
BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority To Increase Its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations :

Docket No. 08-035-38

DIRECT TESTIMONY

OF

**DAVID T. THOMSON
STATE OF UTAH
DIVISION OF PUBLIC UTILITIES**

FEBRUARY 12, 2009

1 **Q. Please state your name and business address for the record.**

2 A. David T. Thomson. My business address is Heber M. Wells Building 4th Floor,
3 160 East 300 South, Salt Lake City, Utah 84114-6751.

4 **Q. For which party will you be offering testimony in this case?**

5 A. I will be offering testimony on behalf of the Utah Division of Public Utilities
6 (“Division” or “DPU”).

7 **Q. Please describe your position and duties with the Division of Public Utilities?**

8 A. I am a Technical Consultant. Among other things, I serve as an in-house
9 consultant on issues concerning the terms, conditions and prices of utility service;
10 industry and utility trends and issues; and regulatory form, compliance and
11 practice relating to public utilities. I examine public utility financial data for
12 determination of rates; review applications for rate increases; conduct research;
13 examine, analyze, organize, document and establish regulatory positions on a
14 variety of regulatory matters; review operations reports and ensure compliance
15 with laws and regulations, etc.; testify in hearings before the Utah Public Service
16 Commission (“Commission”); assist in analysis of testimony and case
17 preparation; and in the past I have participated in settlement conferences.

18 **Q. What is the purpose of your testimony?**

19 A. The purpose of my testimony is to put forth adjustments to various account
20 balances provided by Rocky Mountain Power (the “Company”) in its filing that
21 were used to determine its proposed overall revenue increase request of \$116.1
22 million, as set forth in the testimony of Steven R. McDougal (Exhibit SRM-2SS).

23 **Q. What areas in the filing were you assigned to review as part of your**
24 **examination and what other work did you do relating to the Company's**
25 **filing?**

26 A. I was assigned to review Taxes other than Income Taxes; Outside Services
27 expense (FERC Account #923); Rent expense (FERC Account #931);
28 Maintenance and General expense (FERC Account #935); Advertising expense
29 (FERC Accounts #909 and #930); New Resource prudence; and Miscellaneous
30 Plant. I was also assigned to manage the Division's audit team and to manage and
31 assist in the coordinating of the Division's audit consultants.

32
33 I also teamed with the Division's consultants on a limited review of Income
34 Taxes. I was involved with reviewing external auditor reports in conjunction
35 with my areas of assignment. I reviewed Company accounting records and
36 documentation directly related to the assigned areas of my review. I attended
37 meetings with Company personnel where accounting for specific FERC accounts
38 was reviewed and discussed. I attended a presentation and meeting about the
39 Company's coal operations and projections.

40
41 I reviewed general rate case testimony, filings and stipulations for other
42 jurisdictions regulating the Company to review whether adjustments and
43 settlements in those filings would or would not relate to the Utah filing.

44 **Q. How will you present your adjustments?**

45 A. I have three adjustments that I will discuss in the order of my attached DPU
46 Exhibits 4.1 to 4.3. These adjustments reduce expenses and costs to Pension
47 costs, Outside Services and Advertising expense.

48 **Q. Will you please describe your first adjustment as set forth in DPU Exhibit**
49 **4.1?**

50 A. Yes. This adjustment incorporates the provisions of the stipulated settlement
51 under Docket No. 08-035-93. In that stipulation the Company agreed to amortize
52 a \$40,519,000 pension curtailment benefit over three years beginning January 1,
53 2009. The Company agreed that the amortization benefit would be included in
54 the revenue requirement for this general rate case. The Company also agreed to
55 amortize a \$13,773,000 pension measurement date change transitional adjustment
56 over 10 years beginning January 1, 2008. The Company agreed that the second
57 year of the 10-year amortization occurring in 2009 would be reflected in the
58 Company's revenue requirement in this rate case.

59
60 However, these provisions of the settlement were not included in the \$116.1
61 million revenue requirement filing by the Company.¹ This adjustment is updating
62 the Company's revenue requirement filing for the settlement.

63
64 To arrive at the yearly benefit amortization amount, I divided the \$40,519,000
65 benefit by 3 years resulting in a yearly amortization in the amount of

¹ See page 16 – lines 338 to 352 of the Second supplemental Direct Testimony of Steven R. McDougal.

