Witness CCS – 1

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for An Accounting Order Regarding Pension Curtailment and Pension Measurement Date Change Electric Service Schedules and Electric Service Regulations	**))))))**	**Docket No. 08-035-93 Pre-filed Direct Testimony of Donna Ramas For the Committee of Consumer Services**

December 18, 2008

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

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory analyst at Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH?

A. Yes, I previously filed testimony in Utah on several occasions under the name Donna DeRonne.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous electric, water and wastewater, gas and telephone utility cases.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

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

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates, PLLC was retained by the Utah Committee of Consumer Services (Committee) to review Rocky Mountain Power's (the Company or RMP) application for an accounting order regarding pension curtailment and pension measurement date change in the State of Utah. Rocky Mountain Power is a division of PacifiCorp. Accordingly, I am appearing on behalf of the Committee.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I present the Committee's position regarding RMP's request for an accounting order in this case. The Company's request addresses two components, each of which will be separately addressed in my testimony. The first component of the Company's request is for Commission permission to allow the Company to record the impact of a pension curtailment gain as an offset, or reduction, to the pension regulatory asset on its books. The second component of the Company's request is for Commission permission to record on its books the impact of a required change in pension and OPEB plan asset and liability measurement date as an increase to the regulatory asset. RMP is proposing to amortize the net effect of these two separate items on the pension regulatory asset over a ten-year period. In this testimony, I also address the amortization period proposed by RMP.

Q. WOULD YOU PLEASE PROVIDE A SUMMARY OF THE FIRST COMPONENT OF RMP'S REQUEST?

A. Yes. The first request made by RMP is for Commission permission to allow the Company to record the impact of a pension curtailment gain as an offset, or reduction, to the pension regulatory asset on its books. There are two separate events which caused the curtailment gain. The first event is the result of IBEW Local 659 agreeing to change its retirement benefit approach to a 401(K) program only, which triggered a small curtailment gain. The second event consists of many of PacifiCorp's non-union employees choosing to accept an enhanced 401(k) retirement plan option instead of continuing participation in the Company's cash balance retirement plan, resulting in a substantial curtailment gain. The curtailment gain occurred because of a resulting significant reduction to the accrual of defined pension benefits. Absent the Commission's approval, the curtailment gain would otherwise be charged to income in the current fiscal year ending December 31, 2008. The combination of these two items is a $41 million curtailment gain. RMP has proposed to amortize the curtailment gain over a period of ten years.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL REGARDING THE RECORDING OF THE CURTAILMENT GAINS AS AN OFFSET TO THE PENSION REGULATORY ASSET?

A. Yes, with a slight modification explained below. The Company's ratepayers have been funding the Company's pension plan over time through the inclusion of the net periodic benefit costs (or pension expense) in rates. The historical net periodic benefit costs, or pension expense amounts, included in rates in the past were determined based on actuarial projections that factored in a certain level of future assumed benefit payments. The curtailment gain is a result of significantly reducing the obligation or liability which had previously been factored into the determination of pension expense included in rates paid by ratepayers. The Committee agrees with the Company's proposal that this curtailment gain be flowed back to customers.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO OFFSET THE EXISTING PENSION AND OTHER POSTRETIREMENT WELFARE REGULATORY ASSET FOR THE CURTAILMENT GAIN?

A. I recommend that the Company set up a separate regulatory liability account for the $41 million curtailment gain. The existing pension and OPEB regulatory asset is not amortized; rather it dissipates over time based on actual pension and OPEB plan experience. The establishment of a separate regulatory liability on the Company's books would allow for more transparency, making it easier to ensure that the curtailment gain is accounted for properly in rate case proceedings and to ensure that the full curtailment gain is flowed back to ratepayers. There is no need to record the curtailment gain as an offset to the regulatory asset as proposed by RMP as opposed to setting up a separate regulatory liability.

Q. DO YOU AGREE WITH RMP'S PROPOSAL TO AMORTIZE THE CURTAILMENT GAIN OVER A PERIOD OF TEN YEARS?

A. No, I do not. The Company is proposing a ten-year amortization period, which RMP witness Steven McDougal indicates would closely approximate "…the prior service amortizations that would have continued if it were not for the accelerated recognition due to the curtailment." However, over the period of remaining service of the employees who opted to accept the enhanced 401(K) plan, ratepayers will now be paying for the enhanced 401(K) costs in rates. There is no reason to tie the curtailment gain amortization period to the remaining estimated employment period for those employees. As ratepayers have funded the pension plan in the past, I recommend that the curtailment gain be flowed back to them over a four-year amortization period. This would result in an annual reduction to expense of $10.25 million on a total Company basis.

Q. PLEASE PROVIDE A SUMMARY OF THE SECOND COMPONENT OF RMP'S REQUEST.

A. The second request by RMP pertains to the impact of the change in measurement date for pensions and other postretirement benefits required under FAS 158. The Company has historically used a September 30th measurement date for its pension and other postretirement benefit (OPEB) plans. FAS 158, which was issued in September 2006, requires all entities, with certain very limited exceptions, to measure the pension and OPEB plan assets and liabilities at the fiscal year end. For PacifiCorp, the change in measurement date results in the requirement to recognize fifteen (15) months of pension and OPEB expense in the current fiscal year ending December 31, 2008. While FAS 158 included provisions allowing for earlier adoption of the change in measurement date, and encouraged entities to do so, PacifiCorp must make the change by its current fiscal year end, being December 31, 2008.

