BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER TO IMPLEMENT PROGRAMS AUTHORIZED BY THE SUSTAINABLE TRANSPORTATION AND ENERGY PLAN ACT.	))))))))))	**DOCKET NO. 16-035-36** **Exhibit No. DPU 2.0 Dir** **Direct Testimony and Exhibit** **David Thomson**

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Direct Testimony of

David Thomson

November 9, 2016

Q. Please state your name and occupation?

A. My name is David Thomson. I am employed by the Utah Division of Public Utilities ("Division") as a Utility Technical Consultant.

Q. What is your business address?

A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84111.

Q. Please describe your education and work experience.

A. I graduated from Brigham Young University with a Bachelor of Science degree in Accounting. I am a Certified Public Accountant, licensed in the state of Utah. I began working for the Division in July of 2004.

Q. Have you testified before the Commission previously?

A. Yes. I have testified in many rate case proceedings and other matters before the Commission.

Q. What is the purpose of the testimony that you are now filing?

A. The purpose of my testimony is to comment on Rocky Mountain Power's ("Company") overall accounting process related to the proposed implementation of programs authorized by Utah Senate Bill 115 ("SB115"), the Sustainable Transportation and Energy Plan Act ("STEP"), signed into law on March 29, 2016. The overall accounting process was described in Supplemental testimony of Steven R. McDougal filed with the Commission on October 17, 2016. Also, accounting information was provided by the Company in a Technical Conference on October 3, 2016. I will also comment on the Company's proposed reporting of its accounting and certain revised tariff sheets accompanying the Company's filing.

Q: What was described in the Company's Supplemental accounting testimony?

A: The supplemental accounting testimony addressed the current approach to Utah Demand Side Management ("DSM") accounting and changes proposed to be effective January 1, 2017; the accounting related to the new Plant Accelerated Depreciation Fund; and requested accounting changes associated with the STEP programs, including how the Company will track and report STEP collections and expenditures.

The supplemental accounting testimony also contained Exhibit RMP__ (SRM-1) describing the internal accounting associated with the STEP program. This is the same document that Application Exhibits C and D refer to as the overarching Utah STEP accounting document. This document describes the Company's accounting treatment for the STEP program, including the STEP fund categories; the accounting treatment for STEP program expenses; the accounting treatment for STEP related capital expenditures; charges not eligible for STEP funding; and the STEP internal project tracing numbers.

Q. What accounting information was provided in the Technical Conference held on October 3, 2016?

A. Before I answer that question, I would like to note that the SB115 language provides a framework for capitalizing DSM and amortizing those costs with direction on a carrying charge to the unamortized DSM. It also provides a framework for the accelerated depreciation fund, its carrying charge, and the STEP Program and its carrying charge. The statutory language does not provide accounting detail and reporting requirements. Prior to the October 3, 2016 technical conference parties to the Docket submitted questions. Some of those questions were accounting questions that specifically asked the company for T accounts and T account entry explanations for DSM changes, the depreciation fund, and

STEP Pilot programs. Parities to the docket were looking for the Company's proposed accounting that would be built around the framework provided in SB115.

The October 3, 2016 technical conference provided a STEP Pilot Programs budget; miscellaneous DSM and STEP information and illustrations; and examples of accounting entries using T accounts and explanations for various DSM and STEP activity scenarios and transactions.

For the STEP programs the Company's accounting treatment is determined by the nature of the individual STEP pilot programs and fits into one of three categories, which are standard program expenses; capital projects; and Gadsby curtailment.

The STEP Pilot Programs budget presented in the technical conference was the same as that in the Company's application to implement programs authorized by the Sustainable Transportation and Energy Act.

At the Technical conference, parties noted that the overarching Utah STEP accounting document mentioned in the Application was not provided by the Company nor was specific testimony regarding proposed accounting for SB115. The Company agreed to provide accounting testimony and the accounting document. This material was filed with the Commission on October 17, 2016 as mentioned above.

Q. You have stated that SB115 does not mention any accounting reporting requirements. Has the Company proposed a plan for reporting?

