

**BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING**

IN THE MATTER OF THE APPLICATION )  
OF CHEYENNE LIGHT, FUEL, AND POWER )  
COMPANY FOR A GENERAL RTE INCREASE )  
OF \$8,437,064 PER ANNUM (A 10.34% )  
OVERALL INCREASE IN ITS RETAIL )  
ELECTRIC SERVICE RATES )

Docket No. 20003-90-ER-07  
Record No. 10070

PRE-FILED DIRECT TESTIMONY OF

Denise Kay Parrish

On Behalf of the Office of Consumer Advocate

Filed October 5, 2007  
Hearing October 22, 2007

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

2 A. My name is Denise Kay Parrish and my business address is 2515 Warren Avenue,  
3 Suite 304, Cheyenne, Wyoming 82002.

4

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

6 A. I am currently the Deputy Administrator of the Wyoming Office of Consumer  
7 Advocate (OCA). In this position, I review and provide input into the  
8 recommendations made by the OCA. I review utility applications filed with the  
9 Wyoming Public Service Commission (Commission) and provide advice to the  
10 Administrator regarding the involvement the OCA should have, if any, in the  
11 various cases. I review applications, perform analyses and provide  
12 recommendations to the Commission relative to various utility matters, including  
13 revenue requirements, tariff language, competitive issues, rules and regulations,  
14 and other items. I write and issue press releases, perform special studies, as well  
15 as provide information and research to customers, the legislature, the OCA  
16 Administrator, and others. I do other assignments and tasks, as needed and as  
17 assigned by the OCA Administrator.

18

19 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**  
20 **BACKGROUND?**

21 A. In 1976, I graduated from Michigan State University with a Bachelor's degree in  
22 Accounting. I have spent more than thirty years as a regulator of public utilities,  
23 having been on the staff of four state utility regulatory commissions and two  
24 consumer advocate entities. More than fifteen of these years have been spent at  
25 the Wyoming Public Service Commission. I have taken classes related to various  
26 aspects of public utility regulation, including income taxes, regulatory accounting,  
27 capital recovery, cost-of-service, rate design, revenue requirements, separations  
28 and allocations, and other specialized topics. I have taught classes on issues of  
29 accounting standards, general ratemaking principles, affiliate transactions,  
30 regulatory accounting, financial reporting, and other specialized topics to  
31 regulatory professionals.

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Since 2002, I have been an instructor at the Michigan State University Institute of Public Utilities (CAMP NARUC). I have also worked with the Nigerian Communications Commission on regulatory accounting and reporting matters and have done work for the International Telecommunications Union as a seminar leader. Furthermore, I have participated as a presenter at several meetings of the Tariff and Pricing Committee of the Energy Regulators Regional Association (ERRA). Finally, I was a presenter at, and participant in a workshop sponsored by the Energy Group of the Institute of International Education (IIE) regarding the development of an Electricity Distribution Indicator Toolkit.

I am the past chair and a current member of the National Association of Regulatory Utility Commissioners' Staff Subcommittee on Accounting and Finance. I am a member of the NARUC Staff Subcommittee on International Relations. I am listed in the current edition of Who's Who of American Women. I am currently a member of the National Association of State Utility Consumer Advocates' (NASUCA) Tax and Accounting Committee. Finally, I am a member of the staff of the Federal-State Joint Board on Universal Service.

**Q. DO YOU HAVE EXPERIENCE AS AN EXPERT WITNESS?**

A. Yes. I have testified more than one hundred twenty-five times as an expert witness. I have testified before the Michigan Public Service Commission, the Colorado Public Utilities Commission, the Colorado District Court, the Arizona Corporations Commission, the Wyoming Public Service Commission, and the Wyoming Legislature Joint Corporations Committee. I have testified in telecommunications, water, wastewater, electric, and natural gas cases. The subjects upon which I have testified include revenue requirements, rate design, cost-of-capital, nuclear decommissioning, accounting deferrals, adjustment mechanisms, income taxes, capital recovery, universal service funding, and other specialized topics.

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

2 A. As a member of the Office of Consumer Advocate, I represent the interests of  
3 Wyoming citizens and all classes of utility customers in this public utility matter,  
4 as required by W.S. § 37-2-401. It is neither my intent nor my charge to represent  
5 the position of any individual, group, municipality, or corporation.

6  
7 **Q. WHAT COURSE OF ACTION IS AVAILABLE TO INDIVIDUAL**  
8 **CONSUMERS OR OTHER INTERESTED PARTIES IF THEY WISH TO**  
9 **PURSUE ISSUES NOT ADDRESSED BY THE OFFICE OF CONSUMER**  
10 **ADVOCATE, OR TAKE A DIFFERENT POSITION FROM THE OFFICE**  
11 **OF CONSUMER ADVOCATE?**

12 A. Consumers and other parties may intervene in the proceedings and raise  
13 additional issues not addressed by the Office of Consumer Advocate, and may  
14 take different positions than those presented by the OCA. Consumers may also  
15 present written or oral comments at the hearing, which then become part of the  
16 record in the case and are available to the Commission as it makes its decision on  
17 any particular proposal or suggested change. The OCA encourages the  
18 participation of the public and all interested parties in cases before the  
19 Commission.

20  
21 **Q. ARE YOU SPONSORING ANY EXHIBITS OR SCHEDULES AS PART**  
22 **OF YOUR DIRECT PREFILED TESTIMONY IN THIS PROCEEDING?**

23 A. Yes. I am sponsoring OCA Schedules DKP-1 through DKP-6, each of which  
24 was prepared by me. The first five schedules are numeric support for my  
25 recommended revenue requirement and rate design. OCA Schedule DKP-6 is  
26 proposed tariff language containing a newly proposed Power Cost  
27 Adjustment. The information found on each of these schedules will be  
28 described throughout the remainder of my testimony.

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1 Introduction and Background of the Proceeding

2

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A. The purpose of my testimony is to describe the OCA's analysis in this proceeding  
5 and explain the OCA's recommendations regarding Cheyenne Light, Fuel and  
6 Power's (Cheyenne Light's) application to increase its base rates for electric  
7 service customers.

8

9 My testimony is presented in conjunction with the testimony of OCA  
10 Administrator Bryce Freeman and OCA Analyst Thomas Wilson, Jr. Mr.  
11 Freeman discusses the OCA's review of the WYGEN II construction costs, and  
12 Mr. Wilson discusses the OCA's recommended capital structure, cost of debt and  
13 cost of equity.

14

15 In a companion case to this electric rate case, Cheyenne Light is seeking to  
16 increase its general service rates to its natural gas customers. In that proceeding,  
17 which has been consolidated for hearing with the immediate electric case, Ms.  
18 Amy Zamora and Mr. Wilson are the OCA witnesses.

19

20 **Q. PLEASE DESCRIBE THE GENERAL NATURE AND CONTENT OF**  
21 **CHEYENNE LIGHT'S APPLICATION IN THIS PROCEEDING.**

22 A. On March 1, 2007, Cheyenne Light filed this application requesting that it be  
23 permitted to increase its general service electric revenues by about \$8.4 million,  
24 or just over 10%. The most significant new cost that Cheyenne Light seeks to  
25 include in its rates is the cost of generating its own power from the WYGEN II  
26 coal-fueled power production plant. This new cost replaces the existing cost of  
27 purchasing the bulk of its wholesale power from Public Service Company of  
28 Colorado at a FERC approved contract rate. Another portion of the requested  
29 increase results from normal everyday cost increases such as wages and supplies.  
30 Finally, Cheyenne Light's service territory is seeing a steady growth in customers,  
31 and that growth is accompanied by the need for new, more expensive assets.

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As to the requested rate design, Cheyenne Light is recommending a few changes to the current rate structure. The one notable change is that it proposes to implement a Customer Service Charge that some may think of as a hook-up charge. This charge is proposed to be applied to new customers on the system or existing customers who move to a new location within Cheyenne Light's service territory.

The most significant change to the rates and tariffs proposed by Cheyenne Light is its request to replace its Electric Cost Adjustment with two separate rate mechanisms. The first is the Electric Rate Stability Cost Adjustment that would, if approved, address changes in purchased power and transmission costs. The second is the Steam Plant Cost Adjustment that proposes to provide a recovery mechanism for production plant fuel and emission costs.

