

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application) DOCKET NO. 06-035-163
Of Rocky Mountain Power for)
A Deferred Accounting Order)
To Defer the Costs of Loans)
Made to Grid West)

In the Matter of the Application) DOCKET NO. 07-035-04
Of Rocky Mountain Power for)
An Accounting Order To Defer)
The Costs Related to the)
MidAmerican Energy Holdings)
Company Transaction)

In the Matter of the Application) DOCKET NO. 07-035-14
Of Rocky Mountain Power for)
An Accounting Order for Costs)
Related to the Flooding of the)
Powerdale Hydro Facility)

REBUTTAL TESTIMONY OF
DONNA DERONNE
FOR THE COMMITTEE OF
CONSUMER SERVICES

October 1, 2007

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1 **Introduction**

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

3 A. My name is Donna DeRonne. I am a Certified Public Accountant licensed
4 in the State of Michigan and a senior regulatory analyst at Larkin &
5 Associates, PLLC, Certified Public Accountants, with offices at 15728
6 Farmington Road, Livonia, Michigan 48154.

7

8 **Q. ARE YOU THE SAME DONNA DERONNE WHO PREVIOUSLY**
9 **OFFERED PRE-FILED DIRECT TESTIMONY IN THIS CASE?**

10 A. Yes, I am.

11

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. In his direct testimony, at pages 4 and 18-19, Utah Association of Energy
14 Users (UAE) witness Mr. Kevin Higgins presents an alternative
15 recommendation in the event the Commission wishes to allow deferred
16 accounting treatment for non-executive severance costs in order to
17 provide long-term incentives for the Company to pursue cost-savings
18 measures. In this rebuttal testimony, I discuss why it is not necessary to
19 provide long-term incentives of this nature to Rocky Mountain Power
20 (RMP).

21

22 I also address and concur with Mr. Higgins' position regarding the impact
23 of the Embedded Cost Differential on the amount of Powerdale

24 unrecovered plant and decommissioning costs that are allocated to Utah
25 ratepayers.

26

27 Finally, I address the recommendation of Division of Public Utilities (DPU)
28 witness David Thomson pertaining to the amortization period for the
29 unrecovered Powerdale plant costs.

30

31 **Long-term Incentives for Cost Savings are Not Necessary**

32 **Q. WHAT SPECIFIC STATEMENTS MADE BY MR. HIGGINS IN THE**
33 **AREA OF SEVERANCE COSTS DO YOU WISH TO ADDRESS?**

34 A. At page 4 of his direct testimony, Mr. Higgins provides an alternative to
35 UAE's primary recommendation and states as follows: "To the extent the
36 Commission wishes to provide long-term incentives for aggressive cost-
37 savings, a three-year amortization could be adopted for new non-
38 executive severance expense (net of backfill), but without any interest on
39 the regulatory asset until the start of the rate effective period following the
40 next rate case." Mr. Higgins' statement appears to be based on a premise
41 that the allowance of a deferral and potential recovery of the severance
42 costs in a future rate case would provide long-term incentives to RMP to
43 aggressively pursue cost savings measures, such as the severance
44 program.

45

46 **Q: DO YOU BELIEVE THAT SUCH LONG-TERM INCENTIVES ARE**
47 **NECESSARY OR APPROPRIATE TO MOTIVATE RMP'S**
48 **MANAGEMENT TO AGGRESSIVELY PURSUE COST CUTTING**
49 **INITIATIVES?**

50 A: No. I strongly disagree that such incentives are necessary or appropriate.

51

52 **Q. WHY ARE SUCH LONG-TERM INCENTIVES NOT NECESSARY OR**
53 **APPROPRIATE?**

54 A: RMP's rates are determined based on a traditional form of utility regulation
55 in which rates are set by the Commission that provide the Company an
56 opportunity to recover its prudently incurred costs and earn a fair and
57 reasonable rate of return on its investment. Any cost reductions secured
58 by management between rate cases increases the earned rate of return
59 on equity that goes to the benefit of shareholders until rates are reset.
60 Under traditional regulation, therefore, adequate incentives are already in
61 place for RMP's management to seek appropriate cost savings initiatives
62 and operate the business in an efficient manner.

63

64 **Q. IS THE SEVERANCE PROGRAM AT ISSUE IN THIS CASE A GOOD**
65 **EXAMPLE OF RMP MANAGEMENT IMPLEMENTING A COST**
66 **SAVINGS INITIATIVE THAT WILL PROVIDE A NET BENEFIT TO**
67 **SHAREHOLDERS BETWEEN RATE CASES?**

68 A. Yes. Based on the severance and labor cost savings amounts presented
69 in RMP witness Jeffrey Larsen's direct testimony, and also summarized in
70 my direct testimony on pages 16-17, the net cost savings of approximately
71 \$25 million resulting from the employee severance program will accrue to
72 the benefit of shareholders until rates are changed in August 2008 to
73 reflect (among other things) the lower employee complement. Thus,
74 management was already motivated to aggressively pursue labor cost
75 savings, absent recovery of severance program costs.

