

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Voluntary Request of	)	Docket No. 14-035-147
Rocky Mountain Power for Approval of	)	
Resource Decision and Request for	)	Direct Testimony
Accounting Order	)	of Donna Ramas
	)	For the Office of
	)	Consumer Services

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March 17, 2015

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1           **INTRODUCTION**

2   **Q.    WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

3   A.    My name is Donna Ramas. I am a Certified Public Accountant licensed in  
4       the State of Michigan and Principal at Ramas Regulatory Consulting, LLC,  
5       with offices at 4654 Driftwood Drive, Commerce Township, Michigan  
6       48382.

7   **Q.    HAVE YOU PREPARED A SUMMARY OF YOUR QUALIFICATIONS  
8       AND EXPERIENCE?**

9   A.    Yes. I have attached Appendix I, which is a summary of my regulatory  
10       experience and qualifications.

11 **Q.    ON WHOSE BEHALF ARE YOU APPEARING?**

12 A.    I was retained by the Utah Office of Consumer Services (OCS) to review  
13       Rocky Mountain Power's (the Company or RMP) request for approval of  
14       resource decision and request for accounting order. Accordingly, I am  
15       appearing on behalf of the OCS.

16 **Q.    HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR  
17       TESTIMONY?**

18 A.    Yes. I have prepared Exhibit OCS 1.1D, which is attached to this  
19       testimony.

20 **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 A.    I present the OCS' recommendations regarding the specific accounting  
22       treatment associated with RMP's request.

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23 **Q. AS BACKGROUND, CAN YOU PLEASE BRIEFLY DESCRIBE RMP'S**  
24 **REQUEST IN THIS CASE?**

25 A. Yes. On December 15, 2014, RMP filed an application requesting  
26 approval of a transaction to close the Deer Creek Mine as well as approval  
27 for other related matters. The Company's Application, at page 2, indicates  
28 that the Deer Creek Mine closure includes four major components,  
29 consisting of: (1) permanent closure of the Deer Creek Mine and the  
30 incurrence of direct closure costs; (2) Energy West's withdrawal from the  
31 United Mine Workers of America ("UWMA") 1974 Pension Trust and the  
32 incurrence of an associated withdrawal liability; (3) the sale of various  
33 mining assets; and (4) the execution of a replacement coal supply  
34 agreement ("CSA") for the Huntington power plant and an amended CSA  
35 for the Hunter power plant. As part of its mine closure strategy, the  
36 Company has also settled its retiree medical obligation related to Energy  
37 West union participants. The combination of these actions is referred to  
38 as the "Transaction" in RMP's application. The various mining assets to  
39 be sold as part of the "Transaction", include: (1) the Preparation Plant  
40 located in Emery County Utah and related assets; (2) the central  
41 warehouse facility located in Emery County and related assets; (3) the  
42 Trail Mountain Mine and related assets; and (4) the assets of Fossil Rock

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43 Fuels LLC<sup>1</sup> consisting primarily of two coal leases acquired in 2011.  
44 When these additional assets are referred to on a combined basis  
45 hereinafter, they will be referred to as the “Mining Assets” consistent with  
46 the language employed by RMP in its Application and direct testimonies.  
47  
48 In addition to seeking Commission approval of the Transaction, page 2 of  
49 the Application indicates that RMP is also seeking Commission  
50 authorization for the deferral for both current and future recovery of “...(1)  
51 the costs associated with the Closure; (2) unrecovered investment in the  
52 Deer Creek Mine and the Mining Assets; (3) all payments associated with  
53 the withdrawal from the UMWA 1974 Pension Trust; (4) any losses  
54 associated with settlement of the Retiree Medical Obligation; and (5) the  
55 incremental costs and benefits of fuel costs related to the Transaction,  
56 including costs associated with new Huntington power plant and amended  
57 Hunter power plant CSAs...” While the above list of items RMP is seeking  
58 the Commission’s approval for deferral of as regulatory assets for future  
59 (and in some cases current) recovery may seem straightforward, there are  
60 numerous individual components included in the above listed items, many  
61 of which cannot be quantified at this time. Many of the quantifications will  
62 be dependent upon actions yet to be taken by the Company.

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<sup>1</sup> Fossil Rock Fuels LLC is a wholly owned subsidiary of PacifiCorp.

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63 **Q. COULD YOU PLEASE SUMMARIZE THE RECOMMENDATIONS**  
64 **PRESENTED IN YOUR TESTIMONY?**

65 A. This testimony presents and supports the following recommendations for  
66 the Commission's consideration:

- 67 • The determination of a substantial portion of the potential transaction  
68 costs for which RMP is seeking the approval to establish a deferral and  
69 future recovery from customers are subject to further actions to be  
70 taken by the Company. As a result, the potential costs the Company is  
71 seeking approval to defer in this docket should be subject to prudence  
72 review once the amounts are known and measurable and prior to  
73 being passed on to ratepayers in order to encourage the Company to  
74 minimize the ultimate costs that it seeks to pass on to Utah ratepayers.
- 75 • I will explain what additional offsets should be applied to the amounts  
76 the Company proposes to defer for future recovery from Utah  
77 ratepayers. These offsets should specifically include: the effect of  
78 reduced coal inventories and the overriding royalties from Fossil Rock  
79 coal leases.
- 80 • The amortization period to apply to the requested regulatory assets  
81 should not be predetermined at this time. Rather, the appropriate  
82 amortization period should be determined at a future date when the  
83 ultimate amounts prudently incurred and deferred are known and  
84 measurable. This would allow the potential impact on customer bills

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- 85 resulting from the inclusion of the amortization in base rates to be  
86 evaluated in selecting the appropriate amortization period.
- 87 • The Company's proposal to recover some of the impacts of the  
88 transaction through the Energy Balancing Account ("EBA") should be  
89 rejected and amortization of the unrecovered mining investments  
90 should begin with the rate effective date resulting from the next general  
91 rate case.
  - 92 • The amounts to be deferred and the associated amortization expense  
93 should be accounted for by RMP in a manner that insures Utah  
94 ratepayers are not responsible for the portion of the deferrals and  
95 associated amortization that should be the responsibility of the Joint  
96 Owners of the Hunter Plant. RMP's Application and direct testimonies  
97 are silent on how the Joint Owners of the Hunter Plant will be allotted  
98 their fair share of the cost responsibility.
  - 99 • RMP's proposal to apply carrying charges to a portion of the amounts  
100 to be deferred in a regulatory asset between the present time and the  
101 time of the next base rate case should be rejected for reasons  
102 presented in this testimony.

103 **Q. BEFORE PRESENTING EACH OF THE RECOMMENDATIONS**  
104 **SUMMARIZED ABOVE, CAN YOU BRIEFLY DISCUSS THE**  
105 **ESTIMATED TRANSACTION COSTS IDENTIFIED BY RMP IN ITS**  
106 **APPLICATION AND THE DIRECT TESTIMONIES PRESENTED WITH**  
107 **THE APPLICATION?**

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108 A. Yes. On page 4 of his direct testimony, Douglas K. Stuver presents the  
 109 following high level estimate of the Transaction costs, in millions of dollars:

110	Unrecovered Investment in Deer Creek Mine	\$ 86
111	Unrecovered investment in Mining Assets	[REDACTED]
112	Closure costs	[REDACTED]
113	Retiree Medical settlement loss	[REDACTED]
114	1974 Pension Trust withdrawal	[REDACTED]
115	Estimated total	[REDACTED]

116 Numerous costs and factors impact each of the high level cost estimates  
 117 presented in the above listing. For example, at page 8 of his testimony,  
 118 Mr. Stuver indicates that the projected closure costs, shown as [REDACTED]  
 119 include "...costs to remove everything from within the mine workings,  
 120 install bulkheads in the coal seams and seal the mine portals;  
 121 supplemental unemployment and medical benefits required under the  
 122 terms of the labor agreement; severance benefits to be provided to  
 123 nonunion employees; and certain royalties." The redacted version of  
 124 Exhibit RMP\_\_(DKS-1) provided with Mr. Stuver's testimony also lists  
 125 inventory write-offs, unrecovered reclamation asset retirement obligation  
 126 (ARO) costs, income tax regulatory asset and "Miscellaneous, incl. on-  
 127 going labor" as being included in the projected closure costs RMP is  
 128 seeking to defer. RMP's response to UAE Data Request 2.13 lists  
 129 numerous costs that are included in the "Miscellaneous, incl. on-going  
 130 labor" category totaling \$20 million, consisting of labor costs, materials  
 131 and supplies, contract mine maintenance, contract equipment  
 132 maintenance, electricity service, professional services & other, Energy  
 133

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134 West overheads, property taxes, Fire & liability insurance, Corporate  
135 overheads, and prepaid royalties.

