

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE)
APPLICATION OF CHEYENNE LIGHT,)
FUEL AND POWER COMPANY FOR A)
GENERAL RATE INCREASE OF)
\$4,553,554 PER ANNUM (A 9.0%)
OVERALL INCREASE) IN ITS RETAIL)
NATURAL GAS SALES AND)
TRANSPORTATION RATES)

Docket No. 30005-112-GR-07
Record No. 11071

PREFILED DIRECT TESTIMONY AND EXHIBITS OF
AMY J. ZAMORA

Filed: October 5, 2007

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

3 A. My name is Amy J. Zamora. I am a Rate Analyst with the Wyoming Office of
4 Consumer Advocate (OCA), 2515 Warren Avenue, Suite 304, Cheyenne,
5 Wyoming, 82002.

6

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

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

21

22 **Q. HAVE YOU FILED TESTIMONY WITH, OR TESTIFIED BEFORE, THE**
23 **PUBLIC SERVICE COMMISSION IN OTHER PROCEEDINGS?**

24 A. Yes, I have filed testimony and testified as an expert witness in thirteen previous
25 proceedings regarding the revenue requirement, cost of service, and rate design in
26 general rate cases, as well as other types of applications such as pass-on filings.

27

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

29 A. As a member of the OCA, I am obligated by statute to represent the interests of
30 Wyoming citizens and all classes of utility customers in matters involving public
31 utilities.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my testimony is to present the OCA's position regarding
4 Cheyenne Light, Fuel and Power Company's (Cheyenne Light, CLFP) request to
5 increase base rates for the local gas distribution division of the Company. I will
6 provide testimony related to the revenues requirement, class cost of service
7 (COS), and rate design for the gas division which will support a reduction to the
8 Cheyenne Light's proposed increase in revenues.

9
10 Mr. Tom Wilson, Jr. will provide testimony regarding the cost of capital on a total
11 company basis (gas and electric) for Cheyenne Light. Ms. Denise Parrish will
12 provide testimony regarding the electric division. Finally, Mr. Bryce Freeman
13 will provide testimony related to the prudence of the WYGEN II plant, which has
14 been included in the rate calculations for the electric division.

15
16 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

17 A. Yes, I am sponsoring four exhibits. OCA Exhibit AJZ – 1 is the Income
18 Statement portion of the revenue requirement with thirteen schedules supporting
19 the OCA adjustments. OCA Exhibit AJZ – 2 is the Rate Base portion of the
20 revenue requirement with the adjustments shown in none supporting schedules.
21 OCA Exhibit AJZ – 3 shows the results of the class cost of service after the
22 OCA's pro-forma adjustments to the revenue requirement. Finally, OCA Exhibit
23 AJZ – 4 shows the OCA's rate design.

24
25 **Q. PLEASE PROVIDE A GENERAL OVERVIEW OF THE RATE CASE**
26 **FOR THE GAS DIVISION.**

27 A. Cheyenne Light, Fuel and Power Company filed an application on March 1, 2007,
28 requesting an increase in base gas revenues of \$4,553,554 (shown on Statement M
29 of the Company's application). The increase is based on a test year ending
30 September 30, 2006. The test year has been adjusted to include increased costs in
31 plant and some expenses through 2007.

1
2 Several adjustments were made to the income statement accounts. Total
3 Operating Revenues, per books, were adjusted for weather, late fees were moved
4 to flow through cash working capital, and the revenues from the Gas Cost
5 Adjustment (GCA) were removed. The pro-forma revenues amount to
6 \$9,609,145.

7
8 The per books operating expenses have been adjusted to account for: the removal
9 of gas costs that are proposed to be recovered through the GCA, the inclusion of
10 an expense for energy share, increases in wages, increases in intercompany
11 charges, increases in bad debts expense, the removal of some advertising costs,
12 and the inclusion of rate case costs. Depreciation Expense has been adjusted to
13 include depreciation related to plant that was added in October-December 2006
14 and the plant that will be added in 2007. Taxes Other Than Income Tax has been
15 adjusted for increases in employment taxes, increases in franchise fees for
16 adjusted and additional income, the removal of franchise fees associated with
17 GCA revenues, and increases in property taxes. The pro-forma expense total is
18 \$9,471,162.

