Witness CCS – 2R

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application) Of Rocky Mountain Power for) A Deferred Accounting Order) To Defer the Costs of Loans) Made to Grid West)	**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**

REBUTTAL TESTIMONY OF
DONNA DERONNE
FOR THE COMMITTEE OF
CONSUMER SERVICES

October 1, 2007

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Introduction

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna DeRonne. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory analyst at Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. ARE YOU THE SAME DONNA DERONNE WHO PREVIOUSLY OFFERED PRE-FILED DIRECT TESTIMONY IN THIS CASE?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. In his direct testimony, at pages 4 and 18-19, Utah Association of Energy Users (UAE) witness Mr. Kevin Higgins presents an alternative recommendation in the event the Commission wishes to allow deferred accounting treatment for non-executive severance costs in order to provide long-term incentives for the Company to pursue cost-savings measures. In this rebuttal testimony, I discuss why it is not necessary to provide long-term incentives of this nature to Rocky Mountain Power (RMP).

I also address and concur with Mr. Higgins' position regarding the impact of the Embedded Cost Differential on the amount of Powerdale unrecovered plant and decommissioning costs that are allocated to Utah ratepayers.

Finally, I address the recommendation of Division of Public Utilities (DPU) witness David Thomson pertaining to the amortization period for the unrecovered Powerdale plant costs.

<u>Long-term Incentives for Cost Savings are Not Necessary</u>

Q. WHAT SPECIFIC STATEMENTS MADE BY MR. HIGGINS IN THE AREA OF SEVERANCE COSTS DO YOU WISH TO ADDRESS?

A. At page 4 of his direct testimony, Mr. Higgins provides an alternative to UAE's primary recommendation and states as follows: "To the extent the Commission wishes to provide long-term incentives for aggressive cost-savings, a three-year amortization could be adopted for new non-executive severance expense (net of backfill), but without any interest on the regulatory asset until the start of the rate effective period following the next rate case." Mr. Higgins' statement appears to be based on a premise that the allowance of a deferral and potential recovery of the severance costs in a future rate case would provide long-term incentives to RMP to aggressively pursue cost savings measures, such as the severance program.

Q: DO YOU BELIEVE THAT SUCH LONG-TERM INCENTIVES ARE NECESSARY OR APPROPRIATE TO MOTIVATE RMP'S MANAGEMENT TO AGGRESSIVELY PURSUE COST CUTTING INITIATIVES?

A: No. I strongly disagree that such incentives are necessary or appropriate.

Q. WHY ARE SUCH LONG-TERM INCENTIVES NOT NECESSARY OR APPROPRIATE?

A: RMP's rates are determined based on a traditional form of utility regulation in which rates are set by the Commission that provide the Company an opportunity to recover its prudently incurred costs and earn a fair and reasonable rate of return on its investment. Any cost reductions secured by management between rate cases increases the earned rate of return on equity that goes to the benefit of shareholders until rates are reset. Under traditional regulation, therefore, adequate incentives are already in place for RMP's management to seek appropriate cost savings initiatives and operate the business in an efficient manner.

Q. IS THE SEVERANCE PROGRAM AT ISSUE IN THIS CASE A GOOD EXAMPLE OF RMP MANAGEMENT IMPLEMENTING A COST SAVINGS INITIATIVE THAT WILL PROVIDE A NET BENEFIT TO SHAREHOLDERS BETWEEN RATE CASES?

A. Yes. Based on the severance and labor cost savings amounts presented in RMP witness Jeffrey Larsen's direct testimony, and also summarized in my direct testimony on pages 16-17, the net cost savings of approximately $25 million resulting from the employee severance program will accrue to the benefit of shareholders until rates are changed in August 2008 to reflect (among other things) the lower employee complement. Thus, management was already motivated to aggressively pursue labor cost savings, absent recovery of severance program costs.

Q: SHOULD CUSTOMERS EXPECT RMP MANAGEMENT TO EFFICIENTLY PLAN AND OPERATE ITS UTILITY BUSINESS?

A. Yes. The salaries of RMP's management are included in base rates and are effectively paid by the Company's customers. RMP's management has an obligation to serve its customers in an efficient manner while providing reasonable levels of reliability and customer service. It is the duty of management to seek out and implement appropriate cost savings measures which will not detrimentally impact reliability or customer service.

