

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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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	)	<b>DOCKET NO. 11-035-200</b>
	)	<b>DPU Exhibit 5.0 Dir-Rev Req</b>
	)	<b>Direct Revenue Requirement</b>
	)	<b>Testimony and Exhibits</b>
	)	<b>Matthew Croft</b>
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**FOR THE DIVISION OF PUBLIC UTILITIES  
DEPARTMENT OF COMMERCE  
STATE OF UTAH**

**Direct Revenue Requirement Testimony of  
Matthew Croft**

**June 11, 2012**

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, 84111.

6 **Q. Please describe your education and work experience.**

7 A. I graduated in December of 2007 from the University of Utah with a Bachelor of Arts degree  
8 in Accounting. I completed my Masters of Accounting at the University of Utah in May  
9 2010. I began working for the Division in July of 2007. In April 2012 I became a Certified  
10 Public Accountant, licensed in the state of Utah.

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

12 A. The purpose of my testimony is to explain adjustments to Rocky Mountain Power’s  
13 (“Company”) revenue requirement. I will first discuss the Division’s approach for reviewing  
14 Company adjustments 8.6 (Plant Additions and Retirements), 6.1 (Depreciation Expense),  
15 and 6.2 (Accumulated Depreciation) and how the Division updated these adjustments. I will  
16 refer to these updates as “DPU Updates”. I will then address specific adjustments outside of  
17 the DPU Updates. These other specific adjustments relate to plant additions, excess  
18 depreciation expense and the lead lag study. These adjustments along with all other Division  
19 adjustments were entered into the Company’s revenue requirement model (JAM). The  
20 Division’s JAM is included with my testimony as DPU Exhibit 5.11. Also included with my  
21 exhibits are the calculations used to derive the specific JAM adjustments associated with the  
22 plant addition adjustments proposed by the Division’s consultant Mr. Richard Hahn of La

23 Capra Associates. I will refer to these adjustments as “La Capra Adjustments.” Mr. Hahn  
24 discusses the concepts and principals behind the adjustments as well as the initial reductions  
25 to plant that were used in my calculations. These calculations are shown in DPU Exhibit  
26 5.12.

27 **Q. Will you please summarize the impact of your adjustments on Utah’s revenue**  
28 **requirement?**

29 A. Yes. The table below summarizes the impact of the adjustments I am proposing.

30 **TABLE 1**

Adjustment Summary		
	Reference	Approx Revenue Requirement Adjustment
DPU Updates		
Plant Additions and Retirements	DPU 5.1	1,503,705
Depreciation Expense	DPU 5.2	531,262
Accumulated Depreciation	DPU 5.3	(690,105)
Accumulated Deferred Income Tax		TBD by RMP
Small Hunter Overhaul Projects		
Bridger and Trapper Updates	DPU 5.4	(203,994)
Ben Lomond Transformer	DPU 5.6	378,366
U2 Duct Replacements	DPU 5.7	(105,757)
Excess Depreciation From Removal Costs	DPU 5.8	(117,064)
Lead Lag Study Adjustments	DPU 5.5	(375,665)
	DPU 5.9	128,608

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32 **Q. Will you please explain how the Division reviewed Company adjustments 8.6, 6.1 and**  
33 **6.2 and how the Division updated those adjustments?**

34 A. Yes. The Company’s forecasted period filing includes 1,206 plant addition projects that total  
35 approximately \$2.6 billion. These plant additions come in the form of specific projects or  
36 generic/blanket type projects. These projects affect electric plant in service (EPIS),  
37 depreciation expense, and accumulated depreciation. Other items such as removal costs,