19
20 Federal Income Taxes were adjusted accordingly for the above adjustments and
21 adjusted with the synchronization of interest. After all adjustments to the income
22 statement, the Company's pro-forma return on its gas operations is \$454,113.

23
24 The per books rate base was adjusted to include: plant additions for the remainder
25 of 2006 and the additions expected in 2007 with adjustments to the associated
26 accumulated depreciation, changes to working capital, additions to accumulated
27 deferred income tax, and the inclusion of unamortized rate case costs and a plant
28 acquisition adjustment. The adjustments resulted in a pro-forma rate base balance
29 of \$37,351,487 for gas operations. The associated pro-forma return computed by
30 Cheyenne Light is 1.22%.

1 **Q. DID THE OCA MAKE ANY ADJUSTMENTS TO THE COMPANY'S**
2 **PRO-FORMA TEST YEAR?**

3 A. Yes. I have made several adjustments to the income statement and rate base.
4 Adjustments were made to revenues, expenses, and interest. A table listing the
5 adjustments is shown on OCA Exhibit AJZ – 1, Page 2 and then summarized on
6 Page 1 of the exhibit. Adjustments were also made to plant and other rate base
7 items, which are shown on OCA Exhibit AJZ – 2.

8
9 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT YOU MADE TO**
10 **REVENUES.**

11 A. There were two adjustments that were made to revenues. The first adjustment,
12 shown on OCA Exhibit AJZ-1, Schedules 1.0 and 1.1, adjusts the test year
13 revenues that are collected through the monthly Service and Facility Charge. The
14 load forecast that was developed by Company witness Gary Goble used the
15 number of customers as a basis to estimate the dekatherm sales for 2007 which
16 was then used to estimate revenues collected from the volumetric charge. But the
17 Company used number of bills to estimate its revenues from the monthly charges.

18
19 The OCA believes that the number of customers should be used as the billing
20 units that are applied with the customer charge. This would be consistent with the
21 units that were used in the load forecast as well as the units that were used in the
22 previous rate case (Docket No. 30005-103-GR-5). In addition, the Company has
23 stated that the number of customers was one of the few reliable numbers that were
24 converted from Xcel Energy, their previous parent company.

25
26 The OCA took the year-end 2007 number of customers as shown in Mr. Goble's
27 load forecast and then annualized that number to represent an entire year. The
28 total adjustment results in an increase in pro-forma revenues of \$74,531. An
29 adjustment for the corresponding franchise fees (\$745) was also done. (Franchise
30 Fees are a percentage charge on each dollar collected and then paid to the City of
31 Cheyenne.)

1
2 The second adjustment (Schedule 2.0) removes CNG sales that were collected
3 during the test year that were accrued in a prior period. The pro-forma adjustment
4 decreases revenues by \$10,086 with a corresponding adjustment decreasing
5 franchise fees by \$101.

6
7 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO OPERATING EXPENSES?**

8 A. The OCA made five adjustments to operating expenses. The adjustments
9 included changes related to gas supply RFP costs, bad debt expenses, changes in
10 allocations, Energy Share contributions, rate case expenses, franchise fees,
11 property taxes and interest expenses.

12
13 **Q. PLEASE DESCRIBE THE PRO-FORMA ADJUSTMENT THAT YOU**
14 **MADE RELATING TO GAS SUPPLY RFP COSTS.**

15 A. In this filing, Cheyenne Light has proposed to remove gas supply, nominations
16 and RFP costs from base rates and collect them instead through the GCA. These
17 costs have not yet been included in a GCA filing. The OCA does not believe that
18 these expenses are gas commodity-related costs but instead, are business costs
19 that will be incurred in order to be able to procure the gas. As such, they belong
20 in base rates.

21
22 The OCA has reinstated the costs in the pro-forma test year as shown in Exhibit
23 AJZ – 1, schedule 3.0. The adjustment increases operating expenses by \$75,209.

