

Docket No. 11-035-200
DPU Exhibit 6.0 DIR-REV REQ
David T. Thomson
June 11, 2012

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. 11-035-200
	:	DPU Exhibit 6.0 DIR-REV REQ
	:	(REDACTED)
	:	
	:	

DIRECT TESTIMONY

OF

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

JUNE 11, 2012

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 \$172.3 million,
22 as set forth in the testimony of Steven R. McDougal (Exhibit SRM-3).

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. I also reviewed the following accounts: Salaries and Benefits;
28 Incentives; Property Taxes; Outside Services expense (FERC Account #923);
29 Rent expense (FERC Account #931); Advertising expense (FERC Accounts #909
30 and #930); Insurance costs and changes in insurance programs; Corporate
31 overhead allocations; regulated and non-regulated affiliated transactions and
32 allocations; Prepayments; Materials and Supplies; and Other Miscellaneous Rate
33 Base Items. I also reviewed the responses to data requests of other interveners in
34 this case and noted if the response impacted the revenue requirement in this rate
35 case. I was assigned to manage the Division's audit team.

36
37 I was involved with reviewing external auditor reports in conjunction with my
38 areas of assignment. I reviewed Company accounting records and documentation
39 directly related to the assigned areas of my review. I reviewed general rate case
40 testimony, filings, and stipulations for other Company regulated jurisdictions
41 concerning matters of adjustment and settlement in those filings that would relate
42 to the Utah filing. I submitted data requests in conjunction with my review and
43 analysis.

44

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

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

50 A. I have eight adjustments and I will discuss them in the order of my attached DPU
51 Exhibits 6.1 DIR-REV REQ to 6.8 DIR-REV REQ. These adjustments reduce
52 Distribution, Customer Account, Property Tax, Outside Services expenses and
53 Rate Base. I also have an adjustment that reduces Wage and Employee benefits.

54 **Q. Will you explain your first adjustment as set forth in DPU Exhibit 6.1 DIR-
55 REV REQ?**

56 A. In the Direct Testimony of Company witness Mr. Walje, page 10, lines 200-202,
57 states that the Company had reviewed its safety programs and eliminated
58 employee safety recognition gifts for Transmission and Distribution employees,
59 which resulted in a cost savings of approximately \$100,000 annually. The safety
60 recognition gift program was eliminated in January 2011. Since this cost has been
61 eliminated, if past recognition costs are in the June 2011 base year these costs
62 should be adjusted out of the base period so that they are not included in the May
63 2013 future test year through the Company's blanket escalation of base period
64 Distribution costs to May 2013. In other words, if the costs are left in the future
65 test year expenses then the cost savings is not recognized and becomes part of
66 future rates even though the recognition spending is no longer taking place.

67

68 In response to Office of Consumer Services (OCS) Data Request 14.2, the
69 Company provided the total amount of recognition expense in the base year and
70 in the adjusted test year for the individual recognition program that had been
71 eliminated on a total Company and a Utah jurisdiction basis. The total Company
72 future test year amount provided by the Company was \$106,506 and for the future
73 test year on the Utah jurisdictional basis the amount was \$51,221. For the reasons
74 stated above, I have adjusted this amount out of Distribution costs of the future
75 test year (See DPU Exhibit 6.1 DIR-REV REQ).

76

77 **Q. What is your second adjustment as set forth in DPU Exhibit 6.2 DIR-REV**
78 **REQ?**

79 A. In the Direct Testimony of Mr. Walje, page 10, lines 186-188, indicates that
80 the Company began processing customer electronic payments in-house in January
81 2012 and that the change "... saves the Company \$600,000 annually in vendor
82 fees." OCS Data Request 8.1 asked the Company to explain why the filing did not
83 include an adjustment to reflect these cost savings. In response, the Company
84 stated that it will reflect an adjustment in its rebuttal testimony.

85

86 The Vendor fees were paid to Fidelity National Information Services (FIS); all
87 fees paid to FIS were eliminated as of January 2012. In its response to the above
88 data request the Company provided the amount of transaction fees paid to FIS in

89 the base period. The amount was \$701,374. It also provided an estimated cost
90 savings analysis based on the monthly spend with the vendor for the period May
91 2010 to April 2011. The estimated savings for this period per the Company's data
92 request response was \$683,564. Since the savings is an estimate and the period
93 closely reflects the rate case base period, I have used this amount for my
94 adjustment to reflect this savings in the future test period by applying the
95 escalation factor for O&M costs used by the Company in its GRC filing. I will
96 amend this adjustment if more accurate amounts are provided by the Company in
97 its rebuttal testimony. My adjustment computations can be found in DPU Exhibit
98 6.2 DIR-REV REQ and results in a reduction to Utah jurisdictional customer
99 account expense of \$357,556.

