**Q. Are you the same Douglas K. Stuver who submitted direct testimony in this proceeding on behalf of PacifiCorp dba Rocky Mountain Power ("the Company")?**

A. Yes.

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

A. The purpose of my rebuttal testimony is to respond to and rebut certain issues raised and recommendations made by Division of Public Utilities ("DPU") witness Dr. Artie Powell, Office of Consumer Services ("OCS") witness Ms. Donna Ramas, and UAE Intervention Group ("UAE") witness Mr. Kevin Higgins regarding the Company's request to include its net prepaid pension asset in rate base.

**Q. Please summarize your rebuttal testimony.**

A. I first provide an overview of my responses to the witnesses' broad concerns and recommendations. I then supplement my original testimony explaining how a prepaid pension asset or accrued pension liability arises and why it is appropriate that it be included in rate base. Following these overviews, I summarize the Company's position on and respond to broad concerns raised by two or more of the witnesses and their recommendations. I then respond to more detailed concerns raised by the individual witnesses in their testimony.

**Overview of Responses to Witnesses' Broad Concerns and Recommendations**

**Q. Please summarize your responses to broad concerns raised by the witnesses.**

A. I first explain in my rebuttal testimony that the Company identified the omission of prepaid pensions from rate base in connection with the Fall 2011 business plan process and when reviewing a neighboring utility's rate case that sought recovery for this item. The Company is requesting prospective recovery of its financing costs on the net prepaid pension asset through inclusion in rate base, as including the cumulative effect of prior financing costs associated with prepaid pension and accrued pension balances would seem to reopen the outcomes of past rate cases. This cumulative effect for prior years is a one-time revenue requirement reduction of $4.2 million, which partially offsets the $7.5 million on-going revenue requirement requested in this case.

I also explain in my rebuttal testimony that the Company's long-term debt and equity investors funded the contributions in excess of expense. Customers historically have provided recovery for pension expense and therefore did not and could not have funded the contributions in excess of pension expense.

I also explain that the lack of annual rate resets for some historical periods or that actual expenses may have differed from the pension expense established in rate cases is not a basis for adjusting the prepaid pension asset, as no balancing account was established for historical periods to capture such differences.

I also explain that customers benefit from earnings on the pension assets because these earnings are a component of pension expense.

**Q. Please summarize your responses to the witnesses' recommendations.**

A. In response to the witnesses recommendations, I explain that the Company would be harmed by the exclusion of the net prepaid pension asset from rate base because the Company has raised funds from its long-term debt and equity investors to fund cumulative contributions in excess of expense, and the associated financing costs, which are significant, are currently going unreimbursed.

I also explain that the Company would be harmed by Ms. Ramas' and Mr. Higgins' recommendation to include only the prospective prepaid asset or accrued liability positions in rate base because this ignores the debt and equity financing that already exists to fund the current prepaid pension asset and that over the life of the plan pension expense will equal pension contributions. The approach proposed by Ms. Ramas and Mr. Higgins would result in the Company providing a financing benefit to customers that customers have not funded.

I also explain that because the contributions in excess of pension expense were financed with long-term debt and equity, it would be inappropriate to limit the return on the net prepaid pension asset to anything less than the Company's weighted average cost of capital.

**Supplementary Overview of the Company's Request**

**Q. What is the basis for the Company's request to include its net prepaid pension asset in rate base and why should the Commission approve it?**

A. As described in my direct testimony, the Company's net prepaid pension asset should be included in rate base to facilitate recovery of the Company's prospective financing costs associated with the net excess of contributions made to the plans' trusts over expense recovered from customers. The Company's "net prepaid pension asset" represents the prepaid asset position in its pension plan and accrued liability position in its other postretirement plan net of associated accumulated deferred income taxes. As described later in my rebuttal testimony, a prepaid pension asset is no different than any other prepaid asset eligible for inclusion in rate base. Likewise, an accrued pension liability is no different than any other liability eligible for rate base treatment.

A prepaid pension asset arises when cumulative amounts contributed to the pension plan trust exceed cumulative pension expense. To the extent cumulative pension expense exceeds cumulative contributions, an accrued pension liability arises. When recovery is based on pension expense, any contributions made in excess of expense are funded by shareholders and any expense recognized in excess of contributions has been funded by customers. For these reasons, whether in a prepaid pension asset or an accrued pension liability position, the cumulative difference between contributions and expense should be included in rate base net of accumulated deferred income taxes in order to facilitate either a company's shareholders or its customers being reimbursed for financing costs.