24
25 **Q. WHAT IS THE ADJUSTMENT THAT WAS MADE FOR BAD DEBT**
26 **EXPENSE?**

27 A. During the test year, the Company was catching up on old debt that was owed
28 Cheyenne Light when Xcel Energy was the parent company. The Company
29 essentially “cleaned house” with regards to outstanding bills by applying a large
30 portion towards bad debt expense. These outstanding bills not only represent an

1 abnormal level of bad debt expense, but they also relate to expenses outside of the
2 test year, or a prior period expense.

3
4 The OCA used the amount of bad debt expense for the 12-month period ending
5 July 31, 2007, against revenues from the same period to arrive at a bad debt
6 expense ratio that is more representative of a normal year (OCA Exhibit AJZ-1,
7 Schedule 4.0). The adjusted bad debt expense ratio calculated by the OCA is
8 0.6053%. Applying the OCA adjusted ratio against the pro-forma total revenues
9 results in bad debt expenses that are less than the Company's pro-forma expenses.
10 The OCA's adjustment decreases expenses by \$149,921.

11
12 **Q. WHY DID THE OCA REALLOCATE ADMINISTRATIVE AND**
13 **GENERAL (A & G) EXPENSES?**

14 A. Not all of the A & G expenses were reallocated. The OCA reallocated those A &
15 G expenses and A & G intercompany charges that were originally allocated by
16 Operating and Maintenance Expense Supervision. Administrative and general
17 expenses are expenses that entail a broad spectrum of costs incurred by the
18 Company. These expenses are more appropriately allocated on a blended formula
19 that takes into account revenues, plant, and employees since these are three of the
20 largest accounts that affect a company's financials. The allocation factor devised
21 by the OCA is a three-factor formula that blends these accounts together. This
22 factor is then applied to the A & G and intercompany charges to derive the OCA
23 pro-forma adjustment.

24
25 The reallocation does not eliminate any of the expenses; it merely changes the
26 amounts that are allocated to the gas and electric divisions. The reallocation
27 decreases A & G expenses for the gas division by \$179,501. The adjustment is
28 shown in Schedules 5.0 and 5.1.

29
30 **Q. PLEASE EXPLAIN THE ADJUSTMENT YOU MADE RELATED TO**
31 **ENERGY SHARE.**

1 A. Cheyenne Light made an adjustment to increase expenses in order for rate payers
2 to pay for contributions to Energy Share of Wyoming, along with matching funds
3 from the Company. The OCA does not believe that customers should be forced to
4 pay for contributions, especially when some of those customers are the very
5 people that need Energy Share to pay for their winter heating bills. Cheyenne
6 Light has made charitable donations in the past to Energy Share as part of its
7 community service campaign. The donations are not included in the computation
8 of base rates.

9
10 The OCA reversed the adjustment that Cheyenne Light made for Energy Share.
11 The pro-forma adjustment, shown in OCA Exhibit AJZ – 1, Schedule 6.0, reduces
12 A & G Expenses by \$11,460.

13
14 **Q. PLEASE EXPLAIN THE ADJUSTMENT MADE FOR RATE CASE**
15 **EXPENSES?**

16 A. Cheyenne Light included an adjustment for estimated consulting and supplies
17 costs that are related to the rate case. The OCA has adjusted those costs to the
18 amounts that have been actually paid as of this date and for some estimated costs
19 that will occur for the hearing. The OCA believes that these expense levels are
20 more appropriate since the original amounts included anything and everything
21 that may come up with regards to the filing (i.e. fully contended hearing, two
22 outside counsel). The OCA also adjusted the costs to exclude testimony
23 regarding the IRP, since this does not relate to the gas division. In addition, the
24 OCA reallocated the revised rate case costs on the basis of revenues instead of
25 plant. And finally, the OCA has changed the amortization period for the
26 depreciation study to five years since the Company won't commission another
27 study for at least five years. The pro-forma adjustment decreases A & G expenses
28 by \$11,514 (Schedule 7.0).