136

137 As another example of the numerous factors incorporated in the deferral  
138 estimates, the unrecovered investment in Deer Creek Mine of \$86 million  
139 includes various assumptions regarding sales prices of assets and  
140 estimated losses on sales of assets that may potentially be sold by the  
141 Company. Many assumptions were made by RMP in preparing the  
142 preliminary cost estimates, some of which incorporate complex  
143 calculations. The Company's requested deferral is not a simple matter  
144 based on the net book value of the assets impacted by the transaction;  
145 rather, the ultimate amount to be deferred will be based on many moving  
146 parts and on future actions yet to be taken by RMP.

147 **Q. IN YOUR OPINION, DID RMP PROVIDE CLEAR AND CONCISE**  
148 **INFORMATION WITH ITS FILING REGARDING THE COSTS IT IS**  
149 **SEEKING AN ACCOUNTING ORDER FOR AND HOW THE**  
150 **ESTIMATED COSTS WERE DERIVED?**

151 A. No. Of the numerous requests for deferred accounting orders filed by  
152 RMP that I have reviewed on behalf of the Office in the past, the deferral  
153 request made by RMP in this case is by far the most complex with a large  
154 level of uncertainty behind the quantification of the ultimate deferral  
155 amount. Adding to the complexity in evaluating RMP's request was the  
156 lack of detail provided by RMP with its Application and supporting direct

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157 testimonies regarding exactly what costs it is seeking authorization to  
158 defer and lack of specificity regarding the methods by which it proposes to  
159 recover the costs from customers. While the Company did provide some  
160 high level estimates of the costs to be deferred with its filing, the filing  
161 lacked the details supporting the costs it projects and proposes to defer  
162 and did not provide the projected impact on Utah ratepayers resulting from  
163 its requested deferral. The filing did not provide the estimated amount of  
164 deferral it will seek to recover from Utah ratepayers. Extensive discovery  
165 was needed to obtain additional information regarding what exactly the  
166 Company is proposing to defer and how the estimates of the costs of the  
167 items to be deferred were determined. Data requests were also needed in  
168 attempts to obtain a clearer understanding of how the costs would be  
169 recovered from customers in both current and future rates.

170

171 As addressed later in this testimony, after receipt of the additional  
172 information and participation in several technical conferences held by  
173 RMP, there is still lack of clarity surrounding several aspects of RMP's  
174 request in this case.

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176 FUTURE PRUDENCE REVIEW

177 **Q. SHOULD THE COMMISSION DETERMINE THE PRUDENCE OF**  
178 **PACIFICORP'S ACTIONS REGARDING ALL ASPECTS OF THE**  
179 **TRANSACTION AT THIS TIME?**

180 A. No, as also explained in Mr. Vastag's testimony it should not. As part of  
181 the outcome of this case, I recommend that the Commission make it  
182 explicitly clear that the costs that are ultimately deferred by the Company  
183 should be subject to future review prior to being passed on to Utah  
184 ratepayers. While there may be enough evidence presented at this stage  
185 for the Commission to make a determination with regards to the prudence  
186 of the Company's decision to close the Deer Creek mine prior to its  
187 original projected life and withdraw from the UMWA 1974 Pension Trust  
188 given the options available to PacifiCorp, there are significant components  
189 of the Transaction costs RMP is seeking to defer that are yet unknown  
190 and subject to both further actions being taken by PacifiCorp and future  
191 decisions to be made by PacifiCorp. It is not possible, at this time, to  
192 predetermine the prudence of various actions that have yet to be taken.

193 **Q. ARE THERE SPECIFIC ASPECTS OF THE TRANSACTION FOR**  
194 **WHICH YOU WOULD RECOMMEND ADDITIONAL FUTURE REVIEW**  
195 **AND EVALUATION PRIOR TO MAKING A PRUDENCE**  
196 **DETERMINATION ON THE ASSOCIATED COSTS TO BE PASSED ON**  
197 **TO UTAH RATEPAYERS?**

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198 A. Yes. I recommend that additional future reviews of PacifiCorp's actions  
199 and the cost impacts of those actions be undertaken in at least the  
200 following areas prior to the costs being passed on to ratepayers: (1)  
201 UMWA 1974 Pension Trust withdrawal decisions; (2) royalties ultimately  
202 paid to the Bureau of Land Management as a result of not mining  
203 previously planned coal reserve areas; and (3) actions taken by PacifiCorp  
204 to maximize the amounts received on the sale of equipment. Each of  
205 these areas will be discussed below.

206

207 Additionally, since most final amounts to be deferred in the proposed  
208 regulatory asset are still based on estimated amounts, the balance in the  
209 regulatory asset account(s) should be reviewed in future rate cases to  
210 ensure that the regulatory assets only include prudently incurred costs  
211 associated with the Transaction and that the amounts have correctly been  
212 recorded in the regulatory asset account(s).

213 UMWA 1974 Pension Trust Withdrawal

214 **Q. WHAT AMOUNT HAS RMP IDENTIFIED IN THE FILING AS THE 1974**  
215 **PENSION TRUST WITHDRAWAL COST INCORPORATED IN THE**  
216 **ESTIMATED TOTAL TRANSACTION COSTS?**

217 A. The estimated total Transaction costs presented in Mr. Stuver's testimony  
218 of [REDACTED] includes [REDACTED] for the "1974 Pension Trust  
219 withdrawal."

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220 **Q. WHAT IS THE 1974 PENSION TRUST WITHDRAWAL COST BASED**  
221 **ON?**

222 A. The determination of the cost estimate incorporated in the Company's  
223 filing is discussed at pages 12 through 13 of Mr. Stuver's testimony.  
224 According to Mr. Stuver's testimony and information discussed at the  
225 January 20<sup>th</sup> technical conference, Energy West has the option of either  
226 making a lump-sum payment to satisfy its 1974 Pension Trust withdrawal  
227 obligation or making annual installment payments. The annual installment  
228 payments were calculated by PacifiCorp as approximately \$3 million, with  
229 the payments made in perpetuity. According to Mr. Stuver's testimony,  
230 the [REDACTED] incorporated in the total estimated Transaction costs is  
231 based on the projected amount to be recorded for the liability on the  
232 Company's books and is based on the application of a 30-year treasury  
233 rate of 3.0848% to the future payments to determine the present value. If  
234 the annual installment method is selected by the Company instead of the  
235 lump-sum payment approach, the Company proposes to include the  
236 annual payment amount of approximately \$3 million in rates. However,  
237 the annual \$3 million installment required under the 1974 UMWA Pension  
238 Trust would not contribute towards a reduction in the liability. Rather, the  
239 required annual installment payments would be incorporated in rates each  
240 year until some far distant future date when the 1974 UWMA pension plan  
241 terminates or the accrual of future benefits is frozen at which time the  
242 ultimate liability to the Company and associated regulatory asset could be

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243 quantified and amortized. Since the [REDACTED] included in the estimated  
244 transaction costs is based on the amount of liability the Company projects  
245 it would need to record on its books under the installment method  
246 approach and would not be paid out as a cash contribution, a rate base  
247 return would not be applied to it in future cases. Rather, the impact would  
248 be approximately \$3 million per year on a total Company basis until some  
249 yet unknown distant future time when the final liability is known and  
250 quantified.

