Witness OCS – 3D

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	)	**Docket No. 20-035-04**
Rocky Mountain Power for Authority to	)	
Increase Its Retail Electric Utility Service	)	**Direct Revenue**
Rates In Utah and for Approval of Its	)	**Requirement Testimony**
Proposed Electric Service Schedules	)	**of Donna Ramas**
And Electric Service Regulations	)	**For the Office of**
	)	**Consumer Services**

REDACTED VERSION

September 2, 2020

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REDACTED VERSION

INTRODUCTION

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 Principal at Ramas Regulatory Consulting, LLC, with offices at 4654 Driftwood Drive, Commerce Township, Michigan 48382.

Q. HAVE YOU PREPARED A SUMMARY OF 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. I was retained by the Utah Office of Consumer Services (OCS) to review Rocky Mountain Power's (RMP) application for an increase in rates in the State of Utah and to make recommendations in the areas of rate base and operating income (expense and revenue). Accordingly, I am appearing on behalf of the OCS.

Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?

A. Yes. I have prepared Exhibits OCS 3.1D through 3.21D, which are attached to this testimony. Also included with this testimony is Exhibit OCS 3.22D, which consists of responses to data requests referenced in this testimony and the attached exhibits. Electronic copies of the

Jurisdictional Allocation Models that were used to determine the revenue requirements resulting from OCS's recommendations are also being provided with the filing of this testimony. These electronic models are confidential as they include information identified as confidential by RMP.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I present OCS's overall recommended revenue requirement for RMP. I also sponsor specific adjustments to RMP's filing for the future test period ending December 31, 2021. OCS witness Randall J. Woolridge presents the OCS's primary position with regards to the OCS recommended capital structure and rate of return on equity which results in a recommended overall rate of return of 6.91%,[1] as well as an alternate recommendation for the Public Service Commission's (PSC) consideration that results in an overall rate of return of 6.92%.[2] The OCS recommended revenue requirement under the primary position is presented in Exhibit OCS 3.1D, and the revenue requirement under the alternate recommendation is presented in the Exhibit OCS 3.21D. These overall revenue requirements under both the primary recommendation of Dr. Woolridge and his alternate recommendation include the impact of the adjustments recommended by OCS witness Philip Hayet as well as the adjustments presented in this testimony.

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[1] The overall rate of return of 6.91% is based on an equity weighting of 50% in the overall capital structure with a recommended rate of return on equity of 9.0%.
[2] The overall rate of return of 6.92% is based on RMP's requested capital structure with a recommended rate of return on equity of 8.75%.

I also discuss several accounting concerns associated with the current Utah Solar Subscriber Program.

Finally, I discuss RMP's proposal regarding the use of the Protected Plant Property & Equipment Excess Deferred Income Tax Amortization Regulatory Liability, hereinafter abbreviated as the "Protected PP&E EDIT Amortization Regulatory Liability," to pay off several regulatory assets and to mitigate RMP's proposed rate increase in this case. As part of the discussion, I present OCS's recommendation regarding the use of this regulatory liability to the benefit of customers and present several alternatives for the PSC's consideration.

Q. PLEASE DISCUSS HOW YOUR EXHIBITS ARE ORGANIZED.

A. Exhibit OCS 3.1D presents the overall revenue requirement and summary schedules. Additionally, Exhibit OCS 3.21D presents the overall revenue requirement and summary schedules under the alternate approach and recommendation addressed by OCS witness Dr. Woolridge. In preparing Exhibits OCS 3.1D and OCS 3.21D, I used RMP's Jurisdictional Allocation Model, flowing each of the OCS recommended adjustments through the models. The only difference between the two models used in determining the OCS recommended revenue requirements was the capital structure and rate of return on equity under the primary recommendation and the alternate approach addressed by Dr. Woolridge. In flowing adjustments through the model, I also included the impact of the adjustment to net power costs recommended by Mr. Hayet as well as the four separate adjustments presented in the confidential sections of Mr. Hayet's testimony.

