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

2 A. Yes I am.

3 **PURPOSE OF TESTIMONY**

4 **Q. What is the purpose of your rebuttal testimony?**

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

14 **DEFERRED ACCOUNTING POLICY**

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

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

23 I agree that to qualify for deferred accounting treatment the event or item

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

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

37 A. Yes. As the Commission will recall, the standard for exceptions to the rule
38 against retroactive ratemaking established by the Utah Supreme Court in *MCI*
39 *Telecommunications Corp. v. Public Service Comm'n*, 840 P.2d 746 (Utah 1992),
40 is that rates may be adjusted retroactively if an event is unforeseeable and
41 extraordinary. The extraordinary portion of the standard specifically referred to
42 "an extraordinary effect on the utility's *earnings*." 840 P.2d at 771 (emphasis
43 added). The Court further explained that the "increase or decrease [in earnings]
44 will necessarily be outside the normal range of variance that occurs in projecting
45 future expenses." *Id*. at 771-72. It is my impression that all parties to this case
46 agree that the Commission should not approve deferred accounting treatment if

47 the effect of such approval is retroactive ratemaking. Therefore, I find it ironic
48 that Ms. Murray and Mr. Thomson propose the same standard for deferred
49 accounting as has been ruled by the Supreme Court to be the standard for
50 retroactive ratemaking. While there are clearly some similarities in the criteria
51 that should be considered, it does not seem to me that the criteria should be the
52 same.

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

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

66 Eligibility for a deferred accounting order should be primarily based on
67 the non-recurring or unusual nature of the event or transaction. Prior orders of the
68 Commission approving deferred accounting, such as for the Noell Kempf Climate
69 Action Project, which was less than $2 million on a total Company basis and less

70 than $1 million allocated to Utah, have established a very modest materiality
71 threshold. Each of the three deferrals currently before the Commission exceeds
72 the levels employed by the Commission in Docket No. 99-035-10. Under Mr.
73 Thomson's proposed criteria, none of the items deferred by the Commission in
74 that docket would qualify for deferred accounting treatment.

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

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

88 **Q. What threshold does the Company believe is appropriate?**

89 A. The Company believes that materiality can not be defined in terms of a single
90 threshold that is universally applicable. As applied by the Commission in the
91 past, the threshold for deferred accounting should be lower than that used to for
92 "extraordinary items," but judgment should still be applied. We believe that a

93 more reasonable "rule of thumb" would be items which are significant, either
94 quantitatively or qualitatively. This would be a considerably lower threshold than
95 5 percent of net income and would include looking at the significance of the item
96 as follows:

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

104 **Q. Do you agree with the additional guidelines listed in Mr. Thomson's Exhibit**
105 **1.1?**

106 A. No. I disagree with at least two additional guidelines. He proposes that deferrals
107 only be allowed for "[e]vents that provide a future net benefit for ratepayers."
108 While utility expenditures must be prudent to be included in customer rates,
109 specific customer benefits may be hard to quantify and the time period of the
110 benefit may be difficult to define. One of Mr. Thomson's supporting
111 justifications for this guideline is to provide intergenerational equity. I agree that
112 intergenerational equity is important; however some parties in this case have not
113 considered such a guideline important in their recommendations for Powerdale
114 decommissioning costs. For example Committee witness Donna DeRonne
115 proposes that the Powerdale decommissioning costs should not be recovered from

116 customers until after the plant is removed. This would push the recovery of those
117 costs onto customers long after the plant has ceased providing energy for the use
118 of customers. The benefit to customers of an expenditure may be one of several
119 considerations in deciding whether to allow deferred accounting for the item.
120 However, it need not be fully addressed in a deferred accounting context because
121 it will be fully reviewed when and if the deferred expenses are proposed to be
122 included in rates.

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

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

137 A. No. The principles associated with deferred accounting are applicable regardless
138 of whether a historic or forecast test period is being utilized. Unusual and

139 nonrecurring costs are deferred and amortized over a period of years. This
140 properly reflects the ongoing normalized costs of the utility. The creation of the
141 regulatory asset has no impact on current rates. If amortization of the asset begins
142 during the current rate effective period, as is proposed by the Company in the case
143 of the Grid West loans and the MEHC severance costs, the utility foregoes any
144 opportunity to recover the portion of those costs that are booked to expense
145 during this period. Rather, only the amortization expense and the remaining
146 unamortized balance of a deferred expense or revenue that carry through to the
147 test period (whether it is an historic or forecast test period) in the utility's next
148 general rate case will be included in the revenue requirement filing at that time.
149 Deferring and amortizing an expense or revenue deals with how actual
150 expenses are reflected on the books of the Company. It is very likely that actual
151 expenses in any given period will be somewhat different from what was projected
152 for that period in a forecast test period. While current rates may be set using
153 forecast costs, the Company is still required to reflect actual costs on the books.
154 An easy to understand example of this is capital additions to rate base. In
155 a forecast test period, the utility projects the level of capital investment it expects
156 to make through the end of the test period. After a review by parties, and
157 approval by the Commission, rates are set using a projected level of rate base
158 investment. The actual capital additions through the end of the forecast test
159 period may be higher or lower than the level upon which rates were set.
160 Nonetheless, the utility puts the actual, not the projected, level of capital
161 investment on the books and begins depreciation of that investment while current

162 rates are in effect. The utility cannot go back and change current rates to reflect
163 the difference between the actual and projected level of rate base, but when rates
164 are set in the next rate case the actual, somewhat depreciated, investment and
165 associated depreciation expense will be considered.

