

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)

TESTIMONY OF
DONNA DERONNE
FOR THE COMMITTEE OF
CONSUMER SERVICES

September 10, 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. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.**

9 A. Larkin & Associates, PLLC, is a Certified Public Accounting Firm. The firm
10 performs independent regulatory consulting primarily for public
11 service/utility commission staffs and consumer interest groups (public
12 counsels, public advocates, consumer counsels, attorneys general, etc.).
13 Larkin & Associates, PLLC has extensive experience in the utility
14 regulatory field as expert witnesses in over 600 regulatory proceedings,
15 including numerous electric, water and wastewater, gas and telephone
16 utility cases.

17

18 **Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR**
19 **QUALIFICATIONS AND EXPERIENCE?**

20 A. Yes. I have attached Appendix I, which is a summary of my regulatory
21 experience and qualifications.

22

23

24 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

25 A. Larkin & Associates, PLLC, was retained by the Utah Committee of
26 Consumer Services (Committee) to review Rocky Mountain Power's (RMP
27 or the Company) applications for deferred accounting orders for costs of
28 loans made to Grid West, costs related to the MidAmerican Energy
29 Holdings Company transaction, and costs related to the flooding of the
30 Powerdale Hydro facility. Accordingly, I am appearing on behalf of the
31 Committee.

32

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

34 A. My testimony first addresses the accounting requirements associated with
35 the deferral of regulatory assets. I then address some of the statements
36 made in RMP witness Jeffrey K. Larsen's direct testimony filed in these
37 proceedings on August 8, 2007 regarding deferred accounting treatment
38 and the establishment of regulatory assets. I also address the
39 Committee's positions regarding the Company's requested deferred
40 accounting orders.

41

42 **Q. ARE ANY ADDITIONAL WITNESSES PRESENTING TESTIMONY ON**
43 **BEHALF OF THE COMMITTEE WITH REGARDS TO THE THREE**
44 **REQUESTS FOR ACCOUNTING ORDERS?**

45 A. Yes. Committee witness Cheryl Murray addresses several policy issues
46 relating to Rocky Mountain Power's requests.

47

48 **Q. HAVE THE PARTIES IN THIS PROCEEDING PREVIOUSLY BEEN**
49 **MADE AWARE OF THE COMMITTEE'S POSITIONS REGARDING THE**
50 **COMPANY'S ACCOUNTING ORDER REQUESTS?**

51 A. Yes. It is my understanding that the parties have been provided
52 memorandums prepared by the Committee containing its positions and
53 recommendations on each of the three requests for Accounting Orders.
54 These positions, which will be summarized later in this testimony, continue
55 to be supported by the Committee.

56

57 **ACCOUNTING REQUIREMENTS FOR REGULATORY ASSETS**

58 **Q. THE COMPANY HAS REQUESTED PERMISSION TO DEFER CERTAIN**
59 **COSTS RELATED TO LOANS MADE TO GRID WEST AND**
60 **SEVERANCE COSTS AS REGULATORY ASSETS FOR FUTURE**
61 **RECOVERY FROM CUSTOMERS. ARE THERE ANY SPECIFIC**
62 **PROVISIONS UNDER GENERALLY ACCEPTED ACCOUNTING**
63 **PRINCIPLES THAT ALLOW FOR THE DEFERRAL OF REGULATORY**
64 **ASSETS?**

65 A. Yes. Financial Accounting Standards No. 71 – Accounting for the Effects
66 of Certain Types of Regulation - allows regulated entities to establish an
67 asset (i.e., regulatory asset) on their books for certain types of costs that
68 would otherwise be required to be expensed in the current period if certain
69 criteria are met. FAS 71 also allows regulated entities to establish

70 liabilities (i.e., regulatory liabilities) on their books if certain criteria are met.
71 FAS 71 acknowledges that regulatory agencies, such as the Utah Public
72 Service Commission (Commission), will at times allow for the recovery of
73 costs in a period other than the period in which the cost was incurred or
74 would ordinarily be required to be charged to expense under Generally
75 Accepted Accounting Principles (GAAP). Under the pronouncement, if the
76 criteria contained in the statement are met, regulated entities may
77 establish assets on their books for costs to be recovered from customers
78 in a future period(s) or liabilities for amounts to be returned to customers
79 in a future period(s). These are typically referred to as regulatory assets
80 or regulatory liabilities.

81

82 **Q. WHAT IS THE CRITERIA UNDER FAS 71 FOR THE ESTABLISHMENT**
83 **OF A REGULATORY ASSET?**

84 A. Paragraph 9 of FAS 71 specifically states as follows:

85 9. Rate actions of a regulator can provide reasonable assurance of
86 the existence of an asset. An enterprise shall capitalize all or part
87 of an incurred cost that would otherwise be charged to expense if
88 both of the following criteria are met:

89 a. It is probable that future revenue in an amount at least equal
90 to the capitalized cost will result from the inclusion of that
91 cost in allowable costs for ratemaking purposes.

