Witness CCS - 6

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 if 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 PRE-FILED DIRECT TESTIMONY OF HELMUTH W. SCHULTZ, III FOR THE COMMITTEE OF CONSUMER SERVICES

April 7, 2008

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INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Helmuth W. Schultz, III. I am a Certified Public Accountant, licensed in the State of Michigan, and a Senior Regulatory Analyst in the firm of Larkin & Associates, PLLC, with offices located at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC is a Certified Public Accounting and Regulatory Consulting firm that performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). The firm has extensive experience in over 600 regulatory proceedings involving electric, gas, water and wastewater, and telephone utilities.

Q. HAVE YOU PREPARED AN APPENDIX THAT DESCRIBES YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my experience and qualifications.

Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Larkin & Associates, PLLC, was retained by the Committee of Consumer Services (CCS or Committee) to analyze the reasonableness of Rocky Mountain Power Company's (Company) request for an increase in rates.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will testify on the reasonableness of the Company's requested components of payroll, the flow through of employee complement adjustments, medical benefits, pension administration cost, 401(k) cost, other salary overhead benefits, relocation costs and injuries and damages.

<u>PAYROLL</u>

Q. HAVE YOU REVIEWED THE COMPANY'S REQUEST FOR PAYROLL FOR THE TEST YEAR ENDED DECEMBER 31, 2008?

A. Yes. The Company's request for Labor and Incentives of $537,283,448 is based on the average employee complement during the Base Year Ended June 30, 2007 of 5,704.5 Full Time Equivalents (FTEs). This is the amount shown in the Company's filing on Page 4.10.2. The Company first reduced its request $14,733,785 ($12,222,490 in Total Company Expense) for the portion of salaries included in the Test Year for transition employees that have departed and then further reduced its request $1,665,000 for the anticipated reduction in meter readers during the Test

Year. In addition to the Bare Labor cost, the Company is requesting $28,462,500 of incentive compensation.

Q. ARE THERE CONCERNS WITH THE COMPANY'S REQUEST FOR LABOR IN THE TEST YEAR?

A. Yes. The request includes an unsupported number of FTEs, excessive and unsupported merit increases, an understated adjustment for meter readers, excessive overtime and an excessive amount of incentive compensation.

<u>**EMPLOYEE COMPLEMENT**</u>

Q. HOW MANY FTES ARE ULTIMATELY REFLECTED IN THE TEST YEAR?

A. That has not been specifically identified within the filing or in Company testimony. The filing and responses to information requests indicate that the Base Year payroll used by the Company is based on an average employee complement of 5,704.5 FTEs. That average is net of the reductions for transition employees during the Base Year. The Company then adjusts labor for the prorated Automatic Meter Reader (AMR) savings that resulted from a forecasted reduction of 90 meter reader positions. The Company adjustment in reality reflects an average reduction of 46.9 FTEs for meter readers during the Test Year because it removes only part of the salary of the respective positions that will be eliminated.

Q. WHAT DID YOU DETERMINE FROM YOUR REVIEW OF THE FILING AND RESPONSES TO INFORMATION REQUESTS?

A. The FTE count in July 2006, the first month of the Base Year, was 5,898.5. According to the response to CCS 4.10, there were 206 transition employees that left the Company from August 2006 through June 2007. That would mean that absent any other changes, the FTE count as of June 2007 would be 5,692.5 FTEs. According to MDR 2.2 the FTE count as of June 2007 was 5,589.5. This means that in addition to the 206 transition employees another 103 FTEs left the employ of the Company during the Base Year. However, subsequent to the Base Year the Company added 58 FTEs to increase their FTE count to 5,647.5 as of January 2008. There was no testimony explaining the addition of the 58 FTEs, nor was there any justification provided for not removing the compensation of the 103 FTEs that left during the Base Year.

Q. DID YOU INQUIRE AS TO WHY NO ADJUSTMENT OR JUSTIFICATION WAS MADE?

A. Yes. CCS 9.17 asked why there was not an adjustment to remove the remaining net 95 positions from the Base Year. I would note that the difference between the 103 and the 95 is because 8 transition positions were eliminated in July 2007 after the Base Year end. The Company, in their reply, simply stated that the employees “will probably be replaced”.

