Q. Are you the same Jeffrey K. Larsen that filed direct testimony in the case?

A. Yes I am.

PURPOSE OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. In my rebuttal testimony I will address the direct testimony of Division of Public Utilities witness David T. Thomson, Committee of Consumer Services witnesses Cheryl Murray and Donna DeRonne, and Utah Association of Energy Users witness Kevin C. Higgins. Because the witnesses address the same topics and because their positions and recommendations are in many ways similar, my rebuttal is organized by topic rather than by witness. I will first address the general deferred accounting policy positions expressed by the four witnesses. Next I will respond to their recommendations and supporting arguments on the three deferred accounting applications.

DEFERRED ACCOUNTING POLICY

Q. Both Committee of Consumer Services witness Cheryl Murray and Division of Public Utilities witness David Thomson propose a set of criteria for deferred accounting. Do you agree with their criteria?

A. No. While I agree with some of their proposed criteria, I strongly disagree with other components of their proposed criteria. Ms. Murray states that "… events that are unforeseen, extraordinary and material may qualify for deferred accounting." Mr. Thomson, in his Exhibit 1.1, presents a more detailed list of guidelines.

I agree that to qualify for deferred accounting treatment the event or item must be extraordinary to the extent that extraordinary refers to items that are nonrecurring, unusual, or in some cases unforeseen. I do not agree that an event must always be unforeseen to qualify for deferred accounting treatment. It is very common for the Commission to approve deferred accounting treatment for items, that while unusual and nonrecurring, were not unforeseen. The deferral of early retirement costs associated with the ScottishPower acquisition of PacifiCorp is a good example of a deferral that was not unforeseen. In addition Y2K expenditures, costs associated with the Noell Kempf Climate Action Project, reengineering costs, and the Glenrock Mine Closure costs, all of which were not unforeseen, were ordered deferred with three to five year amortization periods by the Utah Commission in Docket 99-035-10.

Q. Do you have any other comment on the unforeseen and extraordinary standard proposed by Ms. Murray and Mr. Thomson?

A. Yes. As the Commission will recall, the standard for exceptions to the rule against retroactive ratemaking established by the Utah Supreme Court in *MCI Telecommunications Corp. v. Public Service Comm'n*, 840 P.2d 746 (Utah 1992), is that rates may be adjusted retroactively if an event is unforeseeable and extraordinary. The extraordinary portion of the standard specifically referred to "an extraordinary effect on the utility's *earnings*." 840 P.2d at 771 (emphasis added). The Court further explained that the "increase or decrease [in earnings] will necessarily be outside the normal range of variance that occurs in projecting future expenses." *Id*. at 771-72. It is my impression that all parties to this case agree that the Commission should not approve deferred accounting treatment if the effect of such approval is retroactive ratemaking. Therefore, I find it ironic that Ms. Murray and Mr. Thomson propose the same standard for deferred accounting as has been ruled by the Supreme Court to be the standard for retroactive ratemaking. While there are clearly some similarities in the criteria that should be considered, it does not seem to me that the criteria should be the same.

Q. Is Mr. Thomson's recommendation that a materiality threshold of 5% of income before extraordinary items be applied to deferred accounting applications reasonable and consistent with Commission practice?

A. No. While some level of materiality may be reasonable from a purely practical standpoint, the 5 percent of net income threshold proposed by Mr. Thomson is unreasonable and inconsistent with prior Commission practice. He bases his recommendation on the Securities Exchange Commission ("SEC") and Federal Energy Regulatory Commission ("FERC") requirements for placing an "Extraordinary Item" on the income statement. Regulatory assets and liabilities, however, are not placed on the income statement as "Extraordinary Items." Deferred accounting and the creation of regulatory assets and liabilities is a regulatory tool to set rates on a normalized level of utility costs while providing the utility the opportunity for cost recovery of unusual, nonrecurring items.

Eligibility for a deferred accounting order should be primarily based on the non-recurring or unusual nature of the event or transaction. Prior orders of the Commission approving deferred accounting, such as for the Noell Kempf Climate Action Project, which was less than $2 million on a total Company basis and less than $1 million allocated to Utah, have established a very modest materiality threshold. Each of the three deferrals currently before the Commission exceeds the levels employed by the Commission in Docket No. 99-035-10. Under Mr. Thomson's proposed criteria, none of the items deferred by the Commission in that docket would qualify for deferred accounting treatment.

