

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Amy J. Zamora. My business address is 2515 Warren Avenue, Suite
3 304, Cheyenne, Wyoming, 82002.

4
5 **Q. WHAT IS YOUR OCCUPATION?**

6 A. I am a Rate Analyst with the Office of Consumer Advocate (OCA).

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

10 A. I graduated from the University of Wyoming in 1995 with a Bachelor of Science
11 Degree in Accounting. After graduating, I was employed as an Accountant with a
12 service company that conducted financial transactions with credit card companies
13 nationwide. My duties included financial analyses for those clients to ensure
14 proper commission payments, internal auditing of costs, application of payments
15 from clients for bills rendered, and payroll. In September 2000, I began working
16 as a Rate Analyst with the Public Service Commission (Commission) where I
17 have analyzed numerous applications from utilities in the electric, natural gas,
18 telecommunications and water industries. The applications included all types
19 from wholesale commodity pass-on filings and general rate cases to routine
20 requests and tariff filings. I then transferred to the OCA as a Rate Analyst in July
21 2003.

22
23 **Q. HAVE YOU PROVIDED DIRECT TESTIMONY TO OR TESTIFIED
24 BEFORE THE COMMISSION IN PREVIOUS PROCEEDINGS?**

25 A. Yes, I have provided direct testimony in three previous proceedings regarding the
26 revenue requirement, cost of service and rate design in general rate cases. I have
27 testified in two of those proceedings.

28
29 **Q. WHO DO YOU REPRESENT IN THIS PROCEEDING?**

30 A. I am a member of the Office of Consumer Advocate (OCA). The OCA is
31 empowered by W.S. §§ 37-2-401 through 404 to act as a party to any proceeding

1 before the Commission. The OCA is charged with representing the interests of
2 Wyoming citizens and all classes of utility customers in matters involving public
3 utilities. The OCA cannot advocate on behalf of any individual, organization or
4 entity.

5
6 **Q. WHO REPRESENTS THE OFFICE OF CONSUMER ADVOCATE STAFF**
7 **IN THIS PROCEEDING?**

8 A. In addition to myself, the OCA is represented by counsel, Anthony Reyes.

9
10 **Q. ARE YOU SPONSORING ANY EXHIBITS AS PART OF YOUR DIRECT**
11 **TESTIMONY IN THIS PROCEEDING?**

12 A. Yes, I am sponsoring OCA Exhibits AJZ – 1 through 6 that reflect the revenue
13 requirement and rate design derived from my analysis. The exhibits will be
14 discussed in the following testimony.

15
16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
17 **PROCEEDING?**

18 A. The purpose of my testimony is to provide the OCA recommendations regarding
19 the application and supporting schedules and documentation for Big Horn Rural
20 Electric Company (Big Horn) presented by Ms. Patricia Giles, General Manager
21 of Big Horn, and Ms. Judy Lambert, Senior Consultant at C.H. Guernsey and
22 Company (Guernsey). Ms. Lambert and her associates are responsible for the
23 data that was compiled in the revenue requirement (or the requested total dollar
24 increase), cost of service and rate design that was filed with the Company's
25 application.

26
27 **Q. PLEASE PROVIDE A GENERAL OVERVIEW OF THE RATE CASE AS**
28 **IT WAS FILED.**

29 A. The application for a general rate increase was filed on December 23, 2003. This
30 is Big Horn's first rate case since 1994. In this proceeding, Big Horn is proposing
31 to move its customer classes towards cost based rates, which will ensure that each

1 class covers the Company's cost of providing service to it while earning a
2 reasonable return. Big Horn is requesting to implement the total increase in four
3 phases, each phase encompassing a period of 12 months.

4
5 The rate analysis for the revenue requirement and cost of service (COS) study
6 were completed using information from the test year ending December 31, 2001.
7 The rate analysis contains adjustments related to Revenue, Purchased Power,
8 Payroll, Employee Benefits, other Administrative and General Expenses,
9 Depreciation and Interest on Long-Term Debt. There was also an adjustment that
10 was made to the rate base calculation for Cash Working Capital. The results of
11 the rate analysis, as shown in the filing, indicates an increase in revenues of
12 \$362,754, which is an increase over 2001 unadjusted revenues of 6.02%. The
13 correlating rate of return is 9.64% with an Operating TIER of 2.86 and Net TIER
14 of 3.92.