The Company also stated that the amount of compensation included in the Base Year for the vacant positions would be difficult to provide.

Despite the Company's failure to provide any justification or explanation for the 58 positions that were added, subsequent to the Base Year, I am recommending the addition be allowed. However, the Company should be put on notice that when the Company adds employees, those changes need to be addressed. It is not appropriate to add employees beyond the Base Year without providing justification or at least some explanation as to why the number is increasing.

Q. IS IT REASONABLE TO ASSUME THAT ALL THE VACANT POSITIONS WILL BE FILLED?

A. No. Vacancies occur throughout the year and the filling of some vacancies occurs throughout the year. The fact that the number of FTEs has declined is evidence that not all the vacancies will be filled. The Company's actual count in relation to budgeted positions has decreased since 2005. Based on an analysis of MDR 2.22, as shown on CCS Exhibit 6.1, Workpaper 3, the Company filled approximately 95.23% of the budgeted positions in 2005, 93.91% of the budgeted positions in 2006 and 93.8% of the 2007 budgeted positions. There is an evident declining percentage in the number of budgeted employee positions being filled. Even with the Company filling 58 positions since June 2007, the actual employee count in January 2008 was 92.79% of budgeted. The Company's statement that "they will probably" replace the employees is not sufficient justification to include payroll for employees that do not exist. It is recommended that the Company's labor request be reduced for the number of Base Year vacant positions not filled as of January 2008.

Q. WHAT IS THE RECOMMENDED ADJUSTMENT TO THE EMPLOYEE COMPLEMENT?

A. As shown on CCS Exhibit 6.1, a reduction to the employee complement for 57 FTEs results in a total payroll reduction of $4,733,023. This adjustment reduces total Company expense $3,473,231 and Utah expense $1,484,759.

Q. HOW DID YOU DETERMINE YOUR ADJUSTMENT?

A. As indicated above, the employee complement was reduced by 57 FTEs at an average pay per employee of $83,035. The 57 FTE reduction is simply the difference between the Company's requested FTEs and the January 2008 actual FTE count. The average pay per employee was determined by first reducing the Company Bare Labor of $480,755,936 by a merit adjustment of $898,020 and the overtime adjustment of $6,181,955 for an adjusted Bare Labor of $473,675,961. The adjusted Bare Labor of $473,675,961 was then divided by the 5,704.5 average FTEs in the Base Year resulting in the average pay of $83,035.

Q. WHY DID YOU REFLECT A MERIT ADJUSTMENT AND AN OVERTIME ADJUSTMENT IN YOUR CALCUATION?

A. To avoid a double counting of the different adjustments reflected in my recommendation, the overtime adjustment and the merit adjustment had to be removed from Bare Labor costs to develop a proper average compensation for the reduction in the employee complement adjustment.

<u>MERIT ADJUSTMENT</u>

Q. WHAT IS THE MERIT ADJUSTMENT YOU ARE RECOMMENDING?

A. Total Bare Labor should be reduced $898,020. Total Company expense should be reduced $658,993, and Utah expense is reduced $281,711.

Q. WHY WAS A MERIT ADJUSTMENT MADE?

A. The Company has proposed that the Base Year compensation be annualized for 2007 and inflated for 2008 by various percentage increases. The various union increases were not adjusted because the increases are contractual. The Company's filing increased the exempt and non-exempt compensation by 3.5% effective January 2008. In reviewing the filing and the information supplied in response to data requests it is my opinion that the 3.5% is not justified. As shown on CCS Exhibit 6.2, the exempt and non-exempt compensation should be reduced $898,020. This adjustment assumes an increase of 3% in 2008 instead of the 3.5%. The 3% is based on the Company's union increases. The adjustment may be conservative and a greater adjustment might be considered because there is no evidence that even a 3% increase is warranted.