92 b. Based on available evidence, the future revenue will be
93 provided to permit recovery of the previously incurred cost
94 rather than to provide for expected levels of similar future
95 costs. If the revenue will be provided through an automatic
96 rate-adjustment clause, this criterion requires that the
97 regulator's intent clearly be to permit recovery of the
98 previously incurred cost.
99

100 Under FAS 71, future revenue at least equal to the amount being deferred
101 must be probable and the future revenue must be tied specifically to the
102 item being deferred as an asset. In addressing the definition of the term
103 “probable”, a footnote to FAS 71 indicates that the term probable is its
104 “usual general meaning” and cites the definition in Webster’s New World
105 Dictionary of the American Language, indicating it “...refers to that which
106 can reasonably be expected or believed on the basis of available evidence
107 or logic but is neither certain nor proved.”

108

109 **Q. DOES FAS 71 ALSO PROVIDE FOR THE ESTABLISHMENT OF A**
110 **REGULATORY LIABILITY?**

111 A. Paragraph 11 of FAS 71 addresses the imposition of liabilities on
112 regulated enterprises and the establishment of the liability on the entity’s
113 books.

114

115 **Q. IN HIS TESTIMONY, RMP WITNESS JEFFREY K. LARSEN**
116 **ADDRESSES THE FEDERAL ENERGY REGULATORY COMMISSION**
117 **(FERC) UNIFORM SYSTEM OF ACCOUNTS (USOA) AS IT PERTAINS**
118 **TO REGULATORY ASSETS AND LIABILITIES. WHAT INFORMATION**
119 **SPECIFIC TO THE USOA AND DEFERRED ASSETS DOES MR.**
120 **LARSEN PROVIDE?**

121 A. Beginning at page 3 of his testimony, Mr. Larsen provides the definition of
122 regulatory assets from the USOA, which is as follows:

123 Regulatory Assets and Liabilities are assets and liabilities that
124 result from rate actions of regulatory agencies. Regulatory assets
125 and liabilities arise from specific revenues, expenses, gains or
126 losses that would have been included in net income determination
127 in one period under the general requirements of the Uniform
128 System of Accounts but for it being probable:
129 A. that such items will be included in a different period(s) for
130 purposes of developing the rates the utility is authorized to
131 charge for its utility services; or
132 B. in the case of regulatory liabilities, that refunds to customers,
133 not provided for in other accounts, will be required.
134 18CFR 101, Uniform System of Accounts, Definition No. 30.
135
136

137 **Q. DOES THE USOA PROVIDE FURTHER GUIDANCE WITH REGARDS**
138 **TO REGULATORY ASSETS BEYOND THE DEFINITION CITED BY MR.**
139 **LARSEN?**

140 A. Yes. In addressing FERC Account 182.3 – Other regulatory assets, the
141 USOA indicates that the account will include regulatory-created assets not
142 includable in other accounts and references the above presented
143 definition of regulatory assets and liabilities. Under the description of
144 Account 182.3, the USOA also provides for the following:

145 The amounts included in this account are to be established by
146 those charges which would have been included in net income
147 determinations in the current period under the general requirements
148 of the Uniform System of Accounts but for it being probable that
149 such items will be included in a different period(s) for purposes of
150 developing the rates that the utility is authorized to charge for its
151 utility services. When specific identification of the particular source
152 of a regulatory asset cannot be made, such as in plant phase-ins,
153 rate moderation plans, or rate levelization plans, Account 407.4,
154 Regulatory Credits shall be credited. The amounts recorded in this
155 account are generally to be charged, concurrently with the recovery
156 of the amounts in rates, to the same account that would have been
157 charged if included in income when incurred, except all regulatory
158 assets established through the use of Account 407.4 shall be
159 charged to Account 407.3, Regulatory Debits, concurrent with the
160 recovery of the amounts in rates.

161

162 The description of Account 182.3 also provides that if recovery of all or a
163 portion of an amount included in the account is disallowed, the amount
164 disallowed should be written off to Account 426.5 – Other Deductions, or
165 Account 435 – Extraordinary Deductions in the year the disallowance is
166 determined.

167

168 **Q. PLEASE PROVIDE YOUR UNDERSTANDING OF THE SCOPE OF THE**
169 **COMPANY’S REQUESTS FOR DEFERRED ACCOUNTING IN THESE**
170 **DOCKETS.**

171 A. In RMP’s Statement of Position on its Pending Applications for Deferred
172 Accounting Treatment dated May 3, 2007, when addressing the scope of
173 review in its discussion of Grid West’s default on loans, the Company
174 states that it “...did not request a determination of ratemaking treatment,
175 whether the costs are appropriate for inclusion in rates, or a determination
176 of the amortization period.” The Company indicates that the scope of the
177 review should be “...simply whether the Company can establish a
178 regulatory asset in Account 182.3, thus preserving the Company’s
179 opportunity to request inclusion of this particular expense in its revenue
180 requirement at the time of the Company’s next general rate case.” In the
181 section of the Statement of Position pertaining to the Transition Costs, the
182 Company makes similar statements regarding the transition costs that
183 were not included in the prior rate case, Docket 06-035-21.