Cheyenne Light has asked that the rates resulting from this case be effective with usage on and after January 1, 2008. This date is proposed to coordinate the change in rates with the change in operations, since Cheyenne Light anticipates WYGEN II starting its commercial operating life on or near the first day of 2008.

**Q. WHAT ACTIONS DID YOU TAKE PRIOR TO MAKING ITS RECOMMENDATIONS IN THIS PROCEEDING?**

A. Before making my recommendations in this case, I spent a week at Black Hills Corporation's office in Rapid City, South Dakota, meeting with a variety of subject matter experts and discussing a wide variety of issues in this case. I requested follow-up data both formally and informally. I investigated how regulators in other states are handling some of the questions that have arisen in this case. I had hours of discussions with my OCA colleagues about the proper way to handle certain adjustments. I familiarized myself with some of the Commission's past practices relative to a number of matters that are notable in

1 this case. Finally, I relied on my more than 30 years of experience in the field of  
2 utility regulation to use my best judgment.

3  
4 OCA Revenue Requirement Summary

5  
6 **Q. ARE YOU COMFORTABLE THAT YOU HAVE TOUCHED UPON**  
7 **EACH AND EVERY POSSIBLE AREA OF CONTROVERSY WITH THE**  
8 **ITEMS YOU RAISE IN YOUR TESTIMONY AND EXHIBITS?**

9 A. Absolutely not. The investigation and field work in each rate case builds upon the  
10 work of past cases. Furthermore, it would take an army of analysts working on  
11 only this one case for weeks and even months to examine all angles of each issue  
12 in this case. Since those resources are not available, the best I can do is to pick  
13 out the big money items in each rate case and hope that no significant item is left  
14 unexplored. Additionally, the information learned from case to case builds a  
15 foundation of knowledge, and if a company's practices are fairly stable, then the  
16 same questions need not be asked over and over again.

17  
18 In spite of my answer above, I am confident that the package of recommendations  
19 that I sponsor is within the range of reasonableness. The OCA's recommended  
20 rates in my testimony are in the public interest and should be adopted by the  
21 Commission. The rates should be made effective with usage on and after January  
22 1, 2008.

23  
24 **Q. PLEASE SUMMARIZE YOUR OVERALL RECOMMENDATIONS,**  
25 **PARTICULARLY RELATIVE TO THE REQUESTED REVENUE**  
26 **INCREASE.**

27 A. The OCA's position in this case compared to Cheyenne Light's request is best  
28 described while looking at OCA Schedule DKP-1. Cheyenne Light requested an  
29 overall increase in electric revenues of about \$8.4 million per annum. The OCA  
30 is recommending an increase of about \$6.7 million per annum. The OCA's

1 recommendation would result in an increase of total revenues of about 7.83%  
2 compared to Cheyenne Light's requested 9.82%.

3  
4 The OCA is recommending a series of adjustments to the rate base, such that the  
5 OCA's adjusted rate base is about \$2.7 million less than Cheyenne Light's. The  
6 rate base is the overall investment base necessary and useful to the provision of  
7 utility services upon which the utility is allowed to earn a return.

8  
9 Mr. Wilson is recommending a return on rate base of 8.84% compared to  
10 Cheyenne Light's requested return of 9.14%. The differences in rate base and  
11 recommended return result in nearly a million dollar difference between what  
12 Cheyenne Light believes it needs to reasonably provide adequate service and  
13 attract capital and the amount that the OCA believes is necessary.

14  
15 The remainder of the difference is found in the adjustments that the OCA is  
16 making to Cheyenne Light's operating expenses. These adjustments are made for  
17 a variety of reasons, as described below.

18  
19 OCA Rate Base

20  
21 **Q. PLEASE DESCRIBE OCA SCHEDULE DKP-2, PAGE 1 OF 7.**

22 A. This schedule summarizes the various elements of rate base as recommended by  
23 both Cheyenne Light and the OCA. These figures were developed by beginning  
24 with plant, accumulated depreciation, and the other line items shown by taking the  
25 actual numbers from Cheyenne Light's books as of the end of September 2006.  
26 To these booked numbers are added a number of adjustments recommended by  
27 Cheyenne Light. This is the starting point for the OCA which then made a  
28 number of its own adjustments to arrive at the OCA's *As Adjusted* figures.

29  
30 There is a more sizeable difference between the *per book* numbers and the *As*  
31 *Adjusted* net plant numbers than one normally sees. This reflects the fact that

1 Cheyenne Light is currently a utility that purchases the power it provides its  
2 customers from the wholesale market, but who plans to begin generating much of  
3 its own power beginning in 2008. This involves adding the cost of a power plant  
4 to its rate base (or investment base). The addition of the power plant increases the  
5 rate base by more than fourfold.

6  
7 The differences between the Cheyenne Light adjusted recommendations and the  
8 OCA recommendations are best understood by looking at the series of  
9 adjustments that are found on pages 3 through 7 of OCA Schedule DKP-2.  
10 Below, I describe each of these adjustments.

11  
12 **Q. WHAT IS FOUND ON OCA SCHEDULE DKP-2, PAGE 2?**

13 A. This is a schedule that details the plant in service numbers and is simply more  
14 detailed information than is shown on the Rate Base summary schedule. This  
15 information is provided since the plant in service is such a huge portion of the  
16 total rate base.

17  
18 **Q. THE FIRST ADJUSTMENT TO RATE BASE YOU RECOMMEND IS TO  
19 REMOVE PLANT HELD FOR FUTURE USE FROM RATE BASE. WHY  
20 ARE YOU RECOMMENDING THIS?**

21 A. Rate Base is meant to represent plant and other assets that are used and useful in  
22 the provision of service during the time frame that rates are to be in effect. This  
23 cost is very small in the overall scheme of the rate calculation, but is being  
24 removed on principle since there is no definitive plan for its use.

25  
26 **Q. THE SECOND ADJUSTMENT SHOWN ON PAGE 3 OF YOUR SECOND  
27 SCHEDULE IS A MUCH LARGER DOLLAR AMOUNT. PLEASE  
28 EXPLAIN THE NATURE OF THIS ADJUSTMENT.**

29 A. This adjustment relates to the addition of the WYGEN II investment after the test  
30 year booked numbers were closed. In its presentation, Cheyenne Light included  
31 the cost of the plant as well as one year of depreciation expense and other

1 associated expenses and taxes. What it did not include was an adjustment to  
2 accumulated depreciation. Essentially, there was an increase in plant in service  
3 and an increase in depreciation expense, but no recognition that as the plant is  
4 depreciated, the net plant base (the largest part of rate base) is reduced to reflect  
5 the depreciation that has already been expensed. So, this adjustment brings in  
6 another element of WYGEN II by reflecting one half of the first year's  
7 depreciation in accumulated depreciation. Accumulated depreciation is an  
8 element that reduces rate base, and thus, this adjustment reduces the overall  
9 revenue requirement.

10  
11 **Q. PLEASE DESCRIBE THE LEAD LAG STUDY ADJUSTMENT THAT IS**  
12 **SHOWN ON PAGE 4 OF OCA SCHEDULE DKP-2.**

13 A. The lead lag study is a method of studying the cash flows of revenues flowing  
14 into the utility and the outflow of monies to pay operating expenses. The timing  
15 of these two elements are compared to determine whether, and to what extent, it is  
16 necessary to recognize some additional investment that must be made by the  
17 utility in order to provide service before receiving payment. The result of the  
18 study then goes into the overall rate base as part of the total investment upon  
19 which the utility will be allowed to earn a return. There are also other shorthand  
20 ways of measuring this same investment need (such as the use of the 45-day  
21 formula method) but in this case, the longer, more utility specific method was  
22 used.

23  
24 The OCA is generally not objecting to the study done by Cheyenne Light or the  
25 specifics of the calculation. However, I do take exception to three inputs of the  
26 study. First, one of the major inputs is the recommended operating expense of the  
27 utility. As changes are made to the expenses, the same changes need to be  
28 reflected in the study inputs. This change merely coordinates the whole package  
29 of OCA's adjustments. Second, Cheyenne Light included depreciation in part of  
30 the calculation, even though this study attempts to measure cash needs. Since  
31 depreciation is a non-cash expense, I have removed it as an input to the study.