Q. Mr. Thomson quotes extensively from SEC Staff Accounting Bulletin ("SAB") 99 and from the FERC system of accounts instructions for extraordinary items. How does the threshold for "extraordinary items" apply to the determination of whether or not an item qualifies for deferred accounting?

A. The Company does not believe that the threshold for "extraordinary items" (5% of net income) is appropriate for determining eligibility for deferred accounting treatment. The threshold for "extraordinary items" both under FERC accounting and Generally Accepted Accounting Principles ("GAAP") is designed to be a very high threshold. Under FERC and GAAP guidance, the Company believes that items appropriate for deferred accounting would rarely, if ever be treated as "extraordinary items." Deferred accounting treatment should not be held to the same threshold.

Q. What threshold does the Company believe is appropriate?

A. The Company believes that materiality can not be defined in terms of a single threshold that is universally applicable. As applied by the Commission in the past, the threshold for deferred accounting should be lower than that used to for "extraordinary items," but judgment should still be applied. We believe that a more reasonable "rule of thumb" would be items which are significant, either quantitatively or qualitatively. This would be a considerably lower threshold than 5 percent of net income and would include looking at the significance of the item as follows:

- Quantitative assessments such as an item's significance to net income, equity and/or the specific line items impacted by the item
- Qualitative assessments including consideration of what has historically been considered significant in the ratemaking process
- Nature of the event (i.e. unusual, unique)
- Future benefit to ratepayers (if applicable)
- State or Commission Policy

Q. Do you agree with the additional guidelines listed in Mr. Thomson's Exhibit 1.1?

A. No. I disagree with at least two additional guidelines. He proposes that deferrals only be allowed for "[e]vents that provide a future net benefit for ratepayers." While utility expenditures must be prudent to be included in customer rates, specific customer benefits may be hard to quantify and the time period of the benefit may be difficult to define. One of Mr. Thomson's supporting justifications for this guideline is to provide intergenerational equity. I agree that intergenerational equity is important; however some parties in this case have not considered such a guideline important in their recommendations for Powerdale decommissioning costs. For example Committee witness Donna DeRonne proposes that the Powerdale decommissioning costs should not be recovered from customers until after the plant is removed. This would push the recovery of those costs onto customers long after the plant has ceased providing energy for the use of customers. The benefit to customers of an expenditure may be one of several considerations in deciding whether to allow deferred accounting for the item. However, it need not be fully addressed in a deferred accounting context because it will be fully reviewed when and if the deferred expenses are proposed to be included in rates.

Mr. Thomson's guidelines also recommend that the Commission should consider if the utility is earning over its allowed return before allowing deferral of an item. While an earnings test would be impractical to administer because it would require a general rate case, such a guideline suggests that costs should be deferred if the utility is under earning its allowed rate of return. The decision to defer an item should be based on the unusual and nonrecurring nature of the item or event. The issue of the appropriate rate of return is handled when the amortization of the deferral, along with all other utility costs are presented in a general rate case. If the current level of revenues are projected to produce a return above that authorized by the Commission, customer rates are adjusted accordingly.

Q. Should the standard for deferred accounting be higher when a utility uses a forecast test period as suggested by Ms. Murray, Ms. DeRonne, and UAE witness Kevin Higgins?

A. No. The principles associated with deferred accounting are applicable regardless of whether a historic or forecast test period is being utilized. Unusual and nonrecurring costs are deferred and amortized over a period of years. This properly reflects the ongoing normalized costs of the utility. The creation of the regulatory asset has no impact on current rates. If amortization of the asset begins during the current rate effective period, as is proposed by the Company in the case of the Grid West loans and the MEHC severance costs, the utility foregoes any opportunity to recover the portion of those costs that are booked to expense during this period. Rather, only the amortization expense and the remaining unamortized balance of a deferred expense or revenue that carry through to the test period (whether it is an historic or forecast test period) in the utility's next general rate case will be included in the revenue requirement filing at that time.

Deferring and amortizing an expense or revenue deals with how actual expenses are reflected on the books of the Company. It is very likely that actual expenses in any given period will be somewhat different from what was projected for that period in a forecast test period. While current rates may be set using forecast costs, the Company is still required to reflect actual costs on the books.

