Witness OCS – 2S

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	**))))))**	**Docket No. 09-035-23** **Surrebuttal Testimony of Donna Ramas For the Office of Consumer Services**

November 30, 2009

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<u>INTRODUCTION</u>

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

A. My name is Donna Ramas. 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 RAMAS WHO SUBMITTED DIRECT TESTIMONY IN THIS DOCKET ON OCTOBER 8, 2009 AND REBUTTAL TESTIMONY ON NOVEMBER 12, 2009 ON BEHALF OF THE OFFICE OF CONSUMER SERVICES (OCS)?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is three-fold.

- First, I identify the OCS' support or adoption of several adjustments reflected by Rocky Mountain Power (RMP or Company) in its rebuttal position.
- Second, my surrebuttal testimony will respond to the pre-filed rebuttal testimony of Rocky Mountain Power (RMP or Company) witnesses Steven McDougal and Erich Wilson. I respond to Mr. McDougal's rebuttal testimony in the areas of plant held for future use, Utah distribution expense, Chehalis due diligence bonuses, general

overhaul average expense escalation, MEHC Management Fees, and settlement fees. I respond to the rebuttal testimony of Erich Wilson in the areas of pensions, other post employment benefits and Supplemental Executive Retirement Plan (SERP) costs.

- Finally, I present the OCS' overall recommended revenue requirement, as revised and updated.

Silence on an issue in this surrebuttal testimony should not be construed as agreement with RMP's rebuttal position.

Q. ARE YOU MODIFYING ANY OF YOUR RECOMMENDATIONS BASED ON THE REBUTTAL TESTIMONIES FILED BY RMP?

A. Yes. Based on additional information provided by the Company in its rebuttal filing, coupled with recommendations made in the direct testimony of several Department of Public Utility (DPU) witnesses, I am making four specific changes to the recommendations contained in my direct testimony filed on October 8, 2009. These consist of the following modifications:

- Based on the rebuttal testimony of RMP witness Steven McDougal, coupled with the direct testimony of DPU witness Mathew Croft, I am no longer recommending the reduction to pro forma plant additions originally provided for in my Exhibit OCS 2.3, along with the associated adjustments to depreciation expense and accumulated depreciation in Exhibits OCS 2.4 and 2.5. Rather, those adjustments should be replaced with RMP's rebuttal adjustments to plant additions and plant retirements, with the associated impacts on depreciation and plant related taxes, reflected in RMP Exhibit__(SRM-2S) at pages 11.18 through 11.22. While I do continue to be concerned that the projected plant additions contained in the filing, on a thirteen-month average test year basis, for the period September 2009 through June 2010 may be overstated based on the actual additions through August 2009, I am willing to concede to the adjustments to RMP's plant additions contained in its rebuttal filing for purposes of this general rate case.

- I am no longer recommending a reduction to test year expenses associated with Blue Sky program costs. Exhibit RMP__(SRM-3R), attached to the rebuttal testimony of RMP witness Steven McDougal, substantiates Mr. McDougal's rebuttal claim that the Blue Sky costs I recommended for removal in Exhibit OCS 2.9 were, in fact, reversed out of FERC Account 923 on the Company's books during the base period and moved to a below-the-line account. Thus, the costs were already removed from above-the-line costs during the base period.
- In my direct testimony, I disagreed with RMP's projected test year 401(K) costs and recommended that the costs be reduced from approximately $34.5 million to $31.7 million, on a total Company basis. In rebuttal, RMP has reduced its requested 401(K) costs, on a total Company basis, to approximately $30.8 million based on the recommendations of UAE witness Kevin Higgins. Mr. Higgins' recommendation was based on updated projections provided by RMP.

I agree that my recommended reduction on Exhibit OCS 2.15 should be replaced with RMP's updated position on RMP__(SRM-2S), Page 11.8.

- In my direct testimony, I recommended three revisions to the plant held for future use (PHFFU). The recommendations were to (1) remove Oquirrh Substation Land; (2) remove White Rock Substation Land; and (3) remove RMP's adjustment to PHFFU for a deferred transmission project. In rebuttal, RMP has agreed in its Adjustment 11.16 to remove the deferred transmission project. I agree, based on the rebuttal testimony of RMP witness Steven McDougal, that the portion of my PHFFU adjustments pertaining to the Oquirrh substation land and the White Rock substation land should not be made. This will be addressed later in this testimony.

Q. YOU INDICATED ABOVE THAT YOU CONTINUE TO HAVE CONCERNS THAT THE PROJECTED PLANT ADDITIONS FOR THE PERIOD SEPTEMBER 2009 THROUGH JUNE 2010 CONTAINED IN THE COMPANY'S FILING MAY BE OVERSTATED. GIVEN YOUR CONCERN, WHY DO YOU AGREE TO CONCEDE TO RMP'S REBUTTAL POSITION WITH REGARDS TO THE PLANT ADDITIONS IN THIS CASE?