Q. WHAT IS THE BASIS FOR YOUR CONCLUDING THAT THE 3.5% WAS NOT JUSTIFIED?

A. The Company has not provided any testimony and/or documentation that would justify increasing the exempt and non-exempt employee compensation by 3.5%. MDR 2.20 requested that the Company identify which studies were used (if any) in projecting the compensation and benefit costs for the Test Year. The response to MDR 2.20 simply referred to "a wide range of third party salary surveys to assess its competitive position for both base and incentive compensation." The Company also indicated in response to CCS 9.10 that it participates in a variety of third party surveys, the Company uses the results to determine compensation levels, and the surveys would be made available for review at the Company offices. During the on-site visit to the Company offices, various surveys from two different years were reviewed. Based on the review, it was noted that the surveys showed little or no appearance of significant use. Because of the appearance, an inquiry was made of Company personnel as to whether the surveys were available in another format and the response was no. The response to MDR 2.20 indicated that assessments were conducted for each job code yet the surveys did not reflect usage that would support that assertion, and there was no documented evidence that such an analysis occurred. This initiated a concern regarding compensation evaluations and the setting of compensation levels.

The only information provided that reflected any guidelines that were utilized for setting compensation levels was the job master list provided in response to CCS 4.9. The job master list provided identified the Company's job codes and titles with pay rate ranges and the percentage for target incentive compensation. The listing made no references or comparisons to any studies. In an attempt to evaluate compensation practices and levels the Company was requested in CCS 9.18 to provide actual compensation levels for twenty positions listed in the response to CCS 4.9. The response indicated actual compensation levels would be provided at the Company offices. In reviewing the actual compensation levels by job code at the Company offices it was determined that only twelve of the twenty positions randomly selected from the response to CCS 4.9 could be found. The fact that 40% of the jobs randomly selected from the job master list did not currently exist at the Company raised further concern regarding the Company's evaluation of jobs. Absent any real documentation of any analysis performed, there is no justification for the compensation requested.

Q. DID YOU MAKE ANY OTHER INQUIRIES REGARDING COMPENSATION EVALUATIONS?

A. Yes. The Company was asked in CCS 4.3 if employee compensation was compared to any affiliates. The response stated that compensation levels “have been compared with other MEHC platforms” however there is no formal analysis available and that, “The Company worked with MEHC Human Resources to assess market practices and from that set its directions.” The Company was then requested in CCS 9.10 to provide any notes, emails, etc. that resulted from the discussions and the Company stated in their response that, “There are no formal notes on this matter” and “The Company has not compared compensation with other affiliates directly.” Again no documentation exists, and the response to CCS 9.10 seems contradictory to the response to CCS 4.3.

The Company was then asked in CCS 20.8 to provide any documents and/or workpapers that would identify the job codes that were analyzed and/or evaluated during the calendar year 2007 as an additional attempt to determine the level of evaluation. The response stated “The Company evaluates jobs on an as needed basis and does not have any formal tracking mechanism for all the jobs that are evaluated during the year.” Then in response to CCS 20.9, the Company stated that it does not have a tracking mechanism that links its jobs with those within a study.

Q. DID YOU ATTEMPT TO EVALUATE COMPENSATION LEVELS?

A. Yes. The Company provided a listing of employee positions and their respective compensation as of February 22, 2008. This confidential listing was used to randomly select various job categories and then the various studies were reviewed in an attempt to make some assessment of the selected jobs compensation. It should be noted that when doing any comparison there is a level of judgment involved because jobs within the Company do not have the same duties and/or responsibilities that are included with various job codes in the respective studies. Of the twenty-five positions identified I found fourteen that I considered comparable. Nine of the fourteen positions that were compared to the studies indicated that the average compensation for the Company's job code exceeded the average compensation in the study for a utility. Of the remaining five positions one was near the average and for the other four positions an average was not identified in the study.

Another test performed was comparing the salaries of a sample of job codes identified in CCS 9.18 to the Company's "current" job master listing, provided in response to CCS 4.9. The response to CCS 4.9 shows the Company minimum, mid point, maximum compensation levels and the target incentive rate for each job code. As indicated earlier only 12 of the 20 positions selected were actual employee positions as of February 22,

2008. In this test, it was found that the Company's average wage level exceeded the Company midpoint in 5 of 12 job codes. In addition, it was noted that the highest pay for 11 of 12 of the job codes exceeded the Company midpoint, that for 11 of 12 of the job codes the lowest paid exceeded the Company minimum and in one job code the highest paid exceeded the Company maximum for that job code. In my judgment the comparison of employee compensation to the Company's wide range of salary levels on the job master listing reflected compensation being on the higher end.