Q. PLEASE DESCRIBE THE ORGANIZATION OF THE REST OF YOUR EXHIBITS.

A. Exhibit OCS 3.2D includes a summary schedule that presents all of the OCS recommended adjustments discussed in this testimony and the non-confidential adjustment discussed in Mr. Hayet's testimony in one schedule on a Utah jurisdictional basis using the 2020 Protocol allocation factors calculated by RMP in its filing.[3] The full revenue requirement impact will not tie directly into the summary schedules on Exhibits OCS 3.1D (Primary) and OCS 3.21D (Alternate) as the amounts presented in Exhibit OCS 3.2D do not include the cash working capital impact and interest synchronization impact of each of the adjustments, as well as the impact of the adjustments on the calculation of the jurisdictional allocation factors. Those impacts flow automatically through the Jurisdictional Allocation Model. Exhibit OCS 3.2D also excludes amounts presented by Mr. Hayet that were identified as confidential by RMP.

[3] Several OCS recommended adjustments impact the calculation of the jurisdictional allocation factors in the Jurisdictional Allocation Model, and the resulting factors may differ from RMP's 2020 Protocol allocation factors presented by RMP.

Exhibits OCS 3.3D through 3.20D presents the adjustments recommended in this testimony as well as other supportive calculations. These supporting exhibits are presented using the top-sheet approach, showing the specific adjustments on a total PacifiCorp and Utah allocated basis[4] with brief descriptions of the adjustments at the bottom of each exhibit.

Q. BASED ON THE OCS'S ANALYSIS OF RMP'S FILING, WHAT IS THE OCS'S RECOMMENDED CHANGE TO THE CURRENT LEVEL OF UTAH REVENUE REQUIREMENT?

A. RMP's filing shows a requested increase in revenue requirement of $95,786,460. Based on the OCS's analysis, RMP's current rates should be decreased as a result of this proceeding, not increased. As shown on Exhibit OCS 3.1D, page 1 of 3, the OCS recommends a decrease in the current level of Utah revenue requirement of $59,285,929. This is based on the OCS recommended overall rate of return of 6.91%. As shown on Exhibit OCS 3.21D, page 1 of 3, under the alternate approach resulting in an overall rate of return of 6.92%, the result is a decrease in the current level of Utah revenue requirement of $53,110,334.

[4] For presentation purposes and for comparability to RMP's Exhibit RMP__(SRM-3), the calculation of the Utah allocated amounts use the 2020 Protocol allocation factors presented in the RMP's filing. The final impact of each of the adjustments on a Utah jurisdictional basis are determined after running the adjustments through the Jurisdictional Allocation Modal and may vary from the Utah jurisdictional amounts presented in Exhibit OCS 3.2D through 3.20D.

Q. IN WHAT ORDER WILL YOU PRESENT YOUR RECOMMENDED ADJUSTMENTS TO RMP'S REQUEST?

A. I first present my recommended adjustments to net operating income. I then discuss my recommended adjustments to rate base. Finally, I discuss the balance in the Non-Protected PP&E EDIT Amortization Regulatory Liability at the start of the future test year and various options at the PSC's disposal for use of those funds as mitigation measures to assist Utah ratepayers during these unprecedented times. This includes a discussion of RMP's proposed use of the regulatory liability, OCS' primary recommendation regarding the use of the funds, as well as several additional options for the PSC's consideration.

<u>NET OPERATING INCOME</u>

<u>Fee Change Revenues</u>

Q. IS RMP PROPOSING TO MODIFY ANY SCHEDULE 300 FEES IN THIS PROCEEDING?

A. Yes. As discussed in the direct testimony of RMP witness Melissa S. Nottingham, the RMP is proposing to update several customer charges in Schedule 300. This includes: (1) reducing the Returned Payment Charge from $20 to $12; (2) increasing Pole Cut Disconnect/Reconnect Charge during normal business hours from $125 to $200; (3) increasing the Temporary Service Charge for single-phase service from $85 to $215; and

(4) increasing the Temporary Service Charge for three-phase service from $115 to $215. RMP is also proposing to provide a monthly paperless billing credit of $0.50 for customers that participate in paperless billing.