1 Finally, interest on long term debt was included as an input to the study. While it  
2 is true that interest is a cash expense, it is a non-operating expense. Since interest  
3 is recovered and addressed differently than other expenses found on the income  
4 statement, we have removed it from this calculation.

5  
6 The result of these three adjustments is to reduce cash working capital, and thus  
7 the rate base, by about \$418,000.

8  
9 **Q. THE NEXT RATE BASE ADJUSTMENT, ON PAGE 5 OF YOUR**  
10 **SECOND SCHEDULE, ALSO APPEARS TO ADDRESS WORKING**  
11 **CAPITAL ITEMS. PLEASE EXPLAIN THIS SERIES OF NUMBERS.**

12 A. The cash working capital that results from the lead lag study described above  
13 represents the old concept of cash-in-the-drawer and stock-on-the-shelf for a new  
14 business. This represents funds that must be expended prior to receiving revenues  
15 for the provision of service. But, in addition to operating expenses preceding the  
16 receipt of revenue, there are other investments that shareholders make for which  
17 they expect to be compensated, since money that could otherwise be invested is  
18 tied up in inventory. These are additional elements of rate base and there is no  
19 disagreement between the OCA and Cheyenne Light on this concept. The  
20 adjustment relates to the actual calculation. Cheyenne Light measured the cost of  
21 these elements as of a point in time. The OCA prefers to take an average cost  
22 measurement of these elements, since the balance of inventory can vary widely  
23 month-to-month.

24  
25 **Q. THE NEXT ADJUSTMENT REMOVES UNAMORTIZED RATE CASE**  
26 **EXPENSES FROM RATE BASE. PLEASE EXPLAIN THIS**  
27 **ADJUSTMENT.**

28 A. This adjustment removes from rate base the unamortized balance of the third-  
29 party (i.e., legal and consulting) costs incurred by Cheyenne Light in developing  
30 and processing its rate request. While we agree with the concept of deferring  
31 some of these costs and then amortizing them for more than one year, the OCA

1 does not agree with Cheyenne Light's proposal to earn a return on the  
2 unamortized portion of the deferred cost. Rate cases benefit both customers and  
3 shareholders, and thus, both groups should have some obligation to share a  
4 portion of the cost. Clearly, since rate cases are a real cost of providing utility  
5 service, ratepayers have some obligation to pay these expenses. That is true in  
6 this case as well as in theory. However, it appears fair to me that shareholders  
7 pay the carrying charge on the money that has been paid to the consultants but not  
8 yet collected through rates. Through this adjustment, Cheyenne Light would be  
9 responsible for this carrying charge, rather than placing that burden on Cheyenne  
10 Light ratepayers.

11  
12 **Q. PLEASE EXPLAIN THE RATE BASE ADJUSTMENT TO REALLOATE**  
13 **PART OF THE PLANT ACQUISITION COST FROM THE GAS**  
14 **OPERATION COSTS TO THE ELECTRIC OPERATION COSTS.**

15 A. This is a fairly simple adjustment where a judgment call needs to be made as to  
16 how much of a common cost should be assigned to the gas operations and how  
17 much to the electric operations. The OCA disagreed with the allocation factor  
18 that Cheyenne Light chose, therefore it proposed its own basis of allocating these  
19 costs. This adjustment was coordinated by Ms. Zamora and I, in an attempt to  
20 make sure that no gap was left as we moved some of the cost from the gas  
21 operations to the electric operations.

22  
23 Perhaps the larger issue at hand is whether it is at all appropriate to include an  
24 acquisition adjustment in the rate base. The acquisition adjustment here is the  
25 difference between the net book value of the Cheyenne Light assets sold by Xcel  
26 and the purchase price paid by Black Hills. It is relatively small in the overall  
27 context of the transaction. However, it was a bit of a surprise, since we could find  
28 no specific discussion about the acquisition adjustment in the acquisition order or  
29 settlement agreement. Thus, it became a judgment call based on the specifics of  
30 the case. The factor that most influenced my decision to leave this in rate base is  
31 that the Commission has frequently allowed these same type of adjustments in

1 many past rate cases for other utilities. In this case, the return on the acquisition  
2 adjustment has been requested and I am not disputing the reasonableness of that  
3 request. However, under current non-regulatory accounting rules, that asset could  
4 just sit on Cheyenne Light's books into perpetuity without being amortized,  
5 meaning the same return is earned year-after-year. Rather than paying a return on  
6 this same asset 30 years from now, I would like to explore whether the Company  
7 would be willing to amortize this asset over some period of time such as 25 or 30  
8 years. If so, then in the next case, the Commission would face at least two  
9 acquisition adjustment questions: (1) should the amortized portion be in rate base?  
10 and (2) should the amortization be included as an allowable expense for  
11 computing revenue requirements? But, the question of including the amortization  
12 expenses is not present in this case, as the asset is not currently being amortized.  
13

14 **Q. WHY ARE YOU SUGGESTING THAT IT IS APPROPRIATE TO**  
15 **REMOVE \$7,080 OF INTEREST ACCRUED ON CUSTOMER DEPOSITS**  
16 **FROM RATE BASE?**

17 A. Between the income statement and the rate base, Cheyenne Light's filed case  
18 properly reflects the treatment of the balance of customer deposits and the interest  
19 that must be paid on those deposits. This appears to be a stray entry that was  
20 inadvertently added to rate base and thus should be removed.  
21

22 **Q. THE LAST TWO RATE BASE ADJUSTMENTS RELATE TO**  
23 **DEFERRED INCOME TAXES. PLEASE EXPLAIN THESE**  
24 **ADJUSTMENTS FOUND ON PAGE 7 OF OCA SCHEDULE DKP-2.**

25 A. The first of the adjustments is to recognize an inadvertent omission of deferred  
26 income taxes on some plant additions that were added after the close of the test  
27 year. The investment itself, as well as annualized depreciation, was properly  
28 reflected by Cheyenne Light. The missing piece was the deferred taxes that  
29 recognize more taxes are allowed in rates than are paid to the Internal Revenue  
30 Service, since the depreciable lives for tax purposes are shorter than those for  
31 book purposes.

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**Q. MS. PARRISH, YOU HAVE COME TO THE END OF YOUR RATE BASE DISCUSSION AND THERE APPEARS TO BE NO CONTROVERSY ABOUT THE ADDITION OF WYGEN II PLANT COSTS TO RATE BASE. IS THE OCA TAKING ISSUE WITH THE ADDITION OF WYGEN II TO RATE BASE?**

A. No. The OCA took the position early on that the addition of a coal plant to the Cheyenne Light/Black Hills power mix appears to be good for customers, even though a significant amount of fixed costs are associated with such a significant investment for a utility the size of Cheyenne Light. That remains the position of the OCA today.

Additionally, as described by Mr. Freeman in his testimony, the OCA took a serious look at the actual plant construction costs. We decided not to challenge any of these costs as a result of our review and analysis of these costs. Finally, I reviewed the operations and maintenance costs that were estimated for WYGEN II's operation during the rate effective period beginning in 2008. With the exception of some depreciation issues, I am not taking issue with any of these WYGEN II expenses or estimated excess power sales revenues.

OCA Income Statement

**Q. WHAT IS SHOWN ON OCA DKP-3, PAGE 1.**

A. This shows the income statement in a way comparable to how rate base was shown on the prior schedule. It begins with booked test year numbers, the adjustments of Cheyenne Light, the adjustments of the OCA, and finally, in the far right column, the adjusted position of the OCA. Based on information we were able to obtain from Cheyenne Light, this is our best estimate of what revenues and expenses for a normal year beginning in 2008 will look like. Because some of the OCA's adjustments increase expenses while others reflect decreases, the adjusted positions of the OCA and Cheyenne Light are not very far

1 apart. This schedule shows that based on all of these assumptions and  
2 adjustments, Cheyenne Light could be expected to earn slightly over 7% on its  
3 investments in 2008 without any further rate increase.

4  
5 As was the case with the rate base adjustments, the individual income statement  
6 adjustments summarized on this page are individually computed and described on  
7 pages 2 through 8 of this same schedule. I will briefly describe each of these  
8 adjustments below.

