

Docket No. 14-035-147
DPU Exhibit 3.0 R
David T. Thomson
April 7, 2015

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Voluntary Request of	:	
Rocky Mountain Power for Approval of	:	Docket No. 14-035-147
Resource Decision and Request for	:	DPU Exhibit 3.0 R
Accounting Order	:	

REBUTTAL TESTIMONY

OF

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

April 7, 2015

1 **Q. Please state your name, business address and title 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. I am a Technical
4 Consultant in the Utah Division of Public Utilities (Division or DPU).

5

6 **Q. For which party will you be offering testimony in this case?**

7 A. I will be offering testimony on behalf of the Division.

8

9 **Q. Did you previously file Direct Testimony in this Docket?**

10 A. Yes.

11

12 **Q. What is the purpose of your rebuttal testimony?**

13 A. My purpose is to comment on lines 62 to 78 of Mr. Kevin Higgins' Direct
14 Testimony. Mr. Higgins is a witness for the Utah Association of Energy Users
15 Intervention Group ("UAE"). My understanding is that basically he is
16 recommending that the Commission grant deferred accounting to capture the
17 benefits to customers of the extension of bonus tax depreciation if deferred
18 accounting is used to exempt Deer Creek-related amortization expense from the
19 Energy Balancing Account ("EBA") 70/30 sharing mechanism.

20

21 My silence on any recommendations given in Direct Testimony of those involved
22 in this Docket should not be interpreted as agreement.

23

24 **Q. Does the Division have a comment about the above recommendation?**

25 A. Yes. This Docket and filing relate specifically to a resource decision made by
26 Rocky Mountain Power (the “Company”) to close the Deer Creek mine. The
27 Division has concerns that the bonus depreciation recommendation put forth by
28 UAE is outside the scope of this Docket. It appears to the Division that this
29 recommendation is unrelated to the subject at hand. Since it is unrelated, UAE’s
30 recommendation would be better handled through UAE making a separate
31 application in a new docket.

32

33 **Q. What are the concerns the Division has about the deferral of bonus**
34 **depreciation?**

35 A. At this time the Division is not making a recommendation concerning the deferral
36 of bonus depreciation in this Docket. However, the Division does have concerns
37 with Mr. Higgins’ recommendation that it would like to comment on at this time.

38

39 The Division has guidelines that it follows for allowance of Deferred Accounting,
40 including that an event is unusual, unique, or infrequent and that it has a material
41 impact on the utility. These do not seem to be met in this instance.

42

43 **Q: Mr. Higgins estimates that Utah’s share of bonus depreciation is between \$2**
44 **million and \$3 million per year. Do you agree with this estimate?**

45 A: Based on the information that Mr. Higgins provides from a Wyoming case, I
46 believe Mr. Higgins estimate is reasonable. As Mr. Higgins explains, the
47 Wyoming case used the same test year ending June 30, 2015 as the Utah general
48 rate case, Docket No. 13-035-184. According to Mr. Higgins, in response to a
49 data request in the Wyoming case, the Company estimated Wyoming's share of
50 bonus depreciation to be \$920,000. From the Company's June 2014 Results of
51 Operations, Wyoming's SG factor is approximately 15%; and Utah's SG factor is
52 approximately 43%. Assuming a consistent proportionality between a
53 jurisdiction's revenue requirement and bonus depreciation, Utah's estimated share
54 of bonus depreciation would be approximately \$2.6 million ($=0.43*920000/.15$).
55 (See Table 1)

56

57 Table 1: Utah's Estimated Bonus Depreciation

\$920,000	Wyoming Allocated Share of Bonus Depreciation
0.153974	Wyoming SG Factor
0.433230	Utah SG Factor
\$2,588,564	Utah's Estimated Share of Bonus Depreciation

58

59 **Q: Besides assuming a consistent proportionality between bonus depreciation**
60 **and a jurisdiction's revenue requirement, are there other assumptions that**
61 **your or Mr. Higgins' estimate of Utah's bonus depreciation share?**

62 A: Yes. The extension of bonus depreciation would apply only to specific qualifying
63 items in the Company's rate base. To estimate Utah's share from a Wyoming
64 specified share of bonus depreciation requires assuming that the qualifying rate
65 base items be identical. This assumption is unlikely to be the case, but useful
66 information can still be gleaned from the comparison.

67

68 There are two reasons why this assumption is unlikely to be the case. First, even
69 if the two cases, Wyoming's and Utah's, were fully litigated, the specific
70 decisions made by the respective Commissions would not likely be the same.