Q. DID RMP REFLECT THE IMPACT OF THESE REQUESTED CHANGES ON THE REVENUE REQUIREMENTS IN THIS CASE?

A. RMP included the impact of the proposed monthly paperless billing credit, which resulted in a $2,716,081 reduction to Miscellaneous Electric Revenues on a Utah basis.[5] However, the impact of the four remaining proposed revisions to the charges in Schedule 300 were not included in the adjusted test year revenue requirements.

Q. SHOULD TEST YEAR REVENUES BE ADJUSTED TO REFLECT THE IMPACT OF THE PROPOSED FEE CHANGES?

A. If the PSC approves the proposed fee changes, then the impacts on revenue requirement resulting from the fee changes should be included in the adjusted test year. Based on a discussion with the OCS, it is my understanding that the OCS does not intend to oppose these changes at the present time. As a result, I have include the resulting increase in revenues in the OCS recommended revenue requirement calculations in this case. When asked in OCS Data Request 5.26 why RMP reduced Miscellaneous Electric Revenues for the impacts of the proposed

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[5] The adjustment was included in Exhibit RMP__(SRM-3) at page 94 of 467 (Page 4.8).

paperless billing credits but did not include the impact from the remaining proposed changes to the Schedule 300 charges, RMP responded that it "…will provide an update on rebuttal to reflect all the charges associated with Schedule 300 fees in accordance with those listed on Exhibit RMP__(MSN-1)." Thus, RMP apparently agrees that the resulting increase in revenues should be reflected in this case.

Q. WHAT ADJUSTMENT IS NEEDED TO REFLECT THE IMPACT OF THE PROPOSED INCREASE IN SCHEDULE 300 CHARGES?

A. As shown on Exhibit OCS 3.3D, Miscellaneous Electric Revenues included in RMP's adjusted test year should be increased by $746,073 on a Utah basis. Page 3.3.1 of Exhibit OCS 3.3D shows the calculation of this adjustment, which applies the proposed change in each of the fees to the number of times each of the fees was charged by RMP in the base year ended December 31, 2019.

REC Revenues

Q. CAN YOU PLEASE DESCRIBE YOUR UNDERSTANDING OF RMP'S ADJUSTMENT TO RENEWABLE ENERGY CREDIT REVENUES?

A. Yes. Currently the difference between the actual Renewable Energy Credit ("REC") revenues and the REC revenues reflected in rates are accounted for in the Renewable Energy Credit Balancing Account, or "RBA", with the amounts trued-up on an annual basis through a surcharge or surcredit. In this case, RMP is requesting to update the amount of REC revenues that are incorporated in base rates to be based on the actual 2019 base year REC revenue level. The purpose of RMP's adjustment is to reflect the revised RBA base level to include in rates.

Since California, Oregon and Washington have renewable portfolio standard ("RPS") requirements, RMP does not sell RECs that are needed to fulfil the RPS requirements in those states. As a result, the REC revenues from RPS eligible resources that would otherwise be allocated to California, Oregon and Washington are reallocated to RMP's other jurisdictions, including Utah. The REC revenue adjustment included in RMP's filing reflects the reallocation of the base year REC revenues from the RPS eligible resources resulting in an increase in the Utah jurisdictional REC revenues in the test year.

Additionally, as a result of Paragraph 39 of the Stipulation in Docket No. 11-035-200, RMP is allowed to retain 10% of REC revenues as an incentive to pursue additional REC sales. Thus, RMP's adjustment also reduces the base year REC revenues to reflect the 10% incentive.

RMP's REC revenue adjustment also reflects REC revenues received from Kennecott during 2019 under the Kennecott REC Supply Agreement. The agreement, approved by the PSC in Docket No. 19-035-20, calls for RMP to retire 1.5 million Utah-allocated RECs on Kennecott's behalf annually. The Agreement also provides that all of the revenue from the REC charges Kennecott pays to RMP under the Agreement are to go to the benefit of RMP's Utah customers.