66 approximately \$13,506,000. To arrive at the yearly amortization amount for the
67 expense, I divided the \$13,773,000 by 10 years resulting in a yearly amortization
68 expense of approximately \$1,377,000. The netting of the benefit and the expense
69 amortization results from above is a benefit to ratepayers of approximately
70 \$12,129,000. Since this adjustment applies to Wage and Employee benefits it
71 must be allocated between utility labor and capitalized labor. The bottom portion
72 of Exhibit 4.1.1 shows that computation resulting in a utility labor adjustment
73 amount of \$8,669,171. I used the same labor percentage to total labor as the
74 Company used in its second supplemental filing.²

75

76 As part of my adjustment I have included an adjustment to taxes. I am not a
77 corporate income tax expert and so my adjustment relating to deferred taxes is my
78 best attempt to compute the results of this portion of the adjustment. If the
79 Company's corporate tax professionals arrive at a different result for the
80 Company's rebuttal testimony, I will review the Company's calculations and, if
81 necessary, will correct my results to the amount that is agreed to be correct. As is,
82 this adjustment reduces the Utah revenue requirement by approximately
83 \$3,349,021.

84 **Q. How did you arrive at this amount?**

85 A. My top sheet for this adjustment, which is Exhibit 4.1 of this testimony, was
86 provided to Matt Croft of the Division. He inputted this information into

² See Page 4.11.2 of RMP Exhibit SRM-2SS. Total utility labor (\$519,316,465) divided by total labor (\$726,822,985) is 71.45%.

87 adjustment tab 4.23 along with other applicable amounts from Division testimony
88 and exhibits relating to this tab. He then ran the adjustment in the JAM model to
89 arrive at the approximate amount of \$3,349,021 per the JAM Approximate
90 Revised Protocol Price Change (JRPPC). This same methodology of inputting top
91 sheets into the JAM model to arrive at adjustment results was used to determine
92 the approximate Utah revenue requirement results of my adjustments 4.2 and 4.3
93 which follow. The JAM model used and the computation results can be found as
94 an exhibit in the testimony of Division Witness Dr. Thomas Brill.

95 **Q. Is this adjustment one that reduces the non-power O&M escalated and**
96 **normalized 2009 future test year costs or the non-power O&M 2009 budget**
97 **target future test year costs?**

98 A. This adjustment reduces the total Company non-power O&M 2009 budget target
99 future test year costs. My other adjustments do not reduce the total Company
100 non-power O&M 2009 budget target amount but do reduce the revenue
101 requirement for the final Division adjusted budget amount for Utah because my
102 adjustments change how those total Company budget non-power O&M costs were
103 allocated to Utah from how they were allocated to Utah by the Company in its
104 second supplemental filing.

105 **Q. Will you explain your second adjustment as set forth in DPU Exhibit 4.2?**

106 A. This adjustment corrects the allocation of costs for Outside Services. For FERC
107 account 923, certain situs costs were understated for Oregon, Washington,
108 California, Utah and Wyoming as compared to the original allocation of costs put

109 forth by the Company in its December 2009 future test year filing in Docket No.
110 08-035-38 - the second supplemental filing. This understating of the situs costs
111 caused the system overhead (“SO”) allocated cost to be overstated.³ In the
112 Company’s allocation methodology, costs that are directly related to a specific
113 state are called situs costs. All situs costs are assigned to the state to which they
114 apply in determining jurisdictional costs. Or in other words, when costs are
115 determined to be situs, they are allocated 100% to the state for which they belong
116 for jurisdictional cost finding.

117 **Q. How did you determine the above?**

118 A. The Company in response to a DPU data request⁴ provided transaction accounting
119 detail for FERC account 923 – outside services on spreadsheets. The
120 spreadsheets have column headings. Those headings categorized and explain
121 each transaction for accounting and management purposes such as transaction
122 amount; FERC Account number; SAP account number: Vendor Name: Business
123 unit and so on.