Over the life of the pension plan, contributions and pension expense will equal. However, due to pension expense being determined under generally accepted accounting principles ("GAAP") and contributions being determined under the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA") and the Pension Protection Act of 2006, a timing difference exists. Under GAAP, expense is generally recognized over the period of service provided by the employee with actuarial gains and losses and impacts of plan changes spread over a long period of time to minimize volatility in expense. Under ERISA and the Pension Protection Act of 2006, more volatility occurs with contributions from period to period due to the general requirement to fund shortfalls over a relatively short time frame.

Funding requirements for other postretirement plans differ such that there is not generally as much disparity between cumulative contributions and expense as there is for pension plans. However, the same concepts as those described above for pension plans apply. My testimony will generally refer to pension expense and contributions since it is the key driver of the net prepaid pension asset.

**Response to DPU, OCS and UAE Broad Concerns**

**Q. DPU, OCS and UAE witnesses each questioned the Company's decision to seek inclusion of the net prepaid pension asset in rate base for the first time in the current proceeding although the prepaid pension asset has existed since 2006 and prior to that time was in an accrued liability position. Please respond to these concerns.**

A. I first became aware of the exclusion of prepaid pensions from rate base in approximately Fall 2011 during the business plan preparation process as we were seeking to understand causes for the company's financial return on equity being lower than its regulatory return on equity. This analysis identified construction work in progress and prepaid pensions as the most significant items that are included in the Company's net assets but excluded from rate base (with construction work in progress receiving a return through allowance for funds used during construction but prepaid pensions receiving no return). I then learned in 2012 that a neighboring utility, Northwest Natural, sought to recover prepaid pensions in rate base in its 2012 general rate case. Upon further researching that item, we made the connection that PacifiCorp is under-earning in part due to this exclusion of prepaid pensions from rate base, and undertook to remedy that in future rate case filings for each of PacifiCorp's jurisdictions.

PacifiCorp did not seek to catch-up for the non-inclusion of prepaid pensions or accrued pensions in rate base for prior periods, as this would have the effect of reopening past rate case outcomes and could be considered retro-active ratemaking. The Company prepared an analysis at the DPU's request to quantify what the cumulative catch-up adjustment would be for prior periods if this were to occur. In nominal dollars, the Company under-recovered by $3.3 million for prior periods (as shown in Exhibit RMP___(DKS-1R)) as a result of the impacts of the net prepaid pension asset in recent years outweighing the impacts of the years in which a net accrued pension liability existed. Measured in 2015 dollars, customers would be entitled to a $4.2 million credit. If the Commission believes a historical true-up is warranted, I believe the true-up adjustment should be measured in 2015 dollars and recommend the $4.2 million be treated as a one-time sur-credit to customers over a period of one year, along with allowing the $7.5 million revenue requirement requested in this general rate case as a base rate adjustment.

**Q. Please address the witnesses' concerns regarding whether it would be equitable to allow the Company to recover prospective financing costs while**

**historically customers were not made whole for costs they funded in excess of contributions while the Company was in an accrued liability position.**

A. The company acknowledges that from 1993 to 2005, cumulative pension expense exceeded cumulative contributions and customers were not made whole for the financing benefits the Company received over those periods. Likewise, the Company was not made whole when contributions exceeded pension expense. However, this was an oversight. It was not an intentional act on the Company's part, contrary to Mr. Higgins' assertion that the Company's proposal is an example of "adverse selection." Second, decisions should be made based on whether it is the right thing to do, subject to the sufficiency of the evidence to support those decisions, and not on whether customers or the Company benefit from the decisions. Third, had PacifiCorp applied this principle in historical periods, customers would have realized a net benefit of some $4.2 million (in 2015 dollars), as stated in Dr. Powell's testimony. If the Commission decides that customers should be made whole and should, therefore, realize the net benefit, the Company will adhere to that decision.

**Q. Please respond to witnesses' skepticism over whether the Company's shareholder truly funded the contributions in excess of expense.**

A. The Company's long-term debt and equity investors have provided the financing to allow the Company to fund contributions in excess of pension expense; customers have funded pension expense over time and have not provided the additional funds to cover contributions in excess of expense.

In general, the source of funding for contributions in excess of expense depends on the basis for recovery of pension costs. If pension costs are recovered based on pension contributions, then customers are the source for funding contributions in excess of expense. If pension costs are recovered based on pension expense, then customers are **not** the source of funding for contributions in excess of expense (since customers' contributions were limited to expense, and contributions exceed expense).

