Docket No. 08-035-93
DPU Exhibit No. 1.0
David T. Thomson
December 18, 2008

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for an Accounting Order Regarding Pension Curtailment and Pension Measurement Date Change	:	Docket No. 08-035-93

DIRECT TESTIMONY

OF

DAVID T. THOMSON
STATE OF UTAH
DIVISION OF PUBLIC UTILITIES

DECEMBER 18, 2008

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

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

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

A. I will be offering testimony on behalf of the Utah Division of Public Utilities ("Division").

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

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

Q. Have you specifically testified on standards for issuing deferred accounting orders?

A. Yes. I provided testimony for combined Dockets No. 06-035-163, 07-0135-04, 07-035-14 (hereafter referred to as the "January 2008 Order"). These were deferred accounting applications for deferring costs of loans made to Grid West, costs related to the MidAmerican Energy Holding Company transfer, and costs relating to the flooding of the Powerdale Hydro facility.

Q. What is Rocky Mountain Power (RMP or the Company) requesting in this Application?

A. According to the Application, "the Company seeks approval to record the net impact of a curtailment gain and a measurement date change relating to its pension plan as a reduction to the regulatory asset associated with the existing pension and other postretirement welfare assets. If authorized, the net reduction to regulatory assets would avoid the recording of income to the Company's benefit and directly charging retained earnings. With the requested accounting treatment, the Company projects a net pre-tax benefit to customers of $27 million system-wide, which the Company proposes to amortize over a ten-year period."[1]

Q. Please summarize the Division's recommendations for this Docket.

A. As explained in this testimony, the Division recommends that the Commission deny certain components of the Company's request for a Commission order to defer costs and approve other portions of the request. Specifically, the Division recommends that the Commission deny the request for a Commission order pertaining to the measurement change date component of the Application.

The Division believes the Application to defer the gain related to the pension curtailment component meets the Division's guidelines for deferred accounting

[1] See paragraphs 4 and 5 of the Application.

treatment and recommends it should be granted. However, the Division recommends that the allowed amortization period for the gain be in the range of three to five years instead of the ten year amortization period that is requested in the application. The Division's reason for the change will be explained later in this testimony.

Q. You have made separate recommendations for the two components of the Application: why is that?

A. The application has two components which the Company nets together. The Company is requesting that the net amount of $27 million, which is a gain or benefit to ratepayers, be amortized over 10 years. The two components are a) the curtailment gain component and b) the measurement date change expense component which both relate to the Company's pension plan. Per Financial Accounting Standards Board (FASB) accounting and Federal Energy Regulatory Commission (FERC) accounting, the recording of both components are to be done in 2008. The two components could have been separated into two individual applications. It appears that since the accounting for both is to be done in 2008 and both components relate to the Company's pension plan, that the request for deferred accounting for each component was combined and included in this one application.

However, it is important to look at and analyze each component separately. If after separate analysis both components qualify for deferred accounting and a like amortization period applies to both, then the Division would see no problem in netting the amounts for amortization over the same period. If one or the other of the two components do not qualify for deferred accounting or have a different amortization period, then netting may need to be modified.

Q. What is the Financial (FASB) and Federal (FERC) accounting requirement for the measurement date change component of the Application?

A. This component was generated by SFAS No. 158, which was issued September 29, 2006 by the FASB. In response to growing concerns about the lack of transparency in employers' accounting for pensions and other postretirement benefit plans, the FASB issued SFAS No. 158 requiring employers to report a postretirement benefit asset for plans that are over-funded and a postretirement benefit liability for plans that are under-funded. The liability or asset was to be recorded for fiscal years ending after December 15, 2006.

The pronouncement had a second requirement addressing the measurement date for pension plans. Prior to the issuance of No. 158, companies could elect a measurement date for determining defined benefit pension and postretirement benefit assets and obligations other than its fiscal year end. The election could be no longer than three months prior to the fiscal year end. Those companies that elected a measurement date between September 30th and December 31st are now required to use a fiscal year end measurement date. Companies that used an early measurement date have two alternatives for transitioning to a fiscal year-end measurement date: a) re-measure the plans' benefit obligation and assets at the beginning of the year in which the measurement date is changed, or b) use the "15 month" alternative, which extrapolates net period pension cost from the early measurement date to the following year's fiscal year end. The Company adopted the "15 month" alternative method. Net periodic pension cost attributable to the period between the early measurement date and the beginning of the year in which the measurement date is changed is recorded as an adjustment to retained earnings. As per the Application, this transitional cost amount under the "15 month" alternative method is $14 million. Under FASB accounting this $14 million (total company) will be charged to retained earnings and thus reduces equity.

