BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Voluntary Request of Rocky Mountain Power for Approval of Resource Decision and Request for Accounting Order	:	Docket No. 14-035-147 DPU Exhibit 3.0 DIR (REDACTED)

DIRECT TESTIMONY

OF

DAVID T. THOMSON
STATE OF UTAH
DIVISION OF PUBLIC UTILITIES

March 17, 2015

REDACTED

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 Utah Public Service Commission ("Commission"); assist in analysis of testimony and case preparation; and I have participated in settlement conferences.

Q. What is the purpose of your testimony?

A. To outline the work that I performed on the review of the application and the results of that review. Also, to put forth the Division's recommendation on the Company's request for an accounting order to record and defer certain costs associated with five specific categories as outlined in the filing.

Q. What areas of the filing were you assigned to review as part of your examination?

A. I was assigned to review the Deer Creek Mine closure costs of approximately [redacted] (approximately [redacted] on a Utah allocated basis). I was also assigned to review the Unrecovered Investment amount of approximately [redacted] (approximately [redacted] on a Utah allocated basis).

Q. What was the detail provided by Rocky Mountain Power ("Company") in the application for the above numbers?

A. First, I noted that the detail provided in the filing used total Company amounts. For my review, total Company amounts were sufficient. For purposes of understanding, the unrecovered investment was detailed in the filing using two main components. The first component was the Unrecovered Investment for the Deer Creek Mine of [redacted] with the second component being the Unrecovered Mining Assets of [redacted]

The [redacted] is made up of [redacted] of net Deer Creek plant in-service. Net in this case means plant costs less accumulated depreciation to the date depreciation was deemed to cease per the Company's accounting. The remaining [redacted] is construction work-in-progress and preliminary survey and investigation costs.

[redacted]

[redacted]

[redacted]

[redacted]

Q. How is the Company purposing to account for the unrecovered investments?

A. Until such time that rates are reset, the Company proposes to amortize the unrecovered investments in an amount equal to the depreciation of those assets currently reflected in rates. This amortization will begin in January 2015 and will result in a debit to FERC Account 501, Fuel and a credit to FERC Account 182.3, Other Regulatory Assets.

The Company proposes this amortization to FERC Account 501, plus replacement fuel costs, including the costs of the Coal Supply Agreements, charged to FERC Account 501, be compared to the costs to fuel the Huntington and Hunter plants currently reflected in rates to determine the net power cost to be deferred through the Energy Balancing Account without application of the sharing band. This difference – without being reduced for the sharing band – would result in a debit to FERC Account 182.3, Other Regulatory assets (for Net Power Costs) and a credit to FERC Account 501, Fuel.

As stated above the immediate amortization will be equal to the depreciation currently reflected in rates. The Company is proposing that the amortization be over three years upon next rate case reset. If rates reset September 1, 2016, as they may given the stayout provision in Docket No. 03-035-184, the assets will be fully recovered near the end of 2019, the original life of the assets currently reflected in rates.

The Company proposes a carrying charge for this component of the Net Power Cost deferral based on the Company's authorized rate of return.

Q. How is the Company proposing to account for the mine closure costs?

A. The Company proposes that all closure costs be deferred in a regulatory asset with a carrying charge equal to the Company's authorized rate of return. At the time rates are reset, the Company proposes to include in rate base the unamortized regulatory asset and recover the cost over a period of five years.

Q. Please outline your review of the above costs.

A. As stated above regarding the mine closure costs, I asked for a breakdown between historical and estimated costs of the major pertinent cost categories that made up the amount of [redacted] In conjunction with the above, I also asked the Company to explain how the estimated amounts were determined along with the assumptions used in deriving the information.[1] In its response the Company described all of the closure cost along with its assumptions.

I then reviewed the descriptions and the assumptions for the closure cost as provided by the Company in the data request. It appears that the Company's assumptions were reasonable and a good faith effort was done to estimate costs. However, they are estimates and at some later date when costs become final, the estimates will need to be trued up to the final costs through the regulatory asset

[1] DPU Data Request 3.7.

mechanism. The historical costs should have come from current accounting records and little if any true up should be required.

For the unrecovered investment amounts I asked in a data request that the Company provide a breakdown of what made up the [redacted]. I asked that the breakdown be by SAP account detail to asset class level from the Company's accounting records. I asked that the detail agree or add up to the total unrecovered investment in the filing.[2]

Nothing was noted in the information provided that appeared irregular or improper as to cost or categorization. The amounts provided would have been audited by the Company's external auditor. They would have been included in past settled general rate cases. The Division has also looked at these cost in past EBA filings. Thus, it was felt that a review of documentation supporting the costs in detail would not be required and would be a duplication of past review and audit effort with the chance of a change to the amount provided in the Company's filing a mere possibility.

The accounting treatment of the sale of the mining assets appears proper under accounting principles. [redacted]

[2] DPU data request 3.6.

[redacted] Thus we have a non-recovery or not fully realized recovery of a historical cost / plant investment through the sale of such asset at less than net book value.

The Company proposes for this part of the transaction that the amortization be equal to depreciation currently reflected in rates and begin January 2015 with a three year rate reset upon the next rate case's rate effective date. [redacted]

Of the historical costs of [redacted] was attributed to Deer Creek Construction Work in Progress ("CWIP"). The Preparation Plant cost of [redacted] also has CWIP of [redacted]. CWIP for rate making purposes is not included in rate base. It is included in rate base for setting rates at the time an applicable CWIP project is completed and the project becomes used and useful and is transferred to plant in service. It is not clear from the Company's filing why these amounts remain in CWIP. Therefore, given these assets have never been determined used and useful, the Division recommends that the portion of the Deer Creek and Preparation costs designated as CWIP be disallowed.

