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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
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PREFILED DIRECT TESTIMONY AND EXHIBITS OF KEVIN C. HIGGINS

PUBLIC VERSION

[Confidential Testimony Redacted]

The Utah Association of Energy Users (UAE) hereby submits the Public Version of the Prefiled Direct Testimony and Exhibits of Kevin C. Higgins in this docket.

DATED this 17th day of March 2015.

HATCH, JAMES & DODGE

/s/ _____
Gary A. Dodge
Attorneys for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 17th day of March 2015 on the following:

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In the Matter of the Voluntary Request of)
Rocky Mountain Power for Approval of) DOCKET NO. 14-035-147
Resource Decision and Request for)
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Direct Testimony of Kevin C. Higgins

On Behalf of

UAE

PUBLIC VERSION

[Confidential Testimony Redacted]

March 17, 2015

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

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

9 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

10 A. My testimony is being sponsored by the Utah Association of Energy Users (“UAE”).

11 **Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS.**

12 A. My academic background is in economics, and I have completed all coursework and field
13 examinations toward a Ph.D. in Economics at the University of Utah. In addition, I have
14 served on the adjunct faculties of both the University of Utah and Westminster College,
15 where I taught undergraduate and graduate courses in economics. I joined Energy
16 Strategies in 1995, where I assist private and public sector clients in the areas of energy-
17 related economic and policy analysis, including evaluation of electric and gas utility rate
18 matters.

19 Prior to joining Energy Strategies, I held policy positions in state and local
20 government. From 1983 to 1990, I was economist, then assistant director, for the Utah
21 Energy Office, where I helped develop and implement state energy policy. From 1991 to
22 1994, I was chief of staff to the chairman of the Salt Lake County Commission, where I

23 was responsible for development and implementation of a broad spectrum of public
24 policy at the local government level.

25 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE UTAH PUBLIC**
26 **SERVICE COMMISSION (“COMMISSION”)?**

27 A. Yes. Since 1984, I have testified in thirty-four dockets before the Utah Public Service
28 Commission on electricity and natural gas matters.

29 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE ANY OTHER STATE**
30 **UTILITY REGULATORY COMMISSIONS?**

31 A. Yes, I have testified in approximately 160 other proceedings on the subjects of utility
32 rates and regulatory policy before state utility regulators in Alaska, Arkansas, Arizona,
33 Colorado, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota,
34 Missouri, Montana, Nevada, New Mexico, New York, North Carolina, Ohio, Oklahoma,
35 Oregon, Pennsylvania, South Carolina, Texas, Virginia, Washington, West Virginia, and
36 Wyoming. I have also filed affidavits in proceedings before the Federal Energy
37 Regulatory Commission.

38 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

39 A. My testimony addresses the appropriate ratemaking treatment of the deferrals requested
40 by RMP regarding the transaction to close the Deer Creek Mine and related matters
41 (“Transaction”), including the sale of certain mining assets (“Mining Assets”).

42 **Q. PLEASE SUMMARIZE YOUR PRIMARY CONCLUSIONS AND**
43 **RECOMMENDATIONS CONCERNING REVENUE REQUIREMENT.**

44 A. I offer the following conclusions and recommendations:

- 45 • RMP’s request for cost deferral is an exercise in single-issue ratemaking, which
46 should be viewed by the Commission with great caution.
- 47 • While I am not at this time challenging the prudence of RMP’s actions, I believe it is
48 premature for the Commission to make a prudence finding now in this proceeding,
49 outside a general rate case and prior to all of the Transaction costs being known.
- 50 • I am supportive of RMP’s request to flow the change in coal supply costs through the
51 2015 Energy Balancing Account (“EBA”) (and the 2016 EBA, to the extent that it is
52 not included in the rate effective period following the next general rate case) without
53 the 70/30 sharing mechanism, as well as the amortization expense associated with the
54 Deer Creek Mine and the Mining Assets, but only for the portion of the Mining
55 Assets that represents the loss on the sale of those assets, and only if the benefits of
56 the extension of bonus tax depreciation until the end of 2014 are also reflected in the
57 deferral as an offset to any regulatory assets that are established in this docket. In
58 addition, the rate of return on the sold portion of the Mining Assets (that is currently
59 in base rates) should be deferred and credited to customers against the regulatory
60 asset balance that is on the books when new rates go into effect following the next
61 general rate case.
- 62 • The revenue requirement in the last general rate case was established using a test
63 period ending June 30, 2015 under the assumption that bonus tax depreciation would
64 terminate on December 31, 2013. However, on December 19, 2014, the Tax Increase
65 Prevention Act of 2014 (Public Law No. 113-295), was signed into law. Among
66 other things, this Act extends 50 percent bonus tax depreciation through the end of
67 year 2014. This extension means that bonus tax depreciation was, in fact, applicable

68 to the test period used in the last general rate case, even though the parties to the
69 proceeding had no way of knowing this would be the case at the time the proceeding
70 was conducted. As a result, the revenue requirement in Utah was established using
71 tax assumptions that set the Utah revenue requirement approximately \$2 million - \$3
72 million too high. If deferred accounting is used to exempt Deer Creek-related
73 amortization expense from the 70/30 sharing mechanism to cure an unintended
74 consequence of ratemaking mechanics, then deferred accounting should also be used
75 to capture the benefits to customers of the extension of bonus tax depreciation
76 through the end of 2014. Absent such a companion deferral, I recommend that
77 RMP's request for waiver from the 70/30 sharing be rejected as unreasonably one-
78 sided.

- 79 • RMP is seeking to defer \$3.5 million in Construction Work in Progress (“CWIP”)
80 expenditures (Total Company) associated with the Deer Creek Mine, \$0.5 million in
81 CWIP (Total Company) associated with the Preparation Plant, and \$1.6 million in
82 Preliminary Survey and Investigation (“PS&I”) expenditures. None of these
83 expenditures are recovered in current rates. As the CWIP expenditures have never
84 been – and never will be – used and useful, I recommend excluding their recovery
85 through the deferral mechanism proposed by RMP. Similarly, with the closure of the
86 Deer Creek Mine, the PS&I expenditures do not now and will never provide customer
87 benefits and also should be excluded from the regulatory asset.
- 88 • The Hunter generating facilities served by the Deer Creek Mine and Mining Assets
89 are not owned exclusively by RMP. The portion of any regulatory assets established

90 due to the Transaction should be adjusted to remove the share attributable to non-
91 RMP ownership.

92 • RMP is seeking deferral of union supplemental unemployment and medical costs, as
93 well as non-union severance costs. I recommend against deferral of these expenses,
94 which are being incurred during and in close proximity to the test period used in
95 RMP's last general rate case, but which were not identified by the Company in its
96 filing in that case. These costs were within the discretion of the Company, they were
97 not unforeseen, they are not extraordinary, and they do not arise as a result of an
98 unintended consequence of the ratemaking process. Consequently, it is not
99 reasonable to give RMP a "second bite at the apple" by conferring single-issue
100 ratemaking status to these costs.

101 • RMP is seeking deferral of royalty costs associated with mine closure. Because these
102 costs are imposed on the Company by the United States government as leaseholder, I
103 believe that deferral and amortization of these costs may be appropriate. However,
104 given the highly uncertain nature of RMP's estimates of these costs, I recommend
105 that the Commission require that any ultimate recovery of these costs should be based
106 on the royalties *actually* charged to the closure costs, rather than on the Company's
107 estimate.

108 • RMP is seeking deferral of a Retiree Medical Obligation settlement loss. As these
109 costs would have been amortized to FAS 106 expense absent the settlement, I do not
110 object to RMP's proposal for deferral of these costs.

111 • RMP is seeking deferral of an unrecovered asset retirement obligation ("ARO")
112 associated with the closure of the Deer Creek Mine. Because the unrecovered ARO

113 costs are part of a long-term calculation applied to the asset retirement obligation for
114 a long-lived asset, I believe that deferral and amortization of these costs may be
115 appropriate. Therefore, I do not object to RMP's proposal to defer them.

116 • RMP is seeking deferral of certain going-forward labor and other miscellaneous costs
117 associated with the closure of the Deer Creek Mine. I recommend against approving
118 deferral of these costs. These costs were not unforeseen, they are not extraordinary,
119 and they do not arise as a result of an unintended consequence of the ratemaking
120 process. Consequently, it is not reasonable to confer single-issue ratemaking status to
121 these costs.

122 • As RMP's proposed treatment of the 1974 Pension Trust is to continue the annual
123 contribution of \$3 million until a termination value can be determined, this expense
124 can remain in net power costs where it is today, with no adjustment necessary at this
125 time. I recommend that if and when RMP proposes deferral and recovery of a
126 specific termination value, that it be subject to Commission review and approval at
127 that time.

128 • I agree with RMP's proposal to defer the revenue associated with the return on rate
129 base for the Fossil Rock asset until rates are reset and to offset the unrecovered
130 regulatory assets associated with the other components of the Transaction by this
131 revenue deferral when rates are next reset.

132 • RMP is proposing to defer and recover certain inventory write-offs it will experience
133 as a result of the Transaction. I do not object to this treatment so long as the
134 Commission also recognizes the reduction in fuel inventory that RMP is projected to
135 experience as a result of the Transaction. The earnings on the reduction in fuel

136 inventory, which I estimate to be \$5.9 million annually (Total Company), should be
137 deferred and credited against the inventory write-off, and the excess credited against
138 the remaining regulatory assets associated with the Transaction that are approved by
139 the Commission in this case.