An easy to understand example of this is capital additions to rate base. In a forecast test period, the utility projects the level of capital investment it expects to make through the end of the test period. After a review by parties, and approval by the Commission, rates are set using a projected level of rate base investment. The actual capital additions through the end of the forecast test period may be higher or lower than the level upon which rates were set. Nonetheless, the utility puts the actual, not the projected, level of capital investment on the books and begins depreciation of that investment while current rates are in effect. The utility cannot go back and change current rates to reflect the difference between the actual and projected level of rate base, but when rates are set in the next rate case the actual, somewhat depreciated, investment and associated depreciation expense will be considered.

Q. Is, as Ms. DeRonne and Mr. Higgins suggest, deferring costs between rate case proceedings a form of single item rate making?

A. No. Deferred accounting is not single item rate making unless a specific surcharge recovery mechanism is approved along with the deferral. The rate making for deferred items, such as those proposed in these dockets, is held for the next rate case where they are considered along with all other costs of the Company. The goal of deferred accounting is to reflect a normalized level of annual costs by providing a mechanism used to maintain stable utility rates and to allow the Company an opportunity to recover its prudently incurred costs in providing utility service. In that vein, the criteria for deferring an expense or revenue and establishing a regulatory asset or liability are the same whether the unusual and nonrecurring expense is incurred during a rate case test period or outside a rate case test period. Unusual and nonrecurring costs should be deferred and amortized over a period of time so that when rates are set, they are set on the basis of the Company's normalized cost and revenue streams. A normalized level of costs includes not only the deferral of unusual expenses incurred during a given year, but also the amortization of unusual costs that occurred in previous years.

Q. Ms. DeRonne argues that the request to establish regulatory assets for the Grid West loan costs and severance costs are untimely because the Company should have already written-off all or some of the costs. Under GAAP can items that have previously been expensed be reestablished as an asset for regulatory purposes?

A. Yes, section 10A of FAS 71 states: "If a regulator allows recovery through rates of costs previously excluded from allowable costs, that action shall result in recognition of a new asset."

Q. Why does the Company then believe it is appropriate to seek deferred accounting orders rather than expensing items and then reestablishing the asset once recovery is granted?

A. The Company believes there are several benefits from notifying the Commission and other interested parties when an event occurs which should be considered for deferred accounting treatment. These benefits include but are not limit to:

- It identifies for the Commission those items that the Company believes are abnormal and may require special consideration for rate recovery once they have been determined to be prudently incurred costs.
- Expensing items and then reestablishing them creates unnecessary timing differences in the income statement which then places a burden on the Company and interested parties to identify and determine appropriate treatment.
- It allows for these costs to be normalized while still providing an opportunity for recovery in the ratemaking process.

- It allows interested parties the opportunity to evaluate the appropriate intergenerational allocation of these costs.
- It allows the Company to address and recover those costs that are outside of the normal scope of business that have been prudently incurred on behalf of the customers.

Q. Do the proposed deferred accounting applications for the Grid West loan and the severance costs violate the "stayout" provision in the settlement agreement reached by the parties in Docket No. 06-035-21 as suggested by the Division, Committee, and UAE witnesses?

A. No. From both a technical and substantive standpoint, the stay out provision of the stipulation does not preclude the Company from filing an application for deferred accounting or establishing a new regulatory asset. Rather, paragraph 12 of the stipulation only prohibits the Company from filing a general rate case before December 11, 2007, with a rate effective date prior to August 7, 2008. Approval of the Company's applications does not impact the rates that were agreed to by the settlement parties in the stipulation because the recoverability of the cost of the Grid West loans and severance costs in rates will be decided in the Company's next general rate case.

The Company's applications are not a ploy to recover an otherwise non-recoverable expense by capturing it in the present period and carrying the entire amount of the expense into the future in an attempt to recover the full amount in a subsequent rate case. To the contrary, the Company is simply requesting to defer and amortize an expense that would normally be properly amortized over a period of time, as opposed to being absorbed in a single period.

