
BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority To Increase Its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations, Consisting of a General Rate Increase of Approximately \$161.2 Million Per Year, and for Approval of a New Large Load Surcharge :

Docket No. 07-035-93

DIRECT TESTIMONY

OF

**DAVID T. THOMSON
STATE OF UTAH
DIVISION OF PUBLIC UTILITIES**

APRIL 7, 2008

1 **Q. Please state your name and business address for the record.**

2 A. David T. Thomson. My business address is Heber M. Wells Building 4th Floor,
3 160 East 300 South, Salt Lake City, Utah 84114-6751.

4 **Q. For which party will you be offering testimony in this case?**

5 A. I will be offering testimony on behalf of the Utah Division of Public Utilities
6 (“Division”).

7 **Q. Please describe your position and duties with the Division of Public Utilities?**

8 A. I am a Technical Consultant. Among other things, I serve as an in-house
9 consultant on issues concerning the terms, conditions and prices of utility service;
10 industry and utility trends and issues; and regulatory form, compliance and
11 practice relating to public utilities. I examine public utility financial data for
12 determination of rates; review applications for rate increases; research, examine,
13 analyze, organize, document and establish regulatory positions on a variety of
14 regulatory matters; review operations reports and ensure compliance with laws
15 and regulations, etc.; testify in hearings before the Utah Public Service
16 Commission (“Commission”); assist in analysis of testimony and case
17 preparation; and in the past I have participated in settlement conferences.

18 **Q. What is the purpose of your testimony?**

19 A. The purpose of my testimony is to put forth adjustments to various account
20 balances as provided by Rocky Mountain Power (the “Company”) in its filing
21 used to determine its proposed revised overall revenue increase request of \$99.8
22 million, as set forth in the testimony of Steven R. McDougal (Exhibit SRM-1S).

23 **Q. What areas in the filing where you assigned to review as part of your**
24 **examination and what other work did you do relating to the Company's**
25 **filing?**

26 A. I was assigned to review Taxes other than Income Taxes; Property Taxes; Outside
27 Services expense (FERC Account #923); Rent expense (FERC Account #923);
28 Maintenance and General expense (FERC Account #935); Advertising expense
29 (FERC Accounts #909 and #930); Airplane expense; the Operation and
30 Maintenance expense related to Customer Accounting, and Customer Service and
31 Information.

32 I also teamed with the Division consultants on a limited review of Income
33 Taxes. I performed a limited review of detailed Executive expenses. I was
34 involved with reviewing external and internal auditor workpapers and reports in
35 conjunction with my areas of assignment. I reviewed Company accounting
36 records and documentation directly related to the assigned areas of my review. I
37 attended meetings with Company personnel where DSM accounting and
38 expenses, secondary labor adjustments, non-utility and capitalized labor, and
39 Forecasting Methodology were reviewed and discussed.

40 I made inquiries as to the effect of new accounting reporting requirements
41 and regulation on costs in the filing. The regulation was Sarbanes-Oxley and the
42 new reporting requirement was FIN 48. I also did a limited review of
43 PacifiCorp's 10-year financial plan. I reviewed General Rate Case testimony from
44 Idaho and its related Stipulation and the Wyoming Stipulation concerning matters

45 of adjustment and settlement in those filings that would or would not relate to the
46 Utah filing.

47 **Q. How will you present your adjustments?**

48 A. I have six adjustments and I will discuss them in the order of my attached DPU
49 Exhibits 4.1 to 4.6. These adjustments reduce expenses and costs to Property
50 taxes, Rents, Outside Services, Airplane costs, Advertising expense, and
51 Customer Accounting.

52 **Q. Will you please describe your first adjustment as set forth in DPU Exhibit**
53 **4.1?**

54 A. Yes. This adjustment takes the revised projected 2008 Property tax expense as
55 provided by the Company in response to the Division's Data Request number
56 21.1, and computes the revised incremental Property Tax amount for 2008. Since
57 this revised incremental amount is less than the amount for the Property Tax
58 expense as filed in the 2008 Test Period by Company witness Steven R.
59 McDougal (SRM-S1; page 7.4 & 7.4.1), this adjustment corrects the Property Tax
60 amount to the proper revised incremental amount. The Company should have
61 updated its property tax projection for 2008 for this revised estimate, as provided
62 by its own property tax department in its SRM-S1 filing, but did not.

63 In response to the Division's Data request 21.1, the Company explains this
64 revision to 2007 and 2008 property taxes as follows:

65 Note that estimates of calendar year 2008 and 2009 property
66 tax expense were prepared prior to the receipt of tax bills for
67 certain states, including Utah. Receipt of 2007 Utah tax bills
68 revealed an unanticipated 6% decline in overall Utah property

69 tax rates. This resulted in a \$1,731,401 decline in actual 2007
70 Utah property tax expense to \$31,081,518. Once changes in
71 tax rates for Utah and certain other states were taken into
72 account in late 2007, final calendar year 2007 property tax
73 expense was \$69,102,427 or \$2,242,816 less than the original
74 2007 estimate of \$71,352,243.