140 • For those items that are currently being depreciated in rates, it makes sense to
141 amortize these items at the same rate at which they are now being depreciated, as
142 RMP proposes, at least until the next general rate case is conducted. For all other
143 newly-created regulatory assets, it is not necessary to determine the amortization
144 period at this juncture because amortization of these items will not begin until the rate
145 effective period following the next general rate case. The determination of the
146 appropriate amortization period is a matter that is appropriately addressed in the next
147 general rate case, when all rate impacts on customers can be taken into account.

148 • I disagree with RMP's proposal for carrying costs on its regulatory assets equal to its
149 authorized rate of return, because:

150 ○ There is already an approved carrying cost for deferrals that flow through the
151 EBA, which is set equal to 6%. This rate should be used for the deferrals
152 approved in this case that will flow through the EBA, with the notable exception
153 of the Deer Creek Mine and Mining Asset amortizations.

154 ○ The carrying cost for Deer Creek Mine and Mining Asset deferrals in the EBA
155 should be set at zero because base rates already provide for a return on the Deer
156 Creek Mine and Mining Assets equal to the Company's authorized rate of return.
157 Any carrying charge applied through the EBA to the amortization of the

158 regulatory assets associated with the Deer Creek Mine and Mining Assets would
159 constitute double recovery.

160 ○ For all other regulatory assets established in this proceeding, I recommend that
161 the carrying costs should be set at the cost of long-term debt established in the last
162 general rate case (5.2%).

163

164

II. OVERVIEW OF RMP'S PROPOSAL

165 **Q. WHAT REGULATORY APPROVALS IS RMP SEEKING IN THIS**
166 **PROCEEDING?**

167 A. RMP has asked the Commission for authorization to defer for future recovery certain
168 costs associated with the various components of the “Transaction”.¹ RMP has also asked
169 the Commission to “approve” the Transaction,² and to find that the Company’s decision
170 to consummate the Transaction is “prudent and in the public interest”³ under Utah Code
171 Ann. § 54-17-401 *et seq.* (the “Voluntary Pre-Approval Statute”) and Utah Admin. R746-
172 440-1 *et seq.* (the “Voluntary Pre-Approval Rules”).

173 **Q. WHAT IS YOUR RECOMMENDATION REGARDING RMP'S REQUESTS FOR**
174 **PRE-APPROVAL, PRUDENCE DETERMINATIONS AND DEFERRED**
175 **ACCOUNTING?**

176 A. I do not believe it is necessary, desirable or appropriate for the Commission to make
177 prudence findings or pre-approval of the various Transaction components in this

¹ RMP Application at 2.

² *Id.* at 1.

³ *Id.* at 3.

178 proceeding, outside a general rate case and prior to all of the Transaction costs being
179 known. I do not oppose consideration of each cost item for deferred accounting.
180 However, while the booking of deferred costs generally carries with it a reasonable
181 expectation of later recovery, it does not presume that such recovery *must* occur, nor does
182 it require that a prudence determination be made at the time of authorization for cost
183 deferral. That said, I am not challenging in this proceeding the prudence of the
184 Company's actions with respect to moving forward with the Transaction, as it is
185 premature to do so.

186 **Q. WHY DO YOU SUGGEST PRE-APPROVAL UNDER THE VOLUNTARY PRE-**
187 **APPROVAL STATUTE IS NOT APPROPRIATE?**

188 A. Speaking from a policy, as opposed to legal, perspective, the Transaction does not appear
189 to be the type of decision to which the voluntary pre-approval process is properly
190 targeted. The Voluntary Pre-Approval Statute and Voluntary Pre-Approval Rules appear
191 more properly directed towards acquisition or construction of proposed resources or
192 programs as to which there is relative assurance as to cost projections and as to which
193 legitimate options still exist.

194 The series of decisions and transactions contemplated in this docket do not appear
195 appropriate for pre-approval. Many of the cost projections cannot be determined with
196 any degree of precision at this time. Also, the primary decisions as to which pre-approval
197 is sought appear to have already essentially been made and implemented, and realistic
198 alternatives no longer appear viable.

199 Under these circumstances, I recommend that the Commission proceed to
200 evaluate the request for deferred accounting on an item-by-item basis, and not determine
201 prudence or pre-approval at this time. My testimony will proceed in that manner.

202 **Q. PLEASE OUTLINE THE COMPONENTS OF RMP'S PROPOSAL TO CLOSE**
203 **DEER CREEK MINE.**

204 A. In her Direct Testimony, Cindy A. Crane describes the four major components of the
205 Company's proposed transaction to close the Deer Creek Mine:

206 (1) The permanent closure of the Deer Creek Mine and incurrence of direct closure costs.

207 (2) The withdrawal of RMP's affiliate, Energy West Mining Company ("Energy West"),
208 from the United Mine Workers of America ("UMWA") 1974 Pension Trust and
209 incurrence of a withdrawal liability.

210 (3) The sale of the Mining Assets.

211 (4) And the execution of a replacement coal supply agreement ("CSA") for the
212 Huntington power plant and an amended CSA for the Hunter power plant.

213 Additionally, Energy West has settled its Retiree Medical Obligation related to
214 union participants.

215 **Q. PLEASE BRIEFLY DESCRIBE THE DEER CREEK MINE AND THE PLANTS**
216 **IT SERVES.**

217 A. The Deer Creek Mine is located in Emery County, Utah, and is operated by PacifiCorp's
218 subsidiary, Energy West. The Deer Creek Mine supplies nearly the entire coal supply
219 obligation to Huntington power plant of 2.8 to 2.9 million tons, and a supplemental
220 portion of Hunter power plant's coal supply needs. The majority of Hunter power plant's
221 coal is supplied by Bowie Resources Partners, LLC ("Bowie"), from its Sufco Mine. The

222 coal reserves at the Deer Creek Mine are scheduled to be depleted in 2019. However,
223 RMP ceased production at the mine at the end of 2014⁴ and is now preparing to close it.

224 **Q. WHAT ARE THE PRIMARY REASONS CITED BY THE COMPANY FOR**
225 **CLOSING THE MINE BEFORE FULL DEPLETION OF RESERVES?**

226 A. Ms. Crane explains that continued operation of the mine is uneconomic due to escalating
227 mining costs and pension liabilities, and declining volume and quality of coal reserves.

228 **Q. PLEASE DESCRIBE THE INCREASING MINING COSTS AND PENSION**
229 **LIABILITIES.**

230 A. According to Ms. Crane, Energy West, the mine's operator, has been in a labor dispute
231 with the UMWA over labor costs and liability escalations. Energy West also faces
232 increasing healthcare costs for active employees. Recently, Energy West was able to
233 mitigate some of its healthcare liability through a labor settlement that allowed Energy
234 West to transfer its Retiree Medical Liability to the UMWA, in exchange for Energy
235 West transferring \$150 million from its plan's trust to UMWA's trust. However, Energy
236 West has a significant pension liability related to the UMWA 1974 Pension Trust.

237 **Q. PLEASE FURTHER DESCRIBE THE 1974 PENSION TRUST.**

238 A. According to the Direct Testimony of Seth Schwartz, the 1974 Pension Trust is a multi-
239 employer pension plan that provides retirement benefits to eligible mine workers who
240 retire, who become disabled, and to the surviving spouses of mine workers. Eligible
241 retirees receive benefits from the 1974 Pension Trust based upon their qualifying
242 signatory service, regardless of whether their former employer is currently in business or

⁴ See RMP Response to OCS Data Request 4.6(c), included in UAE Direct Exhibit 1.1.

243 making payments to the trust. Because the number of contributing employers has been
244 declining over time, the contribution rate for participating employers has increased.
245 Further, the financial condition of the 1974 Pension Trust has deteriorated, which will
246 necessitate dramatically higher contributions in the future.

247 **Q. WHAT ARE THE CONSEQUENCES OF THE DEER CREEK MINE CLOSURE**
248 **ON ENERGY WEST'S 1974 PENSION TRUST OBLIGATION?**

249 A. Mine closure will trigger Energy West's withdrawal from the 1974 Pension Trust and a
250 withdrawal liability, most recently estimated at \$96.7 million if paid in a lump sum.

251 **Q. PLEASE EXPLAIN THE DECLINING QUALITY OF COAL RESERVES.**

252 A. According to Ms. Crane, significant volumes of high ash and high sulfur coal at Deer
253 Creek Mine have resulted in decreased production and require blending with lower ash
254 coals to meet plant quality specifications.

255 **Q. PLEASE DESCRIBE THE THIRD COMPONENT OF THE PROPOSED**
256 **TRANSACTION, THE SALE OF CERTAIN MINING ASSETS.**

257 A. Ms. Crane identifies the Mining Assets that RMP intends to sell to Bowie as the
258 Preparation Plant and related assets, the Central Warehouse Facility and related assets,
259 the Trail Mountain Mine and related assets, and the assets of Fossil Rock Fuels LLC, a
260 Company subsidiary.