Over the period in which the prepaid pension balance accumulated, the Company had two different methods of rate recovery for pension costs. Prior to Docket No. 00-035-10, the Company recovered pension costs based on contributions. Beginning in 1987 with the adoption of FAS 87, the Company deferred as a regulatory asset any difference between the amount of pension contributions and pension expense as calculated by FAS 87. In Docket No. 00-035-10, the Company switched to recovery of pension costs based on expense, including a transition adjustment that granted recovery over five years of the cumulative excess of expenses over contributions that existed at that time. By virtue of this transition adjustment, PacifiCorp effectively has recovered pension costs based on pension expense over the period the prepaid pension balance has accumulated. Therefore, it is fair to say that this excess of pension contributions over expense has not been funded by customers.

The Company's debt and equity investors are the source of financing for contributions in excess of expense. Other sources of funds, such as short-term debt, accounts payable and accruals, and deferred tax liabilities are already dealt with separately for ratemaking purposes and therefore cannot double as a source of financing for prepaid pensions. Short-term debt is a dedicated source of financing for construction work in progress, and the Company is reimbursed for this financing cost through the allowance for funds used during construction calculation. Accounts payable and accruals are part of the lead-lag study and are already included in rate base. Deferred tax liabilities likewise are included as a rate base reduction and therefore cannot simultaneously serve as a source of financing for prepaid pensions.

**Q. Ms. Ramas contends that measuring the prepaid pension asset based on actual expenses does not demonstrate that the amount was funded by shareholders because in the past, rates were not reset annually and actual expenses differed from the amounts established in rate cases. Do you agree with that logic?**

A. I do not agree with that logic. This approach is the equivalent of establishing a balancing account that captures all differences between pension expense established in the rate case and actual pension expense, with the cumulative balance included as part of the prepaid pension balance. No such true-up account has been established in prior rate cases nor has one been proposed by any party in this case. Further, the revenue requirement associated with the return on other rate base items, including coal inventory, materials and supplies inventory and property, plant and equipment, is established without adjusting actual balances on the Company's books since the previous rate case. There is no meaningful difference between these rate base items and the net prepaid pension asset that warrants different treatment.

**Q. Dr. Powell specifically has concerns whether the income generated from pension assets reduced the Company's pension expense for those years included in the Company's current cumulative prepaid pension asset. Did this income in fact reduce pension expense over these years?**

A. Yes. Pension expense is reduced by income generated from pension assets. The accounting rules require that the expected return on pension assets be included as a reduction to pension expense, and the difference between expected and actual returns on pension assets are deferred and amortized into pension expense generally over the average remaining service period of employees expected to receive benefits. This rule has been in effect for the entire period over which the cumulative prepaid pension asset occurred. As shown in Exhibit RMP___(DKS-2R), since 1998, customers have received $1.291 billion in benefits from the expected return on pension assets.

**Q. Please respond to witnesses' concerns regarding whether including the existing net prepaid pension asset in rate base today is appropriate given that it accumulated over time.**

A. The prepaid pension asset is no different in character than any other rate base item. It represents the cumulative cash outlays of the Company less cumulative amounts charged to expense. This is true of property, plant, and equipment, in which the Company capitalizes its cash outlays and then reduces this balance by depreciation expense. It is true of materials and supplies, where the Company expends cash to acquire assets and relieves this balance as materials and supplies are consumed for operations. It is true of prepaid pensions, where the Company capitalizes its cash contributions to the pension trust and reduces the prepaid balance as pension expense is recognized. The primary difference for prepaid pensions compared to these other items is that this rate base item has mistakenly been overlooked in past rate cases. By including the existing net prepaid pension asset in rate base today, only prospective financing costs will be recovered.

**Witnesses' Recommendations**

**Q. DPU, OCS and UAE witnesses have argued that the net prepaid pension asset not be allowed in rate base. What are the consequences of these recommendations?**

A. The Company will continue to incur significant financing costs associated with the cumulative contributions in excess of cumulative expense recognized to date. As the net prepaid pension asset will exist for a long period of time, the Company will continue to incur these financing costs. To the extent the net prepaid pension asset is not allowed in rate base, the Company will not be made whole for the costs to provide pension and other postretirement benefits to its employees.

**Q. How do you respond to Dr. Powell's recommendation that if the prepaid pension asset is included in rates, an adjustment should be made to account for periods when there was an accrued pension liability that was not included in rate base?**

A. Should the Commission believe an adjustment for historical treatment is warranted, the Company believes a one-time sur-credit for $4.2 million, as noted in Dr. Powell's testimony, could be provided to Utah customers while increasing base rates on an on-going basis by $7.5 million. This would effectively put customers in the same position they would have been had the Company recognized from the beginning the costs customers funded in excess of their contributions.

**Q. In the event the Commission allows the inclusion of the net prepaid pension asset in rate base, both Ms. Ramas and Mr. Higgins recommend it should do so on a prospective basis only. Do you agree with this recommendation?**

A. No. Over the life of the pension plan, pension contributions and expense will equal. The current prepaid balance exists because cumulative contributions have exceeded expense. This also means that future expenses over the remaining life of the plan will exceed contributions by an equal and offsetting amount. Those expenses in excess of contributions will reduce the prepaid balance. However, if the prepaid balance is reset to zero and only accumulates prospectively based on the difference between contributions and expense, customers will receive a rate base reduction that results in providing a financing benefit to customers that they have not funded. This would also be analogous to disallowing a property, plant, and equipment investment yet expecting depreciation expense on the disallowed investment balance to continue to accumulate in isolation as a rate base reduction. This would be an unfair outcome for customers, just like it would be unfair to adopt Ms. Ramas' and Mr. Higgins' recommendation to allow inclusion of the net prepaid pension asset in rate base on a prospective basis only.

**Q. In the event the Commission allows the inclusion of the net prepaid pension asset in rate base, Mr. Higgins recommends that the return on the net prepaid pension asset be capped at the long-term rate of return on pension plan assets used in determining pension expense (currently 7.5 percent) while Dr. Powell**

**recommends the use of the long-term debt rate. Please respond to these recommendations.**

A. The Company disagrees with these recommendations. This asset is financed by a combination of long-term debt and equity, consistent with the Company's capital structure. No specific long-term debt financing exists that is directly associated with this asset. To the extent a long-term debt rate is deemed to be the appropriate financing cost, an equal amount of long-term debt should be removed from the Company's capital structure when determining the rate of return applicable to all remaining rate base items. The higher revenue requirement that results from this higher rate of return on all remaining rate base items, when combined with application of a long-term debt return to prepaid pensions, results in the same revenue requirement as if the prepaid pension balance is simply included in rate base at the allowed rate of return.

Use of the 7.5 percent expected rate of return on plan assets is also an artificial measurement that is not representative of the Company's true financing costs. The purpose of including prepaid assets of any type in rate base is to reimburse the Company for its financing costs. The fact that a component of pension expense is a 7.5 percent expected return on plan assets, which actually **reduces** pension expense and therefore **reduces** costs to customers under the current pension cost recovery method, is totally disconnected from the financing costs the Company incurs to fund pension contributions in excess of pension expense. It is the Company's financing costs that should be the basis for the return. This principle is true for any prepaid asset or other rate base item. There is no comparable 7.5 percent expected return element on other prepaid asset or other rate base items, yet they receive the allowed rate of return as the basis for recovery. There is no foundation to treat this rate base item in a different manner.

The recommendation to reduce the allowed rate of return on the prepaid pension asset is in part based on concerns with the expected duration of the net prepaid pension asset. I believe this long duration further supports, rather than deters, the appropriateness of rate base treatment. As long as a prepaid position exists, the Company continues to incur financing costs. Due to the relative magnitude of the prepaid pension asset and the current expectation that it will continue for many years, it is necessary and appropriate for these financing costs to be recovered.

Mr. Higgins also supports his recommendation of a lower return than the weighted cost of capital based on his view that net prepaid pension asset is a cash flow issue more than a traditional or typical investment that in essence acts more like a balancing account than an investment in a tangible asset. This asset is no more of a balancing account or cash flow issue than any other rate base item. All rate base items represent differences between the timing of cash outlays (or receipts, in the case of deferred income tax liabilities) and recognition of the associated expense in rates. This timing difference results in financing costs (or benefits, in the case of deferred income tax liabilities) that are appropriately reimbursed through inclusion in rate base of the difference between cumulative cash outlays and cumulative amounts expensed, with the Company's allowed rate of return applied to this rate base amount.

