<u>BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH</u>

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** **Exhibit No. DPU 7.0SR** **Surrebuttal Testimony and Exhibits** **Matthew Croft**

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Surrebuttal Testimony of

Matthew Croft

May 23, 2008

Q. Please state your name and occupation?

A. My name is Matthew Allen Croft. I am employed by the Utah Division of Public Utilities as a Utility Analyst.

Q. Are you the same Matthew Allen Croft that testified previously in this procedure?

A. Yes

Q. What is the purpose of your revenue requirement surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony filled by Mr. Steven McDougal. Specifically, I will address Mr. McDougal's response to the adjustments I originally proposed in my direct testimony.

Q. Will you please briefly review your proposed adjustments from your direct testimony?

A. Yes. I proposed adjustments in the following areas:

1) Forecasted revenues. I removed forecasted revenues associated with the terminated Clark Storage Agreement. This had the impact of increasing the Company's revenue requirement.

2) Office supplies and expenses. I removed reconfiguration and consolidation expenses that appeared to be nonrecurring costs associated with the MEHC transaction.

3) Wind generation O&M expenses. I removed the O&M costs associated with the Seven Mile Hill and Glenrock wind facilities which will not be in service until the very end of 2008.

4) Capital Additions. I removed the Company's forecasted capital additions for the months July 2007 through February 2008 and replaced them with the actual plant additions for that period

Q. Did the Company accept any of your adjustments?

A. Yes. The Company accepted my adjustments associated with the Clark Storage agreement and wind generation O&M expenses. The Company also agreed in principle to my Capital Additions adjustment. The Company recalculated the effect of my capital additions adjustment as well as the effect on deferred income taxes.

Q. Do you accept Mr. McDougal's revised revenue requirement impact of $8,406,934 for the capital additions adjustment as well as the revised deferred tax effect?

A. This number is accepted based on the capital structure and weighted cost utilized by Mr. McDougal in his rebuttal testimony. It is noted, however, that this number could change depending on the Commission's decision concerning the rate of return phase. The Company must update this number after the Commission has decided on the appropriate rate of return.

Q. Do you agree with the dollar amounts used by the Company for the adjustments they agreed to?

A. Yes. These numbers seem to accurately reflect the impact of the agreed upon adjustments.

Q. Are there any of your adjustments that the Company does not agree with?

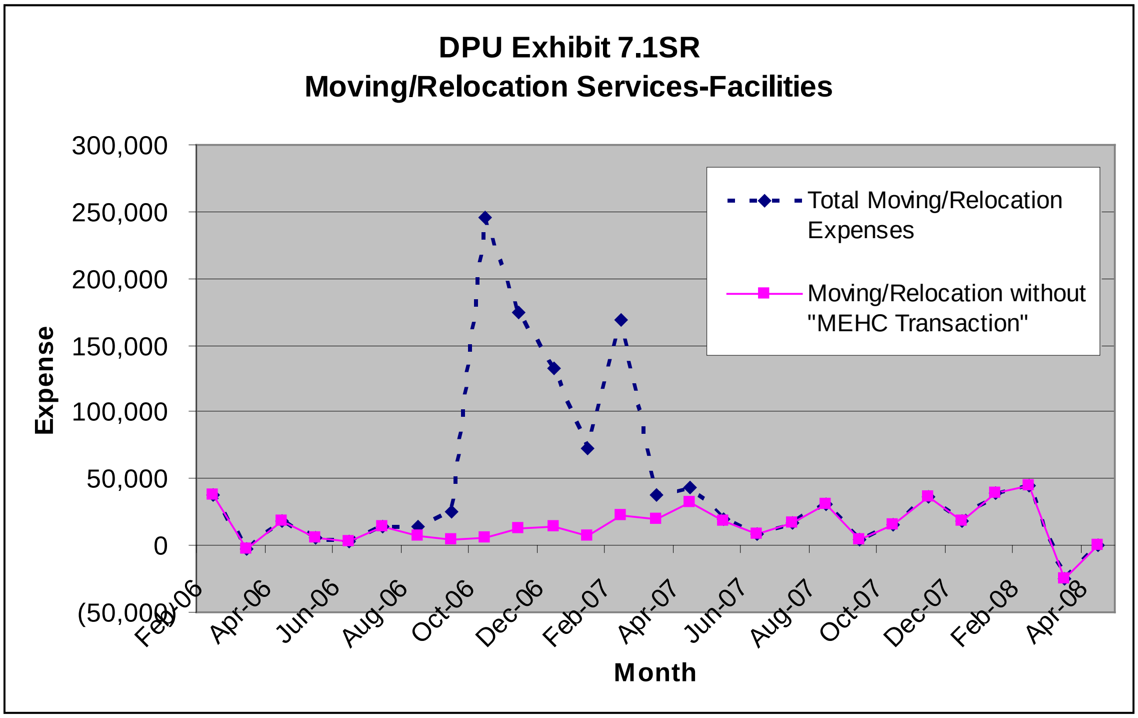
A. Yes. The Company does not agree with the adjustment I made concerning reconfiguration and consolidation expenses. The Company argues that the costs associated with reconfiguring the North Temple, Utah One Center and the Lloyd office space "were erroneously recorded as MEHC Transaction costs,"[1] and that they "are part of the ongoing expenses of the Company."[1] These costs came to $787,548 on a total company basis which is $332,424 on a Utah basis.