1 **Q. YOU MENTIONED THAT YOU MADE AN ADJUSTMENT TO**
2 **FRANCHISE FEES. FIRST, PLEASE EXPLAIN THE FRANCHISE FEES**
3 **AND HOW THEY ARE COLLECTED.**

4 A. Cheyenne Light is required by its franchise agreements with the Cities of
5 Cheyenne, Burns and Pine Bluffs to pay franchise fees for providing gas service.
6 The fees are paid to compensate the municipalities for the utility related wear and
7 tear on city infrastructure. The fees are 2% of gross revenues for Burns and Pine
8 Bluffs and 3% of gross revenues for Cheyenne. For all three locations, the first
9 1% is recovered through base rates and the GCA, while any additional percentage
10 is recovered through a line item on customers' bills. All money collected is
11 remitted to each municipality. This arrangement was ordered by the Commission
12 in Docket No. 9563 on April 12, 1972.

13
14 **Q. WHAT IS THE ADJUSTMENT THAT YOU MADE RELATED TO**
15 **FRANCHISE FEES?**

16 A. In Docket No. 30005-111-GT-07, the Company agreed to move any franchise
17 fees based on GCA revenues to base rates. But at the time that this docket was
18 filed, the agreement for the above case was not finalized. Therefore, the
19 Company removed the GCA franchise fees from the per books expenses since
20 they were still being recovered through the GCA. Part of the OCA pro-forma
21 adjustment reinstates those fees of \$408,524 since they will now be recovered
22 through base rates.

23
24 **Q. IS THIS AMOUNT OF THE FRANCHISE FEES APPROPRIATE SINCE**
25 **REVENUES FROM GAS SALES FLUCTUATE WITH GAS PRICES?**

26 A. Yes. The OCA believes that this amount is appropriate. It is true that the fees
27 will not track the revenues from gas sales as they did when they were recovered
28 through the GCA. However, franchise fees should not be included in the GCA
29 since they are not a gas-related cost (they do not add to the price of the actual gas
30 commodity). The 1% that is included in base rates is considered to be a normal
31 operating cost of business and is incurred for the betterment of the entire system.

1 As with other operating costs such as property taxes and insurance premiums, the
2 amount of the expense can change within the period that certain rates are in effect,
3 but can be revised within the context of future rate cases.
4

5 **Q. WHAT ARE THE OTHER PARTS TO THE ADJUSTMENT TO**
6 **FRANCHISE FEES?**

7 A. In the pro-forma adjustment, the Company adjusted franchise fees that were based
8 on not only pro-forma adjustments to revenues but also on their proposed
9 additional revenues. My pro-forma adjustment removes that entire amount of
10 \$53,140, but then includes franchise fees that are only associated with the pro-
11 forma revenue adjustments.
12

13 The net total of the OCA's adjustment to franchise fees is an increase in Taxes
14 Other Than Income Tax of \$362,988. Franchise fees that are related to the OCA's
15 proposed increase have been included separately. The support for the adjustment
16 is shown on OCA Exhibit AJZ – 1, Schedule 8.0.
17

18 **Q. PLEASE EXPLAIN THE ADJUSTMENT THAT WAS MADE TO**
19 **PROPERTY TAXES.**

20 A. Cheyenne Light incorrectly included unamortized rate case costs in its 2007
21 additions to plant. Any additions were then applied against the current property
22 tax rate to normalize property tax expenses to be recovered in rates. The OCA
23 adjustment removes the unamortized rate case costs from the calculation of the
24 pro-forma property tax adjustment. The adjustment, shown in Schedule 9.0,
25 results in a slight decrease in Taxes Other Than Income Tax of \$226.
26

27 **Q. AND FINALLY, PLEASE EXPLAIN THE ADJUSTMENT TO INTEREST**
28 **EXPENSE.**

29 A. For investor owned utilities, interest expense is recovered through the allowed
30 rate of return on rate base. But the interest is used to calculate income tax which
31 is an 'above the line' expense recovered through rates. Applying the weighted

1 average cost of debt of 2.95% against total plant allows the recovery of interest
2 expense that should have been used to appropriately finance that plant.

3
4 The adjustment, shown 'below the line,' on OCA Exhibit AJZ -1, is detailed on
5 Schedule 10.0 of the same exhibit. The adjustment is derived from applying the
6 OCA rate base against the OCA capital structure and cost of debt. The difference
7 of \$62,513 increases the interest expense, which decreases the amount of income
8 taxes included in rates.