71 Second, Utah's rate case was settled among the parties in the case by stipulation,
72 which was subsequently approved by the Utah Commission. While parties to the
73 Utah settlement agree that the stipulation as a package is in the public interest and
74 leads to just and reasonable results, the parties may not agree on individual
75 components of that package. In particular, parties may not agree on specific items
76 that were (or were not) included in the Company's rate base in arriving at or in
77 support of the final stipulation. In other words, there may not be agreement as to
78 what items in the Company's rate base the extension of bonus depreciation would
79 apply.

80

81 Nevertheless, I believe that Mr. Higgins' estimate is a reasonable approximation
82 or estimate of the impact bonus depreciation would have had on Utah's revenue
83 requirement if it had been applied in the Company's last general rate case.

84

85 **Q: Do you believe that the extension of bonus depreciation constitutes an event**
86 **for which deferred accounting is appropriate?**

87 A: Perhaps not. According to the Division's guidelines (and past Commission
88 orders¹) on deferred accounting, an event may be determined to be extraordinary
89 and appropriate for deferral for at least two reasons. First, the event is unusual,
90 unique, or infrequent. Second, the event is material. The application of either
91 condition will be somewhat subjective.

92

93 For example, as explained by Mr. Higgins, bonus depreciation and its extension
94 were part of the stimulus package or recovery efforts of the federal government in
95 the years just prior to the test year in the Company's last general rate case. From
96 this perspective, a reasonable argument could be made to say that the extension of
97 bonus depreciation through the end of 2014 does not constitute an unusual or
98 unique event. On the other hand, looking further back, one could also reasonably
99 argue that the use of bonus depreciation, while not an unknown tool, was an
100 economic stimulus tool specifically and uniquely designed in reaction to the
101 economic downturn of and post 2008. Arguably, the further away in time from the
102 recession, the less likely it became that bonus depreciation would be extended and
103 could be anticipated.

104

¹ See Report and Order, Docket Nos. 06-035-163, 07-035-04, and 07-035-14, issued January 3, 2008.

105 Similarly, materiality will be subjective. The Division's guidelines note that
106 materiality may depend on or be judged against the potential impact on the
107 Company's earnings position. In the present case, that impact appears very
108 limited. According to the Company's 2014 Results of Operations, 100 basis
109 points on equity is equal to approximately \$49 million. Prorating Utah's share of
110 bonus depreciation extrapolated from Mr. Higgins' estimate in Wyoming, the
111 estimate for Utah of \$2.6 million would equate to approximately 5.3 basis points
112 on equity or 0.053% ($=100*2.6/49$).

113

114 **Q: Do you have any other concerns regarding Mr. Higgins' proposed treatment**
115 **of bonus depreciation in this case?**

116 A: Yes. Given the apparent limited material impact bonus depreciation has in this
117 case, or that it would represent in a separate docket as a stand-alone request, the
118 Division is concerned about the precedent the Commission's adoption of the
119 proposal would potentially have on future deferred accounting requests that
120 parties, and in particular, the Company, may bring to the Commission.
121 Furthermore, while Mr. Higgins argues for similarities or parallels between his
122 proposed treatment of bonus depreciation and the Company's treatment of costs
123 associated with the closure of the Deer Creek mine, Mr. Higgins' argument of
124 "unintended consequences of ratemaking mechanics" falls short of establishing a
125 direct nexus between the two.

126

127 As the Commission pointed out in past orders,² a grant of deferred accounting
128 treatment and any subsequent recovery constitutes an exception to the rule against
129 retroactive ratemaking. Thus, the Division agrees with Mr. Higgins, that the
130 Commission should view any request for deferred accounting treatment, including
131 the treatment of bonus depreciation in this case, with caution. The Division is
132 concerned that adoption of Mr. Higgins' proposal with respect to bonus
133 depreciation in this case could potentially set an unwanted precedent that would
134 allow the Company to seek deferred accounting treatment for items that would
135 otherwise be characterized as "missteps made in the ratemaking process."
136 (Commission order p. 15)

137
138 **Q: Would you please summarize the Division's position on the treatment of**
139 **bonus depreciation in this case?**

140 A: Based on the evidence presented thus far, the Division is not convinced that there
141 is a direct link between the bonus depreciation issue and the Company's request
142 in this case. Additionally, the Division believes that in the present circumstances
143 the extension of bonus depreciation through the end of 2014 probably had an
144 inconsequential impact on the Company's earnings and is, therefore, is
145 immaterial. Furthermore, the Division is concerned that adoption of Mr. Higgins'
146 proposed treatment sets an unwanted precedent as an exception to the rule of
147 retroactive ratemaking.

² *Ibid.*

148

149 **Q. Does this conclude your Rebuttal Testimony?**

150 **A. Yes.**