100

101 **Q. Will you please describe your third adjustment as set forth in Exhibit DPU**
102 **6.3 DIR-REV REQ?**

103 A. In the Direct Testimony of Mr. Walje, page 10, lines 189-190, indicates that "The
104 Company has encouraged customers to switch to paperless billing, which reduces
105 costs and is good for the environment." The OCS in Data Request 8.2 asked the
106 Company to, "Please provide the Company's current best estimate of the total
107 additional projected savings in costs in the test year ending May 31, 2013 as
108 compared to those already realized in the base year ended June 30, 2011
109 associated with Utah customers switching to paperless billing."

110

111 Asking for, “additional projected savings in costs in the test year.....” assumes
112 that the number of Utah customers enrolling in the program is growing, and thus
113 the costs savings are also growing above cost savings already realized in the base
114 year, and this is the case. Per the Company’s response to the above mentioned
115 Data Request, as of June 2011, approximately 163,000 Utah customers were
116 enrolled in paperless billing. As of February 2012 approximately 192,000 Utah
117 customers were enrolled in paperless billing. The Response also shows that
118 during the test year period from June 2012 to May 2013 the estimated monthly
119 growth in enrollment to be from 2,000 Utah customers per month to 3,500 Utah
120 customers per month. The Company estimates that during the test period the
121 savings in costs to Utah customers will be \$90,240.

122

123 In reviewing the Company’s O&M adjustments in its filing, I can find no
124 adjustment to future test year O&M costs to reflect the future test year savings for
125 customer’s enrollment in paperless billing. Since enrollment in this program is
126 growing, an adjustment to reflect the incremental savings increase of this program
127 to the future test year is required. To use an unadjusted savings amount in the base
128 year would understate savings in the future test year. See Exhibit 6.3 DIR-REV
129 REQ for my adjustment computations. This adjustment reduces Customer
130 Account expense to the Utah Jurisdictional level in the amount of \$90,240.

131

132 **Q. Will you please describe your fourth adjustment to Wages and Employee**
133 **Benefits as shown in Exhibit 6.4 DIR-REV REQ?**

134 A. This adjustment updates amounts in the original filing. I have reviewed data
135 requests in the Utah and Wyoming current rate cases that asked for updating of
136 original information filed. After review, I found two updated amounts that
137 needed to be reflected in the Company's wage and employee benefit adjustment
138 4.2, as provided in the Company's original filing,

139

140 The first required update is to the Company's projected June 2012 percentage
141 increase of 2.00 percent in the Company's original filing (See RMP_ (SRM-3);
142 O&M Adjustments-tab 4; adjustment number 4.2; page 4.2.4) with the actual
143 percentage increase of 1.93 percent. The actual percentage increase was provided
144 by the Company in response to OCS Data Request 8.18.

145

146 The second required update is to revise 2012 Postretirement Benefits – FAS 106
147 (PBOP) expense. After reflecting the changes in actuarial assumptions and the
148 impact of actual 2011 assets and claims experience, the 2012 PBOP expense is
149 \$400,000 (before netting out joint venture). This is different than the amount
150 used in the original filing. The need for this update was confirmed in the
151 Company's response to DPU Data Request 44.2.

152

153 To compute the corrected salaries for the future test period, I first copied the excel
154 files used by the Company for its Wage and Employee Benefit Adjustment found
155 in Exhibit RMP_(SRM-3); O&M adjustments tab 4; adjustment 4.2. The
156 spreadsheets used in adjustment 4.2 are inter-related with cell computation results
157 being transferred between spreadsheets. I then changed the pay increase
158 percentage cells in page 4.2.7 from the 2.0 percent projected number to the 1.93
159 actual percent number for the Exempt and Non-Exempt labor groups. Making
160 this change generated a new normalized Composite Labor increase percentage
161 which can be found on spreadsheet 4.2.3 (percentage before update – 3.62%;
162 percentage after update – 3.59%). I then applied this new normalized percentage
163 increase to the excel spreadsheet provided by the Company in response to filing
164 requirement R746-700-20.C.3e in the Column in the spreadsheet entitled -
165 Escalation Percentage – July 2011 to May 2013 (where applicable). I also updated
166 the 2012 PBOP amount to \$400,000, as explained above, in this same
167 spreadsheet. This generated new subtotals in the last two columns of this
168 spreadsheet (See Spreadsheet Exhibit entitled – Pension Portion of 6.4.2 DIR-
169 REV REQ adjustment). I then transferred the applicable amounts from this
170 spreadsheet to excel spreadsheet 4.2.7. The inter-related spreadsheets then
171 generated the corrected Wage and Benefit amounts which I imputed into excel
172 spreadsheets 4.2.9 to 4.2.11 for the allocation to applicable FERC accounts. The
173 overall result of the correction adjustment is shown in the adjustment lead sheet

174 (4.2) to DPU Exhibit 6.4 DIR-REV REQ. On a jurisdictional basis, this
175 adjustment reduces Wage and Employee Benefits by \$242,906.