38 retirements, and miscellaneous depreciation expense also affect EPIS, depreciation expense  
39 and accumulated depreciation. The first step in our review was to develop an Excel template  
40 that would “check” the Company adjustments 8.6, 6.1 and 6.2. This template used the same  
41 inputs and methodologies used by the Company. This check resulted in the same adjustments  
42 as were determined by the Company. This check can be seen in the “Scenarios” tab of DPU  
43 Exhibit 5.10. The second step was to update the Company’s adjustments 8.6, 6.1 and 6.2 with  
44 actual plant additions,<sup>1</sup> actual retirements,<sup>2</sup> actual removal costs, actual vehicle depreciation  
45 expense, actual hydro decommissioning payments and depreciation and actual miscellaneous  
46 depreciation through March 2012. The third step was to recalculate the Company’s filed  
47 retirement rates using a 5 year average as opposed to the Company’s 4.75 year average. The  
48 Company’s 4.75 year average used a 9 month period (April 2006 to December 2006) and  
49 four calendar years (2007-2010). In order to provide a cleaner average, and since more recent  
50 data was available through 2011, I used a 5 calendar year (2007-2011) average. Using this  
51 revised average slightly lowers Utah’s revenue requirement by approximately \$33,000<sup>3</sup>. The  
52 fourth step was to update the April 2012 to May 2013 plant addition forecast based on the  
53 actual plant additions through March 2012 and the Company’s revised forecast for several  
54 projects.<sup>4</sup> Steps 2 through 4 are what constitute the DPU Updates. The DPU Updates  
55 calculations are shown in the “DPU Exhibits 5.1 to 5.3\_DPU Updates” excel file included

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<sup>1</sup> These actual costs include two projects that were not part of the original filing. The Company did provide supporting documentation for these projects. The total of both projects combined is about \$4.2 million.

<sup>2</sup> Note: the February 2012 retirements are used for the March 2012 accumulated depreciation and EPIS balances.

<sup>3</sup> The revised retirement rates are embedded in the DPU Updates adjustment (EPIS, Depreciation Expense, and Accumulated Depreciation). However, an approximate revenue requirement change can be determined by going to the “Scenarios” tab in the “DPU Exhibits 5.1 to 5.3\_DPU Updates” Excel file and switching the retirement rates (cell BI6) between “1” and “2”.

<sup>4</sup> See the “Revised Apr12-May13 Forecast” tab in the “DPU Exhibits 5.1 to 5.3\_DPU Updates” Excel file. These updates are based on the Company’s response to DPU Data Request 32.

56 with my testimony. This Excel file contains a worksheet showing how the various  
57 components (plant additions, retirements, depreciation expense, etc.,) flow together. The fifth  
58 step consisted of a general review by the Division and its consultant to see if there was  
59 supporting documentation (approval requisition forms, project change notices, analysis,  
60 spreadsheets, etc.) for each project greater than \$5 million that were not part of the pollution  
61 control investments included in the stipulation in the previous general rate case. This same  
62 general review was also performed for the projects not included in the Company's original  
63 filing but that were part of the DPU Updates<sup>5</sup>. The projects greater than \$5 million account  
64 for approximately 69% of the total forecasted plant additions for the period July 2011  
65 through May 2013. Based on this review, and with the few exceptions explained by Mr.  
66 Hahn, supporting documentation was provided for each one of these \$5 million projects. The  
67 sixth step consisted of a more detailed review of a sample of projects. This more detailed  
68 review was primarily performed by the Division's consultant La Capra. La Capra's more  
69 detailed review included both specific and generic/blanket type projects of varying dollar  
70 amounts. Mr. Hahn provides testimony with regards to the conceptual basis for adjustments  
71 associated with this more detailed review. As was mentioned previously, I have prepared the  
72 specific JAM adjustment inputs that reflect the La Capra Adjustments. It should be noted that  
73 the DPU Update Adjustments were performed first, followed by the La Capra Adjustments.  
74 For example, suppose a \$1 million project was reduced through the DPU Updates by

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<sup>5</sup> There were two projects included in actual plant additions that total \$4.6 million. The Company's revised April 12 to May 13 forecast includes six new projects that together total \$9.4 million.