124
125 By sorting and filtering this information, I arrived at outside service costs for just
126 legal consulting fees and services by vendor for the Pacific Power business unit
127 (Exhibit 4.2.1) and the Rocky Mountain Power Business Unit (Exhibit 4.2.2) for
128 the regulation cost objective. The Company’s Pacific Power Business unit
129 manages regulation activity for Oregon, Washington, and California. The

³ See Exhibits 4.2.1 and 4.2.2 for accounting details and explanations.

⁴ Specifically responses to DPU Data requests 36.3-1 and 36.3-2. This information when combined provided historical base year information for the 12 months ended June 2008.

130 Company's Rocky Mountain Business unit manages regulation activity for Utah,
131 Wyoming and Idaho.

132

133 I sorted to the legal and consulting fees transactions for regulation by legal vendor
134 because these services would be state-specific. The attorneys would work on
135 regulation services by state rate case or state commission proceeding or on a state
136 specific docket or consultation. Having legal services by management units in the
137 accounting records provides proper accounting for those services by regulation
138 and state. The Company is then able to track regulation legal services by unit
139 enabling it to determine its state-based business unit's specific regulation costs for
140 management, analysis and budget control. The accounting provided to the
141 Division, once sorted and filtered does provide this information.

142

143 For example by referring to my exhibits 4.2.1 and 4.2.2 you see that the
144 accounting has assigned legal fees for the vendor McDowell and Rackner to both
145 the Pacific Power unit and the Rocky Mountain Power unit for the twelve months
146 ended June 2008. During this period my exhibits show that this vendor did legal
147 services for both Pacific Power regulation and Rocky Mountain Power regulation.
148 And in fact, this vendor did Utah specific legal services for this period relating to
149 the last Utah rate case. This is evidenced by an attorney for the firm appearing on
150 behalf of the Company before the Utah Commission hearings held for that rate
151 case during May and June of 2008. Also, this Vendor's main office is in Oregon

152 and has been used in providing legal counsel to the Company for Oregon
153 regulation and has represented the Company in front of the Oregon Commission.
154 The assigning of legal costs to state-specific business units by the Company's
155 accounting strongly indicates an accurate portrayal of cost / benefit for such
156 services on a state-specific business unit by business unit.

157

158 In exhibits 4.2.1 and 4.2.2 there is a heading called location. Each transaction has
159 a location number. The location number is used by the Company to assign FERC
160 account costs directly to state jurisdiction or indirectly to general costs. State
161 location numbers are as follows: 103-California; 106-Idaho; 108-Oregon; 109-
162 Utah; 110-Washington; and 114-Wyoming. All other location numbers are
163 treated as general costs. General costs are allocated using allocation factors. For
164 outside services the allocation factor is the SO factor. In the Company's rate case
165 filings the total Company costs by FERC account are broken into individual state
166 costs and one general category cost. Arriving at Utah-specific costs by FERC
167 account is performed by taking the total company direct costs for Utah for the
168 applicable FERC account (location 109), if there are such costs, and adding to that
169 the allocated general costs (general costs are all cost with location numbers that
170 are not state location numbers). The general costs for Utah are obtained by
171 multiplying the total general cost by the Utah allocation factor (a percentage that

172 when added to all other state percentages equals 100%) assigned to the specific
173 FERC account being allocated.⁵

174

175 As I stated above, through filtering and sorting of accounting detail for FERC
176 account 923, one can obtain the proper amounts for legal regulation by state-
177 specific business units of the Company. Those state-specific direct costs should
178 be directly treated as situs costs when total costs are broken out to each individual
179 state. The remaining general costs for outside services should be allocated using
180 the applicable allocation factor for each specific state. In so doing you obtain the
181 correct state cost for each state jurisdiction for outside services.

182

183 A review of my exhibits 4.2.1 and 4.2.2 shows state-specific amounts paid to each
184 vendor for services for the Pacific Power states regulation and for the Rocky
185 Mountain Power states regulation. Adding those vendor costs together for states
186 regulation for the Pacific Power business unit the amount is \$1,164,571 and for
187 Rocky Mountain Power states the amount is \$407,584. Each amount can be
188 found at the bottom of Exhibits 4.2.1 and 4.2.2 respectively. If these costs were
189 erroneously assigned to general costs and not state-specific costs then the cost for
190 general allocation would be overstated and the state-specific costs would be
191 understated.

