

1 **Q. Are you the same Douglas K. Stuver who previously provided direct**
2 **testimony in this case on behalf of PacifiCorp dba Rocky Mountain Power**
3 **(PacifiCorp or the “Company”)?**

4 A. Yes.

5 **PURPOSE OF REBUTTAL TESTIMONY**

6 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

7 A. The purpose of my rebuttal testimony is to respond to the recommendations and
8 proposed adjustments made by the Utah Association of Energy Users (“UAE”)
9 witness Mr. Kevin Higgins, the Utah Division of Public Utilities (“DPU”)
10 witnesses Ms. Carolyn Roll, Mr. Charles Peterson and Mr. David Thomson and
11 the Utah Office of Consumer Services (“OCS”) witness Ms. Donna Ramas with
12 respect to the various components of the Company’s proposed transaction to close
13 the Deer Creek mine, sell certain Utah mining assets (“Mining Assets”), withdraw
14 from the United Mine Workers of America (“UMWA”) 1974 Pension Trust
15 (“1974 Pension Trust”) and settle the Energy West Mining Company portion of
16 the Company’s retiree medical obligation (the “Transaction”).

17 **Q. What are the key recommendations made by the parties that will be**
18 **addressed in your rebuttal testimony?**

19 A. First, I will address Mr. Higgins’ and Mr. Thomson’s recommendations to
20 limit the Company’s ability to defer and fully recover the costs associated with the
21 Transaction by specifically denying the Company’s request to defer and
22 ultimately recover certain closure-related costs, and Mr. Higgins' claim that the
23 Company's request for deferred accounting is single-issue ratemaking.

24 Second, I will address the parties' conflicting recommendations regarding
25 the Company's proposal to flow certain costs through the Energy Balancing
26 Account ("EBA"), including Mr. Higgins' proposed adjustment to reduce the
27 deferrals resulting from the Transaction by the impacts of bonus tax depreciation.

28 Third, I will address the parties' recommendations associated with
29 carrying charges requested in the Company's application.

30 Fourth, I will address parties' proposals for the Company to credit to
31 customers excess returns on fuel inventory due to significant declines in the fuel
32 inventory balances compared to what was included in the test period of the
33 Company's most recently completed general rate case.

34 Fifth, I will address parties' proposed adjustments for Hunter joint
35 ownership impacts.

36 Finally, I will address the recommendation made by both Mr. Higgins and
37 Ms. Ramas that the periods over which the Company's regulatory assets are
38 amortized be determined in a future general rate proceeding.

39 **SINGLE ISSUE RATEMAKING AND PROPOSED LIMITATIONS ON**
40 **ABILITY TO DEFER AND RECOVER CERTAIN TRANSACTION COSTS**

41 **Q. Mr. Higgins states in his testimony that he believes the Company's deferral**
42 **request is an example of single-issue ratemaking. Does the Company agree**
43 **with Mr. Higgins' contentions?**

44 A. No. First of all, the Company's request is for approval of a voluntary resource
45 decision under a statute which specifically allows for cost recovery. The relief the
46 Company has requested includes deferred accounting in order to manage the

47 impact to the Company and customers. The deferral of costs does not constitute
48 single-issue ratemaking and is a normal tool available in the regulatory process to
49 deal with unique situations like the one presented here.

50 Second, absent the Company's request for deferral, the Transaction-related
51 costs would flow through fuel expense as recognized or incurred and would
52 impact the Energy Balancing Account balances (although at a 70/30 sharing) and
53 associated EBA cost recovery process all in one year.