9
10 **Q. YOU INDICATED THAT YOU HAD MADE A FEW ADJUSTMENTS TO**
11 **CHEYENNE LIGHTS' PRO-FORMA RATE BASE. WERE ANY**
12 **ADJUSTMENTS MADE TO PLANT?**

13 A. Yes. There were three adjustments that were made to plant. The first adjustment,
14 shown in OCA Exhibit AJZ – 2, Schedule 1.0, removed the unamortized rate case
15 costs from plant. Not only was this adjustment incorrectly included with plant,
16 but the OCA does not believe that the Company should recover a carrying charge
17 (return) on the unamortized portion of the costs. Therefore, the OCA's pro-forma
18 adjustment reduces plant by \$107,587.

19
20 **Q. WHY SHOULDN'T A UTILITY EARN A CARRYING CHARGE ON**
21 **UNAMORTIZED RATE CASE EXPENSES?**

22 A. A utility not only files a rate case for it to ensure enough revenues are collected in
23 order to continue to provide safe and reliable service to its customers, but it also
24 files a rate case to ensure a sufficient return for shareholders. Because both rate
25 payers and shareholders benefit from the filing of a rate case, both should share in
26 the expense of putting one together. Rate payers pay the expense through rates
27 over time, whereas the shareholders' actual return is affected by the expense
28 being incurred by the Company, typically in one fiscal year, which is included in
29 that year's financial records.

1 **Q. PLEASE EXPLAIN THE OTHER TWO ADJUSTMENTS RELATED TO**
2 **PLANT.**

3 A. The second OCA adjustment removed plant that was being held for future use
4 (not used and useful in providing service). The adjustment (Schedule 2.0)
5 reduced plant by \$801.

6
7 The third adjustment to plant reallocates the acquisition adjustment with the three-
8 factor formula that was developed using revenues, plant and employees. The
9 acquisition adjustment was based on several changes from accounts receivable
10 (revenues), plant additions, and employee benefits that were incurred in the final
11 stages of the transfer of CLFP from Xcel Energy to Black Hills Corporation
12 (Black Hills).

13
14 Again, the reallocation does not eliminate any of the expenses to be recovered; it
15 merely changes the amounts that are allocated between the gas and electric
16 divisions. The reallocation decreases the amount allocated to the gas division's
17 plant by \$327,358. The adjustment is shown in OCA Exhibit AJZ – 2, Schedule
18 3.0.

19
20 **Q. WHAT OTHER ADJUSTMENTS WERE MADE TO RATE BASE?**

21 A. Adjustments were made to five accounts that typically use 13-month averages
22 (standard regulatory practice) when applying the balances to rate base instead of
23 using end-of-year balances. Using year-end balances can skew the amount used
24 in rate base. But using an average allows for the balances to be smoothed out for
25 the adjusted test year. Three accounts, Materials and Supplies, Stored Gas
26 Inventories, and Prepayments are added to rate base totals, whereas Customer
27 Advances and Customer Deposits are deductions to rate base.

28
29 The net effect of the OCA's pro-forma adjustment for these accounts reduces rate
30 base by \$184,447. The details that indicate each account's adjustment is shown in
31 OCA Exhibit AJZ – 1, Schedules 4.0-4.1).

1
2 **Q. WERE ADJUSTMENTS MADE FOR CASH WORKING CAPITAL**
3 **(CWC)?**

4 A. Yes. Cash Working Capital is the net amount of *cash* that is needed to fund daily
5 *operations*. With that in mind, two accounts were removed from the calculation.
6 Depreciation expense was removed since the expense is a non-cash expense. In
7 other words, cash is not paid out by the Company for this expense. Interest on
8 long-term debt was also removed, even though it is a cash expense, because it is
9 not an operating expense. Rather, it is an expense related to debt that is incurred
10 to fund additions to plant.

11
12 The OCA also included expenses for gas supply and transport. The OCA believes
13 that these expenses are operating expenses, and understands that Cheyenne Light
14 pays for the gas before it receives the revenues from the dekatherm sales.

15
16 Finally, the pro-forma adjustments to operating expenses must be taken into
17 account in the CWC calculation. The net effect of these adjustments increases
18 CWC by \$642,410. The detail of the adjustment is in Schedules 5.0-5.1.

