

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Utility Service Schedules and Electric Service Regulations)	DOCKET NO. 09-035-23
)	Exhibit No. DPU 7.0SR
)	Surrebuttal Testimony and Exhibits
)	Matthew Croft

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

**Testimony of
Matthew Croft**

November 30, 2009

1 **Q. Please state your name and occupation?**

2 A. My name is Matthew Allen Croft. I am employed by the Utah Division of Public Utilities
3 (“Division”) as a Utility Analyst.

4 **Q. What is your business address?**

5 A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84114.

6 **Q. On whose behalf are you testifying?**

7 A. The Division.

8 **Q. Are you the same Mr. Croft who filed direct and supplemental direct testimony in this**
9 **case?**

10 A. Yes.

11 **Q. What is the purpose of your surrebuttal testimony?**

12 A. The purpose of my surrebuttal testimony is to address the Company’s rebuttal of the
13 adjustments I proposed in direct and supplemental direct testimony.

14 **Q. Did the Company accept any of your adjustments?**

15 A. Yes. The Company accepted my adjustment to incorporate pro-forma revenues and expenses
16 into the lead lag study. The Company also accepted my adjustment to update the Company’s
17 rate base (electric plant in service, retirements, and accumulated depreciation) and
18 depreciation expense with actual plant additions through August 2009. My adjustment to
19 update the Trapper and Bridger Mines with actuals through August 2009 was also accepted
20 by the Company.

21 **Q. Which of your adjustments did the Company reject?**

22 A. The Company rejected my adjustment to situs assign the Washington Public Utility Tax
23 (WPUT) to Washington. The Company also rejected my adjustment to remove the costs
24 associated with the Keno, Cline Falls, and St. Anthony hydro facilities.

25 **Q. Are you still proposing adjustments related the WPUT and the removal of costs**
26 **associated with the three hydro facilities?**

27 A. I am withdrawing my adjustment to assign the WPUT situs to Washington rather than using
28 the System Overhead (SO) allocation factor. I am also withdrawing my adjustment to remove
29 the costs associated with the Keno development but I am still proposing to remove the test
30 year costs associated with Cline Falls and St. Anthony.

31 **Q. Will you please explain why you are withdrawing your adjustment to remove the**
32 **WPUT from Utah rates?**

33 A. Yes. The issue of Utah being allocated other states' specific taxes (other than income) was
34 brought up three months ago in a data request I sent to the Company. The Company has now
35 provided detailed and specific documentation showing that the treatment of allocating state
36 specific taxes including the WPUT was part of the Revised Protocol Stipulation. The
37 Company's response to DPU data request 64 provides documentation showing that the
38 Company's current treatment of the WPUT is consistent with Revised Protocol.

39 **Q. Will you please summarize that documentation in DPU data request 64?**

40 A. Yes. The allocation of the WPUT under an SO factor was specifically addressed in the
41 Rolled-In methodology that was filed by the Company on May 8, 1998 in response to the
42 Commission's order in Docket 97-035-04. The Commission's order in Docket No. 02-035-04
43 (MSP Stipulation) addressed changes to the Rolled-In methodology. There was no change

44 mentioned in the latter order relating to the treatment of the WPUT. Therefore, the Division
45 accepts that the system treatment of the WPUT as dictated in the Rolled-In methodology was
46 carried forward into Revised Protocol. By accepting the system allocation of the WPUT, I
47 have assumed the same expense lag for “Other Taxes” as filed in the Company’s lead lag
48 study.