15
16 The class cost of service utilized basic allocation factors incorporating energy,
17 demand and customer related costs based on the test year of December 31, 2001.
18 The Revenue, Expenses, Plant and Rate Base components were allocated to each
19 current customer class based on the developed allocation factors. Any component
20 that could be attributed to a particular class was directly assigned. In addition, the
21 cost of service worksheets provided in the filing do not show the components that
22 have been allocated to the Confidential Contract customers because of proprietary
23 issues. The allocations provided for the unbundled costs of distribution service,
24 which was the basis for cost based rates.

25
26 Big Horn then used the unbundled costs to create a new rate design. The
27 proposed rate design moves each class toward its unbundled cost of service.
28 Customer charges for all classes have been increased. The kilowatt-hour (kWh),
29 rates or energy charges, have decreased for some classes, but increased for others.
30 The kWh charge also includes demand components for those customers who do
31 not have meters for their system demand (i.e. Residential and Small Commercial).

1 The demand charges for demand-metered customers have also been changed to
2 more accurately show the cost of demand. In addition, the Company has taken
3 the Residential and Small Commercial classes and grouped them into one new
4 class, Small General Service. The new grouping would make it easier for Big
5 Horn to supply power at the same rates to different customers that used power at
6 the same levels. All other classes have remained separate, but have been
7 renamed. Big Horn has also revamped its blocked kilowatt-hour rates by the
8 decreasing the number of blocks or changing the amounts of kWh's in each block.
9 The proposed increase in revenues was spread to all customer classes, except for
10 the Confidential Contract customers, based on the class cost of service.

11

12 **Q. WHY DID BIG HORN EXCLUDE THE CONTRACT CUSTOMERS**
13 **FROM RECEIVING INCREASES IN RATES?**

14 A. The Confidential Contract customers will see no increase since they have
15 contractual rates from Tri-State Generation and Transmission (Tri-State). Tri-
16 State is Big Horn's wholesale power supplier. Big Horn charges small additional
17 rates to the Confidential Contract customers that have been authorized by Tri-
18 State.

19

20 **Q. ARE THE CONTRACT CUSTOMERS INCLUDED IN THE COST OF**
21 **SERVICE SO THAT NO OTHER CLASS WOULD BE SUBSIDIZING**
22 **THEIR PORTION OF THE SYSTEM COSTS?**

23 A. Yes, the contract customers are included in the COS study. Big Horn chose not to
24 actually show in the schedules the portion of the system costs that were allocated
25 to the contract customers. However, in comparing the total costs that are to be
26 allocated to the sum of the actual allocations, it is apparent that amounts were also
27 allocated to the contract customers.

28

29 **Q. IS THERE ADDITIONAL INFORMATION CONTAINED WITHIN THE**
30 **ANALYSIS FROM GUERNSEY?**

1 A. Yes, there is a section of the report that shows the planning horizon for Big Horn
2 through the year 2006. The information shows the pro-forma margins and
3 financial ratios based on Big Horn's planned operations over those years. It
4 estimates changes in plant and interest expense, as well as assumptions for
5 refunds in capital credits and receipts of G&T capital credits.

6

7 The section also shows the pro-forma financials through 2006 but with the
8 assumption that the contract customers are no longer purchasing power from Tri-
9 State through Big Horn. There is the possibility that Big Horn could lose these
10 customers when their contracts expire. This is partially why Big Horn has chosen
11 to use this rate case to move customers to their own class cost of service. The
12 adders that Big Horn is authorized by Tri-State to charge to the contract
13 customers provide for sizeable margins to subsidize non-contract customers. If
14 the contract customers purchase power elsewhere, Big Horn would lose that
15 revenue and would not be able to recover it from the non-contract customers
16 without another rate case.

17

18 **Q. YOU STATED EARLIER THAT BIG HORN HAS USED A TEST YEAR**
19 **ENDING DECEMBER 31, 2001. DOES THIS TEST YEAR PROVIDE AN**
20 **ACCURATE REPRESENTATION OF BIG HORN'S CURRENT**
21 **OPERATIONS AND FINANCIAL STATUS?**

22 A. No, it does not. A test year should reflect the most current financial picture
23 possible either on an actual basis or on a projected basis, with adjustments for
24 known and measurable events to take place within the next 12 months. If a test
25 year is too stale, it may not show an accurate picture of a company's financial
26 position. For example, kWh sales may have increased from one year to the next
27 because of substantial customer growth. If the higher kWh sales are not included,
28 the revenue will be understated, which will have an impact on the amount of
29 additional revenue that is requested.