261 **Q. PLEASE EXPLAIN THE FOURTH COMPONENT OF THE TRANSACTION,**
262 **THE EXECUTION OF A REPLACEMENT CSA FOR THE HUNTINGTON**
263 **POWER PLANT AND AN AMENDED CSA FOR THE HUNTER POWER**
264 **PLANT.**

265 A. Under the Huntington CSA, Bowie has agreed to supply all of the coal requirements for
266 the Huntington power plant from the Transaction close date to December 31, 2029,
267 according to certain quality specifications. In connection with the execution of the
268 Huntington CSA and the transfer of the Preparation Plant Assets, RMP and Bowie have
269 agreed to amend the existing CSA for the Hunter power plant.

270

271 **III. RATEMAKING TREATMENT OF THE TRANSACTION**

272 **Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED REGULATORY AND**
273 **ACCOUNTING TREATMENT FOR THE COSTS ASSOCIATED WITH THE**
274 **TRANSACTION.**

275 A. According to the Direct Testimony of Douglas K. Stuver, RMP proposes to defer all costs
276 associated with the Transaction as a regulatory asset, with a carrying charge on the
277 unamortized balance equal to its authorized rate of return.

278 **Q. PLEASE OUTLINE THE ESTIMATED COSTS OF THE TRANSACTION.**

279 A. According to the Mr. Stuver's Direct Testimony, RMP anticipates unrecovered
280 investment in Deer Creek Mine of \$86 million, and unrecovered investment in the
281 Mining Assets of [REDACTED]. Mine closure costs are estimated to be [REDACTED]. In
282 addition, the Company estimates a Retiree Medical settlement loss of [REDACTED], and a
283 net present value 1974 Pension Trust withdrawal liability of [REDACTED]. The total
284 Transaction costs, excluding the CSA-related costs, are estimated to be [REDACTED].

285 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING**
286 **RMP'S REQUEST FOR DEFERRED ACCOUNTING?**

287 A. As I am not challenging the prudence of RMP's actions with respect to moving forward
288 with the Transaction in this proceeding, my recommendations concerning deferral are not
289 tied to any questions of prudence, but to what I believe is the most appropriate course of
290 action from a ratemaking perspective. The Company's request for deferred accounting is
291 complex and has quite a few moving parts. As I will discuss in detail below, I believe it
292 is appropriate to defer *certain* of the costs involved in the Transaction, but I am
293 recommending against authorizing deferral of several others. Finally, I do not agree with
294 RMP's request to earn a carrying charge on its proposed regulatory assets equal to the
295 Company's weighted average cost of capital. I will discuss the appropriate carrying
296 charges later in my testimony.

297 **Q. ON PAGE 21 OF ITS APPLICATION, RMP STATES THAT IN THE ABSENCE**
298 **OF BEING PERMITTED TO ESTABLISH THE REQUESTED REGULATORY**
299 **ASSETS AND ASSOCIATED ACCOUNTING TREATMENT, THE COMPANY**
300 **WOULD CHARGE THE AMOUNTS PROPOSED TO BE DEFERRED**
301 **GENERALLY TO ACCOUNT 501, FUEL EXPENSE, AND FLOW THE COSTS**
302 **THROUGH THE EBA. WHAT IS YOUR RESPONSE TO THIS STATEMENT?**

303 A. As I discuss below, a subset of the costs involved in the Transaction are already EBA-
304 eligible. However, I strongly dispute the notion that RMP could simply unilaterally deem
305 all of the remaining costs of the Transaction, including un-depreciated plant balances for
306 assets that are no longer used and useful, as fuel expense to be recovered through the
307 EBA. Such an attempt would certainly be subject to challenge before the Commission.

308 **Q. HOW DOES RMP'S REQUEST FOR DEFERRED ACCOUNTING SQUARE**
309 **WITH THE STIPULATION APPROVED BY THE COMMISSION IN THE LAST**
310 **GENERAL RATE CASE?**

311 A. Paragraph 32 of the Stipulation states that, with the exception of the Step 2 increase and
312 other Commission-approved and currently existing rate adjustment mechanisms, RMP
313 will not seek any rate increase in Utah prior to January 1, 2016 or with a rate effective
314 date prior to September 1, 2016. At the same time, Paragraph 39 provides that the stay-
315 out provision will not prevent RMP from seeking deferred accounting orders, for
316 potential recovery from or return to customers pursuant to a Commission order in a future
317 rate case, of costs related to the impacts of any proposed disposition, through sale,
318 closure or other means, of the Deer Creek mine and related mining assets as well as for
319 the impacts of the possible sale of the Company's ownership interests in the Craig and
320 Hayden generating plants. Thus, the Company's request for deferred accounting
321 treatment does not violate the stay-out provision in Stipulation. Yet the Stipulation
322 also contains express language that it does not represent an agreement by the Parties
323 as to any position to be taken on any request for such deferred accounting orders. In
324 short, RMP is free to request deferred accounting related to the Deer Creek Mine
325 closure, and the Parties to the Stipulation are free to oppose or support the request on
326 its merit.

327 **Q. HOW SHOULD RMP'S REQUEST FOR DEFERRED ACCOUNTING BE**
328 **EVALUATED FROM A RATEMAKING PERSPECTIVE?**

329 A. Most requests for deferred accounting are attempts to engage in single-issue ratemaking.
330 RMP's request for deferral in this proceeding is no exception.

331 **Q. WHAT IS SINGLE-ISSUE RATEMAKING?**

332 A. Single-issue ratemaking occurs when utility rates are adjusted or deferred in response to a
333 change in cost or revenue items considered in isolation. Single-issue ratemaking ignores
334 the multitude of other factors that otherwise influence rates, some of which could, if
335 properly considered, move rates in the opposite direction from the single-issue change.

336 When utility regulatory commissions determine the appropriateness of a cost that
337 a utility seeks to recover from its customers, the standard practice is to review and
338 consider all relevant factors as part of a general rate case, rather than just certain factors
339 in isolation. Considering some costs or revenues in isolation might cause a commission
340 to allow a utility to increase rates or defer costs in the area singled out for attention
341 without recognizing counterbalancing savings in another area. For example, the case at
342 hand focuses on deferring costs associated with the Transaction, which in isolation would
343 raise rates for customers, but without considering that the fuel costs for the Company's
344 vehicle fleet have fallen dramatically relative to the level that was the basis for setting
345 rates in the last general rate case.⁵ Because single-issue ratemaking focuses on specific
346 costs in isolation, utility regulatory commissions should view proposals for deferral with
347 great caution.

348 **Q. HOW DOES THIS NEED FOR CAUTION APPLY TO RMP'S REQUEST FOR**
349 **DEFERRED ACCOUNTING IN THIS CASE?**

⁵ The Total Company vehicle fuel expense recovered in rates is \$15 million. For the RMP and Pacific Power business units the projected cost for diesel was \$3.77 per gallon and for gasoline it was \$3.44 per gallon. Obviously, current vehicle fuel prices are much lower than this. See RMP Response to WIEC Data Requests 4.4 and 4.5 in WY PSC Docket No. 20000-464-EA-14, included in UAE Direct Exhibit 1.1.

350 A. When faced with an application like this, it is important to bear in mind that utility
351 ratemaking is not an exercise in expense reimbursement. The opportunity for utility cost
352 recovery is established in the *rates* approved by the Commission. In the case of RMP,
353 the Commission has already established rates that take into account a comprehensive
354 projection of the Company's revenues and costs for the test period ending June 30, 2015.
355 We know that in reality costs and revenues are almost certain to differ from what was
356 projected at the time rates were set. The simple fact that a utility incurs a cost that differs
357 from what was anticipated when rates were set does not create an obligation on the part
358 of the regulator to establish a mechanism for reimbursement. While there may be limited
359 situations in which singling out certain items for deferral is appropriate, as a general
360 matter, costs incurred as a result of actions initiated by the utility and not beyond its
361 control do not create a good case for deferred accounting treatment.

362 **Q. WHAT ARE THE TYPES OF LIMITED EXCEPTIONS THAT JUSTIFY COST**
363 **DEFERRAL IN YOUR OPINION?**

364 A. In general, deferred costs should be limited to those that are unforeseen, beyond the
365 control of the utility, and material. The most typical and regularly-permitted deferred
366 costs are associated with fuel adjustors that track deviations in net power costs ("NPC").
367 Before fuel adjustor mechanisms are adopted by utility regulatory commissions, the
368 commissions typically consider the extent to which fuel costs are outside the control of
369 utility management, as well as the materiality of changes in fuel costs and the potential

370 impact on the utility's revenue requirement and financial health between rate cases if
371 changes in fuel costs were to go unrecovered.⁶

372 In general, I also believe it is reasonable to use deferred accounting in limited
373 cases in which an unintended consequence of ratemaking mechanics would otherwise
374 produce an unjust and unreasonable result. Indeed, I believe that a *portion* of the costs
375 for which RMP is seeking deferral meets this criterion. However, it is my understanding
376 that in Utah, deferred accounting outside a general rate case (other than fuel adjustor
377 mechanisms) is limited to situations in which changes in cost are not only unforeseen, but
378 extraordinary. Thus, it is possible that a particular cost deferral might meet the criterion
379 of curing an unintended consequence of ratemaking mechanics, but yet might not be
380 extraordinary in nature. In this situation, the Commission might elect to deny any special
381 deferral.