FERC adopted the same accounting requirements as outlined above, "FERC jurisdictional entities should adopt SFAS No. 158 for reporting to the FERC Commission and it should do so in the same manner as the Statement is adopted for Stockholder reporting." [2]

However, if the amount is treated as a regulatory asset under SFAS No. 71, the accounting could change and the $14 million could be charged to a regulatory asset account and amortized to future accounting periods. Rate recovery would be determined in a rate case. It should be noted that neither the FASB nor the

[2] See FERC guidance letter – bottom of page 2 and top of page 3 - (OE Docket No. AI07-1-00, March 29, 2007) as provide by the Company in response to CCS Data Request 1.2

FERC provided in their accounting guidance the option to record the transitional net period pension cost as an asset that could be amortized to future periods. Having said that, under SFAS No. 71, if a utility believes it has proper justification, it could pursue treating the cost as a regulatory asset to be amortized into future periods. Based on the Application and more specifically on the Company's responses to the Division's Data Requests, the Company believes it has such justification.[3]

Q. What is the Financial and Federal accounting requirement for the pension curtailment component of the application?

A. "A curtailment takes place when an occurrence materially reduces the future years of service of current employees or eliminates for most workers the accumulation of defined benefits for future services. An example is the closing of a plant, terminating employment. The gain or loss arising from curtailment is recognized in the current year's income statement."[4] This is the Financial accounting requirement. The Company, in a technical conference held pursuant to this Docket on November 25, 2008, stated that it was their understanding that Federal regulations have no specific accounting guidance for a pension curtailment. The Division has no evidence to dispute this statement.

Q. Is there a difference in the accounting for the two components of the Application that you would like to emphasize?

[3] See the Company's responses to DPU Data Requests 2.2 to 2.6.
[4] Commerce Clearing House, GAAP 2009 Handbook of Policies and Procedures, page 14.55.

A. Yes, as explained above, the cost component under the measurement date change is to be charged to retained earnings, which decreases stockholder's equity. The cost component under the pension curtailment gain is to be recorded as a gain on the income statement and increases revenue.

Q. What is the deferral amount of the Pension curtailment component in the Application?

A. $41 million total company.

Q. Do you agree that the curtailment portion of the Application should be set up as a regulatory contra asset or regulatory obligation?

A. Yes, the Division believes this component of the Application qualifies for deferral accounting.[5] It has a net benefit to ratepayers and the benefit should be amortized to maintain normalized pension cost. The curtailment event is specific, material, matches revenue to expense and provides intergenerational equity. The deferral accounting would properly provide the opportunity to recover the periodic benefit amount in rates. This can be accomplished by setting the amount up as a regulatory contra asset or as a regulatory obligation and then amortizing that contra asset or obligation over an amortization period into revenue or expense. The Division also believes this component of the Application is being made timely as it will explain later in this testimony.

Q. Do you agree that the amortization period should be 10 years?

[5] See exhibit 1.1 of the Division's testimony for the January 2008 Order.

A. No. The Division would recommend an amortization period for this pension curtailment gain to be in the range of three to five years. In the current rate case Docket 08-035-38 the Company had a net gain from a sale of transmission lines and related assets which it describes in tab 8 item 2 of Exhibit RMP__(SRM-2) - Goose Creek Transmission adjustment. Under this adjustment the Company is proposing to amortize the net gain associated with the sale over three years. Similar to the Goose Creek gain, the curtailment gain in this Application arises from historical or past costs that have been paid by customers. The Company is recommending a ten year amortization period for the curtailment gain but only a three year amortization for the Goose Creek gain.

In a Data Request the Division asked the Company to "Please explain why the Company chose to use a three-year amortization of the gain on the sale of the transmission assets."[6] The Company's response was "The Company chose to amortize the gain over three years because a three-year amortization returns the gain to customers aggressively while still being reasonable."[7]

The Division believes that the same reasons as outlined above by the Company for the Goose Creek amortization are applicable to the Pension Curtailment gain and that it too should be amortized "aggressively" in the range of three to five years. A short aggressive amortization period, it is hoped, will return the benefit

[6] Docket 08-035-38, DPU Data Request 40.1 – Question.
[7] Docket 08-035-38, DPU Data Request 40.1 – Response

to those who paid. A longer timeline would spread that benefit to future ratepayers who did not pay for the assets and past costs generating the benefit.[8]

Q. Statement of Financial Accounting Standard No. 158 encourages early adoption of the provisions of the Statement. As to the measurement date change provision of the Statement, would have early adoption by the Company or the facts around the timing of the issuance of SFAS No. 158 have enabled the Company to include the transitional adjustment in the 2007 rate case?