Because the write off of the Grid West loan and the severance costs meet the criteria for deferred accounting, the question of whether or not there is a violation of the stay out provision of the stipulation relates to the appropriate reflection of the amortization of the these costs to expense during the period of the stay out. The Company's requests for deferred accounting are in harmony with the stay out provisions of the stipulation because amortization of the deferrals will begin during the stay out period rather than being delayed until new rates are set. The proposed beginning date for amortization of the Grid West loan and the severance costs ensures that the amortization of the costs will occur while current rates are in effect. Current rates will not be impacted by the deferral and amortization. Future rates will only be impacted to the extent any remaining deferred balance and associated amortization expense continues through the test period of the next general rate case.

This proposed deferral and amortization of these costs are the same as if they had been included in the last rate case. The only difference is that the amortization expense is not being recovered in current rates and may not have been considered by parties in their settlement positions. When new rates are set, the amount of remaining unamortized costs to be considered for recovery will be the same as if the deferral had be included in the last case.

GRID WEST LOAN

Q. Mr. Thomson, Ms. DeRonne, and Mr. Higgins each recommend that the Utah Commission deny the deferral of the written off Grid West loans because the request was not presented as part of the last rate case. Why was the write off of the Grid West loan not included in the last rate case?

A. As I stated in my direct testimony there was no opportunity to introduce the Grid West loan costs in the rate case. The notification of default on the Grid West loan was not received until April 2006, which was after the March 7, 2006, filing date (and well beyond the lockdown of results to complete the case filing) and therefore too late to be included in the revenue requirement in the general rate case. The only other opportunity to present additional evidence in the case was the supplemental testimony of Mr. Specketer, which was filed on April 5, 2006. That testimony only addressed items associated with the new ownership of MEHC.

Q. Do you agree with Mr. Thomson's claim that the Grid West loans have no future net benefit to ratepayers?

A. No for several reasons. First, Rocky Mountain Power's involvement with Grid West was undertaken for the benefit of customers as part of the Company's overall participation in regional transmission planning issues. This benefit is ongoing; it did not start nor will it end with Grid West. It was and is in the best interest of customers to ensure and protect their interests in the Company's transmission assets. The Company must continue to pursue and evaluate those plans being discussed on a regional and national basis to ensure customers are not harmed.

The Company's support of RTO West, and later Grid West, produced a number of regional planning efforts. The Western Governors Association's 2003 and 2005 update of their Conceptual Plans for Transmission in the West (2001) was an effort facilitated by the Seams Steering Group – Western Interconnection ("SSG-WI"). SSG-WI was funded by RTO West (and later Grid West). The SSG-WI planning effort was the basis for the Western Governors' Clean and Diversified Energy Initiative, the Department of Energy's Western Congestion Study, and the ongoing Western Electricity Coordinating Council's Transmission Expansion Planning Policy Committee's work. These regional planning efforts have provided valuable insights for both policymakers and the Company and will continue to provide value in the future. FERC Order 890 planning requirements call for this type of planning to meet transmission customer needs.

Second, PacifiCorp was required by the FERC to participate in developing a regional transmission framework. Grid West was an initial attempt to meet that requirement.

In FERC Order No. 2000, the Commission established a collaborative process for utilities to facilitate the creation of regional transmission organizations ("RTO"). As stated in FERC Order 2000, "The filing requirements set forth in section 35.34(c) of the new regulations are mandatory. In other words, public utilities must file either an RTO proposal or report on the impediments to RTO participation." The order later states, "We will also expect that all transmission owners will participate in a good faith collaborative process that we are establishing herein."

Q. Do you agree with Ms. DeRonne's assertion that labor costs associated with the Company's participation in Grid West are no longer being incurred while the costs remain in rates?

A. No. First, the current revenue requirement was established through a black box settlement so any reference as to what costs are or are not included in rates is without any foundation. Second, as I indicated above, the Company continues to be involved in regional transmission planning issues. While the employees who worked on Grid West may no longer be working on Grid West, they may be working on behalf of customers in other transmission planning forums, such as Northern Tier Transmission Group ("NTTG").

Q. Is the Division and Committee position that the costs for Grid West are not material reason to deny the application for deferral?

A. No. As I discussed at length earlier in my rebuttal testimony, the Division and Committee have supported and the Commission has ordered deferral treatment for amounts much smaller than the Grid West loan.

SEVERANCE COSTS

Q. Mr. Thomson is the only witness that recommends denial of deferred accounting treatment for the MEHC severance costs that were included in the Company's filing in Docket 06-035-21. Why is his reasoning flawed?

