transmission investments specified in the Agreement, if a CPCN is
20 granted by the Commission.

21 **Q. WILL ADOPTION OF THE AGREEMENT REDUCE THE RISK THAT THE**
22 **COMPANY WILL BE SUBJECT TO THE DISALLOWANCE OF SOME OF ITS**
23 **INVESTMENTS IN FUTURE RATE PROCEEDINGS?**

24 A. I don't believe that this arrangement will materially affect the Company's risk profile, one
25 way or the other. While it is true that the Company will have the benefit of knowing the
26 Commission's preference with regard to these investments before they are made, it is
27 equally true that if a CPCN is denied the Company will have to find an alternate means of
28 providing service to customers and it will bear the investment risk of that alternate choice.

1 At the same time, I believe it is in the public interest to assess these investments before
2 they are made. In doing so we avoid the possibility that the Company will embark on an
3 investment plan that ultimately leads to the disallowance of some potentially very large
4 capital investments. I do not believe that customers prefer to leave shareholders “holding
5 the bag” so to speak, but will willing do so if that is their only avenue to avoid paying for
6 imprudent investments. Additionally, it is much more difficult to argue that an
7 investment is imprudent after it has already been made. Under the agreement on capital
8 investments both customers and the Company benefit from the fore knowledge that can
9 only be gained through a Commission directed assessment of investments prior to the time
10 that they are made.

11 **Q. WILL THE AGREEMENT INCREASE THE COMMISSION’S WORK LOAD**
12 **AND THAT OF THE PARTIES?**

13 A. There will certainly be more CPCN and non-traditional filings by the Company if the
14 Agreement is adopted, and those proceedings, by design, will draw more interest and
15 likely be more involved than similar proceedings conducted by the Commission in the
16 past. But, the investment arguments, like those advanced in this proceeding, will largely
17 be transferred to other proceedings making rate proceedings more efficient and
18 streamlined. So, from a case processing perspective I see it primarily as a trade-off
19 between rate proceedings and CPCN proceedings that might actually spread the total work
20 load more evenly over the course of a year.

21 **Q. WHAT AGREEMENT HAVE THE PARTIES REACHED ON RATE SPREAD**
22 **AND RATE DESIGN?**

23 A. The parties have agreed to leave the rate spread and rate design largely unchanged from
24 that proposed by the Company in its rebuttal filing, excepting of course, that the rates will
25 be designed to recover a \$61.2 million base revenue increase rather than the \$80.1 million
26 increase requested by the Company. The REC revenue credit will actually appear on the
27 bill either as a unique credit or in combination with the ECAM surcharge. The net rate
28 change in this case, per the Agreement, is an increase of \$44.6 million.

29 For purposes of this settlement the parties have agreed that the rate spread will continue to
30 be within a range of 99 to 101 percent of the individual class cost of service, based on the

1 Company's recommended class cost of service study. The resulting rates and percentage
2 impacts by class are shown in Attachment B to the Stipulation. As shown on page one of
3 Attachment B the percentage impacts range from an increase of approximately 10% for
4 the residential and large industrial class down to a reduction of approximately 4.5% for
5 agricultural pumping service schedule 40, again based on the Company's filed cost of
6 service methodology.

7 **Q. WERE THERE OTHER AGREEMENTS REGARDING THE RATE SPREAD**
8 **AND RATE DESIGN COMPONENTS OF THE CASE?**

9 A. Yes. Beyond our agreement on the class cost of service which I will discuss next, the
10 parties also agree that the residential customer charge should remain at its current level of
11 \$20 per month. In its original application the Company requested approval of an increase
12 in the residential monthly customer service charge from \$20 per month to \$24 per month.
13 Both the OCA and AARP filed testimony advocating no change to the \$20 monthly
14 customer charge.