75 \$100,000. If La Capra proposed to remove this project completely, the La Capra adjustment  
76 would be \$900,000. Thus, in total, \$1 million would be removed from rate base.<sup>6</sup>

77 **Q. What were the results of the DPU Updates?**

78 A. As can be seen in Table 1 above, the DPU Updates resulted in Utah's revenue requirement  
79 increasing by \$1,344,861. The Division is not able to calculate the deferred tax effect of these  
80 adjustments but believes the Company should calculate the deferred tax effect should the  
81 Commission accept the DPU Updates.

82 **Q. Have similar DPU Updates been proposed in previous rate cases?**

83 A. Yes. Sometimes these updates result in a revenue requirement increase and sometimes they  
84 result in a revenue requirement decrease. In addition, the Company agreed in the stipulation  
85 in Docket No. 10-035-124 to update its filing with actual plant additions.

86 **Q. Will you please explain your adjustment to the small Hunter overhaul projects?**

87 A. Yes. The Division receives actual plant additions from the Company on a functional basis as  
88 well as an individual project basis. However, actual costs for individual projects are only  
89 received for projects greater than \$1 million with "non- Various" in-service dates.<sup>7</sup> Included  
90 in the specific project actual costs through March 2012 were five large projects (each with a  
91 "Hunter 303" designation) that came into service early due to the early completion of the  
92 Hunter Unit 1 overhaul. These projects were originally anticipated to be placed into service  
93 between April 2012 and July 2012. In reviewing the Company's filed plant additions it

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<sup>6</sup> For the generic/blanket or various in-service date type projects included in the La Capra adjustments, the Division assumed the original forecasted amounts. Specific updates concerning some these projects were received late afternoon on June 1, 2012 and have not been incorporated into this testimony. The Division plans to update the La Capra Adjustments associated with these projects on subsequent rounds of testimony.

<sup>7</sup> If actual costs for specific generic/blanket projects or projects under \$1 million are requested, the Company does provide the information.

94 appears there are several small “Hunter 303” plant additions that were also anticipated to be  
95 placed into service in the April 2012 to July 2012 time period. In total there are nine projects  
96 that amount to \$3.9 million. It appears to me that these projects were part of the Hunter Unit  
97 1 overhaul that was completed early. Therefore, I am reducing the April 2012 to July 2012  
98 forecast from the DPU Updates for these small projects. This reduces Utah’s revenue  
99 requirement by \$203,994. The calculations for this adjustment can be seen in DPU Exhibit  
100 5.4.

101 **Q. Will you please explain your Bridger and Trapper mine updates?**

102 **A.** Yes. Both the Bridger and Trapper mines were updated with actual rate base changes through  
103 March 2012. The original forecasted monthly changes to rate base between April 2012 and  
104 May 2013 were used to developed the revised May 2012 to May 2013 balances. Since the  
105 original March 2012 forecasted balance was not available, an average of forecasted and  
106 actual rate base changes was used to develop the April 2012 balance. These calculations are  
107 shown in DPU Exhibit 5.6. These updates increase the combined rate base for the mines by  
108 about \$8.5 million. This increase results in a Utah revenue requirement increase of \$378,366.

109 **Q. Will you please explain your adjustment involving the Ben Lomond Transformer in-**  
110 **service date?**

111 **A.** Yes. The Company’s response to DPU Data Request 2.29-3 contains supporting  
112 documentation for the “Ben Lomond 345/138 #2 transformer 450 MVA” project. Included  
113 with the supporting documentation are two change orders. The first change order moved the  
114 in-service date for this project from May 1, 2012 to June 30, 2012. The second change order

115 moved the in-service date from June 30, 2012 to December 1, 2012<sup>8</sup>. The Company's filing  
116 shows the in-service date in August 2012. I have moved the in-service date for this project  
117 from August 2012 to December 2012 in order to comply with the most recent change order.  
118 This in-service date change results in a decrease to Utah's revenue requirement of \$105,757.  
119 The calculations for this adjustment are shown in DPU Exhibit 5.7.1 to 5.7.2.