A. Possibly no or possibly yes.

Q. Please explain.

A. As explained above, SFAS No. 158 had two requirements. It encouraged early adoption for both requirements. This Docket is addressing the second requirement. I have explained the provisions of adopting the second requirement in my testimony above. If the Company had adopted option a) as described above, which was the early adoption provision of the second requirement; if the Company had followed the guidelines in SFAS No. 158, the Company would have charged the transitional adjustment amount to retained earnings on January 1, 2008.[9]

Also, the effective date for the measurement date provision under SFAS No. 158 is for fiscal years ending after December 15, 2008, and (according to SFAS No.

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[8] See the Company's response to DPU Data Request 2.7. The Company acknowledges the costs under laying the gain were in past pension costs.
[9] See SFAS No. 158 paragraph 18 the first sentence of 18a.

158) such provision shall not be applied retrospectively.[10] It is clear that the transitional adjustment we are discussing in this Docket, even on early adoption, is to be accounted for in the year ending December 31, 2008, either on January 1, 2008 if option a) was chosen or in earnings in 2008 if option b) is chosen (Again option b) was the alternative chosen by the Company).

Thus, adhering to the provisions of this accounting pronouncement would have prohibited the Company from reflecting the **actual** measurement change date transitional amount in the base period actual operations for the last rate case which was the twelve months ended June 30, 2007. (However, as will be discussed below, the Company could have estimated an amount to include in the rate case). Also, since the Company chose alternative b) it appears that the Company did not determine its **actual** transitional adjustment amount until June of 2008 which was beyond the filing, discovery, and review dates of the 2007 rate case and perhaps the hearing date also.[11] Since the Company chose the second alternative, the Company made no provision to ascertain what amount for the transitional adjustment would have been under the first alternative. The Company has said that it does not know what would have been the amount.[12] Based on the alternative methodology as explained above for accounting for the transitional

[10] See paragraph 15 of SFAS No. 158.
[11] It appears the Company knew the actual measurement date adjustment amount five to six months before it knew the actual curtailment amount which it appears was determined in October or November of 2008. If it is assumed you file an application using final amounts then the Company could have applied for a deferred accounting order for the measurement date change amount after May 2008 but waited until November 5, 2008 to apply at the time it determined the actual curtailment gain amount.
[12] See the Company's response to CCS Data Request No. 2.3

amount, it is probably safe to assume that the computed amount under each alternative would not be the same; one alternative is a prorated 15 month amount; the other is more of an actual amount. At this time, neither the Division nor the Company knows what the amount of the difference between the two alternatives would be and if the difference would be a material dollar amount or not.

Base on the above it could be argued that on a practical basis the Company could state that because it did not have the **actual** amount it could not include the transitional adjustment amount for the measurement date change in the 2007 rate case for to do otherwise would be requiring projections or estimates. However, the argument to use only actual amounts seems to be most applicable only if a utility is using a historical test year to set rates.

However, the Division would believe that the use of a future test year requires (and anticipates) the Company to put forth a best guess estimate of the revenue requirement that is needed when rates become effective in the future period. Using actual amounts for estimating future costs is one of many methods that can be used to try to project future revenue and costs. However, in the absence of actual amounts, the Company should include its best estimates of what those amounts are likely to be. Also, since most or the more recent Company filings have been with a future test years and since projections of revenues and costs were determined using a variety of models, budgets and other methodologies, the argument that you must have actual numbers to have a proper and accurate projection of rates is not applicable or of little weight. In other words, for the 2007 rate case, which employed a future test year ending December 31, 2008, a period that includes the required measurement date change, the Division believes that the Company or its actuary could and should have provided a projection estimating the measurement date change amount. The projection would then have been available for review by interested parties.

The Division believes that since the SFAS was issued in September of 2006 that the provisions of the measurement date change were known to the Company at the time it prepared its 2007 rate case with a Commission ordered future test year ending December 31, 2008. Because the future measurement date change adjustment was known to the Company a) during its preparation of the 2007 rate case - the last six months of 2007 and b) in advance of the revenue requirement testimony and hearing from the first week of April 2008 to the first week of June 2008, and the Company knew that the affect of the amortization amount would occur or be occurring during the future test year, it should have included a best guess estimate projection of the measurement date change transitional adjustment amortization amount in the filing or in a surrebuttal filing for the future test year revenue requirement in the 2007 rate case. The measurement date change event was not unforeseen or extraordinary.

