

Gary A. Dodge, #0897  
HATCH, JAMES & DODGE  
10 West Broadway, Suite 400  
Salt Lake City, UT 84101  
Telephone: 801-363-6363  
Facsimile: 801-363-6666  
Email: gdodge@hjdllaw.com

Attorneys for the Utah Association of  
Energy Users (UAE)

---

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

---

In the Matter of the Application of Rocky Mountain Power to Decrease the Deferred EBA Rate through the Energy Balancing Account Mechanism	<b>Docket No. 16-035-01</b>
---	-----------------------------

---

**PREFILED DIRECT TESTIMONY AND EXHIBITS OF BRADLEY G. MULLINS**

**[PUBLIC VERSION]**

---

The Utah Association of Energy Users (“UAE”) hereby submits the Prefiled Direct Testimony of Bradly G. Mullins in this docket.

DATED this 18<sup>th</sup> day of August 2016.

HATCH, JAMES & DODGE

/s/ \_\_\_\_\_

Gary A. Dodge

Attorneys for the Utah Association of Energy Users

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 18<sup>th</sup> day of August 2016 on the following:

Public Service Commission:            psc@utah.gov

Rocky Mountain Power:

R. Jeff Richards	robert.richards@pacificorp.com
Yvonne R. Hogle	yvonne.hogle@pacificorp.com
Jeff Larsen	jeff.larsen@pacificorp.com
Bob Lively	bob.lively@pacificorp.com

Division of Public Utilities:

Patricia Schmid	pschmid@utah.gov
Justin Jetter	jjetter@utah.gov
Chris Parker	chrisparker@utah.gov
Artie Powell	wpowell@utah.gov
David Thompson	dthompson@utah.gov

Office of Consumer Services:

Rex Olsen	rolsen@utah.gov
Robert Moore	rmoore@utah.gov
Michele Beck	mbeck@utah.gov
Bela Vastag	bvastag@utah.gov

/s/ \_\_\_\_\_

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

In the Matter of the Application of Rocky Mountain Power to Decrease the Deferred EBA Rate through the Energy Balancing Account Mechanism )  
)  
) DOCKET NO. 16-035-01  
)  
)

**Direct Testimony of Bradley G. Mullins**

**On Behalf of**

**Utah Association of Energy Users**

**Public Version**

[Confidential Testimony Redacted]

**August 18, 2016**

**EXHIBIT LIST**

UAE Exhibit 2.1: Appearances of Bradley G. Mullins

CONFIDENTIAL UAE Exhibit 2.2: Pro Forma Energy West RMO Settlement Loss Calculations

UAE Exhibit 2.3: Calculation of Utah-Allocated FAS 106 Savings

UAE Exhibit 2.4: RMP Responses to Data Requests

UAE Exhibit 2.5: FAS 106 Excerpt

1                                   **I. INTRODUCTION AND SUMMARY**

2   **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3   A. My name is Bradley G. Mullins. My business address is 333 SW Taylor Street, Suite 400,  
4       Portland, Oregon 97204.

5   **Q. PLEASE STATE YOUR OCCUPATION, EMPLOYMENT, AND ON WHOSE**  
6       **BEHALF YOU ARE TESTIFYING.**

7   A. I am an independent consultant representing large energy consumers throughout the United  
8       States. I am appearing on behalf of the Utah Association of Energy Users (“UAE”), an  
9       association of customers served by PacifiCorp d/b/a Rocky Mountain Power (“PacifiCorp”  
10       or the “Company”).

11   **Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS.**

12   A. I have a Master of Science degree in Accounting from the University of Utah. After  
13       obtaining my Master’s degree I worked at Deloitte Tax in San Jose California where I  
14       ultimately specialized in performing research and development tax credit studies.  
15       Subsequently, I worked at PacifiCorp as an analyst involved in regulatory matters  
16       surrounding power supply costs. I began performing independent energy and utility  
17       consulting services in September 2013 and currently provide services to utility customers  
18       on matters such as power costs, revenue requirement, rate spread and rate design. I have  
19       sponsored testimony in numerous regulatory jurisdictions throughout the West, including  
20       before the Bonneville Power Administration. A list of my regulatory appearances can be  
21       found in UAE Exhibit 2.1.

22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

23 A. I am providing testimony regarding a component of the Transaction to close the Deer Creek  
24 Mine. Pursuant to the Settlement Stipulation in Docket No. 14-035-147, the Company was  
25 required to return to customers certain savings incurred in connection with its decision to  
26 close the Deer Creek Mine in late 2014.<sup>1</sup> These savings were to be passed onto customers  
27 through the Energy Balancing Account (“EBA”), not subject to the 70/30 savings sharing  
28 band.<sup>2</sup> While the Company’s filing included some of the savings related to the Deer Creek  
29 Mine closure, certain savings were excluded from the Deferral Balance for the 12 months  
30 ending December 31, 2015 (the “Deferral Period”).