**Q. Please respond to Ms. Ramas' suggestion that the Company's inclusion of amounts related to its mining operations and joint owners in its net prepaid pension asset is improper.**

A. The Company has appropriately included the mining portion of pension and other postretirement expense in its prepaid pension asset as the mining portion of expense is included in revenue requirement based on fuel costs and recovered from customers. However, the Company agrees that the prepaid pension asset should be adjusted for joint owner cutback. This can be achieved by reducing the Company's prepaid pension asset for joint owner cutback prior to computing the associated revenue requirement. This adjustment would reduce the Company's requested increase in base rates by $226,000 (from $7,493,864 to $7,267,864).

**Overview of Other Concerns Raised by the Witnesses**

**Q. Please respond to Ms. Ramas' statement that the Company is already earning a return on the portion of expense associated with capital projects due to such amounts having been added to in-service plant.**

A. The portion of pension expense that is capitalized to in-service plant reduces the prepaid pension asset although this portion of pension expense is recovered from customers over time as the plant balance is depreciated rather than in the period recognized. Therefore, inclusion of both the prepaid pension asset and the in-service plant balance inclusive of capitalized pension expense in rate base does not duplicate or double-count the amount of return the Company receives.

For example, assume that total pension contributions are $100 and total pension expense is $80, of which $25 is capitalized and $55 is expensed. In this instance, total rate base consists of a $20 prepaid pension asset ($100 minus $80) and $25 related to capitalization of pension expense as a component of a capital investment. This $45 rate base amount is appropriate, as the Company has incurred a cash outlay of $100 and only $55 has been recovered through expense. The remaining $45 has been capitalized and will be expensed at a later date. Until these amounts are expensed, the Company incurs financing costs on the cash outlays that have not yet been recovered from customers.

**Q. Please address Ms. Ramas' statement regarding there being a great deal of discretion with regards to the annual pension contributions made by PacifiCorp with a wide range between the minimum required funding level and the maximum tax deductible funding level as demonstrated in 2012, as well as Mr. Higgins' statement that customers should not be held responsible for any discretionary contributions in excess of expense.**

A. The majority of PacifiCorp's pension contributions have been based on the minimums required by ERISA and have served to reduce the under-funded position of the plan. At no point has PacifiCorp made contributions to the pension plan that caused the plan to become overfunded. Further, all contributions to the pension plan serve to reduce pension expense, since a component of pension expense is the expected return on plan assets, and reduce the Pension Benefit Guaranty Corporation premiums owed by the plan. The amount of pension expense reduction resulting from contributions above the minimum is approximately equal or slightly higher than the associated financing costs on the prepaid pension increase (at the allowed rate of return) that results from these higher contribution levels. Therefore, even with prepaid pension recovery in rate base, customers are neutral to slightly positive from these higher contribution levels. Please refer to Exhibit RMP___(DKS-3R) for an illustration showing benefits to customers from incremental contributions.

Further, while a range of feasible contributions exists, the Company has no incentive to over-fund its pension plan. Upon termination of the pension plan, any remaining excess assets are subject to significant excise and ordinary taxes unless utilized for another qualifying plan. It is in the best interests of customers and shareholders to properly manage a plan to minimize exposure to such taxes.

**Q. Please respond to Dr. Powell's assertion that the Company failed to provide an explanation of the ratemaking or rate impact implications of the disparate treatments of contributions governed by ERISA and expense calculated under GAAP.**

A. This was described in my direct testimony. To recap, when cost recovery is based on pension expense, either customers or shareholders finance the difference between pension contributions governed by ERISA and pension expense calculated under GAAP. As described above, although contributions increase the prepaid pension asset, they benefit customers through lower expense and lower future contributions.

**Q. Please respond to Dr. Powell's assertion that the Company failed to address whether any portion of the prepaid contributions may have been borne by customers under different regulatory treatment in the past.**

A. None of the prepaid pension asset has been borne by customers under different regulatory treatment in the past. Through 1986, the Company received recovery based on contributions to the plan, which equaled pension expense. Although in 1987, when FAS 87 became effective, the Company continued to receive recovery based on contributions through 1996, the excess of pension expense over contributions from 1987 to 1996 was tracked and ultimately recovered from Utah customers. In 1997, the Company switched to recovery based on pension expense. As a result, recovery in Utah has been based on pension expense since its inception.

**Q. Dr. Powell asserts that the Company failed to explain the implications to the Company and customers of negative pension expense. Please explain these implications.**

A. Negative pension expense increases the prepaid pension asset and is appropriate to include in rate base because the Company's cash position is reduced by the amount of negative pension expense passed to customers.