184

185 **Q. DOES THIS MEET THE CRITERIA FOR THE ESTABLISHMENT OF AN**
186 **ASSET UNDER FAS 71 OR FOR THE ESTABLISHMENT OF A**
187 **REGULATORY ASSET UNDER THE FERC USOA?**

188 A. In my opinion it does not. Under FAS 71, prior to establishing an asset for
189 costs that would otherwise be charged to expense in a different
190 accounting period, there has to be reasonable assurance that it is
191 **probable** that the regulator will allow the costs to be recovered in the
192 future. Additionally, the FERC USOA clearly indicates that regulatory
193 assets result from the action of regulatory agencies and that it be
194 **probable** the items under review will be included in different periods in
195 developing rates the utility is authorized to charge. Thus, in order for an
196 item to qualify as a regulatory asset under GAAP and under the FERC
197 USOA, it must be probable that the Commission will allow for the recovery
198 of the specific costs being deferred in rates in future periods.

199

200 Regarding the requests for accounting orders for the Grid West loan costs
201 and the severance costs, the Committee is challenging the
202 appropriateness of the establishment of regulatory assets and inclusion of
203 the costs in future rates.

204

205 **Q. IS IT TYPICAL FOR COMMISSIONS TO GRANT A UTILITY'S**
206 **REQUEST TO DEFER COSTS FOR CONSIDERATION IN A FUTURE**

207 **RATE PROCEEDING WITHOUT ALSO MAKING A DETERMINATION**
208 **REGARDING THE RECOVERABILITY OF SUCH COSTS OR**
209 **RESOLVING THE AMOUNT TO ULTIMATELY BE RECOVERED IN**
210 **RATES?**

211 A. Often in approving a request for an accounting order to defer costs for
212 future consideration, the Order approving the deferral will indicate that the
213 Commission is not yet making a determination of recoverability or the
214 amount to ultimately be recovered in rates and that such deferrals are
215 subject to future review. However, the approval and establishment of a
216 regulatory asset should not be taken lightly by a commission. If there are
217 significant issues regarding whether or not the costs are appropriate for
218 consideration in future rates, the Commission should not grant the request
219 with the intention that a decision regarding the treatment of such costs is
220 being deferred. The Commission has the ability to deny the request for
221 deferral. Although the Company indicates that it is not seeking approval
222 for inclusion of the costs in rates, the whole purpose of requesting the
223 deferral is to preserve the right to make its case in the future.

224 Timing

225 **Q. DO YOU HAVE ANY CONCERNS WITH THE TIMING OF THE**
226 **COMPANY'S REQUESTS FOR THE ESTABLISHMENT OF**
227 **REGULATORY ASSETS IN THESE CASES?**

228 A. Yes. Under GAAP, the Company should have already written-off the Grid
229 West loans prior to the current fiscal year, which is the year ending

230 December 31, 2007. Additionally, under GAAP, the Company should
231 have already expensed many of the severance costs in 2006 when the
232 amounts became known and certain. The Company's requests to now
233 establish regulatory assets for the Grid West loan costs and severance
234 costs are untimely.

235

236 **Q. WHY IS THE COMPANY'S REQUEST TO ESTABLISH THE**
237 **REGULATORY ASSET FOR THE GRID WEST LOAN COSTS**
238 **UNTIMELY?**

239 A. The Company was notified in April 2006 that Grid West would default on
240 its loan. However, prior to that date the Company was aware that default
241 was likely and filed deferred accounting applications for the Grid West
242 loan costs in several other states during the week of March 23, 2006. The
243 Company did not request a deferred accounting order in Utah at that time
244 and did not update its general rate case, which was filed in March 2006, to
245 include the loan default costs. The Company did not seek permission to
246 defer the loan costs as a regulatory asset in Utah until December 19,
247 2006, almost ten months after filing the requests in other states and after
248 the rate case settlement was approved in Utah. Given the December 19,
249 2006 filing date, the Company would not have had assurance from the
250 Commission regarding the probability of future recovery in rates of the
251 costs prior to closing its 2006 books for financial reporting purposes. As a
252 result, the Utah portion of the costs should have been written-off on

253 PacifiCorp's books by the end of 2006 for financial accounting purposes to
254 comply with GAAP.

255

256 **Q. PLEASE ADDRESS THE SEVERANCE COSTS AND WHEN SUCH**
257 **COSTS SHOULD HAVE BEEN EXPENSED ON ROCKY MOUNTAIN**
258 **POWER'S BOOKS.**

259 A. According to the Direct Testimony of RMP witness Jeffrey K. Larsen, the
260 Company has incurred an additional \$39 million of severance costs above
261 and beyond the \$6.4 million in severance costs considered in the last rate
262 case proceeding, Docket No. 06-035-21. These additional costs were
263 incurred over the period March 21, 2006 through May 2007. Many of
264 these costs were incurred and known during the Company's fiscal year
265 ended December 31, 2006. The request for an accounting order seeking
266 approval to establish a regulatory asset for the severance costs was not
267 filed by RMP until January 24, 2007. As the Company would not have
268 been able to make the determination that recovery in future rates of the
269 severance costs incurred during 2006 is probable, it should have
270 expensed the costs on its books during 2006. Based on a review of the
271 Company's latest 10-K filing, it appears the Company did in fact expense
272 the severance costs on its books during that period. According to the 10-
273 K, there was a \$26 million increase in O&M expenses resulting from
274 severance costs in the nine-months ended December 31, 2006 compared
275 to the nine-months ended December 31, 2005. Based on a recent 10-Q

276 report, O&M expenses in the six months ended June 30, 2007 included \$9
277 million of severance costs. Thus, investors have already realized the
278 impact of the severance costs for financial purposes as the amounts have
279 already been expensed on the Company's public financial statements.

