

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 Wyoming Public Service Commission (WPSC, or
17 Commission) where I have analyzed numerous applications from utilities in the
18 electric, natural gas, telecommunications and water industries. The applications
19 included all types from wholesale commodity pass-on filings and general rate
20 cases to routine requests and tariff filings. I then transferred to the OCA as a Rate
21 Analyst in July 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 five previous proceedings regarding the
26 revenue requirement, cost of service and rate design in general rate cases. I have
27 testified in four 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. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. The purpose of my testimony is to provide evidence supporting the Stipulation
9 and Agreement between the OCA and Cheyenne Light, Fuel and Power
10 (Cheyenne Light) regarding the gas rate increase that has been requested in this
11 docket. Ms. Denise Parrish will address the Company's request to increase
12 electric base rates.

13

14 **Q. ARE YOU INCLUDING ANY EXHIBITS AS PART OF YOUR DIRECT**
15 **TESTIMONY IN THIS PROCEEDING?**

16 A. Yes, I am including summary documentation for the adjustments made by the
17 OCA as OCA Exhibit AJZ-1 and OCA Exhibit AJZ-2.

18

19 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE GENERAL RATE**
20 **CASE AS FILED BY CHEYENNE LIGHT, FUEL AND POWER.**

21 A. Cheyenne Light requested an increase in gas revenues of \$2,149,433 with an
22 authorized return on equity of 11.50% and rate of return of 8.50%. The Company
23 stated that the proposed increase would allow the Company an opportunity to earn
24 an appropriate rate of return as well as recover costs associated with plant
25 replacement and additions. The additional revenues would also provide funding
26 for additional employees needed to improve customer service. The new rates, if
27 approved, would go into effect on January 1, 2006.

28

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4 an appropriate rate of return as well as recover costs associated with plant
5 replacement and additions. The additional revenues would also provide funding
6 for additional employees needed to improve customer service.

7
8 The calculations of the revenue requirement and the cost of service study (COS)
9 are based on a test year of 12 months ending May 31, 2004. With this test year,
10 the per book numbers and corresponding data and information were derived from
11 Xcel Energy Inc. (Xcel), Cheyenne Light's former parent, rather than Black Hills
12 Corporation (Black Hills), who became Cheyenne Light's parent company on
13 January 21, 2005. However, some adjustments were made to reflect on-going
14 business as a Black Hills subsidiary, such as updates through June 2005 for plant
15 in service, revenues, and salaries for union and non-union employees. The
16 models used to calculate the revenue requirement and COS were also Xcel models
17 that were used in the previous Cheyenne Light rate case.

18
19 The filed COS allocates the rate base, revenues, and expenses to each of the
20 customer classes either by direct assignment or by an allocation factor to show
21 what it costs to serve each class. Those costs are classified into costs that are
22 recovered through a monthly charge (Service and Facility Charge) or a usage-
23 based charge (Commodity Charge). In this case, a total dollar amount is not
24 shown for each class, just the current and proposed rates of returns for each class,
25 and their associated components.

26
27 The rate design for each class is the same type as in the last rate case. The
28 Residential (RG), Commercial (CG) and Interruptible (IG) customers have a
29 Service and Facility Charge (monthly charge) and a Commodity Charge (usage
30 based charge). The Service and Facility Charge increases by 20% to 22% for the
31 three classes. The increase to the Commodity Charge recovers the remainder of

1 the requested additional revenue. Both of these increases bring these classes
2 toward their respective costs of service. No changes have been made to the Gas
3 Cost Adjustment (GCA) rate since those costs are revised and requested through
4 separate GCA filings. No changes have been made to the rates for the other
5 classes of customers (i.e. transportation customers) since these rates are
6 contractually established with Cheyenne Light. However, the revenues from
7 these customers have been applied against the costs to serve the RG, CG and IG
8 customers to lower the revenue requirements of these classes.