15 In addition to the agreement on the monthly customer charge the parties agreed to a
16 modified two tier residential rate design. The OCA had originally proposed a three tier
17 rate structure for residential customers designed to move more of the cost recovery
18 responsibility to higher use residential customers. The modified two tier residential rate
19 structure agreed to by the parties accomplishes the goal established by the OCA in its
20 direct testimony of moving more of the cost recovery responsibility to higher use
21 residential customers. Specifically, the modified two tier structure was designed to give
22 the average residential customer (825 kWh per month) an increase of 1% less than the
23 overall residential class. Under the proposed agreement on this issue the residential class
24 as a whole would see an increase of 10.1% while the average residential customer would
25 see an increase of 9.12%. The lowest use residential customers (100 kWh per month)
26 would see an increase of 1.32% while the highest use residential customers (5000 kWh
27 per month) would see an increase of 15.82%. The OCA is pleased with the resulting
28 residential rate design and believes that it accomplishes our goal of moving more of the
29 cost responsibility to the higher use tail block customers in the two tier rate structure. The
30 rate impacts of the Agreement, by customer class, are detailed in Attachment B to the
31 Stipulation and Agreement. Beyond the modifications to the residential rate design that I

1 described above there are no changes to the fundamental rate design offered by the
2 Company in this case.

3 **Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT ON THE COST OF**
4 **SERVICE METHODOLOGY.**

5 A. As I mentioned previously the parties have, for purposes of the settlement in this
6 proceeding, agreed to use the Company's cost of service methodology as the basis for
7 setting rates in this case. As the Commission is aware the OCA offered an alternative
8 approach for quantifying the class cost of service in this case through the testimony of
9 Charles W. Backofen. Based on the Commission's order in RMP's last general rate
10 proceeding I solicited and retained Mr. Backofen. My objective in seeking an outside
11 review of the class cost of service study was and remains to ensure that the actual costs of
12 serving customers be determined and apportioned as fairly and accurately as possible.

13 **Q. WHY HAVE YOU AGREED NOT TO USE MR. BACKOFEN'S COST OF**
14 **SERVICE STUDY AS THE BASIS FOR SETTING RATES IN THIS CASE?**

15 A. As the Commission knows, developing a rational cost of service study, as with many other
16 aspects of ratemaking, is much more of an art than a science. Mr. Backofen's testimony
17 and analysis presents one way to approach the cost of service issue, but there are many
18 others. Some of those other approaches were proposed in cross-answer testimony filed by
19 some of the other parties in the case whose constituents would have been most affected by
20 the proposed OCA cost of service methodology. Although my goal in this cost of service
21 review was absolutely not results oriented, Mr. Backofen's proposed cost of service study
22 did produce some rather dramatic shifts in cost recovery responsibility among the various
23 classes of customers. This created much contention among the parties in the case over the
24 cost of service issue.

25 I believe that the OCA's cost of service study raised some valid points that should be
26 considered in developing a class cost of service study. For example, I do not believe that
27 the arbitrary 75%/25% capacity energy split contained in the 2010 Interstate Cost
28 Allocation Protocol is sacrosanct and should automatically be used as the basis for
29 allocating costs among the various customer classes in Wyoming. Mr. Backofen
30 suggested a different capacity/energy weighting and Mr. Baron on behalf of WIEC

1 proposed yet a different capacity energy split. Of course, there were many other issues
2 regarding class cost allocation upon which the parties disagreed.

3 In short, I think the parties, including the OCA, and the Commission would benefit from
4 further review and study of cost of service methodologies. Although I am pleased with
5 the work done by Mr. Backofen in this case on behalf of the OCA I consider it a
6 beginning rather than an end to the cost of service issues raised in this case. My goal in
7 this case was to reach a definitive conclusion regarding the cost of service, but for various
8 reasons I don't think we have been able to do that. However, if nothing else we have
9 gotten the parties attention on this issue and we should seize this opportunity to continue
10 our dialog on cost of service methodologies.

11 **Q. HAVE THE PARTIES AGREED TO A FORMAL STRUCTURE FOR**
12 **CONTINUING THAT DIALOG?**

13 A. Yes. Beginning on page 13 of the Agreement the parties describe a cost of service
14 collaborative to be convened for the purpose of continuing this dialog. The objective of
15 the collaborative will be to attempt to agree upon a cost of service methodology that
16 provides the most fair and accurate representation of the actual costs of serving the
17 Wyoming customer classes. If such an agreement can be reached it will be proposed by
18 the Company as the basis for setting rates in the Company's next general rate filing. If no
19 agreement can be reached then parties are free to present any evidence they choose on cost
20 of service in the next rate case.