54 Third, although the majority of the Company's costs related to the
55 Transaction will be incurred in 2015, there was no reasonable way for the
56 Company to have included them in its 2014 general rate case ("2014 GRC") for
57 recovery during 2015. The Company's 2014 GRC was filed on January 3, 2014,
58 and was prepared in late 2013 while the outcome of the transaction was highly
59 uncertain. At that time, the Company could not have known what to request or
60 how the transaction would be structured. If the mine had been sold rather than
61 closed, the Company would not have incurred closure costs, so including an
62 estimate in the case when filed would have been inappropriate. After the case was
63 filed, the proceedings ran their course with hearings held in late July, and a final
64 order issued by the Commission in late August 2014. It is highly unlikely that the
65 parties to the 2014 GRC would have allowed an update to the case for an increase
66 in costs late in the process. During the pendency of the case, the Company was
67 conducting negotiations for the transaction, but there was no guarantee the
68 negotiations would be successful or that a final agreement would be reached. The
69 date of the final union settlement was October 31, 2014, and the agreement with

70 Bowie Resource Partners, LLC ("Bowie") was signed on December 12, 2014.

71 The approach the Company has taken is reasonable and fairly treats customers
72 and the Company's owners.

73 **Q. Mr. Higgins testifies that his understanding is that deferred accounting**
74 **outside of a general rate case (other than fuel adjustment mechanisms) is**
75 **limited to situations in which changes in costs are not only unforeseen but**
76 **extraordinary.¹ Do you agree with Mr. Higgins?**

77 A. No. It is interesting that Mr. Higgins argues these points related to the Company's
78 proposal in this Docket while attempting to include an argument for the deferral
79 of unrelated bonus depreciation impacts as an offset to the Company's requested
80 relief. The relief the Company has requested as part of the statute is fully available
81 to the Commission under statute.

82 **Q. Mr. Higgins proposes that deferral of supplemental unemployment and**
83 **medical benefits for union employees, severance for non-union employees**
84 **and the on-going labor and other closure costs be denied.² Do you agree with**
85 **this proposal?**

86 A. No. Mr. Higgins recommends that deferral of these costs not be allowed because
87 they were not unforeseen, are not extraordinary and do not result from an
88 unintended consequence of the ratemaking process. Mr. Higgins further implies
89 that because some of the costs were incurred during the test period of the
90 Company's 2014 GRC, the Company missed the opportunity to identify them.

¹ UAE/Higgins Direct, p. 17.

² UAE Direct Exhibit 1.0, page 5, lines 92-93 and page 6, lines 116-118.

91 Mr. Higgins' suggestion that the Company should have included
92 projections related to the Transaction in the 2014 GRC is unreasonable. The case
93 was prepared in late 2013 and filed in January 2014, and a multi-party stipulation
94 was reached in August 2014 (2014 GRC Stipulation). Meanwhile, the Company
95 was working throughout 2014 to negotiate a labor deal and reached settlement
96 with Bowie Resource Partners, LLC (“Bowie”) after its unsuccessful attempts to
97 sell the Deer Creek mine. The final labor settlement agreement was not reached
98 until October 2014 and provided for release of the UMWA’s jurisdiction over the
99 Preparation Plant and release of UMWA successorship to any buyer. This was a
100 necessary outcome to trigger withdrawal from the 1974 Pension Trust upon the
101 last union hour being worked at the Deer Creek mine. The final union settlement
102 on retiree medical was not reached until December 8, 2014, and the Bowie
103 documents were not executed until December 12, 2014. Thus, although the
104 Company was working toward completing the different components of the
105 Transaction during the 2014 GRC, it had no assurance that these would be
106 successfully resolved or when that might occur.

107 In any event, the Company reserved its right to defer costs for potential
108 recovery related to the Deer Creek mine disposition in the 2014 GRC Stipulation,
109 to which UAE was a party, as follows:

110 The Parties agree that the stay-out provision of Paragraph 32 will not
111 prevent Rocky Mountain Power from seeking deferred accounting
112 orders, for potential recovery from or return to customers pursuant to a
113 Commission order in a future rate case, of costs related to the impacts of

114 any proposed disposition, through sale, closure or other means, of the
115 Deer Creek mine and related mining assets...³

116 The labor costs that Mr. Higgins now challenges are directly related to the
117 Deer Creek mine closure, which fall squarely within the reservation quoted above.
118 His recommendation to exclude them is inconsistent with UAE's own agreement.

119 If the Commission accepts Mr. Higgins' adjustment, the Company and its
120 shareholders will have to absorb these costs. Finally, the components of the
121 Transaction are a package that collectively provides significant benefits to
122 customers. A disallowance of these labor-related costs would be punitive,
123 particularly when the Company intends to share 100 percent of the benefits of the
124 Transaction with customers.

125 **Q. Mr. Higgins and Mr. Thomson recommend that recovery of construction**
126 **work-in-progress and preliminary survey and investigation costs be denied**
127 **due to the assets not being used and useful.⁴ How do you respond to this**
128 **recommendation?**

129 A. I disagree with this recommendation based on several factors. First, the
130 components of the Transaction are a package that will provide significant benefits
131 to customers. Furthermore, the construction work-in-progress includes projects
132 incurred in the normal course of business related to, for example, maintenance of
133 the mine's conveyor belts. The preliminary survey and investigation costs are
134 related to drilling costs. Virtually no work was performed on these projects in
135 2014. The Company could have completed these projects and included them in

³ *In the Matter of the Application of Rocky Mountain Power for Authority to Increase Retail Electric Utility Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket No. 13-035-184, Settlement Stipulation, ¶ 39 (June 25, 2014).

⁴ UAE Direct Exhibit 1.0, page 4, lines 83-87 and DPU Exhibit 3.0 DIR page 8, lines 151-152.

136 the 2014 GRC as used and useful given the test period used in the case; however,
137 the Company acted prudently and did not incur those additional costs because of
138 the potential disposition of the mine.

139 **ADJUSTMENTS FLOWING THROUGH THE ENERGY BALANCING**
140 **ACCOUNT (“EBA”)**

141 **Q. With certain exceptions, Mr. Higgins agrees with the Company’s proposal to**
142 **capture certain costs associated with the Transaction through the EBA**
143 **without application of the mechanism’s sharing band. One exception**
144 **proposed by Mr. Higgins is to exclude amortization associated with the**
145 **"unsold portion" of the Mining Assets from the EBA?⁵ Do you agree with**
146 **this proposed adjustment?**

147 **A.** No, I do not. The intent of the Company’s proposal is to avoid windfalls for
148 customers or the Company and to amortize the unrecovered investment in the
149 Mining Assets through the EBA at the current rate of depreciation that is already
150 in customer rates in order to reduce the unamortized balance of the unrecovered
151 investments that are being requested for recovery in the Company’s current
152 general rate case.

153 The preparation plant represents ██████████ of the ██████████ net book
154 value of the Mining Assets and has a depreciable life that ends in 2042. As a
155 result, the Company’s proposal to continue to amortize the Mining Assets at the
156 current depreciation rate until the time of the next rate reset will not reduce the
157 unamortized balance below the ██████████ on sale of the Mining Assets.

⁵ UAE Direct Exhibit 1.0, page 4, lines 469-476.

158 Furthermore, it will reduce the balance of the unrecovered investment in the
159 Mining Assets included in the Company's current general rate case while
160 minimizing impacts to customers.

161 **Q. Mr. Higgins proposes that the impacts of bonus tax depreciation be included**
162 **as an offset to the amounts the Company proposes to flow through the EBA**
163 **without application of the sharing band.⁶ Do you agree with this adjustment?**

164 A. No. As bonus depreciation is not relevant to this docket, the Company
165 recommends that the Commission reject Mr. Higgins' proposal. It occurred during
166 the rate plan period, well after the settlement and final resolution of the last rate
167 case, and was not identified in that settlement as a future concern of the parties.
168 UAE is not precluded from pursuing other remedies if they believe the Company
169 will over-earn in 2015 as a result of the application of bonus depreciation to actual
170 results of operation.

