
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

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Docket No. 09-035-23

DIRECT TESTIMONY

OF

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

OCTOBER 8, 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”).

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 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 as provided by Rocky Mountain Power (the “Company”) in its filing
21 used to determine its proposed overall revenue increase request of \$66.9 million,
22 as set forth in the testimony of Steven R. McDougal (Exhibit SRM-2).

23 **Q. What areas in the filing where 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 directly review or to assist in the review of taxes other than
27 income taxes, the calculation of income taxes and the effect of new tax laws. I
28 also reviewed the following accounts: Property Taxes; Outside Services expense
29 (FERC Account #923); Injury and Damages (FERC Account # 925); Regulatory
30 Commission expense (FERC Account # 928); Rent expense (FERC Account
31 #931); Advertising expense (FERC Accounts #909 and #930); Airplane expenses;
32 Miscellaneous Plant; and Deferred Income Taxes. I was assigned to manage the
33 Division's audit team and to manage and assist in the coordinating of the
34 Division's audit consultant for revenue requirement.

35
36 I also teamed, on a secondary level, with the Division's revenue requirement
37 consultants on their review of employee compensation, salaries, wages, and
38 incentives; new resource prudence, pension costs and accruals, corporate
39 overhead allocations, affiliate transactions, working capital components, and other
40 rate base components. I was involved with reviewing external auditor reports in
41 conjunction with my areas of assignment. I reviewed Company accounting
42 records and documentation directly related to the assigned areas of my review. I
43 reviewed general rate case testimony, filings, and stipulations for other Company
44 regulated jurisdictions concerning matters of adjustment and settlement in those

45 filings that would relate to the Utah filing. I submitted data requests in
46 conjunction with my review and analysis.

47

48 In managing other audit team members, I assisted, directed, and suggested areas
49 where possible adjustments or corrections may be warranted and served as a
50 resource for answering questions and a sounding board for their analysis results
51 and proposed adjustments.

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

53 A. I have three adjustments and I will discuss them in the order of my attached DPU
54 Exhibits 4.1 to 4.3. These adjustments reduce the Budget Target Payroll Tax
55 Expense, Airplane Expense and Rent Expense.

56 **Q. Will you explain your first adjustment as set forth in DPU Exhibit 4.1?**

57 A. This adjustment is a housekeeping adjustment that corrects an over sight in the
58 Company's filing.

59

60 In its filing, the Company has made an adjustment to reduce its computed
61 adjusted total O&M non-power expenses for the test year to the budgeted non-
62 power cost O&M from its PacifiCorp 2008 10 year Plan. The Company explains
63 this adjustment in Exhibit RMP (SRM-2) pages 4.19; 4.19.1; 4.19.2; 4.19.3; and
64 4.19.4. On page 4.19.3 the Company reduces the 2010 total OMAG budget by
65 \$3.331 million dollars for additional labor savings. A reduction in labor costs
66 would also cause a reduction in the payroll taxes related to the payroll savings.

67 This reduction was not taken into account when the adjusted budget was
68 computed in the filing. DPU Exhibit No. 4.1 shows how the reduction was
69 computed. The reduction amount to the budget is \$94,037.

70

71 This reduction will need to be included as part of Division witness Matthew
72 Croft's adjustment 7.3.1 that is being made by the Division to better arrive at a
73 target budget amount for the future test year ending June 30, 2010. Please refer to
74 Mr. Croft's testimony for more a detailed explanation of adjustment 7.3.1.

75

76 **Q. What is your second adjustment as set forth in DPU Exhibit 4.2?**

77 A. This adjustment reduces airplane costs and expenses. The adjustment has two
78 categories: a rate base adjustment category and an operating expenses adjustment
79 category. This adjustment is explained in detail in DPU Exhibit 4.2. The rate
80 base adjustment is based on the fact that the Company's airplane was being used
81 for travel that should be considered both an above and below the line expense.
82 My adjustment assumes for the test year that the same ratio of above and below
83 the line travel will take place as it did in the base period. Based on the
84 Companies responses to data requests, I have computed a percentage of use for
85 each category of travel. Using the below the line percentage, I have computed
86 costs and depreciation expense amounts for the below the line percentage (See
87 exhibit 4.2.1). In the Company's filing the rate base costs and the depreciation
88 expense were treated as 100% above the line. If there has been or will be below

89 the line airplane travel during the test year, this is incorrect. All costs and the
90 depreciation related to below the line airplane travel should be disallowed and
91 should not be included in costs for determining the test period revenue
92 requirement.