A. As pointed out in my direct testimony, at page 9, lines 183 through 188 and in Exhibit OCS 2.3, page 2.3.1, the actual capital additions made by the Company during 2009 through the month of August were $56 million or 5.77% less than the Company had budgeted for that same period. The amount by which the Company was under budget remains a concern and causes me to question the accuracy of the projected additions contained in the filing for the remainder of the test year ending June 30, 2010. However, as pointed out by both DPU witness Matthew Croft in his Direct Testimony and by RMP witness Steven McDougal in his rebuttal testimony, while the overall capital additions have been under budget, the capital additions specific to the state of Utah, primarily the Utah distribution assets, have exceeded the budgeted amount. Thus, on an overall Utah jurisdictional basis, the plant additions would not be overstated to the extent of the 5.77% over-projection reflected in my direct testimony. Thus, I agree for purposes of this current general rate case, given the higher level of spending on Utah distribution specific assets as compared to the forecasted amounts, that the approach taken by DPU witness Croft in his direct testimony and RMP witness McDougal in his rebuttal testimony, are preferable to the approach taken in my direct testimony. I note that there is still a discrepancy between RMP's rebuttal position and the DPU's recommended level of plant additions; however, it appears the revenue requirement impact of the difference is minor. Thus, at this point, I have reflected the impact of RMP's plant related rebuttal adjustment in RMP Exhibit__(SRM-2S), pages 11.18 through 11.22. This should not be construed as supportive of RMP's adjustment over that proposed by the DPU as it pertains to pro forma plant additions and retirements.

ADOPTION OF RMP REBUTTAL ADJUSTMENTS

Q. RMP'S REBUTTAL FILING INCLUDES SEVERAL NEW ADJUSTMENTS. WOULD YOU PLEASE IDENTIFY THE NEW ADJUSTMENTS THAT YOU AGREE ARE APPROPRIATE AND SHOULD BE ADOPTED BY THE COMMISSION?

A. Yes. First, RMP has adopted several of the OCS' recommended adjustments in this case. These include RMP Rebuttal Adjustments 11.3 – Green Tag Revenue, 11.4 – Adjust OMAG to Business Unit Target, 11.5 – Salaries and Wages, 11.6 – Medical Insurance Expense – 11.7 – Post Employment Benefits FAS 112, 11.13 – Incremental Generation O&M, and 11.16 – Deferred Transmission Project. These items are already reflected in the OCS' recommended revenue requirement calculations in this case.

Next, as mentioned previously in this testimony, I am no longer recommending that the plant additions adjustments contained in my direct testimony and Exhibit OCS 2.3, along with related adjustments presented on Exhibits OCS 2.4 and OCS 2.5, be adopted. Rather, I agree that in this current rate case, due to the facts and circumstances in this case and the higher level of Utah specific expenditures, these adjustments should be replaced with RMP rebuttal adjustments 11.18 – Plant Additions, 11.19 –

Plant Retirements, 11.20 – Depreciation/Amortization Expense, 11.21 – Depreciation/Amortization Reserve, and 11.22 – Plant Related Tax Update.

In my rebuttal testimony, filed on November 12, 2009, at pages 2 – 4, I expressed my agreement with DPU witness Brenda Salter that the uncollectible expense and the uncollectibles rate included in the Company's filing are too high and that a reduction to both the uncollectibles rate and uncollectible expense incorporated in the test year in RMP's filing is appropriate. My rebuttal testimony also indicated that the Company has a targeted uncollectible rate of 0.27% of retail revenue. In its rebuttal testimony, and RMP Exhibit__(SRM-2), page 11.10, RMP reduced its test year uncollectible expense by approximately $1.2 million to reflect the budgeted uncollectible rate of 0.27%. I have reflected RMP's rebuttal adjustment for uncollectible expense, along with the uncollectibles rate of 0.27%, in the OCS' updated revenue requirement calculation.

I also agree that the following new rebuttal adjustments made by RMP should be made in this case: 11.1 – Tax Settlement, 11.9 – Pension Administration, 11.11 – Airplane Expense, 11.12 – Rent Expense, 11.15 – Environmental Settlement (PERCO), and 11.24 – Lead Lag Study. In my rebuttal testimony, filed on November 12, 2009, I had recommended an adjustment for the Environmental Settlement (PERCO) reduction to rate base that is slightly higher than that proposed by the Company in its Adjustment 11.15; however, as the difference is minimal, I agree that adoption of Company adjustment 11.15 would be a reasonable resolution of the issue in this case.

Also, I note that the DPU witness David Thomson has recommended adjustments for airplane expense and rent expense that are greater than the adjustments agreed to by RMP in its Adjustments 11.11 – Airplane Expense and 11.12 – Rent Expense. My reflection of the Company's new adjustments in these areas should not be construed as indicating that the Company's adjustment for these two items is superior to those recommended by DPU witness Thomson. Rather my adoption of the Company's adjustments is the minimum amount of the adjustment in these two areas that should be made in this case.

RESPONSE TO RMP REBUTTAL TESTIMONIES

Q. WHAT SPECIFIC ITEMS IN RMP'S REBUTTAL TESTIMONY WILL YOU BE RESPONDING TO?

A. I respond to Mr. McDougal's rebuttal testimony in the areas of plant held for future use, Utah distribution expense, Chehalis due diligence bonuses, general overhaul average expense escalation, MEHC Management Fees, and settlement fees. I respond to the rebuttal testimony of Erich Wilson in the areas of pensions, other post employment benefits and Supplemental

Executive Retirement Plan (SERP) costs. Each of these items will be discussed below.