9  
10 **Q. THE FIRST OF THE INCOME STATEMENT ADJUSTMENTS, AS**  
11 **SHOWN ON PAGE 3 OF YOUR THIRD SCHEDULE, AGAIN FOCUSES**  
12 **ON A DISPUTE AS TO THE PROPER ALLOCATOR TO APPLY TO**  
13 **EXPENSES COMMON TO THE GAS AND ELECTRIC OPERATIONS.**  
14 **PLEASE EXPLAIN YOUR POSITION ON THIS MATTER.**

15 A. As was described earlier when discussing the allocation of common costs, there is  
16 a great deal of judgment that must be used to determine the underlying nature of  
17 the expense and the best surrogate ratio to apply to make sure that the expense is  
18 being allocated to the proper cost causers. While I am not challenging the overall  
19 cost for which recovery is being sought, I do advocate the use of a different  
20 allocation ratio such that more of the cost will be assigned to electric customers  
21 and less to natural gas customers.

22  
23 **Q. IS THE SYNCHRONIZATION OF INTEREST FOR THE**  
24 **COMPUTATION OF INCOME TAXES A COMMON REGULATORY**  
25 **PRACTICE?**

26 A. Yes, and in this case both Cheyenne Light and the OCA made the same  
27 adjustment in the same way. The only difference is the actual dollar amount of  
28 the inputs into the formula. The reason for making this adjustment is to  
29 coordinate all of the elements for computing the level of income tax to be  
30 included in rates. This particular calculation recognizes that interest is not an  
31 operating expense but is a factor for computing taxable income. The actual

1 computation is done in a manner that only provides the level of interest (for  
2 purposes of computing income taxes) necessary to support the regulated  
3 investments. Since Cheyenne Light and the OCA have different recommended  
4 rate bases and different weighted debt costs, my inputs are different than those  
5 found in Cheyenne Light's filing.  
6

7 **Q. PLEASE DESCRIBE THE ADJUSTMENT THAT RELATES TO ACID**  
8 **RAIN ALLOWANCES.**

9 A. This adjustment, found on OCA Schedule DKP-3, page 3 of 8, relates to the price  
10 that Cheyenne Light is expected to have to pay for SO<sub>2</sub> allowances necessary for  
11 WYGEN II to meet mandatory air quality standards. In estimating the cost of  
12 these allowances, Cheyenne Light used the 2006 Environmental Protection  
13 Agency (EPA) spot auction price. The spot auction price is appropriate given that  
14 the allowances from this auctions would be available for usage beginning in 2008,  
15 while the longer term sales are generally available only for years further out in the  
16 future. The 2006 data was the most recent information available at the time that  
17 Cheyenne Light filed its case. However, the 2007 auction has now occurred, and  
18 the price is substantially less than it was in 2006. This prompted me to research  
19 the history of the SO<sub>2</sub> auction prices, as they have varied greatly over time. This  
20 led me to use an average price for the most recent three years, which is the  
21 underlying basis for my SO<sub>2</sub> price adjustment.  
22

23 **Q. PLEASE DESCRIBE YOUR NEXT INCOME STATEMENT**  
24 **ADJUSTMENT RELATED TO ENERGY SHARE CONTRIBUTIONS.**

25 A. Cheyenne Light is proposing to include payments to Energy Share in the revenue  
26 requirement computation. If approved, the outcome of the Cheyenne Light  
27 proposal would be a requirement for customers to pay into this charitable  
28 program, rather than leaving it, as it is now, a voluntary decision by each  
29 individual customer. This is inconsistent with the past practices of the  
30 Commission which has not permitted charitable contributions to be included as  
31 utility operating expenses that were passed on to ratepayers. The OCA has

1 followed the past practice of the Commission because of its conceptual validity.  
2 Making a charitable donation is not a required or necessary expense for providing  
3 electric utility service. The decision about whether a customer wants to donate to  
4 charity should be a private decision, and not related to the customer's decision to  
5 take utility service.

6  
7 **Q. PLEASE DESCRIBE THE BAD DEBT ADJUSTMENT SHOWN ON PAGE**  
8 **4 OF YOUR SCHEDULE 3.**

9 A. Shortly after Black Hills Corporation became the owners of Cheyenne Light, a  
10 series of operational and billing problems were discovered, including problems  
11 involving collections (or lack thereof). For the next several months, a  
12 concentrated effort was made to clean up the various problems that had been  
13 identified. While I applaud the clean-up efforts made by Cheyenne Light under  
14 its new owners, this period of chaos and confusion should not set the basis for  
15 determining normal, on-going levels of collections and bad debt. Thus, the OCA  
16 adjustment proposes to use a more normalized time period (the twelve months  
17 ended July 2007) for estimating bad debt expense for future periods.

18  
19 **Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT TO RATE**  
20 **CASE EXPENSES.**

21 A. As with several of the earlier described adjustments, there is no disagreement  
22 about the concept of accumulating third-party rate case costs and spreading those  
23 costs out over the anticipated time between rate cases. Both Cheyenne Light and  
24 the OCA have done that in this case. Since the Cheyenne Light adjustment was  
25 based on estimated costs of its consultants and attorneys, the OCA adjustment  
26 updates these estimates based on actual experiences to date and anticipated  
27 remaining expenditures. Additionally, I am recommending that the cost  
28 associated with Black and Veatch's depreciation study be amortized over a longer  
29 period of time than the other costs. It is unlikely that Cheyenne Light will  
30 contract for a depreciation study every three years. The industry norm is every 5  
31 years, although it would not be unreasonable to go even longer, based on

1 Cheyenne Light's history of keeping the same depreciation rates for decades. But,  
2 based on conversations with Black Hills that old practice is now history, and  
3 reviews are expected to be done periodically. So, a five year amortization period  
4 appears to be reasonable. Lastly, the OCA has chosen a different factor to  
5 allocate these costs than the factor chosen by Cheyenne Light, hence I allocated  
6 these costs based on revenues rather than plant in service.  
7

8 **Q. DOES THE NEXT INCOME STATEMENT ADJUSTMENT, FOUND ON**  
9 **PAGE 6 OF 8 OF YOUR THIRD SCHEDULE, REFLECT YOUR**  
10 **POSITION THAT THE 40 YEAR DEPRECIABLE LIFE ASSIGNED TO**  
11 **WYGEN II IS TOO SHORT IN TODAY'S MARKET?**

12 A. Yes. I have some familiarity with anticipated plant lives for a few other coal  
13 plants in this region, and based on this information, I became concerned that the  
14 40 year estimated life was not reasonable. Furthermore, I was concerned that if  
15 the plant life was set too short now and then revised quite a bit further down the  
16 road, there could be serious inequities among generations of ratepayers. That is,  
17 current customers would pay more than their fair share of the cost, while later  
18 generations would not only have cheaper rates (all other things being equal) due  
19 to the plant being partially depreciated, but would also then get the benefit of a  
20 life that is being extended late in the plant life. Therefore, it is important to make  
21 sure that life estimates are as accurate as possible throughout the life of the plant  
22 and not just down the road when the plant is closer to its planned retirement or life  
23 extension.  
24

25 **Q. WHAT ARE SOME OF THE EXPECTED PLANT LIVES FOR OTHER**  
26 **COAL PLANTS IN THIS REGION?**

27 A. Rocky Mountain Power recently made a filing wherein it is proposing to increase  
28 the life of its owned coal plants to more than 60 years. While this request has not  
29 formally been acted on by the Commission, it is a position that Rocky Mountain  
30 Power has taken voluntarily. Black Hills has used an estimated life for Neil

1 Simpson of 45 years. Tri-State Generation and Transmission's website provides  
2 the following information:

3 Laramie River Station:

4 Constructed 1976 through 1982

5 Estimated life through at least 2040

6 San Juan Generating Station:

7 Constructed 1973

8 Estimated through at least 2017

9 Escalante Generating Station

10 Constructed 1980 – 1984

11 Estimated through at least 2035

12  
13 All of this information supports a life for WYGEN II of longer than 40 years, if  
14 not substantially longer. However, I have tempered this information with the oft-  
15 expressed concerns these days about potential responses regarding climate  
16 change. In order to be somewhat conservative on this issue, I am recommending,  
17 in this case, a depreciable life for WYGEN II of 45 years. Of course, this life  
18 estimate should be reviewed periodically and updated as new, relevant  
19 information becomes available. The adjustment recomputes the composite  
20 depreciation rate for WYGEN II based on a 45 year life using the same  
21 methodology found in the Black and Veatch depreciation study submitted by  
22 Cheyenne Light.