A. Yes. In his supplemental accounting testimony, Mr. McDougal replied as follows to the question "Can you describe how STEP reporting will occur?" He said:

> The Company will file with the Commission annually, at the same time as the year-end results of operations report, a report on the STEP balance for the prior year. The report will show the annual collections, spend and committed funds in total and by STEP category. If requested by parties, the Company will schedule a technical conference after the report has been filed to discuss the STEP Pilot programs and the report of STEP balances and the expenditures made during the year.[1]

At this time, the Division will accept this proposed reporting method.

Q. SB115 requires that the unamortized DSM balance and the plant accelerated depreciation fund have a carrying charge that is equal to the large-scale electric utility's pretax weighted average cost of capital approved by the commission in the large-scale electric utility's most recent general rate proceeding. What does it say about the carrying charge for the STEP balancing account?

A. Codifying SB115 in part, Utah Code Ann. Section 54-7-12.8(7)(d) requires that the carrying charge amount will be determined by the Commission.

Q. Does the Company address this matter in its application?

[1] Supplemental Testimony of Steven R. McDougal lines 197 to 203 filed October 17, 2016 in Docket 16-035-36.

A. Yes. In paragraph 10 of its application the Company proposes to uses the carrying charge amount as determined in Docket No. 15-035-69. If the Commission accepts this proposed charge then the Division recommends that the charge be reset on an annual basis.

Q. What is the pretax weighted average cost of capital ("pre WACC") approved by the commission in the most recent general rate proceeding?

A. 10.65%.

Q. Does Mr. McDougal in his testimony address the duration of the change in DSM accounting from expensing DSM costs to amortizing the costs over 10 Years?

A. Yes he does. In response to the Question, "What is the duration of this change?" Mr. McDougal in his supplemental accounting testimony states the following:

> This change in the accounting for DSM will become effective January 1, 2017 with **no anticipated end date.** Going forward, the Company anticipates capitalizing and amortizing DSM costs over 10 years rather than expensing them in the year they occur to better align the energy savings that occur from DSM programs over their lives with the program costs.[2] (Emphasis added).

Q. Has the Division prepared an Exhibit on the DSM regulatory asset and liability accounting outlining in detail the DSM cost amortization and its results?

A. Yes. Exhibit No. DPU 2.1 has been prepared with the hope that it will help non-accountants understand the DSM cost amortization and the related accounting. Instead of using T accounts the exhibit uses an Excel spreadsheet showing increases and decreases to the DSM regulatory asset and liability accounts. Simple addition and subtraction takes place with explanations.

[2] Supplemental Testimony of Steven R. McDougal lines 100 to 104 filed October 17, 2016 in Docket 16-035-36

The Exhibit assumes the program spend and surcharge collection are equal at $70 million; and regulatory asset and liability carrying charges fully offset each other and use the same carrying charge rate.

Under double entry accounting, "pluses" increase regulatory assets and "minuses" increase regulatory liabilities. Also, "minuses" decrease regulatory assets and "pluses" decrease regulatory liabilities. The Exhibit shows only one side of the double entry accounting pertaining to the DSM regulatory asset and liability. The other half of the double accounting entries is not shown.

The Exhibit is based on the double entry accounting examples and explanations shown by the Company in the first technical conference but it only shows the entries to the regulatory asset and liability and how those entries impact their balances.

The Exhibit shows the proposed Company accounting for the DSM cost amortization and the balances the accounting produces from year to year. The Division believes it is important to note the account balance results as shown by the Exhibit.

This is a very simple exhibit for illustrative purposes only. In reality, due to monthly differences in DSM recorded costs as compared to DSM recorded surcharges, the monthly and yearly balances would in most or all cases likely be different.

As you can see from the exhibit the regulatory asset and liability accounts grow over the initial 10 year amortization to a balance of $315 million. After year 10 the asset and liability balances remain at a $315 million. This is because as an old one year amortization drops off a new one year amortization comes in and the growth in the account ceases. With the above assumptions, the asset and liability when combined zero each other out at all times. As stated above by the Company, it anticipates no end date for the cost amortization change and thus these balances would go forward indefinitely.