76

77 **Q: SHOULD CUSTOMERS EXPECT RMP MANAGEMENT TO**
78 **EFFICIENTLY PLAN AND OPERATE ITS UTILITY BUSINESS?**

79 A. Yes. The salaries of RMP's management are included in base rates and
80 are effectively paid by the Company's customers. RMP's management
81 has an obligation to serve its customers in an efficient manner while
82 providing reasonable levels of reliability and customer service. It is the
83 duty of management to seek out and implement appropriate cost savings
84 measures which will not detrimentally impact reliability or customer
85 service.

86

87 **Q. DO YOU HAVE ANY ADDITIONAL CONCERNS WITH REGARDS TO**
88 **PROVIDING ADDITIONAL INCENTIVES BEYOND THOSE IN THE**
89 **NORMAL RATEMAKING PROCESS?**

90 A. Yes. In the 2003 winter storm outage docket (Docket No. 04-035-01) and
91 in the prior rate case, the Committee raised concerns regarding decreases
92 in reliability in Utah. Part of the Committee's concern related to whether
93 the Company was adequately staffed to maintain adequate levels of
94 reliability on the Utah distribution system. It is not always reasonable or
95 appropriate to pursue "aggressive" cost savings measures, especially if
96 such initiatives could negatively impact a utility's level of reliability. Thus,
97 thorough analysis should be undertaken to support cost savings measures
98 that are aggressive in nature.

99 In this case, management determined that there was an excessive
100 employee level at RMP and the Committee is not challenging their
101 conclusion at this time. However, the Commission should be careful to
102 discourage employee reductions that may inappropriately diminish the
103 level of reliability or customer service.

104

105 **Embedded Cost Differential**

106 **Q. IN HIS DIRECT TESTIMONY, UAE WITNESS MR. HIGGINS RAISED**
107 **CONCERNS REGARDING THE COMPANY'S FAILURE TO REFLECT**
108 **THE IMPACT OF THE EMBEDDED COST DIFFERENTIAL ON THE**
109 **AMOUNT OF REGULATORY ASSET TO BE ESTABLISHED ON A**
110 **UTAH BASIS FOR THE POWERDALE UNDEPRECIATED**
111 **INVESTMENT AND DECOMMISSIONING COSTS. DOES THE**
112 **COMMITTEE SHARE HIS CONCERNS?**

113 A. Yes. At page 20 of his direct testimony, Mr. Higgins raises a concern that
114 RMP's proposal results in the regulatory asset for the unrecovered
115 Powerdale investment and decommissioning costs being established
116 based on Utah's share of the initial cost allocation under the Revised
117 Protocol interjurisdictional-allocation method without consideration of the
118 impacts of the Embedded Cost Differential ("ECD"). The application of the
119 ECD in the revenue requirement calculation results in additional
120 hydroelectric costs being assigned to the western side of PacifiCorp's
121 system to reflect the fact that western states primarily benefit from
122 hydroelectric resources. This reduces the amount of the Powerdale
123 unrecovered investment and decommissioning costs assigned to Utah.

124 At page 21 of his testimony, Mr. Higgins further states: "As the
125 regulatory asset should reflect what will probably be recovered in rates
126 from Utah customers, it should be established based on Utah's share of
127 western hydro costs after the ECD adjustment is applied, rather than
128 based on the initial allocation." (emphasis supplied) Since the Company
129 has not provided the information needed to estimate the appropriate
130 amount of deferral after application of the ECD, the Commission should
131 require RMP to provide its best estimate of the Utah amount after
132 application of the ECD, including all calculations and assumptions utilized
133 in deriving the estimated amount.

134

135 **Amortization Period for Powerdale Unrecovered Plant Costs**

136 **Q. IN HIS DIRECT TESTIMONY, AT PAGE 15, DIVISION OF PUBLIC**
137 **UTILITIES WITNESS DAVID THOMSON INDICATES THAT A “3 TO 5**
138 **YEAR AMORTIZATION WOULD APPEAR REASONABLE” FOR THE**
139 **UNRECOVERED POWERDALE PLANT COSTS. WHAT**
140 **AMORTIZATION PERIOD DID YOU RECOMMEND IN YOUR DIRECT**
141 **TESTIMONY?**

142 **A.** In my direct testimony, at page 26, I recommended (1) the amortization
143 period should be determined by the Commission in RMP's next rate case,
144 and (2) until the next rate case, the amortization should be based on
145 applying the 4.2% annual depreciation rate currently factored into rates to
146 the gross Powerdale plant balance. In the next rate case, the appropriate
147 amortization period for the remaining plant balance could then be
148 addressed.

149

150 **Q. IF THE COMMISSION DETERMINES THAT THE AMORTIZATION**
151 **PERIOD SHOULD BE SET AS PART OF A DEFERRED ACCOUNTING**
152 **ORDER, WOULD THE THREE-TO-FIVE YEAR PERIOD**
153 **RECOMMENDED BY MR. THOMSON BE REASONABLE?**

154 **A.** Yes, a three-to-five year amortization period for the net unrecovered
155 Powerdale plant costs remaining on the books at the time the amortization
156 begins would be reasonable. The Company should continue to amortize
157 the balance on its books based on the application of the 4.2% annual

158 depreciation rate to the gross plant amount, consistent with what is
159 currently factored into rates, until the Commission determines when the
160 shorter amortization period should begin.

161

162 **Q. DOES THIS COMPLETE YOUR PREFILED REBUTTAL TESTIMONY?**

163 **A. Yes.**