31 **Q. WHAT ARE THE ADDITIONAL SAVINGS THAT YOU RECOMMEND BE**  
32 **INCLUDED IN THE DEFERRAL BALANCE?**

33 A. Specifically, the Deferral Balance should include the full amount of savings resulting from  
34 the settlement of the Energy West Retiree Medical Obligation, including the reduction in  
35 FAS 106 expense not otherwise reflected in the cost of coal for the Hunter and Huntington  
36 power facilities. In discovery, the Company has agreed that these savings were excluded  
37 from the Deferral Balance and has accepted a \$2.9 million adjustment to the Deferral  
38 Balance, excluding interest.<sup>3</sup>

---

<sup>1</sup> *In re the Voluntary Request of Rocky Mountain Power for Approval of Resource Decision and Request for Accounting Order*, UPSC Docket No. 14-035-147, Settlement Stipulation ¶ 17 (Apr. 16, 2015).

<sup>2</sup> *Id.*

<sup>3</sup> See UAE Exhibit 2.4 at Page 1 (the Company’s Response to UAE Data Request 2.2).

39 **Q. WHAT DOCUMENTS DID YOU REVIEW IN DEVELOPING THIS**  
40 **RECOMMENDATION?**

41 A. I recently filed testimony before the Wyoming Public Service Commission on behalf of  
42 the Wyoming Industrial Energy Consumers (“WIEC”) concerning the Company’s Energy  
43 Cost Adjustment Mechanism (“ECAM”) filing for calendar year 2015. With respect to the  
44 savings that were to be returned to customers in connection to the Deer Creek Mine closure,  
45 the Company agreed in Wyoming to terms that were nearly identical to those adopted in  
46 Utah Docket No. 14-035-147. The Company also relied upon the same methodologies to  
47 calculate the savings associated with the closure of the Deer Creek Mine in the Utah EBA,  
48 as it relied upon in the Wyoming ECAM. In the Wyoming ECAM proceeding, I conducted  
49 multiple rounds of discovery to determine whether the savings associated with the Deer  
50 Creek Mine closure reflected in the Wyoming ECAM balance were reasonable and  
51 consistent with the terms of the Wyoming settlement stipulation. Because the stipulation  
52 terms and savings calculations were the same, much of this discovery from the Wyoming  
53 ECAM proceeding applies equally to the savings associated with the Deer Creek Mine  
54 closure reflected in the Utah EBA Deferral Balance. Accordingly, UAE Exhibit 2.4  
55 includes several responses to data requests issued in the Wyoming ECAM, many of which  
56 are cited in the remainder of this testimony.

57 **II. ENERGY WEST RETIREE MEDICAL OBLIGATION**

58 **Q. WHAT IS THE ENERGY WEST RETIREE MEDICAL OBLIGATION?**

59 A. The Energy West Retiree Medical Obligation (“RMO”) was a post-retirement medical plan  
60 that the Company provided to employee-members of the United Mine Workers of America

61 (“UMWA”) union through PacifiCorp’s Energy West Mining Company subsidiary. In  
62 conjunction with the decision to dispose of the Deer Creek Mine in late 2014, the Company  
63 transferred the Energy West RMO to the UMWA. And, as consideration for UMWA’s  
64 assumption of the Energy West RMO liability, the Company paid UMWA \$ [REDACTED] in  
65 plan assets.<sup>4</sup> However, because the medical plan liability recorded on the Company’s  
66 books at the time of the transfer (approximately \$ [REDACTED]<sup>5</sup>) exceeded the amount paid  
67 to the UMWA, the transfer resulted in a substantial *benefit* to the Company. In fact, it was  
68 one of the key benefits that the Company cited in connection with its decision to close the  
69 mine.<sup>6</sup>

70 Notwithstanding, as a result of the settlement accounting required under Statement  
71 of Financial Accounting Standards 106 (“FAS 106”),<sup>7</sup> the Company had to recognize an  
72 immediate \$ [REDACTED] accounting loss as a result of the transfer. Under this accounting  
73 treatment, the substantial benefits of the settlement were used to offset the unamortized  
74 losses associated with other post-retirement welfare plans of the Company. Accordingly,  
75 the savings from the settlement are recognized by ratepayers as a reduction to the  
76 Company’s periodic FAS 106 expense. Under FAS 106, the Company is generally  
77 required to amortize any unrecognized losses in its post-retirement welfare plans over the  
78 average remaining service period of active plan participants.<sup>8</sup> Pursuant to the Company’s

---

<sup>4</sup> See UAE Exhibit 2.2.