120 **Q. Will you please explain your adjustment to the U2 Duct Replacements?**

121 A. Yes. In response to DPU Data Request 32, the Company provided a revised forecast for some  
122 of its plant additions. One of those additions included a new project that was not in the  
123 original filing called "U2 Duct Replacements." This project will be placed into service at the  
124 Huntington power plant. The Company did provide supporting documentation for this project  
125 but I do have some concern over whether it should be included in rate base. The Company's  
126 supporting documentation<sup>9</sup> states that this project is to "repair and replace all components  
127 damaged in Unit 2 coal mill explosion." The documentation further states:

128 Unit 2 had a failure of all five coal pulverizers. An explosion completely destroyed all the  
129 primary air inlet ducts and associated dampers/valves, approximately 80% of the grating and  
130 handrail, approximately 50% of all instrument air and electrical lines and other such located  
131 auxiliaries, approximately 90% of all wall sheeting and associated lagging and insulation on  
132 south and west walls, and 100% of all steam inerting tie-ins.  
133

134 Apparently the damage was significant enough to take the unit offline. The supporting  
135 documentation states that "this work must be completed to bring the unit back on-line and to  
136 deem work area to be a safe working environment." The in-service date included in the  
137 spreadsheet attachment to DPU Data Request 32 is May 2012. The supporting documentation  
138 does not explain what the cause of the explosion was or if the Company is at fault for what

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<sup>8</sup> See DPU Exhibit 5.7.3 to 5.7.4.

<sup>9</sup> See DPU Exhibit 5.8.3



139 happened. There is also no mention of insurance covering any of the costs. Since there are no  
140 explanations for the cause of the explosion, I am removing this project from the DPU  
141 Updates. A data request has been sent to the Company concerning the cause of the explosion.  
142 This adjustment may change based on the Company's data request response or their rebuttal  
143 testimony. The total project cost is \$2.1 million. The calculations for this adjustment are  
144 shown in DPU Exhibit 5.8.0 to 5.8.2. This adjustment reduces Utah's revenue requirement by  
145 \$117,064.

146 **Q. Can you please explain your adjustment related to excess depreciation expense?**

147 A. Yes. In doing so, I will first explain the difference between project costs related to gross plant  
148 additions and those related to removals. When a project is placed into service, the total cost  
149 can consist of the cost of new equipment and the cost to remove old equipment. However, the  
150 accounting treatment of the two types of costs is different. The cost of the new equipment is  
151 an addition to gross plant while removal costs are a reduction to accumulated depreciation.

152 **Q. Since increases to gross plant and decreases to accumulated depreciation have the same  
153 effect on rate base, why is this accounting distinction important?**

154 A. This accounting distinction is important because gross plant is depreciated. Thus, if removal  
155 costs are treated as additions to gross plant, those removal costs will be depreciated. If this is  
156 allowed to happen over a sufficient amount of time, depreciation expense and accumulated  
157 depreciation can be significantly overstated.

158 **Q. How did the Company treat removal costs in its filing?**

159 A. For the forecasted months of July 2011 through March 2012, the Company specifically called  
160 out removal costs totaling \$1.7 million on a total Company basis. These removal costs were

161 properly treated as reductions to accumulated depreciation. However, the Company's  
162 response to DPU Data Request 16.7<sup>10</sup> shows that total Company actual removal costs during  
163 those forecasted months were \$47.6 million.

164 **Q. Did the DPU Updates reflect the proper treatment of the \$47.6 million in removal costs?**

165 A. Yes. The DPU Updates properly separated the gross plant addition costs and the removal  
166 costs for the months of July 2011 through March 2012. The removal costs were treated as  
167 reductions to accumulated depreciation and not additions to gross plant.

168 **Q. How did the Company treat removal costs for the April 2012 to May 2013 time period?**

169 A. The Company specifically called out \$2.6 million of removal costs during this period and  
170 properly treated them as reductions to accumulated depreciation.