382 **Q. CAN YOU EXPLAIN WHAT YOU MEAN BY “UNINTENDED CONSEQUENCE**
383 **OF RATEMAKING MECHANICS”?**

384 A. Yes. Occasionally, situations arise in which there is a clear intention to recover or reflect
385 certain costs or revenues in rates, but for unforeseen reasons, the mechanics of the
386 ratemaking process fail to accomplish this. I believe that using deferred accounting to
387 address an unintended consequence of ratemaking mechanics applies to certain of the
388 costs associated with this case, specifically costs that are eligible for recovery in NPC
389 when they are in the form of depreciation expense, but not when these same costs are

⁶ See, for example, Utah PSC Docket No. 09-035-15, *In the Matter of the Application of Rocky Mountain Power for Approval of its Proposed Energy Cost Adjustment Mechanism*, Corrected Report and Order, issued March 3, 2011, page 66.

402 I then turn my attention to the costs that are not EBA-eligible and using the
403 criteria for justified cost deferral I described previously, I consider whether deferral as
404 requested by RMP is appropriate.

405 Next, I address the question of the appropriate amortization periods for any
406 regulatory assets established in this proceeding, and lastly, I consider the appropriate
407 carrying costs for any costs that I believe are appropriate for deferral treatment.

408 **Q. WHAT TRANSACTION COSTS ARE ALREADY ELIGIBLE FOR DEFERRAL**
409 **THROUGH THE EBA?**

410 A. The incremental benefits (or costs) of supplying the Hunter and Huntington plants
411 through the Bowie contract are already eligible for refund (or recovery) through the EBA.
412 Absent special consideration, these benefits (or costs) would flow through the current
413 EBA mechanism and would be subject to the 70/30 sharing mechanism. According to
414 RMP's Response to WPSC Data Request 2.17 in Wyoming PSC Docket No. 20000-464-
415 EA-14,⁷ the incremental *benefit* from providing coal from the Bowie contract compared
416 to the status quo is \$14.5 million (Total Company) in 2015, measured on a standalone
417 basis. By "standalone basis," I mean this is the incremental benefit from the Bowie
418 contract prior to taking into account the 2015 amortization expense of the Deer Creek
419 Mine and Mining Assets that are no longer used and useful, but which would still be
420 recovered from ratepayers under the Company's proposal.

⁷ RMP Response to WPSC 2.17 and Attachment WPSC 2.17 in WY PSC Docket No. 20000-464-EA-14 are included in UAE Direct Exhibit 1.1.

421 **Q. PLEASE DESCRIBE RMP'S PROPOSED RATEMAKING TREATMENT FOR**
422 **THE UNRECOVERED INVESTMENTS IN DEER CREEK MINE AND THE**
423 **MINING ASSETS IN GREATER DETAIL.**

424 A. The depreciation expense and operating costs of the Deer Creek Mine, based on 2019
425 mine closure, are currently recovered in the Company's base NPC. Regarding the
426 Mining Assets that will be sold to Bowie, current rates reflect the depreciation expense
427 and operating costs of the Preparation Plant (\$19 million net book value), and the
428 depreciation expense associated with the Central Warehouse (\$0.3 million net book
429 value) and the Trail Mountain Mine (\$0.7 million net book value). The Preparation Plant
430 will be sold [REDACTED], while no
431 monetary consideration will be paid for the Central Warehouse property and the Trail
432 Mountain Mine. This will result in a net unrecovered investment in the Mining Assets of
433 [REDACTED], including CWIP. Fossil Rock, which was formed in 2011 for purposes of
434 acquiring the rights to Utah state coal leases, has a plant held for future use book value of
435 [REDACTED], with rate base treatment in Utah. RMP expects to sell the Fossil Rock assets
436 at approximately book value, and proposes to defer the revenue associated with the return
437 on Fossil Rock rate base until such time that rates are reset.

438 For the unrecovered investments in Deer Creek Mine (\$86 million) and the
439 Mining Assets ([REDACTED]), RMP proposes to commence amortization as soon as
440 depreciation ceases at an amount equal to the depreciation currently reflected in rates. At
441 the time rates are next reset, the Company proposes to include in rate base any remaining
442 unrecovered investment in the Deer Creek Mine and Mining Assets, to be recovered over
443 a period approved by the Commission.

444 The depreciation and operating expenses of the Deer Creek Mine and Mining
445 Assets are currently included in NPC, and the Company proposes that these costs, along
446 with the costs or benefits realized for replacement coal supply, be subject to the EBA
447 without application of the 70/30 sharing band.

448 **Q. DO YOU BELIEVE THAT IT IS REASONABLE TO EXEMPT THE**
449 **INCREMENTAL BENEFITS OR COSTS OF SUPPLYING THE HUNTER AND**
450 **HUNTINGTON PLANTS THROUGH THE BOWIE CONTRACT FROM THE**
451 **70/30 SHARING MECHANISM?**

452 A. Yes, I believe a limited exception is warranted in combination with the treatment of a
453 portion of the depreciation expense associated with the Deer Creek Mine and the Mining
454 Assets, but only if the Commission also recognizes the benefits of the extension of bonus
455 tax depreciation through the end of 2014, which I will address in detail later in my
456 testimony.

457 The depreciation expense associated with the Deer Creek Mine and the Mining
458 Assets is currently included in NPC, and thus is part of base NPC in rates. (In contrast,
459 the rate of return on rate base associated with these assets is included in base rates but is
460 not included in NPC.) However, at the time these assets are taken out of service they
461 cease to be included in NPC. Thus, actual NPC, for the purpose of calculating the 2015
462 EBA, will be reduced by the amount of the depreciation and operating expenses of the
463 Deer Creek Mine and the Mining Assets. Absent any special ratemaking consideration,
464 the EBA mechanism will remove 70% of these costs currently included in base NPC
465 from ultimate recovery from customers, as if they had gone away. In my view, in the
466 case of depreciation expense, such a result would be an unintended consequence of

467 ratemaking mechanics that would produce an unreasonable result to the detriment of the
468 Company, thus justifying deferred accounting treatment.

469 The depreciation expense for these assets is currently included in rates and RMP
470 is proposing to convert the corresponding net plant in service into a regulatory asset that
471 would continue to be amortized on the same schedule that the plant is being depreciated.
472 In general, I believe it is reasonable for RMP to continue to recover its initial investment
473 in the Deer Creek Mine and the “unsold portion” of the Mining Assets at the current level
474 until rates are reset pursuant to the next general rate case. If this amortization expense is
475 deferred through the EBA as proposed by RMP, then it may also be reasonable to exempt
476 it from the 70/30 sharing mechanism in the calculation of the 2015 EBA (and the 2016
477 EBA, to the extent that it is not included in the rate effective period following the next
478 general rate case), in order to maintain current recovery levels. At the same time, it
479 would also reasonable to exempt the incremental benefits (or costs) of supplying the
480 Hunter and Huntington plants through the Bowie contract from the 70/30 sharing
481 mechanism to place this companion impact on NPC on the same playing field as the
482 treatment of depreciation/amortization expense. That is, it would be unreasonable to
483 exempt the depreciation/amortization expense from the 70/30 sharing (which benefits
484 RMP) without also exempting the incremental benefits of the Bowie contract (which, on
485 a standalone basis, is projected by RMP to benefit customers).

486 **Q. PLEASE EXPLAIN YOUR EARLIER STATEMENT THAT A LIMITED**
487 **EXCEPTION TO THE 70/30 EBA SHARING MECHANISM IS WARRANTED**
488 **ONLY TO THE EXTENT THAT THE COMMISSION ALSO RECOGNIZES**

489 **THE BENEFITS OF THE EXTENSION OF BONUS TAX DEPRECIATION**
490 **THROUGH THE END OF 2014.**

491 A. As I explained above, I view a limited exception to the 70/30 sharing as reasonable for
492 curing an unintended consequence of ratemaking mechanics. However, a second
493 unintended consequence of ratemaking mechanics has occurred since the last general rate
494 case, which is not mentioned in RMP's filing, namely the extension of bonus tax
495 depreciation through the end of 2014. If deferred accounting is used to exempt Deer
496 Creek-related amortization expense from the 70/30 sharing mechanism to cure an
497 unintended consequence of ratemaking mechanics, then deferred accounting should also
498 be used to capture the benefits to customers of the extension of bonus tax depreciation
499 through the end of 2014.

500 **Q. WHAT IS BONUS TAX DEPRECIATION?**

501 A. Bonus tax depreciation refers to a greatly accelerated tax deduction for depreciation that
502 has been permitted pursuant to several statutes signed into law in recent years to stimulate
503 the economy. Bonus tax depreciation was permitted in the early 2000s and reintroduced
504 nearly every year between 2008 and 2013. In their most recent incarnations, these acts
505 permitted a first-year depreciation tax deduction equal to 50 percent of the cost of
506 qualified property. At the time of the most recent general rate case, Docket No. 13-035-
507 184, 50 percent bonus tax depreciation applied through December 31, 2013.

508 **Q. HOW DID BONUS TAX DEPRECIATION FACTOR IN TO THE MOST**
509 **RECENT GENERAL RATE CASE?**

510 A. The most recent general rate case, which was resolved through a Stipulation approved by
511 the Commission on August 29, 2014, used a projected test period ending June 30, 2015.

512 The Company's filing was made on January 3, 2014, and took into account bonus tax
513 depreciation through December 31, 2013, which was the termination date for bonus tax
514 depreciation at the time of the company's filing.

