

**BEFORE THE WYOMING PUBLIC SERVICE COMMISSION**

IN THE MATTER OF THE GENERAL )  
RATE APPLICATION OF WYRULEC )  
COMPANY FOR AUTHORITY TO )  
INCREASE ITS RETAIL RATES BY )  
\$631,412 OR 5.96% TO ITS MEMBER )  
CONSUMERS )

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**FILED**  
PUBLIC SERVICE COMMISSION  
OF WYOMING

NOV 23 2007

PRE-FILED DIRECT TESTIMONY OF

Bryce J. Freeman

On behalf of the Wyoming Office of Consumer Advocate

Filed November 23, 2007  
Hearing December 10, 2007

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

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

7  
8 **Q. WHAT IS THE FUNCTION OF THE OCA?**

9  
10 A. Pursuant to W.S. § 37-2-401,

11  
12 The office of consumer advocate shall represent the interests of Wyoming citizens  
13 and all classes of utility customers in matters involving public utilities. In the  
14 exercise of its powers the office of the consumer advocate shall consider all  
15 relevant factors, including, but not limited to, the provision of safe, efficient and  
16 reliable utility services at just and reasonable prices.

17  
18  
19 **Q. ARE THE ANALYSES AND RECOMMENDATIONS OF THE OCA, IN THIS OR**  
20 **ANY OTHER CASE BEFORE THE COMMISSION, INFLUENCED OR**  
21 **DIRECTED BY THE COMMISSION?**

22  
23 A. No. Although the OCA is a division within the Commission according to W.S. § 37-2-  
24 401, it is a separate division with no reporting or supervisory links to the Commission and  
25 the OCA has the right under W.S. § 37-2-402(ii), to appeal decisions of the Commission  
26 that it does not find in the public interest. The only link between the OCA and the Public  
27 Service Commission is the source of common funding provided by the assessment on  
28 gross utility operating revenues; this assessment funds both the Commission and the  
29 OCA. Additionally, as Administrator of the OCA I report directly to the Governor of  
30 Wyoming.

31  
32 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
33 **OCCUPATIONAL EXPERIENCE.**

1 A. I received a Bachelor of Science degree in business administration from the University of  
2 Wyoming in 1982. The area of concentration in my undergraduate work was statistics.  
3 After graduating from the University of Wyoming, I was employed for three years by the  
4 Laramie County Treasurer as Deputy Treasurer, and then for six years by the Wyoming  
5 Department of Revenue as a Principal Appraiser dealing primarily with utility valuation  
6 and capital cost issues. I came to the Wyoming Public Service Commission in April of  
7 1994, in the capacity of Senior Economist, serving in that position for approximately two  
8 years. In 1996 I accepted a position as Lead Rate Analyst in the rates and pricing section  
9 on the Commission Staff, and in May of 2003 I was appointed Administrator of the OCA.  
10

11 **Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION IN PREVIOUS**  
12 **PROCEEDINGS?**

13  
14 A. Yes. I have detailed the cases in which I have testified before this Commission, in  
15 Appendix A attached to my testimony.  
16

17 **Q. ON WHOSE BEHALF DO YOU APPEAR HERE TODAY?**

18  
19 A. I appear here today on behalf of the OCA. As I indicated previously, the OCA is an  
20 independent party in this proceeding, separate and apart from the Commission or its  
21 advisory staff.  
22

23 **Q. AS A MEMBER OF THE OCA, DO YOU ADVOCATE THE INTERESTS OF**  
24 **CERTAIN GROUPS OF CONSUMERS OVER OTHERS?**

25  
26 A. No. As a member of the OCA, it is my statutory obligation to advocate the best interest  
27 of all citizens in the state. Specifically, W.S. § 37-2-401 states that the OCA “shall  
28 represent the interests of Wyoming citizens and all classes of utility customers in  
29 matters involving public utilities.” This public interest standard requires the OCA to  
30 represent the broadest possible utility consumer constituency, even though some of those  
31 consumers may also be represented independently as parties in this case. The OCA is  
32 responsible for balancing the positions and recommendations of the Company, and of

1 other parties, to arrive at a set of recommendations that serve the overall long term public  
2 interest.

3 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?**

4 A. Yes, I am sponsoring OCA Exhibits BJB 1 through BJB 9. I will refer to these exhibits  
5 throughout my testimony in this proceeding.

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

7 A. The purpose of my testimony in this proceeding is to assess the compliance of the  
8 Company's amended application in this proceeding with the Commission's "Order  
9 Staying Proceedings, Directing Company to File Amended Application, and Setting  
10 Procedural Schedule," issued September 18, 2007. The purpose of this assessment is to  
11 determine the suitability of the data contained in the amended filing for use in  
12 determining the appropriate revenue requirement for the Company and in setting just and  
13 reasonable rates based on the updated cost of service study. Subsequent to my review and  
14 assessment of the data contained in the Company's filing I will provide analysis and  
15 recommendations based on that data for consideration by the Commission in setting fair  
16 and reasonable rates in this case. My testimony in the original application and hearing in  
17 this matter went to some length in providing a historical contextual background for this  
18 proceeding so I will not repeat it here, except to say that the history and context that I  
19 outlined in the earlier proceedings are still applicable.

20 **Q. IS THIS CASE A PASS-ON PROCEEDING?**

21 A. Although a prominent component of this proceeding relates to a pass-on of the increased  
22 power cost expense associated with the Tri-State A-33 Rate, the Commission determined  
23 pursuant to its September Order that this case is a request for a general revenue increase.  
24 In making its determination the Commission concluded that:

25 ...the instant general rate case does not address the issues articulated by  
26 Commissioner Byrnes and that those issues still exist. The Commission is  
27 also concerned that the Company's rate design is inadequately supported

1 and still support persistent and significant inter-class variations in rate of  
2 return. The Commission finds that these matters cannot be adequately  
3 resolved for the benefit of Wyrulec's member/consumers without  
4 additional information being filed. The Commission concludes that the  
5 Company should be directed to amend its application to include additional  
6 information and documentation to allow for a full and proper review and  
7 analysis of this case.

8 In rendering its decision the Commission also provided a detailed list of items that it  
9 deemed necessary to allow for a full and proper review of the case.

10 **Q. HAS THE COMPANY COMPLIED WITH THE COMMISSION'S ORDER IN**  
11 **THIS REGARD?**

12 A. Compliance with the Commission's order, in my view, is mixed as I will detail in my  
13 testimony.

14 **Q. PLEASE PROVIDE YOUR OPINION AS TO HOW THE COMPANY HAS**  
15 **EITHER COMPLIED OR NOT COMPLIED WITH THE COMMISSION'S**  
16 **ORDER.**

17 A. Certainly. I believe that the most useful way to judge compliance with Commission's  
18 earlier order is to review exactly what was directed by the Commission and what was  
19 provided by the Company in response. For this purpose the relevant sections of the  
20 Commission's order are found at paragraph 24, subparagraphs a through j, and in  
21 paragraphs 27 and 28.

22 Pursuant to paragraph 24, subparagraph a, the Company is required to provide "updated  
23 fully normalized financials, including the income statement and rate base." In response  
24 the Company provided an updated income statement and balance sheet, based on a  
25 December 31, 2006 year end test year, with some normalizing adjustments to revenues  
26 and expenses. Rate base has also been updated to reflect current totals as of the end of  
27 the test year. Mr. Hedrick indicates in his testimony, and I have confirmed in subsequent  
28 discussions with him, that normalizing adjustments were made primarily in the areas of

1 annualized test year sales, revenue, and billing units, purchased power costs, and interest  
2 expense. Normalizing and annualizing adjustments were not made to other expense  
3 categories such as operating, general and administrative expenses. For example, in a  
4 general rate case proceeding one would expect to see increases in payroll expenses that  
5 have been in effect for only part of the year normalized to an annual amount. Insurance,  
6 pension and benefit expenses are also examples of expenses that are ordinarily  
7 normalized or annualized in a rate case filing. However, Mr. Hedrick states in his  
8 testimony that "WYRULEC believes that the level of operating expenses other than  
9 purchased power and interest expense reflected for the year end 2006 period are  
10 representative of the company's expenses and therefore no other adjustments have been  
11 made." I am concerned that this may not completely satisfy the full normalization  
12 required by the Commission.

13 Subparagraph b requires the documentation and analysis of each normalized account and  
14 the normalizing calculations. Although I have a concern that the information provided by  
15 the Company is not fully normalized, as required, I have no reservation about the  
16 documentation of the normalizing adjustments that were made. These adjustments are  
17 clearly identified in the income statement and balance sheet and the detail underlying  
18 them is provided in supplemental schedules included in the Company's filing.

19 Subparagraph c requires an updated balance sheet, plant balances, accumulated  
20 depreciation, and depreciation rates. As indicated, although the information provided by  
21 the Company is not fully normalized, it has provided an updated balance sheet, plant  
22 balances and accumulated depreciation. However, I can find no reference in the  
23 application, work papers or the testimony of either Company witness that refers to  
24 depreciation rates or adjustments thereto.

25 Subparagraph d requires the filing of updated tariffs. The Company did submit updated  
26 tariffs with its amended filing. Contrary to the confusion that arose in the earlier  
27 proceeding regarding which customers were served via tariff and which were served  
28 under special contract, the Company indicates in its amended filing that all customers and  
29 all service provided will be rendered pursuant to the proposed tariffs. The tariffs appear

1 to be complete and accurate. However, if the Commission chooses to adopt the  
2 recommendations that I will make later in my testimony, the proposed tariffs will need to  
3 be revised to reflect the Commission's determination.

4 Subparagraph e requires the filing of an updated cost of service study including the  
5 impact of any new loads on the system and the loss of the Town of Torrington contract.  
6 In this regard the Company has provided a very thorough and logically constructed cost of  
7 service study that develops class cost of service study and shows the individual  
8 components of each class' cost of service. The cost of service study demonstrates the  
9 impact on cost of service which flows from the decreased revenue associated with the  
10 loss of the Torrington contract, as well as the impact of the decrease in attendant  
11 purchased power costs. The cost of service study also includes the proposed treatment of  
12 the new Rocky Mountain Pipeline pumping load. Of course, the fact that the financial  
13 information provided by the Company is not fully normalized would carry over to the  
14 cost of service study, so while it is conceptually correct, technically it is not in  
15 compliance with the Commission's order.

16 Subparagraph f requires the Company to propose updated rate designs for each customer  
17 class based on the updated cost of service study, and detailed illustrations of how each  
18 class's rates were developed based on the cost of service study, to include a comparison  
19 of unbundled as well as each class's collective costs versus the proposed rate design. As I  
20 said earlier, notwithstanding the normalization issue, the cost of service study supplied by  
21 the Company conceptually satisfies this requirement. However, in the amended  
22 application the Company is proposing the same rates as were proposed in the original  
23 application and therefore it can't be said that it has complied with the Commission's  
24 order to propose updated rate designs for each customer class.

25 Subparagraph g requires the Company to provide testimony that details:

- 26 i. Why each aspect of the fully normalized financials, cost of service study,  
27 allocation factors, rate design, rate of return, and debt service coverage  
28 ratios is fair and reasonable;
- 29 ii. How debt service coverage ratios will satisfy the Company's lenders;

- 1           iii. Justification for any additional tariff language;
- 2           iv. Justification for any additional tariffs and rates to include the Platte
- 3           Pipeline, Rocky Mountain Pipeline and Guernsey Stone tariffs;
- 4           v. Justification for the rates to be charged to Rocky Mountain Pipeline
- 5           (RMPL), whether under contract or tariff, and an explanation as to what
- 6           rates have been charged to RMPL in the past, given no contract is filed
- 7           with the Commission and the filed tariff has only been approved on an
- 8           interim basis for this customer since January 1, 2007;
- 9           vi. The Company's capital credits policy, including rotation thereof; the
- 10          history of Wyrulec's capital credits, and anticipated capital credits in the
- 11          future.