<u>Plant Held for Future Use (PHFFU)</u>

Q. WOULD YOU PLEASE PROVIDE A BRIEF SUMMARY OF YOUR RECOMMENDED ADJUSTMENTS TO PLANT HELD FOR FUTURE USE?

A. Yes. In my direct testimony, at page 12, line 260 through page 15, line 388, I recommended three separate adjustments to reduce the amount included in test year rate base by RMP for PHFFU. The first adjustment removed costs associated with a deferred transmission project, which RMP has agreed with in its Rebuttal Adjustment 11.16. I also recommended that the amount included in PHFFU for the cost of land for the Oquirrh substation ($2,245,898) be removed, and that 75% of the costs associated with White Rock substation land included in PHFFU ($378,768) be removed from rate base. The two land items were recommended for removal, or partial removal, as the Company's filing included plant additions that would be using the land. As a result, I recommended that the amount included in the average PHFFU balance for the two land parcels be removed to prevent a double counting of the land costs in rate base – once in PHFFU and again as part of the plant additions.

Q. DID RMP AGREE WITH YOUR REMOVAL OF THE TWO LAND PARCELS FROM PHFFU IN ITS REBUTTAL TESTIMONY?

A. No, it did not. At page 53 of his rebuttal testimony, RMP witness McDougal indicates that the land associated with the Oquirrh substation project and the White Rock substation project were not included in the pro forma plant adjustment 8.10 in RMP's filing. Thus, the plant additions did not include the land associated with the projects. Mr. McDougal indicates, at lines 1146 through 1148 of his rebuttal testimony, that "The total Company balance for the Oquirrh substation land of $2,245,898 was transferred directly from FERC account 105 to FERC account 101 – Electric Plant in Service in June 2009." He also indicates at lines 1157 through 1158 that the Company will directly transfer the land associated with the White Rock Substation from PHFFU to Plant in service when the project is placed into service later this year. Mr. McDougal indicates that RMP's failure to include the land as part of the pro forma plant additions was "atypical of what the Company would normally do as it prepares its cases." He also indicates that no adjustment should be made to reduce FERC Account 105 – PHFFU for these two land parcels because the land for each project was not included adjustment 8.10 – Pro Forma Plant Additions. Based on RMP's response to OCS Data Request 24.10, the land was also excluded from the Company's update to its plant in service adjustment in Rebuttal Adjustment 11.18.

Q. DO YOU FIND MR. MCDOUGAL'S REBUTTAL POSITION ON THESE TWO LAND PARCELS PERSUASIVE?

A. Yes, based on the additional information provided in Mr. McDougal's rebuttal testimony and the response to OCS Data Request 24.10, I agree that the land associated with the Oquirrh Substation and the White Rock substation project should remain in PHFFU to allow for a return on these assets during the test year.

Q. HAVE YOU PREPARED A REVISED EXHIBIT TO REFLECT THE REMOVAL OF THE OQUIRRH SUBSTATION LAND AND WHITE ROCK SUBSTATION LAND FROM YOUR RECOMMENDED PHFFU ADJUSTMENT?

A. Yes. I am providing with this testimony Exhibit OCS 2.6 Revised. This reflects the removal of the adjustment for the Oquirrh substation land and the White Rock substation land from my recommended adjustment to PHFFU. It still reflects the removal of the deferred transmission project from PHFFU that RMP has agreed to in its Rebuttal Adjustment 11.16.

<u>Utah Distribution Expense</u>

Q. DID THE COMPANY PROVIDE ADDITIONAL INFORMATION IN ITS REBUTTAL TESTIMONY THAT, IN YOUR OPINION, SUPPORTS ITS ADJUSTMENT TO UTAH DISTRIBUTION EXPENSE?

A. No, it did not. As indicated in my direct testimony, at pages 40 and 41, the Company did not provide a reasonable level of support for its $3,452,889 adjustment to increase Utah preventative and corrective maintenance expenses. It did not separate out the labor versus non-labor costs, it did not demonstrate that it did not incur specific non-labor costs as a result of decreasing efforts in corrective and preventative maintenance expenses during September 2008 through December 2008, and it was unable to identify specifically what was not done that otherwise would have been done. It did not provide a reasonable level of support for its proposed adjustment.

RMP witness Steven McDougal addressed the Utah Distribution expense adjustment in his rebuttal testimony at page 46 through 51. In that rebuttal, he still does not identify what specific maintenance items were foregone during the four-month period and does not identify specific costs that otherwise would have been incurred by RMP. The Company's adjustment remains a very high level adjustment based on a comparison of actual costs booked to certain sub-accounts to what was budgeted in the same period for those specific sub-accounts without specific details being provided. When addressing the "normal expense" levels factored into the Company adjustment, which are the budgeted amounts, he indicates that "These figures represent what the Company has deemed would be necessary to provide timely and reliable electric service to all

Utah ratepayers." However, no support was provided to show how the Company derived those amounts and how it was able to determine that it is the amount it would deem to be necessary.

At page 49 of his testimony, Mr. McDougal indicates that "…the Company did not implement program cost reductions by terminating employees, but rather by modulating and reducing the level of maintenance workload assigned to internal and external-contract labor pools." He did not identify what "modulations" occurred during the period or specifically what "maintenance workload assigned" was specifically reduced. No details have been provided to evaluate the Company's contentions other than a simple comparison of the actual costs to the budgeted costs in certain sub-accounts.