Q. Does your Exhibit show what would happen if some of the regulatory liability fund was used for steam generation unit closure?

A. In the exhibit there is an example of just such a scenario. It has the same assumptions explained above but assumes that in year seven $250 million of the $273 million fund balance at that time is used for accelerated depreciation for a unit closure. For simplicity, my example ignores the fact that after the funds are used for unit closure the carrying charges would no longer offset and thus the asset and liability balances going forward would be difference than that shown in the example.

In the example, the use of the $250 million drops the fund down to $44 million and the fund grows to year ten to an amount of $65 million and then stays at that balance going forward indefinitely**.** During this same time the regulatory asset continues to grow till year ten until it reaches $315 million with that amount going forward indefinitely. The asset and liability no longer offset each other with carrying charges no longer offsetting also. The regulatory asset will generate carrying charges considerably larger than the liability going forward indefinitely.

Q. What happens if the Commission determines that the funds in the regulatory liability are no longer needed for the purpose of depreciating thermal generation plant?

A. SB115 directs the Company to use the balance of the funds in the regulatory liability account to offset the capitalized demand side management costs. [3]

Q. If the Commission ordered an offset in year 13 of your example above, what would be the regulatory asset balance at that time?

A. $250 million ($315 million less $65 million) plus net carrying charges to that date. That balance would go on indefinitely increasing with additional future net carrying charges.

Q. Other than netting the regulatory liability to the regulatory asset, does SB115 or the Company address in its application how a possible asset balance such as that described in the above example could be reduced?

A. No they do not. However, one could assume that if netting is not available to reduce the regulatory asset because the regulatory liability has been used to retire a thermal asset, a DSM surcharge above that already existing in the DSM line item surcharge would be needed to reduce the $250 million balance.

[3] Utah Code Section 54-7-12.8(5) (f).

Or, if the DSM 10 year cost amortization methodology ceases then 10 years after the cease date the regulatory asset balance would be zero due to full amortization taking place. However, this scenario will not happen if the DSM cost capitalization and amortization method has no end date.

Q. Please comment on the proposed accounting as explained and outlined by the Company.

A. The accounting information provided by the Company speaks for itself and the Division will not parrot what was explained and proposed by the Company in the technical conference, its supplemental accounting testimony, or in its overarching Utah STEP accounting document.

The overall accounting process proposed by the Company in its implementation of SB115 has been reviewed by the Division. After review, at this time, nothing came to the Division's attention that would indicate that the overall accounting process as proposed by the Company is improper or inadequate. The Division notes that STEP and the DSM Cost capitalization/amortization are in the initial stages of implementation and that the STEP programs are a Pilot Program. The Pilot program and its five year term give parties to the Docket the opportunity to make refinements and improvements to the accounting process if required; discover unintended accounting consequences if they exist and propose corrections; or possibly find improper accounting that can also be corrected.

Q. Did the Company provide proposed Tariff Sheets revisions as part of its application?

A. Yes, it provided proposed Tariff sheet revisions for Sheet Nos. 107.1; 107.3; 107.4; 193.2; 195.1; and 195.2.

Q. Were these revisions reviewed by the Division?

A. They were reviewed by the Division, but this testimony will touch upon only revisions to sheets 193.2; 195.1; and 195.2. Other Division testimony offered by Mr. Robert Davis will comment on the 107 sheets.

Q. What were the results of the Division's review of sheets 193.2, 195.1, and 195.2?

A. It appears to the Division that those revised sheets support the Company's application implementing programs authorized by STEP pursuant to Utah Code Annotated Section 54-7-12.8(3)(b) and (8).

Q. Do you have any recommendations for sheet 195.1?

A. Yes. The Division recommends that "Pilot Program" be added to this sheet and that the tariff program period of five years be noted.

Q. Does this conclude your testimony?

A. Yes.