Q. WHAT DO YOU MEAN THE WIDE RANGE OF SALARY LEVELS?

A. The range between the Company's minimum, the mid point and the maximum is quite wide. It was noted that the minimum and maximum compensation levels were typically 23% over or under the midpoint and that an approximate 61% differential existed between the minimum and the maximum. In one job code the maximum was 25% higher than the midpoint and 66% higher than the minimum. That is considered very wide range in the compensation level for a single job classification.

<u>AMR ADJUSTMENT</u>

Q. WHY DID YOU REVISE THE COMPANY'S AMR ADJUSTMENT?

A. Based on a review of the compensation information provided during the on-site visit, it was determined that the Company had not removed a sufficient amount of compensation. The Company adjustment effectively calculated the compensation adjustment by removing 50% of the compensation for the 90 meter readers leaving due to the AMR program, based on an average of $37,000 a year per meter reader. A review of actual employee compensation determined a calculated average salary of $37,369 for the sample of 286 meter reader positions listed in the payroll information provided during the on-site visit. In response to CCS 4.14, the Company provided information regarding the departure of the 90 meter readers throughout the year. Based on the response and a weighting of the timing of meter readers leaving, there would be an average of 46.9 meter readers leaving during the 2008 test year. Using the average salary and the average number of meter readers leaving increases the labor and labor overhead adjustments $87,606 and $40,955, respectively as shown on CCS Exhibit 6.3.

Q. WHAT IS THE REASON FOR REMOVING THE COMPANY'S 2008 ONE TIME OFFSETTING ADJUSTMENT OF $385,500 ON CCS EXHIBIT 6.3?

A. The Company provided no testimony that would justify the offset to the estimated cost savings. When asked in CCS 4.14 to provide the calculated cost savings reflected in the filing, the Company made only a reference to savings from labor, vehicles and fuel costs with no mention of any off setting costs. The limited extra information, of identifying the six different costs, included in the "2008 One Time Adjustment" was only provided recently, in response to DPU 34.1. There is no detail as to how the off setting amount was arrived at or as to even what amount each of the supposed one time costs contribute to the off setting adjustment.

Additionally, the description is broad in nature and lacks support. For example, just because you are releasing some meter readers because of technological advances, that does not justify increasing the remaining meter reader's compensation. If you want to reflect some of the added one time costs associated with the release of the employees, it would only be appropriate then to reflect the entire cost savings associated with the departure of the 90 meter readers, not just a portion of the costs savings. It is known and measurable that 90 meter readers will be leaving and therefore an argument could be made that the entire cost savings should be reflected in the Test Year.

<u>OVERTIME ADJUSTMENT</u>

Q. WHAT IS THE CONCERN REGARDING OVERTIME?

A. The Test Year overtime of $58,530,686 is 4.8% higher than the Base Year overtime of $55,865,429. The Test Year amount is higher than calendar years 2006 and 2007 both of which are approximately 20% higher than any of the previous three years. The Company was requested in CCS 9.12 to explain why 2006 and 2007 were so much higher. The response provided a comparison of 2005 to 2006 and some explanations as to why there was an increase. The increase was attributed to unfilled budgeted positions, capital work and storms. It was interesting that the Company attributed some of the 2006 to capital work because the response to CCS 4.4 indicated that the Company split between expense and capital is not available and in response to CCS 9.11 the Company indicated it could not identify the costs because the costs are lumped into a cost center and lose their identity.

Q. WAS AN EXPLANATION PROVIDED FOR THE 2007 OVERTIME INCREASE?

A. The response referred only to storm related costs in 2007. While the response suggested that the vast majority of storm costs that were incurred were in the Pacific Power Service area and would not have impacted Utah, there is some concern regarding that qualification based on the response to CCS 9.11. In the response to CCS 9.11 the Company stated that all labor costs are charged to labor cost centers and then a blended rate is assigned based on hours and when each hour is charged out, it costs the same whether it is for regular hours or overtime hours. Since Utah has the larger allocation of costs the inflated costs per hour for regular pay would be charged to Utah. The concern is not only with the assignment of costs but also that the Test Year reflects overtime that is reflective of overtime in a year when numerous storms occurred. It would only be appropriate that overtime be weather normalized and excessive storm costs be excluded.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT FOR OVERTIME?