9

10 **Q. PLEASE SUMMARIZE HOW YOU REVIEWED THIS CASE.**

11 A. In reviewing any case, the analyst needs to be able to verify the Per Book
12 numbers in the Income Statement and Rate Base that are filed by the Company.
13 This is done to make sure that a company is not starting from numbers that are
14 skewed towards the lower end so that it requests more revenue than it really
15 needs; or, vice versa, the starting numbers are higher than they are actually should
16 be (i.e. due to errors), and the company may not be requesting enough revenue to
17 keep it operating properly. I was able to verify the per book numbers through
18 various means such as Trial Balances, plant account records, and other back-up
19 documentation.

20

21 I then analyzed the adjustments that were made by the Company to the income
22 statement and rate base using formal and informal discovery requests. The
23 adjustment numbers were reviewed to make sure that they were known and
24 measurable, and reasonable in dollar amount. The Company also provided a CD
25 with numerous back-up documents that showed how most of the adjustments
26 were calculated.

27

28 After confirming Cheyenne Light's revenue requirement, I reviewed the cost of
29 service study to confirm the calculations used to derive the allocation and the
30 allocation factors themselves. This review is done to ensure that the allocation of
31 rate base and expense items were based on appropriate allocation factors (i.e.

1 expenses associated with plant should be allocated based on plant allocation
2 factors).

3

4 I then reviewed the rate design to see if the proposed rates would still move all
5 classes toward their cost to serve them.

6

7 **Q. BASED ON THE RESULTS OF YOUR REVIEW, DO YOU AGREE WITH**
8 **CHEYENNE LIGHT'S REQUEST TO INCREASE RATES?**

9 A. The OCA agrees with the cost of service methodology and the resulting costs to
10 serve each class. We also agree with the rate design methodology.

11

12 However, when I reviewed the income statement and rate base, I had concerns
13 with a few of the adjustments. The concerns I had related to errors in
14 calculations, the exclusion of certain revenues, and the inclusion of some
15 expenses.

16

17 **Q. DID YOU CALCULATE YOUR OWN ADJUSTMENTS THAT**
18 **ADDRESSED THE CONCERNS THAT YOU HAD WITH THEIR**
19 **FILING?**

20 A. Yes, I did. I made several adjustments to the income statement and rate base.
21 These adjustments have resulted in a decrease in the overall revenue requirement
22 that was requested by the Company.

23

24 **Q. HAS CHEYENNE LIGHT AGREED TO THESE ADJUSTMENTS FOR**
25 **THIS RATE CASE?**

26 A. Yes, they did. The OCA adjustments and the lower revenue requirement have
27 been included in the Stipulation and Agreement between the OCA and Cheyenne
28 Light.

29

30 **Q. PLEASE DESCRIBE THE ADJUSTMENTS YOU HAVE MADE TO THE**
31 **INCOME STATEMENT.**

1 A. A description of each adjustment that the OCA made to the Income Statement is
2 included below with corresponding numbered adjustments shown on OCA
3 Exhibit AJZ-1.

4 1. Revised Gas Revenue: In bringing revenues to a June 2005 pro-forma
5 level, Cheyenne Light used an incorrect number of test year customers to
6 start the calculation. The OCA recalculated what pro-forma adjustment to
7 revenues would be with the correct test year customers. The OCA
8 adjustment is the incremental change between the pro-forma revenue
9 adjustment made by Cheyenne Light (Page 33 in Exhibit MJM-1) and the
10 OCA adjustment. The result is an increase in pro-forma revenues of
11 \$29,970.
12

13 2. NSF Fee Revenue: In this application, CLF&P is requesting to increase
14 NSF fees from \$10 to \$30. The OCA agrees with this request. Through
15 discovery requests and an onsite audit, the Company informed the OCA
16 that it had not charged any customer in past years the \$10 fee. The
17 Company did inform the OCA that this practice will change in that
18 customers will be charged the fee if an NSF check is presented to the
19 Company for payment. However, Cheyenne Light did not include any
20 revenues from NSF charges in its pro-forma adjustments.
21

22 Since no data was available for NSF charges from Cheyenne Light, the
23 OCA used data from Black Hills Power (BHP), a sister company to
24 CLF&P with approximately the same number of total customers, to
25 estimate what additional revenues the Company can expect from NFS
26 charges. The adjustment made to Other Revenues is an increase of
27 \$3,221.
28

29 3. Customer Deposit Interest: Utility companies are generally allowed to
30 recover interest that is payable to customers for their deposits for utility
31 service. To compute the interest, a company should use a 12- or 13-month

1 average balance. This is to ensure that the interest is not based only on the
2 last month in the test year. The balance for the last month could be too
3 low compared to the average, which would result in the under-recovery of
4 interest expense; or if the balance for the ending month is too high, too
5 much interest expense could be recovered.