A. Both the Committee and UAE support the creation of a regulatory asset for the MEHC severance costs that were included in the Company's filing in the last general rate case, Docket 06-035-21. Division witness Mr. Thomson, however, argues that the deferral should be denied because a regulatory asset was not specifically authorized in the stipulation in that case. While it is true that the stipulation did not specifically establish a regulatory asset for the severance costs, it is also true that the stipulation did not specifically reject the deferral. The stipulation was silent as to nearly all revenue requirements elements, including the test year. Because the stipulation was silent it has no bearing on the issue.

In his argument Mr. Thomson actually affirms the Company's reasoning for requesting a deferred accounting order in Docket No. 07-035-04. He argues that a regulatory asset cannot be created unless authorization is spelled out in either a deferred accounting order or a rate case decision either by stipulation or by order. This supports the rationale for the Company's request. Because the stipulation in the last case did not call out specific revenue requirement elements, including the deferred accounting treatment of the severance costs, separate Commission authority is requested to establish a regulatory asset. All the Company is requesting for this portion of the severance costs is to formalize the treatment that was requested in the last case.

Q. Each of the other parties opposes deferred accounting treatment for the severance costs not presented in the last rate case. Please summarize their reasons for recommending the deferred accounting applications be denied.

A. The parties' reasons can be summarized into three areas. First, they believe the deferred accounting request should have been included in the last rate case. Second, because the Company filing in the last case did not project the total amount of labor cost savings; they believe current rates are over recovering actual labor costs. Third, they believe the request for the deferred accounting treatment violates the stay out provision of the settlement in the last case. I will address their arguments one at a time.

Q. Mr. Thomson and others claim that including the known level of severance costs rather than projecting the final level of severance costs in the last case is a "misstep" and the deferred accounting request is an attempt to correct that mistake by retroactive ratemaking. Is the Company's deferred accounting application retroactive ratemaking?

A. No. I disagree that including only the then known level of severance in the Company's filing was a "misstep" or forecasting error and I certainly disagree that the deferred accounting application is retroactive rate making. The rule against retroactive ratemaking is not applicable to deferred accounting because the rule is that when the estimates in a rate case prove to be inaccurate and costs or revenues are either higher or lower than predicted, the previously set rates cannot be changed to correct for the forecasting error. Rocky Mountain Power is not asking to reset current rates. Furthermore, because amortization of the costs will occur during the current rate effective period, no current period expenses are being pushed into the next rate case. Assuming a three-year amortization period, the severance costs will be more than 50 percent amortized before the remaining unamortized amount is considered for inclusion in rates.

Q. Why didn't the Company present a forecast of MEHC labor reductions and severance costs when it filed Docket 06-035-21?

A. When the case was filed in March 2006, the Company was still under

ScottishPower ownership. The only other opportunity to present additional evidence on the record in the case was the supplemental testimony of Mr. Specketer, which was filed on April 5, 2006, after the acquisition by MEHC was complete. Mr. Specketer's testimony reflected the known labor reductions and severance cost at the time the testimony was filed. As the case progressed and in response to data requests, the Company provided updated information on additional labor reductions and associated severance costs as they became known. In none of the information did the Company include a projection of total severance costs because no projection existed. The acquisition-related severance was not complete until May 2007, over a year after the last case was filed and long after the rates set in the stipulation went into effect.

Q. Mr. Thomson, Ms. DeRonne, and Mr. Higgins all suggest that because the Company filing in the last case did not project the total amount of labor cost savings, current rates are over recovering actual labor costs. Is this assessment correct?

A. No, it is incorrect on several levels. First, as I explained previously in my rebuttal testimony, the current revenue requirement was established through a black box settlement so any reference as to what costs are or are not included in rates, or even whether a historical or forecast test year was used, is without any foundation. Specifically, paragraph 7 of the revenue requirement and rate spread stipulation states:

> There is no overall agreement as to the test period or revenue requirement adjustments which led to the stipulated revenue requirement increases because different parties relied upon different test periods and adjustments in supporting the agreed upon $115 million increase.

Second while, as the stipulation states, parties relied on different adjustments in supporting the agreement, the final revenue requirement was more than $80 million less than the Company requested in its original filing. Clearly current rates are not recovering all of the expenses that were included in the Company's filing. There is no evidence to support the assertion that current rates are over collecting actual labor expenses.