Q. ARE YOU RECOMMENDING ANY REVISIONS TO THE AMOUNT OF REC REVENUES TO BE INCLUDED IN THE TEST YEAR?

A. I am recommending a minor revision. The 2019 REC revenues that RMP is proposing to include as the new RBA base revenues to be reflected in the test year and to be used in future RBA filings did not include a full twelve months of REC revenues to be received from Kennecott under the Kennecott REC Supply Agreement. Under the method by which RMP calculated its adjustment, the result was $575,988 being included for revenues under the Kennecott REC contract, while the annualized revenues under the contract is $600,000. RMP indicated in response to OCS Data Request 5.17 that it "…will update the Kennecott amount to reflect a full 12 months, or $600,000 annualized amount in the rebuttal filing." As shown on Exhibit OCS 3.4D, I have increased RMP's adjusted test year revenues by $24,012 in order to reflect the full $600,000 annual level of revenues to be received from Kennecott. While the dollar amount of this adjustment is not material, I still recommend it be included in order to ensure that the RBA base to be used in future RBA filings correctly includes the full impact of the Kennecott REC Contract.

Q. WHAT NEW RBA BASE AMOUNT RESULTS FROM THIS REVISION?

A. Table 2 presented on page 19 of RMP witness McDougal's testimony shows RMP's proposed RBA Base is $3,480,434. Correctly reflecting the annualized level Kennecott REC Contract revenues would increase this base by $24,012 to $3,504,446.

Q. ARE THERE ANY ADDITIONAL ADJUSTMENTS TO THE TEST YEAR REC REVENUES AND THE DETERMINATION OF THE NEW RBA BASE AMOUNT THAT THE PSC SHOULD CONSIDER IN THIS PROCEEDING?

A. Yes. As described in the Direct Testimony of RMP witness Joelle R. Steward, at lines 236 through 258, RMP has entered into an agreement with Vitesse, LLC, which is a wholly-owned subsidiary of Facebook, Inc., for the purchase of all RECs generated by the Pryor Mountain Wind Project over a period of 25 years. Ms. Steward explains at lines 256 – 258 of her testimony that "Utah's allocation of the revenue from the sale of RECs for this project will be passed back to customers through Electric Service Schedule No. 98 – REC Revenue Balancing Account." RMP did not include the REC revenues it projects to receive from Vitesse, LLC during the test year ending December 31, 2021 in its REC revenue adjustment or in the RBA base amount it proposes. Rather, such amounts would be passed back to customers in the future through the RBA.

As explained in the direct testimony of OCS witness Phil Hayet, the OCS recommends that the Pryor Mountain Wind Project be disallowed in this proceeding. However, if the PSC allows the inclusion of the revenue requirement impacts of the Pryor Mountain Wind Project in this proceeding, then the estimated amount of the REC revenues to be received from Vitesse, LLC during the test year ended December 31, 2021 should be included in the revenue requirements and in the RBA base. This would be a known change in REC revenues and there is no reason to exclude it from the adjusted test year REC revenues if the PSC allows the inclusion of the project. Since the OCS recommends the Pryor Mountain Wind Project be excluded from revenue requirement, I have not included the associated REC revenues as an adjustment in this proceeding.

Q. IF THE PSC DISAGREES WITH THE OCS AND ALLOWS THE PRYOR MOUNTAIN WIND PROJECT TO BE INCLUDED IN REVENUE REQUIREMENTS IN THIS CASE, WHAT ADDITIONAL ADJUSTMENT SHOULD BE MADE TO THE TEST YEAR REC REVENUES AND THE RBA BASE AMOUNT?