23  
24 **Q. IS THE ADJUSTMENT ON PAGE 7 TO INTERCOMPANY CHARGES**  
25 **AGAIN A DIFFERENCE OF OPINION REGARDING THE PROPER**  
26 **ALLOCATOR TO BE APPLIED?**

27 A. Yes. It is again a response to an examination of trying to properly categorize  
28 common costs as related to either gas or electricity. The OCA chose to use a  
29 different allocator than did Cheyenne Light.

30  
31 **Q. PLEASE EXPLAIN THE FRANCHISE FEE ADJUSTMENT.**

32 A. This adjustment recognizes that franchise fees change as revenues change. So,  
33 the adjustment computes the franchise fees that are associated with the level of  
34 recommended revenues by each party. Since the OCA is recommending a smaller

1 overall increase in revenues than is Cheyenne Light, the amount of related  
2 franchise fees is also smaller.

3  
4 Unlike the situation in the companion natural gas rate case, the adjustment to  
5 franchise fees in the electric rate case is not directly required as a result of  
6 removing them from the Electric Cost Adjustment calculation. This adjustment  
7 was not necessary for the electric operations, since both Cheyenne Light and the  
8 OCA are proposing the elimination of the ECA in this case. Thus, the franchise  
9 fees had already been moved into the revenue requirement calculation as part of  
10 Cheyenne Light's rate case filing.

11  
12 **Q. WHY IS IT NECESSARY TO MAKE AN ADJUSTMENT FOR THE**  
13 **GILLETTE COMBUSTION TURBINE FUEL COSTS, PARTICULARLY**  
14 **WHEN CHEYENNE LIGHT ITSELF DID NOT MAKE THIS**  
15 **ADJUSTMENT?**

16 A. Cheyenne Light discusses in Ms. Sargent's testimony that it did not make this  
17 adjustment for the Gillette CT fuels costs because it anticipated being able to  
18 recover these costs through one of its two proposed adjustment mechanisms.  
19 However, the OCA is proposing adoption of a different adjustment mechanism  
20 than either of those proposed by Cheyenne Light. As I describe in more detail  
21 below, the adjustment mechanism that OCA recommends has a deadband and cost  
22 sharing. With this different Power Cost Adjustment proposal, it is more important  
23 to establish the cost base correctly than when the mechanism is formulated to  
24 pass-on 100% of the costs.

25  
26 The adjustment itself is based on a low-end estimate of the power costs that the  
27 Gillette CT is likely to incur in 2008 based on information provided by Cheyenne  
28 Light.

29  
30 **Q. WHAT IS THE LAST OF YOUR INCOME STATEMENT**  
31 **ADJUSTMENTS?**

1 A. The last adjustment is to income taxes. Each time an adjustment is made to  
2 revenues or expenses, there is a corresponding impact on taxable income and  
3 income taxes. This adjustment recognizes the tax effect of the above described  
4 Income Statement adjustments.

5

6

Intercompany Charges and Allocations

7

8 **Q. DO YOU HAVE A CONCERN ABOUT THE NATURE AND LEVEL OF**  
9 **CORPORATE COSTS FLOWING FROM BLACK HILLS**  
10 **CORPORATION TO CHEYENNE LIGHT?**

11 A. Yes, although my concern is primarily driven by the lack of clarity regarding the  
12 specifics of these allocated costs. Due to the number of major issues in this  
13 current case, the issue of corporate allocations was not fully explored in this  
14 proceeding. Yet, given Cheyenne Light's place in Black Hills Corporation's  
15 corporate structure, and the sharing of costs within that structure, it is an  
16 important issue to understand. Thus, prior to the next rate case, I would  
17 appreciate an opportunity to better understand these common costs and  
18 operations, and how they are shared among the various entities.

19

20 **Q. HASN'T MR. THIES OF BLACK HILLS PROVIDED TESTIMONY ON**  
21 **THIS ISSUE IN THIS CASE?**

22 A. Yes. However, we are looking for the next level down from the information  
23 provided. For instance, Mr. Thies provides the Service Agreement in his Exhibit  
24 MTT-2. Attached to this is Appendix 1, a document that describes the shared  
25 services and the associated cost allocation method. The information shows that  
26 there are several types of costs allocated using the Blended Ratio (a mix of Asset  
27 Costs, Payroll dollars, and Gross Margin.) Yet, when we went to look for a  
28 similar allocation ratio to apply to the costs common to the gas and electric  
29 operations, there did not seem to be one. Taking time to explore why specific  
30 allocators were chosen to apply to specific costs, and other questions of a similar

1 nature, prior to the next major Cheyenne Light (or even Black Hills) case could be  
2 very useful and informative.

3  
4 **Q. IS THE AMOUNT OF INTERCOMPANY ALLOCATIONS SIGNIFICANT**  
5 **IN THIS CASE?**

6 A. Yes. As shown on Schedule H-11, page 1 of 2, Cheyenne Light proposed more  
7 than \$5.5 million of intercompany charges be allocated to Cheyenne Light from  
8 Black Hills Corporation and Black Hills Service Company. The magnitude of  
9 these charges is likely to grow over time, as more work for Cheyenne Light is  
10 done by Black Hills personnel (e.g., power plant dispatching) and as new entities  
11 are added to the corporate family (e.g., Aquila, Inc.).

12  
13 **Q. ARE YOU SUGGESTING THAT THERE IS NOT ENOUGH**  
14 **INFORMATION IN THIS CASE TO SUPPORT THESE CHARGES?**

15 A. No, it is not my intent to suggest that these costs are inappropriate for inclusion in  
16 the revenue requirement in this case. As noted above, Mr. Thies has provided  
17 testimony in support of these costs. However, there is additional information that  
18 would be useful to understand on a going forward basis. I consider the type of  
19 information that Mr. Thies has provided to be the starting point for further  
20 conversations about this topic.

21  
22 **Q. WHAT SPECIFIC RECOMMENDATION ARE YOU MAKING**  
23 **REGARDING THE MATTER OF CORPORATE ALLOCATIONS?**

24 A. The OCA recommends that Cheyenne Light / Black Hills, within the next 12  
25 months, prepare and share with the Commission and the OCA a one-time only  
26 shared cost / affiliate transaction report that would describe the intercompany  
27 allocations using actual expenditures for illustration. This one-time document  
28 should include: (a) a list of the categories of costs that are shared (e.g.,  
29 information technology); (2) a list of the actual expenditures shared or allocated  
30 within each of the broader categories (e.g., wages, hardware costs); (3) a listing of  
31 the cost structure associated with each of those individual expenditures (e.g., a flat

1 \$10,000 per month, \$0.10 per customer bill, or an allocation of cost based on  
2 computed ratio); and (4) the actual cost expended within the illustrative time  
3 period (e.g., \$25,000 for billing services per quarter). This document could then  
4 provide a basis for having a dialogue on the general topic of intercompany costs.

5  
6 I suggest a one-time document since we are really looking to educate ourselves on  
7 the general nature of these costs and the process by which these costs are  
8 subjected. Since I am primarily looking for an educational process, rather than an  
9 on-going monitoring process, a one-time report should be adequate. But, if not,  
10 the Commission has the authority to seek additional information or impose  
11 additional reporting requirements at nearly any time. Furthermore, if the  
12 Commission supports our recommendation, I hope Cheyenne Light will look for a  
13 means to minimize the costs of preparing the recommended document, while not  
14 skimping on the contents. One suggestion might be to pull the intercompany  
15 costs for one month, or one quarter year, rather than a full year of data.

16  
17 Aquila, Inc. Transaction

18  
19 **Q. MS. PARRISH, DO YOU HAVE ANY CONCERNS ABOUT BLACK**  
20 **HILLS CORPORATION'S PURCHASE OF AQUILA, INC.'S UTILITY**  
21 **ASSETS AND OPERATIONS?**

22 A. Yes, although my concerns are only tangentially related to this rate case. Black  
23 Hills Corporation, Cheyenne Light's parent company, has widely reported its  
24 intention to purchase the dispersed electric and natural gas operations of Aquila,  
25 Inc. Black Hills Corporation is currently seeking regulatory approvals as well as  
26 shareholder approvals in order to complete the transaction. Current Wyoming law  
27 does not appear to require approval of this transaction by the Wyoming Public  
28 Service Commission. However, I anticipate that the transaction will have an  
29 impact on the long-run operations of Cheyenne Light. The timing and uncertainty  
30 of this transaction were shadows that overlaid the work done by the OCA in this  
31 case.