Q. DID THE COMPANY ADDRESS YOUR CONCERN THAT ITS ADJUSTMENT MAY RESULT IN A DOUBLE COUNT OF LABOR COSTS IN THE FILING?

A. No, not in a satisfactory manner. As indicated in my direct testimony, at page 38 line 850 through page 40, line 904, no employees were terminated or removed during the four-month period incorporated in the Company's adjustment. Thus, while the labor costs recorded on the Company's books in the specific subset of accounts incorporated in RMP's adjustment may be lower for the months included in the adjustment, those labor costs would still be recorded elsewhere on the Company's books and still remain in the base year costs and in the adjusted test year labor costs. Mr. McDougal states that the Company does not contest my "…observation that the Company has not reduced its workforce by termination or removal." However, he indicates that this observation is not relevant when considering the normal expense levels applicable to Preventative and Corrective maintenance because "this work would have been mainly performed by outside contractors." This assertion made in his testimony is inaccurate and inconsistent with other information provided by RMP.

Q. PLEASE EXPLAIN WHY HIS ASSERTION IS NOT ACCURATE.

A. After reviewing the Company's rebuttal testimonies, the OCS issued a set of data requests to obtain more details on some of the assertions made in the rebuttal testimonies, including the assertion that the preventative and corrective maintenance work would have been performed mainly by outside contractors. Based on the response to OCS Data Request 24.6, the purported "normal expense level" for the Utah preventative and corrective maintenance, which is based on the Company's budget and totals $6,210,998, includes $4,134,511 of internal labor costs and $1,498,696 of contractor service costs. Thus, only 24% of the purported normal expense level is associated with outside contractors while 67% would pertain to internal labor costs. Clearly Mr. McDougal's assertion that the "…work would have been mainly performed by outside contractors" is inaccurate based on the Company's budget.

As indicated in my direct testimony, the actual Utah distribution corrective and preventative maintenance expenses for the period September 2008 through December 2008 included $1,871,660 (or 68% of the total costs) for labor. Based on the Company's response to OCS Data Request 24.6, the "normal expense level" for that same period would include $4,134,511 of internal labor costs. The difference between the actual labor costs for this subset of accounts and the budgeted labor costs are still incorporated in the Company's adjusted test year in other accounts as part of the Company's wage and employee benefits adjustment – Adjustment 4.2.

Q. DOES MR. MCDOUGAL'S REBUTTAL TESTIMONY REGARDING THE LEVEL OF CONTRACTOR SERVICES EXPENDITURES SUPPORT THE COMPANY'S ADJUSTMENT?

A. No, it does not. Beginning at page 49, line 1062 of Mr. McDougal's rebuttal testimony, he asserts that the cost reductions consisted primarily of reduced contract labor during the time period from September 2008 through December 2008. As indicated in my direct testimony, the Company's adjustment is for Utah distribution corrective and preventative maintenance expenses, which is a subset of Utah distribution maintenance costs and a subset of FERC accounts 592 –Maintenance of

Steam Equipment, 593-Maintenance of Overhead Lines and 594 – Maintenance of Underground Lines. The actual costs shown by the Company were $2,758,109 and the purported “Normal expense level” is $6,210,998, a difference of $3,542,889 for the entire four-month period. This includes <u>all</u> of the costs, such as internal labor, supplies and external contractor service costs. Based on the response to OCS Data Request 24.6, the actual costs included $460,882 of contractor service costs and the budgeted, or “normal expense level” included $1,498,696 of contractor service costs. This is a difference in contractor service costs of $1,037,814 between the budgeted and actual amounts, with the majority of the difference between the total actual and total “normal expense level” applicable to internal labor cost differences. As indicated above, Mr. McDougal’s assertion that the cost reductions consisted primarily of reductions to contract labor is inaccurate.

Q. ARE THE CONTRACT LABOR COST COMPARISONS IN HIS REBUTTAL TESTIMONY SUPPORTIVE OF HIS ASSERTION?

A. No. As indicated above, the total “normal” cost level purported by the Company for the four-month period for the subset of accounts involved in the adjustment is $6,210,998 and the proposed increase in expense is $3,452,889. On a monthly average, the “normal” cost would be $1,552,750 ($6,210,998 / 4 months). This includes not only external contract labor costs, but also internal labor costs and other costs such as supplies.

Beginning at page 49 of his rebuttal testimony, Mr. McDougal identifies monthly-average contractor services expenditures of $3,370,721 for the period September 2008 through December 2008 and a “total 4-month average of $13,482,885.” He then compares these monthly and “total 4-month average” to other timeframes. However, his “contractor services expenditures” amounts are not limited to the costs specific to the Company’s adjustment as the totals greatly exceed the “normal” amount in the Company’s adjustment. The “monthly average” actual contractor services expenditures identified by Mr. McDougal for contractor services expenditures in the months of September 2008 through December 2008 is $3,370,721 while the monthly average “normal” Utah distribution preventative and corrective maintenance expense in RMP’s adjustment would be $1,552,750 and includes items beyond external contractor labor.

Based on the Company’s response to OCS Data Request 24.8, the contractor service expenditures provided in Mr. McDougal’s rebuttal testimony includes <u>all</u> Utah situs contract labor costs. It includes not only amounts that would be charged to expense, but it also includes costs that are capitalized on the Company’s books. In fact, based on the response, the “total 4-month average” contractor service expenditures identified in

Mr. McDougal's testimony, at page 49, the $13,482,885 consists of $11,324,174 of capital costs and only $2,158,711 of costs that would be charged to expense. Thus, the majority of the amounts cited in Mr. McDougal's testimony are capital related costs and not expenses. Additionally, the expense amounts are for all Utah situs contract service expenditures and are not limited to the Preventative and Corrective maintenance expenses incorporated in the Company's proposed adjustment. Clearly, Mr. McDougal is making an "apples to oranges" comparison in his rebuttal testimony.