30

1 In the time frame of the test year, Big Horn currently has an aggressive work plan
 2 in place to “catch up” on system maintenance and plant replacement. As stated in
 3 Ms. Giles testimony (page 5, line 18), much of Big Horn’s system is over 40 years
 4 old. The work plan for the years 1998-2001 included the maintenance and
 5 replacement, which will be continued through the 2002-2004 work plan. When I
 6 reviewed Big Horn’s financial statements (RUS Form 7’s) for the years 2001
 7 through 2003, it was apparent by the decreases in its margins and financial ratios
 8 that expenses had been increasing faster than revenues. In fact, expenses
 9 regarding distribution have increased by about 20%, which supported the current
 10 work plan. In addition, Interest Expense has increased by 40% due to the
 11 financing that Big Horn has secured to pay for its work plan. Interest included in
 12 this case involved the work plan for the years 1998-2001. Table 1 below
 13 illustrates the decreases in margins and ratios.
 14

TABLE 1: MARGIN AND TIER FOR 2001 - 2003

YEAR	OPERATING MARGIN	NET MARGIN	OPERATING TIER	NET TIER
2001	\$346,133	\$620,078	3.17	4.89
2002	\$128,263	\$609,242	1.62	3.93
2003	\$ 23,156	\$510,091	1.10	3.25

15 It appears from the numbers for 2001, its test year, that the company is in no need
 16 of a rate increase. In fact, as shown on Schedule A-1.0 of the filing, Big Horn is
 17 still reaching an Operating TIER of 1.45 after pro-forma adjustments have been
 18 made. However, the 2001 numbers do not represent Big Horn’s current
 19 operations as shown in Table 1. Big Horn should have used a test year that ended
 20 between 2002 and 2003, which would have shown a more accurate picture of its
 21 current financial status and operations.
 22

1 **Q. DID YOU SUGGEST TO THE COMPANY THAT IT RESUBMIT THE**
2 **RATE ANALYSIS AND COST OF SERVICE STUDY BASED ON A**
3 **MORE APPROPRIATE TEST YEAR?**

4 A. No, I did not because of the increasing costs from C.H. Guernsey for this rate
5 case. The rate case expense that was included in the original filing was for
6 \$27,000. It has more than doubled since the filing was made. A new analysis and
7 cost of service would be thousands of dollars more.

8
9 **Q. WHAT ALTERNATIVE DID YOU COME UP WITH FOR THE TEST**
10 **YEAR PROBLEM?**

11 A. Developing the revenue requirement that a company needs to continue operating
12 at appropriate levels is not an exact science. Revenue requirements are calculated
13 using actual test years that end on a certain date, to estimated test years that use
14 past information to estimate future financials in the years that the proposed rates
15 will be in effect. While there is a basic formula to calculate revenue requirement,
16 it is still unique to each company. Companies have used extensive, complicated
17 models to do revenue requirement analysis as well as very basic handwritten
18 studies.

19
20 After discussions with Ms. Giles and Mr. Jeff Umphlett from Big Horn and Ms.
21 Lambert from Guernsey, we decided to make simple adjustments to the test year
22 that would bring the Income Statement (Schedule A-1.0) and Rate Base (Schedule
23 B-1.0) accounts to the levels that were seen on the 2003 Form 7. Essentially, we
24 analyzed the revenue requirement with an “adopted” 2003 test year. Additional
25 adjustments were made to the adopted test year for known and measurable events
26 that were to occur in 2004, such as interest on the remaining authorized financing,
27 the salary of a new lineman that was hired this year, and the resulting changes in
28 Cash Working Capital. The updated Income Statement and Rate Base
29 calculations, prior to any rate changes, are included on OCA Exhibits AJZ-1 and-
30 2.

1 **Q. DID YOU HAVE ANY ADDITIONAL CONCERNS WITH THE**
2 **ADJUSTMENTS THAT WERE MADE TO THE ORIGINAL TEST YEAR**
3 **OR THE ADOPTED TEST YEAR?**

4 A. I continued to analyze the original test year in order to examine the Company's
5 adjustments and support for those adjustments to see if they were reasonable.
6 This analysis provided me with a basis on which to compare the adjustments that
7 were made to the adopted 2003 test year, which were discussed in the previous
8 section. Routine adjustments included increases in Payroll and related Payroll
9 Expenses and Employee Benefits, Interest Expense, Depreciation Expense, Rate
10 Case Expense, and insurance costs. During my analysis of the original test year, I
11 did not encounter any irregular adjustments or methods for calculating those
12 adjustments. The adjustments made in the original and adopted test years were
13 adjustments traditionally made in rate cases and are calculated in a common
14 regulatory manner.