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**Q. PLEASE EXPLAIN FURTHER.**

A. It is not clear when the Black Hills Corporation/Aquila, Inc. transaction will close, if at all. Current indications are that decisions relative to this potential change in ownership will be made by early 2008. This is the same general time frame that any rate changes resulting from this instant case are likely to become effective. The result would likely be that many more customers would share corporate costs which, on its own, could result in a savings to Cheyenne Light (and Black Hills' Wyoming) customers. Meanwhile, there could be many more costs associated with additional regulatory requirements that frequently are required during the early years of acquisition and merger transactions. Furthermore, it is yet to be seen if, when, or how existing inefficiencies are squeezed out of the larger, merged system, and whether any of those cost saving will – or should – flow to Cheyenne Light customers. There are just too many uncertainties at this time to be able to quantify any of the potential costs or savings, as part of the OCA analysis in this case. Moreover, it is troubling to establish rates for an indefinite period of time based on a set of operations (and associated costs) for which there is a strong likelihood of significant change.

**Q. GIVEN THE UNCERTAINTY ABOUT THE AQUILA TRANSACTION'S IMPACT ON CHEYENNE LIGHT'S OPERATIONS, WHAT IS YOUR RECOMMENDATION FOR THIS CASE?**

A. Ideally, we would all wait until the matter sorts itself out, and then we could look for some certainty in the rate setting process. However, that is not practical as it is unclear when, if ever, stability and certainty will return to Cheyenne Light's operations, or the utility industry in general.

As an alternative, the OCA falls back to the old standard of trying to be kept informed of significant steps in the Aquila transaction process. Specifically, the OCA requests that the Commission direct Black Hills/Cheyenne Light to provide to the OCA and the Commission – within six months of the close of the Aquila

1 transaction – copies of any written transition plan that addresses how Cheyenne  
2 Light’s operations are anticipated to fit into the new corporate structure, including  
3 any impacts of the transaction may have upon Cheyenne Light’s operations and/or  
4 customers. If no such document is to be developed, in lieu of this recommended  
5 compliance filing, we request that the Commission to direct Black Hills/Cheyenne  
6 Light to provide an oral briefing on the subjection of transition plans.

7  
8 If the Commission finds that it needs to reopen or reexamine issues in this case  
9 based on later information, it certainly has general oversight over rates and could  
10 use its general authority, as needed.

11  
12 Class Cost of Service Results

13  
14 **Q. DID CHEYENNE LIGHT PROVIDE A CLASS COST OF SERVICE**  
15 **STUDY WITH ITS APPLICATION?**

16 A. Yes. The class cost of service study is described in Mr. Goble’s testimony.

17  
18 **Q. DO YOU HAVE ANY CONCERNS ABOUT THE ALLOCATION**  
19 **METHODS TO SPREAD THE COSTS AMONG THE VARIOUS**  
20 **CLASSES OF CUSTOMERS?**

21 A. No. The baseload production costs are spread on the basis of an allocator that  
22 takes into account both energy and non-coincident peak. The generation costs  
23 associated more with meeting peak loads is spread on the basis of 12 coincident  
24 peaks. After some lengthy discussions about the appropriateness of this  
25 methodology, I was satisfied that the allocation factors were appropriate given the  
26 current loads and generation mix. I was also satisfied with the allocation process  
27 related to the other expenses and investment.

28  
29 While I am not suggesting any changes to the class cost of service computation in  
30 this case, I do recommend that the matter be revisited in future rate proceedings.  
31 Now, Cheyenne Light’s power supply mix is tightly fit to its load. As additional

1 generation is added, or more likely, as significant additional load is added, the  
2 supply mix to meet the growth on the system will change. Since production plant  
3 is allocated differently depending on its characteristics, the issue should be  
4 carefully examined as the supply mix and system load characteristics change.  
5

6 **Q. DID YOU DEVELOP A SUMMARY OF COSTS FOR EACH CLASS**  
7 **BASED ON THE SAME ALLOCATION METHOD DESCRIBED BY MR.**  
8 **GOBLE IN HIS TESTIMONY?**

9 A. Yes. The methodology is that offered by Cheyenne Light, but the specific  
10 numbers reflect the OCA's adjustments and overall revenue requirements. This  
11 summary is found on OCA Schedule DKP-4. The results show that all classes  
12 should receive some increase in costs, except for the Transmission General class.  
13 According to the class cost of service, transmission customers should receive a  
14 small decrease.  
15

16 OCA Proposed Rates  
17

18 **Q. HOW WERE THE RESULTS OF YOUR CLASS COST OF SERVICE**  
19 **STUDY USED IN DEVELOPING YOUR PROPOSED RATES IN THIS**  
20 **CASE?**

21 A. Again, I used the class cost of service results in the same manner that they were  
22 used by Cheyenne Light: the rates were established so that each customer class  
23 paid its own class costs, thus eliminating interclass subsidies.  
24

25 **Q. DID YOU MAKE ANY SUBSTANTIAL CHANGES TO THE RATE**  
26 **DESIGN PROPOSED BY CHEYENNE LIGHT IN THIS CASE?**

27 A. No, other than to the Power Cost Adjustment, as discussed below. Otherwise, for  
28 all non-lighting classes, I am proposing the same customer charge as that  
29 proposed by the Company, along with the same capacity and demand charges.  
30 The only change I made for the non-lighting classes was to modify the level of the

1 energy charge, scaling it to match each class' cost and the overall OCA revenue  
2 requirement.

3  
4 For the lighting classes, I started with the Company's proposed rates and scaled  
5 them down slightly to meet the overall revenue requirement assigned to the  
6 lighting classes. Each rate element within the lighting class is different from the  
7 Company's proposed rate by the same percentage. No changes to the overall  
8 structure of these rates is being proposed by the OCA.

9  
10 **Q. IS THERE ADDITIONAL INFORMATION IT WOULD HAVE BEEN**  
11 **USEFUL TO HAVE IN DEVELOPING YOUR RATES?**

12 A. Yes. As Mr. Goble describes at page 27 of his testimony, "Service and Facility  
13 Charge increases were limited to a \$1.00 per month increase from exiting levels in  
14 order to avoid undue increases to small customers." I am concerned, on an on-  
15 going basis, about making an assumption that the exiting rate structure is  
16 appropriate. The current rates come from a case that was filed during a period  
17 when there was still a lot of transition of corporate control, and was based on  
18 many of the costs that were incurred while Xcel Energy was still the owner of  
19 Cheyenne Light. There have been many changes and, as the Cheyenne Light  
20 witness point out incessantly, many efficiencies and improvements, since the days  
21 of Xcel. For instance, updated equipment is being placed on meters to make  
22 meter reading more efficient. In future proceedings, it would be useful to have  
23 some further explanation of the cost implications of that process, particularly on  
24 the Service and Facility Charge.

25  
26 While Cheyenne Light has done an admirable job of eliminating interclass  
27 subsidies in its rate design, it is currently impossible to know the level, if any, of  
28 intraclass subsidies.

29  
30 **Q. ARE THERE ANY OTHER SUGGESTIONS THAT YOU HAVE**  
31 **REGARDING THE PROPOSED RATES AND TARIFFS?**

1 A. Yes. Sheet 41 of Cheyenne Light's tariff contains the standard rate for  
2 cogeneration facilities and small power producers. It appears that the Capacity  
3 Payment Rate and the Energy Payment Rate have not been updated to reflect the  
4 new costs in this case, since the rate in the current and proposed tariff are the  
5 same. It appears that this rate should be updated but I don't have the information  
6 necessary to provide the update. Perhaps Cheyenne Light should be asked to  
7 propose an update to this rate during the course of this proceeding.

8

9 **Q. ARE YOU OPPOSED TO THE NEW CUSTOMER SERVICE CHARGE**  
10 **THAT CHEYENNE LIGHT IS PROPOSING IN THIS PROCEEDING?**

11 A. No. It is not uncommon for utilities to impose a charge on new customers to the  
12 system or customers who move within the system. These charges are generally to  
13 recover the cost of recordkeeping, reading final bills, and other similar charges. I  
14 do not object to Cheyenne Light including such a rate in its tariff.