A. Yes. The Test Year total overtime is reduced $6,181,955 and that reduces total company expense and Utah expense $4,536,499 and $1,939,292, respectively. The calculation of the adjustment is shown on CCS Exhibit 6.4. The adjustment is based on the 2005 overtime increased annually through 2008 by 3%. The result is comparable to inflating the average overtime for 2003 through 2005 by the average change in overtime dollars during the same time period. The 2003 through 2005 period reflected a fairly level dollar amount for overtime and based on the Company response to CCS 9.12 would not have included the high level of storm activity that the Base Year did.

INCENTIVE COMPENSATION

Q. WHAT CONCERN IS THERE WITH THE COMPANY'S INCENTIVE COMPENSATION?

A. The Company's target goals are questionable, the target percentage for employees is excessive and the Company has not justified the requested level of spending. As shown on CCS Exhibit 6.5, the incentive compensation in the Test Year should be reduced $9,103,900, reducing the Total Company expense and Utah expense $7,632,048 and $3,366,123, respectively.

Q. WHAT IS QUESTIONABLE ABOUT THE GOALS SET BY THE COMPANY?

A. Incentive compensation is compensation that is supposedly at risk. Even Company witness Erich Wilson stated that “The intent of the incentive element is to put some of the competitive total compensation at risk”. However, later in his testimony, Mr. Wilson states that “As the Company’s pay philosophy is to provide competitive total compensation, it is expected that the target incentive level, as set by the competitive market, will be achieved on a year-after-year basis and therefore paid at that level”. It is contradictory to say that pay is at risk but it is assumed that it will be paid “year-after-year”.

Mr. Wilson suggests that the customer benefits from exceptional individuals achieving <u>challenging goals</u> that are directly tied to safety, reliability and customer satisfaction (emphasis added). The Company in CCS 4.5 was requested to provide historical target goals and achievements, the response raises concerns about whether the goals are really challenging. For example a customer satisfaction goal was “Telephone Service Level”, the target being 80% in each of the listed years despite the fact that the Company repeatedly met or exceeded the goal. There is no incentive to improve and there is minimal risk, if goals that have been achieved are not raised.

Another questionable goal is “Commission Complaints”. According to the response the Company achieved the same goal in fiscal year 02 and fiscal year 03 and instead of reducing the number of complaints goal the Company increased the number of complaints it was allowed for fiscal year 04. Despite the increase in the number of complaints allowed the Company failed to achieve the target in fiscal year 04 and responded by once again increasing the target number of complaints allowed for fiscal year 05 and then again in fiscal year 06. If customer satisfaction is truly a goal the target should be a reduction in complaints.

Q. ARE ALL THE TARGETS ADJUSTED THAT WAY?

A. No. The reliability targets after fiscal year 03 required improvements in SAIDI and SAIFI. However the target goals when set for the subsequent year were not always set to provide an incentive to improve, instead they were set at a level that would allow for achievement of the goal by simply repeating current performance. For example in fiscal year 03 the target for SAIDI was 215.0 and the Company actual SAIDI for the year was 196.5. When the goal was set for fiscal year 04 the target was set at 200.0, a level already achieved during fiscal years 01 though 03. It is worth noting that for Calendar Year 07 the SAIDI and SAIFI goals for reliability required improvement and the Company failed to achieve those goals, along with the Company's failure to achieve some power delivery goals.

Q. IS YOUR REFERENCE TO TARGETS REQUIRING IMPROVEMENTS AN INDICATION THAT THE GOALS ARE BECOMING MORE CHALLENGING?

A. Only in some areas. But I took notice that despite the Company not achieving goals in power delivery safety and reliability of supply, the incentive compensation payout of $29,875,948 in 2007 exceeded the 2007 budget for incentive compensation of $27,500,000. Somewhere there seems to be a disconnect when the payout can be above target even when goals are not achieved.