93

94 For the airplane expense category, I am disallowing or correcting the allocation
95 of certain expenses related to airplane travel activity.

96

97 In various data requests, both, the DPU and the Utah Office of Consumer
98 Services (OCS) asked for detailed explanations and information on specific
99 Company airplane travel. Most of the specific requested information was for the
100 most costly trips and or trips that the parties felt needed greater explanation as to
101 how they benefited Utah ratepayers. These specific requests came after a review
102 of all airplane travel that was provided in response to OCS Data Request 5.7
103 which provided an itemization of all costs included in the test year associated
104 with the use of the Company owned plane. The detailed results of these specific
105 requests are found in DPU data request 33.6c and OCS data request 11.9a.
106 These are reproduced and included in my testimony as DPU Exhibit 4.2.2 and
107 4.2.3.

108

109 On those exhibits I have made certain adjustments and disallowances and have
110 explained and summarized the adjustments and disallowances at the bottom of

111 the Exhibits. Most of the adjustment amount relates to the allocation of the cost
112 of the trip as to whether it is a Situs (“S”) allocation trip that was treated as a
113 general – System Overhead (“SO”) allocated trip (adjustments number two and
114 five). Of these adjustments the determining factors were that the trip was to a
115 specific state and that the trip explanation provided by the Company had no
116 compelling proof or explanation that the trip benefited other states but that the
117 explanation appears to indicate benefit only to the state visited. In other words,
118 if the trip was to Wyoming to visit with the Wyoming governor and in the
119 explanation about the trip there is no compelling proof or explanation¹ that the
120 trip should be a general – SO allocated trip then the trip was determined to be
121 Wyoming Situs (directly assigned as Wyoming business or regulation) and the
122 SO allocated costs to Utah was disallowed.²

123
124 I have also adjusted the allocation of costs for those trips which from the
125 information provided by the Company appear to indicate, for the same reasons as
126 above, that the trip is Utah Situs. In DPU Exhibit 4.2.4, I have provided a copy
127 of page 4 from Exhibit B – Utah MSP Stipulation; Docket No. 02-035-04. On
128 page 4, it indicates that Administrative and General Expenses (FERC accounts
129 920-935) that can be directly assigned are assigned by S - Situs. Customer
130 related expenses are allocated by CN; General by SO; and FERC Regulatory
131 Expense by SG. In summary, my airplane expense category adjustments number

¹ See the explanation for trip number 16 on DPU Exhibit 4.2.2 related to an Idaho trip as an explanation example.

² See trip number 28 on DPU Exhibit 4.2.2 for an example.

132 two and five corrects the Company's incorrect SO allocation to the correct S
133 allocation factor for airplane costs per MSP guidelines.

134

135 My other adjustments are for costs that should be below the line (adjustments
136 number one, three, and four). In reading the explanation for these adjustments it
137 appears that these are trips related to stockholder matters or overhead, or trips the
138 company agrees should be below the line, or trips that are for costs that have
139 been adjusted out of prior rate cases such as costs related to the Company's effort
140 to get a new coal plant built at IPP.

141

142 The DPU estimates per Exhibit 4.2 that this adjustment will approximately
143 reduce the Utah allocated revenue requirement by \$87,000.

144

145 **Q. Will you please describe your third adjustment as set forth in DPU Exhibit**
146 **4.3?**

147 Yes, this adjustment removes rental expense of unused or vacant office space
148 booked during 2008 - the rate case base period. DPU Exhibit 4.3.1 outlines in
149 detail the unused office space and explains the specific adjustment amounts. The
150 information came from DPU data request 33.4. This adjustment is similar to an
151 adjustment made by the Company in Docket No. 08-035-38; Rent Expense
152 Adjustment 4.9 and by the Division in rate case dockets prior to 08-035-38. This
153 adjustment reduces the Utah revenue requirement by \$191,625.

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

155 A. Yes.