75
76 Also, on page 14 of the attachment is a worksheet titled
77 "Revised 2008 and 2009 Estimated Tax Assessment and
78 Operating Tax Expenses." This revised worksheet contains
79 updated estimates of 2008 and 2009 property tax expense
80 which rely upon the 2007 property tax expense of \$69,102,427.
81 The revised estimate for calendar year 2008 and 2009 property
82 tax expense was \$79,665,746 and \$89,505,746 respectively.
83 Revised schedules 7.4 and 7.4.1 are also included in the
84 attachment.
85

86 DPU Exhibit 4.1.1 shows how the adjustment was computed and is based
87 on the above mentioned revised schedules 7.4 and 7.4.1. The adjustment results in
88 a Utah allocated decrease in Test Period Property Tax expense of \$1,154,129 for
89 FERC account 408 – Taxes Other Than Income. My computations for this
90 adjustment are found in DPU Exhibit 4.1.

91 **Q. Will you explain your second adjustment as set forth in DPU Exhibit 4.2?**

92 A. This adjustment removes from rent expense the operational expenses for closed
93 facilities, vacant space, under utilized space, or space in the base period that will
94 not be used during the future test period per my analysis of information on leased
95 or rental assets as provided by the Company in Division Data Requests numbers
96 16.1 and 37.1 – 37.12. Per those data requests, some of the leased or rental space
97 was either unoccupied or under utilized or was being subleased for amounts less
98 than what the Company was paying for the leased space. Also, some of the leases

99 with rent expense in the Base Period will be terminated prior to December 31,
100 2008 and should not be in the Future Test Period rent expense. The total dollar
101 amount for these types of leases or rentals was computed using lease or rental
102 information provide by the Company. Rental space that is not used and useful as
103 described above and as outlined in detail in DPU Exhibit 4.2.1 was adjusted out of
104 rent expense.

105

106 However, the adjustment I have made for the 1033 Building 6th Street – Portland
107 is subject to withdrawal if the Company can clear up my questions as to this lease
108 being used and useful. My footnote (4) to DPU Exhibit 4.2.1 explains in detail
109 why I made the adjustment to the above lease and what conditions need to be met
110 to have this part of my overall adjustment withdrawn. The adjustment amount
111 results in a reduction of Utah Base Period allocated rental expense of \$415,918
112 for FERC account 931 - Rents. DPU Exhibit 4.2 outlines my computations for
113 this adjustment. The above \$415,918 amount would be reduced by \$102,505 if I
114 withdraw my Portland Building component as explained above and in my DPU
115 Exhibit 4.2.1.

116 **Q. What is your Third Adjustment as set forth in DPU Exhibit 4.3?**

117 A. This adjustment removes from the Base Period for FERC Account 923 - Outside
118 Services, certain out-of period costs, and non-recurring costs and reduces certain
119 costs that should be amortized. It also removes certain below the line costs that
120 are recorded as Base Period operating expense. These costs are removed from the

121 Base Period results of operations to normalize the Test Period Results. The total
122 of all the adjustments reduces Base Period Outside Services expense, resulting in
123 a reduced Utah allocated amount of \$553,990. Of this amount \$175,613 is out of
124 period and \$378,377 is non-recurring. My computations for this adjustment are
125 found in DPU Exhibit 4.3. The various adjustments and the explanations for the
126 adjustments are outlined in detail in my DPU Exhibit 4.3.1. The amounts used
127 are from those recorded in the Company's accounting records for FERC Account
128 923 for the Base Period.

129 **Q. Will you please explain your fourth adjustment as set forth in DPU Exhibit**
130 **4.4?**

131 A. This adjustment removes from operating expenses non-utility use of the Company
132 airplane. Some portions of this adjustment are subject to withdrawal based on the
133 resolution of certain comments, questions and concerns that I have put forth to the
134 Company. These are described in detail in my Division Exhibits 4.4.1 and 4.4.2.

135 In Division Data Request 41.1, I asked the Company to provide a list of
136 trips taken in Company owned or leased aircraft during the Base Year with the
137 following information for each trip by utility and non-utility personnel or
138 individuals: first, the date of the trip; second, the point where the trip began; third,
139 the destination; fourth, the purpose of the trip; and fifth, the identity of each
140 person on the aircraft, excluding the flight crew, and each person's title or
141 position with the Company. I also asked the Company to provide the alternative
142 cost of coach class airfare to the destination or closest destination airport as

143 serviced by commercial aircraft including commercial commuter aircraft for the
144 trips for each identified person on the aircraft.