15

16 However, the tariff language is not very clear in regard to this charge. With the  
17 language found on Sheet 46 of the proposed tariff, it is not clear that the charge  
18 does not apply twice if a customer takes both electric and gas service. Ms  
19 Zamora, in the companion gas case, addresses this issue more extensively. Her  
20 recommendations as to this language could also apply to the language in this  
21 proceeding.

22

23 Power Cost Adjustment

24

25 **Q. ARE YOU RECOMMENDING APPROVAL OF THE STEAM PLANT**  
26 **COST ADJUSTMENT TARIFF PROPOSED BY CHEYENNE LIGHT?**

27 A. No. I am also recommending disapproval of the Cheyenne Light proposed  
28 Electric Rate Stability Cost Adjustment. Instead, I recommend approval of the  
29 Power Cost Adjustment (PCA) that is found in tariff form on OCA Schedule  
30 DKP-6.

31

1 **Q. PLEASE DESCRIBE THE POWER COST ADJUSTMENT THAT YOU**  
2 **ARE PROPOSING.**

3 A. The PCA is a mechanism by which Cheyenne Light would be allowed to pass-on  
4 specified increases and decreases in its power production and purchased power  
5 costs. In many ways, it is similar to Rocky Mountain Power's Power Cost  
6 Adjustment Mechanism (PCAM). Instead of having two different adjustment  
7 clauses, as proposed by Cheyenne Light, I propose one that allows the recovery of  
8 changes in both fuel costs and purchased power costs. However, there are a  
9 number of significant differences between the adjustment mechanisms proposed  
10 by Cheyenne Light and the Power Cost Adjustment recommended by the OCA.

11

12 **Q. HOW IS THE POWER COST ADJUSTMENT SIMILAR TO THE**  
13 **ADJUSTMENT CLAUSES PROPOSED BY CHEYENNE LIGHT?**

14 A. Cheyenne Light recognizes the need for adjustment mechanisms other than the  
15 existing Electric Cost Adjustment for which the language of Sections 249 and 250  
16 of the Commission's Procedural Rules and Special Regulations provides  
17 guidance. Sections 249 and 250 are available for those utilities who purchase  
18 wholesale power in the open market, and then resell the power to retail customers.  
19 These rules have never been interpreted in a manner that permits a self-generating  
20 electric utility to accumulate production costs and pass on those costs pursuant to  
21 Sections 249 and 250 of the Commission Rules. Instead, changes in the cost of  
22 power production have historically been addressed in the computation of base  
23 rates.

24

25 Consistent with this historic interpretation, Cheyenne Light chose to propose two  
26 new rate mechanisms. While Cheyenne Light does not specifically state the  
27 statutory authority under which it proposes these mechanisms, it does indicate in  
28 its application that it is filing under the entire authority found in Title 37. So,  
29 whether the proposal is made under the Commission's general authority to  
30 determine just and reasonable rates or under the nontraditional ratemaking

1 provisions of the law is not clear, but neither is it important. The important thing  
2 is that just and reasonable rates result from whatever proposal is adopted.

3  
4 The OCA has taken a similar approach of not trying to force the costs of  
5 generation through the pass-on mechanisms. Instead, we recommend a specific  
6 rate mechanism that allows for the recovery of significant fuel, transmission,  
7 wholesale power purchase, and emission cost changes to be recovered outside of  
8 base rates. We, too, argue that such a mechanism provides a way to assure that  
9 rates are just and reasonable. Thus, the concepts of Cheyenne Light's and OCA's  
10 proposals are similar. It is in the specific detailed provisions that are being  
11 proposed that we part ways.

12  
13 **Q. WHAT IS THE OCA TRYING TO ACCOMPLISH WITH ITS POWER**  
14 **COST ADJUSTMENT?**

15 A. The Power Cost Adjustment offers a safety net to Cheyenne Light if fuel and  
16 purchased power costs were to significantly increase, It also assures customers  
17 that if costs significantly decrease, waiting until the next rate case will not be the  
18 only option for reflecting those cost decreases in rates. Yet, the PCA mechanism  
19 is designed in a manner where Cheyenne Light is neither guaranteed to recovery  
20 every penny of cost change nor is there an incentive provided for Cheyenne Light  
21 to avoid actions that would decrease costs. Under many pass-on mechanisms,  
22 shareholders are not permitted to benefit from cost reductions related to power  
23 production costs. Thus, the Power Cost Adjustment contains both a deadband and  
24 sharing of cost changes between customers and shareholders outside of the  
25 deadband. The specific language of the OCA's proposal is found on OCA  
26 Schedule DKP-6.

27  
28 **Q. PLEASE WALK THROUGH THE MOST SIGNIFICANT ASPECTS OF**  
29 **YOUR POWER COST ADJUSTMENT PROPOSAL.**

30 A. The costs to be includable in the Power Cost Adjustment are generally  
31 categorized as generation fuel, purchased capacity, purchased energy,

1 transmission of electricity by others (i.e., wheeling costs), and costs associated  
2 with purchasing SO<sub>2</sub> emission allowances such that WYGEN II can operate  
3 within the environmental laws. These are generally the same costs that Cheyenne  
4 Light had proposed in its two adjustment mechanisms.

5  
6 The OCA proposes a \$1 million deadband as the first step in determining whether  
7 Cheyenne Light will be allowed to collect any of its cost changes in any particular  
8 year (or credit back to customers cost reductions). The deadband is proposed to  
9 assure that there is some portion of the cost changes borne by shareholders, rather  
10 than shifting all of the risk and reward of changing costs to retail customers. The  
11 cost changes are to be measured against a base cost, which is the average cost  
12 allowed within the decision of this case for fuel, purchased power, and the other  
13 predefined items. So, if from this case a base cost of \$5,000,000 were established,  
14 and this year's actual costs were to come in at \$5.7 million, that \$700,000 of cost  
15 increases would not be shifted to ratepayers, but would be absorbed by  
16 shareholders. Similarly, if the costs were to decrease to \$4.7 million, Cheyenne  
17 Light's shareholders would be permitted to retain the reward of the \$300,000 cost  
18 reduction.

19  
20 Finally, ratepayers will only receive the 95 percent of the cost changes (either  
21 increases or decreases that fall outside of the deadband. This recognizes that  
22 Cheyenne Light shareholders should have some "skin-in-the-game" of changing  
23 fuel and purchased power prices in order to assure that operational decisions are  
24 being made for the benefit of the entire system. Thus, if the baseline is  
25 \$5,000,000 and the costs double:

1           \$1,000,000 is automatically absorbed by shareholders and \$5 million (the  
2           base amount) continues to be collected through the base rates

3  
4           The remaining \$4 million is multiplied by 95% to arrive at the \$3.8  
5           million to be paid by ratepayers through the Power Cost Adjustment and  
6           the remaining \$200,000 is absorbed by shareholders. The \$200,000 is not  
7           banked for further recovery by ratepayers in another period. It is no  
8           longer considered the responsibility of ratepayers in any period.

9  
10          If costs are reduced, a similar computation is made, as the computation is meant  
11          to be symmetrical, whether costs are increasing or decreasing. The 5% of the  
12          decreased costs that shareholders retain is anticipated to be an incentive to try to  
13          find additional ways to cut costs. When all cost reductions are flowed back to  
14          customers there is little or no reason for management to seek out additional ways  
15          to try to reduce costs. It is my hope that by providing management with some  
16          incentive (or at least removing disincentives) they will be encouraged to look for  
17          additional cost cutting measures – measures that do not also cut quality of service,  
18          of course.

19  
20       **Q.    HOW DOES THE MILLION DOLLAR DEADBAND COMPARE TO THE**  
21       **ADJUSTED FUEL AND PURCHASED POWER COSTS IN THIS CASE?**

22       A.    OCA Schedule DKP-3 shows expected on-going purchased power costs of nearly  
23       \$25 million annually, and fuel costs are expected to be about \$5 million annually.  
24       So, while the \$1 million is not a majority of the costs planned to flow through the  
25       Power Cost Adjustment, it is more than three percent. Perhaps one could look at  
26       this as requiring Cheyenne Light to absorb this cost increase near the general rate  
27       of inflation.