12          After reviewing the testimony of both Company witnesses in this matter it is my opinion  
13          that the Company has failed to fully address the requirements contained in this paragraph  
14          of the Commission's order. Neither Mr. Miller nor Mr. Hedrick directly address why the  
15          various components of the proposed rates, including the financial ratios and rate design,  
16          are fair and reasonable. Mr. Hedrick provides a thorough and thoughtful explanation of  
17          the allocation factors used in his analysis and briefly describes some of the financial ratios  
18          that will result if the proposed rates are approved. However, neither witness explains  
19          how these components fit together in the context of the overall rate design and how they  
20          combine to establish just, equitable and reasonable rates. Both witnesses indicate that  
21          what the Company proposes in its amended filing is very nearly the same as what it  
22          proposed in the original application and both indicate, in spite of the findings made by the  
23          Commission in its September order, that the Company believes that the proposed rates are  
24          just and reasonable. Although the Commission directed the Company to explain why the  
25          proposed rates are fair and reasonable both witnesses seem to support those rates by  
26          simply testifying that the Company believes that the proposed rates are reasonable, yet  
27          fail to explain why they are reasonable. This is troubling to me and indicates a lack of  
28          understanding of and compliance with the Commission's order.

29          As I indicated earlier, the Company did provide updated tariffs with its filing in this case  
30          and those tariffs seem to be complete and accurate. However, there is no explanation as  
31          to what rates the large customers are actually paying, what they have been paying in the  
32          absence of an approved tariff or filed contract, or any meaningful justification as to why  
33          the rates proposed to be charged to these customers are fair and reasonable. Mr. Miller

1 indicates in his testimony that the Company is currently negotiating contracts with the  
2 larger customers and that the corresponding tariffs will be cancelled when contracts are  
3 filed with the Commission, but he does not indicate exactly what rates those customers  
4 are currently paying or have paid in the past. Although Mr. Hedrick attempts to shed  
5 some light on this issue in his testimony, it is still unclear to me what rates these  
6 customers have paid in the past or, assuming that they are now served according to tariff,  
7 what rates they are paying currently. Since the proposed tariffs have yet to be approved,  
8 and I am unaware of the filing of any special contracts, my assumption is that the large  
9 customers are receiving service under the tariffs that were approved on an interim basis in  
10 January of this year.

11 Finally, with regard to capital credits, Mr. Miller touches briefly on this issue in his  
12 testimony by referencing the Company's written policies on capital credits but he does  
13 not provide the written policy or any documents associated with it. Mr. Miller indicates  
14 that it has been the policy of the board to return 5% of the accumulated capital credits to  
15 members and that he does not expect that policy to change. He does not indicate if this  
16 rotation occurs on annual or some other basis, nor does he provide any historical  
17 information regarding the amount of accumulated capital credits that have actually been  
18 returned to the members.

19 **Q. WERE THERE OTHER REQUIREMENTS OF THE COMPANY CONTAINED**  
20 **IN THE COMMISSION'S SEPTEMBER ORDER?**

21 A. Yes. As I indicated earlier, paragraph 27 of the September order required the Company to  
22 investigate all options practically and economically available to it to assist its members in  
23 mitigating the impacts of the Tri-State A-33 rate, and to provide a report to the  
24 Commission detailing its efforts by the close of business on September 28, 2007. The  
25 Commission's subsequent order moved the required filing date of this report to October  
26 26, 2007. I can find no record of such a report having been filed by the Company on or  
27 before the specified date and I am unaware of any Commission action that may have  
28 extended this filing deadline. Mr. Miller, in an apparent attempt to comply with this  
29 provision of the Commission's order, generally describes the Company's efforts

1 regarding energy efficiency measures and customer education on wise energy use, but his  
2 testimony does not specifically describe actions that the Company will take to assist  
3 customers in dealing with the new Tri-State A-33 rate structure and how those actions  
4 will benefit its consumers.

5 Also, paragraph 28 of the September order required the Company to file an updated  
6 Avoided Cost tariff by close of business on September 25, 2007. The subsequent order  
7 rescheduling the public hearing also extended the date for this filing to October 23, 2007.  
8 On October 23, 2007, the Company filed its Notice of filing Net Metering Service and  
9 Avoided Cost Tariffs. Paragraph 28 required this to be a separate application and  
10 although the tariff was not filed in the form of an application for tariff change as required,  
11 nevertheless I have reviewed the tariff contained in this filing and it is my opinion that it  
12 does comply with W.S. 37-16-101 through 104. I did consult with Mr. Hedrick in his  
13 development of the tariff and believe that it is a vast improvement over the Avoided Cost  
14 tariff proposed by the Company in the original application as supplemented. I  
15 recommend that it be approved.

16 **Q. MR. FREEMAN, AFTER HAVING REVIEWED THE COMPANY'S**  
17 **APPLICATION, TESTIMONY AND PROPOSED TARIFFS IN THIS**  
18 **PROCEEDING, WHAT IS YOUR OPINION AS TO THE SUFFICIENCY OF**  
19 **THE INFORMATION PROVIDED BY THE COMPANY IN ITS AMENDED**  
20 **APPLICATION?**

21 A. My view is mixed. Certainly the financial information, while updated to some extent as  
22 described above, is not the sort of fully normalized information that one would expect to  
23 be filed with a rate case application. Additionally, in my opinion the Company has failed  
24 to comply with the Commission's September order on several counts, although the cost of  
25 service study provides an excellent tool for analyzing the cost of service for each  
26 customer class' cost of service. The question then becomes, is the information provided  
27 by the Company sufficiently detailed and accurate to provide a sound basis upon which to  
28 base the class revenues and rates that I will recommend later in my testimony?

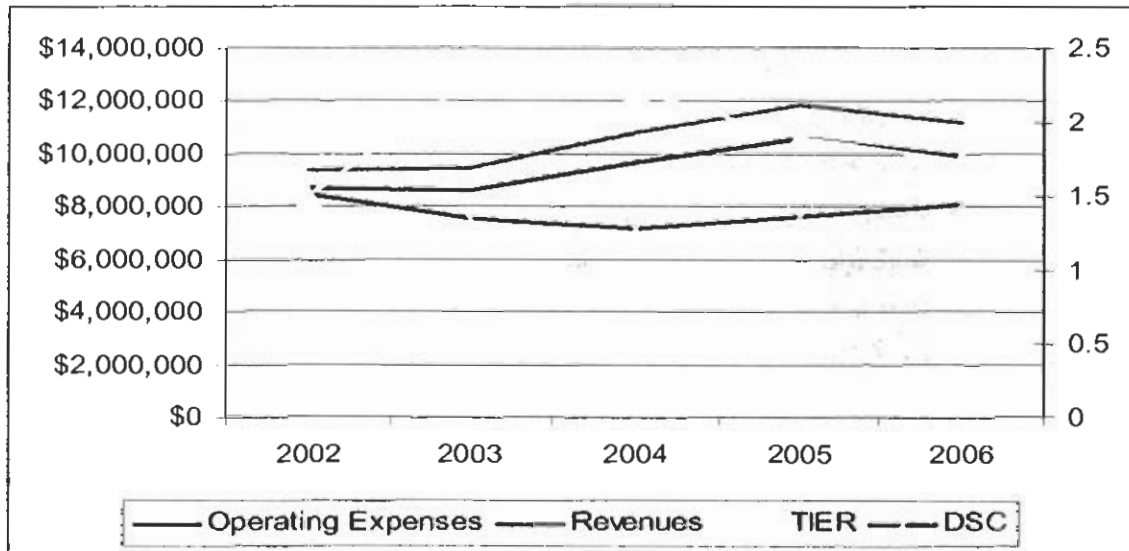
29 **Q. IS IT?**

1 A. I believe it is, and please allow me to explain why. With the caveat that the time frame  
2 for analyzing this case and developing recommendations has been extremely compressed,  
3 and there may be issues associated with it that did not come to my attention due to the  
4 lack of time and the shortcomings of the information provided by the Company, it is still  
5 my judgment that the Commission can address the major issues of this case without  
6 requiring the filing of further information by the Company. I also believe that the  
7 Commission should be relatively unconcerned, as I am, about the finer points that could  
8 have been missed as they pale in comparison to the larger issues of the case, namely cost  
9 of service and rate design. Because I am aware of the tight time line to which the  
10 Commission must adhere in this proceeding, I recommend that the Commission use the  
11 information that is now part of the record in this proceeding, warts and all, to make final  
12 determinations on the compelling issues of class cost of service and rate design.

13 **Q. WHAT ANALYSIS DID YOU UNDERTAKE TO GET COMFORTABLE IN**  
14 **MAKING THIS RECOMMENDATION?**

15 A. First, I reviewed the adjustments that were made by the Company to ensure that they were  
16 properly calculated and conformed to the regulatory matching principle. I am satisfied  
17 that is in fact the case and that the year end 2006 test year which incorporates updated  
18 revenues, actual expenses associated with test year sales, excludes the revenue derived  
19 from the Torrington contract, and includes normalized annual expenses for the Tri-State  
20 A-33 increase, is a reasonable reflection of the cost that the Company will incur for these  
21 items going forward.

22 The next question is whether or not one might expect, on a going forward basis, the  
23 expense and plant accounts that were not adjusted or normalized in the Company's filing  
24 to be drastically different from those reflected in the test year. In order to answer this  
25 question I looked back over the last three general rate cases filed by the Company to  
26 measure and compare the change in revenues and expenses, and selected financial ratios  
27 over time. The results of that comparison are shown in the chart below:



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As the chart indicates, WYRULEC's financial profile, although more volatile in the past, has evolved to one that is relatively more stable and typical of cooperative utilities. The Company has sought and been granted revenue increases on a more frequent basis than for most electric cooperatives in the state which has assisted the Company in avoiding the type of volatility in revenues and expenses that can sometimes occur with less frequent rate adjustments. As the chart shows, both revenues and expenses declined in 2006 which corresponds to the loss of the Torrington contract. The chart also shows that the debt service coverage ratio (DSC) has recovered from its low level of 1.28 in 2004 to a presently proposed level, based on the adjusted 2006 test year, of 1.45. The minimum required debt service coverage ratio, according to the Company's mortgage indenture, is 1.35. Also, notice that the TIER has declined from a high of 2.28 in 2003 to 1.75 currently. Mr. Hedrick explains in his testimony that the low DSC can be attributed to the short term borrowing that the Company undertook a few years ago whereby the Company incurred a shorter duration principal repayment in exchange for overall savings in long term financing costs. No similar explanation is given for the reduction in the TIER but one can conclude, at least empirically, that both the amount of borrowing and increased interest expense puts downward pressure on the TIER ratio. Meanwhile, interest expense has increased by 40% since 2004 and the Company continues to add to its outstanding principal balance borrowing an additional \$1.4 million during 2007.