145 After providing the above information the Company has agreed to remove
146 from revenue certain non-utility flights. Its list of the flights to be removed has
147 been reproduced from Division Data Request 41.1 and is found in Exhibit 4.4.1.
148 The Company referenced the list as Attachment DPU 41.1-2. I quote from its
149 response to Division Data Request 41.1 as follows:

150 In compiling this response, the Company identified costs for
151 certain trips or passengers that served a purpose not directly related
152 to PacifiCorp or Rocky Mountain Power utility business. Provided
153 as Attachment DPU 41.1-2 is a list of these items along with the
154 cost of each, which the Company would agree to remove from the
155 revenue increase requested in its general rate case (\$41,659 on a
156 total company basis, or \$17,584 allocated to Utah)¹.

157 I have included these amounts as part of my adjustment along with other
158 amounts that are subject to withdrawal as explained above. This adjustment
159 results in a decrease to Base Period operating cost for the Utah allocated portion
160 in the amount of \$72,044. My computations for this adjustment are found in DPU
161 Exhibit 4.4.1 and 4.4.2. All Information for this adjustment was provided by the
162 Company in Division Data Requests Numbers 41.1.
163

¹ In response to Division Data Request 47.1 in Attachment DPU 47.1c the Utah allocated percentage is shown as 42.38% for FERC Account #557, this is the percentage I used for my adjustments subject to withdrawal. In actuality, the airplane O&M costs are allocated to numerous accounts with different allocation percentages. For ease of computation, I have used one of the accounts where most of the airplane costs are allocated to in the Company records (FERC Account #557). This produces a Utah allocated amount that would be different than if I allocated total amounts to applicable FERC accounts and then used the Utah allocation factors for those accounts. My amounts are an approximation and could be slightly higher or lower than the proper allocation. Due to the size of this adjustment it was felt that the approximate Utah amount would have a minuscule effect on the overall change in revenue requirement and thus was used. However, for the non-utility travel amount agreed to by the Company, I have used its Utah allocated amount as provided by it in its response to Division Data Request 41.1.

164 **Q** **Would you now please explain your fifth adjustment as set forth in DPU**
165 **Exhibit 4.5?**

166 A. Yes. I am reducing through an adjustment FERC Account 930 – Miscellaneous
167 General Expenses in the Base Period Utah allocated amount of \$1,324,171. My
168 computations for this adjustment are found in DPU Exhibit 4.5. The adjustment
169 is for advertising expenses that are not recoverable under Public Service
170 Commission R746-406 as detailed in my DPU Exhibits 4.5.1 and 4.5.2. As
171 explained in my footnote (1) in DPU Exhibit 4.5.2, for some of my adjustment
172 amounts I am reducing advertising costs due to a lack of substantiation for such
173 costs (DPU Exhibit 4.5.2 note (1) quotes the FERC substantiation rules.) For
174 purposes of those adjustments, I have treated unsubstantiated costs as
175 unrecoverable until or when (1) such costs are substantiated with regard to the
176 messages advertised as required by FERC rules and (2) that such substantiation
177 makes it clear that the costs adhere to R746-406. Documentation was requested
178 in a Division Data Request 6.2-1 2nd supplement to support certain advertising
179 payments in the Company’s advertising accounts. However, the Company’s
180 response did not substantiate the message of the advertising as per FERC rules.
181 Again, I am referring to the requirement as to advertising message documentation
182 indicating that such costs adherence to FERC rules and State rules for
183 recoverability. Also, some of the adjustments in DPU Exhibit 4.5.1 on their face
184 do not appear to meet the recoverability requirements of Rule R746-406 and thus
185 have been treated as not recoverable. Some of these costs may be subject to

186 recoverability if proper support, as discussed above and in DPU Exhibits 4.5.1
187 and 4.5.2, is provided. The basis of the adjustment is from information provided
188 by the Company in its response to Division Data Request 6.2-1 2nd supplement.

189 **Q. What is your sixth and last adjustment as set forth in DPU Exhibit 4.6?**

190 A. My last adjustment removes out-of-period and non-recurring costs from FERC
191 Accounts 901 and 903 - Customer O&M Expenses for the base period. These
192 transactions are removed from Base Period results of operations to normalize the
193 Base Period results. The adjustment results in a reduction on a Utah allocated
194 basis in the Base Period Customer O&M expenses in the amount of \$48,605. My
195 computations for this adjustment are found in DPU Exhibit 4.6. DPU Exhibit
196 4.6.1 provides the details to my adjustment and the explanation for the
197 adjustments. The amounts used are from those recorded in the Company's
198 accounting records for FERC Accounts 901 and 903 for the Base Period.

199 **Q. Does this conclude your Testimony?**

200 A. Yes.