A. OCS Data Request 5.20 asked RMP to "Please provide the Company's current best estimate of the amount of REC sales and REC revenues that will result from the referenced agreement between PacifiCorp and Vitesse, LLC for each year, 2021 through 2025 on a total PacifiCorp basis and on a Utah jurisdictional basis." The response stated, in part, "Please refer to the confidential work papers supporting the direct testimony of Company witness, Rick T. Link, specifically folder 'FC1 and PM', file 'Table 4, Figure3-4, FB_PryorMtn_Analysis_2019-12-06v3', for the Total Company amount." The response also indicated that the Utah system generation (SG) allocation factor of 43.997% should be applied to determine the Utah allocated amount of associated revenues for the 2021 test year. Based on the referenced confidential workpaper, the projected REC revenues for 2021 resulting from the agreement with Vitesse, LLC would be approximately *****BEGIN CONFIDENTIAL***** [redacted] *****END CONFIDENTIAL***** on a Utah jurisdictional basis after the 43.997% SG allocation factor is applied. This is the amount that would be added to the 2021 test year REC Revenues and RBA base amount.

Q. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS WITH REGARDS TO THE REC REVENUES AND THE RECOGNITION THEREOF IN RATES?

A. Yes. Currently, the difference between the actual annual REC revenues received and the REC revenues reflected in base rates on a Utah jurisdictional basis are accounted for in the Renewable Energy Credits Balancing Account, Tariff Schedule 98. I recommend that as part of its order in this case, the PSC discontinue the RBA once the true-up associated with the 2020 calendar year is completed and instead transition to a deferral approach. In other words, once the final true-up is completed associated with the 2020 RBA period, Tariff Schedule 98 would be discontinued. Starting with the rate effective date from this case, which is presumably January 1, 2021, RMP would then account for the difference between the amount of REC revenues incorporated in base rates and the actual annual amount of REC revenues by deferring the difference as a regulatory asset/regulatory liability. The resulting balance in the respective deferral account would then be addressed in a future rate case proceeding. This approach would be more administratively efficient that the current RBA approach.

Q. WHY ARE YOU RECOMMENDING THE CHANGE IN APPROACH TO HOW REC REVENUES ARE RECOGNIZED IN RATES?

A. Much has changed since the RBA was first implemented. An RBA was first established through the PSC's approval of a Settlement Stipulation in its September 13, 2011 Report and Order in Docket Nos. 10-035-124, 09-035-15, 10-035-14, 11-035-46 and 11-035-47. Paragraph 62 of the Settlement Stipulation in that case indicated that "For purposes of the RBA, parties agree that REC revenues included in base rates as a result of the agreed revenue requirement in the General Rate Case are $50.9 million on a Utah-allocated basis beginning September 21, 2011." While the RBA has been modified since that time, REC revenues are still trued-up through the annual RBA filings and Tariff Schedule 98. During the timeframe that the RBA was originally implemented, and when it was modified as a result of an uncontested Settlement Stipulation in a subsequent rate case, Docket No. 11-035-200, there was much volatility in the REC sales volumes and prices and a lot of uncertainty regarding future REC sales and prices.

I have assisted the OCS in many annual reviews of the RBA, including the most recent RBA application submitted in Docket No. 20-035-13. Since the time the RBA was initially established, the annual level of REC revenues received by RMP has declined substantially. This is evident by the $50.9 million annual REC revenue amount referenced in the above quoted Settlement Stipulation as compared to the revised RBA base amount requested by RMP in this case of $3,480,434. Based on my experience participating in prior RMP Utah rate case proceedings and in reviewing the annual RBA filings, the total amount of annual REC revenue received by RMP has also become substantially less volatile than what was occurring in the earlier years of the RBA.

While the RBA was appropriate and warranted for many years, it is my opinion that the annual true-up approach, with the associated annual change in the Tariff Schedule 98 rates, is no longer necessary. Under the recommended deferral approach that would replace the RBA approach, both Utah ratepayers and RMP would still be protected should some presently unknown circumstance cause the degree of volatility in REC prices and REC revenues to return to previous levels. If a high degree of volatility arises again with regards to REC revenues, whether or not the RBA should be re-implemented could be considered in a future rate case proceeding.

Q. HAS RMP GIVEN ANY INDICATION WHETHER OR NOT IT WOULD BE AGREEABLE TO TRANSITIONING FROM THE CURRENT APPROACH IN WHICH IT FILES ANNUALLY FOR A TRUE-UP OF THE RBA TO A DEFERRAL APPROACH?

A. In response to OCS Data Request 5.22, RMP stated as follows: "Yes, the Company would be willing to consider transitioning from the current annual filing of the Renewable Energy Credit (REC) Balancing Account (RBA) to a deferred balance, including a carrying charge, amortized in the subsequent general rate case (GRC)."

Q. IN THE CURRENT RBA APPROACH, RMP RETAINS 10% OF THE REC REVENUES AS AN INCENTIVE TO MARKET AND OBTAIN ADDITIONAL VALUE FOR THE AVAILABLE RENEWABLE ENERGY CREDITS. CAN THE 10% INCENTIVE REMAIN IN PLACE IF THE RBA APPROACH IS REPLACED WITH THE DEFERRAL APPROACH FOR REC REVENUES?

A. Yes, it could remain in place if the PSC agrees that continuation of the 10% incentive is beneficial and reasonable. I do not oppose allowing RMP to retain 10% of the revenues it receives from the sales of RECs as a means to incentivize RMP to aggressively market its available RECs and to maximize the value thereof.

NTUA Revenue Correction

Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENT SHOWN ON EXHIBIT OCS 3.5D, TITLED "CORRECTION TO NTUA REVENUES"?

A. As explained in the Direct Testimony of RMP witness Steven R. McDougal, at lines 414 – 421, the parties agreed in Docket No. 15-035-84 that the loads, revenues and expenses for serving the Navajo Tribal Utility Authority ("NTUA") would be included in the Utah revenue requirements for interjurisdictional cost allocation purposes. As a result, RMP included an adjustment in its filing to assign the NTUA revenues to the Utah jurisdiction and to include the forecasted test year revenue level. However, in calculating the adjustment, RMP did not take into account that negative $77,250 was reflected as Utah situs revenues during the base year associated with collections from NTUA. In response to OCS Data Request 5.23, RMP indicated that it should have removed these negative base year revenues in its filing and stated that it "…will remove the negative $77,250 in Utah situs revenues in the rebuttal filing." On Exhibit OCS 3.5D, I reflect this correction, which increases RMP's adjusted test year revenues by $77,250.

M&S Inventory Sales Revenue Correction

Q. SHOULD ADDITIONAL ADJUSTMENTS BE MADE TO RMP'S ADJUSTED TEST YEAR REVENUES?

A. Yes. Electric Operating Revenues need to be increased to correct an accounting error that occurred during the base year that was carried forward to the test year. RMP Exhibit RMP__(SRM-3) at page 12 of 467 (Page 2.3) shows the amount of revenues recorded in Account 456 – Other Electric Revenue that were charged directly to Utah (i.e., Utah situs) was ($4,728,044). These negative base year revenues were carried forward to the test year in RMP's filing. In response to OCS Data Request 6.3, the RMP indicated that the negative revenues were associated with RMP's provision of materials and supplies ("M&S") inventory to customers who build their own lines. Subsequently, in response to OCS Data Request 14.5, the RMP explained that it sells the M&S inventory to customers that are building their own lines at cost and that the revenue received from the sale of M&S inventory to customers should offset the cost such that the balance should net to zero. However, the balance did not net to zero in the test year. Thus, an adjustment needs to be made to RMP's filing to ensure that customers are not negatively impacted from the sale of M&S inventory for applicant-built lines.

Q. DID RMP EXPLAIN WHY THE AMOUNT OF UTAH SITUS REVENUES ASSOCIATED WITH THE PROVISION OF MATERIALS AND SUPPLIES FOR APPLICANT-BUILT LINES WAS NEGATIVE IN THE TEST YEAR?