6
7 CLF&P has included a pro-forma adjustment to bring interest expense to
8 an annualized level. However, the interest was calculated using the
9 balance from the last month of the test year instead of an average balance.
10 The OCA recalculated the interest, based on a 12-month average. The
11 OCA adjustment shows the incremental change between Cheyenne Light's
12 adjustment and the OCA adjustment. The result is a decrease in Interest
13 Expense (under Customer Operations) of \$1,127.

- 14
15 4. Eliminate Matching Programs: The OCA has eliminated the amount that
16 was requested in order to fund financial commitments to Energy Share of
17 Wyoming and for economic development in the area that Cheyenne Light
18 serves. The adjustment decreases gas Customer Operations expenses by
19 \$29,049.

20
21 The OCA has concerns with these proposals. One concern is that these
22 programs are meant to receive donations from persons/businesses that
23 would choose to donate funds. These proposals would force customers,
24 including low income customers, to pay for these programs. The
25 additional money being charged to low income customers would
26 eventually be paid back to them in benefits from Energy Share during the
27 heating season.

28
29 The additional money to be funded to economic development cannot be
30 allocated to any one particular project involving utility service for
31 customers. Therefore, these expenses cannot be deemed known and

1 measurable because there is no certain dollar amount for any particular
2 project, or used and useful because no particular project has been deemed
3 to be directly used for utility service within a 12-month period.
4

5 5. Depreciation Expense Updated to June 2005: Cheyenne Light and the
6 OCA have agreed to update the pro-forma plant balances in the filing to
7 balances as of June 30, 2005. The depreciation expense associated with
8 the additional plant also needs to be updated. The OCA adjustment
9 calculates the annual expense for all new plant placed in service through
10 June 2005 using the same depreciation rates that were used in the filing.
11 The adjustment increases Depreciation Expense by \$60,784.
12

13 6. Franchise Taxes: Cheyenne Light, Fuel and Power is required to pay
14 taxes in the amount of 1% of its gas revenues to the City of Cheyenne.
15 Gas revenues were adjusted by \$29,970, as described in item number one
16 above. Therefore, Franchise Taxes were adjusted by 1% of this amount,
17 or an increase of \$300.
18

19 7. Income Taxes: The OCA has recalculated the income taxes the Company
20 owes based on the above referenced adjustments using the same formula
21 as shown on Page 51 of Exhibit MJM-1 as contained in the original filing.
22 The OCA adjustment to income taxes is the incremental change between
23 the amount of taxes that was filed by CLF&P and the amount computed
24 by the OCA. The result is an increase in Income Taxes of \$2,639.
25

26 8. Revenue Change Column: The Revenue Change column in OCA Exhibit
27 AJZ-1 shows the amount of the additional revenue the Company requires
28 to theoretically meet the stipulated rate of return. The amount
29 encompasses the adjustments referenced above and the adjustments made
30 to rate base (to be described later). The additional gas revenue of

1 \$1,951,606 results in further adjustments that must be made to show the
2 effect of those revenues.

3
4 Because of the increase in rates, the Company should expect a
5 corresponding increase in bills that customers cannot or will not pay.
6 When a company cannot collect payment from these customers after an
7 extended period of time, those monies will be written off to bad debts.
8 Consequently, bad debts expense was increased by \$4,869 to correspond
9 with the increase in revenues. The calculation used the same percentage
10 of historical bad debt to revenue that was used in the filing.

11
12 Again, franchise taxes and income taxes are based on the amount of
13 revenue that the Company earns. Since gas revenues are proposed to
14 increase, franchise taxes should be adjusted by another \$19,516 (1% of
15 revenues) and income taxes should be increased by another \$674,504.