21 Notwithstanding those provisions of the Agreement the parties to the collaborative have
22 committed to preparing and submitting a report to the Commission detailing the
23 methodologies studied and their relative customer impacts. The parties have committed
24 to studying a wide range of cost of service methodologies and options. The report should
25 give the Commission a sense of the different cost service methodologies available,
26 regardless of whether or not the parties can come to an agreement on which one is most
27 appropriate.

28 **Q. MR. FREEMAN, ARE YOU SATISFIED WITH HOW THE COST OF SERVICE**
29 **ISSUE IS ADDRESSED IN THE STIPULATION AND AGREEMENT?**

1 A. Yes, I am. This is a very important issue to the OCA. I am committed to making the
2 most of this opportunity to benefit from the expertise of not only the OCA but the
3 expertise that other parties will bring to the table on this issue. I am confident that the
4 other parties to the Agreement are equally committed. I hope that what will come of this
5 collaborative is a thoroughly vetted set of recommendations that will be useful to the
6 Commission in making its determination on the cost of service in the next rate case. I
7 have been and will continue to be insistent that the collaborative not be aimed at merely
8 tweaking the existing cost of service methodology. I am confident that the other parties
9 feel the same way. For my part, I intend to continue using the expertise provided by Mr.
10 Backofen and I know the other parties will also bring in outside experts to assist in the
11 parties review of the cost of service pursuant to the collaborative. I am certain that I will
12 benefit from this dialog and I am confident that it will provide measurable benefit to the
13 Commission. I strongly recommend that the Commission allow the parties this
14 opportunity to more carefully, thoughtfully and deliberately review the cost of service for
15 RMP.

16 **Q. HAVE THE PARTIES REACHED AN AGREEMENT ON THE SERVICE**
17 **QUALITY CONCERNS RAISED BY THE OCA AND THE CASPER/NATRONA**
18 **COUNTY AREA INTERVENERS?**

19 A. Yes. This is another important part of the total settlement package. Since this case was
20 filed the City of Casper, Natrona County and the towns of Mills, Bar Nunn and Midwest
21 (Natrona area parties) have been actively engaged in this proceeding. The Natrona area
22 parties have engaged in much discovery and filed the direct testimony of several witnesses
23 regarding outage frequency and duration and other service quality concerns in the
24 Casper/Natrona County area. The Natrona area interveners also expressed concern
25 regarding RMP's capacity planning for future load growth and the Company's line
26 extension policy. Other parties, Granite Peak development for example, also expressed
27 concerns about the Company's ability and willingness to make investments in its system
28 to serve developing loads as well as who would pay for those investments.

29 The OCA also expressed similar concerns regarding the reliability and quality of the
30 Company's service in Wyoming, although not to the same level of detail as contained in
31 the testimony of the Natrona area interveners. The OCA recommended that the

1 Commission allow the additional reliability focused capital and operating expenditures
2 proposed by the Company, but that the Commission tie any future investments to
3 measurable progress in meeting existing service quality benchmarks.

4 The Stipulation and Agreement sets forth an extensive agreement among the parties on
5 what service quality improvements are expected and a plan whereby the Company has
6 committed to achieving those improvements as well as preserving the parties' rights to
7 address non-compliance in the event that service quality and reliability do not improve.

8 The agreement calls for more transparency by the Company and more engagement by the
9 Natrona area interveners in planning for future system growth in the Natrona County area,
10 along with frequent reporting of outages and periodic meetings to discuss the causes of
11 outages and other system disturbances. The parties have also agreed to share any such
12 reports with the Commission. These provisions should lead to the development of
13 stronger relationships between the Company, its customers and the communities it serves.

14 In addition to increased transparency in system planning and operation, the Company has
15 committed to spending more than \$3.0 million on Wyoming reliability projects by
16 September of 2012, 50% of which is earmarked for projects in the Casper/Natrona County
17 area. The committed projects are listed in the table on page 16 of the Agreement.