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

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

183

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

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

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

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

198 • It identifies for the Commission those items that the Company believes
199 are abnormal and may require special consideration for rate recovery
200 once they have been determined to be prudently incurred costs.

201 • Expensing items and then reestablishing them creates unnecessary
202 timing differences in the income statement which then places a burden
203 on the Company and interested parties to identify and determine
204 appropriate treatment.

205 • It allows for these costs to be normalized while still providing an
206 opportunity for recovery in the ratemaking process.

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

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

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

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

230 of time, as opposed to being absorbed in a single period.

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

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

250

251 **GRID WEST LOAN**

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

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

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

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

274 harmed.

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

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

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

297 establishing herein."

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

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

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

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

313 **SEVERANCE COSTS**

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

317 A. Both the Committee and UAE support the creation of a regulatory asset for the
318 MEHC severance costs that were included in the Company's filing in the last
319 general rate case, Docket 06-035-21. Division witness Mr. Thomson, however,

320 argues that the deferral should be denied because a regulatory asset was not
321 specifically authorized in the stipulation in that case. While it is true that the
322 stipulation did not specifically establish a regulatory asset for the severance costs,
323 it is also true that the stipulation did not specifically reject the deferral. The
324 stipulation was silent as to nearly all revenue requirements elements, including the
325 test year. Because the stipulation was silent it has no bearing on the issue.

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

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

339 A. The parties' reasons can be summarized into three areas. First, they believe the
340 deferred accounting request should have been included in the last rate case.
341 Second, because the Company filing in the last case did not project the total
342 amount of labor cost savings; they believe current rates are over recovering actual

343 labor costs. Third, they believe the request for the deferred accounting treatment
344 violates the stay out provision of the settlement in the last case. I will address
345 their arguments one at a time.

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

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

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

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

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

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

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

> 387 There is no overall agreement as to the test period or revenue requirement
> 388 adjustments which led to the stipulated revenue requirement increases
> 389 because different parties relied upon different test periods and adjustments
> 390 in supporting the agreed upon $115 million increase.

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

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

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

412 A. Deferred accounting treatment is appropriate for the severance costs because they
413 are a one-time, nonrecurring expense. Deferred accounting is not appropriate for

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

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

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

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

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

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

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

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

457 22 MEHC and PacifiCorp guarantee that the customers of PacifiCorp
458 will be held harmless if the transaction between MEHC and PacifiCorp
459 results in a higher revenue requirement for PacifiCorp than if the
460 transaction had not occurred; provided, however, that MEHC and
461 PacifiCorp do not intend that this commitment be interpreted to prevent

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

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

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

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

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

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

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

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

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

493 **POWERDALE**

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

496 A. Yes. All of the intervening parties agree that it is appropriate to allow the
497 Company to transfer the net book value of the Powerdale Plant to FERC Account
498 182.2 – Unrecovered Plant and Regulatory Study Costs. However, the parties
499 propose different accounting treatment in a few areas, such as the on going
500 depreciation or amortization rate and the reflection of decommissioning costs.

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

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

507 **Q. Do you agree with Ms. DeRonne's recommendation that the amortization of**
508 **the non-depreciated plant balance be based on the gross plant amount, not**
509 **the net amount transferred?**
510 A. Yes. It is the Company's intention to continue the amortization expense at the
511 same dollar amount as the current deprecation expense until the next rate case
512 where the appropriate amortization period for the net book balance remaining at
513 that time can be addressed.
514 **Q. Have you reviewed the parties' recommendations concerning the Powerdale**
515 **decommissioning costs?**
516 A. Yes. I believe there may be some misunderstanding as to both the Company's
517 treatment of the decommissioning costs and the accounting requirements for an
518 asset retirement obligation ("ARO"). Let me clarify how the Powerdale
519 decommissioning costs are treated.
520 **Q. Were any decommissioning costs related to the Powerdale Plant reflected on**
521 **the Company's books prior to the occurrence which shut the plant down?**
522 A. Yes, when the Company received approval from the FERC to decommission the
523 Powerdale Plant, it was determined under FAS 143 that the requirements for an
524 asset retirement obligation had been met, so an ARO liability was then
525 established.
526 **Q. When this liability was established, did the related expenses flow through the**
527 **income statement? If not, what was the appropriate accounting treatment?**
528 A. No, the Company requested specific accounting treatment for an ARO established
529 under FAS 143. The Commission granted this special regulatory treatment in its

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

532 Regulated entities subject to SFAS 71, Accounting for the Effects of
533 Certain Types of Regulation, are able to recognize any differences
534 between the two methods as a regulatory asset or liability, subject to SFAS
535 71 provisions. In order to reconcile the requirements of SFAS 143 and the
536 regulatory accounting practices, PacifiCorp seeks authorization to record
537 any difference between the annual SFAS 143 accretion and depreciation
538 expenses and the annual Commission-approved depreciation rates and coal
539 mine reclamation accruals as a regulatory asset or a regulatory liability.

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

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

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

556

557 **Q. Does this conclude your rebuttal testimony?**

558 A. Yes.