16
17 **Q. PLEASE DESCRIBE THE ADJUSTMENTS YOU HAVE MADE TO RATE**
18 **BASE.**

19 A. A description of each adjustment that the OCA made to Rate Base is included
20 below with corresponding numbered adjustments shown on OCA Exhibit AJZ-2.

- 21 1. Update Plant and Accumulated Depreciation to June 2005 Balances: The
22 OCA and Cheyenne Light have agreed that the balances for plant in
23 service should be updated through June 2005. The Company provided per
24 book balances for June 2005 for each plant category that were then
25 compared to the balances in the filing. The incremental change of
26 \$1,604,769 was the pro-forma adjustment that the OCA made for Gross
27 plant in service.

28
29 The same methodology was used to adjust accumulated depreciation to the
30 pro-forma June 2005 levels. The adjustment made by the OCA of
31 \$761,680 is the incremental change between the filing and the June 2005

1 balances. The net effect of these adjustments is to increase pro-forma Net
2 Utility Plant in Service by \$843,089.

3
4 2. Eliminate Plant Held for Future Use: Through discovery requests, the
5 OCA has learned that the land that is contained in this account is not
6 currently being used in the provision of service to ratepayers, and there are
7 no short-term plans for such. Therefore, the Company should not be
8 provided a return on this property. The OCA adjustment eliminates the
9 amount of \$801 from Rate Base since the land does not conform with used
10 and useful requirement.

11
12 3. Update Cash Working Capital (CWC): Cash Working Capital is the
13 calculated amount that is meant to estimate the amount of funds necessary
14 to carry on the business prior to the receipt of revenue related to the
15 provision of service. If the timing difference results in the company
16 paying out expenses before receiving the revenues, then the company can
17 earn a return on the differences. Utilities have utilized a couple of
18 methods for calculating these differences. In this case, CLF&P has used a
19 lead/lag study to help calculate what its cash working capital should be.
20 The study provides factors by which to multiply against several expense
21 accounts. These expense accounts include Customer Operations expenses,
22 Administrative and General (A&G) expenses and franchise taxes. All of
23 these expenses were adjusted on the income statement. Therefore, the
24 cash working capital amount was affected by these adjustments. The
25 OCA used the same calculation shown on Page 28 of Exhibit MJM-1 of
26 the filing to recalculate the CWC. The incremental change decreased
27 CWC by \$1,473.

28
29 4. Inclusion of Prepayments: It is common regulatory practice for utilities to
30 earn a return on prepayments they have made, usually related to insurance
31 coverage. CLF&P did not include any prepayments in the pro-forma rate

1 base. The OCA has used the Company's trial balances to calculate a 12-
2 month average balance of prepayments. The result is to increase gas rate
3 base by \$47,803.
4

- 5 5. Eliminate Prepaid Pension Asset: The OCA has eliminated the prepaid
6 pension asset, which decreases rate base by \$1,045,771. Prepaid pension
7 assets are generally allowed to earn a return through rate base. But, in this
8 filing, the prepaid pension asset is related to the pension plan that Xcel is
9 required to fund. As of the date of the transfer of CLF&P to Black Hills,
10 January 21, 2005, Xcel was no longer obligated to fund *future* pension
11 costs for Cheyenne Light employees; Black Hills Corporation now has the
12 obligation.
13

14 Since the pension asset in the filing belongs to Xcel, Cheyenne Light
15 should not be allowed to earn a return on it. At this point in time, Black
16 Hills has not made any contributions to its pension plan for Cheyenne
17 Light employees, and as such, no amount has been included in Rate Base.
18 As a side note, currently vested Cheyenne Light employees will receive a
19 pension from Xcel for past service and a pension from Black Hills for
20 current and future service.
21

- 22 6. Adjustment for Accumulated Deferred Income Taxes (ADIT): A
23 company records deferred income taxes that are due to the differences in
24 book depreciation and tax depreciation in this account. Because the
25 parties made adjustments to bring plant to a more current balance, the
26 ADIT must also be updated. The OCA's pro-forma adjustment was the
27 difference between the amount of ADIT that was shown in the filing and
28 the June 2005 balance of ADIT. The result was a decrease to ADIT, and
29 rate base, of \$195,979.
30