280

281 **Q. IN HIS TESTIMONY, MR. LARSEN ADDRESSES WHETHER OR NOT**
282 **THE AMOUNT OF COSTS SHOULD BE CONSIDERED IN DECIDING IF**
283 **AN ITEM CAN BE DEFERRED. WOULD YOU CARE TO COMMENT**
284 **ON THIS ISSUE?**

285 A. Yes. Beginning at page 4 of his testimony, Mr. Larsen indicates that the
286 accounting standards do not require that an expense be material in
287 amount to be considered for deferral and that deferral is "...more
288 dependent upon the extraordinary nature of the event leading to the cost
289 than it is the magnitude of the cost."

290

291 Prior to approving a request for an accounting order to defer costs, the
292 Commission, in my opinion, should also take into consideration the
293 magnitude of the costs and other mitigating factors. Costs occurring
294 between rate case proceedings that are not material should, in most
295 instances, not be allowed for deferral. Many events occur in the normal
296 operations of a company that will differ from the costs factored in when
297 rates are set. In setting rates, the Commission will factor in a normal level
298 of expenditures. While the actual expenditures during a rate effective

299 period may differ from those considered at the time of the case, this does
300 not mean that the Company did not recover its costs during the rate
301 period. This is particularly true in the case of utilities in jurisdictions which
302 employ future test years in setting rates. Future test periods incorporate
303 many projections regarding costs and revenues, and what actually occurs
304 during the period are likely to differ from the forecasted amount. To defer
305 costs that occur between rate cases used in setting rates that do not
306 involve extraordinary events or material amounts would not be good
307 regulatory policy.

308

309 If the Commission allows deferral of costs incurred between rate case
310 proceedings that do not have a material impact on the Company, the
311 result would be to shift risk from shareholders to ratepayers. The
312 tendency of the Company will be to request deferral of costs as regulatory
313 assets between rate case proceedings, but not recognize and request
314 deferrals as regulatory liabilities of revenue increases or cost reductions
315 that occur between cases. Because Company management has the
316 fullest knowledge of its books and records, it is less likely that outside
317 parties and customers will be fully aware of cost savings or potentially
318 non-recurring revenues or credits that take place between test periods. In
319 fact, in the current proceeding, the Division of Public Utilities asked the
320 Company (DPU DR 2.2) to provide any refunds or credits that PacifiCorp

321 received in 2006 or 2007. The response stated: “Rocky Mountain Power
322 objects to this question as being overly broad and ambiguous.”

323

324 Mitigating Factors

325 **Q. YOU INDICATED THE COMMISSION SHOULD ALSO TAKE INTO**
326 **CONSIDERATION POTENTIAL MITIGATING FACTORS IN**
327 **EVALUATING WHETHER OR NOT TO GRANT A REQUEST FOR AN**
328 **ACCOUNTING ORDER. ARE THERE MITIGATING FACTORS IN THIS**
329 **CASE THAT SHOULD BE CONSIDERED BY THE COMMISSION IN**
330 **EVALUATING THE COMPANY’S REQUESTED DEFERRAL OF GRID**
331 **WEST LOAN COSTS?**

332 **A.** Yes. At the time of the last rate case proceeding, and during the
333 settlement discussions in that proceeding, RMP and the parties involved in
334 the case were aware of the default on the loan. In its filing, the Company
335 did not request deferral and amortization in rates of the loans made to
336 Grid West, nor did it include it in the supplemental testimony filed later in
337 the case. The deferral and amortization costs were not provided to the
338 parties during the various settlement negotiations. Additionally, the
339 forecasted test year costs included in the Company’s general rate case
340 filing included \$665,492 (Utah basis) of primarily labor costs associated
341 with Grid West. Since Grid West has been dissolved, these costs are no
342 longer being incurred by the Company, but at least a portion of the costs
343 remain in rates.

344

345 **Q. ARE THERE SIGNIFICANT MITIGATING FACTORS THAT SHOULD BE**
346 **CONSIDERED BY THE COMMISSION IN EVALUATING WHETHER OR**
347 **NOT TO ALLOW THE COMPANY'S REQUESTED DEFERRAL OF THE**
348 **SEVERANCE COSTS?**

349 A. Yes. According to Mr. Larsen's testimony (page 15), 270 employees have
350 been terminated as a result of the severance program, resulting in \$40
351 million of annual labor cost savings. According to Mr. Larsen, severance
352 costs for those employees were approximately \$46 million.