The Division does not understand why this was not at a minimum disclosed as a potential deferral and amortization in the 2007 rate case or why the Company did not ask for a deferred accounting order when this issue or event became known. The Company made application for three deferred accounting orders about or after the time this issue became known.[13]

The above scenario raises the concern that by not putting the date change measurement transitional amount and amortization in the 2007 rate case that the Company is now trying to correct a misstep by now applying for deferred accounting in this Application. If one concludes the Company is not meeting the appropriate guidelines for deferred accounting with the current application, then that may be grounds for denying the measurement date change transitional amount in this Application. [14]

The Division would like to note that it believes that, based on the facts of this Application if the measurement date change transitional amount had been put forth in the last rate case, the Division would most likely have accepted the setting up and amortizing of a regulatory asset into costs of the future test year period.

[13] See filing dates for Dockets No. 06-035-163, 07-035-04, and 07-035-14 which occurred during the period from December 20, 2006 to March 22, 2007.

[14] See the Commission's guidelines in its January Order specifically - page 14, second to last sentence; page 15 second paragraph; paragraph beginning at the bottom of page 18 and ending at the top of page 19; and page 20 the sentence in lines three to five at the top of the page.

However, the Division believes the January 2008 Order is clear that the Commission will take into consideration the timing of when the utility becomes aware of events or circumstances that would create the need for an accounting Application.[15] The Division believes that in the matter of future test years, all known expenses and adjustments should be included in the filing and failing to include known expenses and adjustments points to a misstep and may be an attempt at retroactive ratemaking and does not qualify for deferral.[16] The Division at this time sees no reason why this adjustment was delayed until November 4, 2008 unless it was an error or oversight.[17] In its Application, the Company did not address the timing around the two components of the Application or why the Company waited to file the transitional adjustment until late 2008 when it was known in September 2006. The Division sees no circumstances in this case where the projected measurement date change transitional cost would differ from the actual cost due to an unforeseen or extraordinary event or events.[18] The Company demonstrated no reason in this Application for delaying the filing of the transitional adjustment.[19]

Q. When did the Company become aware of the Curtailment amount and what are the timelines associated with the Curtailment gain?

[15] See January Order the last paragraph starting at the bottom of page 18 and ending at the top of page 19.
[16] See January Order page 20 the sentence in lines three to five at the top of the page.
[17] See January Order the paragraph starting on page 15 and ending on page 16.
[18] See January Order paragraph at top of page 19 that began on page 18 – specifically the sentences beginning with “Event or” to the end of the paragraph.
[19] See January Order the first paragraph on page 22 the first and second sentences.

A. The Division understands that in August 2008, non-bargaining employees were notified that effective January 1, 2009, that the Company would be offering the option to cease participation in the Company's defined benefit pension plan and could instead receive enhanced employer contributions to a Company 401(k) plan. Those who wanted to accept the offer were required to do so on or before October 3, 2008. The offering of the above produced the curtailment gain. It appears the exact curtailment amount was determined in mid to late October or very early November of 2008 after the closing of the offering. The above time line is a) after the 2007 base period accounting, b) after preparation of the 2007 rate case c) after the filing of rate case testimony and d) after the rate case hearing, and e) about the same time as the issuing of the 2007 rate case order. Thus the curtailment gain could not have been included in the 2007 rate case and is not subject to the timing concern that exists for the measurement date change component of this Application. Since it was filed timely and meets the requirements for deferred accounting as explained above, it should be granted deferred accounting treatment.

Q. Based on the above, again what is the Division's recommendation for the two components of this Application?

A. Based on its concerns, the Division recommends that the Commission deny the Company's request for deferred accounting treatment for the measurement date change transitional amount of this Application. For the curtailment gain the Division recommends that the Commission accept the Company's request for the treatment of this Pension gain. The Division recommends that the amortization period be in the range of three to five years instead of ten as explained above. The Division recommends that the amortization period start the next month after the booking of the regulatory asset and believes that the curtailment regulatory asset should be booked in the last quarter of 2008.

Q. If the Commission accepts the measurement date change component, what would be the Division's recommended amortization period and why?

A. The Division would recommend a ten year amortization starting the month after the Company records the regulatory asset on its books in 2008. The Division agrees with the Company's reasons for choosing a ten year amortization life but only as it pertains to the measurement date change. The Division believes that the Company's argument that the ten year amortization of the measurement date change amount would closely approximate the prior service amortizations that would have continued if they had not been required under SFAS 158 to charge the amount to retained earnings is valid.

Q. Does the Division have any other recommendations?

A. Yes. As a practical matter, if different amortization periods come about through the Commission's Order for this Application, to facilitate tracking, the Division would like to see the amortization done separately and not netted together in the Company's future regulatory filings.

Q. Does this conclude your Testimony?

A. Yes.