15
16 **Q. HAS THE ADOPTED TEST YEAR CHANGED THE COST OF SERVICE?**

17 A. No, it has not. The adopted test year only affected the analysis of the revenue
18 requirement. In order to update the COS data with the adopted test year
19 information, Guernsey would have to recalculate the entire cost of service portion
20 of the rate filing that is used to design rates due to the complexity of the model,
21 which would increase Big Horn's rate case expense.

22
23 The Commission has accepted previously prepared cost of service studies for
24 current rate filings. All parties agree that the filed cost of service is a close
25 enough representation to move classes towards cost based rates. However, this
26 COS may be inappropriate in the next few years because of the extensive
27 renovations being done to the system.

28
29 **Q. AFTER ANALYZING THE ADOPTED TEST YEAR, DO YOU AGREE**
30 **WITH THE AMOUNT OF ADDITIONAL REVENUES THAT HAS BEEN**
31 **PROPOSED BY BIG HORN?**

1 A. No, I do not. Big Horn has proposed to use the same additional increase of
2 revenues of \$362,754 as it did with the original revenue requirement. The
3 resulting rate of return is at a reasonable level, but the TIER ratios are too high.
4

5 **Q. WHAT IS THE PROPOSED RATE OF RETURN AND WHY IS IT**
6 **REASONABLE?**

7 A. For cooperatives, the rate of return is essentially a fall-out number from the
8 revenue requirement calculations. It is not calculated using economic growth
9 models for stocks and bonds. However, I reviewed the cooperative's capital
10 structure to make sure that it is appropriate and comparable to other cooperatives.
11 The proposed revenue requirement results in a rate of return of 7.29%, which is
12 comparable to other cooperatives whose ROR's range from 5% to 8.20%. The
13 rates of return for cooperatives are generally lower than investor owned utilities
14 since debt costs are often lower for cooperatives.
15

16 **Q. WOULD YOU PLEASE PROVIDE A DEFINITION OF TIER?**

17 A. TIER stands for Times Interest Earned Ratio. It is a financial ratio that measures
18 how well margins are able to cover interest payments. The formula is:

$$\frac{\text{Operating or Net Margin} + \text{Interest on Long Term Debt}}{\text{Interest on Long Term Debt}},$$

19
20
21 Operating Margin will be used to find the Operating TIER and Net Margin will be
22 used to find Net TIER. The higher the ratio, the more certainty that a company
23 we be able to pay its long-term interest payments.

24 Most Cooperatives, including Big Horn, receive financing in the form of
25 guaranteed loans from the Rural Utilities Service (RUS) through the Federal
26 Financing Bank (FFB) or the Cooperative Finance Corporation (CFC). The
27 financing is often referred to as a mortgage. The mortgage requirements call for
28 cooperatives to maintain minimum TIER levels. The minimum Operating TIER
29 and Net TIER levels are 1.10 and 1.25, respectively.
30

1 **Q. WOULDNT A HIGHER TIER NUMBER INDICATE THE COMPANY IS**
2 **DOING WELL?**

3 A. A cooperative only needs enough revenue and margins to cover its financial ratios
4 with an additional cushion. A cushion, or range, is appropriate so that a
5 cooperative would not have to file a rate case as often because its TIER
6 requirements were not being met or its TIER was slightly above minimum. A
7 cooperative is basically a non-profit organization. It doesn't exist to make a
8 return on its investment. Instead of paying dividends to stockholders, it has
9 member-owners that, over time, get refunded the profits that the company made
10 (capital credit rotation). In the long run, customers do not make any additional
11 return on this "investment" like a stockholder would on their investment.

12
13 A higher ratio does indicate that the company is performing well, but at the initial
14 cost of its ratepayers. The higher the ratio, the more revenues and margins the
15 cooperative collects from its customers, which are profits that customers may not
16 get back for many years. However, if the ratio were lower, but still above
17 requirements, then customers would be paying less now, instead of waiting for a
18 refund some 30 years later.