Third, since the last rate case the Company has filed its 2006 results of operations and as a part of an agreement in the last case Rocky Mountain Power agreed to provide forecasted results of operations for 2007 and 2008 to the Division and Committee. All of these reports show that the Company return on equity PacifiCorp is significantly below the 10.25 percent return on equity stated in the stipulation and authorized by the Utah Commission in the last case. In those reports the 2007 forecast, which is the period most closely matching the test period in the prior case, shows the return on equity for the state of Utah is 8.6 percent. These reports clearly show that the Company is not over collecting from customers.

Q. Both Ms. DeRonne and Mr. Higgins suggest that if a regulatory asset is established for the severance costs a regulatory liability should also be established to collect any labor savings until those savings are reflected in rates. Why would establishing a counter balancing regulatory liability not be consistent with regulatory principles?

A. Deferred accounting treatment is appropriate for the severance costs because they are a one-time, nonrecurring expense. Deferred accounting is not appropriate for the reduction in labor expense because the new level of labor expense is on going. In other words, the reduction in labor expense does not meet the "nonrecurring" requirement for deferred accounting treatment. The new level of labor expense will reoccur each and every year in the foreseeable future. Customers will benefit, through rates lower than they otherwise would have been, from the annual level of labor cost savings each and every year for the foreseeable future. Over time the cost savings from the workforce reduction are expected to exceed, by many multiples, the severance costs being paid. Customers should receive the net benefit from the reduction in the number of employees; but they should not receive the benefit of the cost savings without bearing the cost of achieving those savings.

Q. In response to the third argument, why doesn't the request for the deferred accounting treatment violate the stay out provision of the settlement in the last case?

A. As previously discussed, the terms of the stay out provision do not preclude the Company from filing an application for deferred accounting or establishing a new regulatory asset. Approval of the Company's application does not impact the rates that were agreed to by the settlement parties in the stipulation because the recoverability of the severance costs in rates will be decided in the Company's next general rate case.

The Company's request to defer the severance costs is in harmony with the stay out provisions of the stipulation because amortization of the deferrals will begin during the stay out period rather than being delayed until new rates are set.

The proposed beginning date for amortization of the severance costs ensures that the amortization of the costs will occur while current rates are in effect. Current rates will not be impacted by the deferral and amortization and no costs during the stay out period will be carried into future periods for later recovery. In fact, as I stated earlier, over 50 percent of the severance costs will be amortized before new rates are set in the next rate case. Future rates will only be impacted to the extent any remaining amortization expense continues through the test period of the next general rate case.

This proposed deferral and amortization of the additional severance costs are the same as if they had been included in the last rate case. The only difference is that the amortization expense is not being recovered in current rates. When new rates are set, the amount of remaining unamortized costs to be considered for recovery will be the same as if they had been included in the last case and customers will receive the benefit of the lower labor costs while paying for a portion of the costs of achieving those savings.

Q. In addition to her primary arguments, Ms. DeRonne also suggests that the deferred accounting proposal for severance costs violates MEHC Merger Commitment No. 22 in Docket No. 05-035-54. Is there any basis for her assertion?

A. None at all. Commitment No. 22 stated:

> 22 MEHC and PacifiCorp guarantee that the customers of PacifiCorp will be held harmless if the transaction between MEHC and PacifiCorp results in a higher revenue requirement for PacifiCorp than if the transaction had not occurred; provided, however, that MEHC and PacifiCorp do not intend that this commitment be interpreted to prevent

> PacifiCorp from recovering prudently incurred costs approved for inclusion in revenue requirement by the Commission.

This commitment is that the revenue requirement will not be higher than if the transaction did not occur. This commitment has been met and there is no basis for the Committee to make this claim. The revenue requirement was reduced by $3.1 million in the supplemental, post-closing filing. Known labor reductions were reflected as part of that filing. Additional revenue requirement reductions of nearly $80 million were reflected in the settlement. In addition the amortization of the severance costs is an offset to labor savings that reduce the revenue requirement.

Q. Mr. Higgins segregated his recommendation on severance costs into four categories. Do you have a response to his recommendations?