515 However, on December 19, 2014, the President signed into law the Tax Increase
516 Prevention Act of 2014 (Public Law No. 113-295), an Act which, among other things,
517 extends 50 percent bonus tax depreciation through the end of year 2014. The enactment
518 of this extension means that bonus tax depreciation was, in fact, applicable to the test
519 period used in the last general rate case, even though the parties did not know it at the
520 time the case was conducted.

521 **Q. HOW DOES BONUS TAX DEPRECIATION IMPACT RATEMAKING FOR**
522 **REGULATED UTILITIES?**

523 A. Bonus tax depreciation is a form of accelerated tax depreciation. This Commission has
524 long contended with the fact that utility depreciation for tax purposes differs from utility
525 book depreciation used in ratemaking. Generally, the tax benefits of accelerated
526 depreciation are not passed through directly to ratepayers; instead, according to the
527 conventions of income tax normalization, the benefit of a utility's accumulated deferred
528 income tax ("ADIT") is viewed as a source of zero-cost capital to the utility as part of the
529 ratemaking process. Consequently, the ADIT that results from accelerated tax
530 depreciation is booked as a credit against rate base, thereby reducing revenue
531 requirements for customers.

532 Even though bonus tax depreciation affects rates through the same mechanics as
533 standard accelerated depreciation, its impact is more dramatic than standard accelerated
534 depreciation in the years immediately following the placement of the qualifying plant into

535 service. This is because bonus tax depreciation causes a much greater increase in ADIT,
536 which in turn, produces a much greater credit against rate base for any given amount of
537 new plant in service. This, in turn, typically reduces the revenue requirement relative to
538 what it would have been if bonus tax depreciation were not applicable.

539 The accounting for bonus tax depreciation in Utah ratemaking is a standard and
540 routine part of the ratemaking process. The fact that 2014 bonus tax depreciation was not
541 included in the determination of revenue requirement in the most recent general rate case
542 is due solely to the fact that the extension was not enacted until approximately six months
543 after the submission of the Stipulation on June 25, 2014, and approximately four months
544 after the Commission's final order approving that Stipulation on August 29, 2014. Thus,
545 the omission of 2014 bonus tax depreciation from the revenue requirement of the general
546 rate case is the result of the timing of the case and the timing of the passage of the Act,
547 and was subject to actions that were outside the control of the parties at the time the case
548 was conducted.

549 **Q. DO YOU HAVE AN ESTIMATE OF THE IMPACT OF THE EXTENSION OF**
550 **BONUS TAX DEPRECIATION ON THE UTAH REVENUE REQUIREMENT?**

551 A. Yes. In a data response filed in Wyoming, which used the same test period ending June
552 30, 2015 as Utah, RMP calculated the revenue requirement impact of the extension of
553 bonus tax depreciation for that jurisdiction to be a reduction of \$920,000 per year.⁸ As
554 the Utah revenue requirement is about 2.7 times that of Wyoming, I estimate the revenue

⁸ See WY PSC Docket No. 20000-446-ER-14, RMP Response to WPSC Data Request 17.1, Attachment WPSC 17.1, included in UAE Direct Exhibit 1.1.

555 requirement reduction in Utah to be between \$2 and \$3 million per year.⁹ I note that on
556 March 5, 2015, the Wyoming Public Service Commission ordered RMP to defer the
557 benefits of bonus tax depreciation on the Wyoming revenue requirement effective
558 January 1, 2015.

559 **Q. HOW SHOULD THE BENEFITS OF BONUS TAX DEPRECIATION BE**
560 **TRACKED AS PART OF A DEFERRAL APPROVED IN THIS CASE?**

561 A. The Commission should order RMP to calculate and defer the monthly difference
562 between the revenues collected from customers based on the test period revenue
563 requirement approved by the Commission in the last general rate case and the revenues
564 that would have been collected from customers if a test period revenue requirement had
565 been set that, all other things being held constant, took into account the effects of the
566 extension of 50 percent bonus tax depreciation until the end of 2014.

567 **Q. WHY SHOULD THE EFFECTS OF BONUS TAX DEPRECIATION BE TAKEN**
568 **INTO ACCOUNT IN THIS CASE IF THE 70/30 SHARING MECHANISM IS**
569 **WAIVED FOR CERTAIN DEFERRED COSTS?**

570 A. RMP typically seeks deferred accounting when it benefits the Company's shareholders
571 and remains silent when deferred accounting would benefit customers. It would be
572 unreasonable and asymmetric to cure the unintended consequence of ratemaking
573 mechanics associated with the conversion of Deer Creek Mine-related depreciation
574 expense into amortization expense without also recognizing that the last general rate case
575 suffered from a comparable anomaly, in which an unforeseen and unforeseeable change

⁹ While the impact of bonus tax depreciation is not strictly proportionate to jurisdictional revenue requirement, I believe this estimate provides a useful approximation.

576 in the tax law applicable to the test period revenue requirement occurred after the
577 disposition of the case. Therefore, my support for waiving the 70/30 sharing mechanism
578 as requested by the Company is contingent on the Commission also requiring that the
579 revenue requirement effects of bonus tax depreciation be deferred for the benefit of
580 customers effective January 1, 2015. Absent such a companion requirement, I
581 recommend that RMP's request for waiver from the 70/30 sharing be rejected as
582 unreasonably one-sided.

583 **Q. IN CONDITIONALLY SUPPORTING RMP'S REQUEST FOR EXEMPTION**
584 **FROM THE 70/30 SHARING FOR CERTAIN SPECIFIC ITEMS, ARE YOU**
585 **SUPPORTING MORE GENERALLY ANY MODIFICATION OF THE 70/30**
586 **SHARING CURRENTLY IN PLACE IN THE EBA?**

587 A. Absolutely not. The 70/30 sharing in the EBA provides the Company a critically
588 important incentive to manage its NPC efficiently. The exemptions I am supporting in
589 this case are limited to the special circumstances of the mine closure and to avoid an
590 unintended consequence on the Company's revenue recovery when depreciation expense
591 is converted to an amortization expense. I fully support the 70/30 sharing mechanism in
592 the EBA.

593 **Q. PREVIOUSLY YOU STATED THAT, *IN GENERAL*, YOU BELIEVE IT IS**
594 **REASONABLE FOR RMP TO CONTINUE TO RECOVER ITS INITIAL**
595 **INVESTMENT IN THE DEER CREEK MINE AND "UNSOLD PORTION" OF**
596 **THE MINING ASSETS AT THE CURRENT LEVEL UNTIL RATES ARE**
597 **RESET PURSUANT TO THE NEXT GENERAL RATE CASE. ARE THERE**

598 **ANY SPECIFIC QUALIFICATIONS TO YOUR SUPPORT FOR THIS**
599 **TREATMENT?**

600 A. Yes. There are several qualifications to my support. First, through its proposal, RMP is
601 seeking to recover \$3.5 million in CWIP (Total Company) associated with the Deer
602 Creek Mine and \$0.5 million in CWIP (Total Company) associated with the Preparation
603 Plant. These expenditures are not recovered in current rates. Similarly, RMP is seeking
604 to recover \$1.6 million in PS&I expenditures, which is for a surface exploration drilling
605 program outside the boundaries of the leases currently controlled by PacifiCorp. These
606 PS&I expenditures are also not recovered in current rates.¹⁰ As the CWIP expenditures
607 have never been – and never will be – used and useful, I recommend excluding their
608 recovery through the deferral mechanism proposed by RMP. Similarly, with the closure
609 of the mine, the PS&I expenditures will not provide customer benefits and also should be
610 excluded from the regulatory asset. I do not believe that the circumstances of this
611 Transaction warrant deviation from the Commission’s typical requirement that costs can
612 be collected from customers only for assets that are used and useful and that provide
613 benefits to customers.

614 Secondly, the Hunter generating facilities are not owned exclusively by RMP.
615 Other parties own shares in Hunter Units Nos. 1 and 2 that together represent 14.88% of
616 the aggregate operating capacity of the three Hunter units. Currently, the costs of the
617 Deer Creek Mine and Mining Assets allocated to the other owners are recovered from the
618 share of the cost of coal charged to the other owners.¹¹ With Deer Creek coal production

¹⁰ See RMP Responses to UAE Data Request 3.1(a) through (f), included in UAE Direct Exhibit 1.1.

¹¹ See RMP Response to UAE Data Request 3.2(a), (b) and (d), included in UAE Direct Exhibit 1.1.

619 discontinued, this vehicle for recovery of the Deer Creek Mine and Mining Assets costs
620 from the non-RMP owners no longer exists. And, indeed, the Company's filing appears
621 to contemplate fully recovering all Transaction costs from retail customers, without
622 recognizing that a portion of these facilities served a non-RMP ownership interest. I
623 disagree with such an approach. My support for RMP to recover its initial investment on
624 the Deer Creek Mine and unsold portion of the Mining Assets extends only to the share
625 of costs reasonably allocable to the Company's retail customers. To identify this share, it
626 is necessary to first remove the portion of the assets that were required to serve the non-
627 RMP-owned Hunter plant. In discovery, RMP prepared a table that identifies the portion
628 of the Transaction costs the Company believes is allocable to retail customers after the
629 portion of the assets required to serve non-RMP ownership interests is removed. This
630 adjustment results in a reduction of [REDACTED] applied to the proposed regulatory assets
631 associated with the Deer Creek Mine, the loss on the Mining Assets, closure costs, and
632 Retiree Medical settlement loss, as well as an adjustment to the 1974 Pension Trust
633 regulatory asset.¹² I believe this adjustment is reasonable, with the exception of the loss
634 on the Mining Assets, for which the adjustment should be closer to [REDACTED], to reflect the
635 fact that the Preparation Plant is primarily used in support of the Hunter units. To the
636 extent any of these regulatory assets are approved in this proceeding, the regulatory asset
637 values should reflect these removals.