353

354 In the prior rate case proceeding, Docket No. 06-035-21, \$6.4 million (\$2.7
355 million on a Utah basis) of severance costs associated with 29 employees
356 terminated were included by the Company in calculating its revenue
357 requirement and were amortized within the request. According to the
358 Supplemental Direct Testimony of Thomas B. Specketer in the last rate
359 case, there was also a \$4.8 million (\$2.0 million Utah basis) reduction in
360 annual labor expense included in the filing associated with the 29
361 employee reduction. In other words, the annual labor-related expense
362 associated with the employees being terminated was removed. Thus,
363 when the Company added the amortization of the proposed severance
364 cost of \$6.4 million in the prior rate case, it also removed the associated
365 annual labor costs for those employees being terminated under the
366 severance program.

367

368 While the Company has requested a regulatory asset be established
369 related to the additional \$39 million of severance costs not considered in
370 the last rate case proceeding, it has not likewise requested deferral as a
371 regulatory liability of the associated annual labor cost savings. Assuming
372 Mr. Larsen's estimated annual labor costs savings of \$40 million for the
373 termination of 270 employees is accurate, then an additional annual labor
374 cost savings of \$35.2 million would result that was not factored into rates
375 set in the prior case (\$40 million - \$4.8 million factored into case). Under
376 the stipulation in the prior rate case proceeding, new rates will not go into
377 effect from a future rate case until August 2008 or later. From the time the
378 employees were terminated through the date new rates will go into effect
379 in the next general rate case (August 2008 at the earliest), the cost
380 savings associated with the severance program will substantially exceed
381 the severance costs incurred. Assuming the annual cost savings begin at
382 the mid-point of the severance period, or October 1, 2006 as indicated at
383 page 18 of Mr. Larsen's direct testimony, and assuming new rates from
384 the next rate case proceeding go into effect in August 2008, the Company
385 would have had the benefit of twenty-two (22) months of cost savings.
386 Based on annual savings not factored into the rate case of \$35.2 million,
387 the average monthly savings would be approximately \$2.93 million. If one
388 assumes the twenty-two months of cost savings identified above, the
389 potential regulatory liability at the time rates from the next case would go

390 into effect (potentially in August 2008) would be approximately \$64.46
391 million. This would exceed the \$39 million regulatory asset requested by
392 the Company by about \$25 million.

393

394 It would not be appropriate to allow the Company to defer a regulatory
395 asset for the severance costs for consideration in future rates without
396 requiring that the resulting labor cost savings also be deferred as a
397 regulatory liability through the date new rates go into effect. As the
398 regulatory liability would exceed the severance costs incurred, the net
399 impact would actually be a benefit to ratepayers, thus reducing future
400 rates. Clearly, the vast majority of the \$40 million of estimated annual cost
401 savings identified in Mr. Larsen's testimony were not included in the last
402 rate case.

403

404 **ANALYSIS OF INDIVIDUAL REQUESTS**

405 **Q. WOULD YOU PLEASE ADDRESS THE COMMITTEE'S POSITION FOR**
406 **EACH OF THE THREE ACCOUNTING ORDER REQUESTS?**

407 **A.** Yes. I will address each of the three requests below.

408 Cost of Loans to Grid West – Docket 06-035-163

409 **Q. DOES THE COMMITTEE AGREE THAT THE COMPANY'S REQUEST**
410 **TO DEFER THE COSTS ASSOCIATED WITH THE LOANS MADE TO**
411 **GRID WEST SHOULD BE APPROVED?**

- 412 A. No. The Committee's position is that the request to establish a regulatory
413 asset for these costs should be denied. There are a number of reasons
414 that the Company's request to defer the costs as a regulatory asset for
415 future recovery should be denied, many of which were presented by the
416 Committee to the parties in its position statement dated June 26, 2007.
417 The reasons cited within that statement, along with additional reasons
418 previously cited in this testimony, are included below:
- 419 - The costs the Company is seeking to defer, which are only \$1.1
420 million on a Utah basis, are not of a material nature and do not
421 significantly impact the Company's operations. Allowing the
422 deferral between rate case proceedings for future recovery of a
423 cost of such a small magnitude, would not be good regulatory
424 policy and could potentially open the door for the Company to file
425 numerous future requests for deferrals of regulatory assets, shifting
426 considerable risk to customers.
 - 427 - There was no official Commission approval of the Grid West
428 funding agreement. The Company voluntarily entered into the
429 Agreement committing to fund Grid West through loans to be repaid
430 at a future time with interest. The agreement was amended nine
431 times over a seven-year period. The Company is now attempting
432 to shift the burden of its decision to enter into and amend the
433 agreements, and the responsibility of the loan default, to its
434 ratepayers.