A. Yes. Mr. Higgins makes individual recommendations on the following categories of severance costs: (1) Severance expense for backfilled positions; (2) executive severance expense; (3) non-executive severance expense included in the prior rate proceeding and (4) new non-executive severance expense. I will address his categories one and two. His positions for categories three and four are essentially the same as those of Ms. DeRonne. I have already explained the Company's position on those issues.

Q. Do you agree with Mr. Higgins' proposal that deferred accounting treatment is not appropriate for backfilled positions?

A. Yes. It is not the intent of Rocky Mountain Power to request cost recovery of severance costs associated with positions that were back filled. In Rocky

Mountain Power's current rate case filings in both Idaho and Wyoming, any severance costs associated with backfilled positions were removed from the case.

Q. Do you agree with Mr. Higgins' proposal that deferred accounting treatment is not appropriate for executive severance expense?

A. No. The Company does not see any difference between the severance costs for executives and non-executives. In both cases the severance cost is more than offset by the ongoing labor cost savings. There is no reason the two categories should be treated differently.

POWERDALE

Q. Do the parties generally agree with the Company's application to defer the costs related to the flooding of the Powerdale Hydro Facility?

A. Yes. All of the intervening parties agree that it is appropriate to allow the Company to transfer the net book value of the Powerdale Plant to FERC Account 182.2 – Unrecovered Plant and Regulatory Study Costs. However, the parties propose different accounting treatment in a few areas, such as the on going depreciation or amortization rate and the reflection of decommissioning costs.

Q. Mr. Thomson argues that the depreciation rate on the Powerdale Plant should have been changed when the Company first determined the plant was to be decommissioned. Why wasn't the depreciation rate changed at that time?

A. The Company can only apply depreciation rates approved by the Commission. The Company is currently in process of updating rates for Commission approval.

Q. Do you agree with Ms. DeRonne's recommendation that the amortization of the non-depreciated plant balance be based on the gross plant amount, not the net amount transferred?

A. Yes. It is the Company's intention to continue the amortization expense at the same dollar amount as the current deprecation expense until the next rate case where the appropriate amortization period for the net book balance remaining at that time can be addressed.

Q. Have you reviewed the parties' recommendations concerning the Powerdale decommissioning costs?

A. Yes. I believe there may be some misunderstanding as to both the Company's treatment of the decommissioning costs and the accounting requirements for an asset retirement obligation ("ARO"). Let me clarify how the Powerdale decommissioning costs are treated.

Q. Were any decommissioning costs related to the Powerdale Plant reflected on the Company's books prior to the occurrence which shut the plant down?

A. Yes, when the Company received approval from the FERC to decommission the Powerdale Plant, it was determined under FAS 143 that the requirements for an asset retirement obligation had been met, so an ARO liability was then established.

Q. When this liability was established, did the related expenses flow through the income statement? If not, what was the appropriate accounting treatment?

A. No, the Company requested specific accounting treatment for an ARO established under FAS 143. The Commission granted this special regulatory treatment in its

Accounting Order issued August 13, 2003 in Docket No. 03-035-13. The order stated:

> Regulated entities subject to SFAS 71, Accounting for the Effects of Certain Types of Regulation, are able to recognize any differences between the two methods as a regulatory asset or liability, subject to SFAS 71 provisions. In order to reconcile the requirements of SFAS 143 and the regulatory accounting practices, PacifiCorp seeks authorization to record any difference between the annual SFAS 143 accretion and depreciation expenses and the annual Commission-approved depreciation rates and coal mine reclamation accruals as a regulatory asset or a regulatory liability.

Under this order, when the decommission liability was established an appropriate ARO asset was also established with all adjusting entries related to differences between depreciation rates and ARO accounting being treated as a regulatory asset or liability.

Q. How does this prior accounting affect the timing and accounting treatment of decommissioning costs?

A. Since the Company already has established an ARO and regulatory assets related to the decommissioning of the Powerdale Plant, it would cause unreasonable accounting impacts to require the Company now to write-off these assets. The Company is required by GAAP to maintain the decommissioning liability on its books. If the accounting treatment proposed by the other parties is followed, the Company would be required to recognize an expense in the current period and then when these costs are incurred in the future and the regulatory asset is established, a gain would be recognized. The Company believes it is more appropriate to allow it to reclassify these assets as requested in the application for deferral.

Q. Does this conclude your rebuttal testimony?

A. Yes.