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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power, a Division of PacifiCorp, for a Deferred Accounting Order to Defer the Costs of Loans Made to Grid West, the Regional Transmission Organization

DOCKET NO. 06-035-163

In the Matter of the Application of Rocky Mountain Power for an Accounting Order To Defer the Costs Related to the MidAmerican Energy Holdings Company Transaction

DOCKET NO. 07-035-04

In the Matter of the Application of Rocky Mountain Power for an Accounting Order for Costs Related to the Flooding of the Powerdale Hydro Facility

DOCKET NO. 07-035-14

**PREFILED SURREBUTTAL TESTIMONY OF KEVIN C. HIGGINS ON
BEHALF OF UTAH ASSOCIATION OF ENERGY USERS**

The Utah Association of Energy Users (UAE) hereby files the prefiled surrebuttal testimony of Kevin C. Higgins in the above dockets.

DATED this 22nd day of October, 2007.

HATCH, JAMES & DODGE

/s/ _____
Gary A. Dodge
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was sent this 22nd day of October, 2007, to the mail or email addresses listed below:

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**BEFORE
THE PUBLIC SERVICE COMMISSION OF UTAH**

Surrebuttal Testimony of Kevin C. Higgins

on behalf of

UAE

In the Matter of the Application 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 of Rocky Mountain Power, a Division of PacifiCorp, for
a Deferred Accounting Order To Defer the Costs of Loans Made to Grid West, the
Regional Transmission Organization

In the Matter of the Application of Rocky Mountain Power for an Accounting Order for
Costs related to the Flooding of the Powerdale Hydro Facility

Docket Nos. 07-035-04, 06-035-163, 07-035-14

October 22, 2007

1 **Standard for deferred accounting when a utility uses a forecast test period**

2 **Q. On page 6 of his rebuttal testimony, Mr. Larsen states that you suggest that**
3 **the standard for deferred accounting should be higher when a utility uses a**
4 **forecast test period. Do you make such an assertion?**

5 A. No, I did not state that the standard for deferred accounting is higher when
6 future test periods are used. What I stated is that when a future test period is used,
7 the failure of any party to properly predict the actual level of a particular revenue
8 or expense is not a basis for later changing rates through the use of deferred
9 accounting. This does not imply a higher standard; rather it underscores the
10 importance of context in making deferred accounting determinations. Among
11 other considerations, regulatory commissions should be careful not to allow
12 deferred accounting to become a vehicle for correcting forecast errors included in
13 future test period revenue requirement determinations.

14

15 **Whether or not current rates are over-recovering labor costs**

16 **Q. On page 17 of his rebuttal testimony, Mr. Larsen states that you, DPU**
17 **witness David T. Thompson, and CCS witness Donna DeRonne are incorrect**
18 **to suggest that current rates are over-recovering labor costs, because RMP**
19 **did not project the total labor cost savings from its severance program in its**
20 **last rate case filing. Do you wish to respond?**

21 A. Yes. One of the major issues in this proceeding concerns RMP's proposal
22 to establish a regulatory asset to recognize new severance expenses. In my direct

1 testimony, I point out that RMP has experienced a labor cost reduction from these
2 very same severance expenses – and that these cost reductions are not reflected in
3 current rates.

4 Mr. Larsen challenges my assertion by referring to the “black box” nature
5 of the settlement agreement in the prior rate case. Mr. Larsen quotes the following
6 passage:

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

11
12 According to Mr. Larsen, this means that “any reference as to what costs are or
13 are not included in rates...is without any foundation.” [p. 17, lines 381-383]. If
14 this is the case, then it applies equally to the severance expense that RMP wishes
15 to defer. If it is without foundation for me to assert that the savings *caused by the*
16 *severance expense* are not yet reflected in rates, then it is also without foundation
17 for RMP to assert that the severance expense is not reflected in current rates. It is
18 illogical for RMP to maintain that the savings from the severance program
19 “might” be reflected in rates, but that the expense of achieving these savings is
20 somehow definitely not. Accordingly, if RMP cannot state that the severance
21 expense (or anything else specific) is reflected in rates, then RMP cannot properly
22 single out such items for deferred recovery. Given RMP’s interpretation of the
23 implications of the black box stipulation, the Company’s deferral request should
24 be rejected. A similar point regarding the black box stipulation and RMP’s