251 **Q. WHAT WOULD THE IMPACT BE IF THE LUMP-SUM OPTION IS**  
252 **SELECTED BY THE COMPANY?**

253 A. Under the lump-sum payment to satisfy the withdrawal obligation, a one-  
254 time payment would be made. The lump-sum payment would be included  
255 in the deferral and amortized. Presumably the amortization expense  
256 would be factored into rates paid by customers and the unamortized  
257 balance of the deferral would be included in rate base with a return  
258 applied.

259 **Q. WHAT IS THE ESTIMATED WITHDRAWAL LIABILITY AMOUNT?**

260 A. At page 12 of his testimony, Mr. Stuver indicates that as of July 1, 2014,  
261 the withdrawal liability for Energy West, if it withdrew before July 1, 2014,  
262 was estimated to be \$125.6 million. Mr. Stuver indicates at page 13 of his  
263 testimony that the [REDACTED] included in the projected Transaction costs,  
264 based on the estimated liability that would be recorded on the Company's  
265 books based on future payments under the annual installment withdrawal

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266 method, was less than the \$125.6 million withdrawal liability. However, in  
267 the 1<sup>st</sup> Supplemental Response to OCS Data Request 2.9(c), RMP  
268 provided the most current withdrawal liability that was provided to Energy  
269 West from UWMA trustees on February 3, 2015. Based on the response,  
270 if Energy West withdraws from the 1974 Pension Plan before July 1, 2015,  
271 the estimated withdrawal liability declined from the \$125.6 million identified  
272 in the filing to \$96.7 million. It is my understanding, based on page 13 of  
273 Mr. Stuver's testimony and discussions at the January 20<sup>th</sup> Technical  
274 Conference that the Company intends to negotiate with the Trust and that  
275 the lump sum one-time payment required through negotiations would likely  
276 be lower than the withdrawal liability provided by the trust before  
277 negotiations (i.e., lower than the \$96.7 million). It is my understanding that  
278 the trust may apply a benefit to receiving a lump sum cash payment up  
279 front instead of installment payments over time, particularly when the  
280 required installment payments are not high enough to reduce the  
281 withdrawal liability, and that this value or benefit to the trust would be  
282 considered in negotiating a one-time lump-sum payment amount.

283 **Q. CAN THE FINAL AMOUNT OF DEFERRAL AND APPROPRIATE**  
284 **AMOUNT OF CHARGES TO CUSTOMERS TO COVER THE 1974**  
285 **PENSION TRUST WITHDRAWAL LIABILITY BE QUANTIFIED AT THIS**  
286 **TIME?**

287 A. No. The ultimate impact on customers would be dependent on the  
288 approach the Company ultimately decides to take, whether it be the

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289 installment payment approach or the lump-sum approach, as well as how  
290 successful RMP is at negotiating a reduction to the amount of lump-sum  
291 payment with the trust to satisfy the withdrawal liability. Additionally, if the  
292 installment method is selected, there is a great deal of uncertainty  
293 regarding what the total ultimate payments would be as it could be  
294 dependent on future events such as potential future congressional actions  
295 that presumably could either increase or decrease the ultimate liability to  
296 the Company.

297

298 Since the ultimate costs cannot be determined at this time, the ultimate  
299 approach to be taken has not yet been determined by PacifiCorp, and how  
300 successful PacifiCorp will be in negotiating a lower lump-sum payment  
301 amount is not yet known, I recommend that this issue be revisited in a  
302 future rate case. This would allow the parties and the Commission the  
303 opportunity to review the ultimate cost and the prudence of actions yet to  
304 be taken by PacifiCorp in resolving the final cost of the withdrawal liability.  
305 By leaving this issue subject to future review, it would encourage  
306 PacifiCorp to take the ratepayers best interest into account in negotiating  
307 the lump-sum payment with the trust and deciding on which final approach  
308 to take, whether it be the lump-sum payment approach or the installment  
309 payment approach with potential additional future liabilities.

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311 Potential Royalty Payments

312 **Q. WHAT AMOUNT HAS RMP INCLUDED IN THE TRANSACTION COSTS**  
313 **PRESENTED IN ITS FILING FOR ROYALTY COSTS?**

314 A. The estimated total Transaction costs presented in Mr. Stuver's testimony  
315 of [REDACTED] includes [REDACTED] for Deer Creek Mine closure costs.  
316 Included in the closure costs listed in Exhibit RMP\_\_(DKS-1) is [REDACTED]  
317 for "Royalties." The response to OCS Data Request 2.19 indicates that  
318 the closure costs include \$17 million of estimated recovery-based royalties  
319 and \$21 million of estimated abandonment royalties. The response to  
320 UAE Data Request 2.13 also identifies \$940,000 of "prepaid royalties"  
321 included in the "Miscellaneous, incl. on-going labor" closure cost category.

322 **Q. ARE THE ACTUAL ROYALTY COSTS TO BE INCURRED AS PART OF**  
323 **THE DEER CREEK MINE CLOSURE KNOWN AT THIS TIME?**

324 A. No. For example, it is my understanding that the recovery-based royalty  
325 amount will be impacted by many items before determination of the final  
326 amount is known with certainty. Additionally, with regards to the  
327 abandonment royalties, the amount PacifiCorp is required to pay may be  
328 substantially lower than the \$21 million estimate incorporated in the  
329 projected Transaction costs and could even end up being \$0. Mr. Stuver  
330 describes these abandonment royalties at pages 8 – 9 of his testimony as  
331 "...those costs that could potentially be imposed by the Bureau of Land  
332 Management as a result of not mining the previously planned coal  
333 reserves."

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334 **Q. HAS THE COMPANY PROVIDED FURTHER INFORMATION**  
335 **REGARDING ACTIONS TAKEN TO REDUCE THE POTENTIAL**  
336 **OBLIGATION FOR ABANDONMENT ROYALTIES?**

337 A. OCS Data Request 2.23 asked the Company to provide a detailed  
338 description of all actions taken by Energy West, PacifiCorp, or any  
339 affiliated entities to minimize the potential royalty amounts to be imposed  
340 by the Bureau of Land Management. RMP provide the following response  
341 to the question:

342 To date, the Company has informed the Bureau of Land  
343 Management (“BLM”) of its decision to close the Deer Creek Mine.  
344 The Company has not provided to, or received from, BLM any  
345 correspondence regarding the potential amount of royalties that may  
346 be imposed by BLM upon relinquishment of the federal coal leases  
347 associated with the Deer Creek Mine. The potential for additional  
348 royalties arises from the federal requirements that an operator  
349 achieve “maximum economic recovery” (referred to as “MER”) of all  
350 profitable portion of a coal reserve within a federal coal lease. MER  
351 is attained when an operator has mined any portion of a coal reserve  
352 where actual revenues from the sale of the coal produced will meet  
353 or exceed the actual direct costs of mining the coal reserve. In the  
354 case of the Deer Creek mine, the Company determined that it is no  
355 longer profitable to operate the mine, which includes all of the federal  
356 coal leases. Consistent with this determination, the Company  
357 believes it has achieved MER as required under the federal coal  
358 leasing regulations. As early as late 2016, the Company will  
359 undertake formal discussions with BLM regarding the relinquishment  
360 of the federal coal leases. Upon relinquishment of the federal coal  
361 leases (which the Company anticipates will occur in approximately  
362 three years), BLM will determine, in coordination with the Company,  
363 whether MER has been fully achieved and, if not, whether any  
364 additional royalties will be required.  
365

366 **Q. CAN THE ULTIMATE AMOUNT TO BE PAID FOR THE**  
367 **ABANDONMENT ROYALTIES BE KNOWN AT THIS TIME?**

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368 A. No. The ultimate amount RMP will be responsible to pay the Bureau of  
369 Land Management in royalties associated with the coal that will not be  
370 withdrawn from the Deer Creek mine, which may ultimately be \$0, is not  
371 known at this time. It will be contingent, in part, on PacifiCorp's ability to  
372 demonstrate to the Bureau of Land Management that the additional coal  
373 reserves that were not mined are not economic to be mined. Additionally,  
374 since formal discussions with the BLM apparently will not begin until late  
375 2016, there is also a good possibility that the ultimate resolution will not be  
376 known before the next rate case proceeding.