19
20 **Q. DOES THE LEVEL OF THE NET TIER CONCERN YOU?**

21 A. No it does not. Net Margins, and therefore Net TIER, include capital credit
22 refunds from Big Horn's wholesale supplier, Tri-State G&T. Big Horn does not
23 have any control over how much is refunded by Tri-State, nor is Big Horn
24 guaranteed to receive any capital credits. Over the last couple of years,
25 Cooperatives have been using operating margins as their basis for revenue
26 increases because it will allow them to earn margins even if they do not receive
27 any credits from their G&T's.

28
29 **Q. WHAT ARE THE RESULTING TIER RATIOS AND WHY ARE THEY**
30 **TOO HIGH?**

1 The Operating TIER and Net TIER are at 2.53 and 4.64 respectively, which is
2 significantly above average for a cooperative. A more appropriate range would
3 be 1.3 – 2.0. For example Beartooth Electric Cooperative has been authorized an
4 Operating TIER of 1.80, Garland has been authorized an Operating TIER of 2.00,
5 while Fall River REC has been authorized an Operating TIER of 1.51.

6
7 **Q. WHAT TIER LEVELS AND ADDITIONAL REVENUES DOES THE OCA**
8 **RECOMMEND?**

9 A. The OCA recommends that the Commission authorize Big Horn Rural Electric
10 Company an increase of \$241,700, an increase over 2001 unadjusted revenues of
11 4.01%. The corresponding authorized Operating TIER is 2.00. The OCA
12 believes that a TIER level at the upper end of the range of 1.3 – 2.0 is reasonable
13 because of Big Horn’s continued aggressive work plan for plant maintenance and
14 replacement. The resulting ROR is 5.80%.

15
16 In addition, mortgage requirements from RUS include maintaining a Debt Service
17 Coverage (DSC) ratio of 1.25. The DSC indicates how well a co-op is able to pay
18 its total mortgage payments. The corresponding DSC from the OCA
19 recommended revenue requirement is 3.57, although we are not recommending
20 that the DSC level be ordered by the Commission. The supporting Income
21 Statement and Rate Base for this recommendation is shown in OCA Exhibits AJZ
22 3 – 4.

23
24 **Q. PLEASE EXPLAIN WHY BIG HORN HAS DECIDED TO USE A CLASS**
25 **COST OF SERVICE STUDY.**

26 A. Big Horn’s basis for developing a cost of service study is to eliminate intraclass
27 and interclass subsidies. Intraclass subsidies exist when customer-related fixed
28 costs are being paid through the energy and demand charges. Interclass subsidies
29 exist when one or more classes are paying higher rates than it costs to serve them
30 in order to make up the difference for other classes who are paying less than what
31 it costs to serve them.

1 It has been 10 years since Big Horn filed a rate case. In that time, it has provided
2 power to three large Confidential Contract customers that have subsidized the
3 other classes, especially the Residential class. The loads that are supplied to the
4 contract customers are not guaranteed. They can leave the system when the
5 contracts expire. One of those contracts will expire within a year. That
6 Confidential Contract customer has given notice to Big Horn that it is looking into
7 getting power from other sources. The Big Horn Board of Directors and its
8 management decided that a cost of service study would provide them with a guide
9 to move all non-contract customers to their own appropriate cost based rates in
10 the event that all three contract customers left the system. Therefore, all non-
11 contract customers will have cost based rates.

12
13 **Q. HOW DOES A COST OF SERVICE STUDY DEVELOP INTO**
14 **UNBUNDLED COSTS FOR EACH CLASS?**

15 A. The COS contains allocation factors that are based on energy, demand and
16 customer charge components. Those allocation factors are then used to allocate
17 current revenues, expenses, plant, and rate base elements to each class. The
18 appropriate allocation factors are used to allocate each element (i.e. energy
19 allocation factors are used to allocate variable expenses such as power costs;
20 demand allocation factors are used to allocate capacity related costs).

21
22 Each allocated element is then summed to arrive at a total unbundled cost for each
23 class. For example, all the allocated costs related to demand are added together to
24 come up with the unbundled demand cost for each class.

25
26 **Q. DOES THE OCA AGREE WITH THE RESULTS OF THE COST OF**
27 **SERVICE THAT WAS PRESENTED BY BIG HORN IN THIS CASE?**

28 A. Yes, we do. The cost of service methodology appears reasonable in spite of the
29 stale test year data. The COS provides a basis to move customers to cost based
30 rates. The OCA also agrees with the process that was used by Big Horn to arrive
31 at the cost of service for each class.