Under the requirements of FAS 158, twelve months of pension and OPEB expense, or 12/15ths of the total net periodic pension and OPEB costs, would be recorded as has historically been done, and three months worth (or 3/15ths) would be recorded as a charge to retained earnings on the financial statements. The fifteen month period to which the net periodic pension and OPEB costs pertain is October 1, 2007 through December 31, 2008. This is the gap between the last measurement date used in determining pension and OPEB expense of September 30, 2007 to the new measurement date of December 31 of 2008. This additional adjustment to retained earnings is a transition adjustment that will not recur in the future. Once the transition is made, PacifiCorp's annual measurement of its pension and OPEB plan assets and obligations will coincide with its fiscal year end.

As a result of the transition, absent an accounting order from the Commission, RMP is required to record the impact of the change in measurement date to retained earnings. RMP identified this measurement date change transition adjustment as $14 million. RMP proposes that the $14 million be accounted for as an increase to the existing pension regulatory asset and be amortized over a period of ten years.

Q. DO YOU AGREE THAT RMP SHOULD BE PERMITTED TO RECORD THE $14 MILLION AS AN INCREASE IN REGULATORY ASSETS TO BE RECOVERED FROM RATEPAYERS IN FUTURE PERIODS?

A. Typically, this would be an allowable expense that the Committee would not oppose, when requested in a timely manner.

Q. DO YOU HAVE CONCERNS REGARDING THE TIMING OF RMP'S REQUEST?

A. I am greatly concerned with the fact that RMP did not make its request for recording the measurement date change transition adjustment as a regulatory asset instead of as a charge to retained earnings until November 4th of this year. FAS 158 was issued in September 2006. Since that time, the Company has been aware of the fact that it would have to transition to a fiscal year end, or December 31st, measurement date by the current fiscal year end at the very latest. The Company was also fully aware of the accounting ramifications since September 2006 based on the clear guidance in FAS 158. It should have been apparent to the Company since 2006 that a charge to retained earnings would result from the transition absent an accounting order allowing for special regulatory treatment of the transition cost.

Rocky Mountain Power Company's last rate case, Docket No. 07-035-93, was filed on December 17, 2007 and included a proposed test period ending June 30, 2009. The required charge to retained earnings resulting from the measurement date change transition would fall within that proposed test period. On February 14, 2008, the Commission issued an order on test period in that case, requiring the Company to update its application utilizing a test period consisting of the twelve-months ended December 31, 2008. The revised filing incorporating the test period ending December 31, 2008 was filed by RMP on March 6, 2008. The required charge to retained earnings resulting from the measurement date change transition fall within both the Company's proposed test period and that required by the Commission in Docket No. 07-035-93.

Current rates being charged to RMP's Utah customers are based on the Commission's Decision in Docket No. 07-035-93, which was premised on the ordered test period ending December 31, 2008.

As indicated previously, RMP has been aware that the final deadline for recording the impact of the change in measurement date would be the current fiscal year ending December 31, 2008 since at least September of 2006. In fact, in response to CCS 1.12, RMP provided a copy of an internal document prepared by PacifiCorp employee Jennifer Kahl regarding the "Regulatory impact of change in measurement date." That document was dated November 2, 2007, which is before the Company's initial December 2007 filing in Docket No. 07-035-93 and well before the Company's revised filing in March 2008.

The Committee is concerned that PacifiCorp has now come back and raised this issue that would otherwise fall within the test period in Docket No. 07-035-93 when the Company was fully aware of the issue prior to its filing in that case and was fully aware that the impact would occur during the test period in that case. RMP has an obligation in using a future test year to raise all the pertinent issues impacting the future test period of which it is aware. RMP was clearly aware of the change in measurement date issue, yet it did not raise the issue or make a request for special regulatory accounting treatment in that case. Therefore, PacifiCorp's request is not timely.

Q. IS THERE A REASON THAT THE COMPANY COULD NOT HAVE INCLUDED A REQUEST FOR RECOVERY OF THE IMPACT OF THE CHANGE IN MEASUREMENT DATE IN THE PRIOR RATE CASE?

A. No, there is not. In fact, based on a Company document provided in response to CCS 1.12, the Company had an estimated impact of the change in measurement date back in early November of 2007. While an exact impact would not have been known at that time, the Company could have submitted an estimate or projection of the impact along with a proposal for recovery of the impact. The Company apparently chose not to submit a timely request as part of that case even though it was aware the change in measurement date would be required to occur within the test period. In using a future test year, many costs are based on estimates, including the projected pension and OPEB costs.

Q. IS THE SAME TIMING CONCERN AN ISSUE WITH THE PENSION CURTAILMENT GAIN THAT WOULD ALSO BE RECORDED DURING THE FISCAL YEAR ENDING DECEMBER 31, 2008 ABSENT SPECIAL REGULATORY PROVISIONS?

A. No, it is not. As previously discussed, the vast majority of the pension curtailment gain resulted from many of PacifiCorp's non-union employees choosing to accept an enhanced 401(k) retirement plan option instead of continuing participation in the Company's cash balance retirement plan. To the best of my knowledge, the Company had not planned on making this option available to employees at the time of the last rate case filing in Docket No. 07-035-93. The events triggering the curtailment gain did not transpire until late in 2008. The choice period offered to the non-union employees was from August 25, 2008 through October 3, 2008. This was clearly after the Company's filings in the prior rate case.

Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?

A. Yes.