1 request for deferred accounting treatment was made by Mr. Thomson in his direct
2 testimony [p. 10, lines 221-228].
3

4 **Whether booking a regulatory liability that reflects labor cost savings from RMP's**
5 **severance program would violate regulatory principles**

6 **Q. On page 18 of his rebuttal testimony Mr. Larsen refers to the assertion by**
7 **you and Ms. DeRonne that, if a regulatory asset is established for RMP's**
8 **severance costs, a regulatory liability should also be established to accrue any**
9 **labor cost savings until those savings are reflected in rates. Mr. Larsen**
10 **claims that establishing a counter balancing regulatory liability would not be**
11 **consistent with regulatory principles. Do you wish to comment?**

12 A. Yes. Mr. Larsen is incorrect. One of the fundamental principles in utility
13 regulation is the matching principle, which requires consistency in the treatment
14 of expenses and revenues, and more generally, in the treatment of costs and
15 benefits. Mr. Larsen's argument rests on distinguishing the severance cost as a
16 nonrecurring expense, whereas the labor expense reduction associated with the
17 severance program may be on-going. What Mr. Larsen fails to recognize is that
18 both the cost (severance expense) and the benefit (labor expense reductions)
19 spring from the same nonrecurring event, the severance program. The fact that
20 benefits derived from a non-recurring event may be ongoing does not make them
21 less eligible for deferred accounting treatment than the non-recurring expense that
22 created them. For the purpose of appropriately matching the cost of the severance

1 program and the benefits of the program, Mr. Larsen’s assertion is arbitrary and
2 without merit.

3 **Q. Does FAS 71 limit the recognition of a regulatory liability to reductions in net**
4 **allowable costs that are not ongoing?**

5 A. No. In its discussion of when a regulatory liability can be imposed by a
6 regulator, FAS 71 states, in Paragraph 11.c:

7 A regulator can require that a gain or other reduction of net allowable
8 costs be given to customers over future periods. That would be
9 accomplished, for ratemaking purposes, by amortizing the gain or other
10 reduction of net allowable costs over those future periods and reducing
11 rates to reduce revenues in approximately the amount of the amortization.
12 If a gain or other reduction of net allowable costs is to be amortized over
13 future periods for rate-making purposes, the regulated enterprise shall not
14 recognize that gain or other reduction of net allowable costs in income in
15 the current period. Instead, it shall record it as a liability for future
16 reductions of charges to customers that are expected to result.

17
18 There is nothing in this discussion that limits the establishment of a regulatory
19 liability to a reduction in net allowable costs that is not ongoing.

20 **Q. Does General Instruction No. 7 to the Uniform System of Accounts**
21 **(“USOA”) (quoted by Mr. Larsen in his direct testimony) require that to**
22 **qualify for deferred accounting treatment a cost reduction cannot be**
23 **ongoing?**

24 A. No. General Instruction No. 7 to the USOA, in defining Extraordinary
25 Items, refers to events and transactions that are of “unusual nature” and
26 “infrequent occurrence,” and “would not reasonably be expected to recur in the
27 foreseeable future.” In the case at hand, the non-recurring event is the

1 establishment of the severance program. If the costs of RMP's severance program
2 are recognized as a regulatory asset (and for the reasons discussed in my direct
3 testimony, the majority of these expenses should not be so recognized), then it is
4 entirely appropriate to recognize the benefits of the program as a regulatory
5 liability, as discussed in my direct testimony.

6 **Q. Does this conclude your surrebuttal testimony?**

7 A. Yes, it does.