Q. Please state your name, business address and present position with Rocky Mountain Power (the Company), a division of PacifiCorp.

A. My name is Norman K. Ross. My business address is PacifiCorp, 825 NE Multnomah, Suite 1900, Portland, Oregon 97232. I am a Director within the Company's corporate tax department. Prior to assuming my present duties in 1998, I served from 1987 through 1998 within the corporate tax department of Pacific Telecom, Inc., a former PacifiCorp subsidiary.

Qualifications

Q. Please briefly describe your education and business experience.

A. I received a Bachelor of Business Administration with a concentration in accounting from Seattle Pacific University in June 1980. I also received the Certified Public Accountant designation in 1984. I have been employed by PacifiCorp or its affiliates for the past 21 years. My business experience includes all areas of the corporate tax function.

Q. Please describe your present duties.

A. I am currently responsible for all activities related to the Company's property, sales, use, excise, gross receipt and miscellaneous tax obligations.

Purpose of Testimony

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

A. My involvement in this proceeding is limited to providing testimony concerning the Company's property tax expense.

Q. Does the Company believe that its estimate of 2009 property tax expense reflects the best estimate given year over year increases in the level of property subject to assessment and operating earnings?

A. Yes. However, recent developments suggest that the Company's estimate may actually be conservative. It now appears that certain states may utilize lower than anticipated income capitalization rates. If that were to occur, the value estimates produced by each state's income approach would increase which would in turn result in an increase in each state's final overall assessed value. Should the higher value exceed the value on which the Company's estimate of 2009 property tax expense was based, actual property tax expense could exceed the $86.6 million amount submitted in this case.

Q. Has the Division of Public Utilities (DPU) submitted testimony in this case related to property tax expense?

A. Yes. DPU witness Mr. Mark E. Garrett submitted testimony that responded to the Commission's request in Docket No. 07-035-93 that each party provide a commentary "on the Company's property tax estimation model and evaluation of its validity, assumptions, projections, and judgment contained therein."

Q. Is DPU witness Mr. Garrett's testimony supportive of the Company's methodology and the resulting estimate of 2009 property tax expense?

A. Yes. Mr. Garrett indicates that the Company's projected assessed values and taxes are "*consistent with the increase in rate base between the two periods*."

Q. Has the Committee of Consumer Services (CCS) submitted testimony in this case related to property tax expense?

A. Yes.

Q. CCS witness Ms. Donna Ramas submitted an alternative calculation of 2009 property tax expense. Do you agree with Ms. Ramas' estimate?

A. No.

Q. Please explain.

A. Ms. Ramas' method for estimating 2009 property tax expense relies exclusively upon a five-year average of year over year percentage changes in historical property tax expense. As a consequence, it suffers from essentially the same deficiencies that caused Ms. Ramas to underestimate 2008 expense by $6.8 million or 8.8 percent in Docket No. 07-035-93. By contrast, the Company's revised estimate of 2008 property tax expense submitted in Docket No. 07-035-93 was only $2.1 million or 2.8 percent higher than the final 2008 property tax expense. In particular, Ms. Ramas' method fails entirely to account for the effect that increases in assessable property have on the assessed values of the Company's operating property.

Having given no consideration in Docket No. 07-035-93 to the effect that a $1.1 billion, or 11 percent, increase in assessable operating property between January 1, 2007 and January 1, 2008 would have on 2008 property tax expense, Ms. Ramas recommended that 2008 property tax expense be set at an amount 2.36 percent higher than actual 2007 expense. The recommended 2.36 percent increase was less than one-fifth of the 12 percent, or $8.4 million year over year

increase in property tax expense. In the current case, Ms. Ramas fails to account for the effect that a $1.9 billion, or 17 percent, increase in the level of assessable operating property between January 1, 2008 and January 1, 2009 will have on 2009 assessed values and the Company's 2009 property tax expense.[1] Ms. Ramas recommends that the Company be allowed a $2.4 million, or 3.07 percent increase over actual 2008 property tax expense. The Company expects Utah property taxes alone to increase by $4.0 million. The method employed by Ms. Ramas implicitly assumes that tax expense will rise by 3.07 percent whether the amount of property subject to assessment increases by $10 or $10 billion. The use of Ms. Ramas' method in Docket No. 07-035-93 resulted in a substantial underestimation of 2008 property tax expense. Although the method has been altered for reasons not explained within Ms. Ramas' testimony, its use in this case underestimates 2009 property tax expense as well.

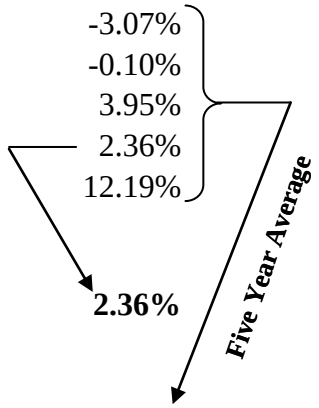
Q. Do CCS witness Ramas' calculations in the current rate case differ from those employed during Docket No. 07-035-93?

A. Yes. The estimate of 2008 property tax expense submitted by Ms. Ramas during Docket No. 07-035-93 relied exclusively upon the year over year percentage change in tax expense for the *preceding year*. In the current case, Ms. Ramas' estimate of 2009 property tax expense relies exclusively upon an average of year over year percentage changes in tax expense for the *preceding five-year period*. Again, no explanation was provided concerning the change in methodology.

[1] Note that the Company's estimation method anticipates a $9 million or 12 % increase over 2008 property tax expense. The use by state assessment personnel of the income approach to value is expected to moderate the overall rate of increase in 2009 property tax expense, causing 2009 assessed values to increase at a rate less than the 17% increase in the level of assessable property.

Change in CCS Estimation Methodology from Prior Rate Case

	Property Tax Expense	Year over Year % Change in Tax Expense
Calendar Year 2003	67,067,823	
Calendar Year 2004	65,005,807	-3.07%
Calendar Year 2005	64,942,799	-0.10%
Calendar Year 2006	67,506,520	3.95%
Calendar Year 2007	69,102,427	2.36%
Calendar Year 2008	77,529,233	12.19%



Method Used in Docket 07-035-93*
Single year over year change **2.36%**

Method Used in Docket 08-035-38**
Five-Year Average of Year over Year Changes **3.07%**

*Source: Docket No. 07-035-93, Direct Tesimony CCS-2D DeRonne, Page 33
**Source: Docket No. 08-035-38, Direct Tesimony CCS-2D Ramas, Page 42

Had Ms. Ramas used the method she employed in Docket No. 07-035-93 in this case, her estimate of 2009 property tax expense would have been a 12.19 percent increase, or $87.0 million ($77.529 million x 1.1219), rather than the 3.07 percent increase, or $79.9 million, that she is now recommending in this case. The use of a five-year average of percentage changes in tax expense appears to have been employed because use of the method employed in Docket No. 07-035-93 would have supported the Company's estimate. There is no reason to believe that the 3.07 percent rate derived from a five-year average will produce a more reliable estimate than did the use of the 2.36 percent rate in the 2007 case.

The potential for substantially over or underestimating property tax expense is very high when such an estimate relies on a simple average of unadjusted historical tax data. Consider the illustration within the following table.

The table contains a listing of property tax expense for the years 2004 through 2008 along side each year's level of assessable property. The ratio calculated in column "c" represents the relationship between the two historical amounts. Applying the five-year average of each year's ratio to the level of 2009 assessable property produces an estimate of 2009 property tax expense of $94.9 million or approximately 10 percent higher than the Company's estimate.

Tax Year	Assessable Property	Property Tax Expense	Ratio
	a	**b**	**c** **(b/a)**
2004	$8,300,000,000	$65,005,807	0.78%
2005	$8,600,000,000	$64,942,799	0.76%
2006	$9,200,000,000	$67,506,520	0.73%
2007	$10,000,000,000	$69,102,427	0.69%
2008	$11,100,000,000	$77,529,233	0.70%
		Five-Year Average	0.73%

$13,000,000,000	Assessable 2009 Property
0.73%	x Five-Year Average Ratio
$94,900,000	2009 Estimated Property Tax Expense

The $94.9 million estimate shown above is too high and therefore invalid for many of the same reasons that caused Ms. Ramas to substantially underestimate 2008 property tax expense in Docket No. 07-035-93 and 2009 property tax expense in this case[2] – neither approach takes into account the specific factors which affect 2009 property tax expense. Only the Company's more detailed estimation methodology gives proper consideration to each of those factors.

[2] Note that Ms. Ramas' $79.9 million estimate for 2009 reflects a ratio of property tax expense to assessable property of .61%. ($79.9mllion/$13billion) or nearly 13% lower than 2008's actual ratio.

Q. Did the Committee of Consumer Services (CCS) conduct an investigation of the Company's methodology similar to that undertaken by the DPU?

A. No. Unlike the DPU, which sent a representative from the Garrett Group to Portland for the purpose of reviewing the Company's estimation methodology, I was neither contacted by the CCS nor provided with an opportunity to explain to CCS representatives the assumptions, projections, and judgments which the Company relied upon when estimating property tax expense for this case. Beyond the issuance of Data Request 14.9, which was both issued and responded to prior to the Company's submission of its second supplemental filing, and Data Request 22.14, which focused exclusively on 2008 tax information, the CCS made no further effort to review the methodology employed by the Company when estimating 2009 property tax expense.

Q. The CCS submitted testimony critical of the Company's estimate of 2009 property tax expense. Specifically, CCS Witness Ramas claims that the Company's estimation method considers only "*one of the factors that goes into the determination of property tax expense, that being the level of state assessments*." Please respond to this concern.

A. The Company's property tax estimation methodology, which was explained in detail in Confidential Exhibit RMP_SRM-4SS and provided again here as Confidential Exhibit RMP_NKR-1R, gives specific consideration to all relevant and material factors which impact property tax expense. These factors include state by state assessed values, the amount of tax to be capitalized for projects under construction as of the January 1, 2009 lien date, the amount of property tax

chargeable to fuel expense for mining related assets, state specific exemptions for intangible property, pollution control equipment and other exempt assets, state specific assessment ratios, and state specific tax rates.

Interestingly, the "only" factor considered by Ms. Ramas when preparing an alternative estimate of 2009 property tax expense is what happened during years prior to 2008, as though changes which occurred during 2008 to the level of assessable property and operating income is of no relevance whatsoever.

Q. Line 835 of CCS witness Ramas' testimony contains a table showing preliminary and final assessed values for tax years 2002 through 2005. Is this information relevant with respect to the accuracy of the Company's estimate of 2009 property tax expense?

A. No. Preliminary appraised value amounts were derived from initial state assessment workpapers. Significantly, these preliminary amounts do not represent the Company's estimate of assessed values for any of the listed tax years. Preliminary assessments are just that; preliminary. Such assessments may contain factual errors or errors in the application of generally accepted appraisal principles. Or, they may be incorrect because assumptions made by state assessment staff are incompatible with the regulatory nature of the Company's business operations.

Differences between preliminary and final assessment amounts illustrate the fact that the Company routinely scrutinizes values reflected in each state's preliminary assessment workpapers and to the extent necessary participates in either formal or informal challenges of incorrect results. The majority of issues

are resolved through informal discussions with state assessment personnel. The Company's current estimation methodology begins with *final* 2008 assessed values and ends with an estimate of *final* 2009 assessed values.

Q CCS witness Ramas claims that the Company's methodology fails to consider changes in property tax rates. Do you agree?

A. No. The Company reviewed year to year changes in tax rates and found that such changes follow no consistent or predictable pattern either from state to state or from county to county within a single state. Consider for example that Oregon's 2008 composite property tax rate was .58 percent lower than 2007's rate while Wyoming's 2008 composite property tax rate was .82 percent higher than 2007's rate. The absence of a consistent pattern is even more evident within a single state. The 2008 composite property tax rates in Salt Lake, Summit and Wasatch counties were 2.94 percent, 6.59 percent and 8.87 percent *lower* than 2007's rates while the composite property tax rates in Iron, Kane, and Utah counties were 16.08 percent, 9.44 percent and 3.67 percent *higher* than 2007's rates.

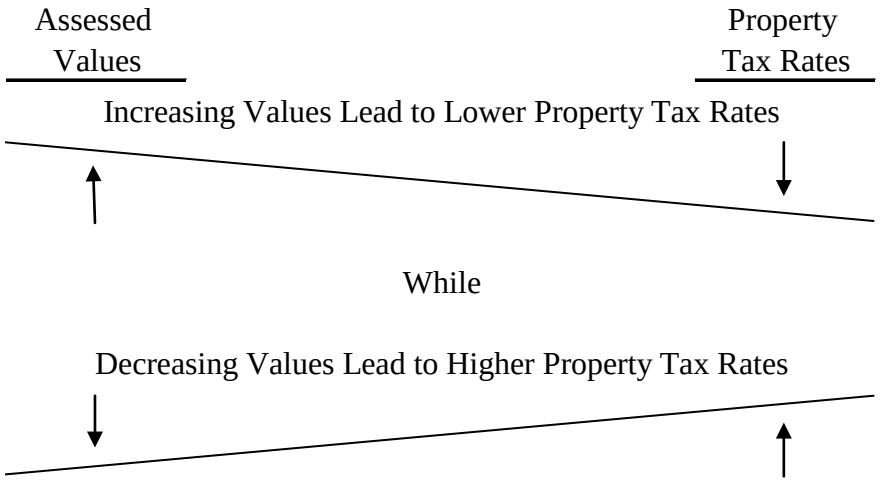
Ms. Ramas noted that the composite property tax rates for Arizona, Montana, Utah and Washington declined from 2006 to 2007. The decline in Arizona tax rates resulted primarily from a decrease in the assessment ratio for industrial property which, since it occurs again in 2009, was given specific consideration within the Company's 2009 estimation process. Although Montana composite tax rates declined by 6.8 percent from 2006 to 2007, rates increased by 8.5 percent from 2007 to 2008. And, while Utah's property tax rates declined by 6.5 percent from 2006 to 2007, composite property tax rates declined by only 1.1

percent from 2007 to 2008.

Given the absence of a reliably consistent pattern to use as the basis for estimating future tax rates, the Company based its estimate of 2009 property tax expense on the composite state specific property tax rates for the most recent tax year – 2008. The Company believes this to be the most appropriate assumption given the absence of evidence to the contrary. Notably, Ms. Ramas provided no specific evidence that 2009 property tax rates will differ from 2008 property tax rates.

Q What factors contribute to changes in property tax rates?

A. Property tax rates are largely a product of governmental budgets divided by the assessed values of the various classes of property that benefit from government services. Hence, changes to either the cost of government services or to the overall assessed value of property will typically cause tax rates to either increase or decrease as illustrated below.



Recent year declines in property tax rates resulted to a large degree from substantial increases to the assessed values assigned to locally assessed residential

property. To the extent that assessed values increase at a rate greater than the rate of increase in governmental expenditures, tax rates decline. The opposite is generally true as well; declining property values typically lead to increased tax rates. Given the recent decline in both residential and commercial property values throughout much of the country, including Utah, tax rates are now considerably more likely to increase than decrease.

Q Are Utah's property tax rates determined in the manner you've described?

A. Yes. During recent conversations with both the Salt Lake County Treasurer and Utah State Tax Commission staff, I confirmed that Utah property tax rates increase or decrease in response to changes in the assessed values of property located within each local taxing area. Increasing or decreasing the rate each year insures that Utah taxing entities receive at least as much tax revenue as it did during the most recent year.

Q. CCS witness Ramas notes that "*actual composite tax rates paid in every state differed from the Company's estimated*" taxes rates used when estimating 2008 property tax expense. Please explain.

A. The Company's initial estimate of 2008 property tax expense was prepared during the fall of 2007, *prior to* receiving 2007 property tax bills from many states. As a result, the estimate relied upon tax rates in place in 2006. The Company's revised estimate of 2008 tax expense submitted during Docket No. 07-035-93 took into account final 2007 tax rates. The Company's estimate of 2009 property tax expense was completed in early December 2008, *after* having received 2008

property tax bills from nearly all states. Thus, state specific tax rates used when estimating 2009 property tax expense are more current.

Q. Has the Company recently improved the methods it employs when estimating property tax expense?

A. Yes. Beginning in 2007, the Company adopted a substantially more robust and granular estimation methodology which produces state specific estimates of property tax expense based upon each state's unique mixture of valuation approaches, financial assumptions, exemptions, assessment ratios, and tax rates. The improved methodology, which was discussed at length with a representative of the Garrett Group, was adopted so as to give more specific consideration to the principal factors impacting property tax expense (the level of assessable property and the level of operating income) and the unique state specific tax policies and practices affecting the Company's tax expense. Estimation methodologies used prior to 2007 relied primarily upon broad changes in Company-wide assessable property and net operating income. The change to a more granular state by state approach was prompted by the recognition that substantial increases in assessable property were affecting individual state tax burdens in unequal ways.

Q. Please provide a brief overview of the improved method used by the Company when estimating 2009 assessed values.

The method begins with state specific valuation models created by the Company's tax department. Each model consists of a series of appraisal worksheets which are functionally identical to the specific cost, income and sales comparison methods routinely employed by each individual state. Beginning with a version

of each state's model which reflects the particular valuation methods each state employed when determining the assessed values for the most recent year, the Company is then able to increase or decrease key property and income amounts within those models and thereby produce an estimate of assessed value for the next tax year.

Once adjustments for anticipated changes in key property and income data are made, the Company makes adjustments for known or anticipated changes in level of exempt property, assessment ratios or other factors expected to impact the next year's valuation. The objective is to produce an estimate of assessed value based upon anticipated changes to all material valuation data.

The resulting state specific estimate of 2009 assessed values is then input into column "b" of the master property tax estimation worksheet. The anticipated year over year percentage change in assessed value, calculated by dividing estimated 2009 assessed value by the final 2008 assessed value, is then used to project tax expense for 2009. Hence, if assessed values are expected to increase by 19.9 percent from 2008 to 2009, as they are in Wyoming, gross property tax expense would be expected to increase at a similar rate.

A similar discussion of the Company's estimation methodology and a copy of the Master Property Tax Estimation Worksheet referred to above can be found within Steve McDougal's second supplemental testimony. For the Commission's convenience, an additional copy of those two confidential documents is attached hereto.

Q. In its decision in Docket No. 07-035-93 the Commission increased property tax expense by $2.0 million, recognizing that property tax capitalized on projects under construction in the current year lead to higher tax expense in the following year as those assets are placed in service. Did the Company capitalize property tax in 2008?

A. Yes. The Company capitalized $1.7 million of property tax associated with the Goodnoe Hills and Marengo II wind projects which were both placed in service during 2008. Calendar year 2008 property tax expense would have been $1.7 million higher absent the capitalization process.

Q. Does this conclude your rebuttal testimony?

A. Yes