19
20 **Q. WERE THERE ANY OTHER ADJUSTMENTS MADE TO RATE BASE?**

21 A. Yes there were two additional adjustments. The first adjustment (shown on OCA
22 Exhibit AJZ – 2, Schedule 6.0), removes the amount of accrued interest on
23 deposits that is being applied against rate base which increases rate base by
24 \$5,934. Since interest on deposits is already being recovered through expenses,
25 including the amount as a reduction to rate base negates the recovery of those
26 expenses.

27
28 The final adjustment to rate base (Schedule 7.0) includes the accumulated
29 deferred income taxes (ADIT) associated with the plant that was added in the last
30 quarter of 2006. It was inadvertently left out of the ADIT calculations. The OCA
31 pro-forma adjustment decreases rate base by \$5,826.

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Q. WITH THE ADJUSTMENTS THAT YOU MADE TO RATE BASE, WHAT IS THE OCA' S PRO-FORMA RATE BASE?

A. The final OCA pro-forma rate base is \$37,373,812. The rate base proposed by CLFP was \$37,351,487, a difference of \$22,325.

Q. WHAT ADDITIONAL REVENUES DOES THE OCA RECOMMEND BASED ON THE PRO-FORMA ADJUSTMENTS DESCRIBED ABOVE?

A. The required revenues are shown in OCA Exhibit AJZ – 1 in the second to last column. The spreadsheet also shows in that column the bad debt expense associated with the increase in revenues based on the OCA's bad debt expense ratio and the franchise fees related to the revenues.

The Company's proposed increase is \$4,553,554. The additional revenues recommended by the OCA are \$4,443,652, which is \$109,902 less than Cheyenne Light's. After applying the associated bad debts expense, franchise fees, and income taxes, the OCA revenue requirement, based on the OCA rate of return of 8.84%, is \$3,303,845.

Q. PLEASE PROVIDE A GENERAL SUMMARY OF THE CLASS COST OF SERVICE STUDY (COS) THAT WAS FILED WITH THE APPLICATION.

A. The class cost of service was developed by Company witness Gary Goble. The study is based on costs that have been functionalized (i.e. transmission, distribution, and customer), classified (energy, demand, and customer) and then allocated by direct assignment or by allocation factors.

The allocation factors that were used included industry standard allocation factors, such as the Atlantic Seaboard allocation methodology (allocates fixed capacity costs equally between annual volumes and peak-day demands), and factors that were developed with the Company's own data. All plant, expense, and revenues accounts have been allocated using these factors.

1
2 The Company's proposed revenue requirement and COS indicate that Cheyenne
3 Light needs additional total gas division revenues of \$4,553,554 to earn a
4 proposed return of 9.14%, an increase of 51.06% based on base revenues without
5 GCA revenues. Of this amount, the residential class needs additional revenues of
6 \$3,659,008 (an increase of 58.02% in base revenues). The commercial class
7 needs an increase in base revenues of \$829,488, or 37.69%. And finally, the
8 interruptible industrial class needs an increase of \$65,058 in base revenues, or
9 15.82%. All the proposed increases would bring each class to its cost of service.

10
11 **Q. DOES THE OCA AGREE WITH THE COMPANY'S PROPOSED CLASS**
12 **COST OF SERVICE STUDY?**

13 A. The OCA agrees with the methodology that was used to perform the class cost of
14 service. However, the OCA pro-forma adjustments have changed some of the
15 amounts that are allocated to each class. Based on the OCA's results, the COS
16 shows the residential, commercial, and interruptible industrial classes need
17 increases of \$3,549,704 (55.62%), \$835,881 (38.01%) and \$58,061 (14.10%)
18 respectively (shown in OCA Exhibit AJZ – 3).

19
20 **Q. DID THE COMPANY THEN BASE ITS RATE DESIGN ON THE CLASS**
21 **COST OF SERVICE STUDY RESULTS?**

22 A. Yes. The Company's rate design was based on the results of the class cost of
23 service. The total amount of revenues to be collected from each class, as shown
24 in the COS, will be collected through three different rates. The Service and
25 Facility charge (monthly charge) was developed for each class based on customer
26 specific plant and expenses that had been allocated in the study. The Service and
27 Facility for each class is then applied against the total annual customers for that
28 class to arrive at the revenues from those fees.