Q. WHAT OTHER CONCERNS ARE THERE WITH INCLUDING INCENTIVE COMPENSATION AT THE REQUESTED LEVEL?

A. The Company claims the target amount needs to be allowed to maintain competitiveness in the market. As part of my compensation analysis, I noted that the Company's target incentive percentage appears high, especially for some job codes, when compared to the percentage for utilities in the study and even more so when compared to all study participants. According to the response to CCS 4.9 the Company incentive rate ranges from a low of 4% to a high of 75% with the majority being in the 10% to 15% range. On the Company job master listing of approximately 650 job codes only 18 were found to have an incentive rate of less than 10%. At the other end of the spectrum 122 job codes had an incentive rate of 20% or more. It was noted in one compensation survey study reviewed that the incentive percentage rate for utilities had declined, that does not appear to be the case with this Company.

Q. WHAT DO YOU MEAN THE COMPANY HAS NOT JUSTIFIED THE REQUESTED AMOUNT FOR INCENTIVE COMPENSATION?

A. As indicated earlier the studies that the Company asserts support the competitive compensation levels required by the Company, are studies on a shelf with no documented analysis to prove that compensation levels are reasonable. In CCS 4.6 the Company was asked whether the compensation comparisons also make comparisons of operational results and/or goals of the companies competing for employees. The response stated that "There has been no comparison made to operational results and/or goals of other companies". No documentation has been provided that shows that the Company has made comparisons of compensation levels for reasonableness. Even if comparisons were made other factors such as operational results were not even considered. Simply put, no justification has been provided that would substantiate the Company's compensation request requirements.

Q. HOW DID YOU DETERMINE YOUR ADJUSTMENT?

A. As shown on CCS Exhibit 6.5, the Company incentive compensation is 14.7% of exempt and non-exempt payroll. It is my recommendation to reduce the allowed amount to 10% of exempt and non-exempt payroll. Justification may exist for reducing it even further because the Company has not provided any justification for payment of incentive compensation.

MEDICAL COSTS

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE COMPANY'S REQUESTED MEDICAL COST?

A. As shown on CCS Exhibit 6.7, the Company's request should be reduced $7,660,962, the total Company expense should be reduced $5,621,838 and Utah expense should be reduced $2,403,260. The Company's forecast for 2008 was developed along with the forecast for 2007. Company witness Erich Wilson indicated that consistent with the trends for 2005 through 2007 the Company determined its healthcare expenses for the Company's originally filed Test Year ended June 2009. The original Test Year amount was calculated using the 2008 costs now reflected in the Test Year ended December 31, 2008. In comparing the results of the 2007 forecast to actual it was noted that the actual costs for 2007 were significantly less than forecasted costs. Flowing through the effect of the 2007 over estimate to 2008 reduces the Test Year costs $7,660,962.

PENSION ADMINISTRATION COSTS

Q. WHY HAVE YOU REDUCED THE ADMINISTRATIVE COSTS FOR PENSIONS?

A. The Company failed to justify the cost increase requested. Committee request CCS 9.22 asked the Company to explain the significant increase between June 2007 and June 2008. The response simply stated the costs are paid to Hewitt & Associates and then a dollar comparison was made of the costs. No explanation was given.

Q. DID THE CALENDAR YEAR 2007 COST INCREASE TO A COMPARABLE LEVEL TO THAT BEING REQUESTED FOR THE 2008 TEST YEAR?

A. Yes. But based on information included in the filing the Company has implemented some major changes in the pension plan and absent any explanation it can only be assumed the increased cost in 2007 are attributable to the changes being made. Now that the changes have been implemented or are near completion it is assumed that costs will return to the historical levels that occurred prior to the period when the changes were being made. Based on that assumption I determined an historical average over three years and have reflected that as the Test Year amount. The result, as shown on CCS Exhibit 6.8, is an adjustment to Pension Administration costs of $407,744, a reduction of $299,214 and $127,910 to total Company expense and Utah expense, respectively.