1 **Q. IS THE REASON FOR THE INCREASED BORROWING RAPID GROWTH?**

2 A. No. Net rate base has increased by only about 7% since 2004 and is essentially flat since  
3 the Company's last rate case filing. Additionally, total kilowatt hours sold, excluding  
4 Torrington, increased by 12% since 2004, or an average annual increase of 6% as of the  
5 end of the test year in this proceeding; and customer counts have been relatively flat  
6 showing approximately a 3% increase over the two year period or a 1.5% annual growth  
7 rate. Nearly all of the growth in customers has been in the general service single phase  
8 service class.

9 **Q. WHAT IS THE REASON FOR THE INCREASE IN BORROWING?**

10 A. A couple of things are driving the increase in borrowing. First, the Company has made  
11 diligent efforts over the last several years to upgrade its distribution system so that it is  
12 able to continue providing reliable service. Several years ago the Company began an  
13 aggressive pole replacement program to safeguard the public safety and to ensure the  
14 continued provision of reliable service. I am not aware of the progress or status of this  
15 program at the present time but I do know from visual observations that a large number of  
16 poles were replaced in 2007. This type of capital spending, while critically important,  
17 doesn't lead to growth in the number of customers or kilowatt hour sales, rather its cost  
18 must be recovered from existing customers through higher rates.

19 Likewise, the Company has undertaken an automated meter reading program that will  
20 allow it to read its widely dispersed customer meters remotely. Again, I am not aware of  
21 the process or technology being used or the status of this program, but I understand that  
22 the Company hopes to achieve some level of labor and equipment expense savings by  
23 using a less labor intensive process to read meters and collect billing information. The  
24 trade off is the increased capital costs associated with acquiring and installing the new  
25 meter reading technology.

26 **Q. DOES ANY OF THIS GIVE YOU PAUSE FOR CONCERN IN USING THE**  
27 **COMPANY'S FINANCIAL AND COST DATA TO DETERMINE JUST AND**  
28 **REASONABLE RATES IN THIS PROCEEDING?**

1 A. Only to the extent discussed earlier in my testimony. My review of the Company's filing,  
2 together with information contained in the Commission's public docket files leads me to  
3 conclude that while the information provided by the Company in this proceeding is not  
4 perfect it is certainly suitable for resolving the larger issues of class cost allocation and  
5 rate design that I raised in my testimony in the original application.

6 **Q. HOW DID YOU PROCEED WITH YOUR ANALYSIS ONCE SATISFIED THAT**  
7 **THE FILING PROVIDED A SOUND BASIS FOR FUTHER ANALYSIS?**

8 A. My next effort was an attempt to determine whether or not the requested revenue increase  
9 provides for recovery of any expenses that otherwise would not be allowed recovery. My  
10 experience and reference to other cases heard by this Commission tells me that there may  
11 be some expenses included in the Company's request that would not be allowed recovery  
12 by the Commission.

13 Specifically, I am interested in costs such as institutional advertising expenses not related  
14 to the provision service to customers, dues, memberships or fees paid to organizations  
15 that are not related to the provision of electric service, charitable donations and other  
16 expenses that may be included in the Company's request for increased revenues but are  
17 not used and useful, or necessary for providing service. I contacted Mr. Hedrick by email  
18 on these issues, among others, and was referred to Mr. Miller. I did subsequently confirm  
19 with Mr. Miller that such expenses are included in the cost of service study filed by the  
20 Company in this case, but due to the shortness of time I was unable to quantify and  
21 review any such expenses.

22 **Q. WHAT DO YOU RECOMMEND THAT THE COMMISSION DO IN THIS**  
23 **REGARD?**

24 A. Obviously I haven't made any adjustments to the Company's request for any  
25 unrecoverable expenses because I have no idea what they might be at this point. That is  
26 not to say that they don't exist, Mr. Miller having confirmed their existence, only that I  
27 was unable to discover and quantify them. These expense items, while they are likely  
28 related to legitimate community activities that the Company should undertake as a good

1 corporate citizen, cause rates to be higher than they would otherwise be if not included.  
2 The cooperative should provide for these activities out of the margins of the utility  
3 because, all other things being equal, I believe customers would rather have lower rates  
4 than incur a rate based cost to support an expense or donation that may do them little, if  
5 any good, and is not necessary in the provision of safe and reliable service. A good  
6 example is scholarships. In discussing this issue with Mr. Miller he indicated that the  
7 Company's goal in offering scholarships is to ensure that the children of its members  
8 have the opportunity to get a good education, a very worthy goal. However, I would  
9 remind the Commission that not all of the Company's members have children and  
10 therefore can't benefit from the scholarship program, yet they pay for it through higher  
11 rates. The same argument can be made for other expenses that are not directly related to  
12 providing service to customers.

13 The Commission should require the Company to identify any such expenses and remove  
14 them from its revenue requirement calculation prior to submitting its compliance tariffs in  
15 this proceeding. Other changes that I am recommending and that will be discussed later  
16 in my testimony, if approved by the Commission, will require the Company to submit  
17 revised tariffs and that will provide an opportunity for the Company to identify and  
18 remove any costs not appropriately recovered from customers. I anticipate that the  
19 amount of these expenses will be relatively small.

20 **Q. ARE YOU RECOMMENDING ANY OTHER CHANGES TO THE TOTAL**  
21 **REVENUES PROPOSED TO BE COLLECTED BY THE COMPANY?**

22 A. No. Other than the small amount of non-recoverable expenses that may be identified by  
23 the Company pursuant to my earlier recommendation, I am not recommending that any  
24 other adjustment be made to revenues. Although some of the resulting financial ratios  
25 may at first blush seem a bit high, I am concerned that any decrease in revenues would  
26 put the Company in danger of not being able to maintain its key financial ratios at a level  
27 that is acceptable to its lenders. For example, the revenue proposed by the Company  
28 produces a rate of return on rate base of 6.89% and an operating TIER of 1.714, both  
29 higher than the Commission has seen in other recent cooperative cases. However, this

1 level of revenue also produces an operating debt service coverage ratio (CFCDSC) of  
2 1.45 which is in line with other cooperative utilities and comfortably but not excessively  
3 above the 1.35 required by one of the Company's lenders, the National Rural Utilities  
4 Cooperative Finance Corporation (CFC). Redueing revenues beyond the small  
5 adjustments described earlier might put the Company in danger of falling below the 1.35  
6 DSC required by CFC which in turn could trigger some adverse consequences. For  
7 instance, if the Company fails to meet the minimum DSC in two of three succeeding  
8 years the CFC could, in theory, call its loans due, which would be a significant financial  
9 burden on WYRULEC. At the very least it would demand that the Company come into  
10 compliance with the mortgage covenants either by reducing expenses or increasing rates  
11 to a level acceptable to CFC. Either scenario would remove the discretion over rate  
12 setting from the Company and the Commission and vest it with CFC, which is not an  
13 appealing alternative. WYRULEC has in fact been in the situation of not meeting the  
14 CFC and RUS minimums in the not too distant past. Fortunately, this situation only  
15 occurred in one year that I am aware of and did not endanger the Company's financing,  
16 but given the nature of its service territory and the loads that it serves, I believe it would  
17 be irresponsible to purposefully put the Company in danger of not meeting its mortgage  
18 requirements.

19 **Q. IS THE FACT THAT SOME OF THE FINANCIAL RATIOS ARE HIGHER**  
20 **THAN FOR OTHER COOPERATIVES TROUBLING TO YOU?**

21 A. No, not by themselves. All cooperative utilities are different; different in how they are  
22 managed and financed and different with respect to the geographic area and loads that  
23 they serve. While it is instructive to look at the financial and operational ratios of other  
24 cooperative utilities as a comparison, there is no need to drive those ratios to uniformity.  
25 I would only be concerned with higher than expected ratios if they provided demonstrated  
26 excessive and unnecessary revenues to the utility which does not appear to be the case  
27 here.

28 **Q. WHAT WAS THE NEXT STEP IN YOUR ANALYSIS?**

1 A. After having satisfied myself that the revenue requirement proposed by the Company is  
2 reasonable, and that the information contained in the filing provides a sound basis upon  
3 which to proceed, I proceeded to review the Company's proposed method for recovering  
4 those revenues from customers. The class cost of service study and the rate design form  
5 the basis for customer rates that will recover the amount of revenue identified in the  
6 revenue requirement.

7 **Q. IS THE COMPANY'S PROPOSED COST OF SERVICE STUDY AND RATE**  
8 **DESIGN CONSISTENT WITH SOUND RATE MAKING PRINCIPLES?**

9 A. The Company's proposed method of revenue recovery is, without a doubt, the most  
10 contentious aspect of its filing. In my testimony in the original hearing I stated:

11 The OCA continues to believe that the Company's rate design, as  
12 approved in the last general rate case proceeding, is not consistent with the  
13 costs reflected in its own cost of service study. According to information  
14 filed by the Company in response to OCA data requests in this proceeding,  
15 existing class rates of return range from a high of 67.07% for Platte  
16 Pipeline-Yoder to a negative return of 2.29% for the single phase irrigation  
17 class.

18 Moreover, the Commission indicated its continuing concern regarding the Company's  
19 rate design in its September order, stating:

20 ...The Commission is also concerned that the Company's rate design is  
21 inadequately supported and still supports persistent and significant inter-  
22 class variations in rate of return. The Commission finds that these matters  
23 cannot be adequately resolved for the benefit of Wyrulec's  
24 member/consumers without additional information being filed. The  
25 Commission concludes that the Company should be directed to amend its  
26 application to include additional information and documentation to allow  
27 for a full and proper review and analysis of this case...

28 **Q. WHAT HAS THE COMPANY PROPOSED IN ITS AMENDED FILING TO**  
29 **ADDRESS THE COMMISSION'S CONCERN REGARDING PERSISTANT AND**  
30 **SIGNIFICANT INTER-CLASS VARIATIONS IN RATE OF RETURN?**

31 A. Simply stated, the Company has done nothing to address these concerns. In fact, Mr.  
32 Hedrick states in his pre-filed testimony that the rates proposed in the amended filing are

1 unchanged from those proposed in the original filing and further states that the intent of  
2 the original filing was to recover a pass-through of the change in power cost and that the  
3 amended filing supports the initial proposed rates. Mr. Miller also states on behalf of the  
4 Company that the purpose of his testimony is to support the Company's application to  
5 pass-on an increase in wholesale power costs. Neither witness responds to the concerns  
6 raised by the Commission in its September order.

7 I outlined the requirements contained in the Commission's September order at paragraph  
8 27 earlier in my testimony. In my opinion the Company's response to those requirements  
9 is one of intentional disregard. I agree with Mr. Hedrick that the Commission should  
10 consider factors other than the class cost of service study in setting just and reasonable  
11 rates but that the cost of service study should be the primary tool used in deriving those  
12 rates. I question whether the Company has used the cost of service study as the primary  
13 tool for establishing rates by class in this proceeding.

14 On page 12 of his testimony Mr. Hedrick offers a table showing the "rate of return,"  
15 "operating margin" and "margin as a percent of return" for each of the various rate  
16 classes. As with the original filing these figures are all over the board, ranging from a  
17 rate of return of 36.1% for Rocky Mountain Pipeline to a negative 2.406% for the single  
18 phase irrigation customers; and the percentage margin from a high of 28.567% for the  
19 irrigation time of use class to a low of negative 13.718% for the single phase irrigation  
20 class. These results are inconsistent with rates that more accurately reflect cost of service  
21 by class and are essentially unchanged from the original filing as acknowledged by the  
22 Company.