28  
29       **Q.    ARE YOU PROPOSING A BALANCING ACCOUNT AS PART OF THE**  
30       **POWER COST ADJUSTMENT?**

1 A. Yes. The balancing account would service the same purpose as it served in  
2 association with the current Electric Cost Adjustment. It would assure that all of  
3 the costs or refunds assigned to customers (which is different than all of the costs)  
4 would flow to customers.

5

6 **Q. WOULD INTEREST BE PAID ON THE AMOUNT FOUND IN THE**  
7 **BALANCING ACCOUNT?**

8 A. Yes. The ending and beginning balances of the balancing account would be  
9 computed monthly. Interest, at the customer deposit interest rate, would be  
10 applied monthly, with the interest then becoming part of the balancing account.  
11 In other words, interest will be compounded, but will be computed regardless of  
12 whether or not the funds are over collected or under collected.

13

14 **Q. WOULD CHEYENNE LIGHT'S ABILITY TO PASS-ON TO**  
15 **CUSTOMERS THE TOTALITY OF THE COMPUTED COST CHANGE**  
16 **UNDER THE FORMULA BE SUBJECT TO AN EXPLICIT SHOWING**  
17 **OF EARNINGS?**

18 A. No. While the OCA has fought hard over the years to assure that rate changes  
19 pursuant to Commission rules 249 and 250 do not permit utilities' to increase  
20 rates at the same time that earnings exceed the level last authorized by the  
21 Commission, that same provision is not contained within the proposal. With the  
22 Power Cost Adjustment proposal, the OCA encourages utilities and the  
23 Commission to change mindsets, and think in terms of incentives, risks, and  
24 rewards, rather than protectionism.

25

26 Rest assured, safety nets for both customers and shareholders are still contained  
27 with the OCA's proposal. If there are extraordinary increases in costs, the utility  
28 is not exposed to additional risk because there is doubt in the market as to how  
29 and if it will be permitted to recover the costs. A similar protection is provided to  
30 customers who can be assured that if there are dramatic reductions in costs,  
31 ratepayers will not be left holding their collective breath waiting for the next rate

1 case before those cost reductions become part of customer rates. However, the  
2 idea is not to count pennies to see which side of the ledger each penny is on.  
3 Instead, the intent is to match the flow of the money with the risk associated with  
4 specific actions.

5  
6 To return to the question of the financial showing, there is no showing required  
7 under this proposal. But, that does not eliminate the other opportunities that the  
8 Commission has each year to review Cheyenne Light's financial status. During  
9 my early years at the Commission, one person would be selected to compile the  
10 data from the annual reports and identify any utilities that on-the-face appeared to  
11 be overearning. This opportunity still exists. Pass-ons and other surcharge filings  
12 are not the only time that the Commission can, and should, review the on-going  
13 just and reasonableness of utilities' rates.

14  
15 Additionally, I remind the Commission that even under the current pass-on rules,  
16 there is nothing except the decision of the Commission to keep utilities from  
17 passing on cost increases even at a time when earnings appear to be above  
18 previously authorized rates of return.

19  
20 **Q. IF THE COMMISSION ADOPTS EITHER THE OCA'S**  
21 **RECOMMENDATION FOR A POWER COST ADJUSTMENT OR**  
22 **CHEYENNE LIGHT'S ALTERNATIVE MECHANISMS, IS THERE A**  
23 **NEED FOR A FORMALIZED TRANSITION FROM THE ELECTRIC**  
24 **COST ADJUSTMENT TO THE NEW RATE MECHANISM?**

25 **A.** At the end of 2007, the Commission should look at the size of the over collection  
26 or under collection and make a determination based on the size of the balance.  
27 For instance, if the balance is less than a few thousand dollars, the Commission  
28 may wish to make a clean break between the old and the new rate mechanism and  
29 direct Cheyenne Light to take those funds and donate them to Energy Share, or  
30 use them to write-down bad debt. Alternatively, the Commission may not care  
31 about a clean-break and direct that any remaining balance from the old

1 mechanism become the new starting balance for the balancing account in the new  
2 mechanism.

3  
4 In its application, Cheyenne Light assumes that the Electric Cost Adjustment  
5 balance will be zero as of the end of 2007. However, as of the end of August  
6 2007, the balance was more than \$3.8 million over collected. If a large over  
7 collection like this remains by year's end, the Commission should consider a  
8 variety of options for assuring that money overpaid by customers is returned to  
9 customers within a reasonable time frame. Waiting until 2009 to refund the  
10 balance through the Power Cost Adjustment is not a just or reasonable outcome  
11 for customers when the balance is such a large over collection.

12  
13 **Q. UNDER THE OCA'S PROPOSAL, WHEN WOULD THE FIRST POWER**  
14 **COST ADJUSTMENT APPLICATION BE FILED WITH THE**  
15 **COMMISSION?**

16 **A.** Since the rates are being reset in this case to the base level, and that base includes  
17 costs projected to be in effect for 2008, there would be no need for an application  
18 for rate changes in 2008. Instead, an application would be filed on or before  
19 February 15, 2009 for an anticipated effective date of April 1, 2009.

20  
21 Demand-Side Management

22  
23 **Q. MS. PARRISH, DO YOU HAVE ANY COMMENTS ABOUT DEMAND-**  
24 **SIDE MANAGEMENT AND ITS RELATIONSHIP TO THIS**  
25 **PROCEEDING?**

26 **A.** Yes. In the past few years, Cheyenne Light's demand-side management efforts  
27 have focused on customer education. These efforts have included an annual  
28 Energy Conservation Day at the local home improvement stores, newspaper  
29 advertising about using energy wisely, energy tips on the Cheyenne Light  
30 website, and other similar activities. We appreciate these efforts but think that

1 they should not be the end point of Cheyenne Light's demand side management  
2 efforts.

3  
4 What bothers me about just focusing on education programs is the lack of  
5 detailed information about how effective the money that is being spent on  
6 education is assisting customers in managing their own usage and providing more  
7 efficient ways to reduce energy usage. While I am not familiar with ways that cost  
8 effectiveness of these programs can be measured, perhaps Cheyenne Light  
9 personnel are. It is not clear whether this money should continue to be spent  
10 blindly, or whether there is there a better way to target the funds to other  
11 programs with better results. At a minimum, the information on the Cheyenne  
12 Light website should be rearranged so that the *Energy Tips* are available without  
13 having to enter in a customer account number.

14  
15 I also find it curious that the Integrated Resource Plan, submitted as Exhibit 4 to  
16 Jill Tietjen's testimony contains many more demand side management activities  
17 for Black Hills than for Cheyenne Light. The reason for this is not explained.  
18 These Black Hills programs include the marketing of heat pumps, providing a  
19 rebate for demand controllers, and a free heat loss/gain analysis. It is not clear  
20 why these programs are not also offered in Cheyenne, particularly since there is  
21 enough knowledge within the Black Hills corporate family to do more than just  
22 customer education.

23  
24 **Q. WHAT IS YOUR RECOMMENDATION IN THIS PROCEEDING FOR**  
25 **NEXT STEPS ON DEMAND-SIDE MANAGEMENT**

26 **A.** The OCA recommends that within 12 months of the written order in this case,  
27 Cheyenne Light be directed to file a report setting forth the next steps, if any, that  
28 it believes are reasonably cost effective to implement in regard to helping  
29 customers use energy more wisely. This 12 month period should allow Cheyenne  
30 Light a reasonable period to examine what is being done by others in the industry,  
31 see if there are programs that could be expanded from Black Hills (or Aquila) to

1 the rest of the Black Hills corporate family, and perhaps even work with small  
2 focus groups of customers to see if customers have some need or desire for  
3 additional energy efficiency incentives. The OCA is not interested in mandating  
4 rebates, and other standard industry programs if there is no interest on the part of  
5 customers. We just would like to see Cheyenne Light spend a little more time  
6 thinking about and looking into its reasons for reaching any conclusions regarding  
7 DSM implementation without resorting to presumptions and biases against  
8 additional programs absent any empirical data to reach such a conclusion.

9  
10 **Q. DOES THAT COMPLETE YOUR PRE-FILED DIRECT TESTIMONY?**

11 **A. Yes, it does.**