Q. DO YOU CONTINUE TO RECOMMEND THAT THE COMPANY'S ADJUSTMENT TO UTAH DISTRIBUTION EXPENSE BE REMOVED?

A. Yes. The Company has been given ample opportunity to support its adjustment, yet it has still failed to do so. The burden of proof lies with the Company in supporting its adjustments and its filing, yet it has failed to provide evidentiary support for this adjustment. OCS agrees that a reasonable level of distribution corrective and preventative maintenance should be done by the Company to maintain reliable service in the State of Utah; however, this does not absolve the Company of its responsibility to provide a reasonable level of support for its adjustments and requested expenditures. During the period of purported reductions in Utah corrective and preventative maintenance expenditures, the Company knew that it would be required to report expenditures during that period to the

Commission in its Result of Operations reports. It also should have known there was at least a possibility that that period would be incorporated into a base year in a future rate case. Yet, the Company apparently did not take steps to document or track for future identification the specific cost reductions and modifications in procedures it contends it undertook during that period. The Company has not been able to cite any specific changes in operations that occurred during the four-month period incorporated in its adjustment.

<u>Chehalis Bonus</u>

Q. RMP WITNESS STEVEN MCDOUGAL DISAGREES WITH YOUR RECOMMENDATION THAT THE CHEHALIS DUE DILIGENCE BONUSES BE REMOVED FROM THE TEST YEAR. WOULD YOU PLEASE ADDRESS THIS ISSUE?

A. In my direct testimony, at page 66, lines 1485 though 1501, I recommended that test year expenses be reduced by $201,214 on a total Company basis and $82,760 on a Utah jurisdictional basis to remove the Chehalis Due Diligence Bonuses that were paid by RMP during the base year. These bonuses were specific to the Chehalis acquisition and will not be repeated in the test year. While Mr. McDougal agrees at page 46 of his rebuttal testimony that the specific bonus payments will not be repeated in the test period, he indicates that “the Company will continue to incur similar type bonus payments on a routine basis throughout the test period.” He also indicates that such bonuses are booked to general ledger account 500400, which "…includes numerous other small bonuses intended to reward and motivate employees to perform at a high level."

Company Exhibit__(SRM-2), Page 4.2.2, shows that total test year costs in the Company's filing include $1,612,692 for general ledger account 500400 – bonuses. This is in addition to $32,526,352 that was included in that schedule for annual incentive payments. After my recommended $201,214 adjustment to remove the non-recurring Chehalis Due Diligence bonuses, adjusted test year expenses would still include substantial amounts for bonuses and incentive payments. The Chehalis acquisition, and the resulting bonus payments to certain employees, is an event of a non-recurring nature. The Company has not demonstrated that removal of the Chehalis due diligence bonuses from the test period will result in an understated level of test period bonuses and incentives for employees. Thus, I continue to recommend my adjustment to remove these non-recurring bonuses associated with the Chehalis acquisition.

<u>Generation Overhaul Escalation</u>

Q. AFTER RMP'S UPDATE TO ITS GENERATION OVERHAUL EXPENSE IN ITS REBUTTAL ADJUSTMENT 11.14, DO ANY OF THE ASPECTS OF THE GENERATION OVERHAUL EXPENSE ADJUSTMENT REMAIN IN DISPUTE?

A. Unfortunately, yes. The purpose of using a four-year average approach for projecting the generation overhaul expense level to include in rates is to ensure that the costs are based on a normalized level. This approach serves to smooth the impact of normal year-to-year fluctuations in the overhaul expenditure levels. Whether or not the historic generation overhaul costs that are used in deriving the 4-year average cost level should be escalated remains in dispute, despite specific prior Commission guidance on this issue.

Q. WHAT IS THE OCS' RECOMMENDATION WITH REGARDS TO WHETHER OR NOT THE HISTORIC COST LEVELS SHOULD BE ESCALATED IN DERIVING THE AVERAGE?

A. As indicated in my direct testimony, at page 71, lines 1595 through 1623, the OCS continues to recommend that the costs NOT be escalated in deriving the average, normalized cost level. In that same testimony, I also cited the Commission's Order in Docket No. 07-035-93 that specifically addressed this issue. I will not repeat that argument or re-cite the Commission's order within this surrebuttal testimony. They speak for themselves. The DPU's recommended generation overhaul expense adjustment, sponsored by DPU witness Brenda Salter, also excluded the escalation of historic costs in deriving the 4-year average cost level to include in rates.

The issue of whether or not the historic costs should be escalated in deriving the normalized amount for inclusion in rates was thoroughly vetted by the parties in RMP Docket No. 07-035-93. The issue was addressed in testimony in that case, and I was cross examined on this very issue during the hearings before the Commission. In the August 11, 2008 order in that case, which was issued a little over a year ago, at pages 81 – 82, the Commission specifically addressed the escalation issue and determined that the historic costs should not be escalated.