In the [redacted] dollars there are assets that potentially could have salvage value or assets that could be sold at auction. These could be heavy equipment; mine equipment; vehicles, coal processing equipment; copper wire, conduits, or other scrap metals; computers; copiers or the like. Any proceeds from such sales would need to be accounted for as a reduction of the unrecovered amount. This would be done in a true-up to the regulatory asset.

Q. Please summarize the results of your review.

A. Based upon my review, nothing came to my attention which would indicate that the amounts reviewed, as outlined above, were not based upon the historical records of the Company or that estimated recovery costs were prepared in a manner that was not a good faith effort by the Company.

Q. Was the above the extent of your review of the application?

A. Yes. The other Division witnesses will comment on other aspects of the application and will make recommendations on how the costs I reviewed will be treated for rate recovery.

Q. Did the Company in its application request an order from the Commission authorizing accounting treatment and deferral of the above costs and other costs that were outlined in the application?

A. Yes. Specifically the Company asked in its application for authorization to record and defer costs associated with: (1) Mine closure costs (2) the unrecovered investment in the Deer Creek Mine and the Mining Assets; (3) the liability for all future estimated payments associated with the withdrawal for the UMWA 1974 Pension Trust; (4) any settlement losses associated with the Retired Medical Obligation; and (5) the incremental costs and benefits of fueling costs related to the transaction. The Company believes it needs Commission approval of its above request.

Q. How does the Division respond to this request in the application?

A. The Division would support the proper use of deferred accounting for the costs outlined in the application and as modified by other Division witnesses...

Q. Please explain how the Division arrived at this recommendation.

A. The use of deferred accounting for costs in the five categories as outlined in the application would facilitate amortizing costs and benefits over a multi-year period thus "smoothing out" the rate impact of the transaction. Deferred accounting also would provide matching of costs with benefits of the transaction.

The Division asked in a data request what would be the impact if there were no deferral of the Deer Creek Mine closure. The Company stated as follows:

> Regarding a no deferral case, without a deferral the Company would be required by GAAP to recognize an expense for all cost, including unrecovered investment, closure cost, and the 1974 Pension Plan withdrawal liability, in one year. Without a deferral order, to the extent the write-off flows through net power cost accounts, it would have an immediate impact on

> customers of 70% through the EBA. In addition, the Company would weigh all other options for rate recovery, including a special tariff rider. Considerations would include timing of the next GRC, the choice of test year and the rate impact of including the entire cost of the transaction in one general rate case."[3]

As stated above amortizing the costs and the benefits of the closure over a multi-year period would help to reduce the "rate shock" of this transaction to ratepayers.

Q. Has the Commission in the past approved deferrals for transactions similar to the Deer Creek closing?

A. Yes.

Q. Please describe those past approvals.

A. In Dockets Nos. 11-035-200, 12-035-79, and 12-035-80, the Commission approved deferred accounting treatment for (1) certain changes in depreciation expense, (2) costs related to the decommissioning of the Carbon coal-fired power plant, (3) certain changes to wheeling revenue, and (4) cost related to environmental air quality upgrades to Naughton coal-fired power plant Unit 3.

In 2008, changes to accounting for pensions were put forth by the Financial Accounting Standards Board and FERC. In Docket No.08-035-93 this change was addressed and the Commission approved deferral accounting with a 10 year amortization period.

[3] See DPU Data request 3.5.

On November 6, 2006, a flood and debris flow on the Hood River severely damaged the Company's Powerdale Plant. The Company filed an application requesting an order permitting transfer of the undepreciated plant investment to other accounts, authorizing the creation of a regulatory asset (the deferral) for estimated decommissioning expenses and designating an amortization period. In Docket No. 07-035-014, the Commission granted the request for the accounting order.

The Commission has also approved deferred accounting for the Utah EBA mechanism, the REC Revenue Deferral and the Utah REC Balancing account - Dockets Nos. 09-035-15, 10-035-14 and 10-035-124 respectively.

The Division agrees with the Company's assessment that deferred accounting with this transaction would reduce "rate shock" as explained above. The Division believes that there is Commission precedent from past orders, as some are outlined above, permitting the Company to use deferred accounting in situations similar to this transaction. Again, the Division would support proper deferred accounting treatment of Commission approved costs of the Deer Creek Mine closure.

Q. In the last Rate Case, Docket No. 13-035-184, there was a stay-out provision. Would this provision prevent the Company from requesting deferred accounting in this Docket?

A. No. In the Commission approved Stipulation for the last rate case, the parties to the stipulation agreed in Paragraph 39 that:

> The Parties agree that the stay-out provision of Paragraph 32 will not prevent Rocky Mountain Power from seeking deferred accounting orders, for potential recovery from or return to customers pursuant to a Commission order in a future rate case, of cost related to the impacts of any proposed disposition, through sale, closure or other means, of the Deer Creek mine and related mining assets as well as for the impacts of the possible sale of the Company's ownership interests in the Craig and Hayden generating plants. This Stipulation does not represent an agreement by the Parties as to any position to be taken on any request for such deferred accounting orders."

Q. Does this conclude your direct testimony?

A. Yes.