Q. DO YOU HAVE ANY ADDITIONAL CONCERNS WITH REGARDS TO PROVIDING ADDITIONAL INCENTIVES BEYOND THOSE IN THE NORMAL RATEMAKING PROCESS?

A. Yes. In the 2003 winter storm outage docket (Docket No. 04-035-01) and in the prior rate case, the Committee raised concerns regarding decreases in reliability in Utah. Part of the Committee's concern related to whether the Company was adequately staffed to maintain adequate levels of reliability on the Utah distribution system. It is not always reasonable or appropriate to pursue "aggressive" cost savings measures, especially if such initiatives could negatively impact a utility's level of reliability. Thus, thorough analysis should be undertaken to support cost savings measures that are aggressive in nature.

In this case, management determined that there was an excessive employee level at RMP and the Committee is not challenging their conclusion at this time. However, the Commission should be careful to discourage employee reductions that may inappropriately diminish the level of reliability or customer service.

Embedded Cost Differential

Q. IN HIS DIRECT TESTIMONY, UAE WITNESS MR. HIGGINS RAISED CONCERNS REGARDING THE COMPANY'S FAILURE TO REFLECT THE IMPACT OF THE EMBEDDED COST DIFFERENTIAL ON THE AMOUNT OF REGULATORY ASSET TO BE ESTABLISHED ON A UTAH BASIS FOR THE POWERDALE UNDEPRECIATED INVESTMENT AND DECOMMISSIONING COSTS. DOES THE COMMITTEE SHARE HIS CONCERNS?

A. Yes. At page 20 of his direct testimony, Mr. Higgins raises a concern that RMP's proposal results in the regulatory asset for the unrecovered Powerdale investment and decommissioning costs being established based on Utah's share of the initial cost allocation under the Revised Protocol interjurisdictional-allocation method without consideration of the impacts of the Embedded Cost Differential ("ECD"). The application of the ECD in the revenue requirement calculation results in additional hydroelectric costs being assigned to the western side of PacifiCorp's system to reflect the fact that western states primarily benefit from hydroelectric resources. This reduces the amount of the Powerdale unrecovered investment and decommissioning costs assigned to Utah.

At page 21 of his testimony, Mr. Higgins further states: "As the regulatory asset should reflect what will probably be recovered in rates from Utah customers, it should be established based on Utah's share of western hydro costs after the ECD adjustment is applied, rather than based on the initial allocation." (emphasis supplied) Since the Company has not provided the information needed to estimate the appropriate amount of deferral after application of the ECD, the Commission should require RMP to provide its best estimate of the Utah amount after application of the ECD, including all calculations and assumptions utilized in deriving the estimated amount.

<u>Amortization Period for Powerdale Unrecovered Plant Costs</u>

Q. IN HIS DIRECT TESTIMONY, AT PAGE 15, DIVISION OF PUBLIC UTILITIES WITNESS DAVID THOMSON INDICATES THAT A "3 TO 5 YEAR AMORTIZATION WOULD APPEAR REASONABLE" FOR THE UNRECOVERED POWERDALE PLANT COSTS. WHAT AMORTIZATION PERIOD DID YOU RECOMMEND IN YOUR DIRECT TESTIMONY?

A. In my direct testimony, at page 26, I recommended (1) the amortization period should be determined by the Commission in RMP's next rate case, and (2) until the next rate case, the amortization should be based on applying the 4.2% annual depreciation rate currently factored into rates to the gross Powerdale plant balance. In the next rate case, the appropriate amortization period for the remaining plant balance could then be addressed.

Q. IF THE COMMISSION DETERMINES THAT THE AMORTIZATION PERIOD SHOULD BE SET AS PART OF A DEFERRED ACCOUNTING ORDER, WOULD THE THREE-TO-FIVE YEAR PERIOD RECOMMENDED BY MR. THOMSON BE REASONABLE?

A. Yes, a three-to-five year amortization period for the net unrecovered Powerdale plant costs remaining on the books at the time the amortization begins would be reasonable. The Company should continue to amortize the balance on its books based on the application of the 4.2% annual depreciation rate to the gross plant amount, consistent with what is currently factored into rates, until the Commission determines when the shorter amortization period should begin.

Q. DOES THIS COMPLETE YOUR PREFILED REBUTTALTESTIMONY?

A. Yes.