23 Mr. Hedrick appears to pass the widely divergent results off as close enough to being cost  
24 of service based to provide a reasonable basis for rate setting. For example, he describes  
25 the 10.879% rate of return for the large power class as "slightly higher than the system  
26 average rate of return" of 6.893%. The relative rate of return for the large power class is  
27 1.578 or more than 150% greater than the system average. In my judgment this is not  
28 "slightly higher" than the system average.

1 Mr. Hedrick attempts to support this large variation in revenues compared to cost of  
2 service by asserting that commercial customers and large loads are attended by more risk  
3 than the smaller customers and that the rates charged to those customers should reflect the  
4 increased risk. Yet, he provides little detail as to how those risks specifically relate to  
5 costs. In fact, one of the risk factors cited by Mr. Hedrick, increased capital cost to serve  
6 the large load customers, is cited later in his testimony when he describes the small  
7 amount of capital associated with larger loads as a reason for returns that appear very  
8 high. It can't be both.

9 There are other examples of the arbitrary nature of the Company's rate design as well. In  
10 his testimony Mr. Hedrick discusses the characteristics of the general service single  
11 phase, general service 3 phase, and irrigation single phase classes and attempts to support  
12 the widely varying returns by arguing that taken as a whole the three classes are close to  
13 the system average. Taken to its logical conclusion, this line of reasoning would lead one  
14 to conclude that the returns for all classes, taken together, are identical to the system  
15 average return and so the Commission need not concern itself with inter-class variations.  
16 This, of course, is an absurd conclusion.

17 Mr. Hedrick goes to great length in his testimony to explain the Company's reasoning in  
18 proposing its rates by class in this case. He does not, however, explain in more than a  
19 general way, how the rates proposed for the different classes are equitable and how they  
20 combine to form an overall rate structure that is fair, just, reasonable and in the public  
21 interest. In my opinion the overall equity of the rate structure is at least equal in  
22 importance to absolute level of rates for each individual class; a key concept that the  
23 Company has failed to address in either the original or amended filings.

24 **Q. HOW DO YOU SUGGEST THE COMMISSION SORT THIS ISSUE OUT?**

25 A. The logical starting point is the Company's filed cost allocation and class cost of service  
26 study. As I stated earlier in my testimony, I do not take issue with either the development  
27 of cost allocation factors or with the class cost of service study in concept. In reviewing  
28 the development of the allocation factors and the cost of service study, the information  
29 used is all included in the filing, is easy to track from one schedule to the next, and is well

1 reasoned and supported. Additionally, it is consistent with other studies submitted by Mr.  
2 Hedrick in other Wyoming cooperative proceedings and that lends a degree of additional  
3 comfort.

4 However, as I have indicated throughout my testimony, I do take exception with the  
5 application of the cost of service study in determining rates for individual classes of  
6 service and the fact that the Company relied only minimally on the results of the cost of  
7 service study in setting its rates. Establishing rates that are much more closely aligned  
8 with the actual cost of service by class is consistent with Commission's stated intent in  
9 this case and is generally more in concert with the Commission's policy of setting rates  
10 that reflect cost of service to the extent that it is practical and feasible in view of other  
11 factors influencing rate setting, with cost of service being the most important. While  
12 these other factors are important, they should not drive the kind of wide disparity that we  
13 see in class returns in this proceeding. To that end, I have used the general frame work of  
14 the Company's cost of service study to construct several alternative views of how rates  
15 might be set in the public interest using the Company's proposed level of expenses and its  
16 overall recommended level of revenue. These alternative views are shown in OCA  
17 Exhibits BJF 2 through 8 attached to my testimony. OCA Exhibit BJF 1 is a replication  
18 of the Company's cost of service summary by class that I include for reference.

19 **Q. MR. FREEMAN, PLEASE EXPLAIN THOSE EXHIBITS FOR THE**  
20 **COMMISSION.**

21 A. Certainly. As I indicated, BJF 1 is simply a replication of the cost of service study  
22 summary provided by the Company in its filing. I include it here for the sake of reference  
23 and because it forms the basis of the exhibits that follow. In developing these exhibits I  
24 sought to conduct a full and thorough analysis of the Company's cost of service study,  
25 respecting the Company's position that not all indicators of equitable cost assignment are  
26 practical or feasible, and to give the Commission viable alternatives to consider in  
27 making its determination in this case. For example, Mr. Hedrick argues that rate of  
28 return, which is a fall out number for cooperative utilities since they are non-profit

1 organizations, is a poor indicator of inter-class equity since some classes have very little  
2 rate base investment assigned to them. One of my alternatives addresses this issue.

3 I began my analysis by determining what kinds of alternatives would make sense and  
4 what indicators could be used to judge inter-class equity. Three factors were readily  
5 apparent; optimizing the cost of service study for TIER, rate of return and the margin as a  
6 percent of revenue for each class. I should note that these exhibits were created without  
7 the benefit of having access to the Company's full suite of cost and revenue requirement  
8 models and as such there are some minor differences in rounding. However, in all of the  
9 scenarios I tried to stick as close to the Company's proposed revenues as possible. For  
10 ease of comparison each alternative is contained in a two page exhibit and numbered  
11 accordingly.

12 OCA Exhibit BJF 2 shows the effect on class revenues if one optimizes TIER. As can be  
13 seen on this exhibit I have held the TIER constant at 1.701 which is the system average  
14 TIER for Wyoming customers, not to be confused with the overall system average TIER  
15 of 1.714. The higher average system TIER indicates that the Company's Nebraska  
16 customers have a higher TIER than the system average, 1.79, and it would be  
17 inappropriate to optimize to the system average given that the Commission cannot  
18 influence the rates paid by Nebraska customers. This computational assumption flows  
19 through all of the alternatives that I will present in this proceeding.

20 There are several noteworthy observations on this exhibit. First, I again point out that the  
21 amount of revenue collected from customers, \$8,932,351, shown on BJF 2 page 2 of 2, is  
22 identical, except for rounding error, to the revenue to be collected under the Company's  
23 proposed rates. Thus, this exhibit is simply a method of redistributing the responsibility  
24 for that total revenue recovery among the different classes on a more equitable basis.  
25 Additionally, comparing this exhibit to OCA Exhibit BJF 1 demonstrates that when the  
26 TIER is held constant for each class the other indicators move into a much more  
27 reasonable range. For instance, the rate of return for all classes falls in a much narrower  
28 range of approximately 6% to 9%. Outliers in the double digits and negative returns are  
29 eliminated. Optimizing TIER does not, however, precisely match revenues and returns or

1 margins as can be seen at the bottom of the page where most classes would need a  
2 revenue increase or decrease to precisely match rate of return or margin numbers.

3 **Q. DO YOU BELIEVE THIS IS A CREDIBLE ALTERNATIVE FOR THE**  
4 **COMMISSION TO CONSIDER?**

5 A. Absolutely, and there are others as I will describe.

6 **Q. PLEASE CONTINUE.**

7 A. Given that the Company has expressed its position that the larger customers are not well  
8 suited to such an optimization, which continues to be a matter of judgment in my opinion,  
9 I constructed the refined alternative shown in OCA Exhibit BJB 3. In this alternative I  
10 took the level of revenue and the TIER for each of the large customer classes as given. I  
11 then adjusted the revenue produced by the other classes to produce a uniform TIER, while  
12 holding the overall revenue to the proposed amount. Note that in this alternative the  
13 TIERS for the larger customers are as proposed by the Company but the TIER for the  
14 smaller customers is reduced to reflect the increased revenue produced by the larger  
15 customers. In other words, optimizing the smaller classes at the system average  
16 Wyoming TIER, while holding the larger classes constant, would result in significant  
17 revenue windfall for the Company. Optimizing at the lower TIER of 1.551 results in a  
18 system average Wyoming TIER of 1.701, as proposed by the Company.

19 **Q. WHAT IS THE NEXT ALTERNATIVE YOU EXAMINED?**

20 A. I developed the alternative shown on OCA Exhibit BJB 4 in which I held the rate of  
21 return constant at the Wyoming system average rate of return of 6.811%. Note that on  
22 this exhibit the relative rate of return is uniform for all classes at .998 reflecting the fact  
23 that the return for Wyoming customers is less than the return assigned to the Nebraska  
24 customers of 7.406%. As with the two previous alternatives I optimized to the Wyoming  
25 numbers.

26 As can be seen at the bottom of the page on this exhibit, optimizing for rate of return  
27 produces revenues that exactly match the return on rate base for each class; hence there is

1 no revenue deficiency or surplus for any class to get to a uniform rate of return. And, as  
2 with the previous alternative, the same amount of revenue is collected overall but the  
3 amount collected from each class changes to reflect the uniform rate of return  
4 optimization. I would also point out that, although I optimized this alternative on rate of  
5 return, the resulting TIER and margins fall in a much narrower range than that proposed  
6 by the Company.

7 **Q. DID YOU REFINE THIS ALTERNATIVE AS WELL?**

8 A. Yes. As before, recognizing that the Company takes a different position on the issue of  
9 uniformity than I do, in spite of the Commission's earlier order I felt it was in the  
10 Commission's best interest to consider an alternative whereby the larger customers were  
11 included in the analysis at the Company proposed revenue level while holding the returns  
12 for the smaller classes constant. This alternative is shown in OCA Exhibit BJB 5.  
13 Similar to the previous alternatives, I optimized on the Wyoming system average return  
14 and held the overall increase constant. This results in a return for the smaller classes of  
15 6.196% or about 90% of the Wyoming system average return for the smaller classes while  
16 the larger classes continue to have returns that range to as much as over five times the  
17 Wyoming system average (over five thousand times for Rocky Mountain #2).

18 **Q. DID YOU OPTIMIZE ON ANOTHER FINANCIAL PERFORMANCE METRIC**  
19 **AS WELL?**

20 A. Yes, I also developed an alternative that held the margin as a percent of revenue to a  
21 uniform rate for all classes of service. That alternative is shown on OCA Exhibit BJB 6.  
22 As with the previous alternatives, I optimized to the Wyoming system average margin as  
23 a percent of revenue and held, as closely as possible, to the Company proposed revenue  
24 requirement. As can be seen at the bottom of the pages in this exhibit, the revenues for  
25 each class precisely match the revenues required to bring each of the classes to its  
26 respective margin requirement, based on a margin requirement of 4.971% and a  
27 Wyoming system average margin requirement of 4.711%. Oddly, for this metric the  
28 Nebraska customers have a much lower average margin requirement making the  
29 Wyoming average system margin requirement higher than that of the system as a whole.

1           However, consistency demands that Wyoming margins be optimized on Wyoming  
2           numbers.

3   **Q.    DID YOU DEVELOP A REFINEMENT FOR THIS ALTERNATIVE AS WELL?**

4   A.    Yes, as shown on OCA Exhibit BJF 7 I again exempted the larger customer classes from  
5           the uniform margin requirement which demonstrates the effect on class revenues if they  
6           are not held to uniformity. Given my explanation for the preceding exhibits this exhibit is  
7           self explanatory.

8   **Q.    WHAT CONCLUSIONS CAN BE DRAWN FROM OCA EXHIBITS BJF 2  
9           THROUGH 7?**

10 A.    The inescapable conclusion that is drawn from these exhibits is that any of the  
11           alternatives that I have outlined are preferable, from a rate equity perspective, to that  
12           proposed by the Company. All of the alternatives, even those that exclude treatment of  
13           the larger load customers, introduce a degree of inter-class rate equity that is sorely  
14           missing from the Company's proposal.