1 7. Customer Deposits: When a company is allowed to recover interest
2 expense for customer deposits in the revenue requirement, it does not
3 include any type of balance of deposits in rate base. In this case, the
4 Company eliminated the ending balance of customer deposits from rate
5 base. However, the balance was never included in any portion of the rate
6 base computations. Therefore, the elimination of something that was
7 never included essentially eliminates it twice. The OCA has reversed the
8 Company's pro-forma adjustment to deduct deposits from rate base,
9 resulting in an increase of \$153,281.

10
11 8. Customer Advances: As in the description of Interest on Customer
12 Deposits described earlier, the amount of customer advances to include in
13 rate base should also be a 12- to 13- month average. Cheyenne Light has
14 included the ending balance in rate base. Using the trial balances, the
15 OCA has calculated the average balance of customer advances for the test
16 year and compared that to the balance included in the filing. The
17 adjustment to increase rate base by \$9,987 is the incremental change.

18
19 9. Revenue Change Column: The Revenue Change Column shows an
20 additional adjustment needed for cash working capital. Since CWC is
21 based on expenses that were adjusted for the *revenue change* (Bad Debt
22 Expense, Franchise Taxes and Income Taxes in the Revenue Change
23 column on OCA Exhibit AJZ-1), CWC was recalculated to show the
24 effects of those adjustments made by the OCA. The adjustment related to
25 the *revenue change* increases rate base by \$2,387.

26
27 **Q. DID YOU HAVE ANY OTHER CONCERNS WITH THE RATE CASE**
28 **OTHER THAN WHAT WAS ADDRESSED IN THE OCA**
29 **ADJUSTMENTS?**

30 A. I do have a couple of areas of concern that I thought should be discussed. The test
31 year that was used, 12 months ending May 31, 2004, brings to light several issues.

1 First, the test year itself was almost a year old when the application was filed on
2 April 18, 2005. The data for a general rate case should be more up to date. The
3 second issue with the test year that was used is that it relates to data from a
4 company that is no longer the parent company of Cheyenne Light. The OCA
5 understands that the cut off date for reliable revenue information was the May
6 2004 date. But the test year data and account balances can be affected by the
7 change in ownership, such as what the true costs will be from a Black Hills
8 Corporation service company or what the upcoming Prepaid Pension Asset will
9 be. Basically, rates will be set on historical data from a prior parent company.

10
11 The OCA was generally satisfied with the assistance that was provided by Xcel
12 and Cheyenne Light/Black Hills personnel in the answers that were provided to
13 formal and informal data requests. One small area of concern, at least on the gas
14 side, is that the filing and the back up documentation that was provided was, at
15 times, difficult to follow. In addition, not all of our data requests from the audits
16 and subsequent discussions were answered.

17
18 Even with these concerns, the OCA is comfortable with the test year that was
19 used since it was the best information available at the time of the filing. The
20 OCA would hope that in the next rate case, more current data is used, the filing
21 and the back up documentation are more understandable, and that all responses to
22 questions and requests will be performed in a more timely manner.

23
24 **Q. WHAT OTHER AGREEMENTS WERE MADE THAT ARE INCLUDED**
25 **IN THE STIPULATION?**

26 A. Cheyenne Light has agreed to several items that are not related to the revenue
27 requirement and cost of service study. Those items are discussed in the
28 Stipulation and Agreement and in Ms. Parrish's testimony.

29
30 **Q. WHAT IS THE OCA'S RECOMMENDATION TO THE COMMISSION**
31 **FOR THIS APPLICATION?**

1 A. The OCA believes that the stipulated increase of \$1,951,606 in gas revenues has
2 been supported. The OCA also believes that the Stipulation and Agreement has
3 been reached with the spirit of compromise and that any change to any part of the
4 stipulation would invalidate the Stipulation. We recommend that the Commission
5 approve the Stipulation and Agreement that has been signed by the OCA and
6 Cheyenne Light, Fuel and Power.

7

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

9 A. Yes, it does.

10