18 **Q. ARE YOU SATISFIED THAT THE AGREEMENT ON SERVICE QUALITY AND**
19 **CAPACITY PLANNING ISSUES WILL LEAD TO IMPROVED SERVICE**
20 **QUALITY AND RELIABILITY FOR RMP'S WYOMING CUSTOMERS?**

21 **A.** Yes. I believe the agreement addresses the fundamental dichotomy that faces the
22 Commission in nearly every rate case. Customers have the right to expect the Company
23 to provide safe adequate and reliable service. The Company has the right to expect that its
24 prudently incurred costs in providing that level of service quality will be recovered from
25 customers. I do not believe that the service quality and reliability issues in the Natrona
26 area can be cured without further investment by the Company to upgrade and maintain its
27 current distribution system. Customers should expect to have to pay those costs. In return
28 customers should have some assurance that service quality and reliability will improve. I
29 believe that the Agreement strikes the right balance between the interests of consumers in

1 reliable and affordable service and the Company's interest in having the opportunity to
2 recover its prudently incurred costs.

3 **Q. DID THE PARTIES ALSO REACH AN AGREEMENT ON THE LINE**
4 **EXTENSION ISSUES?**

5 A. Yes. Both the Natrona area interveners and Granite Peak Development raised concerns in
6 their direct testimony regarding primarily the amount of line extension allowance, what
7 facilities are covered by the allowance, and the application of the line extension process to
8 potential large new customers. Those parties also expressed concern that RMP does not
9 have sufficient distribution system capacity available to serve prospective large new
10 customers such as those that are anticipated to locate in Granite Peak's planned Bishop
11 industrial rail park near the Natrona County Airport. The town of Bar Nunn, which is
12 located adjacent to the Airport, voiced similar concerns as there are two new large
13 residential subdivisions under development within the town of Bar Nunn.

14 Granite Peak and the Natrona area interveners advocated for a far more liberal line
15 extension allowance than that currently in effect for industrial customers. The current line
16 extension allowance for industrial customers is set at one times the anticipated annual
17 revenues that the potential industrial customer would provide to RMP through the
18 payment of electric bills. The interveners advocated that this allowance be increased to
19 four times annual revenues arguing that the lower line extension allowance was an
20 impediment to economic development in the Natrona County area. The Natrona area
21 interveners also argued that certain facilities, such as substations and local transmission
22 lines should not be directly assigned to customers but should be allocated to all classes of
23 customers based on the cost of service study.

24 The OCA believes that the utility rate structure should not be used as an economic
25 development tool. Costs that the Company incurs to serve a single customer or a small
26 subset of customers should be recovered from the customer(s) who benefit if the cost
27 cannot be reasonably calculated to benefit all customers on the system. Likewise,
28 investments that are made in the system that generally provide a benefit to all customers
29 on the system should not be assigned to a single customer or a small group of customers.

1 The OCA based its line extension allowance recommendation on the cost of service study
2 which showed that the residential line extension allowance should increase from the
3 current \$1,000 to approximately \$1,300 while the commercial and industrial allowance
4 should decrease from the current one times revenue to approximately .90 times annual
5 revenues. Our recommendations on the line extension allowance were sponsored by OCA
6 witness Amy Zamora.

7 Ultimately the parties agreed to leave the commercial industrial line extension allowance
8 at its current level of one times annual revenue but increase the residential allowance to
9 \$1,300. I believe this is fair for a couple of reasons. First, it avoids the sort of liberal line
10 extension allowance sought by other parties in the case which the OCA believes might
11 lead to uneconomic investments by the Company and could create inter-class subsidies
12 between smaller and larger customers. Second, because the parties have committed to the
13 cost of service collaborative it is possible that the current one times annual revenue
14 allowance might be either too high or too low with respect to the modified cost of service
15 study that comes out of the collaborative. It seems reasonable, therefore, to leave the
16 commercial and industrial line extension allowance unchanged until the cost of service
17 issues are resolved.

18 **Q. ARE THERE OTHER RESOLUTIONS CONTAINED IN THE AGREEMENT**
19 **REGARDING SYSTEM CAPACITY AND EXTENSION ALLOWANCE ISSUES?**

20 A. Yes, but there are two in particular that I'd like to highlight here. First, as of May of this
21 year the Company has developed a new Cost Allocation Policy document which defines
22 and clarifies what costs potential customers will be responsible for when requesting
23 service from the Company. This document defines in more precise terms the facilities, at
24 different voltage levels, that will be the responsibility of the customer and those facilities
25 that will be considered system upgrades. This will be of value to potential customers in
26 assessing the economic viability of new industrial facilities that require interconnection to
27 the Company's system at higher voltage levels. The Company's revised Cost Allocation
28 Policy is attached to the Stipulation and Agreement as Attachment C.