192

⁵ See tab 10 – Allocation factors of RMP Exhibit SRM-2SS for a list of all pro forma allocation factors.

193 This is exactly what happened in FERC Account 923 for legal services for state
194 regulation. If you review the location numbers for the costs in Exhibit 4.2.1 and
195 4.2.2 you see that the numbers are all 1 or 95. For state allocation purposes these
196 transactions and costs were treated by the Company as general costs. None of
197 these costs have the state-specific numbers. As explained above, these costs are
198 state-specific and should have been assigned to the state directly and not to
199 general expenses. The location numbers assign to these costs should have been
200 state location numbers and not numbers 1 or 95. By using 1 or 95, total general
201 allocation costs for legal services were overstated and the state-specific business
202 unit costs were understated. My exhibit 4.2 corrects this problem by reducing
203 general costs for the overstatement and by increasing state-specific business unit
204 costs for the understatement.

205 **Q. What is the result of this adjustment?**

206 A. This adjustment reduces the Utah revenue requirement by approximately
207 \$226,287. As explained in my exhibits and by the above testimony, in the
208 accounting provided for FERC account 923, the description or vendor name most
209 often indicated state regulation costs by business unit and not specific state. In a
210 limited case the specific State of Wyoming was identified. Due to this lack of
211 detail and to simplify the adjustment, I have put direct regulatory expenses of the
212 Rocky Mountain Power business unit to Utah unless the accounting explanations
213 provide the ability to assign the costs to a state other than Utah.

214 **Q. What is your Third Adjustment as set forth in DPU Exhibit 4.3?**

215 A. This adjustment corrects the allocation of costs for Advertising Expenses. For
216 FERC account 909 – Informational and Instructional Advertising, certain situs
217 costs were understated for Oregon, Washington, California, Utah, Idaho and
218 Wyoming as compared to the original allocation of costs put forth by the
219 Company in its December 2009 future test year filing for Docket 08-035-38 –
220 second supplemental filing. This understating of the situs costs caused the
221 customer-system (“CN”) allocated cost to be overstated.⁶

222 **Q. How did you determine the above?**

223 A. I used the same sorting and filtering methodology as explained above and
224 obtained a listing of advertising costs for FERC account 909 by business unit
225 vender by state-specific costs.⁷ As with legal costs, advertising costs for
226 regulation purposes by a vendor such as a radio station or newspaper only located
227 in a specific state can be accounted for by state. Account 909 has an accounting
228 cost objective category that accounts for transactions relating to GRC (“General
229 Rate Case”) expenses. Those advertising expenses can be sorted by state by
230 sorting the cost object column by account 112613-California, 112614-Idaho and
231 so on. This is because each state in the FERC account 909 accounting has been
232 assigned a specific number. DPU Exhibit 4.3.1 shows the results of just such a
233 sorting. I have totaled the state-specific GRC expenses in Exhibit 4.3.1. At the
234 end of the exhibit those state-specific GRC advertising costs total \$387,814.

235

⁶ See Exhibits 4.3.1 for accounting details and explanations.

⁷ The FERC account 909 transaction detail was provided to the Division in the Company’s Data Requests response 39.1. This response provided historical information for the 12 months ending June 2008.

236 Again, if you review the location number for these costs by reviewing the
237 numbers in the location column you see that all of these state-specific advertising
238 costs were given a general location number. In so doing these costs were treated
239 as general costs. They should have been given a state-specific location number.
240 As with the above adjustment 4.2, this would cause the total general advertising
241 costs for allocation to Utah to be overstated and the state-specific costs for
242 assignment / allocation to be understated.

243 **Q. What is the result of this adjustment?**

244 A. This adjustment reduces the Utah revenue requirement by approximately \$79,344.
245 As explained above, my situs determination is based on a state-specific cost
246 object sort. This enabled me to break out GRC advertising expenses in FERC
247 account 909 by specific state for my adjustment. My adjustment is shown in DPU
248 Exhibit 4.3. The overstated general allocation expenses are reduced by \$387,814
249 and each understated specific cost is increased. The state-specific amounts come
250 from the state subtotals in DPU Exhibit 4.3.1

251 **Q. Does this conclude your Testimony?**

252 A. Yes.