15 **Q.    WHICH OF THE ALTERNATIVES DO YOU RECOMMEND TO THE  
16           COMMISSION?**

17 A.    I believe all of them are credible alternatives to the Company's proposal and worthy of  
18           Commission consideration. That said, I recommend that the Commission adopt the  
19           alternative shown in OCA Exhibit BJF 8, which assumes a uniform TIER for all classes  
20           of customers served by WYRULEC with one exception. That exception is for the rate  
21           class that appears on all of the exhibits as "WY Rky #2" and which represents the new oil  
22           pumping load recently acquired by the Company. Since this load is new and there is very  
23           little information regarding its peak and annual usage characteristics, I recommend that it  
24           be billed according to the same rates as the Rocky Mountain Pipeline. BJF 8 assumes the  
25           present revenues for the WY Rky #2 load and adjusts the revenues required from the  
26           other classes accordingly. Making this adjustment yields a uniform TIER for all classes,  
27           except the WY Rky #2 class, of 1.607 rather than the 1.701 if the revenues from that load  
28           are not recognized. It also maintains the overall Wyoming revenues at \$8,932,351.

1 **Q. HOW DO THE RATE CHANGES CONTAINED IN OCA EXHIBIT BJF 8**  
2 **COMPARE TO THOSE PROPOSED BY THE COMPANY?**

3 A. As shown on OCA Exhibit BJF 9, the overall rate change proposed by the OCA is  
4 identical to that proposed by the Company. However, the rate changes by class are  
5 different as some change modestly and some significantly. For example, the Company  
6 proposes an increase of 3.23% for the general service single phase class while the OCA  
7 proposes an increase of 1.98% for this class. The Company proposes a 21.53% increase  
8 for the irrigation time of use class while I am proposing a decrease of 9.53%. The class  
9 revenues that I am recommending align more closely with cost of service with respect to  
10 all of three of the metrics; TIER, rate of return and margin as percent of revenues.

11 **Q. WHAT IS THE NEXT STEP IN THE RATE SETTING PROCESS?**

12 A. The next step is to design rates based on the cost of service study and estimated usage by  
13 class, that recover the total amount of revenues that have been established in the revenue  
14 requirement. Rates are typically designed to recover three types of costs; non-volume  
15 sensitive fixed costs that can be assigned to individual customers or groups of customers  
16 are recovered through a fixed customer charge; fixed costs that can't be assigned to  
17 individual customers or groups of customers but are shared by all customers are  
18 recovered in proportion to the demand that each customer or customer class places on the  
19 system; the variable operations costs, which include fuel and purchased power expenses  
20 that are recovered through a volumetric charge often called the kWh or energy charge.  
21 The demand component of the overall rate is typically incorporated in the kWh charge for  
22 all but the largest customers since smaller customer loads are rarely demand metered.

23 **Q. HAVE YOU CALCULATED RATES IN THIS CASE THAT CORRESPOND TO**  
24 **YOUR RECOMMENDED REVENUE LEVELS FOR EACH CLASS OF**  
25 **SERVICE?**

26 A. No. That is a task best left to the Company and its consultants. The rate schedules filed  
27 by the Company in this proceeding contain individual rate provisions that are not  
28 separately identified in the cost allocation summary sheets that I used to develop the

1 revenue requirement by class so it is not possible for me to allocate a discrete amount of  
2 revenue for those provisions. For example, in the cost allocation summary the general  
3 service single phase-optional class is included in the total revenue calculation for general  
4 service single phase, but the proposed tariffs separately assign rates for the optional class  
5 based on its specific revenues and billing units.

6 Additionally, some of the classes have declining block rates which depend on the amount  
7 of power consumed under those rates. But, revenues for individual blocks are not  
8 separately identified in the cost allocation summary. If the Commission adopts my  
9 recommended revenue requirement and class cost of service allocation, or any one of the  
10 others that I have developed, the Company should have sufficient guidance for  
11 developing rates that recover the approved revenue requirement.

12 **Q. DO YOU HAVE ANY GENERAL OBSERVATIONS ABOUT THE COMPANY'S**  
13 **RATE DESIGN PROPOSAL?**

14 A. I have a couple of observations that relate more generally to the conceptual structure of  
15 the Company's proposed rate design rather than the resulting rates specifically. First, as I  
16 indicated earlier in my testimony, the cost of service study filed by the Company in this  
17 proceeding is sound and, in general, is very useful in reviewing and understanding the  
18 Company's requested increase. One feature that is of particular interest is that the cost of  
19 service study identifies costs according to the three categories that I outlined earlier in my  
20 testimony; customer related, demand related and energy related.

21 The OCA has long been a proponent of rate setting that recognizes the relationship of  
22 underlying costs to rates. We believe it is in the best of interest of both consumers and  
23 utility companies to establish rates that as nearly as possible match rates to underlying  
24 costs. For example, fixed costs that do not vary with the amount of kWh used should be  
25 recovered in a fixed charge that does not vary with usage. Demand charges should be  
26 calculated to equitably recover the amount of coincident peak demand that a customer or  
27 class of customers place on the system. The energy charge should recover the variable  
28 costs of providing service based on estimated usage during the rate effective period.

1 Rates that are established according to these principles will afford the utility a fairer  
2 opportunity to meet its financial goals and at the same time protect consumers from  
3 paying bills that are too high due to fluctuations in usage that are beyond their control.  
4 For instance, usage spikes that are caused by extreme weather conditions are one  
5 example. Cost based rates also assist in minimizing intra-class subsidies created by  
6 different usage patterns of customers within the same class of service. Low customer  
7 charges and high energy charges, for example, tend to over recover fixed costs from  
8 higher use customers and under recover them from lower use customers. Cost based rates  
9 are more equitable for all customers as well as the utility.

10 In the instant case the Company is proposing rates that clearly do recognize the  
11 underlying costs. And, while I am proposing changes to the way revenues are allocated  
12 among classes, it is not my intent to disturb the cost rate relationship the Company has  
13 developed by proposing changes to the rate design itself. For example, I am not  
14 recommending that the customer charge for the general service single phase class be  
15 increased from \$26.00 to \$27.85 per month, which is the actual fixed cost of providing  
16 service to customers within that class. Although the fixed charge does not recover the  
17 fixed cost it comes much closer than many of the other utilities in the state. Furthermore,  
18 it is already the second highest monthly customer charge of any cooperative utility  
19 serving in Wyoming. Likewise, the demand and energy charges proposed by the  
20 Company for other classes of customers, as described in Mr. Hedrick's testimony, appear  
21 to conform to the rate setting principles that I have outlined so I do not have specific  
22 recommendations for changing the cost rate relationship for any of these classes.

23 However, there is one aspect of the Company's proposed rate structure that is troubling to  
24 me. Several of the classes, including the general service single phase-optional class,  
25 which has 113 Wyoming customers, have what are known as declining block rates as  
26 proposed by the Company. Declining block rates typically establish a base rate for a  
27 given amount of kWh consumption and a lower rate for specific levels of consumption  
28 beyond the base rate. For the general service single phase-optional class the base amount  
29 of usage is 1,000 kilowatt hours per month and any usage in excess of that amount is

1 billed at a lower kWh rate. A similar rate structure is in place for the irrigation-large and  
2 irrigation time of use classes.

3 My concern is that declining block rate structures, in a time of scarce resources and rising  
4 wholesale power costs, work at cross purposes with the goal of encouraging wise energy  
5 use by giving customers the proper price signal about the energy they consume. Making  
6 additional energy available at a reduced rate actually encourages customers to use more,  
7 not less energy. Moreover, such a rate structure is not consistent with cost based rates,  
8 particularly for all requirements companies like WYRULEC, because each additional  
9 kilowatt hour consumed by a customer is incrementally more, not less, expensive than the  
10 last one consumed. A more appropriate rate structure in today's utility environment  
11 would be an inverted block rate structure in which consumption beyond the base usage  
12 amount would be priced at a higher level than the base usage amount. This type of rate  
13 structure would recognize the incremental cost associated with higher consumption.

14 **Q. ARE YOU RECOMMENDING THAT THE COMMISSION IMPOSE AN**  
15 **INVERTED BLOCK RATE STRUCTURE IN THIS PROCEEDING?**

16 A. I am not prepared to present an inverted block rate structure for the Commission's  
17 consideration. I do, however, believe that it is within the Commission's discretion to  
18 direct the Company to present such a rate structure for the Commission's consideration.  
19 At the very least the Commission should require the Company to support its current rate  
20 structure as being in the public interest and to the extent that the Commission finds that  
21 the current declining block rate structure is not in the public interest, it should direct the  
22 Company to file an average cost rate schedule for those classes with declining block rates.

23 **Q. DOES THAT CONCLUDE YOUR DISCUSSION OF RATE DESIGN ISSUES?**

24 A. Yes, it does.

25 **Q. ARE THERE ANY OTHER ISSUES THAT YOU WISH TO BRING TO THE**  
26 **COMMISSION'S ATTENTION IN THIS PROCEEDING?**

1 A. There is one other issue that the Commission should consider in its determination in this  
2 proceeding. In its original filing in this proceeding, the Company sought to increase its  
3 Wyoming revenues by \$631,412 annually. By order dated March 20, 2007, the  
4 Commission allowed the rates proposed by the Company to go into effect on an interim  
5 basis, effective with usage on and after January 1, 2007. WYRULEC's interim rate  
6 authority was made subject to "notice, protest, intervention, opportunity for hearing,  
7 refund, change, further investigation, and further order of the Commission."

8 The Company's amended application seeks an increase in revenues to Wyoming  
9 customers of \$522,745 which is considerably less than the revenues that are being  
10 collected currently pursuant to the interim rates. It appears that Wyoming customers may  
11 have been overcharged during the interim period between January 1, 2007 and the  
12 present, even after accounting for the removal of revenues and expenses associated with  
13 the Torrington contract. This issue is not discussed in Mr. Hedrick's pre-filed testimony  
14 and I got only scant clarification from my email exchanges with Mr. Hedrick.

15 **Q. SHOULD THE COMMISSION AUTHORIZE CUSTOMER REFUNDS IN THIS**  
16 **CASE?**

17 A. Absolutely. Although I am not recommending any additional revenue reductions beyond  
18 what is contained in the Company's proposed revenue requirement in the amended filing,  
19 other than the small expense adjustments discussed earlier in my testimony, the fact  
20 remains that the revenues authorized to be collected pursuant to the interim rates are  
21 significantly higher than those contained in the amended filing.

22 In approving the interim rates the Commission acted expeditiously and in the public  
23 interest, with the encouragement of the OCA, to ensure that the Company would be able  
24 to continue to recover the cost of power that it purchases on behalf of its customers.  
25 However, that approval was prudently conditioned upon further review and determination  
26 of the Commission in the context of this rate proceeding. To the extent that a more  
27 robust review leads the Commission to conclude that refunds are owing to Wyoming  
28 customers, it should not hesitate to direct the Company to make those refunds, with

1 interest, as specified in the March order. Customers should not be worse off as a result of  
2 approving the rates on an interim basis.

