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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. 13-035-184**

PREFILED REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

[REVENUE REQUIREMENT]

The UAE Intervention Group (UAE) hereby submits the Prefiled Rebuttal Testimony of Kevin C. Higgins on revenue requirement issues.

DATED this 4th day of June, 2014.

/s/______________________________
Gary A. Dodge,
Attorney for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 4th day of June, 2014, on the following:

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BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Rebuttal Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 13-035-184

[Revenue Requirement]

June 4, 2014

REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

INTRODUCTION

Q. Please state your name and business address.

A. My name is Kevin C. Higgins. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. Are you the same Kevin C. Higgins who pre-filed direct revenue requirement testimony in this docket on behalf of the Utah Association of Energy Users ("UAE")?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to the direct testimony of Utah Office of Consumer Services ("OCS") witness Donna Ramas on the subject of the appropriate adjustment to capture the impact of the reduced employee count on labor costs. My rebuttal testimony is limited to clarifying this single issue. The absence of commentary on my part regarding the other adjustments offered by Ms. Ramas and the other witnesses that testified on revenue requirement is not intended to reflect lack of support or specific support for those recommendations.

Q. Please summarize the conclusions of your rebuttal testimony.

A. I agree conceptually with Ms. Ramas that it is appropriate to adjust labor costs downward to reflect an updated level of full-time equivalent ("FTE") employees compared to the FTE employee count assumed by RMP during the test period. This was the intention of the wage and benefit expense adjustment presented in my direct testimony. However, based on Ms. Ramas's analysis, and a subsequent data response received from RMP, I have concluded that RMP's proposed test period labor expenses are based on the *average* employee compliment that existed during the base period, not on the June 2013 employment level that I used in my original adjustment. I believe that Ms. Ramas's approach utilizing the average base period FTE count more accurately reflects the employment level assumed by RMP, and should used as the basis of this adjustment. Using the average FTE count during the base year, rather than June 2013 FTE count, increases the magnitude of my adjustment, from **$1,155,605** as filed in my direct testimony to **$5,060,232,** on a Utah-allocated basis.

<u>Response to Ms. Ramas</u>

Q. What has Ms. Ramas proposed regarding an adjustment to labor costs based on employee reductions?

A. As explained on pages 4 through 7 of Ms. Ramas's direct testimony, the future test year labor costs included RMP's filing are based on the employee compliment that existed during the base year ended June 30, 2013, escalated for salary and wage increases. The PacifiCorp FTE employee count declined throughout the base year and subsequent to the base year. Ms. Ramas proposes a 2.30% reduction to the labor costs she believes are impacted by the employee level, representing the percent reduction to the FTE employee count from the average base year FTE count of 5,464 (which is effectively adjusted to 5,460 through RMP's Little Mountain adjustment[1]), to the January 2014 FTE count of 5,334.5, for a reduction of 125.5 FTE employees from the adjusted base year count.

Q. Did you include a similar adjustment in your direct filing to account for the employee count reduction?

A. Yes. My wage and benefit expense adjustment is presented in UAE Exhibit RR 1.12. Consistent with Ms. Ramas's recommendation, I proposed that test period labor expense be based on the more recent January 2014 FTE level, which better reflects the Company's employment level than RMP's direct filing.

Q. Is your adjustment based on the same level of FTE employees assumed by RMP as Ms. Ramas's adjustment?

A. No. Ms. Ramas used the average base year FTE employee count as the basis of her adjustment. That is, Ms. Ramas observes that RMP's test year labor expenses were premised on the average base year ended June 2013 employee count, which has since declined. My adjustment, however, was based on the FTE

[1] See Exhibit RMP__(SRM-3), page 5.3, which removes the Little Mountain labor expense and RMP's response to 2014 GRC Filing Requirement R746-700-20.C.3.a, which explains, "Adjustment 5.3 removes the labor cost related to four (4) FTE from the test period."

employee count in June 2013, rather than the average FTE count during the base year ended June 2013.

Q. Why did your initial adjustment assume that RMP's test year labor costs were based on the employee count in June 2013?