638 Third, the deferral and regulatory asset should reflect the value received for the
639 sale of the Preparation Plant.

¹² See RMP Response to UAE Data Request 3.3 and Confidential Attachment UAE 3.3, included in UAE Direct Exhibit 1.1, and Confidential UAE Direct Exhibit 1.2, respectively.

640 **Q. HOW SHOULD THE SALE OF THE PREPARATION PLANT BE TREATED?**

641 A. RMP will receive [REDACTED] for the Preparation Plant, which is [REDACTED] less than
642 the net book value of the Mining Assets, including the Preparation Plant CWIP. I am
643 recommending that the depreciation/amortization expense associated with the Mining
644 Asset loss, excluding CWIP, be permitted to flow through the EBA (without the 70/30
645 sharing) but that the depreciation/amortization expense associated with the [REDACTED]
646 sale be *removed* entirely from NPC (also without 70/30 sharing). There is no longer any
647 reason for customers to pay for the depreciation of the portion of net book value for
648 which RMP has been compensated through the sale. Based on my review of RMP's
649 Confidential Response to OCS Data Request 4.4,¹³ and confirmed by RMP's Response to
650 WIEC Data Request 8.1 in Wyoming PSC Docket No. 20000-464-EA-14,¹⁴ it is clear
651 that RMP is not intending to remove these "ex-costs" from the EBA deferral. I
652 recommend that the Commission not allow RMP to include depreciation/amortization
653 corresponding to the "sold" portion of the Mining Asset in the 2015 EBA for recovery
654 from customers.

655 In addition, the rate of return on the sold portion of the asset (that is currently in
656 base rates) should be deferred and credited to customers against the regulatory asset
657 balance that is on the books when new rates go into effect following the next general rate
658 case. Based on my review of RMP's workpapers, and confirmed by RMP's Response to

¹³ RMP's Response to OCS Data Request 4.4 is included in UAE Direct Exhibit 1.1, and Confidential Attachment OCS 4.4 is included in Confidential UAE Direct Exhibit 1.2.

¹⁴ RMP Response to WIEC Data Request 8.1 in WY PSC Docket No. 20000-464-EA-14 is included in UAE Direct Exhibit 1.1.

659 WIEC Data Request 8.2 in Wyoming PSC Docket No. 20000-464-EA-14,¹⁵ it is clear
660 that RMP is not intending to credit this return to customers.

661 **Q. HAVE YOU PREPARED AN EXHIBIT THAT SUMMARIZES THE**
662 **ADJUSTMENTS YOU ARE RECOMMENDING FOR THE PROPOSED**
663 **REGULATORY ASSETS CONCERNING THE REMOVAL OF CWIP AND**
664 **PS&I, AND ACCOUNTING FOR THE NON-RMP OWNERSHIP OF ASSETS**
665 **SERVED BY THE DEER CREEK MINE?**

666 A. Yes. The impacts of my recommended adjustments are shown in Confidential UAE
667 Direct Exhibit 1.3.

668 **Q. WHAT IS YOUR RECOMMENDED RATEMAKING TREATMENT FOR THE**
669 **FOSSIL ROCK PLANT HELD FOR FUTURE USE?**

670 A. As I discussed above, RMP states that it expects to sell the Fossil Rock assets at
671 approximately book value at the time the Transaction closes, with no accounting gain or
672 loss resulting. The Company proposes to defer the revenue associated with the return on
673 rate base until rates are reset and to offset the unrecovered regulatory assets associated
674 with the other components of the Transaction by this revenue deferral when rates are next
675 reset.¹⁶ I agree with this proposed treatment.¹⁷

676 **Q. PLEASE DESCRIBE RMP'S PROPOSED TREATMENT OF CLOSURE COSTS.**

¹⁵ See RMP Response to WIEC Data Request 8.2 in WY PSC Docket No. 20000-464-EA-14, included in UAE Direct Exhibit 1.1.

¹⁶ See Direct Testimony of Douglas K. Stuver, page 11, lines 241-247.

¹⁷ Arguably, a portion of the Fossil Rock asset was being held for the benefit of non-RMP ownership interests in Hunter Nos. 1 and 2, but as it turns out, the entirety of the carrying cost of this Plant Held for Future Use is charged to retail customers (see RMP Response to UAE Data Request 3.2(c), included in UAE Direct Exhibit 1.1). Thus, it is appropriate for the entire credit to inure to the benefit of retail customers.

677 A. RMP will incur closure costs associated with removing everything from within the mine
678 workings, installing bulkheads in the coal seams and sealing the mine portals, labor-
679 related costs, and certain royalties. RMP proposes that all closure costs, currently
680 estimated at [REDACTED], be deferred in a regulatory asset with a carrying charge equal to
681 the Company's authorized rate of return. At the time rates are reset, RMP proposes to
682 include the unamortized regulatory asset in rate base and recover the costs over a period
683 to be approved by the Commission.

684 In Confidential RMP Exhibit__(DKS-1), RMP identifies the following categories
685 of costs associated with closure of the Deer Creek Mine:

- 686 • Union supplemental unemployment and medical
- 687 • Nonunion severance
- 688 • Royalties
- 689 • Inventory write-off
- 690 • Unrecovered reclamation (ARO) costs
- 691 • Income tax regulatory asset
- 692 • Miscellaneous, including on-going labor

693 **Q. WHAT IS YOUR RECOMMENDED RATEMAKING TREATMENT FOR THE**
694 **UNION SUPPLEMENTAL UNEMPLOYMENT AND MEDICAL COSTS AND**
695 **NON-UNION SEVERANCE COSTS?**

696 A. I recommend against deferral of these expenses, which are being incurred during and in
697 close proximity to the test period used in RMP's last general rate case, but which were
698 not identified by the Company in its filing in that case. Today's rates are the result of a

699 Stipulation approved by the Commission in the last general rate case, Docket No. 13-035-
700 184. That case began with RMP's own projections of what those costs would be. RMP
701 chose to time that case and its forecast so as to not include the Transaction in it. In my
702 opinion, absent a compelling special circumstance, it is unreasonable to give RMP "two
703 bites at the apple" insofar as its 2015 costs are concerned: one through its publicly-
704 released forecast in its last general rate case and a second one that reflects isolated costs
705 incurred in support of a Transaction that was not part of the Company's filing at the time
706 the last general rate case was conducted. The union supplemental unemployment and
707 medical costs and non-union severance costs were within the discretion of the company,
708 they were not unforeseen, they do not have a material impact on the Company's financial
709 integrity, and they do not arise as a result of an unintended consequence of the
710 ratemaking process. Consequently, it is not reasonable to confer single-issue ratemaking
711 status to them.

712 **Q. ARE YOU SUGGESTING THAT THE UNION SUPPLEMENTAL**
713 **UNEMPLOYMENT AND MEDICAL COSTS AND NON-UNION SEVERANCE**
714 **COSTS WERE IMPRUDENT?**

715 A. No. Rather, I am stating that I do not believe that deferred accounting is the appropriate
716 ratemaking treatment for these expenditures. As I stated above, utility ratemaking is not
717 based on a system of simple cost reimbursement.

718 **Q. WHAT IS YOUR RECOMMENDED RATEMAKING TREATMENT**
719 **REGARDING THE ROYALTY OBLIGATION ASSOCIATED WITH PLANT**
720 **CLOSURE?**

721 A. Because these costs are imposed on the Company by the United States government as
722 leaseholder, I believe that deferral and amortization of these costs may be appropriate.
723 However, I have concerns with the estimation of these costs provided by RMP in this
724 case. One portion of the royalty cost estimate, abandonment royalties amounting to [REDACTED]
725 [REDACTED], appears to be purely speculative at this point.¹⁸ The other portion of the royalty
726 cost estimate, recovery-based royalties of [REDACTED], is derived by grossing up RMP's
727 planned expenditures associated with mine closure, including the 1974 Pension Trust
728 withdrawal and Retiree Medical settlement loss.¹⁹ Given the highly uncertain nature of
729 these estimates, I recommend that the Commission require that any ultimate recovery of
730 these costs should be based on the royalties *actually* charged to the closure costs, rather
731 than on the Company's estimate.

732 **Q. WHAT IS YOUR RECOMMENDED RATEMAKING TREATMENT FOR**
733 **INVENTORY WRITE-OFFS?**

734 A. RMP is proposing to defer and recover certain inventory write-offs it will experience as a
735 result of the Transaction, which I view as comparable to the deferral and recovery of
736 mine plant in service and (unsold) mining assets. I do not object to deferral treatment for
737 the inventory write-offs so long as the Commission *also* recognizes the reduction in fuel
738 inventory that RMP is projected to experience during 2015 as a result of the Transaction.
739 Fuel inventory has an impact on rates because it is included in rate base and RMP earns

¹⁸ See RMP Response to OCS Data Request 2.23, included in UAE Direct Exhibit 1.1. Abandonment royalty estimate source: RMP Response to DPU Data Request 1.1, Confidential Attachment DPU 1.1, EW Fin Model 12-15-14, 'EW FRF Pro Forma Closure Sale', "Royalties" tab, included Confidential UAE Direct Exhibit 1.2.