<sup>5</sup> *Id.*

<sup>6</sup> UPSC Docket No. 14-035-147, Direct Testimony of Douglas S. Stuver at Page 14, Line 293 through Page 15, Line 319.

<sup>7</sup> Accounting Standards Codification Section 715-60, formerly known as Statement of Financial Accounting Standard 106.

<sup>8</sup> See FAS 106 ¶ 59, excerpt attached as a part of UAE Exhibit 2.5.



79 response to WIEC Data Request 3.4, the average remaining service period of active plan  
80 participants for the Company is approximately 11.5 years.<sup>9</sup> Thus, the benefits resulting  
81 from the settlement of the Energy West RMO liability effectively will be amortized as a  
82 reduction to the Company's periodic FAS 106 expense over an approximate 11.5 year  
83 period.

84 **Q. WHAT REGULATORY ACCOUNTING TREATMENT WAS APPROVED FOR**  
85 **THE ENERGY WEST RMO?**

86 A. In Docket No. 14-035-147, parties entered into a Settlement Stipulation (the "Deer Creek  
87 Stipulation"), in which the regulatory accounting treatment for the various aspects of the  
88 Deer Creek Mine closure was outlined. With respect to the Energy West RMO, Paragraph  
89 21 of the Deer Creek Stipulation allows the Company to establish a regulatory asset for the  
90 approximate \$ [REDACTED] loss associated with the Energy West RMO.<sup>10</sup> In addition,  
91 paragraph 17 of the Deer Creek Stipulation provides that "savings on Energy West retiree  
92 medical benefits as a result of settlement of the Retiree Medical Obligation"<sup>11</sup> were to be  
93 passed through the EBA Deferral Balance, not subject to the 70/30 sharing band. These  
94 savings were to be passed through the EBA Deferral Balance until the rate effective date  
95 of the Company's next general rate case.<sup>12</sup>

---

<sup>9</sup> Exhibit UAE 2.4 at Page 7 (The Company's response to WIEC Data Request 3.4).

<sup>10</sup> UPSC Docket No. 14-035-147, Settlement Stipulation at ¶ 21.

<sup>11</sup> *Id.* at ¶ 17.b.iv.

<sup>12</sup> *Id.* at ¶ 17.

96 **Q. WHAT WAS THE ISSUE THAT YOU IDENTIFIED WITH RESPECT TO THE**  
97 **TREATMENT OF THE ENERGY WEST RMO IN THE EBA?**

98 A. Notwithstanding the requirement of paragraph 17 of the Deer Creek Stipulation, I  
99 discovered that the Company excluded from the Deferral Balance a portion of the FAS 106  
100 expense savings resulting from the settlement of the Energy West RMO. When asked  
101 about this additional savings in discovery in the Wyoming ECAM proceeding, the  
102 Company initially took the position that, pursuant to the terms of the Wyoming stipulation,  
103 a portion of the ongoing FAS 106 expense savings resulting from the settlement of the  
104 Energy West RMO was not required to be passed through back to customers.<sup>13</sup>

105 **Q. HAS THE COMPANY SUBSEQUENTLY CLARIFIED ITS POSITION ON THIS**  
106 **MATTER?**

107 A. Yes. In response to more recent discovery on this matter, the Company has now agreed  
108 that additional amounts of FAS 106 expense savings should be reflected in the Deferral  
109 Balance.<sup>14</sup>

110 **Q. WHAT ARE THE FAS 106 EXPENSE SAVINGS THAT WERE EXCLUDED**  
111 **FROM THE DEFERRAL BALANCE IN THE INITIAL FILING?**

112 A. According to the Company, the settlement of the Energy West RMO resulted in a  
113 “significant reduction [to] the unamortized losses on post-employment retiree medical  
114 obligations.”<sup>15</sup> In fact, the settlement nearly eliminated the liability that the Company had

---

<sup>13</sup> See UAE Exhibit 2.4 at Pages 2 through 4 (The Company’s Response to WIEC Data Request 1.16; and the Company’s 2<sup>nd</sup> Revised Response to WIEC 1.16). See also UAE Exhibit 2.3 (where the Company states that the non-fuel FAS 106 savings were “not offered in settlement”).

<sup>14</sup> See UAE Exhibit 2.4 at Page 1 (The Company’s response to UAE Data Request 2.2).

<sup>15</sup> See UAE Exhibit 2.4 at Page 5 (The Company’s Response to WIEC Data Request 3.2).