While RMP continues in this docket to argue that the historic costs should be escalated in deriving the normalized cost level, there has been no new evidence in support of escalation of the costs presented by RMP in this case, in its direct or rebuttal testimony, which would not have already been considered by the Commission in making its determination to exclude the escalations in the prior docket. RMP's repeated request to escalate these costs in deriving the normalized level should, yet again, be denied.

<u>MEHC Management Fees</u>

Q. PLEASE BRIEFLY SUMMARIZE THE RECOMMENDATION IN YOUR DIRECT TESTIMONY WITH REGARDS TO MANAGEMENT FEES CHARGED TO PACIFICORP FROM MIDAMERICAN ENERGY HOLDINGS COMPANY (MEHC).

A. I recommended that the MEHC management fees be reduced by $2,398,932 ($991,119 Utah basis) to remove the costs allocated from MEHC to RMP for: (1) MEHC SERP plan costs of $354,771; (2) MEHC bonuses of $1,844,484; and (3) MEC bonuses of $129,805. Each of these amounts was escalated by RMP by 3% in deriving the test year cost included in the filing. The specific reasons for removal of these costs were presented in my direct testimony, at page 77, line 174 through page 82, line 1867, part of which was filed as confidential.

Q. DID RMP ADDRESS YOUR RECOMMENDED ADJUSTMENT IN ITS REBUTTAL TESTIMONY?

A. Yes. In his rebuttal testimony, at pages 39 through 41, RMP witness Steven McDougal disagreed with my reduction to the MEHC management fees. He indicates that the Company "…has benefited and will continue to benefit from having MEHC as its holding company in several respects" and lists several of the benefits to RMP. These include items such as cost cutting strategies, labor cost reductions, implementation of MEHC safety policies, and the provision of corporate functions. Mr. McDougal also identifies the reduction in management costs under MEHC ownership as compared to the management fees paid to the prior owners, which would be ScottishPower. While touting the benefits to PacifiCorp of ownership under MEHC as compared to the prior ownership, Mr. McDougal does not address the specific charges from MEHC that I have recommended for removal, with the exception of the SERP costs. The largest component of the MEHC management fee I recommended for removal, specifically the MEHC bonuses allocated to the Company, was not discussed.

Q. BASED ON THE COMPANY'S REBUTTAL TESTIMONY, ARE YOU RECOMMENDING ANY REVISIONS TO YOUR ADJUSTMENT?

A. No, I am not. I continue to recommend that the MEHC management fees be reduced to remove costs associated with the MEHC bonuses, MEC bonuses and the SERP bonuses for the reasons cited in my direct testimony. Whatever improvements may have occurred since the acquisition of PacifiCorp by MEHC as compared to the prior ScottishPower ownership, it would not justify the inclusion of MEHC bonuses, MEC bonuses and MEHC SERP costs in rates charged to RMP's Utah customers. The management fees charged by MEHC should still be scrutinized to ensure that costs that are ultimately allocated to RMP and charged to RMP's customers in the state of Utah are reasonable and appropriate for inclusion in rates.

Q. IN YOUR DIRECT TESTIMONY, YOU INDICATED THAT THE COMPANY DID NOT PROVIDE THE TARGETS UNDER THE MEHC INCENTIVE PLANS OR THE MEC INCENTIVE PLANS FOR THE BASE YEAR. DID THE COMPANY OFFER MORE INFORMATION JUSTIFYING THE MEHC AND MEC BONUS PLAN COSTS IN REBUTTAL?

A. No, it did not. The specifics of the MEHC and MEC bonus costs allocated to the Company in this case were not addressed in RMP's rebuttal testimonies and no additional information was provided.

Q. WHAT JUSTIFICATION DID RMP PROVIDE FOR INCLUSION OF THE MEHC SERP COSTS?

A. In addressing the SERP costs, Mr. McDougal indicates the costs "…are reasonable because they are an essential part of executive compensation in retaining the types of highly qualified executives that make decisions with positive impacts on ratepayers." He also indicates that the Commission allowed the inclusion of SERP costs in Docket No. 99-035-10, quoting the Commission's order as follows: "it is our opinion that a SERP plan is an essential part of executive compensation in recruiting and retaining qualified executives, and we therefore reject the Committee's adjustment and accept the Company's."

Q. IN YOUR OPINION, IS THE COMMISSION'S ORDER REGARDING SERP COSTS IN DOCKET NO. 99-035-10 APPLICABLE IN THIS CASE?

A. No, it is not. As mentioned in my direct testimony, the PacifiCorp SERP plan is closed to new participants and has only one current employee as a participant. Thus, the SERP plans are clearly not "an essential part of executive compensation in recruiting and retaining qualified executives" as it may have been at the time of Docket No. 99-035-10. This is addressed in further detail later in this testimony under the SERP Expense subject heading.

<u>Settlement Fees</u>

Q. DID RMP AGREE WITH YOUR RECOMMENDATION TO REMOVE THE COLSTRIP PLANT SETTLEMENT COSTS AND THE AVIAN MATTER RESTITUTION COSTS FROM THE TEST YEAR?

A. No, it did not. In his rebuttal testimony, RMP witness Steven McDougal disagrees with my adjustment to remove $1.7 million ($700,135 Utah basis) from expenses for these two items. He indicates, at pages 51 and 52 of his rebuttal testimony, that "a certain level of legal risk is inherent in the nature of the electric utility industry" and that settlement and legal expenses are unavoidable and necessary. He also states that in the past three years, "the Company has averaged approximately $2.2 million in these types of settlement fees" and that the settlement fees I proposed for removal are within the "normal range that the Company regularly incurs."