¹⁹ See RMP 1st Supplemental Response to WPSC Data Request 2.16 in WY PSC Docket No. 20000-464-EA-14, included in UAE Direct Exhibit 1.1. Recovery-based royalty estimate source: RMP Response to DPU Data Request 1.1, Confidential Attachment DPU 1.1, EW Fin Model 12-15-14, 'EW FRF Pro Forma Closure Sale', "Royalties" tab, included in Confidential UAE Direct Exhibit 1.2.

740 its authorized rate of return on its value. RMP's fuel inventory for facilities impacted by
 741 the Transaction is projected to decline significantly in 2015 relative to what is included in
 742 rates. See Table KCH-2, below.

743 **Table KCH-2**

Coal Fuel Stock Balances Related to Transaction			
Fuel Stock Site	GRC Pro Forma 13-mo. av. Jun 14-Jun 15 ²⁰	Current Projection 13-mo. av. Dec 14-Dec 15 ²¹	Difference (Current Projection - GRC Pro Forma)
Hunter	71,019,205	50,645,174	(20,374,031)
Huntington	36,696,551	28,594,235	(8,102,316)
Deer Creek Mine Preparation Plant	235,624	5,298	(230,327)
Rock Garden	35,098,446	5,091,901	(30,006,546)
	14,360,259	17,633,011	3,272,752
Total	157,410,085	101,969,619	(55,440,466)

744 **Q. IN ITS APPLICATION, DID RMP INCLUDE A CREDIT TO CUSTOMERS FOR**
 745 **A REDUCTION IN FUEL INVENTORY AS A RESULT OF THE**
 746 **TRANSACTION?**

747 A. No. In its Application, the Company did not recommend that any reduction in fuel
 748 inventory be recognized as a benefit to customers as part of its proposed deferral. I
 749 disagree with this exclusion. If RMP is to receive the benefit of deferred accounting for
 750 many of the costs it is incurring as a result of the Transaction, including an inventory
 751 write-off, then the savings to customers in fuel inventory carrying costs should also be
 752 reflected. The earnings on the reduction in fuel inventory for Calendar Year 2015, which

²⁰ Data Source: RMP Response to OCS Data Request 29.1, Attachment OCS 29.1, in Docket No. 13-035-184, included in UAE Direct Exhibit 1.1.

²¹ Data Source: RMP Response to OCS Data Request 4.6, Attachment OCS 4.6, included in UAE Direct Exhibit 1.1.

753 I estimate to be \$5.9 million (Total Company)²², should be deferred and credited against
754 the inventory write-off, and the excess credited against the remaining regulatory assets
755 associated with the Transaction that are approved by the Commission in this case. In the
756 alternative, if it is argued that this deferral cannot properly be considered on the technical
757 grounds that it was not included in RMP's Application, then the equivalent value should
758 simply be deducted from the regulatory assets recognized for deferral in this case. This
759 can be accomplished by denying deferral of the inventory write-off and a portion of the
760 other regulatory assets that I am otherwise recommending for approval, up to a total
761 value of \$5.9 million (Total Company).

762 **Q. WHAT IS YOUR RECOMMENDED RATEMAKING TREATMENT**
763 **REGARDING THE UNRECOVERED ARO COSTS ASSOCIATED WITH**
764 **PLANT CLOSURE?**

765 A. The ARO costs represent the difference between what has been recovered in rates for
766 final reclamation and the present value of final reclamation costs.²³ Because the
767 unrecovered ARO costs are part of a long-term calculation applied to the asset retirement
768 obligation for a long-lived asset, I believe that deferral and amortization of these costs
769 may be appropriate. Therefore, I do not object to RMP's proposal to defer them.

770 **Q. WHAT IS YOUR RECOMMENDED RATEMAKING TREATMENT**
771 **REGARDING THE INCOME TAX REGULATORY ASSET?**

²² The \$5.9 million Total Company estimate was derived using the Commission Integrated Allocation Model 12-2-14 from Docket No. 13-035-184. The Utah revenue requirement impact determined in the model (~\$2.5 million) was divided by the Utah system energy (SE) factor (41.972%) to derive the estimated Total Company impact.

²³ See RMP Response to OCS Data Request 2.19, included in UAE Direct Exhibit 1.1.

772 A. RMP's request to establish an income tax regulatory asset related to the Transaction is
773 not well articulated in the Company's filing. Much greater detail is presented in RMP's
774 Response to WIEC Data Request 4.3 in Wyoming PSC Docket No. 20000-464-EA-14.
775 That response explains that in the earlier years of the mine, the benefits of accelerated
776 depreciation had been flowed through directly to customers, prior to the adoption of
777 income tax normalization.²⁴ The response goes on to state:

778 As it relates to the Company's application for approval of the transaction for closure of
779 Deer Creek mine and a deferred accounting order, a request has been made to establish a
780 regulatory asset for the balance of the unrecovered Utah mining assets for which recovery
781 would be provided through inclusion in cost of service amortization of the unrecovered
782 investment regulatory asset in place of depreciation of the Utah mining assets.
783 Specifically, customers have received the income tax benefits associated with the Utah
784 mining assets over the life of the assets. Upon retirement of the Utah mining assets,
785 deferred income taxes will be removed from the ASC 980-740 regulatory assets. Those
786 deferred income taxes relate to depreciation occurring in the last part of the mine's life.
787 Had depreciation of the mine continued, the Company would have recovered the deferred
788 income taxes by excluding the income tax benefits from cost of service arising from the
789 reversal of the deferred income tax liability. This recovery will not occur with the early
790 retirement of the Utah mining assets as the unrecovered plant will be transferred to a
791 regulatory asset, and absent approval of the Company's request, the income tax
792 regulatory asset would receive a corresponding income tax benefit in cost of service as
793 the regulatory asset is amortized. This would in effect provide a duplicative benefit to
794 customers; once through the provision of the current income tax benefit through flow-
795 through accounting and again through the deferred income tax benefit through
796 normalized accounting on the unrecovered investment regulatory asset. The request in
797 this application with respect to the income tax regulatory asset on the unrecovered plant
798 is to avoid this duplicative benefit and allow for the depletion of the income tax
799 regulatory asset based upon amortization of the regulatory asset for the unrecovered plant
800 included in cost of service in place of depreciation of the unrecovered plant thereby
801 matching the underlying reclassification of the unrecovered plant out of property, plant
802 and equipment regulatory asset.

803 The first part of this passage refers to the Company's inability to recover the
804 deferred taxes that had been flowed through to customers in past years due to the earlier-

²⁴ See also RMP Response to DPU Data Request 3.2 and Confidential Attachment DPU 3.2-1, included in UAE Direct Exhibit 1.1 and Confidential UAE Direct Exhibit 1.2, respectively.

805 than-expected retirement of the mine. By itself, I do not find this reasoning persuasive
806 for establishing a regulatory asset: after all, in ratemaking, not everything works out as
807 planned. However, the Response goes on to assert that customers would receive a
808 duplicate income tax benefit if the regulatory asset is not established as proposed by the
809 Company.

810 Due to the complexity of this issue and the relatively short amount of time for
811 review, I am not challenging RMP's assertion regarding the duplicate income tax benefit
812 at this time. Therefore, I am not objecting to RMP's proposal for deferral of this item to
813 the extent it offsets what would otherwise be a duplicate tax benefit to customers.
814 However, I intend to further evaluate and potentially make recommendations regarding
815 the proper recovery, if any, by the Company of this deferred asset in future ratemaking
816 proceedings.

817 **Q. WHAT IS YOUR RECOMMENDED RATEMAKING TREATMENT**
818 **REGARDING THE MISCELLANEOUS COSTS, INCLUDING LABOR COSTS,**
819 **ASSOCIATED WITH PLANT CLOSURE?**

820 A. I recommend against approving deferral of these costs as incurred prior to the test period
821 in the next general rate case. While a case can be made that deferral is appropriate due to
822 the end-of-life nature of these expenditures, the merits of this argument must be weighed
823 against the proximity of the incurrence of these costs to the test period in the general rate
824 case that was completed last year using a test period ending June 30, 2015. As I stated
825 above, the basis for today's rates began with RMP's own projections of what those costs
826 would be in the last general rate case. RMP chose to time that case and its forecast so as
827 to not include the Transaction in it. With the Transaction clearly underway during the

828 pendency of the last general rate case, RMP opted not to withdraw the case and submit a
829 new filing that included the impact of the Transaction, but instead pursued that case using
830 its initial forecasts. Now, with the rate case concluded, the Company seeks single-issue
831 ratemaking treatment for the Transaction. These costs were not unforeseen, they are not
832 extraordinary, and they do not arise as a result of an unintended consequence of the
833 ratemaking process. Consequently, it is not reasonable to confer single-issue ratemaking
834 status to these costs.

835 **Q. PLEASE EXPLAIN RMP'S PROPOSED TREATMENT OF THE RETIREE**
836 **MEDICAL SETTLEMENT LOSS.**

837 A. Energy West settled its Retiree Medical Obligation by transferring assets to the UMWA
838 [REDACTED]
839 [REDACTED], which serves to reduce the current unrecognized actuarial losses
840 reflected in the Company's regulatory assets. My understanding is that under GAAP,
841 RMP must accelerate recognition of a portion of the remaining unrecognized actuarial
842 losses. The estimated settlement loss of [REDACTED] represents accelerated recognition of
843 actuarial losses that would also have been amortized to FAS 106 expense absent the
844 settlement. The Company proposes to defer the settlement loss for future recovery over a
845 period to be determined by the Commission.