3 **Q. DOES THAT CONCLUDE YOUR TESTIMONY IN THIS PROCEEDING?**

4 A. Yes, it does.

## APPENDIX A

### CASES IN WHICH BRYCE FREEMAN HAS PRESENTED TESTIMONY BEFORE THE WYOMING PUBLIC SERVICE COMMISSION AS OF 7/2/07

<u>Docket Number</u>	<u>Company</u>	<u>Date</u>	<u>Subject Of Testimony</u>
30016-GR-94-8	Pinedale Natural Gas Company	10/26/1994	ROR
70006-TR-94-14	Silver Star Telephone Company, Inc.	12/6/1994	ROR
20002-ER-95-48	Black Hills Power & Light	8/14/1995	ROR, IRP, DSM, AFOR
70000-TR-95-238	U S WEST Communications, Inc.	10/2/1995	TSLRIC
General Order No. 73	Commission Rule Making	4/11/1996	TSLRIC
20000-ER-95-99	PacifiCorp, Inc.	6/17/1996	ROR, AFOR, PBR
70007-TR-95-15	Dubois Telephone Company	8/5/1996	ROR, TSLRIC
30012-GR-96-33	Wyoming Industrial Gas Company	10/16/1996	ROR
70007-TR-95-15	Pacific Telecommunications, Inc.	12/10/1996	TSLRIC
70000-TT-96-301	U S West Communications, Inc.	1/10/1997	AFOR, Jurisdiction
70007-TR-95-15	U S West Communications, Inc.	1/28/1997	TSLRIC, RATE DESIGN
70000-TR-96-323	U S West Communications, Inc.	5/26/1997	TSLRIC, Imputation
30005-GR-97-51	Cheyenne Light, Fuel & Power, Inc.	8/25/1997	ROR
70011-TR-97-15	Tri-County Telephone Association, Inc.	3/31/1998	TSLRIC
70014-TR-97-7	TCT West, Inc.	3/31/1998	TSLRIC
80007-WR-98-6	Vista West Water Company	8/31/1998	Cost of Service
20000-EA-98-141	PacifiCorp, Inc.	7/6/1999	Merger
30010-GR-99-47	Questar Gas Company	10/28/1999	ROR, Revenue Requirement
20003-ER-99-54	Cheyenne Light, Fuel & Power, Inc.	1/18/2000	ROR, Rate Design
30005-GR-99-53	Cheyenne Light, Fuel & Power, Inc.	1/18/2000	ROR, Rate Design
20000-ER-99-145	PacifiCorp, Inc.	1/26/2000	ROR, Rate Design
80007-WR-99-8	Vista West Water Company	3/22/2000	Rate Design
30010-GA-01-56	Questar Gas Company/Wyoming Industrial Gas	6/12/2001	Merger/Acquisition
30012-GA-01-43			
20000-ER-0-162	PacifiCorp, Inc.	7/9/2001	Rate Design
70000-TA-99-482	Qwest Communications	9/6/2001	TSLRIC
70000-TA-01-700	Qwest Communications	3/15/2002	TELRIC
70013-TR-02-17	All West Communications, Inc.	10/28/2002	TSLRIC
70006-TT-00-43	Silver Star Telephone Company, Inc.	12/17/2002	TSLRIC
70016-TA-02-21	Teton Telecom		
20000-ER-02-184	PacifiCorp, Inc.	1/7/2003	Power Cost
30022-GI-02-3	Kinder Morgan, Inc.	2/3/2003	Choice Gas
20000-ER-02-198	PacifiCorp, Inc.	1/16/2004	Power Cost
20000-EA-05-226	MEHC/PacifiCorp	12/15/2005	Merger/Acquisition
30022-73-GR-06	Kinder Morgan, Inc.	9/18/2006	ROR
20000-250-EA-06	Rocky Mountain Power	1/10/2007	Avoided Costs
30022-84-GA-06	Source Gas/Kinder Morgan/KMRUH; Knight HoldCo LLC, Knight Acquisition Co.	2/18/2007	Sale/Acquisition/Reorganization
30085-85-GA-06			
30016-41-GR-06	Pinedale Natural Gas Company	3/21/2007	General Rate Case/ROR
10016-47-CR-06	WYRULEC	7/2/2007	General Rate Case
20003-90-ER-07	Cheyenne Light, Fuel & Power, Inc.	10/22/2007	General Rate Case/WYGEN II Prudence
30005-112-GR-07			
10016-47-CR-06	WYRULEC	12/10/2007	Amended General Rate Case

ROR = RATE OF RETURN; IRP = INTEGRATED RESOURCE PLANNING;  
 DSM = DEMAND SIDE MANAGEMENT; AFOR = ALTERNATIVE FORM OF REGULATION;  
 TSLRIC = TOTAL SERVICE LONG RUN INCREMENTAL COST;  
 PBR = PERFORMANCE BASED RATE MAKING  
 AFOR = ALTERNATIVE FORM OF REGULATION

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>TOT WY GS IPH</u>	<u>WYGS 3PH</u>	<u>WY Irr IPH</u>	<u>WY Total GS</u>	<u>WY Lg Irr</u>	<u>WY Irr TOU</u>
Rate Base	18,388,284	8,874,288	835,432	264,781	9,974,501	5,014,891	27,952
Operating Revenues	11,206,714	3,928,415	498,970	94,410	4,521,795	2,565,064	22,697
Operating Expenses	9,939,079	3,313,056	410,190	96,816	3,820,063	2,370,358	15,088
Return	1,267,635	615,359	88,780	-2,406	701,732	194,706	7,609
Rate of Return	6.893710%	6.934%	10.627%	-0.909%	7.035%	3.883%	27.222%
Relative ROR	1.000	1.006	1.542	-0.132	1.021	0.563	3.949
Interest	739,633	353,183	33,522	10,544	397,251	201,260	1,125
Operating Margins	528,002	262,176	55,258	-12,950	304,481	-6,554	6,484
Margin as % Revenue	4.711479%	6.674%	11.074%	-13.717%	6.734%	-0.256%	28.568%
Operating TIER	1.714	1.742	2.648	-0.228	1.766	0.967	6.764
<b>Revenue Deiciencies</b>							
Uniform ROR = 6.893726	3	-3,590	-31,188	20,659	-14,117	151,007	-5,682
Deficiency % Rev	0.000%	-0.091%	-6.250%	21.883%	-0.312%	5.887%	-25.034%
Uniform % Mar = 4.711503	3	-80,900	-33,319	18,258	-95,958	133,707	-5,682
Deficiency % Rev	0.000%	-2.059%	-6.678%	19.339%	-2.122%	5.213%	-25.036%

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>WY Lg Pwr</u>	<u>WY Platte Y</u>	<u>WK Rky Piplin</u>	<u>WY Guernsey</u>	<u>WY Lighting</u>	<u>WY Rky #2</u>	<u>Total Wyoming</u>
Rate Base	562,941	17,166	103,907	60,971	57,675	157	15,820,161
Operating Revenues	381,683	811,300	457,077	97,506	15,224	60,000	8,932,346
Operating Expenses	320,442	805,663	419,505	91,596	11,560	623	7,854,897
Return	61,241	5,637	37,572	5,910	3,664	59,377	1,077,449
Rate of Return	10.879%	32.838%	36.159%	9.693%	6.353%	37819.745%	6.811%
Relative ROR	1.578	4.763	5.245	1.406	0.922	5,486.123	0.988
Interest	22,681	647	5,462	2,710	2,256	4	633,394
Operating Margins	38,560	4,990	32,110	3,200	1,408	59,373	444,055
Margin as % Revenue	10.103%	0.615%	7.025%	3.282%	9.249%	98.955%	4.971%
Operating TIER	2.700	8.713	6.879	2.181	1.624	14,844.250	1.701
<b>Revenue Deiciencies</b>							
Uniform ROR = 6.893726	-22,433	-4,454	-30,409	-1,707	312	-59,366	13,150
Deficiency % Rev	-5.877%	-0.549%	-6.653%	-1.750%	2.049%	-98.944%	0.147%
Uniform % Mar = 4.711503	-21,594	34,878	-11,098	1,463	-725	-59,342	-24,355
Deficiency % Rev	-5.658%	4.299%	-2.428%	1.500%	-4.761%	-98.903%	-0.273%

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>TOT WY GS IPH</u>	<u>WYGS 3PH</u>	<u>WY Irr IPH</u>	<u>WY Lg Irr</u>	<u>WY Irr TOU</u>	<u>WY Lg Pwr</u>
Rate Base	18,388,284	8,874,288	835,432	264,781	5,014,891	27,952	562,941
Operating Revenues	11,206,714	3,913,849	467,214	114,752	2,712,717	17,002	359,024
Operating Expenses	9,939,079	3,313,056	410,190	96,816	2,370,358	15,088	320,442
Return	1,267,635	600,793	57,024	17,936	342,359	1,914	38,582
Rate of Return	6.893710%	6.770%	6.826%	6.774%	6.827%	6.846%	6.854%
Relative ROR	1.000	0.982	0.990	0.983	0.990	0.993	0.994
Interest	739,633	353,183	33,522	10,544	201,260	1,125	22,681
Operating Margins	528,002	247,610	23,502	7,392	141,099	789	15,901
Margin as % Revenue	4.711479%	6.326%	5.030%	6.442%	5.201%	4.639%	4.429%
Operating TIER	1.714	1.701	1.701	1.701	1.701	1.701	1.701
<b>Revenue Deficiencies</b>							
Uniform ROR = 6.893726	1	10,977	569	317	3,353	13	225
Deficiency % Rev	0.000%	0.280%	0.122%	0.276%	0.124%	0.078%	0.063%
Uniform % Mar = 4.711503	1	-66,334	-1,562	-2,084	-13,947	13	1,064
Deficiency % Rev	0.000%	-1.695%	-0.334%	-1.816%	-0.514%	0.076%	0.296%

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>WY Platte Y</u>	<u>WK Rky Piplin</u>	<u>WY Guernsey</u>	<u>WY Lighting</u>	<u>WY Rky #2</u>	<u>Total Wyoming</u>
Rate Base	18,388,284	17,166	103,907	60,971	57,675	157	15,820,161
Operating Revenues	11,206,714	806,764	428,796	96,206	15,398	630	8,932,351
Operating Expenses	9,939,079	805,663	419,505	91,596	11,560	623	7,854,897
Return	1,267,635	1,101	9,291	4,610	3,838	7	1,077,454
Rate of Return	6.893710%	6.412%	8.942%	7.561%	6.654%	4.334%	6.811%
Relative ROR	1.000	0.930	1.297	1.097	0.965	0.629	0.988
Interest	739,633	647	5,462	2,710	2,256	4	633,394
Operating Margins	528,002	454	3,829	1,900	1,582	3	444,060
Margin as % Revenue	4.711479%	0.056%	0.893%	1.975%	10.272%	0.445%	4.971%
Operating TIER	1.714	1.701	1.701	1.701	1.701	1.701	1.701
<b>Revenue Deiciencies</b>							
Uniform ROR = 6.893726	1	83	-2,128	-407	138	4	13,145
Deficiency % Rev	0.000%	0.010%	-0.496%	-0.423%	0.898%	0.638%	0.147%
Uniform % Mar = 4.711503	1	39,414	17,183	2,763	-899	28	-24,360
Deficiency % Rev	0.000%	4.885%	4.007%	2.872%	-5.835%	4.477%	-0.273%