A. I came to that conclusion based on RMP's response to OCS Data Request 4.3(b), which states, in part, "Test year labor expenses are based on June 2013 actual full-time equivalents adjusted for known and measurable changes in labor contract rates and actuarial projections." I interpreted this response to mean that the Company used the June 2013 FTE level as the starting point of its wage and benefit expense rather than the *average* FTE level over the *year ended* June 2013.

Q. What is your current understanding regarding the employment level assumed by RMP in its direct filing?

A. Ms. Ramas's adjustment prompted me to seek further clarification from the Company on this matter. In response to UAE Data Request 16.1, RMP states, "In Data Request OCS Data Request 4.3(b), June 2013 refers to the base period which includes the actual costs for the 12 months ended June 2013. Therefore, the 12 months ended June 2013 actuals are based on the actual costs and employees during that period, which is the average FTE's." Based on this clarification, it appears that RMP premised its test year labor expenses on the average base year FTE employee count.

Q. Do you propose that your adjustment be modified to reflect the FTE employee reduction from the average base year FTE employee count?

A. Yes. The intention of my direct wage and benefit expense adjustment was the same as Ms. Ramas's Employee Reduction adjustment, which sought to adjust labor expenses to reflect the January 2014 employment level. Consistent with Ms. Ramas's approach, I propose to utilize the average adjusted base period FTE count for this purpose.

Q. Besides the different FTE employee counts, are there any other differences between your direct wage and benefit expense adjustment and Ms. Ramas's Employee Reductions adjustment?

A. Yes. My adjustment calculates an average fully-loaded labor cost per FTE employee, and applies this labor cost to each FTE employee reduction[2], while separately accounting for the reduction of nine Carbon Plant FTE employees. Ms. Ramas applies her adjustment to a subset of labor costs, which she identifies in her testimony as, "labor and incentive costs, employee benefit costs (i.e., medical, dental, vision, etc.), and payroll tax costs."[3] It appears that Ms. Ramas intended to exclude pension and post-retirement benefits expenses, pension administration costs, and 401(k) administration costs from her adjustment calculation, perhaps because she does not believe that a reduction in the number of employees would impact these costs.

Q. Please explain why you applied your adjustment against all labor costs, including the cost categories excluded by Ms. Ramas.

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[2] My labor expense adjustment excludes a proportionate amount of "non-utility and capitalized labor."
[3] Direct Testimony of Donna Ramas, p. 7, lns. 145-146. Note that while Ms. Ramas identifies these cost categories, which sum to $677.8M, as being impacted by the employee level, she actually applies her adjustment to labor and incentive costs only ($531.7M).

A. My adjustment was informed by a similar adjustment made by the Company in its Washington 2013 GRC, Washington Docket No. 130043. In its direct filing in that case, the Company proposed an adjustment which it termed "O&M Efficiency Adjustment." This adjustment was intended to reflect the impact on labor costs from an employee count reduction. In its direct filing, the Company calculated an average fully-loaded labor cost per FTE.[4] It then applied this average labor cost to the reduction in FTE employees from the average base year FTE count to the October 2012 FTE count.[5] In that case, Public Counsel recommended an additional adjustment to account for a further reduction in FTE employees from October 2012 to January 2013[6], which was accepted by the Company in rebuttal.[7] In each of these instances, the Company's adjustment calculation utilized an average adjusted fully-loaded labor cost per FTE employee.

Q. Do you continue to believe that a fully-loaded labor cost should be utilized for this purpose?

A. Yes. Based on the method used by the Company in Washington, it appears that calculating an average fully-loaded labor cost per FTE employee is a reasonable approximation of the cost impact of a reduced employee count. Of course, the precise cost savings would vary depending on the particular

[4] Washington Docket No. 130043, Steven R. McDougal's Results of Operations, Exhibit No.___(SRM-3), January 2013, p. 4.15.1.
[5] Direct Testimony of the Public Counsel Division of the Washington Attorney General's Office ("Public Counsel") witness Sebastian Coppola, (SC-1CT), June 21, 2013, p. 32, lns. 11-16.
[6] Ibid, lns. 17-22.
[7] Rebuttal Testimony of Erich D. Wilson, Exhibit No___(EDW-3T), August 2013, p. 5, lns. 2-12; and Steven R. McDougal's Rebuttal Results of Operations, Exhibit No.___(SRM-7), page 4.15.1.

employees at issue. I have issued a data request to the Company to elicit more information on this matter, but I will not receive the response prior to the filing of this rebuttal testimony. At this time, consistent with the Company's recent comparable adjustments in Washington, I propose that a fully-loaded labor cost be utilized to calculate my wage and benefit expense adjustment.