1 **Q. DO YOU HAVE ANY CONCERNS WITH THE FACT THAT THE COS IS**
2 **BASED ON THE ORIGINAL 2001 TEST YEAR INSTEAD OF THE**
3 **ADOPTED 2003 TEST YEAR?**

4 A. No I do not. This cost of service study should be a used as a *guide* to move
5 customers to cost based rates, even though elemental costs are based at 2001
6 levels. A cost of service cannot be exact since customers' costs will fluctuate
7 over the years because of changes in plant, increases in customers, increases in
8 usage, or other reasons. The next COS that Big Horn files will update the
9 information and continue to guide the company towards eliminating subsidies.

10
11 **Q. DO YOU HAVE ANY RECOMMENDATIONS RELATED TO THE COS?**

12 A. The OCA does not recommend any changes or adjustment to the cost of service
13 study portion of this rate case. However, for a company that wants to move to
14 cost-based rates but provides service in a vastly changing environment, like Big
15 Horn, a cost of service should be done at least once every five years. Again, Big
16 Horn is continuing with an aggressive plant maintenance and replacement work
17 plan, which will impact costs that are allocated to its classes. Therefore, the OCA
18 recommends that Big Horn be ordered to provide the Commission with an
19 updated cost of service study, on an informational basis, by year-end 2007, based
20 on a test year ending 2006 (2001 to 2006 is a five year time frame). At the end of
21 the year 2007, the new rate structure will be in Phase 4. At this point in time, the
22 new rate structure will have been in effect for 2 ½ years. The OCA *does not*
23 recommend that the Company file this information as a rate case, unless Big Horn
24 deems that a rate case is necessary.

25
26 **Q. DOES THE RATE DESIGN THAT IS PROPOSED BY THE COMPANY**
27 **USE THE RESULTS OF THE STUDY TO MOVE RATE CLASSES TO**
28 **THEIR APPROPRIATE COST OF SERVICE?**

29 A. Yes, it does. Big Horn proposed to move all the classes towards their cost of
30 service. The monthly customer charge has increased for each class to better
31 reflect the customer component of the COS, which includes costs related to the

1 customer service drop, billing and collection expenses, meter reading,
2 uncollectible accounts and so forth. The Company has also attempted to capture
3 more of its demand related costs in its demand rate. All remaining costs not fully
4 captured by the new customer charges and demand rates were included in the
5 energy rate along with power costs.

6
7 **Q. DO YOU AGREE WITH THE RATES THAT ARE PROPOSED IN THE**
8 **RATE DESIGN?**

9 A. No, I do not. The rates that are proposed by Big Horn are designed to recover the
10 \$362,754 that is being requested by the Company. The OCA has created a rate
11 design that would recover the additional revenues of \$241,700 that we are
12 recommending.

13
14 **Q. HOW DOES THE OCA'S RATE DESIGN COMPARE TO THE RATE**
15 **DESIGN THAT WAS PROPOSED BY BIG HORN?**

16 A. First, and foremost, both rate designs move each class towards cost-based rates
17 over a four-phase period. The entire increase in revenues will occur in Phase I.
18 The rate spread, or the division of additional revenues between the classes, was
19 calculated not only to recover more revenues from the Small General Service
20 (Small GS) class to enable it to pay for more of its own costs and bring it up to a
21 more appropriate class rate of return, but to also decrease the revenues, and class
22 rate of return, paid by the other classes that are already paying more than their
23 costs. Each class is brought closer to its own appropriate rate of return over the
24 four phases, not just the last two to three phases as proposed by Big Horn.

25
26 The OCA rate design (the actual rates that are charged for each customer class to
27 recover its share of revenues) moves customers, especially Small GS customers,
28 more gradually to cost-based rates. For example, Big Horn proposed to move
29 Small GS customers to a \$25 customer charge during the first. The OCA's rate
30 design will increase the customer charge a small amount in each phase until it
31 reaches \$26.00 in the final phase. The customer charge for the Three-Phase Small

1 GS customers was kept \$10 higher than the other Small GS customers, as also
2 proposed by Big Horn. The rate design also proposes to move all other non-
3 contract customer classes closer to their class ROR's than that proposed by Big
4 Horn. Phase 1 begins to move classes towards cost of service with an increase in
5 overall revenues. Phases 2 through 4 will continue moving to cost-based rates
6 while being revenue neutral (no increase or decrease in overall revenue).

7
8 The demand charges for demand-metered customers were kept the same as the
9 charges proposed by Big Horn. The energy charges were adjusted in order for
10 each class to recover the OCA proposed revenues. However, the spread between
11 the energy blocks was maintained, as proposed by the Company, since decisions
12 related to block levels can be more subjective than scientific.