49 **Q. Do you agree that the WPUT should be allocated using an SO factor?**

50 A. Not entirely. As stated in my direct testimony, this tax is derived from Washington related
51 income and the benefits of the tax go just to the residents of Washington. Mr. McDougal
52 mentions in his rebuttal testimony that the expense associated with state income taxes and
53 property taxes (which were not challenged in this case) is allocated system wide even though
54 the dollars paid only benefit one state. This idea ignores the fact that part of the calculation
55 of state income taxes in the JAM has system wide characteristics. In addition, the state
56 income tax associated with the “price increase”¹ in the JAM is only allocated to Utah. It also
57 ignores the fact that each state benefits from the generation facilities and other facilities from
58 which property tax is derived. There are no system wide characteristics associated with the
59 WPUT and there is no logical reason why this tax should be paid, even partially, by Utah rate
60 payers. Furthermore, the Company in this rate case is situs assigning eight state specific taxes
61 totaling more than \$25 million². I don’t see how the WPUT differs from these other state
62 specific taxes. Finally, and as pointed out in Ms. Ramas rebuttal testimony, the WPUT was
63 allocated 100% to Washington in the Company’s most recent Washington rate case. By
64 allocating the WPUT on an SO factor, the Company is potentially double recovering about

¹ The “price increase” is essentially the difference between the forecasted test year general business revenues and the test year general business revenues needed to meet the requested ROE.

² See RMP response to DPU data request 13.13

65 41% of the WPUT. Therefore, the Division anticipates that the allocation of state specific
66 taxes among the states will be an ongoing topic over the next several months as part of the
67 review of the Revised Protocol being undertaken by the MSP Standing Committee.

68 **Q. Will you please explain why you are dropping your adjustment concerning the Keno**
69 **development?**

70 A. Yes. The Company's rebuttal testimony demonstrated that operating the Keno development
71 is necessary to operate other generation facilities on the Klamath River. In order to maintain
72 their FERC license to operate facilities on the Klamath River, PacifiCorp is obligated to
73 operate the Keno Dam for regulation of the level of Lake Ewauna and the Klamath River.

74 **Q. Will you please explain why you are still proposing to remove the costs associated with**
75 **the St. Anthony and Cline Falls facilities?**

76 A. Yes. As mentioned in my direct testimony and stated by the Company in response to DPU
77 data request 25.1, the Company stopped operating the Cline Falls facility and does not
78 receive any power from it. In addition, Mr. McDougal states on lines 1284-1287 of his
79 rebuttal testimony that:

80 Due to the plant's current configuration it has been determined it would be in the
81 best interest of the Company and ratepayers to stop operating this plant rather
82 than to incur higher possible costs from running an inefficient operation.

83
84 Associated with the Cline Falls facility is a lease agreement with the Central Oregon
85 Irrigation District. The Company plans to uphold this lease until 2013 and then allow
86 it to expire. The Company may have a lease agreement in place, but rate payers no
87 longer receive a benefit from this low cost resource.

88 Similarly, the St. Anthony facility is being operated to meet a separate obligation with
89 no benefit to rate payers. St. Anthony is currently being operated to provide water to
90 the Egin Irrigation Canal (EIC). The Company is obligated to share the costs of the
91 EIC, but since the facility has a damaged turbine, it is not generating power and as
92 stated in the Company's response to DPU data request 45.3, the facility does not
93 benefit downstream generating facilities. The Company is also "considering all
94 options under a general timeline to resume a fully beneficial water right by December
95 2012."³ Currently, the St. Anthony facility does not provide power and it is not clear
96 that the Company will operate the facility in the future. Despite the Company's
97 obligation to share costs with the EIC, rate payers no longer receive benefit from this
98 low cost resource and therefore the costs associated with St. Anthony should be
99 removed from the test year. Removing the costs (rate base and expense) associated
100 with the Cline Falls and St. Anthony facilities from the test year reduces Utah's
101 revenue requirement by approximately \$70,000⁴.

102 **Q. Are you still proposing an adjustment to the Company's original Business Unit Target**
103 **adjustment?**

104 A. No. As stated by Mr. Brill in his surrebuttal testimony, the Division is accepting the
105 Company's reversal of the Business Unit Target adjustment. By reversing this adjustment my
106 adjustment to the Company's budget O&M expense is removed.

107 **Q. Does this conclude your testimony?**

108 A. Yes.

³ See McDougal Rebuttal Testimony, lines 1271-1273

⁴ See DPU Exhibit 7.8SR for the calculation of the adjustment numbers entered into the JAM