Q. What is the impact on the Utah revenue deficiency of your rebuttal wage and benefit expense adjustment, which incorporates the average base period FTE modification and utilizes a fully-loaded labor cost?

A. The wage and benefit expense adjustment presented in my direct testimony assumed a FTE employee reduction of 26 FTE employees[8] from the adjusted June 2013 level to the January 2014 level.[9] My rebuttal wage and benefit expense adjustment is presented in UAE Exhibit RR 1.1R. This revised adjustment reflects a reduction of 125.9 FTE employees[10] from the average adjusted base period FTE count of 5,460.4 to the January 2014 FTE count of 5,334.5. This change increases the magnitude of my adjustment by $3,904,627 on a Utah-allocated basis, from **$1,155,605** in my direct filing to **$5,060,232**.

Q. Have you prepared a summary of your recommended adjustments reflecting the impact of this update to the wage and benefit expense adjustment?

[8] Carbon Plant employees constitute nine of the 26 FTE reduction, and are separately accounted for in my direct exhibit, UAE Exhibit RR 1.12.

[9] See my direct exhibit, UAE Exhibit RR 1.11, for the historical FTE employee counts. The actual June 2013 FTE count was 5,364.5. Four FTEs were removed in RMP's Little Mountain Adjustment 5.3, which results in an "adjusted" June 2013 FTE count of 5,360.5.

[10] Carbon Plant employees constitute nine of the 125.9 FTE reduction, and are separately accounted for in my rebuttal exhibit, UAE Exhibit RR 1.1R.

A. Yes. A complete list of my recommended adjustments, including the impact of this updated wage and benefit expense adjustment, is shown below in Table KCH-1 Updated. In total, my recommended adjustments now reduce RMP's base rate revenue deficiency by $31.2 million.

Table KCH-1 Updated

Summary of Revenue Requirement Impact of UAE Adjustments

	Adjustment
REC Revenue Adjustment	(427,153)
Special Contract Revenue Adjustment	(269,085)
O&M Expense Escalation Adjustment	(2,444,855)
Generation Overhaul Expense Adjustment - Lake Side 2	(161,535)
Generation Overhaul Expense Adjustment - Carbon	(274,160)
Pension Expense Adjustment	(214,350)
Post-Retirement Benefits Other than Pensions (PBOP) Exp. Adjustment	(123,236)
Legal Expense Disallowance Adjustment	(1,455,098)
Collection Expense Adjustment	(451,308)
Wage & Benefit Expense Adjustment	(5,060,232)
Carbon O&M Expense Adjustment - Non-Labor*	(1,912,027)
Carbon Labor Expense Adjustment*	(2,489,639)
Third Party Wind Integration Adjustment	(1,034,310)
DC Intertie Expense Adjustment	(2,002,665)
Naughton Unit 3 Extended Coal Operation Adjustment	(5,206,700)
Prepaid Pension Asset Adjustment	(7,493,354)
Contingency Reserve Adjustment	(187,417)
Total UAE Test Period Adjustments	(31,207,124)

*** Removed from base rates; proposed recovery through an alternative ratemaking mechanism.**

Q. Have you updated the impact of your adjustments when combined with the cost of capital recommendations of the Utah Division of Public Utilities ("DPU") and OCS?

A. Yes. The impact of my recommended adjustments combined with the DPU's and OCS's recommended cost of capital is shown below in Table KCH-2 Updated.

Table KCH-2 Updated

Required Base Rate Increase to Achieve Recommended Rate of Return on Rate Base

RMP As-Filed	RMP With NPC Update	UAE Adjustments With RMP ROR	UAE Adjustments With DPU ROR	UAE Adjustments With OCS ROR
$76,252,101	**$71,252,101**	**$40,045,551**	**$ 758,951**	**$ 325,982**

Note: The RMP figures in this table do not reflect the impact of the proposed cost of capital detailed in RMP's rebuttal testimony.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.