377

378 Since the ultimate abandonment royalty costs to be paid are not known at  
379 this time and are contingent on actions yet to be taken by PacifiCorp, I  
380 recommend that this issue be revisited in the future after the negotiations  
381 with BLM are complete. Prior to the final outcome being known, none of  
382 the abandonment royalties should be included in the regulatory asset that  
383 is amortized and included in future rates. Revisiting this issue when the  
384 ultimate outcome is known to PacifiCorp would allow the parties and the  
385 Commission the opportunity to review the final cost and the prudence of  
386 actions yet to be taken by PacifiCorp in resolving the final amount to be  
387 paid to the BLM for abandonment royalties, if any payment is ultimately  
388 required. By leaving this issue subject to further prudence review, it would  
389 encourage PacifiCorp to take the ratepayers best interest into account in

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390 its formal discussions with BLM and in minimizing the costs to be passed  
391 on to Utah ratepayers.

392

393 Sale of Mining Equipment

394 **Q. IN ESTIMATING THE NET AMOUNT OF THE UNRECOVERED**  
395 **INVESTMENTS, HAS THE COMPANY ASSUMED THAT IT WILL**  
396 **RECEIVE ANY PROCEEDS FROM THE SALE OF SOME OF THE**  
397 **MINING OR MINING RELATED ASSETS?**

398 A. Yes. The attachment to the response to OCS Data Request 3.2(c),  
399 demonstrates that original projections of the net book value of the  
400 unrecovered investments at issue in this case includes estimated  
401 proceeds for the sale of various mining equipment of \$6.5 million. A  
402 review of the attachment also demonstrates that it is anticipated that the  
403 equipment will be sold at a loss (i.e., for less than the net book value of  
404 the equipment). In response to OCS Data Request 3.4, RMP has  
405 indicated that none of the referenced assets have been sold and that the  
406 anticipated sales date is unknown and dependent upon the timing of  
407 completing closure activities. The response also indicates that it is  
408 anticipated that Bridger Coal Company will acquire several of the items in  
409 2015 or 2016 and that "The majority of equipment, materials and supplies  
410 are expected to be sold through a competitive bid process using an  
411 equipment broker or auctioneer." In response to OCS Data Request

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412 3.3(e), RMP indicated that projected losses on assets acquired by  
413 affiliated entities cannot be projected because the asset disposal and sale  
414 dates are unknown at this time.

415 **Q. DO YOU RECOMMEND THAT THE AMOUNT OF PROCEEDS**  
416 **RECEIVED FOR THE SALE OF THE DEER CREEK MINE ASSETS**  
417 **AND OTHER MINING ASSETS AND THE AMOUNT FOR WHICH**  
418 **ASSETS ARE TRANSFERRED TO AFFILIATED ENTITIES SUCH AS**  
419 **BRIDGER COAL COMPANY BE REVIEWED AT A FUTURE TIME?**

420 A. Yes. The ultimate amount of sales proceeds received from third parties  
421 and the amounts that mining equipment is transferred to affiliated entities  
422 for should be subject to future review to ensure that PacifiCorp is  
423 encouraged to take steps to maximize the value received. The amounts  
424 received for the mining assets and related equipment will serve to reduce  
425 the regulatory asset that RMP would recover from Utah ratepayers.

426 Future Review of Amounts Deferred

427 **Q. SINCE THE COSTS TO BE DEFERRED THAT HAVE BEEN**  
428 **PRESENTED BY THE COMPANY IN THIS PROCEEDING TO DATE**  
429 **ARE PREDOMINATELY BASED ON ESTIMATED AMOUNTS, SHOULD**  
430 **THE BALANCE OF THE REGULATORY ASSET THAT RMP WILL**  
431 **SEEK TO RECOVER FROM RATEPAYERS IN THE FUTURE BE**  
432 **SUBJECT TO REVIEW?**

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433 A. Yes. The vast majority of the Transaction costs RMP has presented thus  
434 far are based on estimated amounts. This is particularly true in regards to  
435 the closure costs and the 1974 Pension Trust withdrawal obligation. The  
436 final amount of unrecovered investments also are not yet fully known as  
437 they will be impacted by potential proceeds from the sales of the mining  
438 assets and equipment. Additionally, many of the final costs RMP  
439 proposes to defer will likely not be known before the next rate case. Areas  
440 in which the ultimate costs to be deferred may not be known by the time of  
441 the next base rate case include the 1974 pension trust withdrawal  
442 payments, the amount of reclamation costs to be incurred in the  
443 reclamation of the Deer Creek mine, and the final amounts of royalty  
444 payments due associated with the Deer Creek mine (including both  
445 recovery-based royalties and abandonment royalties). In addition to the  
446 specific reviews for the three areas discussed above, in future rate cases  
447 the amount of regulatory assets RMP seeks to amortize and charge to  
448 Utah ratepayers should be reviewed to ensure that they only include costs  
449 associated with the Transaction, the deferred costs have been prudently  
450 incurred, and that the amounts have correctly been recorded in the  
451 regulatory asset account.

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452 **OFFSETS TO REGULATORY ASSET**

453 **Q. ARE THERE ANY ITEMS THE COMPANY PROPOSES TO APPLY AS**  
454 **AN OFFSET TO THE REGULATORY ASSET ASSOCIATED WITH THE**  
455 **TRANSACTION?**

456 A. Yes. As part of the transaction, the Company expects to sell the assets of  
457 Fossil Rock Fuels LLC (“Fossil Rock”), which consists primarily of two coal  
458 leases acquired in 2011. The Company expects to sell the Fossil Rock  
459 assets to Bowie Resource Partners, LLC (“Bowie”) at approximately the  
460 book value at the time the transaction closes resulting in no accounting  
461 gain or loss on the sale. The Fossil Rock assets, identified as the  
462 Cottonwood Coal Leases in the prior rate case, were included in Plant  
463 Held for Future Use (“PHFFU”) incorporated in rate base in the last rate  
464 case, Docket No. 13-035-184. The attachment provided in response to  
465 OCS Data Request 2.25 shows that the Company included \$32,006,447  
466 (\$13,433,657 Utah jurisdictional) in PHFFU in its rebuttal update in the  
467 rate case for the Cottonwood coal lease amounts. At page 19 of the  
468 Application, the Company indicates that since the asset is being sold,  
469 “...the Company proposes to apply any revenue resulting from the return  
470 on rate base associated with Fossil Rock against the regulatory asset for  
471 the unrecovered investment and closure costs until the Plant Held for  
472 Future Use balance associated with Fossil Rock is removed from rate  
473 base in the next general rate case.” The Application also indicates that  
474 this will be accomplished by deferring the revenue requirement into a

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475 contra regulatory asset account “to be used as an offset against the  
476 regulated asset associated with the closure costs.”

477 **Q. HAS THE COMPANY PROVIDED THE AMOUNT OF DEFERRAL**  
478 **OFFSET ASSOCIATED WITH THE FOSSIL ROCK ASSETS THAT**  
479 **WERE INCLUDED IN PHFFU IN THE LAST RATE CASE?**

480 A. Yes. The attachment provided with the response to OCS Data Request  
481 4.7 shows that after application of the pre-tax return of 10.666% to the  
482 Utah portion of the Cottonwood coal lease included in PHFFU in the prior  
483 rate case of \$13,433,657, the annual amount of offset would be  
484 \$1,432,853. The response also shows that this translates to a monthly  
485 offset after the Fossil Rock assets are sold of \$119,404 (\$1,432,853 / 12).  
486 The response also shows that if one assumes the sale of the Fossil Rock  
487 assets to Bowie is completed by June 2015 and that rates from the next  
488 rate case go into effect in September 2016, the total offset associated with  
489 the PHFFU incorporated in current base rates would be \$1,791,066.

