

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application) DOCKET NO. 06-035-163
Of Rocky Mountain Power for)
A Deferred Accounting Order)
To Defer the Costs of Loans)
Made to Grid West)

In the Matter of the Application) DOCKET NO. 07-035-04
Of Rocky Mountain Power for)
An Accounting Order To Defer)
The Costs Related to the)
MidAmerican Energy Holdings)
Company Transaction)

In the Matter of the Application) DOCKET NO. 07-035-14
Of Rocky Mountain Power for)
An Accounting Order for Costs)
Related to the Flooding of the)
Powerdale Hydro Facility)

TESTIMONY OF
CHERYL MURRAY
FOR THE COMMITTEE OF
CONSUMER SERVICES

September 10, 2007

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT**
3 **POSITION?**

4 A. My name is Cheryl Murray. My business address is 160 East 300 South
5 Salt Lake City, Utah. I am a utility analyst for the Committee of Consumer
6 Services (Committee).

7
8 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THE**
9 **PUBLIC SERVICE COMMISSION?**

10 A. Yes. I have testified in several PacifiCorp dockets and a Questar rate
11 case.

12
13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. My testimony addresses policy issues the Committee considered in its
16 analysis of Rocky Mountain Power's (Company or RMP) applications for
17 accounting orders for costs of loans made to Grid West, costs related to
18 the MidAmerican Energy Holdings Company transaction (transition or
19 severance costs), and costs related to the flooding of the Powerdale
20 Hydro facility (Powerdale).

21

22 **Q. WILL YOUR TESTIMONY ADDRESS STANDARD ACCOUNTING**
23 **REQUIREMENTS ATTENDENT TO THESE APPLICATIONS?**

24 A. No. The Committee has retained the services of Larkin & Associates, a
25 Certified Public Accounting Firm, to review the Company's applications to
26 determine if they comport with standard accounting requirements. Donna
27 DeRonne, a CPA in that firm, will provide testimony on accounting issues.

28

29 **Q. WHAT IS THE COMMITTEE'S POSITION IN GENERAL REGARDING**
30 **REQUESTS FOR DEFERRED ACCOUNTING ORDERS?**

31 A. The Committee believes that under certain circumstances the use of
32 deferred accounting can be appropriate. As basic criteria events that are
33 unforeseen, extraordinary and material may qualify for deferred
34 accounting. However, deferred accounting orders should be granted
35 judiciously and each request must be carefully scrutinized for
36 appropriateness in light of the particular circumstances as well as the
37 items for which deferral is requested.

38

39 **Q. DID THE COMMITTEE DETERMINE THAT ADDITIONAL CRITERIA**
40 **SHOULD BE APPLIED TO THE APPLICATIONS IN QUESTION?**

41 A. Yes. Due to the specific subject matter and the timing of these
42 applications the Committee deemed it appropriate to consider: 1) the
43 Company's use of a future test year in its most recent general rate case
44 (Docket No. 06-035-21); and 2) the revenue requirement settlement
45 agreed to by parties in that rate case. These elements raise the bar for
46 determining whether deferred accounting treatment is appropriate.

47

48

49 **Q. PLEASE DESCRIBE THE COMMITTEE'S POLICY CONSIDERATIONS**
50 **REGARDING THE USE OF A FUTURE TEST YEAR IN THESE**
51 **DOCKETS.**

52 A. In the most recent general rate case the Company used a future test year
53 to determine the revenue requirement necessary to operate its business in
54 the rate-effective period. Use of a future test year requires the Company
55 to assess its future revenue needs based on its intimate knowledge of the
56 various costs (capital, O&M, etc.) associated with operating its business.
57 Other parties cannot match the Company's degree of knowledge of costs
58 attendant to efficiently and reliably running its utility business.

59

60 We are all aware that the future rarely unfolds as expected. The
61 magnitude of the variation in particular revenue or cost items may be small
62 or quite significant and may be to the benefit of customers or to
63 shareholders. When the Company uses a future test year to set rates and
64 later requests deferred accounting for specific ratemaking items, the bar is
65 raised for determining that deferred accounting treatment is appropriate.

66

67 Further, allowing deferred accounting for items previously considered in
68 the rate case may raise a legal concern relating to single item rate making.