115 booked for its post-retirement welfare plans. In the pro forma accounting calculations  
116 supporting the transaction, the Company calculated that, as a result of the settlement, the  
117 unamortized loss on non-Energy West post-retirement welfare plans was expected to  
118 decline from \$ [REDACTED] to \$ [REDACTED], a reduction of \$ [REDACTED].<sup>16</sup>

119 Because the unamortized loss balance would otherwise have been amortized to the  
120 Company's FAS 106 expense, the reduced unamortized loss balance resulted in measurable  
121 and material financial savings to the Company in the Deferral Period. The Company's  
122 actuary, TowersWatson, calculated this FAS 106 expense savings to be approximately \$9.7  
123 million on a total-Company basis in the Deferral Period.<sup>17</sup> This level of savings can also  
124 be noted in the Company's booked FAS 106 expense / (benefit), which was \$3.2 million  
125 in 2013, \$0.7 million in 2014, and (-)\$8.5 million 2015.<sup>18</sup> Note that the negative value in  
126 2015 represents an accounting benefit to the Company. Thus, had it not entered into the  
127 Energy West RMO settlement, the Company would have actually incurred FAS 106  
128 expense of approximately \$1.2 million in 2015, representing the \$8.5 million in accounting  
129 benefit less the \$9.7 million in savings calculated by TowersWatson.

130 **Q. ARE THE FAS 106 EXPENSE-RELATED SAVINGS REFLECTED IN THE COST**  
131 **OF COAL DURING THE DEFERRAL PERIOD?**

132 A. No. It is important to note that these savings were not reflected in the cost of coal, and the  
133 Company did not include any FAS 106 savings in the Deferral Balance, other than that  
134 reflected in the cost of coal. Thus, the Company's initial filing, which only included FAS

---

<sup>16</sup> See UAE Exhibit 2.2.

<sup>17</sup> See UAE Exhibit 2.3.

<sup>18</sup> See UAE Exhibit 2.4 at Page 8 (The Company's Response to WIEC Data Request 3.8).

135 106 savings that accrued to the cost of coal, excluded the “non-fuel” FAS 106 expense  
136 savings from the Deferral Balance.

137 **Q. WOULD IT HAVE BEEN REASONABLE FOR THE COMPANY TO RETAIN**  
138 **THE NON-FUEL FAS 106 BENEFITS?**

139 A. In my opinion, no. If the Company were allowed to retain the benefits resulting from the  
140 Energy West RMO settlement, the Company would receive a financial windfall. Under the  
141 Deer Creek Stipulation, the Company was allowed to establish a regulatory asset for the  
142 approximate \$ [REDACTED] loss<sup>19</sup> resulting from the Energy West RMO settlement. Yet,  
143 based on the TowersWatson calculation noted above, the Company saved approximately  
144 \$9.7 million in non-fuel FAS 106 expense in the Deferral Period, [REDACTED]  
145 the settlement loss. If the Company were allowed to retain the \$9.7 million in non-fuel  
146 FAS 106 savings, it would provide a financial windfall because the Company will still be  
147 allowed to collect revenue for the entire amount of the settlement loss in a future  
148 proceeding, even though the financial loss [REDACTED]  
149 [REDACTED]. Suggestions by the Company in earlier discovery responses that  
150 the non-fuel FAS 106 savings in the Deferral Period were “not offered in settlement”<sup>20</sup> are  
151 inconsistent with statements made by the Company in testimony that it sought to “to share  
152 100 percent of the benefits of the Transaction with customers.”<sup>21</sup> Accordingly, the entire

---

<sup>19</sup> See UPSC Docket No. 14-035-147, Direct Testimony of Douglas K. Stuver at Page 14, Line 312.

<sup>20</sup> UAE Exhibit 2.3.

<sup>21</sup> See UPSC Docket No. 14-035-147, Rebuttal Testimony of Douglas S. Stuver at Page 6, Lines 123 through 124.

153 amount of FAS 106 savings, including non-fuel FAS 106 expense savings, should be  
154 passed back to customers through the Deferral Balance.

155 **Q. DID THE COMPANY ULTIMATELY AGREE TO THIS TREATMENT?**

156 A. Yes. In discovery in this proceeding, the Company has accepted a \$2.9 million adjustment  
157 to the Deferral Balance to reflect the non-fuel FAS 106 expense savings in the Deferral  
158 Period, and the Company has indicated that it will incorporate this adjustment into its  
159 rebuttal filing.<sup>22</sup>

160 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

161 A. Yes.

---

<sup>22</sup> See UAE Exhibit 2.04 at Page 1 (The Company's Response to UAE Data Request 2.2)