- 435 - The Company chose to file its prior rate case using a future test
436 year with the full understanding that neither it nor ratepayers can
437 predict the future with certainty and that actual costs, revenues and
438 capital investments in using a future test period will be based on
439 estimates and assumptions, with actual results likely to differ.
- 440 - It is normally inappropriate for RMP to request recovery of a single
441 ratemaking item that happens to differ between rate case
442 proceedings.
- 443 - There are mitigating factors that offset the costs, such as the fact
444 that the Company included \$665,492 on a Utah basis in its annual
445 expense projections in the prior rate case related to its participation
446 in Grid West, which is now defunct. Presumably the Company
447 would not now be incurring these costs, and therefore would
448 continue to receive some offset to the costs associated with the
449 default on the loan until new rates are set.
- 450 - The Company's Application, at page 3, indicates that one reason
451 for deferral of utility expenses is to match costs borne with the
452 benefits received. The Company has not demonstrated any benefit
453 to customers that match the presumed cost associated with the
454 default on the loan.
- 455 - The Company's request is untimely. As discussed previously in my
456 testimony, the Company was aware of the potential for default prior
457 to the filing of its application in the prior rate case proceeding, and

458 knew of the default soon after filing. The Company did not update
459 its schedules or request deferral or consideration during the course
460 of that proceeding or during the associated settlement discussions,
461 despite being fully aware of the issue and filing deferred accounting
462 applications in three other states.

463

464 For all of the reasons set forth above, the Committee recommends that
465 the Commission deny RMP's request to defer the \$1.1 million (Utah basis)
466 of loan costs, as well as the Company's request to accrue interest on the
467 unamortized balance.

468

469 Request to Defer Severance Costs – Docket No. 07-035-04

470 **Q. PLEASE BRIEFLY SUMMARIZE RMP'S REQUEST WITH REGARDS**
471 **TO THE TRANSITION-RELATED SEVERANCE COSTS.**

472 A. There are two separate components to the Company's request for deferral
473 of employee severance costs associated with the MidAmerican Energy
474 Holdings Company transaction. The first component is the Company is
475 seeking Commission authorization to continue to amortize approximately
476 \$2.7 million (Utah basis) in employee severance costs that were included
477 in the Company's Supplemental testimony and exhibits in the last rate
478 case filing, Docket No. 06-035-21. The Committee does not oppose the
479 Company's request with regards to these severance costs that were

480 considered by the parties in the prior rate case and matched with
481 associated labor expense savings.

482

483 **Q. WHAT IS THE SECOND COMPONENT OF THE COMPANY'S**
484 **REQUEST?**

485 A. The Company seeks permission to establish a regulatory asset to defer
486 severance costs resulting from the workforce reductions that were not
487 included in the Company's Supplemental Testimony in the previous rate
488 case filing. RMP requests deferral of an additional \$39 million of
489 severance costs associated with the termination of an additional 241
490 employees not factored into the previous rate case filing. These additional
491 terminations would have occurred between March 21, 2006 and May 23,
492 2007. It is the Committee's position that this second component should be
493 denied and that the Company not be permitted to defer these costs on its
494 books as a regulatory asset. Furthermore, the Company should be
495 precluded from requesting inclusion of these costs in its next rate case
496 proceeding.

497

498 **Q. WHY SHOULD THE COMPANY NOT BE ALLOWED TO ESTABLISH A**
499 **REGULATORY ASSET FOR THESE COSTS AND NOT BE ALLOWED**
500 **TO SEEK FUTURE RECOVERY OF THESE COSTS IN RATES?**

501 A. RMP should not be allowed to establish a regulatory asset for additional
502 severance costs for the following reasons:

- 503 - Allowing the Company to defer these costs for future recovery
504 would be the equivalent of single item ratemaking. Many changes
505 in the various ratemaking elements occur between rate case
506 proceedings. In utilizing a future test year, it is likely that actual
507 costs, revenues and investments will not be the same as the
508 estimates presented in the case. Some of the differences will favor
509 the Company and some of the differences will favor ratepayers. In
510 fact, in this instance there are mitigating factors associated with the
511 resulting labor cost savings that far outweigh the severance costs
512 incurred.
- 513 - There is a test year cost-benefit mismatch in the prior rate case.
514 Specifically, some of these costs and savings relating to severance
515 should have been known at the time of the last rate case, yet were
516 not presented to the parties.
- 517 - It is the Committee's position that the Company's deferred
518 accounting proposal violates MEHC Merger Commitment No. 22 in
519 Docket No. 05-035-54.¹ While on the surface there is no immediate
520 and direct impact on rates stemming from the Application, the
521 reality is that the Company overstated its labor expense in the test
522 year and retains that benefit until August 2008, and additionally

¹ MEHC Commitment No. 22 reads: MEHC and PacifiCorp guarantee that the customers of PacifiCorp will be held harmless if the transaction between MEHC and PacifiCorp results in a higher revenue requirement for PacifiCorp than if the transaction had not occurred; provided, however, that MEHC and PacifiCorp do not intend that this commitment be interpreted to prevent PacifiCorp from recovering prudently incurred costs approved for inclusion in revenue requirement by the Commission.

523 would have an opportunity to recover severance costs in a future
524 case if its Application is approved.