29 Secondly, RMP has committed to acquiring the necessary permitting and right of way for
30 a new transmission line and substation in the area of Bar Nunn and the Airport so that

1 new facilities could be developed to serve new loads in this area as early as 2013.
2 However, facilities in this area would only be constructed if certain load growth triggers
3 are met. Granite Peak and others argued that the lack of available facilities to supply
4 power to potential customers is an impediment to economic growth. This provision in the
5 agreement should assure the parties that facilities will be constructed timely to meet
6 customer needs while avoiding the possibility that these facilities will not be used and
7 useful for serving customers.

8 **Q. ARE THERE ANY OTHER PROVISIONS CONTAINED IN THE AGREEMENT**
9 **THAT YOU WISH TO DRAW THE COMMISSION'S ATTENTION TO?**

10 A. Yes. In addition to the clean-up tariff revisions that are discussed in the Agreement
11 beginning on page 22, there are a couple of provisions that are relatively more important.
12 First, the parties have agreed that the Company will file and the parties will not oppose the
13 use of a forecast test year using an average rate base and ending up to fifteen months
14 beyond the month in which the rate case is filed. In each of the last several rate cases
15 WIEC has presented an analysis based on a historic test period, adjusted for known and
16 measurable changes, as an alternative to RMP's forecast test period. The Commission has
17 based its rate case determinations on the forecast test period preferred by the Company.

18 The OCA has historically not been opposed to the use of a forecast test period so long as
19 the forecasts for revenues and expenses are consistently matched and the forecasting
20 methodology is well supported. It has been our opinion that a forecast test period more
21 accurately reflects that actual costs that the Company will incur during the rate effective
22 period than does a historic test period. This tends to reduce regulatory lag which is
23 important to the Company, particularly at a time when it is investing large amounts of
24 capital in its system. Pursuant to this provision of the Agreement all parties will be
25 focused on the same test period and the Company will not suffer the additional burden of
26 having to construct parallel rate cases based on different test periods.

27 Secondly, the Company has agreed to provide, in its next general rate case filing, direct
28 testimony regarding any new information and analysis regarding new developments on
29 demand side management, monetizing demand or treating loads as a resource for purposes
30 of controlling peak usage. In my direct testimony I concluded that the Company had not

1 adequately responded to the Commission's directive to address those issues in this case.
2 What I had in mind was a discussion of how certain large loads or aggregated smaller
3 loads might be able to bid into a capacity and or energy market to lessen the cost of peak
4 power usage. This would require the creation of a demand response market, by the
5 Company or some other entity, which does not currently exist. The Company's response
6 was centered on customers' ability to sell capacity and energy back to RMP and not on
7 their ability to bid load into a demand response market.

8 In the next rate case I will be looking forward to a discussion by the Company regarding
9 the development of a demand response market in the west and the Company's plans to
10 facilitate participation in that market by its customers. As the Commission knows there is
11 currently an earnest effort underway by interested stakeholders in the WECC region to
12 develop an Energy Imbalance Market (EIM) whereby short term imbalance energy (at
13 least) can be bought and sold. This may be exactly the kind of opportunity that Wyoming
14 customers can avail themselves of to maximize the value of their avoided peak energy
15 requirements. Then again, it may not. At any rate I will be interested in the Company's
16 updated perspective on the demand response issue in its next general rate case proceeding.

17 **Q. ARE THERE ANY OTHER PROVISIONS OF THE STIPULATION AND**
18 **AGREEMENT THAT YOU THINK MERIT PARTICULAR ATTENTION BY**
19 **THE COMMISSION IN DETERMINING WHETHER OR NOT TO ACCEPT**
20 **THE AGREEMENT OFFERED BY THE PARTIES?**

21 **A.** This is one of the most comprehensive and detailed settlements that I've ever been
22 involved with. There are a number of details and nuances contained in the Agreement
23 that I have not addressed in my testimony here. As I said earlier in my testimony my
24 intention is to address the veracity of the Agreement at a fairly high level; the resolution
25 of specific issues raised by other OCA witnesses are best addressed by those witnesses. I
26 plan to offer oral testimony supporting the Agreement at the hearing in this matter and I
27 will be available to answer any questions the Commission may have regarding the
28 Stipulation and Agreement that are not adequately addressed in my testimony here.