Q. Do you agree that these reconfiguration and consolidation costs are ongoing?

A. Generally speaking I agree that reconfiguration and consolidation costs are ongoing expenses. The Company has mentioned that the reconfiguration costs originally recorded as "MEHC Transaction" costs were incurred "in conjunction with lease expirations."[2] Regardless of whether these "MEHC Transaction" expenses were erroneously labeled, they still cause the total "Moving/Relocation" expense included in the rate case to be at an abnormal level. In the graph below (DPU Exhibit 7.1SR), I show the *total* "Moving/Relocation Services-Facilities" expenses which includes the expenses originally recorded as "MEHC Transaction." The graph also shows the

[1] McDougal Rebuttal Testimony pg 38
[2] RMP Response to DPU Data Request 56.1

"Moving/Relocation Services-Facilities" without the "MEHC Transaction" expenses.



As the graph shows, the "MEHC Transaction" costs are the principle cause of the spike in "Moving/Relocation Services-Facilities" expenses. Although there is perhaps evidence to suggest otherwise, I accept that the expenses in question are not related to the MEHC Transaction. I still argue, however, that whatever their designation they are still in fact abnormal.

Q: What adjustment do you propose?

A: It is proposed that a monthly average of these "Moving/Relocation" expenses be calculated and applied to the base period. To calculate this average I have taken the total "Moving/Relocation" costs for the 27 months shown in the graph above, removed the costs originally labeled as "MEHC Transaction" and then taken a monthly average of that number and applied it to the base period. These calculations are shown in DPU Exhibit 7.2SR and result in a Utah revenue requirement reduction of $324,596. This adjustment will in effect bring these costs to a more reasonable level. In response to CCS Data Request 31.14, the Company stated that, "office relocation and reconfiguration expenses are recurring in nature, although the exact level may be different than that in the rate case." It is interesting to note that almost all of the "MEHC Transaction" expenses were in the base year.

Q: Do you know what the normal level of office relocation expenses would be in general or in conjunction with lease expirations?

A: It should be noted that starting in February 2006, the Company first began recording such expenses under the SAP accounting description of "Moving/Relocation Services-Facilities." Prior to that, these kinds of expenses "were not recorded in a separate account and are not readily identifiable."[3] Therefore, the only data with which I have to compare is the data from February 2006 through April 2008. If the Company can show that these expenses are at a normal level no adjustment would be necessary. However, since the Company has stated that these expenses are "not readily identifiable" prior to February 2006, it is assumed that there would be no further data from which to compare. Whether or not this period is of sufficient duration to calculate an average is left to the decision of the Commission.

Q. The Company claims that "Customers benefit from lower lease costs as a result of the office reconfigurations and consolidations."[4] Should these abnormal

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[3] RMP Response to DPU Data Request 50.1
[4] McDougal Rebuttal Testimony Pg 38, Lines 829-831

("MEHC Transaction") office reconfiguration and consolidation costs be recovered in rates simply because they reduce future lease costs to rate payers?

A. No. The Company's MEHC Transition Adjustment included in the rate case is a good example of the Company incurring a cost in order to reduce another. The Company terminated many employees as a result of the MEHC transaction and as a result, incurred a large severance cost in order to reduce future salaries of those employees. Page 4.11 of SRM-1S states that, "The CIC Severance payments will still be removed from results as nonrecurring expense." Even though the Company would be reducing costs in the future, they accepted that the severance costs were still nonrecurring and abnormal. The abnormal expenses that were originally recorded as "MEHC Transaction" expenses should be treated similarly and removed from the base period.

Q. Does this conclude your testimony?

A. Yes