176

177 **Q. What is your fifth adjustment as shown in Exhibit 6.5 DIR-REV REQ?**

178 A. In OCS Data request 14.3, the Company has agreed that certain interest costs
179 related to the “DPEC” dispute should be removed. The Company states that it
180 will remove the costs in its rebuttal testimony. “The DEPC dispute” refers to the
181 federal lawsuit filed by Deseret Power Electric Cooperative against PacifiCorp
182 (Utah District Court Case No. 1:10-cv-00159-DN). My adjustment in Exhibit 6.5
183 DIR-REV REQ removes the interest cost and uses amounts provided by the
184 Company in OCS Data Request 14.3. The adjustment results in a reduction to
185 Utah jurisdictional customer account expense of \$196,515.

186

187 **Q. Please explain your sixth adjustment as shown in Exhibit 6.6 DIR-REV REQ.**

188 A. On December 9, 2011, the Company filed a General Rate Case in Wyoming using
189 a June 2011 base year (Docket No. 20000-405-ER-11). This is the same base
190 period used in the Company’s current Utah General Rate Case application. Thus,
191 base period costs are the same in both the Utah and Wyoming filings.

192

193 For both filings the base period total accrued property tax for the 12 months
194 ended June 2011 is shown as \$100,512,228¹. In the Utah filing, the estimated
195 property tax expense for the twelve months ended May 2013 is \$122,609,667
196 (see the same Utah Exhibit page 7.2.1). The total company incremental
197 adjustment to property tax is \$22,097,439 (\$100,512,228-\$122,609,667) and the
198 Utah allocated amount is \$9,469,549.

199
200 In the Wyoming General Rate Case, pursuant to an intervener data request, the
201 Company recognized that an error had been made when calculating the net
202 increase in property tax expense. The \$100,512,228 amount used was incorrect.
203 The correct amount of property tax expense recorded during the 12 month period
204 ending June of 2011 (the base period) is \$108,846,558. The Company has
205 confirmed in response to DPU Data Request 44.1 that this same error exists in its
206 Utah Application.

207
208 Because the base period property tax expense accrual is understated, the
209 incremental adjustment recorded in the Company's application to arrive at the
210 future test period estimated property tax accrual is overstated. The base period
211 understatement is \$8,334,330 (108,846,558-100,512,228). Using corrected
212 numbers, as provided by the Company to the DPU per the aforementioned Data
213 Request, a corrected adjustment for property tax for the future test period has been

¹ See RMP Exhibit (SRM-3) Page 7.2.1 – Utah GRC Docket No. 11-035-200. See RMP Exhibit (BSD) Page 7.2.1 – Wyoming GRC Docket No. 20000-405-ER-11.

214 computed (See Exhibit Nos. 6.6 DIR-REV REQ and 6.6.1 DIR-REV REQ). On a
215 Utah jurisdictional allocated basis the correction reduces property tax expense by
216 \$3,427,164.

217

218 **Q. What is your seventh adjustment as shown in Exhibit 6.7 DIR-REV REQ?**

219 A. Through a review of information provided by the Company in filing requirements
220 and Data Requests, I noted that the historical costs for certain legal expenses had
221 increased significantly in the historical base period June 2011 as compared to
222 prior historical legal expenses for twelve months fiscal and calendar years. The
223 specific accounts noted were Legal Consulting Svc. – Expert Witness Fees (SAP
224 account number 530094) and Legal Consulting Svc. – Costs (SAP account
225 number 530096)

226

227 DPU Exhibit 6.7.1 DIR-REV REQ shows the historical legal expense for the
228 above accounts as obtained from the aforementioned filing requirements and Data
229 Requests. As you can see from this Exhibit, there was a significant increase in
230 legal consulting costs and for expert witness fees in the base fiscal year as
231 compared to past fiscal years. The same is the case in comparing calendar years
232 for expert witness fees. At this time I have not obtained information for calendar

233 years for legal consulting costs, but I would be surprised if amounts on a calendar
234 basis did not also show significant increases².