Q. DO YOU FIND THE REBUTTAL TESTIMONY COMPELLING?

A. No, I do not. First, Mr. McDougal has not addressed the merits of the specific settlement and restitution costs I have recommended for removal. These were addressed in my direct testimony at page 82, line 1869 through page 84, line 1917, part of which is confidential and will not be restated here. He also did not provide support for his statement that "these types of settlement fees" have averaged $2.2 million of the past three years or his definition of "these types of settlement fees." He did not provide the annual amounts, nor did he provide the specifics of the settlement costs included in deriving the average. He also did not provide the amount remaining in the test year after my recommended removal of the Colstrip settlement costs and avian matter restitution costs. I continue to recommend that the costs incorporated in the test year for these two matters be removed.

Pension and Other Post Retirement Benefits

Q. WOULD YOU PLEASE PROVIDE A BRIEF SUMMARY OF YOUR RECOMMENDED ADJUSTMENTS TO PENSION AND OTHER POST RETIREMENT BENEFITS?

A. In my direct testimony, at page 50, line 1133 through page 57, line 1283, I recommended, for various reasons, that the projected test year pension and other post retirement benefit expenses included in the Company's filing be replaced with the amounts from the actual 2009 actuarial valuations. The actuarial report amounts for 2009 were not available to the Company at the time it filed its case and subsequently became available. The actual 2009 actuarial valuations were considerably lower than the projected amounts for 2009 incorporated by RMP in its filing and were lower than the base year amounts. My testimony also indicates that the expenses have been declining for several years and that the Company has not supported its projected increase into 2010 contained in the filing. I recommended a $3,074,294 ($1,253,701 Utah basis) reduction to the projected pension expense included in the filing and a $906,606

($369,715 Utah basis) reduction to other post retirement benefits expense. I continue to support these recommendations.

Q. DID THE COMPANY AGREE WITH YOUR RECOMMENDED REDUCTION TO PENSION AND OTHER POST RETIREMENT BENEFIT EXPENSES TO REFLECT THE ACTUAL 2009 EXPENSE LEVEL FOR THE TEST YEAR?

A. No, it did not. RMP witness Erich Wilson asserts that "…if updated actuarial information for 2010 is also used to compute an average of 2009 and 2010 which aligns with the test period in this case, the result would actually increase expense in the filing." He indicates that the current projection of the 2010 pension and other post retirement benefits increase due to "…a change in the discount rate and the continued effect on the plan investments from the recent stock market performance."

Q. DID MR. WILSON SUPPORT THESE ASSERTIONS?

A. No, he did not. He indicated that Hewitt Associates prepared a more recent projection of 2010 pension and other post retirement benefit costs dated October 1, 2009. However, he did not provide any facts or evidence, or any of the details of those updated projections other than simply indicating that there was a change in the discount rate and a continued effect from recent stock market performance. He did not provide the amount of projected 2010 costs based on the updated projections or support for the modifications to the actuarial assumptions from the original projections. In fact, he did not even specifically identify what the modifications were or what the assumed change in the discount rate was.

Q. WERE YOU ABLE TO OBTAIN ADDITIONAL INFORMATION AFTER RECEIVING MR. WILSON'S REBUTTAL TESTIMONY?

A. Yes. Subsequent to receiving Mr. Wilson's rebuttal testimony, additional data requests were submitted by the OCS. Based on the response to OCS Data Request 24.2, the Company has significantly reduced the discount rate for purposes of projecting the 2010 pension and other post retirement benefit costs, reducing the discount rate from the 6.90% to 5.75% for 2010. Additionally, in projecting the 2010 pension and other post retirement benefit costs, the Company assumed an actual return on plan assets for 2009 of 14.00%.

Q. IS IT POSSIBLE AT THIS TIME TO KNOW WHAT THE 2010 PENSION AND OTHER POST RETIREMENT BENEFIT COSTS WILL BE FOR THE COMPANY?

A. No, it is not. The actuarial assumptions for determining 2010 pension plan and other post retirement benefit costs, such as the discount rate and the assumed long term rate of return on plan assets, will not be selected by the Company until December 31, 2009. The discount rate to use in determining the 2010 plan costs can not be selected until the end of 2009. Also, the actual return on the pension and other retirement plan assets for 2009, which will impact the 2010 expense, will not be known until the end of 2009.

The actuarial projections in RMP's filing assumed a long term rate of return on the plan assets of 7.75% for 2009. In the updated 2010 projections mentioned in Mr. Wilson's rebuttal testimony, the Company assumed an actual return on plan assets for 2009 of 14.00%. According to the response to OCS Data Request 24.3(a), the return on the pension plan assets for year-to-date through October 31, 2009 is 16.7%, with two months remaining in 2009. The response to OCS Data Request 24.3(e) indicates that the percentage return on the other post retirement benefit plan assets for year-to-date through October 31, 2009 is 18.6%. Thus, based on the information available for year-to-date earnings on the plan assets, PacifiCorp will experience actuarial gains on its pension and other post retirement plan assets during 2009 that will serve to lower the 2010 pension expense. The actual earnings for year-to-date through October 31, 2009 have exceeding the assumptions used in the updated projections referenced in Mr. Wilson's rebuttal testimony.