29
30 The Company also developed a Customer Service Charge (connection fee) that it
31 will apply on a per premise basis to those customers wanting service at a new

1 location. Cheyenne Light estimated the number of connections it would have per
2 class on an annual basis. The charge was applied to the estimated connections for
3 the annual revenues to be collected from that fee.

4
5 The Commodity Charge, or non-gas volumetric rate, was computed by netting the
6 required revenue from each class with the revenues that will be collected from the
7 monthly charges and the connection fees. The remaining revenues to be collected
8 were then divided by the forecasted dekatherm usage for the year.

9
10 **Q. WAS THE CUSTOMER SERVICE CHARGE DEVELOPED USING COS**
11 **DATA?**

12 A. No it was not. However, the OCA believes that the estimated annual new
13 connection numbers are reasonable and have been supported by responses to data
14 requests. The estimates were based on past data showing the number of
15 customers requesting new services.

16
17 **Q. WHAT IS THE AMOUNT OF THE CUSTOMER SERVICE CHARGE**
18 **AND HOW WILL IT BE BILLED TO CUSTOMERS?**

19 A. The Customer Service Charge is based on what the cost is for customer service to
20 set up a new account when a customer moves to a new location (newly built or
21 existing location). The total of the Customer Service Charge is \$15.00. But this
22 is on a premise or location basis. If a customer will receive gas and electric
23 service from CLFP at the new location, the customer will be charged a total of
24 \$15.00, effectively \$7.50 for each service. However, if the customer will receive
25 only one of the utility services, gas or electric, they will still be charged the total
26 of \$15.00.

27
28 The filing is confusing in this regard because Ms. Sargent's testimony states that
29 the charge is \$15.00 but does not adequately explain the allocation of the fee
30 between gas and/or electric services. The proposed tariff language (Page 36) is
31 also confusing in that it only lists a \$15.00 charge but does not specify what the

1 fee will be if they receive both services from the Company. It actually sounds as
2 if the \$15.00 would be charge for each service. The proposed rates shown in the
3 Company's rate design in Section 6 of the filing show Customer Service Charges
4 at \$7.50. This is because the Company is assuming that all customers who will
5 receive gas services will also receive electric services. Customers in Burns and
6 Pine Bluffs who move to a new location within the same cities will not receive
7 electric service from CLFP, but the number of those customers would have an
8 immaterial effect on the estimated revenues from the connection fee.

9
10 **Q. DOES THE OCA AGREE WITH THE NEW CUSTOMER SERVICE**
11 **CHARGE?**

12 A. The OCA believes that the charge is reasonable. However, we believe that
13 different language should be placed in the tariff to more accurately describe the
14 fee and how it will be charged. Below is language suggested by the OCA, in
15 italics, to be added to the proposed tariff (Page 36).

16 **TERMS AND CONDITIONS**

- 17 1. The charge shall be billed to all customers applying
18 for service under the applicable rate schedule in the
19 first regular billing. *The charge will be assessed per*
20 *customer location. A total charge of \$15 will be*
21 *assessed for connection of gas and/or electric*
22 *services to be provided by the Company.*

23
24 **Q. DOES THE OCA AGREE WITH THE COMPANY'S PROPOSED RATE**
25 **DESIGN?**

26 A. Yes, although the OCA's proposed rate design, based on Cheyenne Light's
27 methodology, recommends slight changes in the volumetric commodity charge
28 based on the changes in the COS from the pro-forma adjustments to the revenue
29 requirement. The OCA's recommended rates are shown on OCA Exhibit AJZ –
30 4.

1 The Service and Facility charges for the OCA's rate design are above what is
2 shown in the rate calculation (OCA Exhibit AJZ – 4, Schedule 1.0), as was the
3 Company's. The OCA left the monthly charges the same since the Company
4 believes that this will provide for more revenue stability since the monthly
5 charges are not dependent on usage. The OCA believes that the rates are
6 reasonable.

7
8 **Q. DO THE RATES PROPOSED BY THE OCA ENABLE EACH CLASS TO**
9 **COVER ITS COST OF SERVICE?**

10 A. Yes, each class is providing revenues to cover its individual cost of service. Each
11 class is contributing an 8.84% rate of return which is the OCA's recommended
12 return for this case.