490 **Q. DO YOU HAVE ANY CONCERNS WITH THE CALCULATION OF THE**  
491 **OFFSET TO THE REGULATORY ASSET ASSOCIATED WITH FOSSIL**  
492 **ROCK ASSETS THE COMPANY PROVIDED IN RESPONSE TO OCS**  
493 **DATA REQUEST 4.7?**

494 A. No. However, I do have a concern with how the offset will ultimately be  
495 applied in reducing the regulatory asset on a Utah jurisdictional basis. In  
496 response to OCS Data Request 4.4, the Company provided a Confidential

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497 Attachment that included further details regarding the current projections  
498 of amounts to be deferred as a regulatory asset. [REDACTED]

499 [REDACTED]

500 [REDACTED]

501 [REDACTED]

502 [REDACTED]

503 [REDACTED]

504 [REDACTED]

505 [REDACTED]

506 [REDACTED]

507 [REDACTED]

508 [REDACTED]

509 [REDACTED]

510 [REDACTED]

511 [REDACTED]

512 [REDACTED]

513 [REDACTED]

514 [REDACTED]

515 **Q. ARE THERE ANY ADDITIONAL OFFSETS THAT SHOULD BE MADE**  
516 **TO THE REGULATORY ASSET, OR ITEMS THAT SHOULD BE**  
517 **RECORDED IN A “CONTRA REGULATORY ASSET ACCOUNT,”**  
518 **ASSOCIATED WITH COSTS INCORPORATED IN CURRENT BASE**  
519 **RATES THAT WILL EITHER SUBSTANTIALLY DECLINE OR**

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520 **DISCONTINUE BEFORE THE NEXT RATE CASE AS A RESULT OF**  
 521 **THE TRANSACTION?**

522 A. Yes. While the Company's Application and direct testimonies indicate that  
 523 the regulatory asset account would be offset for the amount of revenues  
 524 resulting from the return on rate base associated with the Fossil Rock  
 525 PHFFU, it is silent with regards to the substantial reduction in the coal fuel  
 526 stock balances that also result from the Transaction. Included in rate base  
 527 in the last rate case were substantial amounts for the coal inventory at the  
 528 Hunter plant, Huntington plant, Deer Creek Mine, the Prep plant and at  
 529 Rock Garden. In response to OCS Data Request 4.6, the Company  
 530 agreed that the amount of coal fuel stock included in the rate base upon  
 531 which current base rates was set is based on the amounts provided in  
 532 response to OCS 29.1, Attachment OCS 29.1 in Docket No. 13-035-184.  
 533 The table below presents the amounts identified in that response as the  
 534 average pro forma coal fuel stock balances that are incorporated in rate  
 535 base for each of the locations impacted by the Transaction:

	Pro Forma 13-Mon.
<u>Location</u>	<u>Avg. Balance</u>
Hunter	\$ 71,019,205
Huntington	\$ 36,696,551
Deer Creek	\$ 235,624
Prep Plant	\$ 35,098,446
Rock Garden	<u>\$ 14,360,259</u>
	<u>\$157,410,085</u>

536  
 537 The Transaction already has impacted, and will continue to impact the  
 538 amount of coal fuel stock balances at these locations. The table below,

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539 which was prepared based on information provided by RMP in response  
 540 to OCS Data Request 4.6, presents the actual and projected coal fuel  
 541 stock balances owned by PacifiCorp at each of these five locations at  
 542 various periods between December 2014 and August 2016.

543

Location	Dec-14	Jun-15	Dec-15	Jun-16	Aug-16
Hunter	\$ 36,654,185	\$ 53,703,172	\$ 53,111,809	\$ 51,460,929	\$ 46,865,224
Huntington	\$ 31,179,834	\$ 24,794,390	\$ 27,162,273	\$ 28,899,137	\$ 31,025,248
Deer Creek	\$ 68,869	\$ -	\$ -	\$ -	\$ -
Prep Plant	\$ 26,650,399	\$ -	\$ -	\$ -	\$ -
Rock Garden	\$ 30,805,477	\$ 17,437,149	\$ 12,160,239	\$ 8,683,133	\$ 6,944,581
544 Total	\$125,358,764	\$ 95,934,711	\$ 92,434,321	\$ 89,043,199	\$ 84,835,053

545 As demonstrated above, the combined coal fuel stock balances for the five  
 546 locations impacted by the Transaction has declined from the \$157.4  
 547 million incorporated in rate base in the Company's most recent rate case  
 548 to \$125.4 million as of December 2014. The balance is projected to  
 549 decline to \$95.9 million by June 2015 (soon after the closing of the  
 550 anticipated mining asset sales to Bowie and effective date of the CSAs)  
 551 and to \$84.8 million by August 2016.

552 **Q. COULD YOU EXPLAIN WHY THE TRANSACTION WOULD IMPACT**  
 553 **THE AMOUNT OF COAL FUEL STOCK BALANCES OWNED AND**  
 554 **FUNDED BY THE COMPANY?**

555 A. One of the primary reasons for the reduction is that following the close of  
 556 the Transaction, Bowie will be acquiring the title to the Preparation Plant  
 557 as well as the obligation to undertake any required stockpiling and  
 558 blending of coal for the Hunter power plant. At page 10 of her direct

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559 testimony, Cindy A. Crane indicates that as a result of the sale of the  
560 Preparation Plant assets to Bowie, the Company will avoid the operating  
561 costs of blending coal for the Hunter power plant and "...will benefit from  
562 reduced inventory costs (a levelized savings of approximately \$ [REDACTED]  
563 per year)." At page 14 of her testimony, Ms. Crane indicates that following  
564 the close of the Transaction, Bowie will be obligated to undertake all  
565 required stockpiling for the Hunter power plant.

566 **Q. WHY WOULD THE ROCK GARDEN COAL FUEL STOCK BE**  
567 **IMPACTED BY THE CLOSING OF THE DEER CREEK MINE AND**  
568 **OTHER ASPECTS OF THE TRANSACTION?**

569 A. The Rock Garden stockpile is located approximately 3 miles from the  
570 Huntington plant. The coal produced by the Deer Creek mine was  
571 delivered to the Huntington plant by an overland conveyor. It is my  
572 understanding that depending upon the Deer Creek mine production  
573 levels and quality, in the past the coal produced at Deer Creek was also  
574 transferred from the Huntington plant to Carbon, Hunter, Rock Garden or  
575 the Prep plant. In testimony filed by Ms. Crane in a Rocky Mountain  
576 Power case before the Idaho Public Utilities Commission in November  
577 2010 (Case No. PAC-E-10-07), Ms. Crane indicated that the Rock Garden  
578 pile provides storage and blending capability for the Utah coal fleet and  
579 that, at that time, Deer Creek coal production comprised "...almost 95  
580 percent of the Rock Garden inventory." With the closure of the Deer  
581 Creek mine and the Huntington power plant being supplied by Bowie

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582 under the Huntington CSA as part of the Transaction, it is not surprising  
583 that the Company has projected reductions in the Rock Garden inventory  
584 levels from the time of the last Utah rate case through August 2016.