29 **Q. DO YOU HAVE ANY FURTHER THOUGHTS TO OFFER THE COMMISSION**
30 **REGARDING THE STIPULATION?**

1 A. This has been one of the most complex and contentious proceedings I've ever been
2 involved in during my time appearing before the Commission as an expert witness. It
3 perhaps rivals in its magnitude and importance the rate case from the early part of the last
4 decade in which the Commission denied RMP recovery of a substantial portion of its
5 requested net power costs in Docket Number 20000-184-ER-02. Additionally, I have
6 never been involved in a case with so many parties with such divergent views.

7 After the parties filed their direct testimony on April 6, 2011, the possibility of bringing
8 the widely divergent views expressed in the testimony together in the context of a
9 settlement seemed remote in my view. This view was further cemented after the
10 Company filed its rebuttal testimony and the parties filed cross-answer testimony. Yet,
11 here we are with a settlement agreement pending approval before the Commission.

12 I believe the fact that we were able to reconcile our diverse views in the Agreement now
13 before the Commission speaks volumes about the good faith of the parties in the
14 proceeding in coming together to negotiate the Agreement. I can personally vouch for the
15 fact that all parties to the Agreement made tough, gut wrenching decisions to get to this
16 point. But, I also believe that none of the parties forsook their principles in signing on to
17 the Agreement.

18 I also believe the fact that the parties were able to reconcile their differences is a testament
19 not only to the integrity of the Agreement but to the delicacy of the Agreement as well. It
20 is a miracle that all parties signed the Agreement given the lines that were drawn in the
21 sand with pre-filed testimony. I believe that all of the parties would claim to have given
22 more than they received in the final agreement. Notwithstanding, all of the parties signed
23 the agreement.

24 Because there has been such able representation of such a wide variety of interests in this
25 proceeding, and in view of the substantial evidence of record in this case, I believe that the
26 Commission can have a high degree of confidence that the Agreement is indeed in the
27 public interest and should be approved. Therefore, I urge the Commission to adopt the
28 Stipulation and Agreement in this case as presented by the parties.

29 **Q. DOES THAT CONCLUDE YOUR SUPPLEMENTAL TESTIMONY IN THIS**
30 **PROCEEDING?**

1 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF)
ROCKY MOUNTAIN POWER FOR)
AUTHORITY TO INCREASE ITS RETAIL) Docket No. 20000-384-ER-10
ELECTRIC UTILITY SERVICE RATES IN) Record No. 12702
WYOMING APPROXIMATELY \$97.9)
MILLION PER YEAR OR 17.3 PERCENT)

AFFIDAVIT, OATH AND VERIFICATION

Bryce J. Freeman (Affiant) being of lawful age and being first duly sworn, hereby deposes and says that:

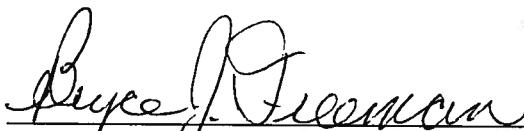
Affiant is the Administrator of the Wyoming Office of Consumer Advocate which is a party intervener in this matter pursuant to its Notice of Intervention filed on November 24, 2010.

Affiant prepared and caused to be filed the foregoing Stipulation Testimony. Affiant has, by all necessary action, been duly authorized to file this Stipulation Testimony and make this Oath and Verification.

Affiant hereby verifies that, based on Affiant's knowledge, all statements and information contained within the supplemental testimony are true and complete and constitute the recommendations of the Affiant in his official capacity as Administrator of the Wyoming Office of Consumer Advocate.

Further Affiant Sayeth Not.

Dated this 9th day of June, 2011.



Bryce J. Freeman, Administrator
Wyoming Office of Consumer Advocate
2515 Warren Avenue, Suite 204
Cheyenne, WY 82002
(307) 777-5742

STATE OF WYOMING)
) SS:
COUNTY OF LARAMIE)

The foregoing was acknowledged before me by Bryce J. Freeman on this 9th day of June, 2011. Witness my hand and official seal.





Notary Public

My Commission Expires:

