Rocky Mountain Power
Docket No. 13-035-184
Witness: Douglas K. Stuver

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Direct Testimony of Douglas K. Stuver

Prepaid Pension Expense

January 2014

Introduction

Q. Please state your name, business address and present position with PacifiCorp d/b/a Rocky Mountain Power ("the Company").

A. My name is Douglas K. Stuver. My business address is 825 NE Multnomah Street, Suite 1900, Portland, Oregon 97232. My present position is Senior Vice President and Chief Financial Officer.

Q. Briefly describe your education and professional experience.

A. I have a Bachelor of Arts degree in business administration from the University of Pittsburgh and am a Certified Public Accountant licensed in Pennsylvania. I worked for Ernst & Young for eight years in auditing and have since worked for Enserch Energy Services, CNG Energy Services, and Duke Energy Corporation in various accounting and risk management capacities. I joined PacifiCorp in 2004 as the controller for the commercial and trading division and moved into my current role as Senior Vice President and Chief Financial Officer in March 2008.

Q. What are your responsibilities as Senior Vice President and Chief Financial Officer?

A. My primary responsibilities include the accounting, treasury, tax, financial planning and analysis, external financial reporting, commodity risk management, and internal audit functions for PacifiCorp.

Purpose of Testimony

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

A. My direct testimony addresses the inclusion of PacifiCorp's prepaid pension asset and accrued other post-retirement liability, net of accumulated deferred income taxes, in rate base (see Exhibit RMP___(SRM-3)). My testimony supports inclusion of this balance in rate base as an appropriate means to recover the costs of financing cumulative contributions made to the Company's plans in excess of cumulative expense.

Rate Treatment of Prepaid Pension Asset

Q. What is the Company's proposed rate treatment for its prepaid pension asset and other post-retirement liability?

A. The Company is requesting recovery of financing costs prospectively for the existing prepaid pension asset and accrued other post-retirement liability, net of accumulated deferred income taxes, by including the net balance as a component of rate base. The existing prepaid pension asset represents cumulative contributions made to the Company's pension plan in excess of cumulative expense. The existing accrued other post-retirement liability represents cumulative expense recognized in excess of cumulative contributions. To date, the Company has borne the costs to finance the resulting net contributions in excess of expense without rate recovery.

Q. What method of recovery for the Company's pension and other post-retirement benefit plans is currently in place in Utah?

A. Currently, recovery is provided based on expense for both the pension and other post-retirement benefit plans. The costs of financing the net difference between contributions and pension and other post-retirement expense are not currently considered in the Utah ratemaking process. It is important to note that over the life of a plan, contributions will equal plan expense.

Q. What balance is the Company proposing to include in rate base associated with the prepaid pension asset and accrued other post-retirement liability?

A. Based on a 13-month average for the period ending June 30, 2015, the revenue requirement in this case reflects a $162.0 million (total-company basis) net addition to rate base as presented in Exhibit RMP___(SRM-3). This amount reflects PacifiCorp's prepaid pension asset of $312.2 million less its accrued other post-retirement liability of $31.2 million and is net of accumulated deferred income tax liabilities of $119.0 million (the "net prepaid pension asset").

Q. What is the rationale supporting the Company's proposal to include the net prepaid pension asset in rate base?

A. Historically, for ratemaking purposes in Utah, the Company has recovered pension and other post-retirement costs based on the amount recorded to *expense*. Using this approach, investor capital is required to finance any difference between the amounts *contributed* to the plans and the amounts *expensed*.

For example, if the Company records $10.0 million of pension and other post-retirement benefits expense but contributes $15.0 million to the pension and other post-retirement benefit plans, customer rates reflect the $10.0 million in expense, and investor capital is used to finance the $5.0 million of contributions in excess of the amount expensed. Accordingly, it would be appropriate to include this $5.0 million in rate base to compensate investors for their cost of capital. Likewise, if the Company records $15.0 million of pension and other post-retirement benefits expense but contributes $10.0 million to the pension and other post-retirement benefit plans, customer rates reflect $5.0 million more than the

Company has contributed. Accordingly, it would be appropriate to reduce rate base by $5.0 million for these customer-provided funds.

Q. For PacifiCorp's pension plan, why do cumulative contributions exceed cumulative expense recognized?

A. PacifiCorp makes contributions to its pension plan based on funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA), which encompass the funding requirements of the federal Pension Protection Act of 2006, and in accordance with Company policy. In recent years, funding requirements have increased as a result of changes stemming from the Pension Protection Act and market conditions. As a result of the Pension Protection Act, PacifiCorp has been required to increase contributions to its pension plan to achieve both minimum ERISA funding requirements and funding targets established by the Pension Protection Act. These contributions have outpaced expense recognized to date for accounting purposes. Since the bases for determining expense and contributions are different-with expense driven by accounting guidance and contributions driven by ERISA funding requirements- the accounting expense differs from the amounts required to be contributed to the plans.