OTHER SALARY OVERHEAD BENEFIT

Q. WHAT IS THE BASIS FOR YOUR ADJUSTMENT TO OTHER BENEFITS?

A. The Company again failed to explain why the cost was forecasted to increase. According to MDR 2.19 the cost in the year ended March 31, 2005 was $180,907, the cost in the year ended March 31, 2006 was $1,300,000, in the Base Year the costs were $1,042,236 and in the Test Year the costs are forecasted to be $1,657,947. The Company was requested in CCS 4.26 to provide detail on what costs are included in Other Salary Overhead and to explain what the adjustment is for. The response did provide a detail summary of the Base Year costs. Included are tax costs or services, K Plus costs, service awards, drug screening costs and various other miscellaneous costs. No real explanation was provided as to what the adjustment was for. Instead the Company stated the mid-period adjustment was necessary to adjust the base period actual to the mid-period forecast amount. That statement explains nothing more than what was obvious in the filing.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?

A. As shown CCS Exhibit 6.8, the Company's request is being reduced $486,829 to reflect an amount more representative of historical costs on the assumption that all the costs included in this benefit classification are necessary and provide a benefit to customers.

Q. HOW DID YOU DETERMINE THE RECOMMENDED AMOUNT?

A. A two year average was used based on the costs from the years ended March 31, 2006 and June 30, 2007. The March 31, 2005 costs were excluded because the original MDR 2.19 and the supplemental MDR 2.19 showed different amounts for that year and the amounts reflected were abnormally low in comparison to the other two years.

Q. ARE THERE CONCERNS ABOUT THE COSTS INCLUDED IN OTHER SALARY OVERHEAD?

A. Yes. There are outstanding discovery questions that are intended to obtain a better understanding of the costs included and the reasonableness. There are concerns as to why there was approximately $220,000 of service awards granted in the Base Year and there are questions as to what other costs are and what benefit they provide to ratepayers.

<u>EMPLOYEE BENEFITS</u>

Q. WHAT IS THE EMPLOYEE BENEFIT ADJUSTMENT?

A. That simply reflects a reduction of benefit expense in general based on the recommended reduction in employees. The adjustment assumes that with a reduction in employees there would be a corresponding reduction in employee benefit costs. The adjustment as shown in CCS Exhibit 6.6, reduces the Company's total benefit request $785,376, reduces Total Company expense $576,332 and reduces Utah expense $246,374.

PAYROLL TAXES

Q. IS THE ADJUSTMENT TO PAYROLL TAXES A FLOW THROUGH OF THE OTHER PAYROLL ADJUSTMENT RECOMMENDATIONS?

A. Yes. Payroll taxes were reduced based on the various payroll adjustments recommended using the Company's effective payroll tax rate included in the filing. As shown CCS Exhibit 6.9, the Company's payroll taxes are reduced $1,407,850. Total Company expense and Utah expense are reduced $1,033,121 and $441,645, respectively.

RELOCATION COSTS

Q. WHY IS AN ADJUSTMENT TO RELOCATION EXPENSE RECOMMENDED?

A. Relocation costs vary from year to year. The Base Year cost of $4,213,115 exceeds the calendar year costs and the previous four years of costs. To include the Base Year cost as if it were representative of annual costs would be inappropriate. It is recommended that the cost included in the Test Year be based on a five year historical average. As shown CCS Exhibit 6.10, the Company's relocation expense is reduced $472,753 and $218,519 on a Total Company and Utah basis, respectively.

INJURIES AND DAMAGES

Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO INSURANCE EXPENSE?

A. Yes. The expense for injuries and damages should be based on actual claims and not the result of adjustments to the reserve. The Company's injuries and damage in the Base Year was high when compared to the previous two historical periods. In reviewing the detail in the reserve accounts for injuries and damages it was noted that the driving force for the increase in Base Year expense was essentially the re-establishment of the reserve account balances. The actual expense for injuries and damages are the claims that are made against the Company. As shown CCS Exhibit 6.11, Page 2, the Company's claims over the last three years averaged $5,239,003. That average is more representative of what the expected expense should be, rather than the $9 million that was inflated because the reserve balance required an adjustment to restore the estimated liability. CCS Exhibit 6.11, Page 1, properly reflects the Teat Year injuries and damages expense after reducing the Company's expense $3,818,759 and $1,611,898 on a Total Company and Utah basis, respectively.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, at this time, pending receipt of outstanding discovery.