171 **Q. Mr. Higgins further recommends that if a "companion" deferral for bonus**
172 **depreciation is not provided, the Company's request that the sharing band**
173 **not be applied be rejected.⁷ How do you respond to this recommendation?**

174 A. The Company rejects any proposals to include adjustments that are not relevant to
175 this docket. Mr. Higgins' apparent acceptance of the Company's proposal to
176 exempt amounts resulting from the Transaction from the EBA's sharing band in
177 exchange for a "companion" deferral for bonus depreciation is unrelated,
178 unreasonable and unjustified. The Company's proposal to exempt these amounts
179 from the sharing band will benefit customers by passing through 100 percent of

⁶ UAE Direct Exhibit 1.0, page 3, lines 55-57.

⁷ UAE Direct Exhibit 1.0, page 4, lines 76-78.

180 the fuel costs savings resulting from the Transaction. The Company, therefore,
181 disagrees with Mr. Higgins' proposal. As mentioned previously, the alternative is
182 to not begin the amortization of the unrecovered plant investment until the next
183 case rather than concede to an unrelated adjustment from UAE to tie it to a bonus
184 depreciation adjustment. Again, applying the 30 percent sharing or accepting the
185 Company proposal to not apply the sharing bands but offset the cost with an
186 unrelated adjustment penalizes the Company for acting in good faith in the
187 settlement of the last case and in bringing forward the Transaction that is in the
188 public interest.

189 **Q. Ms. Ramas rejects the Company's proposal to amortize the unrecovered**
190 **investments through the EBA, recommending recovery be addressed in the**
191 **Company's next general rate case proceeding.⁸ Similarly, Mr. Peterson**
192 **recommends that the Commission issue a deferred accounting order to allow**
193 **the Company to seek recovery of the unrecovered investments in the Deer**
194 **Creek asset and Mining Assets through the Company's next general rate case**
195 **rather than amortize these amounts based on current depreciation rates.⁹ Do**
196 **you object to these recommendations?**

197 **A.** No. As stated previously, delaying the amortization of the Unrecovered Plant and
198 Mining Assets until the next rate case is a potential option, but is not the
199 Company's preferred approach to maintain fairness.

⁸ OCS-1D Ramas, page 4, lines 87-89 and page 5, lines 90-91.

⁹ DPU Exhibit 2.0 DIR, page 14, lines 282-287.

200 **Q. Ms. Ramas and Mr. Peterson further recommend that the fuel cost savings**
201 **resulting from the replacement fuel supply flow through the EBA, subject to**
202 **the sharing band.¹⁰ Do you agree with this recommendation?**

203 A. This approach appears to be contrary to customers' interests and does not properly
204 match both the costs and the benefits of the transaction at 100 percent. If the
205 Commission decides to delay the cost recovery of the Unrecovered Plant and
206 Mining Assets until the next rate case, then any benefits of the transaction will
207 flow through the normal operation of the EBA, with 30 percent of the benefits of
208 discontinued amortization retained by the Company. The Company is seeking to
209 recover 100 percent of its costs associated with the transaction, and share 100
210 percent of the benefits with customers.

211 **Q. Ms. Ramas also suggests that it may be inappropriate to amortize the**
212 **unrecovered investments to account 501, Fuel cost. Do you agree with her**
213 **suggestion?**

214 A. No. The Company's interpretation of account 501 is that it allows for amortization
215 of the unrecovered investments it is requesting here.

216 **Q. Absent the Company's Application in this Docket and the request for**
217 **deferred accounting treatment, would the costs have been booked to account**
218 **501 and flowed through the EBA anyway?**

219 A. Yes. Without the request for relief sought in this Docket, the Company would be
220 required to recognize the impact of recognition of the pension liability, the write-
221 off of the Unrecovered Plant and Mining Assets, and all of the other costs related
222 to the Transaction as an immediate expense in account 501. This would result in a

¹⁰ DPU Exhibit 2.0 DIR, page 13, lines 264-268 and OCS-1D Ramas page 36, lines 801-807.

223 significant expense flowing through the EBA in one year. With this outcome, it
224 would not be surprising to then see parties requesting a modification to the EBA
225 to spread the impact over several years to minimize the impact to customers,
226 which brings us back to where we are at in this docket. The question before the
227 Commission is whether the Company has acted prudently and in the public
228 interest and, if so, should it be allowed to fully recover its costs from the
229 implementation of the Transaction, with those costs being recovered over a
230 reasonable period of time.