13
14 Based on the revenues that will be generated from this rate design, the
15 Medium/Large General Service, Commercial and Industrial, Irrigation and
16 Lighting classes have moved to within .3% of their appropriate rate of return. The
17 Small GS has increased from a negative return to a positive return, but are still
18 below their cost of service. The OCA chose not to move to full cost of service in
19 this case to alleviate additional rate shock to the Small GS customers since this
20 class will already see a substantial increase from this rate case.

21
22 The OCA proposed class revenues and rates of return are incorporated in OCA
23 Exhibit AJZ – 5. In addition, the calculation for the OCA rates is included in
24 OCA Exhibit AJZ – 6.

25
26 **Q. WERE THERE ANY CHANGES TO THE RATES PAID BY THE**
27 **CONTRACT CUSTOMERS?**

28 A. No. As explained above, these customers pay a contractual rate to Tri-State G&T
29 that cannot be changed through Big Horn's rates. The contractual rates and the
30 Tri-State approved additional adders that are charged by Big Horn will remain in
31 place for those customers until changed by Tri-State.

1 **Q. WILL THE CONTRACT CUSTOMERS SUBSIDIZE OTHER RATE**
2 **CLASSES BY THE END OF THE FOURTH PHASE?**

3 A. Yes. The contract customers will continue to subsidize the Small GS class. The
4 adders that are charged by Big Horn to the Confidential Contract customers allow
5 for margins to be collected from these customers. However, the class's rate of
6 return is significantly above the overall company rate of return because its rate
7 base is minimal. Therefore, the revenues collected from the contract customers
8 that are above the cost to serve them helps to subsidize the shortfall from the
9 Small GS customers. However, in the event that the Confidential Contract
10 customers do leave Big Horn's system, then the shortfall from the Small GS will
11 need to be addressed in a future filing.

12
13 Perhaps in Big Horn's next rate case, the revenues from the contract customers
14 can be spread evenly among all the non-contract customers, if the Company
15 decides to continue to move towards full cost of service. Other companies have
16 taken the revenues from contract customers and credited those against the revenue
17 requirement. However, this would require the cost of service study not to allocate
18 any costs to contract customers, which was done in this study.

19
20 **Q. WHY IS THE CONTRACT CUSTOMER'S CLASS RATE OF RETURN**
21 **HIGHER THAN THE OVERALL COMPANY'S RATE OF RETURN?**

22 A. The rate of return is derived by dividing the Operating Margin by the Rate Base
23 (Net Plant balance, Cash Working Capital, Consumer Deposits, etc). This same
24 calculation can be done for the overall company ROR or for each class, as shown
25 in the Company's filing on Schedule H-1.0. The Net Plant that is included in
26 Rate Base for the Confidential Contract customers is very small because these
27 customers have directly paid for most of the plant that they use (Contributions in
28 Aid of Construction, or CIAC). This plant that is paid for by the customers
29 cannot be included in Big Horn's financials. Therefore, the plant that is allocated
30 to the contract customers from the overall system is minimal. As a result, the
31 calculation for the higher ROR is based on a smaller denominator.

1 **Q. WILL THE OCA RATE DESIGN ALLOW FOR THE FULL RECOVERY**
2 **OF THE REVENUE REQUIREMENT THAT WAS PROPOSED BY THE**
3 **OCA?**

4 A. No, it will not. The revenues that will be recovered by the proposed rates, as
5 shown on OCA Exhibit AJZ – 6, will not fully recover the additional
6 recommended revenues due to rounding errors. The amount of unrecovered
7 revenues will be approximately \$28,489 over the period of four years.

8
9 When I designed the rates, I consistently applied rates that would not result in
10 overstated revenues, which is a conservative method that creates a small cushion.
11 The billing units used in the calculation of the revenues were from the 2001 test
12 year and were used in conjunction with 2003 revenues. All billing units have
13 increased since that time. Therefore, the revenues (and power costs) will also
14 increase. The estimated unrecovered revenues will help to alleviate the chances
15 of over earning. Table 2, below, shows the amount of revenues that will be
16 unrecovered for each phase.