Uniform TIER 1.701

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>TOT WY GS 1PH</u>	<u>WYGS 3PH</u>	<u>WY Irr 1PH</u>	<u>WY Lg Irr</u>	<u>WY Irr TOU</u>	<u>WY Lg Pwr</u>
Rate Base	18,388,284	8,874,288	835,432	264,781	5,014,891	27,952	562,941
Operating Revenues	11,206,714	3,860,892	462,187	113,171	2,682,540	16,833	355,623
Operating Expenses	9,939,079	3,313,056	410,190	96,816	2,370,358	15,088	320,442
Return	1,267,635	547,836	51,997	16,355	312,182	1,745	35,181
Rate of Return	6.893710%	6.173%	6.224%	6.177%	6.225%	6.243%	6.250%
Relative ROR	1.000	0.895	0.903	0.896	0.903	0.906	0.907
Interest	739,633	353,183	33,522	10,544	201,260	1,125	22,681
Operating Margins	528,002	194,653	18,475	5,811	110,922	620	12,500
Margin as % Revenue	4.711479%	5.042%	3.997%	5.135%	4.135%	3.683%	3.515%
Operating TIER	1.714	1.551	1.551	1.551	1.551	1.551	1.551
<b>Revenue Deficiencies</b>							
Uniform ROR = 6.835178	1	63,933	5,595	1,898	33,530	182	3,626
Deficiency % Rev	0.000%	1.656%	1.211%	1.677%	1.250%	1.081%	1.020%
Uniform % Mar = 4.306094	1	-13,378	3,464	-503	16,230	182	4,465
Deficiency % Rev	0.000%	-0.346%	0.749%	-0.444%	0.605%	1.079%	1.256%

Uniform TIER Minus Large Loads

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>WY Platte Y</u>	<u>WK Rky Piplin</u>	<u>WY Guernsey</u>	<u>WY Lighting</u>	<u>WY Rky #2</u>	<u>Total Wyoming</u>
Rate Base	18,388,284	17,166	103,907	60,971	57,675	157	15,820,161
Operating Revenues	11,206,714	811,300	457,077	97,506	15,224	60,000	8,932,355
Operating Expenses	9,939,079	805,663	419,505	91,596	11,560	623	7,854,897
Return	1,267,635	5,637	37,572	5,910	3,664	59,377	1,077,458
Rate of Return	6.893710%	32.838%	36.159%	9.693%	6.353%	37819.745%	6.811%
Relative ROR	1.000	4.763	5.245	1.406	0.922	5,486.123	0.988
Interest	739,633	647	5,462	2,710	2,256	4	633,394
Operating Margins	528,002	4,990	32,110	3,200	1,408	59,373	444,064
Margin as % Revenue	4.711479%	0.615%	7.025%	3.282%	9.249%	98.955%	4.971%
Operating TIER	1.714	8.713	6.879	2.181	1.624	14,844,250	1.701
<b>Revenue Deiciencies</b>							
Uniform ROR = 6.835178	1	-4,454	-30,409	-1,707	312	-59,366	13,141
Deficiency % Rev	0.000%	-0.549%	-6.653%	-1.750%	2.049%	-98.944%	0.147%
Uniform % Mar = 4.306094	1	34,878	-11,098	1,463	-725	-59,342	-24,363
Deficiency % Rev	0.000%	4.299%	-2.428%	1.500%	-4.761%	-98.903%	-0.273%

Uniform TIER Minus Large Loads

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>TOT WY GS 1PH</u>	<u>WYGS 3PH</u>	<u>WY Irr 1PH</u>	<u>WY Lg Irr</u>	<u>WY Irr TOU</u>	<u>WY Lg Pwr</u>
Rate Base	18,388,284	8,874,288	835,432	264,781	5,014,891	27,952	562,941
Operating Revenues	11,206,714	3,917,453	467,088	114,849	2,711,905	16,992	358,782
Operating Expenses	9,939,079	3,313,056	410,190	96,816	2,370,358	15,088	320,442
Return	1,267,635	604,397	56,898	18,033	341,547	1,904	38,340
Rate of Return	6.894%	6.811%	6.811%	6.811%	6.811%	6.811%	6.811%
Relative ROR	1.000	0.988	0.988	0.988	0.988	0.988	0.988
Interest	739,633	353,183	33,522	10,544	201,260	1,125	22,681
Operating Margins	528,002	251,214	23,376	7,489	140,287	779	15,659
Margin as % Revenue	4.711479%	6.413%	5.005%	6.521%	5.173%	4.583%	4.364%
Operating IIR	1.714	1.711	1.697	1.710	1.697	1.692	1.690
<b>Revenue Deficiencies</b>							
Uniform ROR = 6.893726	1	0	0	0	0	0	0
Deficiency % Rev	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Uniform % Mar = 4.711503	1	-59,270	-165	-1,868	-5,749	69	2,284
Deficiency % Rev	0.000%	-1.513%	-0.035%	-1.627%	-0.212%	0.407%	0.637%

Uniform ROR 6.811%

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>WY Platte Y</u>	<u>WK Rky Piplin</u>	<u>WY Guernsey</u>	<u>WY Lighting</u>	<u>WY Rky #2</u>	<u>Total Wyoming</u>
Rate Base	18,388,284	17,166	103,907	60,971	57,675	157	15,820,161
Operating Revenues	11,206,714	806,832	426,582	95,749	15,488	634	8,932,353
Operating Expenses	9,939,079	805,663	419,505	91,596	11,560	623	7,854,897
Return	1,267,635	1,169	7,077	4,153	3,928	11	1,077,456
Rate of Return	6.894%	6.811%	6.811%	6.811%	6.811%	6.811%	6.811%
Relative ROR	1.000	0.988	0.988	0.988	0.988	0.988	0.988
Interest	739,633	647	5,462	2,710	2,256	4	633,394
Operating Margins	528,002	522	1,615	1,443	1,672	7	444,062
Margin as % Revenue	4.711479%	0.065%	0.379%	1.507%	10.796%	1.056%	4.971%
Operating TIER	1.714	1.807	1.296	1.532	1.741	2.673	1.701
<b>Revenue Deiciencies</b>							
Uniform ROR = 6.893726	1	0	0	0	0	0	0
Deficiency % Rev	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Uniform % Mar = 4.711503	1	41.543	20,559	3,481	-947	26	-36
Deficiency % Rev	0.000%	5.149%	4.820%	3.636%	-6.113%	4.108%	0.000%

Uniform ROR 6.811%

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<b>Account</b>	<b>Total</b>	<b>TOT WY GS IPH</b>	<b>WYGS 3PH</b>	<b>WY Irr IPH</b>	<b>WY Lg Irr</b>	<b>WY Irr TOU</b>	<b>WY Lg Pwr</b>
Rate Base	18,388,284	8,874,288	835,432	264,781	5,014,891	27,952	562,941
Operating Revenues	11,206,714	3,862,874	461,950	113,221	2,681,062	16,820	355,320
Operating Expenses	9,939,079	3,313,056	410,190	96,816	2,370,358	15,088	320,442
Return	1,267,635	549,818	51,760	16,405	310,704	1,732	34,878
Rate of Return	6.893710%	6.196%	6.196%	6.196%	6.196%	6.196%	6.196%
Relative ROR	1.000	0.899	0.899	0.899	0.899	0.899	0.899
Interest	739,633	353,183	33,522	10,544	201,260	1,125	22,681
Operating Margins	528,002	196,635	18,238	5,861	109,444	607	12,197
Margin as % Revenue	4.711479%	5.090%	3.948%	5.176%	4.082%	3.608%	3.433%
Operating TIER	1.714	1.557	1.544	1.556	1.544	1.539	1.538
<b>Revenue Deficiencies</b>							
Uniform ROR = 6.835178	1	54,610	5,141	1,629	30,860	172	3,464
Deficiency % Rev	0.000%	1.414%	1.113%	1.439%	1.151%	1.023%	0.975%
Uniform % Mar = 4.711503	1	-4,839	4,959	-244	25,010	241	5,737
Deficiency % Rev	0.000%	-0.125%	1.073%	-0.216%	0.933%	1.431%	1.614%

Uniform ROR Minus Large Loads

**WYRULEC COMPANY  
PROPOSED RATES  
TEST YEAR ENDING DECEMBER 31, 2006  
Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>WY Platte Y</u>	<u>WK Rky Piplin</u>	<u>WY Guernsey</u>	<u>WY Lighting</u>	<u>WY Rky #2</u>	<u>Total Wyoming</u>
Rate Base	18,388,284	17,166	103,907	60,971	57,675	157	15,820,161
Operating Revenues	11,206,714	811,300	457,077	97,506	15,224	60,000	8,932,353
Operating Expenses	9,939,079	805,663	419,505	91,596	11,560	623	7,854,897
Return	1,267,635	5,637	37,572	5,910	3,664	59,377	1,077,456
Rate of Return	6.893710%	32.838%	36.159%	9.693%	6.353%	37819.745%	6.811%
Relative ROR	1.000	4.763	5.245	1.406	0.922	5,486.123	0.988
Interest	739,633	647	5,462	2,710	2,256	4	633,394
Operating Margins	528,002	4,990	32,110	3,200	1,408	59,373	444,062
Margin as % Revenue	4.711479%	0.615%	7.025%	3.282%	9.249%	98.955%	4.971%
Operating IIER	1.714	8.713	6.879	2.181	1.624	14,844.250	1.701
<b><u>Revenue Deficiencies</u></b>							
Uniform ROR = 6.835178	1	-4,468	-30,495	-1,757	264	-59,366	55
Deficiency % Rev	0.000%	-0.551%	-6.672%	-1.802%	1.736%	-98.944%	0.001%
Uniform % Mar = 4.711503	1	37,087	-9,853	1,728	-683	-59,179	-36
Deficiency % Rev	0.000%	4.571%	-2.156%	1.773%	-4.489%	-98.631%	0.000%

Uniform ROR Minus Large Loads

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
Cost Allocation Summary

<u>Account</u>	<u>Total</u>	<u>TOT WY GS</u>	<u>IPH</u>	<u>WYGS 3PH</u>	<u>WY Irr IPH</u>	<u>WY Total GS</u>	<u>WY Lg Irr</u>	<u>WY Irr TOU</u>	<u>WY Lg Pwr</u>
Rate Base	18,388,284	8,874,288		835,432	264,781	9,974,501	5,014,891	27,952	562,941
Operating Revenues	11,206,714	3,858,021		466,923	112,976	4,437,923	2,706,140	17,061	361,072
Operating Expenses	9,939,079	3,313,056		410,190	96,816	3,820,063	2,370,358	15,088	320,442
Return	1,267,635	544,965		56,733	16,160	617,860	335,782	1,973	40,630
Rate of Return	6.893710%	6.141%		6.791%	6.103%	6.194%	6.696%	7.059%	7.217%
Relative ROR	1.000	0.891		0.985	0.885	0.899	0.971	1.024	1.047
Interest	739,633	353,183		33,522	10,544	397,251	201,260	1,125	22,681
Operating Margins	528,002	191,782		23,211	5,616	220,609	134,522	848	17,949
Margin as % Revenue	4.711479%	4.971%		4.971%	4.971%	4.971%	4.971%	4.970%	4.971%
Operating TIER	1.714	1.543		1.692	1.533	1.555	1.668	1.754	1.791
<b>Revenue Deficiencies</b>									
Uniform ROR = 6.893726	3	66,804		859	2,093	69,755	9,931	-46	-1,822
Deficiency % Rev	0.000%	1.732%		0.184%	1.853%	1.572%	0.367%	-0.270%	-0.505%
Uniform % Mar = 4.71150	3	0		0	0	0	0	0	0
Deficiency % Rev	0.000%	0.000%		0.000%	0.000%	0.000%	0.000%	0.001%	0.000%