231 CARRYING CHARGES

232 **Q. How do you respond to Mr. Higgins' and Ms. Ramas' recommendation that**
233 **carrying charges on amounts flowed through the EBA be limited to the**
234 **EBA's six percent carrying charge?¹¹**

235 A. I do not object to this recommendation on the basis that it is the carrying charge
236 established under the EBA tariff and would remove one complexity of the
237 Company's original proposal.

238 **Q. Mr. Higgins proposes that the amortization of the unrecovered investments**
239 **that will flow through the EBA accrue no carrying charge because he believes**
240 **this would constitute double recovery due to the assets currently being**
241 **included in rate base.¹² Do you agree with Mr. Higgins' concern?**

242 A. No, not for the year in which the costs are being identified and deferred monthly
243 to the EBA. Absent on-going property, plant and equipment additions to offset
244 depreciation between rate cases, the Company agrees that its proposal could lead

¹¹ UAE Direct Exhibit 1.0, page 7, lines 150-152 and OCS-1D Ramas page 36, lines 804-807.

¹² UAE Direct Exhibit 1.0, page 7, lines 154-157 and page 8, lines 158-159.

245 to doubling up of its return on the unrecovered investments. However, for the
246 period that the costs are awaiting review and collection after the year in which
247 they were deferred to the EBA balancing account, the Company should collect the
248 time value of money on the amounts awaiting collection.

249 **Q. Mr. Higgins proposes that the carrying charge on the regulatory assets**
250 **established outside of the EBA be limited to the Company’s long-term debt**
251 **rate.¹³ How do you respond to this adjustment to the Company’s request to**
252 **earn a carrying charge at its authorized rate of return?**

253 A. Mr. Higgins’ proposal would limit the Company’s ability to fully recover its costs
254 to complete the Transaction. To fund the closure costs, the Company must incur
255 financing costs. As the Company intends to share 100 percent of the benefits of
256 the Transaction with customers, it is unreasonable to keep the Company from
257 fully recovering the costs of completing the Transaction. The Company opposes
258 any limitation on the accrual of a carrying charge on costs incurred and funded to
259 complete the Transaction.

260 **Q. Mr. Higgins proposes that a credit to customers be provided for the return on**
261 **the “sold portion of the Mining Assets.”¹⁴ Do you agree with this adjustment?**

262 A. To a certain extent. I agree in concept that once the Mining Assets are sold, there
263 is no longer a need for the portion of net book value recovered through the [REDACTED]
264 [REDACTED] to earn a return. [REDACTED]
265 [REDACTED]
266 [REDACTED]

¹³ UAE Direct Exhibit 1.0, page 8, lines 160-162.

¹⁴ UAE Direct Exhibit 1.0, page 3, lines 57-61.

267

[REDACTED]

268

[REDACTED]

269 **Q. Ms. Roll recommends that no carrying charge accrue on deferred closure**
270 **costs through the end of the next rate case.¹⁵ Do you agree with this**
271 **adjustment?**

272 A. No. The Company will incur significant expenses and associated cash outlays for
273 the activities related to the closure of the mine. These costs are financed through
274 the Company's debt and equity and have a cost associated with it. If the decision
275 is found to be prudent and in the public interest, then the costs incurred, including
276 carrying costs, should be recoverable.

277

RETURN ON FUEL INVENTORY

278 **Q. Mr. Higgins proposes a \$5.8 million offset (total Company basis) to the**
279 **Company's proposed regulatory assets due to lower fuel inventory levels in**
280 **2015 while Ms. Ramas proposes an adjustment of \$11.1 million covering the**
281 **period January 2015 through September 2016.¹⁶ Do you agree with this**
282 **adjustment?**

283 A. I agree in concept with this adjustment. However, I believe the credit to customers
284 for the excess return on fuel inventory should be limited to the period subsequent
285 to approval of the transaction, or June 1, 2015 forward. Since the change in the
286 fuel stock balances are directly related to the transaction, this adjustment should
287 be similar to other transaction-related adjustments and start effective June 1, 2015,
288 and not start on January 1, 2015. This would reduce the estimated credit to \$3.8

¹⁵ DPU Exhibit 1.0 DIR, page 16, lines 341-342.