For example, assume the Company has negative pension expense of $10 million and no cash contributions. Customers in that instance receive a $10 million revenue requirement reduction, which directly translates into $10 million less in cash held by the Company. Regardless of whether the Company has $10 million less in cash because it contributed $10 million to the pension trust and had $0 expense or contributed $0 to the pension trust and had $10 million in negative pension expense, the Company's cash position is $10 million less in either circumstance and the financing needs of the Company are the same.

Since FAS 87 became effective, the Company had negative pension expense of $11.6 million and $11.0 million during the fiscal years ended March 31, 2001 and 2002. In all other periods since FAS 87 became effective, pension expense was positive.

**Q. Please respond to Dr. Powell's statement that the Company failed to address whether pension expense should continue to be included in the determination of cash working capital.**

A. The Company believes the determination of cash working capital should be made independently of whether the net prepaid pension asset is included in rate base. The net prepaid pension asset is similar to materials and supplies and fuel inventory where the inventory balances are fully included in rate base in addition to the working capital adjustment.

**Q. Please address Dr. Powell's statement that the Company failed to indicate what precedent might support the Company's proposal.**

A. This was addressed in my direct testimony. The Washington Utilities and Transportation Commission has allowed the Company to include its net prepaid pension asset in rate base. As stated in discovery responses and acknowledged by Dr. Powell, FERC has also indicated its support for including prepaid pension assets in rate base under certain circumstances. As noted in Dr. Powell's testimony, one reason for FERC's support for including prepaid pension assets in rate base is that companies are unable to withdraw funds from their pension trusts and, thus, to the extent the assets earn a return and this is passed through to customers in rates, the companies are short the cash and should be reimbursed for associated financing costs. This is similar to the point made above regarding the impact of negative pension expense.

In addition to these examples, I emphasize that the Company currently recovers its costs to finance items such as in-service property, plant and equipment, fuel stock, materials and supplies inventory and various prepaid items, including for maintenance and insurance. There is no meaningful difference between these items and a prepaid asset that would warrant different treatment.

**Q. Please respond to Mr. Higgins' suggestion that the Company's proposal suffers from being a prime example of adverse selection.**

A. The proposal has been subjected to rigorous scrutiny and complies with applicable rules and regulations; in addition, parties have had opportunity to argue for offsetting benefits. In order to be adopted, the proposal will need to be approved by appropriate regulatory authority. I respect the fairness concerns raised by Mr. Higgins and believe this proceeding is the process provided by law to address them.

**Q. Mr. Higgins states that inclusion of the net prepaid pension asset in rate base would result in an unreasonable transfer of risk to customers under his view that this would place the risk of poor market performance on customers and lead to increases in the prepaid pension asset as a result of above-normal market performance.**

A. I do not agree with Mr. Higgins' views on this point. Inclusion of the net prepaid pension asset in rate base would not transfer risks to customers, but rather would result in closing a gap between the costs the Company incurs from sponsoring a defined benefit pension plan and the costs customers are requested to fund.

Customers already receive the benefit of all asset returns, whether above or below normal levels, and in the long-term, the plans have achieved a reasonable level of positive returns that have improved the funded status of the plans and served to reduce contributions and expense. It would not be equitable if customers were provided with the benefits of asset returns but did not share in the risk of poor market performance.

To the extent the plan reaches a funded status that contributions are no longer required and pension expense is negative, as Mr. Higgins posits in page 52 of his testimony, customers would benefit from negative pension expense that serves to reduce revenue requirements. Although the Company would not have made any cash contributions in that circumstance, the Company would experience a cash reduction (and correspondingly a financing need) from passing through to customers the negative pension expense. Mr. Higgins seems to discount the benefit customers receive through this negative pension expense and ignore the financing costs the Company incurs from its reduced cash position in that circumstance.

**Q. Please summarize your rebuttal testimony.**

A. For the reasons set forth above, I disagree with the witnesses' recommendations to exclude the net prepaid pension asset from rate base entirely, to include only prospective differences between contributions and expense in rate base and, if included, to provide a return that is less than the Company's authorized return on rate base. I agree with Ms. Ramas' view that the net prepaid pension asset should be adjusted for joint owner cutback. Should the Commission determine that a true-up of prepaid pensions for all historical periods is warranted, I believe a one-time sur-credit to customers for the $4.2 million benefit that was not historically provided to customers should be granted, along with a $7.5 million increase to base rates. Should the return on the net prepaid pension asset not be set at the Company's authorized return on rate base, the $4.2 million sur-credit would need to be computed at the appropriate level of return.

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

A. Yes.