Uniform Margin

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>WY Platte</u>	<u>YWK Rky Piplin</u>	<u>WY Guernsey</u>	<u>WY Lighting</u>	<u>WY Rky #2</u>	<u>Total Wyoming</u>
Rate Base	18,388,284	17,166	103,907	60,971	57,675	157	15,820,161
Operating Revenues	11,206,714	848,488	447,197	99,239	14,539	660	8,932,316
Operating Expenses	9,939,079	805,663	419,505	91,596	11,560	623	7,854,897
Return	1,267,635	42,825	27,692	7,643	2,979	37	1,077,419
Rate of Return	6.893710%	249.476%	26.651%	12.535%	5.165%	23.567%	6.810%
Relative ROR	1.000	36.189	3.866	1.818	0.749	3.419	0.988
Interest	739,633	647	5,462	2,710	2,256	4	633,394
Operating Margins	528,002	42,178	22,230	4,933	723	33	444,025
Margin as % Revenue	4.711479%	4.971%	4.971%	4.971%	4.973%	5.000%	4.971%
Operating TIER	1.714	66.190	5.070	2.820	1.320	9.250	1.701
<b>Revenue Deiciencies</b>							
Uniform ROR = 6.893726	3	-41,642	-20,529	-3,440	997	-26	13,180
Deficiency % Rev	0.000%	-4.908%	-4.591%	-3.466%	6.857%	-3.966%	0.148%
Uniform % Mar = 4.7115C	3	0	0	0	0	0	0
Deficiency % Rev	0.000%	0.000%	0.000%	0.000%	-0.002%	-0.031%	0.000%

Uniform Margin

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>TOT WY GS IPH</u>	<u>WYGS 3PH</u>	<u>WY Irr IPH</u>	<u>WY Lg Irr</u>	<u>WY Irr TOU</u>	<u>WY Lg Pwr</u>
Rate Base	18,388,284	8,874,288	835,432	264,781	5,014,891	27,952	562,941
Operating Revenues	11,206,714	3,842,125	464,999	112,511	2,694,990	16,991	359,585
Operating Expenses	9,939,079	3,313,056	410,190	96,816	2,370,358	15,088	320,442
Return	1,267,635	529,069	54,809	15,695	324,632	1,903	39,143
Rate of Return	6.893710%	5.962%	6.561%	5.928%	6.473%	6.808%	6.953%
Relative ROR	1.000	0.865	0.952	0.860	0.939	0.988	1.009
Interest	739,633	353,183	33,522	10,544	201,260	1,125	22,681
Operating Margins	528,002	175,886	21,287	5,151	123,372	778	16,462
Margin as % Revenue	4.711479%	4.578%	4.578%	4.578%	4.578%	4.578%	4.578%
Operating TIER	1.714	1.498	1.635	1.489	1.613	1.691	1.726
<b>Revenue Deficiencies</b>							
Uniform ROR = 6.893726	3	82,700	2,783	2,558	21,081	24	-335
Deficiency % Rev	0.000%	2.152%	0.599%	2.274%	0.782%	0.141%	-0.093%
Uniform % Mar = 4.711503	3	7	1	0	5	0	0
Deficiency % Rev	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%

Uniform Margin Minus Large Loads

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>WY Platte Y</u>	<u>WK Rky Piplin</u>	<u>WY Guernsey</u>	<u>WY Lighting</u>	<u>WY Rky #2</u>	<u>Total Wyoming</u>
Rate Base	18,388,284	17,166	103,907	60,971	57,675	157	15,820,161
Operating Revenues	11,206,714	811,300	457,077	97,506	15,224	60,000	8,932,308
Operating Expenses	9,939,079	805,663	419,505	91,596	11,560	623	7,854,897
Return	1,267,635	5,637	37,572	5,910	3,664	59,377	1,077,411
Rate of Return	6.893710%	32.838%	36.159%	9.693%	6.353%	37819.745%	6.810%
Relative ROR	1.000	4.763	5.245	1.406	0.922	5,486.123	0.988
Interest	739,633	647	5,462	2,710	2,256	4	633,394
Operating Margins	528,002	4,990	32,110	3,200	1,408	59,373	444,017
Margin as % Revenue	4.711479%	0.615%	7.025%	3.282%	9.249%	98.955%	4.971%
Operating TIER	1.714	8.713	6.879	2.181	1.624	14,844.250	1.701
<b>Revenue Diciencies</b>							
Uniform ROR = 6.893726	3	-4,454	-30,409	-1,707	312	-59,366	13,188
Deficiency % Rev	0.000%	-0.549%	-6.653%	-1.750%	2.049%	-98.944%	0.148%
Uniform % Mar = 4.711503	3	33,694	-11,722	1,324	-745	-59,343	-24,317
Deficiency % Rev	0.000%	4.153%	-2.564%	1.358%	-4.895%	-98.905%	-0.272%

Uniform Margin Minus Large Loads

**WYRULEC COMPANY**  
**PROPOSED RATES**  
**TEST YEAR ENDING DECEMBER 31, 2006**  
**Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>TOT WY GS 1PH</u>	<u>WYGS 3PH</u>	<u>WY Irr IPH</u>	<u>WY Lg Irr</u>	<u>WY Irr TOU</u>	<u>WY Lg Pwr</u>
Rate Base	18,388,284	8,874,288	835,432	264,781	5,014,891	27,952	562,941
Operating Revenues	11,206,714	3,880,743	464,071	113,764	2,693,852	16,896	356,898
Operating Expenses	9,939,079	3,313,056	410,190	96,816	2,370,358	15,088	320,442
Return	1,267,635	567,687	53,881	16,948	323,494	1,808	36,456
Rate of Return	6.893710%	6.397%	6.450%	6.401%	6.451%	6.469%	6.476%
Relative ROR	1.000	0.928	0.936	0.928	0.936	0.938	0.939
Interest	739,633	353,183	33,522	10,544	201,260	1,125	22,681
Operating Margins	528,002	214,504	20,359	6,404	122,234	683	13,775
Margin as % Revenue	4.711479%	5.527%	4.387%	5.629%	4.538%	4.044%	3.860%
Operating TIER	1.714	1.607	1.607	1.607	1.607	1.607	1.607
<b>Revenue Deficiencies</b>							
Uniform ROR = 6.893726	1	44,082	3,711	1,305	22,218	119	2,351
Deficiency % Rev	0.000%	1.136%	0.800%	1.147%	0.825%	0.702%	0.659%
Uniform % Mar = 4.711503	1	-33,229	1,580	-1,095	4,918	118	3,190
Deficiency % Rev	0.000%	-0.856%	0.340%	-0.963%	0.183%	0.701%	0.894%

**WYRULEC COMPANY  
PROPOSED RATES  
TEST YEAR ENDING DECEMBER 31, 2006  
Cost Allocation Summary**

<u>Account</u>	<u>Total</u>	<u>WY Platte Y</u>	<u>WK Rky Piplin</u>	<u>WY Guernsey</u>	<u>WY Lighting</u>	<u>WY Rky #2</u>	<u>Total Wyoming</u>
Rate Base	18,388,284	17,166	103,907	60,971	57,675	157	15,820,161
Operating Revenues	11,206,714	806,703	428,284	95,952	15,186	60,000	8,932,351
Operating Expenses	9,939,079	805,663	419,505	91,596	11,560	623	7,854,897
Return	1,267,635	1,040	8,779	4,356	3,626	59,377	1,077,454
Rate of Return	6.893710%	6.058%	8.449%	7.144%	6.287%	37819.745%	6.811%
Relative ROR	1.000	0.879	1.226	1.036	0.912	5,486.123	0.988
Interest	739,633	647	5,462	2,710	2,256	4	633,394
Operating Margins	528,002	393	3,317	1,646	1,370	59,373	444,060
Margin as % Revenue	4.711479%	0.049%	0.775%	1.715%	9.023%	98.955%	4.971%
Operating TIER	1.714	1.607	1.607	1.607	1.607	14,844.250	1.701
<b>Revenue Deiciencies</b>							
Uniform ROR = 6.893726	1	143	-1,616	-153	350	-59,366	13,145
Deficiency % Rev	0.000%	0.018%	-0.377%	-0.159%	2.303%	-98.944%	0.147%
Uniform % Mar = 4.711503	1	39,475	17,695	3,017	-687	-59,342	-24,360
Deficiency % Rev	0.000%	4.893%	4.132%	3.144%	-4.524%	-98.903%	-0.273%

Uniform TIER Minus Rocky #2

**WYRULEC COMPANY**  
**SUMMARY OF RATE CHANGE BASED ON ORIGINALLY PROPOSED RATES AND 2006 TEST PERIOD**

	<u>Consumers</u>	<u>kWh Sold</u>	<u>Adjusted Revenue</u>	<u>Proposed Revenue</u>	<u>Rate Change</u>	<u>% Change</u>
<b>Wyoming</b>						
General Service - Single Phase	3,264	29,875,880	3,805,389	3,928,415	123,026	3.23%
General Service - Three Phase	99	4,616,171	481,476	498,970	17,494	3.63%
Irrigation Small - Single Phase	106	633,261	91,653	94,410	2,757	3.01%
Irrigation Large	580	23,514,816	2,512,564	2,565,064	52,500	2.09%
Irrigation Time of Use	2	175,714	18,676	22,697	4,021	21.53%
Large Power	3	4,219,772	369,555	381,683	12,128	3.28%
Platte Yoder	1	13,409,197	592,878	811,300	218,422	36.84%
Rocky Mountain Pipeline	1	7,073,615	379,399	457,077	77,678	20.47%
Guernsey Stone	1	1,140,823	67,402	97,506	30,104	44.66%
Rocky Mountain (New Load)			60,000	60,000	0	0.00%
Lighting			14,956	15,224	268	1.79%
Subtotal	20	100,130	14,956	15,224	268	1.79%
	4,077	84,759,379	8,393,948	8,932,346	538,398	6.41%

**WYRULEC COMPANY**  
**SUMMARY OF RATE CHANGE BASED ON OCA PROPOSED RATES AND 2006 TEST PERIOD**

	<u>Consumers</u>	<u>kWh Sold</u>	<u>Adjusted Revenue</u>	<u>Proposed Revenue</u>	<u>Rate Change</u>	<u>% Change</u>
<b>Wyoming</b>						
General Service - Single Phase	3,264	29,875,880	3,805,389	3,880,743	75,354	1.98%
General Service - Three Phase	99	4,616,171	481,476	464,071	-17,405	-3.61%
Irrigation Small - Single Phase	106	633,261	91,653	113,764	22,111	24.12%
Irrigation Large	580	23,514,816	2,512,564	2,693,852	181,288	7.22%
Irrigation Time of Use	2	175,714	18,676	16,896	-1,780	-9.53%
Large Power	3	4,219,772	369,555	356,898	-12,657	-3.42%
Platte Yoder	1	13,409,197	592,878	806,703	213,825	36.07%
Rocky Mountain Pipeline	1	7,073,615	379,399	428,284	48,885	12.88%
Guernsey Stone	1	1,140,823	67,402	95,952	28,550	42.36%
Rocky Mountain (New Load)			60,000	60,000	0	0.00%
Lighting			14,956	15,186	230	1.54%
Subtotal	20	100,130	14,956	15,186	230	1.54%
	4,077	84,759,379	8,393,948	8,932,349	538,401	6.41%

Summary of Rate Changes

**CERTIFICATE OF SERVICE**

I hereby certify that on November 23, 2007, I served the foregoing Pre-filed Testimony of Bryce J. Freeman by delivering copies thereof to the individual/entities below, by the methods(s) indicated.

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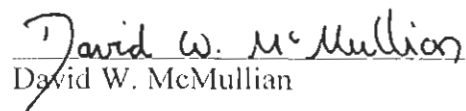
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