¹⁶ UAE Direct Exhibit 1.0, page 7, lines 136-139 and OCS-1D Ramas, page 26, lines 590-592 and page 27, lines 593-603.

289 million on a total Company basis for 2015. The actual adjustment in this Docket,
290 however, should be based on actual monthly fuel inventory as compared to the
291 level set in the 2014 general rate case, and not a fixed estimate.

292 I do want to reiterate fairness in the Company's willingness to accept this
293 adjustment. The Company in its initial filing proposed to credit customers for
294 items that will no longer be in rate base at the authorized ROR as they will no
295 longer be financed by shareholders or bondholders and asks only to be treated
296 fairly for items being deferred that should now be included in rate base. It would
297 be patently unfair and arbitrary with this Transaction to remove items from rate
298 base at the authorized ROR and then only allow a cost of debt equivalent carrying
299 charge rate, or no carrying charge at all, when the Company has demonstrated
300 significant customer benefits.

301 **JOINT OWNERSHIP IMPACTS**

302 **Q. Mr. Higgins and Ms. Ramas recommend that amounts requested to be**
303 **recovered as a result of the Transaction be adjusted to ensure that customers**
304 **do not provide recovery of portions allocable to the joint owners in the**
305 **Hunter generating plant.¹⁷ Do you object to these recommendations?**

306 A. No. The Company agrees and expects that joint owners will cover their share in
307 the costs related to the Transaction just as they will inherently share in
308 Transaction benefits that affect the Hunter generating facility. Although
309 alternatives to accounting for the joint owners' portion of the Transaction costs
310 exist, the Company does not object to recording the portion of Transaction costs

¹⁷ UAE Direct Exhibit 1.0, page 4, lines 88-89 and page 5, lines 90-91 and OCS-1D Ramas, page 5, lines 92-98.

311 allocable to joint owners as a receivable, such that the regulatory assets represent
312 only those amounts to be recovered from customers.

313 The Company would amortize the regulatory assets resulting from the
314 Transaction to account 501, Fuel costs, at the plant level. Under this approach,
315 fuel costs would reflect only the Company's share of the amortization of the
316 Transaction costs. In the following year, the joint owners would be billed for their
317 share of costs based on the prior Federal Energy Regulatory Commission Form
318 No. 1 data, including the Company's share of the amortization, by taking the
319 Company's reported costs per MMBtu times the joint owners' share of generation
320 volumes.

321 AMORTIZATION PERIODS

322 **Q. Both Ms. Ramas and Mr. Higgins propose that the amortization periods for**
323 **certain regulatory assets established as a result of the Transaction be**
324 **determined in a future proceeding.¹⁸ Do you object to this proposal?**

325 A. No. The Company proposes a carrying charge on certain regulatory assets during
326 the deferral period. Once rates reset in the Company's next general rate case
327 proceeding, the Company proposes the regulatory assets be included in rate base
328 with a return provided at the Company's authorized rate of return. As long as
329 these carrying charges and rate base treatment are provided as proposed by the
330 Company, the Company does not object to amortization periods being determined
331 in a future proceeding. The Company would object to a situation that no or very
332 low carrying charges are established by the Commission in this Docket and no
333 rate base treatment afforded in the next case, with the amortization period then

¹⁸ OCS-1D Ramas, page 4, lines 80-86 and UAE Direct Exhibit 1.0, page 7, lines 142-147.

334 extended for a lengthy period of time in the next rate case when cost recovery is
335 established.

336 **CONCLUSION**

337 **Q. Does this conclude your rebuttal testimony?**

338 **A. Yes.**