525 - As indicated above, the cost savings from the workforce reduction
526 will more than exceed the severance costs being paid. Based on
527 the amounts presented in Mr. Larsen's testimony, from the time of
528 the mid-point of the severance program through the date new rates
529 will go into effect (August 2008 at the earliest), the cumulative
530 savings to RMP associated with the labor related costs of the
531 employees that were terminated under the severance program will
532 be at least \$64.46 million. These are the portion of the projected
533 savings that were not factored into rates or presented by the
534 Company at the time of the last rate case proceeding. They also
535 do not include additional potential cost savings beyond the labor
536 costs, such as reduced building space needs, reduced rental and
537 vehicle costs, etc. While the deferral of the severance costs should
538 be denied, in the event they are allowed for deferral by the
539 Commission for future consideration, then the substantial cost
540 savings should likewise be deferred as a regulatory liability for
541 future consideration. The impact on ratepayers when new rates are
542 established should be a net benefit as the cumulative savings will
543 substantially exceed the severance costs.

544

545 For all of the reasons set forth above, the Committee recommends that
546 the Commission deny RMP's request to defer the additional severance
547 costs that are not included in current rates. The Committee also
548 recommends that the Commission at this time preclude the Company from
549 requesting recovery of the costs at the time of its next rate case
550 proceeding.

551

552 **Q. WHY SHOULD THE COMPANY BE PRECLUDED FROM REQUESTING**
553 **INCLUSION OF THESE COSTS IN ITS NEXT RATE CASE**
554 **PROCEEDING?**

555 A. There is a possibility that the Company will request a future test period in
556 its next rate case proceeding. In the event the future test period is
557 requested and is approved by the Commission, the severance program
558 costs associated with terminating the 270 employees will not recur in the
559 future test period. Therefore, it would not be appropriate to include the
560 historical costs for this item in the future test year.

561

562 **Q. WOULD YOUR ANSWER BE THE SAME IF THE COMMISSION**
563 **ELECTED TO USE EITHER A HISTORICAL (WITH KNOWN AND**
564 **MEASURABLE CHANGES), OR MIXED TEST PERIOD IN RMP'S NEXT**
565 **RATE CASE?**

566 A. Regardless of the test period utilized in the next rate case, it would still be
567 inappropriate to include the severance program costs because the savings

568 associated with the program that currently benefit shareholders until new
569 rates go into effect will exceed the costs.

570

571 Flooding of Powerdale Hydro Facility – Docket No. 07-035-14

572 **Q. COULD YOU PLEASE BRIEFLY SUMMARIZE THE COMPANY'S**
573 **REQUEST FOR AN ACCOUNTING ORDER FOR COSTS RELATED TO**
574 **THE FLOODING OF THE POWERDALE HYDRO FACILITY?**

575 A. The Company has requested an accounting order for costs related to the
576 flooding of the Powerdale Hydro Facility. RMP seeks an order to: 1)
577 transfer approximately \$8.9 million in undepreciated net investment, which
578 is currently being recovered in rates, from Plant in Service to FERC
579 Account 182.2 – Unrecovered Plant and Regulatory Study Costs; 2)
580 record \$6.3 million in estimated decommissioning costs in FERC Account
581 182.2; and 3) establish an amortization period for these amounts.

582

583 **Q. DOES THE COMMITTEE AGREE WITH THE COMPANY'S PROPOSAL**
584 **TO TRANSFER THE UNDEPRECIATED NET INVESTMENT TO**
585 **ACCOUNT 182.2 – UNRECOVERED PLANT AND REGULATORY**
586 **STUDY COSTS?**

587 A. Yes. The Committee agrees that it would be appropriate to allow the
588 Company to transfer the net book value at the time of transfer to FERC
589 Account 182.2 – Unrecovered Plant and Regulatory Study Costs.

590

591 **Q. WHAT IS THE COMPANY'S PROPOSAL REGARDING THE**
592 **AMORTIZATION OF THESE AMOUNTS?**

593 A. The Company initially proposes to amortize the net book value being
594 transferred at 4.2% in the near term and subsequently requests a change
595 in the rate once new depreciation rates are approved. The Company
596 anticipates requesting a three-year amortization period for the balance of
597 the unrecovered plant in that study.

598

599 **Q. DOES THE COMMITTEE AGREE WITH THE COMPANY'S PROPOSAL**
600 **TO AMORTIZE THE AMOUNT TRANSFERRED BY 4.2%?**

601 A. No, not without modification. The Committee recommends that the
602 amortization be based on the application of the 4.2% annual depreciation
603 rate to the gross plant amount, not the net amount transferred, until the
604 next rate case where the appropriate amortization period for the net book
605 balance remaining at that time can be addressed. The Company is
606 currently recovering depreciation expense on the facility in rates that was
607 determined based on the application of the depreciation rate to the gross
608 plant balance (i.e., amount recorded in Account 101 – plant in service), not
609 the net plant balance. The net plant balance to be transferred would
610 include the offset for accumulated depreciation, resulting in the
611 Company's proposed amortization being less than the depreciation
612 expense currently being recovered in rates for the facility.