171 **Q. Do the "plant addition" costs forecasted by the Company for the April 2012 to May  
172 2013 time period include removal costs?**

173 A. Yes. The Company's attached response to DPU Data Request 2.4 states: "The 'Total Plant  
174 Additions & Removals' row is comparable to the forecast plant additions in the rate case,  
175 which include miscellaneous removals."<sup>11</sup> As such, these removal costs are being depreciated  
176 rather than being treated as a reduction to accumulated depreciation.

177 **Q. Do you know the exact dollar amount of the removal costs being included in the April  
178 2012 to May 2013 plant additions?**

179 A. No. The Company's response to DPU Data Request 16.4 states:

180 On page 6.2.15 included in Exhibit RMP\_\_(SRM-3) in the filing, the Company has  
181 separately identified four removal projects. For the remaining forecast capital additions  
182 included in Adjustment 8.6 (Pro Forma Plant Additions and Retirements) in the filing,  
183 the Company is not able to separate the forecast removal costs from the total project

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<sup>10</sup> See DPU Exhibit 5.5.30

<sup>11</sup> See DPU Exhibit 5.5.31

184 forecast amounts. That information is not separately identified in preparing the  
185 Company's capital addition forecasts. Work on construction and removal is frequently  
186 performed simultaneously by the same employee or EPC contractor working on the  
187 project. Once the project is fully completed, removal costs are determined based on the  
188 equipment replaced and actual costs incurred.  
189

190 **Q. Even though the Company is not able to separate the removal costs do you believe an**  
191 **adjustment should be made to reduce gross plant and increase the forecasted removal**  
192 **costs?**

193 A. Yes. As was mentioned previously, \$47.6 million in removal costs were incurred in the July  
194 2011 to March 2012 period whereas the Company only identified \$1.7 million in its forecast.  
195 A historical review of the Company's actual removal costs shows that for the four year  
196 period between April 2008 and March 2012 the average monthly removal costs on a total  
197 Company basis were about \$4.4 million<sup>12</sup>. I propose that this \$4.4 million average be used to  
198 represent the removal costs embedded in the monthly plant additions for the April 2012 to  
199 May 2013 time period.

200 **Q. Is this adjustment represented within the DPU Updates?**

201 A. No. In order to separate different types of adjustments, I have calculated this adjustment  
202 outside of the DPU Updates. To calculate this adjustment I removed \$4.4 million from gross  
203 plant for each month between April 2012 and May 2013 and reduced accumulated  
204 depreciation by the same amount. The functions and factors used in the Company provided  
205 actual removal costs were used in my adjustment. The spread of the \$4.4 million to the  
206 various functions was done based on a functional proration of the plant additions for each  
207 month. The specific calculations for this adjustment are shown in DPU Exhibits 5.5.0 to

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<sup>12</sup> See DPU Exhibit 5.5.28

208 5.5.29. This adjustment reduces Utah's allocated depreciation expense by about \$388,000.

209 The overall Utah revenue requirement decrease associated with this adjustment is \$375,665.

210 **Q. Will you please explain your adjustment to the Company's lead lag study?**

211 A. Yes. This adjustment is based on a correction to "Page 5.1 Revenue Detail" of the lead lag  
212 study. The original Page 5.1 showed the numbers in the General Business Revenues column  
213 for account 454 as a credit. These numbers should have been a debit. The Company issued a  
214 revised lead lag study to correct this mistake. This change increases the revenue lag from  
215 40.76 days to 41.10 days.<sup>13</sup> As a result, the overall net revenue lag days is also increased  
216 from 4.92 days to 5.26 days. This adjustment was entered into the JAM as the last  
217 adjustment. The resulting revenue requirement increase is \$128,608.

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

219 A. Yes.

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<sup>13</sup> See DPU Exhibits 5.9.0 to 5.9.4