Expense is determined based on accounting guidance from the Financial Accounting Standards Board, which requires that expense be actuarially determined and reflect the service component of expense over the time period during which services are rendered by employees. The accounting guidance was previously provided under Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* and was codified into Accounting Standards Codification Topic 715-*Compensation-Retirement Benefits*.

Q. Why is it critical for PacifiCorp to achieve the minimum ERISA funding requirements and the Pension Protection Act funding targets?

A. If PacifiCorp failed to contribute the minimum amounts required under the ERISA rules to its pension plan, the tax exempt status of the plan would be impaired and the Company would be subject to excise taxes. Minimum funding requirements under the Pension Protection Act are also required to be met in order to avoid benefit restrictions (e.g., if not met, PacifiCorp would not be able to make lump-sum payments to retirees as allowed under the terms of the plan).

Q. For PacifiCorp's other post-retirement plan, why does cumulative expense recognized exceed cumulative contributions?

A. Other post-retirement welfare plans are not subject to the same federal regulations as pension plans and there are no specific minimum funding requirements. Such plans, however, are subject to IRS funding limits and deductibility rules. Subject to these deductibility and funding limits, PacifiCorp's funding policy for its other post-retirement plan has been to contribute an amount equal to expense plus estimated Medicare Part D subsidies to be received during the year. This policy has been consistently applied over time with the exception of certain one-time charges taken several years ago for which no matching contributions were made. This has resulted in a consistent accrued position (cumulative expense exceeds cumulative contributions) for the other post-retirement welfare plan from year-to-year. Expense is computed based on the requirements of Statement of Financial

Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, which was codified into Accounting Standards Codification Topic 715-*Compensation-Retirement Benefits*.

Q. Please describe why the Company's proposed ratemaking treatment is based on sound regulatory principles.

A. The Company's proposed ratemaking treatment for its net prepaid pension asset is an appropriate means for capturing the financing costs associated with the Company's pension and other post-retirement benefit plans in revenue requirement. PacifiCorp's net prepaid pension asset at any point in time represents the amount of cumulative contributions in excess of cumulative expense recognized to date. To the extent a prepaid balance exists, PacifiCorp continues to incur financing costs associated with cumulative contributions in excess of cumulative expense. Those financing costs cease only when the prepaid balance goes to zero (i.e., when cumulative contributions equal cumulative expense) or moves into an accrual position, at which point a rate base reduction would occur under this proposed ratemaking treatment. PacifiCorp is not seeking to recover past financing costs incurred on past prepaid balances. Rather, PacifiCorp is seeking to recover prospective financing costs on the prepaid balance that will exist during the forecast test period.

Q. Would the Company's proposed ratemaking treatment be consistent with the ratemaking treatment of other similar investments?

A. Yes. The net prepaid pension asset is similar to other prepaid-type investments, such fuel stock, materials and supplies or prepaid maintenance. In these examples, the Company incurs two types of costs associated with these investments. First, the Company incurs an expense at the time the fuel is consumed, materials and supplies are used or maintenance occurs. Accordingly, Commission policy is to allow the Company to recover the cost in rates once recognized as expense. Second, as the Company incurs the cost of financing the fuel stock and materials and supplies prior to being consumed and prepaid maintenance prior to being utilized, the Commission policy is to allow the utility to include these prepaid inventory and asset values in rate base.

Q. Please explain why the Company has not previously requested that its net prepaid pension asset be included in rate base and whether Utah customers have been harmed by the exclusion of any historical net prepaid or accrued position from rate base.

A. Since 2006, the Company's net prepaid pension asset has grown significantly both as a result of the Pension Protection Act of 2006 and weakened market conditions that began in 2008. Both of these factors contributed towards contributions exceeding expense each year since 2006, causing dramatic growth in the net prepaid pension asset, which, in turn, resulted in significant financing costs to the Company. Based on most recent projections, the Company expects this growth to continue, albeit at a more modest pace, before the net prepaid pension asset begins to decline. The Company believes Utah customers have not been harmed by not previously including these amounts in rate base because the impact from the periods in which the Company was in a net prepaid pension asset position and the magnitude of those values outweighed the impact of any periods in which the

Company was in an accrued position.

Q. Has the Company included the net prepaid pension asset in rates in other state jurisdictions?

A. Yes. The Company included the net prepaid pension asset in Washington through the Investor-Supplied Working Capital model, which was approved by the Washington Utilities and Transportation Commission in general rate case Docket UE-130043. The Company is also addressing the inclusion of the net prepaid pension asset in rate base in Oregon through Docket No. UM-1633. Docket No. UM-1633 was opened by the Oregon Public Utility Commission as a policy docket with the intent to investigate the appropriate rate treatment of pension costs for utilities in Oregon. The Company is actively participating in the docket along with other investor-owned utilities, Oregon Public Utility Commission Staff and various intervening parties.

Q. Does this conclude your direct testimony?

A. Yes.