13
14 **Q. WHAT ARE YOUR RECOMMENDATIONS REGARDING THE**
15 **REVENUE REQUIREMENT, CLASS COST OF SERVICE AND RATE**
16 **DESIGN?**

17 A. The OCA recommends that the Commission adopt the revenue requirement and
18 resulting class cost of service and rate design as calculated by the OCA. The
19 OCA believes that these rates that have been derived from these analyses are
20 reasonable.

21
22 **Q. MS. ZAMORA, BLACK HILLS IS CURRENTLY IN NEGOTIATIONS TO**
23 **PURCHASE AQUILA, INC. WILL THAT PURCHASE, IF APPROVED,**
24 **AFFECT CHEYENNE LIGHT?**

25 A. The transaction could affect the level of expenses that are incurred by Cheyenne
26 Light. The Aquila transaction itself is not related to the current case. But, the
27 transaction is slated to be finalized in early 2008, which is when the proposed
28 rates from this case will be in effect. The proposed rates would be based on costs
29 that could be very different from the costs that may actually be incurred if the
30 transaction comes to fruition, since the customer base would be much larger for
31 which to spread corporate allocations and possible synergies and efficiencies

1 could be gained from Aquila. However, at this point it is too early to quantify
2 how those costs could change.

3
4 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE AQUILA**
5 **TRANSACTION FOR THIS CASE?**

6 A. The OCA recommends that the Commission direct Black Hills/Cheyenne Light to
7 provide to the OCA and the Commission, within six months of the close of the
8 Aquila transaction, copies of any written transition plan that addresses how
9 Cheyenne Light's operations are anticipated to fit into the new corporate structure
10 and other impacts of the transaction on Cheyenne Light's operations and/or
11 customers. In lieu of this recommended compliance filing, if no such document is
12 to be developed, we ask the Commission to direct Black Hills/Cheyenne Light to
13 provide an oral briefing on the subject of transition plans.

14
15 **Q. IF THE AQUILA TRANSACTION DOES GO THROUGH, IS THE OCA**
16 **COMFORTABLE WITH THE INTERCOMPANY COST ALLOCATION**
17 **PROCESS THAT IS CURRENTLY IN PLACE?**

18 A. At this point in time, the OCA has not had sufficient time and man power to gain
19 a thorough understanding of the process and the costs that have been allocated to
20 Cheyenne Light. This issue should be reviewed in future rate cases since a
21 significant amount of costs were allocated (\$5.5 million) in this case. These costs
22 are expected to only increase in the future. With the possible addition of Aquila
23 to Black Hills Corporation, the OCA and the Commission should be more
24 familiar with the process to ensure that the costs allocated to Cheyenne Light are
25 appropriate.

26
27 **Q. ARE THE COSTS ALLOCATED IN THIS CASE APPROPRIATE?**

28 A. Yes. The OCA believes that the costs are appropriate and have been supported in
29 Mr. Theis' testimony.

1 **Q. WHAT SPECIFIC RECOMMENDATION IS THE OCA MAKING**
2 **REGARDING THE ISSUE OF CORPORATE ALLOCATIONS?**

3 A. The OCA recommends that Cheyenne Light/Black Hills prepare a one-time only
4 shared cost/affiliate transaction report that would lay out, using actual
5 expenditures for illustration. This one-time document, to be used as an
6 educational tool, should include:

- 7 1. A list of the categories of costs that are shared (e.g., information
8 technology);
- 9 2. A list of the actual expenditures shared or allocated within each of the
10 broader categories (e.g., wages, hardware costs);
- 11 3. A listing of the cost structure associated with each of those individual
12 expenditures (e.g., a flat \$10,000 per month, \$0.10 per customer bill, or an
13 allocation of costs based on a computed ratio); and
- 14 4. The actual cost expended within the illustrative time period (e.g., \$25,000
15 for billing services per quarter).

16 This document could then provide a basis for having a dialogue on the general
17 topic of intercompany costs.

18
19 **Q. DOES THIS COMPLETE YOUR PRE-FILED TESTIMONY?**

20 A. Yes, it does.