235

236 In response to OCS Data Request 17.5 (some parts confidential), the Company
237 provided breakdown amounts and explanations as to what made up the base
238 period expert witness fees amount of \$1,397,556. The major driver of the
239 increase is the [REDACTED] matter [REDACTED] per Company response
240 to OCS Data 17.5 – expert witness cost only). One could assume that the increase
241 in Legal Consulting Service - costs is also probably related to the [REDACTED]
242 matter³. [REDACTED]

243 [REDACTED]. From my Exhibit 6.7.1 DIR-REV REQ you can
244 see that during the six months ended December 31, 2011 total expert witness costs
245 were approximately [REDACTED]⁴ and for the three months ended March 2012 the
246 same total costs were [REDACTED]. Clearly Expert Witness costs are decreasing in
247 periods after this case was concluded. Again, I would be surprised if Legal
248 Consulting Service – Cost had not decreased also, but I cannot be sure without
249 additional historical cost detail being provided by the Company through a Data
250 Request⁵. Annualizing the above six month ([REDACTED]) and three month

² I have requested a data request to verify this assumption, but will not receive it before the filing of this testimony. My future testimony and or assumption may be modified in rebuttal or surrebuttal based on the Company's response to the data request.

³ See comment to footnote 2 above.

⁴ See computation for this amount in DPU Exhibit No. 6.7.1 DIR-REVREQ.

⁵ See comment to footnote 2 above.

251 (██████████) amounts generates approximate yearly totals ranging from ██████████
252 to ██████████ for the years ending June 2012 and December 2012, respectively.

253

254 With this one-time event's expenses in base period, the legal consulting service
255 costs and expert witness cost combined are \$2,571,180 (\$1,397,556+\$1,173,624).

256 For the year ending June 2010 and 2009 the combined costs are \$751,037 and
257 \$42,102, respectively. Analysis indicates that the ██████████ matter expenses are

258 non-recurring costs (and a review of other costs in this period perhaps indicates
259 other existing non-recurring or non-normal costs in this base period⁶), that should

260 be adjusted out of base rates through a normalizing entry to arrive at a normalized
261 level of future test year expenses for the impacted SAP accounts.

262

263 Looking at the average costs of legal consulting costs and expert witness expense
264 in prior years, the Division believes that a fair future test period combined

265 expense for these expenses would be around \$600,000 to \$850,000 not the

266 \$2,684,312 (\$2,571,180 x 4.40% escalation rate) that is now in future rates and

267 which are overstated due to non-recurring expenses. At the bottom of DPU

268 Exhibit 6.7.1 DIR-REV REQ are my computations to normalized legal consulting

269 service cost and expert witness costs. On a Utah Jurisdictional basis, this

270 adjustment reduces Outside Services Expense by \$786,069.

271

⁶See the Company's response to OCS Data Request 17.5(b) - Specifically ██████████ and ██████████ matters and their costs that may be non-recurring or disallowed costs in the base period.

272 **Q. Please explain your final adjustment as shown in Exhibit 6.8 DIR-REV**
273 **REQ?**

274 A. Again, just as a reminder, the historical base period for the Utah and Wyoming
275 current general rate cases are the same. For this adjustment, I am adopting a
276 Wyoming adjustment that the Company provided in its rebuttal testimony as a
277 DPU adjustment in this Utah rate case.

278

279 One of the interveners in the Wyoming general rate case proposed, in direct
280 testimony, an adjustment to the Plant Held for Future Use (PHFU) costs in Rate
281 Base. The adjustment proposed to removed the balances included in PHFU for
282 several coal, wind, and transmission projects that were included in the Base
283 Period. The contention of the adjustment was that these projects' expected use
284 date is too far out for the planned uses to be considered certain.

285

286 In rebuttal testimony, the Company agreed to remove, in part, PHFU balances
287 associated with the transmission and wind projects identified in the proposed
288 adjustment. The DPU is adopting the Company's Wyoming rebuttal adjustment
289 for this Utah general rate case, as a placeholder. The DPU in a data request has
290 asked the Company to confirm whether or not this Wyoming adjustment is
291 applicable to Utah, and if not why not. Based on the response to the data request
292 on this matter, the DPU may update or revise this adjustment in its rebuttal

293 testimony. This adjustment reduces rate base by \$4.8 million on a Utah allocated
294 basis (See DPU Exhibit 6.8 DIR-REV-REQ).

295

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

297 A. Yes.