585 **Q. HAVE YOU ESTIMATED THE OFFSET TO THE REGULATORY ASSET**  
586 **ASSOCIATED WITH THE ACTUAL AND PROJECTED REDUCTIONS**  
587 **IN THE COAL FUEL STOCK BALANCES AT THE STOCKPILE**  
588 **LOCATIONS IMPACTED BY THE TRANSACTION?**

589 A. Yes. The offset would only be calculated for the period from January 2015  
590 through the date rates from the next rate case go into effect. The  
591 estimated impact, assuming base rates in the next case take effect in  
592 September 2016, is an offset to the regulatory asset of \$11,112,368. The  
593 calculation of the estimated impact is provided on OCS Exhibit\_\_(DR-1).  
594 The estimated impact applies the same 10.666% pre-tax return applied by  
595 RMP in determining the impact of the Fossil Rock assets being sold in the  
596 Transaction. Similar to most of the projected regulatory asset amounts  
597 provided by RMP at this stage, the offset of \$11.1 million is an estimate  
598 based on information available at this time. At the time of the next base  
599 rate case the appropriate offset should be calculated based on the actual  
600 and updated estimates of the coal fuel stock balances owned by  
601 PacifiCorp at each of the five locations over the period spanning from  
602 January 2015 to the effective date of the next rate case.

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603 **Q. ARE THERE ADDITIONAL ITEMS THAT WILL OFFSET THE COSTS**  
604 **TO RATEPAYERS ASSOCIATED WITH THE AMORTIZATION OF THE**  
605 **REGULATORY ASSET IN THE FUTURE?**

606 A. Yes. As discussed at pages 11 and 12 of Ms. Crane's direct testimony,  
607 under the agreement to sell the Fossil Rock assets to Bowie, Bowie  
608 granted a [REDACTED] overriding royalty to the Company on all coal  
609 that will be produced from the Fossil Rock coal leases. In addressing this,  
610 Ms. Crane indicates that "In its conservative analysis of the benefits of the  
611 Transaction, however, the Company has not included this potential royalty  
612 revenue." At page 10 of the Application, RMP has indicated that if the  
613 Commission determines the Transaction is prudent, the Company will  
614 track the overriding royalties "...with the intent to pass back to customers  
615 any royalties received..." Since ratepayers would be responsible for  
616 significant costs that are being deferred in the regulatory asset(s) being  
617 established as a result of the Transaction, I recommend that the  
618 Commission's order in this case make it clear that any royalties received  
619 by RMP as a result of the sale of the Fossil Rock coal leases will be  
620 returned 100% to customers. A regulatory liability account could be  
621 established so that all future overriding royalty revenues are recorded in  
622 the account to ensure ratepayers receive the benefit. The amortization of  
623 the regulatory liability should not flow through the EBA since a sharing  
624 band should not apply to the return of these revenues to ratepayers.

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625 **Q. HAS THE COMPANY PROVIDED ANY ESTIMATES OF OVERRIDING**  
626 **ROYALTIES THAT MAY RESULT FROM BOWIE’S PRODUCTION OF**  
627 **COAL FROM THE FOSSIL ROCK COAL LEASES?**

628 A. Included in the workpapers provided in the confidential response to DPU  
629 Data Request 1.1 was a calculation of potential overriding royalties. The  
630 response to OCS Data Request 3.8 indicates that the information provided  
631 in response to DPU Data Request 1.1 is based on the best information  
632 available at this time and is dependent on the assumption that Bowie will  
633 develop and market the Fossil Rock reserves. [REDACTED]

634 [REDACTED]

635 [REDACTED]

636 [REDACTED]

637 [REDACTED]

638

639 **AMORTIZATION PERIOD**

640 **Q. WHAT AMORTIZATION PERIOD HAS THE COMPANY PROPOSED**  
641 **FOR THE REGULATORY ASSET(S) IT IS SEEKING TO ESTABLISH?**

642 A. The Company has proposed various amortization periods depending upon  
643 the specific items involved. For the unrecovered investments in the Deer  
644 Creek Mine and the Mining Assets being sold at a loss, the Company is  
645 proposing that the amortization occur through the date rates from the next  
646 rate case become effective based on the depreciation expense amount

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647 that is in the fuel costs incorporated in current base rates. This is because  
648 the depreciation ceases once the Deer Creek mine closes and once the  
649 Mining Assets are sold. The Company proposes that this occur through  
650 the EBA, coupled with other impacts of the Transaction (i.e., the coal costs  
651 associated with the new Bowie CSAs), without the application of sharing  
652 bands in the EBA being applied. The Company then proposes that the  
653 remaining balances associated with the unrecovered investments at the  
654 time the rates from the next rate case take effect be amortized over a  
655 three-year period to align the total recovery period with the original  
656 projected retirement date of the Deer Creek mine, which was 2019.

657

658 For the closure costs to be deferred, the Company proposes that the  
659 balance be recovered over a five year amortization period once  
660 incorporated in base rates, with the unrecovered balance included in rate  
661 base. The rate base amount would be offset by any accrued and unpaid  
662 closure costs so that a return is not applied before the amounts are  
663 actually expended.

664

665 The Company's proposed timing of the amortization of the 1974 Pension  
666 Plan withdrawal obligation would be dependent on which approach the  
667 Company selects. If the Company chooses the installment method, the  
668 Company has proposed that the amount included in rates be based on the  
669 current payment level of approximately \$3 million each year with the

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670 ultimate liability and associated amortization not known until some far  
671 future date. If the Company selects the lump-sum payment for withdrawal,  
672 presumably the amortization would begin at the time of the next rate case  
673 if the payment has been made by that time. It is not clear if the Company  
674 is proposing a five year amortization for the withdrawal payment,  
675 consistent with the amortization period proposed for the closure costs.

676 **Q. SHOULD THE APPROPRIATE AMORTIZATION PERIOD FOR EACH**  
677 **OF THE VARIOUS COSTS BEING DEFERRED IN THE REGULATORY**  
678 **ASSET ACCOUNT(S) BE DETERMINED IN THIS PROCEEDING?**

679 A. No. Many, if not most, of the costs presented by RMP in this case are  
680 based on estimated amounts with a lot of uncertainty regarding some of  
681 the ultimate costs that will be incurred. I recommend that the appropriate  
682 amortization period be determined in the next base rate case at which  
683 time more of the amounts to be deferred will be known and measurable.  
684 This would allow the parties, and the Commission, to consider the balance  
685 of costs deferred and the impact on ratepayers under various amortization  
686 periods. Given the potentially large size of the amount to be amortized,  
687 with the total balance largely dependent upon the final decision yet to be  
688 made by RMP with regards to the approach to take in withdrawing from  
689 the 1974 Pension Plan (i.e., installment or lump-sum payment method), a  
690 longer amortization period may, or may not, be appropriate.

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692           Additionally, at the time of the next rate case, some of the ultimate costs  
693           associated with the Transaction may not yet been known. An example is  
694           the costs associated with potential abandonment royalties resulting from  
695           early closure of the Deer Creek mine. At the time of the next rate case,  
696           the parties could address whether some of the still outstanding costs  
697           should begin to be recovered based on estimated amounts, or if recovery  
698           of the still outstanding obligations should be deferred to a future rate case  
699           when the additional amounts become known.

700   **Q.    ARE THERE ANY ADDITIONAL ISSUES YOU WISH TO ADDRESS AT**  
701   **THIS TIME REGARDING THE AMORTIZATION OF THE REGULATORY**  
702   **ASSET BEGINNING WITH THE RATE EFFECTIVE DATE FROM THE**  
703   **NEXT RATE CASE?**

704   A.    Yes. At page 21 of the Application, the Company indicates that it  
705           proposes to amortize the deferred amounts to Account 501 – Fuel Costs.  
706           The amortization of unrecovered investments and the amortization of  
707           deferrals associated with the closure of a mine are not fuel expenses that  
708           would be recorded in FERC Account 501 under the FERC Uniform  
709           System of Accounts (“USOA”). Amortization expense is not included in  
710           the listing of items to be included in FERC Account 501 in the USOA.  
711           While the USOA does indicate that the cost of fuel shall be charged  
712           initially to Account 151 – Fuel Stock and cleared to Account 501, the  
713           amortization of the regulatory assets is not a cost of fuel. Additionally,  
714           RMP has not indicated that it would initially record the amortization

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715 expense to Account 151 – Fuel Stock and subsequently clear the costs to  
716 Account 501 – Fuel Expense as the fuel is consumed. As the amortization  
717 of regulatory assets are not fuel expenses, the amortization expense to be  
718 established in the next rate case should not be included in the fuel costs  
719 that are incorporated in the EBA calculations.