<u>Supplemental Executive Retirement Plan Costs</u>

Q. YOU PREVIOUSLY ADDRESSED THE MEHC SERP PLAN COSTS ALLOCATED TO RMP. DID RMP ALSO ADDRESS YOUR REMOVAL OF THE RMP SERP COSTS?

A. Yes. RMP witness Erich Wilson addresses my recommendation. He agrees that the SERP expenses included by the Company in its case are for only one active participant and past participants. He indicates that the past participants delivered “value to the then current customers while also shaping the company to benefit future (current) customers.” He also indicates that the Commission stated in Docket No. 99-035-10 that “SERP is an ‘essential part of executive compensation in recruiting qualified executives,’ and subsequently approved the Company’s request for recovery of SERP expenses.”

Q. DO YOU FIND MR. WILSON’S ARGUMENTS PERSUASIVE IN SUPPORTING INCLUSION OF THE SERP COSTS IN RATES IN THIS CASE?

A. No, I do not. He is correct that the Commission, in Docket No. 99-035-10 indicated that the SERP plan was an essential part in recruiting qualified executives. The circumstances have changed since the order in that case was issued on May 24, 2000. The plan has been closed to new participants for several years, and only one current executive at PacifiCorp participates in the SERP plan. As the SERP benefit is not offered to new employees, it is not and can not be an essential part in recruiting new executives. Thus, the reasoning specifically identified by the Commission in allowing the recovery of SERP costs in its May 24, 2000 decision in Docket No. 99-035-10 are no longer applicable for the Company.

Additionally, during the time the past SERP participants were employed by the Company, an expense would have been recorded on the Company's books associated with the service costs that accrued to the SERP plan during those years. During the period that those employees would have been providing services to the RMP’s customers, a cost would have been accrued on the Company's books associated with the projected future provisions of the benefits under the plan. Ratepayers should not be required to indefinitely fund the SERP plan costs associated with the past employees participating in the plan, and the one employee currently in the plan, indefinitely into the future. The time to stop the customers' requirement to continue providing excessive benefits to these past retired and inactive employees by inclusion of these continuing costs in expenses collected in rates is now. RMP's Utah customers can ill afford to provide these benefits, particularly when they are receiving no service for the vast majority of these costs.

Q. WHAT PORTION OF THE TOTAL SERP COSTS PERTAINS TO THE ONE ACTIVE EMPLOYEE IN THE SERP PLAN?

A. As indicated in my direct testimony, test year costs include $2.4 million on a total Company basis for projected SERP costs. After application of the percentage of labor costs that are charged to expenses, $1.7 million remains in test year expenses on a total Company basis and $693,702 on a Utah jurisdictional basis. I do not know the exact amount included in the $693,702 Utah expense amount that pertains to the one active employee. However, only a very small portion of the amount would pertain to the current active employee in the plan, with the majority of the costs pertaining to past participants that are no longer employed by the Company.

Based on the response to OCS 12.8, Attachment OCS 12.8a, of the total $2.41 million of test period SERP costs, $104,000 pertained to service costs, with the majority of the costs applicable to interest costs on the plan. The 2008 PacifiCorp SERP plan actuarial report provided by RMP as Attachment OCS 12.8e identifies that of the total 2008 SERP plan costs of $3,367,000[1], $190,000 pertained to the active participant, $405,000 pertained to vested terminations and $2,772,000 pertained to retirees and beneficiaries. Thus, only 5.6% of the 2008 SERP costs ($190,000 / $3,367,000) pertained to the active participant in the plan. Presumably a similar ratio would be applicable in the test year.

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[1] The total cost of $3,367,000 includes costs that are allocated to non-regulated operations.

<u>OVERALL RECOMMENDED REVENUE REQUIREMENT</u>

Q. HAVE YOU UPDATED THE OCS' RECOMMENDED REVENUE REQUIREMENT TO INCORPORATE THE IMPACTS OF THE TAX STIPULATION AND THE REVISIONS IDENTIFIED IN THIS TESTIMONY?

A. Yes. I have updated the OCS' recommended Utah revenue requirement to incorporate: (1) the impact of the tax stipulation; (2) the adoption of several of RMP's rebuttal adjustments as indicated in this testimony; (3) modifications to my original recommendations identified in this testimony; and (4) modifications to the net power costs recommended by OCS witness Randall Faulkenburg in his surrebuttal testimony. Based on these revisions, the OCS recommends a decrease in the current level of Utah revenue requirement of $10,993,344.

Q. HAVE YOU PREPARED AN EXHIBIT THAT PRESENTS THE OCS RECOMMENDED REVENUE REQUIREMENT?

A. Yes. Exhibit OCS 2.1Revised presents the overall revenue requirement. Exhibit OCS 2.2 Revised includes an updated summary schedule that lists all of the OCS recommended adjustments, including the revised adjustments and the RMP rebuttal adjustments that the OCS agrees should be adopted. These are presented on Exhibit OCS 2.2 Revised on a Utah basis using the revised protocol jurisdictional allocation method to be consistent with RMP's presentation. As addressed in my direct testimony, the OCS has also recommended an overall rate of return that differs from the amount requested by RMP. Also provided with this surrebuttal testimony is Exhibit OCS 2.6 Revised, which reflects the revision to my recommended PHFFU adjustment, discussed in this testimony.

Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

A. Yes.