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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

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Director

To: Utah Public Service Commission

From: Office of Consumer Service
Michele Beck, Director
Cheryl Murray, Utility Analyst

Date: February 1, 2019

Subject: Application of Rocky Mountain Power for an Accounting Order for Settlement Charges Related to its Pension Plans. Docket No. 18-035-48.

Introduction and Background

On December 31, 2018, Rocky Mountain Power (Company) filed with the Public Service Commission of Utah (Commission) an application for a deferred accounting order related to its pension plans (Application). The Company seeks Commission authorization to:

1. Defer the expected impacts associated with the occurrence of a pension event in 2018, and any subsequent similar events; and
2. Amortize the impact of pension events to expense over the same period that is used to amortize the underlying regulatory assets or liabilities with the opportunity to recover the amount in rates as part of net periodic benefit cost.

The Company explains that, taken together, these requests will allow the Company to account for the impact of pension events, through deferral and amortization in a manner that closely approximates the amortization that would have continued if it were not for the accelerated recognition required by standard accounting principles due to the occurrence of a pension event.

The Commission, on January 2, 2019 issued a Notice of Filing and Comment Period setting February 1, 2019 and February 19, 2019 as the dates by which interest parties may submit comments and reply comments, respectively. The following comments provide the Office of Consumer Service's (Office) perspective on the Company's request.

Discussion

The Company seeks approval to defer expected impacts associated with a pension event and to amortize the impact to expense over the same period that is used to amortize the underlying regulatory assets or liabilities with the opportunity to recover the amount in rates.

The Office asserts that the Company has not demonstrated a need for a deferred accounting order. It does not appear that the pension event has had an impact on the Company's earnings. In the Office's opinion, the Company should be held to a higher standard to demonstrate the need for a deferred accounting order because it has not filed a general rate case for several years.

In requesting the accounting order the Company states that its "proposal is designed to maintain normalized pension costs and credits and avoid exposing customers to potential cost volatility from single year "pension events"." The Office notes that customers have not experienced this "volatility" as the Company has elected not to file a general rate case wherein pension costs could be considered along with other components of the Company's business. The Commission could consider changes to pension costs based on evidence presented in a general rate case, if evidence in the next case suggests potential volatility.

The Company's last general rate case, Docket No. 13-035-184, was filed on January 3, 2014. On June 25, 2014, parties to the case filed a stipulation supporting a rate increase effective September 1, 2014 and a second (Step 2) increase effective September 1, 2015, provided certain conditions were met. The stipulation also included a provision that the Company would not file another rate case prior to January 1, 2016. The Commission issued an order approving the stipulation on August 29, 2014. Since January 1, 2016, the Company has had the ability to file a general rate case. In fact, the Division of Public Utilities and the Office have at various times encouraged the Company to file a general rate case so that all elements of the Company's business can be reviewed. If the Company experiences a need for a rate modification it should file a general rate case so that the entirety of its business operations can be evaluated, including elements that may provide an offset to any increase the Company believes is necessary. By requesting accounting orders, the Company is shielded from increases in expense without providing an opportunity for parties to review any offsets to those expenses.

Pension expense included in the last Rocky Mountain Power general rate case was $21 million (RMP rebuttal filing)[1]. For the actual twelve months ended December 31, 2018, the Company had pension income of $16.9 million (negative pension expense) if its proposed accounting treatment is accepted and pension expense of $3.5 million if its proposed accounting treatment is rejected.[2] [3] Thus, even if the accounting treatment

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[1] Response to OCS 1.2 Attachment.

[2] Response to OCS 1.6, Attachments OCS 1.6-1 and OCS 1.6-2.

proposed in this docket is rejected, the pension expense to the Company for 2018 would be significantly below the level proposed to be included in the last rate case. (Company responses to data requests referenced in these comments are attached.).

The Office acknowledges that the Company's last general rate case was settled and the pension expense was not specified. However, the pension expense in the Company's rebuttal filing was based on an updated actuarial report provided by Towers Watson, the Company's actuarial firm (See Rebuttal Testimony of Steven R. McDougal, Docket No. 13-035-184, lines 121-126).

As demonstrated in the table below, the annual pension expense has been substantially lower than the $21 million calculated by the Company for the last general rate case (with the exception of 2015, which was approximately $2.55 million less). Thus, the Company has likely benefited from the lower actual pension expense for a number of years now.

ACTUAL PENSION EXPENSE[4]

2014	$11.6 M	
2015	$18.5 M	
2016	$13.2 M	
2017	($12.4 M)	
2018	$3.5 M	Without requested special accounting treatment
2018	($16.9 M)	With special requested accounting treatment

If the requested special accounting treatment is rejected, the Company's currently projected annual *pension cost* for 2019 through 2021 would continue to be substantially lower than the amount considered in the last general rate case, and in fact, is projected to be annual *pension income* (negative expense) for each year, 2019 through 2021.[5]

It should be particularly noted that under the Company's proposal requested in this docket the actual recorded pension expense will be considerably lower than the amount considered in the last general rate case. Yet, in addition to costs lower than projections, the Company would still be permitted to defer pension costs for future recovery from ratepayers.

The Office asserts that the Company has not demonstrated that it has a need for an accounting order. Therefore, the Commission should deny the Company's request. The Office further asserts that the concept of granting permission for "subsequent similar

[3] As shown on Attachment OCS 1.6-2 even if the Application is rejected the Company would have pension expense (i.e. benefit cost) of only $3.5 M, which is the difference between the "other components of net benefit cost" ($18,571,642) and "other adjustments to net periodic benefit cost" $22,066,883.
[4] Attachments provided in response to data requests OCS 1.4 and OCS 1.6
[5] Response to data request OCS 1.6, Attachment OCS 1.6-2.

pension events" without seeking specific Commission approval and evidence justifying the request is not in the public interest.

Recommendations

The Office recommends that the Commission deny the Company's Application for an Accounting Order for Settlement Charges Related to its Pension Plans.

If the Commission does approve the Company's Application, it should allow deferred accounting for only this occurrence and require that the Company seek Commission approval for any subsequent events.