720 **Q. ARE THERE DESIGNATED FERC ACCOUNTS IN THE USOA FOR THE**  
721 **AMORTIZATION OF REGULATORY ASSETS?**

722 A. Yes. Amortization expense for the amortization of regulatory assets is  
723 recorded in FERC Accounts 407 or 407.3 under the FERC USOA. While  
724 PacifiCorp has recorded amortization of some regulatory assets in  
725 accounts other than FERC Account 407 or 407.3, I recommend that it not  
726 be permitted to amortize the regulatory assets associated with the  
727 Transactions into a fuel expense account that would be factored into the  
728 EBA calculations. Amortizations of regulatory assets should be excluded  
729 from the EBA calculations.

730 **IMPACT OF TRANSACTION ON EBA CALCULATIONS**

731 **Q. CAN YOU PLEASE PROVIDE YOUR UNDERSTANDING OF THE**  
732 **COMPANY’S PROPOSAL TO MODIFY THE ENERGY BALANCING**  
733 **ACCOUNT CALCULATIONS BETWEEN NOW AND THE TIME BASE**  
734 **RATES ARE NEXT RESET IN A FUTURE RATE CASE PROCEEDING?**

735 A. Yes. The Company’s proposals presented in its Application and direct  
736 testimonies with regards to how certain aspects of the Transaction would

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737 be treated between now and the time of the next base rate case  
738 proceeding were less than clear. After reviewing the responses to various  
739 data requests issued by the OCS and the Division of Public Utilities in  
740 attempting to understand exactly what RMP proposes with regards to the  
741 treatment of the impacts of the transaction between now and the time  
742 base rates are next reset, and discussion with the Company through the  
743 Technical Conferences, my understanding may still be less than perfect.  
744 However, based on what I understand after reviewing various data  
745 responses and the Company's filing, coupled with the discussions at the  
746 Technical Conferences, RMP is proposing to modify the Energy Balancing  
747 Account ("EBA") deferral calculations surrounding the costs of fueling the  
748 Hunter and Huntington power plants until the time new base rates are  
749 implemented in the next rate case.

750

751 Under the approach RMP is apparently proposing, the Company would  
752 calculate the actual weighted average cost per MMBtu for the Hunter and  
753 Huntington plants, which will incorporate the costs of the new Hunter and  
754 Huntington CSAs with Bowie. This will be based on the actual fueling  
755 costs at each of those plants and the actual MMBtus consumed at each of  
756 those plants in deriving the actual average \$/MMBtu. RMP would then  
757 compare the resulting weighted average \$/MMBtu to the average  
758 \$/MMBTU for the Huntington and Hunter plants that are incorporated in  
759 current base fuel costs coming out of the last rate case to determine the

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760 differential. In response to OCS Data Request 4.1, the Company  
761 indicates that the settled base net power costs in the last rate case  
762 included total coal costs for the Hunter and Huntington plants of  
763 \$288,695,244 and total MMBtus consumed of 146,452,878, resulting in an  
764 average of \$1.97/MMBtu. The resulting differential between the actual  
765 \$/MMBtu and the \$1.97/MMBtus in the last rate case would then be  
766 applied to the estimated Hunter and Huntington plant MMBTUs used in  
767 the last rate case proceeding, which the Company has identified as  
768 146,452,878 on an annual basis. RMP would then increase the resulting  
769 differential amount determined by the amount of depreciation expense  
770 incorporated in current base fuel costs for the Deer Creek mining assets,  
771 the Prep Plant assets and the central warehouse assets. The addition of  
772 the depreciation expense amount would implement RMP's proposal to  
773 amortize the regulatory asset between now and date new rates go into  
774 effect from the next rate case based on the amount of depreciation  
775 expense factored into the fuel expenses in current base rates.

776

777 RMP proposes that the resulting incremental fueling cost differential,  
778 based on the estimated MMBtus at the Hunter and Huntington plants  
779 incorporated in base fuel costs, plus the amortization expense be deferred  
780 through the EBA without application of any sharing bands. In addition, in  
781 response to DPU Data Request 4.3, the Company also proposes that the  
782 amounts to be deferred through the EBA under its proposal, to which the

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783 sharing bands would not be applied, would earn a return based on the  
784 Company's weighted average cost of capital instead of at the 6% return  
785 allowed on other EBA balances.

786

787 While the above description provides my basic understanding of how the  
788 Company would modify the EBA calculations, the Company has not yet  
789 clearly demonstrated how the various proposed modifications to the EBA  
790 will be accomplished or calculated.

791 **Q. DO YOU AGREE THAT THE COMPANY SHOULD BE PERMITTED TO**  
792 **REVISE THE EBA CALCULATIONS BETWEEN NOW AND THE NEXT**  
793 **RATE CASE AS PROPOSED?**

794 A. No, I do not. The EBA calculations currently in effect based on a pilot  
795 program should not be modified. A lot of thought was placed into the  
796 current pilot program and changes to the methodology used and  
797 calculations should not be taken lightly. A proceeding established to  
798 address the closure of a mine and related transactions is not the  
799 appropriate forum to consider major modifications to the EBA  
800 methodology and calculations. I do not agree that it is appropriate to  
801 separate the costs associated with fueling the Hunter and the Huntington  
802 plants between now and the next rate case in the EBA calculations and  
803 treat those costs differently, nor do I agree that it is appropriate to  
804 separate selected components from the EBA calculations to remove the

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805 sharing band and to apply a higher return to certain deferrals as compared  
806 to the rate that is currently being applied in the EBA.

807 **Q. THE COMPANY PROPOSES THAT THE MODIFICATION OF THE EBA**  
808 **CALCULATIONS BE USED AS A MEANS OF AMORTIZING THE**  
809 **REGULATORY ASSET BETWEEN NOW AND THE NEXT RATE CASE**  
810 **BASED ON THE AMOUNT OF DEPRECIATION EXPENSE**  
811 **INCORPORATED IN BASE FUEL COSTS FOR THE DEER CREEK**  
812 **MINE AND RELATED MINING ASSETS. DO YOU AGREE THAT THIS**  
813 **SHOULD BE ACCOMPLISHED THROUGH THE EBA**  
814 **CALCULATIONS?**

815 A. No. The Company has not demonstrated it is technically possible or even  
816 allowable to alter the EBA mid-stream to include the amortization of a  
817 regulatory asset. Furthermore, in order to keep the EBA “pure” and avoid  
818 tampering with the EBA methodology and calculations, I recommend that  
819 the amortization of the regulatory assets being established not begin until  
820 rates are reset in the next rate case proceeding. While this will result in  
821 the regulatory asset balance associated with the Transaction being higher  
822 at the time of the next rate case than would be the case if amortization  
823 begins now, it will allow for the currently authorized EBA methodology and  
824 calculations to remain intact and for the 70% sharing in the EBA to remain  
825 unchanged.