846 **Q. WHAT IS YOUR RECOMMENDED RATEMAKING TREATMENT FOR THE**
847 **RETIREE MEDICAL OBLIGATION SETTLEMENT LOSS?**

848 A. Because these are costs that would have been amortized to FAS 106 expense absent the
849 settlement, I do not object to RMP's proposal for deferral.

850 **Q. PLEASE EXPLAIN RMP'S PROPOSED TREATMENT OF THE 1974 PENSION**
851 **TRUST WITHDRAWAL.**

852 A. 1974 Pension Trust contributions by Energy West of \$3 million are currently charged to
853 fuel expense and included in base NPC. At the time of Trust withdrawal, Energy West
854 has the option to make either a lump-sum payment to satisfy its withdrawal obligation or
855 to make annual installment payments. RMP states that Energy West intends to negotiate
856 with the 1974 Pension Trust to elect the most economical choice – annual or lump sum.
857 For the plan year ending June 30, 2014, the withdrawal liability for Energy West was
858 estimated to be \$125.6 million. However, for the plan year ending June 30, 2015, the
859 withdrawal liability estimate for Energy West has been reduced to \$96.7 million.²⁵

860 My understanding is that GAAP requires that these types of losses be recorded at
861 their present value using a risk-free rate. In its filing, RMP uses a net present value of
862 approximately [REDACTED] for the withdrawal liability, apparently based on the estimate
863 for the plan year ending June 30, 2014. RMP proposes continuation of the ongoing
864 estimated \$3 million annual payment already reflected in rates to cover the annual
865 withdrawal payments, and deferral of the [REDACTED] accounting loss. Neither the
866 regulatory asset nor the withdrawal liability would adjust over time since the \$3 million
867 would not contribute towards a reduction in principal. At some future date, when the
868 plan terminates or the accrual of future benefits is frozen, this liability and associated
869 regulatory asset could be quantified and amortized.

²⁵ See RMP 1st Supplemental Response to OCS Data Request 2.9c, included in UAE Direct Exhibit 1.1.

870 In the alternative, if RMP successfully negotiates a more economical one-time
871 payment, the Company proposes that the amount be deferred until rates are next reset,
872 with rate base treatment of the unrecovered amount.

873 **Q. WHAT IS YOUR RECOMMENDED RATEMAKING TREATMENT FOR RMP'S**
874 **CONTRIBUTIONS TO THE 1974 PENSION TRUST IN THIS CASE?**

875 A. As RMP's proposed treatment is to continue the annual contribution of \$3 million until a
876 termination value can be determined, this expense can remain in NPC where it is today,
877 with no adjustment necessary at this time. I recommend that if and when RMP proposes
878 deferral and recovery of a specific termination value, that it be subject to Commission
879 review and approval at that time.

880 **Q. HAVE YOU PREPARED A TABLE THAT SUMMARIZES YOUR**
881 **RATEMAKING RECOMMENDATIONS WITH RESPECT TO RMP'S**
882 **PROPOSED DEFERRALS?**

883 A. Yes. This summary is presented in Confidential Table KCH-3, below.

Confidential Table KCH-3

Cost Item	RMP Projected Regulatory Asset Value (\$ in millions)	UAE Recommended Treatment
Change in Coal Supply Costs (Bowie Contract)	(\$14.5)	Allow EBA recovery with no sharing, conditional on deferral of benefit from extension of bonus tax depreciation.
Deer Creek Mine		
Plant in Service	\$81	No objection to recovery of amortization in 2015 EBA without sharing, conditional on deferral of benefit from extension of bonus tax depreciation. Going-forward regulatory asset should be adjusted to remove non-RMP portion.
CWIP	\$3.5	Deny regulatory asset.
PS&I	\$1.6	Deny regulatory asset.
Preparation Plant/Mining Assets (net)	■	No objection to recovery of amortization of loss on sale in 2015 EBA without sharing, conditional on deferral of benefit from extension of bonus tax depreciation, but the “sold” portion of asset should be excluded from amortization. Approve regulatory asset for “unsold” balance excluding CWIP, but adjust to remove non-RMP portion. Return on “sold” portion in 2015 should be credited against regulatory asset balance.
Fossil Rock PHFU		Approve credit proposed by RMP.
1974 Pension Trust	■	Allow \$3 million annual expense as proposed by RMP. Any specific termination value must be subject to future Commission approval.
Retiree Medical Obligation (Settlement Loss)	■	Approve regulatory asset.
Union Supplemental Unemployment and Medical	■	Deny regulatory asset.
Non-Union Severance	■	Deny regulatory asset.
Inventory Write-Off	■	Approve regulatory asset, but offset with credits from 2015 fuel inventory reduction.
Regulatory Asset - Income Tax	■	Approve regulatory asset to the extent it offsets a duplicate benefit.
Miscellaneous Closure/Ongoing Labor	■	Deny regulatory asset.
Unrecovered ARO Costs	■	Approve regulatory asset.
Royalty Obligations - Closure	■	Approve regulatory asset.

* Data sources: CONFIDENTIAL Exhibit DKS-1, and RMP Response to UAE Data Request 3.1.

885 **Q. WHAT AMORTIZATION PERIOD IS RMP RECOMMENDING FOR THE**
886 **REGULATORY ASSETS THAT MAY BE ESTABLISHED IN THIS CASE?**

887 A. As I understand RMP's proposal, based on my review of RMP's Response to DPU Data
888 Request 3.2, Confidential Attachment DPU 3.2-1,²⁶ the Company is suggesting an
889 amortization period of five years for most items starting on the rate effective date of the
890 next rate case. However, for those items that are currently being depreciated in rates (and
891 which would be converted into regulatory assets that would be amortized) the Company
892 is suggesting an amortization schedule that would remain concurrent with the existing
893 depreciation schedules.

894 **Q. WHAT IS YOUR RECOMMENDATION CONCERNING THE AMORTIZATION**
895 **PERIODS FOR THE REGULATORY ASSETS THAT MAY BE ESTABLISHED**
896 **IN THIS CASE?**

897 A. For those items that are currently being depreciated in rates, it makes sense to amortize
898 these items at the same rate at which they are now being depreciated, as RMP proposes,
899 until the next general rate case is conducted, subject to the qualifications discussed earlier
900 in my testimony. For all other newly-created regulatory assets, it is not necessary to
901 determine the amortization period at this juncture because amortization of these items
902 will not begin until the rate effective period following the next general rate case. The
903 determination of the appropriate amortization period is a matter that is appropriately
904 addressed in the next general rate case, when all rate impacts on customers can be taken
905 into account. At that time, the Commission can consider whether the amortization

²⁶ RMP Response to DPU Data Request 3.2 is included in UAE Direct Exhibit 1.1 and Confidential Attachment DPU 3.2-1 is included in Confidential UAE Direct Exhibit 1.2.

906 periods suggested by RMP are appropriate or whether alternative amortization periods
907 make sense. For example, the Commission may consider extending the amortization
908 period to 2029 to correspond with the time horizon of the Transaction. (The time horizon
909 of the Transaction extends to 2029 because that is the term of the Bowie contract.) The
910 extension of the amortization period to 2029 may be preferable because it would help to
911 align the costs and benefits of the Transaction over the duration of its life.

912 **Q. WHAT IS RMP PROPOSING WITH RESPECT TO CARRYING COSTS ON**
913 **UNAMORTIZED REGULATORY ASSET BALANCES?**

914 A. As I discussed above, RMP is recommending carrying costs equal to its authorized rate of
915 return.

916 **Q. DO YOU AGREE WITH THE COMPANY'S RECOMMENDATION ON**
917 **CARRYING COSTS?**

918 A. No, I do not. The Company's recommendation is not reasonable for several reasons.
919 First, there is already an approved carrying cost for deferrals that flow through the EBA,
920 which is set at 6.0%. This rate should be used for the deferrals approved in this case that
921 will flow through the EBA, with the notable exception of the Deer Creek Mine and
922 Mining Asset amortizations. The carrying cost for these latter deferrals in the EBA
923 should be set at zero because base rates already provide for a return on the Deer Creek
924 Mine and Mining Assets equal to the Company's authorized rate of return. Any carrying
925 charge applied through the EBA to the amortization of the regulatory assets associated
926 with the Deer Creek Mine and Mining Assets would constitute double recovery.

927 For all other regulatory assets established in this proceeding, I recommend that
928 the carrying costs should be set at the cost of long-term debt established in the last

929 general rate case (5.2%). Using the authorized rate of return for this purpose as proposed
930 by RMP is excessive. The regulatory assets proposed by RMP in this proceeding consist
931 in significant part of plant that is no longer used and useful and other assorted losses as a
932 result of the Transaction. I urge the Commission to refrain from awarding the benefit of
933 an equity return on this incremental cost burden to customers. Moreover, as far as this
934 proceeding is concerned, the cost of the regulatory assets needs to be carried only until
935 the next general rate case. The rate of return on any regulatory assets established in this
936 proceeding can be revisited in that context along with the appropriate amortization
937 periods.

938 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

939 A. Yes, it does.