613

614 **Q. PLEASE ADDRESS THE COMPANY'S REQUEST TO RECORD**
615 **APPROXIMATELY \$6.3 MILLION OF ESTIMATED DECOMMISSIONING**
616 **COSTS IN ACCOUNT 182.2 AND PROPOSED AMORTIZATION OF**
617 **THIS AMOUNT.**

618 A. The Company requested permission to record its estimated
619 decommissioning costs in Account 182.2 and to amortize this amount in
620 rates over a three-year period at the time of the next rate case. The
621 Committee agrees it would be appropriate to record the estimated
622 decommissioning costs in Account 182.2, thereby allowing the Company
623 to avoid writing off the costs on its books at this time. However, the
624 Committee does not agree that the recovery of the estimated
625 decommissioning costs from ratepayers should begin at the time of the
626 next rate case proceeding. Ratepayers should not be responsible for
627 funding these costs until such time as they are actually incurred by RMP.
628
629 According to RMP's application and Mr. Larsen's testimony, the Company
630 may not incur decommissioning costs until April 2010. If the Company is
631 permitted to include the amortization of the estimate in rates at the time of
632 its next rate case, assuming new rates go into effect August 2008 and
633 costs begin to be incurred in April 2010, the result would be that
634 customers would begin paying for decommissioning costs 21 months prior
635 to the costs being incurred. Ratepayers should not be required to pre-pay
636 these costs. Rather, the Company should begin to recover the costs after

637 they are actually incurred. This would allow for recovery of actual costs
638 instead of estimates and would allow for more certainty with regards to
639 potential offsets to the decommissioning costs prior to the costs being
640 included in rates.

641

642 **Q. WOULD YOU PLEASE ELABORATE ON THE POTENTIAL OFFSETS**
643 **TO THE DECOMMISSIONING COSTS?**

644 A. Yes. The Company's analysis of the cost effectiveness of repairing and
645 operating the facility versus retiring the facility included an assumption that
646 the maximum estimated property insurance payment of \$745,000 would
647 be received. Any insurance proceeds received should be used to offset
648 the decommissioning costs.

649

650 Additionally, the Company will transfer the reusable Powerdale Plant
651 assets to other Company hydro facilities at their net book value. There
652 may also be a salvage value for equipment, which has not yet been
653 determined. The Company has indicated in response to discovery that it
654 will assign salvage rights to the removal contractor to offset the removal
655 costs. These offsets have not yet been factored into the estimated
656 decommissioning costs.

657

658 In a 2003 settlement agreement² pertaining to the operation and
659 decommissioning of the facility, the Company agreed to convey its interest
660 in certain lands to a third party, and those lands have a value. If any
661 proceeds from the sale of lands associated with the facility or surrounding
662 area are received by RMP, those proceeds should be used to offset the
663 decommissioning costs. Additionally, since the Company has agreed to
664 convey certain lands to a third party, any tax benefit derived from the
665 conveyance should also be used to offset the decommissioning costs. In
666 the event any proceeds are received after the unrecovered net plant costs
667 and decommissioning costs are fully recovered, the amounts should still
668 flow back to ratepayers.

669

670 Deferral of recovery of the decommissioning costs until after such time the
671 costs are actually incurred would allow for more certainty with regards to
672 potential offsets to the decommissioning costs.

673

674 **SUMMARY OF RECOMMENDATIONS**

675 **Q. WOULD YOU PLEASE SUMMARIZE YOUR RECOMMENDATIONS?**

676 A. Yes. First, it is my opinion that the Company's requests with regards to
677 the establishment of regulatory assets for the Grid West loan costs and

² Parties to the settlement agreement include: PacifiCorp, National Marine Fisheries Service, United States Fish and Wildlife Service, Oregon Department of Fish and Wildlife, Oregon Water Resources Department, Oregon Department of Environmental Quality, Confederated Tribes of the Warm Springs Reservation of Oregon, American Rivers, and Hood River Watershed Group.

678 severance costs do not meet the criteria for the establishment of a
679 regulatory asset. Additionally, the Company's request for the deferral of
680 the Grid West loan costs and severance costs are untimely and there are
681 mitigating factors which would offset some of these costs. The
682 Company's requests to establish regulatory assets for the Grid West loan
683 costs and severance costs should be denied and the Company should be
684 precluded from requesting the severance costs in the next rate case
685 proceeding. If the Commission decides to establish a regulatory asset for
686 severance costs, it should correspondingly establish a regulatory liability
687 for the annual labor cost savings stemming from the severance program.

688

689 Regarding the Company's request for an accounting order for costs
690 related to the flooding of the Powerdale hydro facility, the Company's
691 proposal to transfer the undepreciated net investment to Unrecovered
692 Plant and Regulatory Study Costs (Account 182.2) should be granted, with
693 a modification to the amortization requested by the Company. The
694 Company should also be permitted to record the estimated
695 decommissioning costs in Account 182.2, but should not be permitted to
696 begin recovering the costs from ratepayers until they are actually incurred
697 and after the potential offsets are known.

698

699 **Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?**

700 A. Yes.