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826 **JOINT OWNER OBLIGATIONS**

827 **Q. PACIFICORP IS NOT THE ONLY OWNER OF THE HUNTER POWER**  
828 **PLANT. COULD YOU PLEASE DISCUSS THE PORTION OF THE**  
829 **HUNTER PLANT OUTPUT THAT IS OWNED BY OTHER ENTITIES**  
830 **AND HOW THIS IMPACTS THE REQUESTED REGULATORY ASSET?**

831 A. Yes. The generating capability at the Hunter plants is 1,320 megawatts  
832 with PacifiCorp owning 1,132 megawatts of the output. The remaining  
833 output goes to co-owners Deseret Generation & Transmission  
834 Cooperative, Utah Associated Municipal Power Systems and Provo City  
835 (hereinafter referred to as "Joint Owners"). The Deer Creek Mine and  
836 Mining Assets were used in supplying coal to the Hunter plant. The Joint  
837 Owners of the Hunter plant were charged for their portion of the fuel  
838 consumed at the plant which would have included all operating expenses,  
839 including the depreciation and depletion of the Deer Creek Mine and the  
840 Mining Assets. According to the response to UAE Data Request 3.3, the  
841 projected amounts to be deferred as regulatory asset(s) presented in the  
842 filing are presented on a total Company basis "...before joint ownership  
843 impacts." Thus, the amounts presented by RMP to date have not been  
844 reduced for any potential Hunter Joint Owner responsibility. Since the  
845 Joint Owners would also benefit from the Transaction and the fueling  
846 decisions incorporating in the Transaction, presumably they should also  
847 be responsible for some of the costs RMP is proposing to defer in this  
848 case.

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849 **Q. DOES THE APPLICATION AND DIRECT TESTIMONIES FILED BY**  
850 **RMP ADDRESS HOW THE JOINT OWNERS WILL BE ASSIGNED OR**  
851 **BE RESPONSIBLE FOR A PORTION OF THE PROPOSED**  
852 **REGULATORY ASSET(S)?**

853 A. No. Potential Joint Owner sharing of the cost responsibilities was not  
854 addressed in the Company's Application or direct testimonies. In  
855 response to UAE Data Request 3.3, the Company indicated that the  
856 estimated "...joint ownership percentage allocation is based on a five-year  
857 average of consumption of Deer Creek coal at the Hunter and Huntington  
858 plants and a five-year average of consumption by the Hunter joint  
859 owners." The response also states the following:

860 As indicated in the Company's application and testimony, the  
861 regulatory assets resulting from the Transaction would be amortized  
862 to fuel costs, which are used to calculate the coal price charged to  
863 Hunter plant's joint owners in the following year. For example, for  
864 Hunter Unit No. 2, in accordance with the ownership and  
865 management agreement among the parties, the coal price applied to  
866 MMBtus consumed by the joint owners is based upon 104.35% of  
867 the average cost of coal consumed in the preceding year.  
868

869 Based on the response, it appears that the Company's intent is to assign  
870 some of the cost responsibility associated with the regulatory asset to the  
871 Joint Owners that have benefited from the Deer Creek mine and related  
872 Mining Assets, as well as the new CSAs being implemented as part of the  
873 transaction. While the Company has indicated that the amortization  
874 expense would be included in fuel costs that apparently would be passed  
875 on, in part, to the Joint Owners, I continue to recommend that the

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876 amortization expense to be established in the next rate case not be  
877 included in the fuel costs that flow through the EBA calculations in future  
878 proceedings. In the next rate case, steps should be taken to ensure that  
879 the portion of the amortization expense that would be directed to the Joint  
880 Owners are excluded from base rates – including being excluded from the  
881 fuel costs incorporated in base rates that are charged to Utah ratepayers.

882 **CARRYING CHARGES SHOULD NOT BE APPLIED**

883 **Q. DOES RMP PROPOSE THAT CARRYING CHARGES BE**  
884 **ACCUMULATED ON THE BALANCES IT IS REQUESTING TO DEFER**  
885 **AS A REGULATORY ASSET(S)?**

886 A. RMP proposes to apply carrying charges to some, but not all, of the costs  
887 it is seeking to record in the regulatory asset account(s). For items on  
888 which it is currently earning a rate base return, such as the unrecovered  
889 Deer Creek investments and unrecovered Mining Asset investments, it is  
890 not proposing to apply a carrying charge to the deferrals. Additionally, it  
891 does not propose to apply carrying charges to amounts it is accruing but  
892 not yet paying. Under this approach, the Company would not apply a  
893 carrying charge to the 1974 Pension Trust regulatory asset until and  
894 unless it opts for the lump-sum withdrawal method and makes the actual  
895 cash outlay to fund the withdrawal obligation. However, for the closure  
896 costs the Company incurs and makes a cash outlay associated with the  
897 cost, RMP proposes to apply carrying charges based on the authorized

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898 rate of return from the last rate case. Additionally, under the proposed  
899 treatment of the Hunter and Huntington fuel costs through the EBA, RMP  
900 is proposing to accrue carrying costs based on the overall rate of return  
901 approved in the last rate case proceeding.

902 **Q. DO YOU AGREE THAT CARRYING CHARGES SHOULD BE APPLIED**  
903 **TO THE AMOUNTS BEING DEFERRED THAT REQUIRE AN ACTUAL**  
904 **CASH PAYMENT BY PACIFICORP BETWEEN THE TIME OF THE**  
905 **CASH PAYMENT AND THE RATE EFFECTIVE DATE OF THE NEXT**  
906 **RATE CASE PROCEEDING?**

907 A. No, I do not.

908 **Q. WHY SHOULD THE COMPANY NOT RECEIVE THESE CARRYING**  
909 **CHARGES?**

910 A. There are two primary reasons why I do not recommend that carrying  
911 charges be allowed on the proposed regulatory assets between now and  
912 the time rates from the next rate case take effect. The first reason is that,  
913 in my opinion, allowing the application of carrying charges may be in  
914 violation of the provisions of the Settlement Stipulation entered into  
915 between the parties on June 25, 2014 in RMP's last rate case, Docket No.  
916 13-035-184. Paragraph 32 of the Settlement Stipulation specifically  
917 states: "The Company agrees that it will not file another general rate  
918 case, a major plant addition case, or, with the exception of the Step 2  
919 increase and other Commission-approved and currently existing rate  
920 adjustment mechanisms, will not otherwise seek any rate increase in Utah

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921 (a) prior to January 1, 2016 or (b) with a rate effective date prior to  
922 September 1, 2016.” Paragraph 39 of the Settlement Stipulation does  
923 allow RMP to seek deferred accounting orders for “...potential recovery  
924 from or return to customers pursuant to a Commission order in a future  
925 rate case, of costs related to the impacts of any proposed disposition,  
926 through sale, closure or other means, of Deer Creek mine and related  
927 mining assets...” While Paragraph 39 allows for RMP to seek a deferral  
928 associated with the Transaction at issue in this case, the application of  
929 carrying charges to that deferral would be the equivalent of allowing the  
930 Company to earn a return during the rate freeze period that was agreed to  
931 in Paragraph 32 of the Settlement Stipulation. The application of carrying  
932 charges would circumvent the intent of the rate freeze by allowing a return  
933 to be applied to new costs incurred during the rate freeze period.

934 **Q. WHAT IS THE SECOND REASON FOR YOUR RECOMMENDATION**  
935 **THAT CARRYING CHARGES NOT BE APPLIED TO THE PROPOSED**  
936 **REGULATORY ASSET?**

937 A. If RMP did not provide a monopoly service that was subject to regulation  
938 by the Utah Public Service Commission, it would be required to charge the  
939 closure costs to expense when incurred and would not be afforded the  
940 opportunity to defer the costs for future recovery from its captive  
941 ratepayers. Just the fact that it has the ability to defer these charges as a  
942 result of Paragraph 39 of the Settlement Stipulation is a significant benefit  
943 to shareholders that a non-regulated entity would not enjoy. The

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944 Company, and its shareholders, also would not have been afforded this  
945 significant benefit under the Settlement Stipulation absent the limited  
946 provisions provided for in Paragraph 39. Ratepayers will already be  
947 responsible to pay for Transaction costs that are found to be prudently  
948 incurred by the Commission and allowed for deferral treatment as a  
949 regulatory asset, ratepayers should not be expected to also pay a return to  
950 PacifiCorp's shareholders through the application of carrying charges on  
951 these costs being deferred between now and the rate effective date in the  
952 next rate case proceeding.

953 **Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?**

954 A. Yes.

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