69

70 **Q. WHY DOES THE COMMITTEE BELIEVE THE REVENUE**
71 **REQUIREMENT STIPULATION APPROVED BY THE COMMISSION IN**
72 **RMP'S LAST RATE CASE HAS RELEVANCE TO THESE**
73 **APPLICATIONS?**

74 A. By agreeing to the settlement, the Company apparently believed that the
75 revenue requirement increase granted by the Commission was sufficient
76 through the rate effective period. When the revenue requirement in a rate
77 case has been settled through a stipulation among the parties and specific
78 rate elements and the associated dollar amounts have not been
79 specifically identified, it is inappropriate for a party to that stipulation to
80 later selectively "call out" one or two items and request further
81 consideration for ratemaking purposes.¹ This is of particular importance
82 where there is no matching of costs and benefits as is the case in the
83 Company's Grid West and Transition Cost Deferred Accounting
84 Applications. For example, in its application relating to transition costs,
85 the Company requests deferral of costs associated with the termination of
86 employees but inexplicably ignores the resulting labor cost savings that
87 are significant and ongoing. As indicated in Committee witness Deronne's
88 testimony, the labor expense savings that is presently benefiting RMP and
89 its shareholders between rate cases total approximately \$64 million and
90 exceed the transition costs by \$25 million.

91

¹ Certain costs related to Grid West and employee severance costs were included in the Company's test year revenue requirement projections.

92 Thus, the Commission should carefully consider the future implications of
93 granting deferred accounting orders under these circumstances.

94

95 **Q. UTILIZING THE AFOREMENTIONED CRITERIA WHAT IS THE**
96 **COMMITTEE’S VIEW REGARDING THE GRID WEST APPLICATION?**

97 A. The issues of the Grid West application do not pass even the basic
98 criteria. The loan default was not unforeseen or extraordinary and the
99 amount of the loan default is not material.

100

101 **Q. WHAT IS THE COMMITTEE’S POSITION REGARDING THE**
102 **COMPANY’S REQUEST TO DEFER SEVERANCE COSTS?**

103 A. The severance costs may be material but they were not unforeseen.
104 Since severance costs were included as an item in the last rate case they
105 are subject to a higher test and must be characterized as a missed
106 forecast. The Company should not be allowed to come back and attempt
107 to “correct” a missed forecast by obtaining a deferred accounting order.

108

109 **Q. WHAT IS THE COMMITTEE’S RECOMMENDATION REGARDING THE**
110 **GRANTING OF DEFERRED ACCOUNTING TREATMENT FOR GRID**
111 **WEST LOAN AND TRANSITION COSTS?**

112 A. The Committee recommends that the deferred accounting applications for
113 both Grid West loan costs and transition costs should be denied. If the
114 Commission elects to approve deferred accounting for the transition costs,

115 the associated labor expense savings should be treated as a regulatory
116 liability to serve as a future credit against the severance costs. Ms.
117 DeRonne provides further details of this position in her testimony as well
118 the accounting principles that should apply to both applications.

119

120 **Q. WHAT IS THE COMMITTEE'S POSITION REGARDING THE**
121 **APPLICATION FOR ACCOUNTING TREATMENT FOR THE**
122 **POWERDALE HYDRO FACILITY?**

123 A. The Committee considers the flooding of the Powerdale Hydro facility to
124 be an extraordinary event of sufficient magnitude to qualify for regulatory
125 asset treatment of the unrecovered investment and decommissioning
126 costs.

127

128 **Q. WHAT OTHER DISTINCTIONS DOES THE COMMITTEE MAKE**
129 **BETWEEN THE POWERDALE APPLICATION AND DEFERRED**
130 **ACCOUNTING REQUESTS FOR GRID WEST AND TRANSITION**
131 **COSTS?**

132 A. While Grid West and transition costs were part of the last general rate
133 case, the flooding that precipitated the Company's accounting request for
134 Powerdale occurred after the rate case and therefore could not be
135 expected to have been included. Also, the timing of the request is such
136 that the Commission can require the Company to account for all potential
137 offsets to the estimated decommissioning costs.

138

139 **Q. DOES THE COMMITTEE AGREE WITH THE COMPANY'S**
140 **APPLICATION AS FILED?**

141 A. Not entirely. Ms. DeRonne further addresses the Committee's position
142 and recommendations with regard to the specifics of the accounting
143 treatment requested.

144

145 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

146 A. Yes it does.