TABLE 2: UNRECOVERED REVENUES

	<u>PHASE 1</u>	<u>PHASE 2</u>	<u>PHASE 3</u>	<u>PHASE 4</u>
Total Revenues Required	\$7,074,565	\$7,074,565	\$7,074,565	\$7,074,565
Revenues from Rates	<u>\$7,067,365</u>	<u>\$7,067,359</u>	<u>\$7,067,588</u>	<u>\$7,067,459</u>
Unrecovered Revenues	\$ 7,200	\$ 7,206	\$ 6,977	\$ 7,106

18
19
20 **Q. IS IT REASONABLE TO USE 2001 BILLING UNITS WITH 2003**
21 **REVENUES?**

22 A. The Company was able to get the 2003 billing units for only the Small GS
23 customers. The billing units for all the other non-contract customers would have
24 to be tabulated by Ms. Lambert at CH Guernsey, which would take at least an

1 additional two weeks and add to Big Horn's consulting bill. The OCA did
2 compare the 2003 units with the 2001 units and found that the proportions of the
3 billing units for each subclass (Residential, Small Commercial, etc.) did not
4 materially change. The Company also felt that the proportions for other classes
5 were also about the same. Therefore, we found that it was reasonable to use 2001
6 billing units with 2003 revenues.

7

8 **Q. WHAT ARE THE RECOMMENDATIONS FROM THE OCA**
9 **REGARDING THE RATE DESIGN?**

10 A. If the Commission approves the revenue requirement proposed by the OCA, then
11 the OCA also recommends that the Commission approve the rate design that
12 corresponds to that revenue requirement. This rate design moves customer
13 classes somewhat closer to cost-based rates than what was included in Big Horn's
14 rate design.

15

16 Phase I rates should become effective on June 1, 2004. Filings should be made
17 for Phases 2-4 by May 1, 2005, 2006 and 2007 to become effective on June 1 of
18 each respective year after the Commission Staff reviews each application.

19

20 The OCA also recommends that the Company be directed to file the following
21 information by April 1 of 2005-2007:

- 22 - The prior year's and year-to-date TIER, DSC and rate of return information.
23 - The year-end RUS Form 7 for the previous year and the year-to-date Form 7,
24 which should include Big Horn's Income Statement and Balance Sheet.

25

26 For example, by April 1, 2005, Big Horn should file a compliance filing that
27 includes the TIER, DSC and ROR information for the 12 months ending
28 December 2004 and for the two months ending February 2005. It should also
29 contain the Form 7 for December 2004 and the Form 7 from February 2005.
30 These financials will enable the Commission Technical Staff to analyze the

1 Company's financial information in advance of the filing for the next phase,
2 which may necessitate some modifications to the rate design.

3
4 **Q. BIG HORN HAS FILED THIS RATE CASE APPLICATION AS THE**
5 **BASIS FOR FUTURE FILINGS THAT COULD BE MADE UNDER RULE**
6 **320 OF THE COMMISSION'S RULES AND REGULATIONS. DO YOU**
7 **AGREE WITH THIS REQUEST?**

8 A. The OCA agrees with the request. This case would provide a basis for non-
9 traditional filings if the Company chose to file such a case. However, we would
10 remind the Commission that this rate case does not set any type of financial
11 parameters that are called for by Rule 320 part (b). Those parameters must still be
12 set in any future non-traditional rate cases that use this filing as a foundation.

13
14 **Q. HOW WILL THE REVENUE REQUIREMENT AND RATE DESIGN BE**
15 **AFFECTED BY THE INTERIM INCREASE THAT WAS APPROVED ON**
16 **APRIL 1, 2004?**

17 A. The interim increase was for additional annual revenues of \$124,683. The total
18 additional revenues of \$241,700 that are recommended by the OCA would
19 include the interim revenues, not in addition to the interim revenues. The rates
20 associated with the recommended total revenues would replace the rates that were
21 put into effect with the interim increase.

22
23 **Q. DO YOU HAVE ANY FINAL THOUGHTS?**

24 A. The OCA was very concerned about the stale information contained within the
25 2001 test year. The OCA and Big Horn REA have worked together to come up
26 with the best solution possible of updating the revenue requirement information to
27 2003 levels. The OCA understands that there is a mismatch when we continue to
28 use the 2001 data for the cost of service. However, we find that it is still
29 reasonable to use the 2001 data for the cost of service and that rates can still be
30 based on this cost of service. However, because of the stale test year and the
31 Company's changing environment, Big Horn's financials must continue to be

1 monitored. Therefore, we advocate that the Commission adopt the
2 recommendations that were included in the above text.

3

4 **Q. DOES THIS COMPLETE YOUR PRE-FILED TESTIMONY?**

5 A. Yes, it does.