A. Yes. Based on additional information provided informally by RMP, it correctly booked the M&S inventory cost of sales of $4,944,694 on a Utah Situs basis. However, in recording the M&S inventory sales revenues, RMP only booked $192,650 of the amount as Utah Situs, with $4,420,000 being incorrectly allocated using the System Overhead (“SO”) allocation factor. This resulted in the majority of the M&S inventory sales revenues received by RMP associated with Utah applicant-built lines being allocated instead of directly assigned to Utah operations. The Utah Situs amount of $193,000 and the amount allocated via the SO allocation factor of $4,420,000 during the base year can be seen when reviewing Exhibit RMP__(SRM-3) at page 309 of 467, which is part of Section B.1 – Electric Operating Revenues under account 4562400.

Q. DO ANY ADDITIONAL REVISIONS NEED TO BE MADE BEYOND REVISING THE AMOUNTS ALLOCATED WITH THE SYSTEM OPERATION ALLOCATION FACTOR TO UTAH SITUS?

A. Yes. In response to OCS Data Request 14.5(d), RMP explained that the revenue generated from the sales of inventory and the cost of the inventory should net to zero, and that “Due to accruals and timing differences when material is sold, balances may not net to zero on a monthly basis.” As shown on Exhibit OCS 3.6D, when the allocation factor is corrected, the resulting Utah M&S inventory sales revenues of $4,612,650 is still $332,044 less than the M&S inventory cost of sales booked during the base year. Thus, the revenues need to be increased by $332,044 to ensure that there is no negative impact of the M&S inventory sales associated with applicant-built lines in the test year. As shown on Exhibit OCS 3.6D, correction of the allocation factor applied during the base year coupled with the adjustment needed to ensure the M&S inventory sales revenue equals the M&S inventory cost of service results in an increase to test year revenues in Account 456 – Electric Operations Revenue of $2,820,746.

<u>UWMA Transfer of Benefits</u>

Q. WHAT IS THE PURPOSE OF THE ADJUSTMENT ON EXHIBIT OCS 3.7D TITLED "REMOVE UMWA TRANSFER FROM POST RETIREMENT BENEFITS"?

A. Included in the projected test year post retirement benefits cost component of RMP's labor expense adjustment was $2,380,578 identified as "UMWA Transfer."[6] This is associated with the United Mine Works of America (UMWA) transfer of retiree medical benefits obligation. However, it is my understanding that this obligation is included as part of the Deer Creek Mine Closure Costs addressed elsewhere in RMP's filing, resulting in a double-counting of the costs. UAE Data Request 5.5 asked RMP if certain changes made to labor costs in RMP's reply testimony in the Oregon rate case, Oregon Docket No. UE 374, were included in RMP's filing in this docket, including the removal of "UMWA transfer of retiree medical benefits obligation double treatment." In the public portion of RMP's response to UAE Data Request 5.5, the RMP stated: "The United

[6] Exhibit RMP__(SRM-3, at page 78 of 467 (Page 4.2.13).

Mine Workers of America (UMWA) transfer of $2,380,578 was mistakenly included in the Company's direct filing but will be removed in the Company's rebuttal filing." Thus, on Exhibit OCS 3.7D, I removed the UMWA Transfer from RMP's labor cost adjustment, resulting in a reduction to the adjusted test year expense of $1,586,729 ($699,949 Utah.)

Pension Expense

Q. HOW DID RMP FORECAST THE TEST YEAR PENSION COST SHOWN IN EXHIBIT RMP__(SRM-3), PAGE 4.2.2 OF $14,454,430?

A. According to Filing Requirement R746-700-20.C.3.e, the test year pension cost of $14,454,430 includes $8,629,708 for the PacifiCorp Retirement Plan and $5,824,722 for projected contributions to the Union Local 57 pension plan, both of which are on a net of joint venture basis. These amounts were based on actuarial projections for the 2021 test year. Exhibit RMP__(SRM-3), page 4.2.12, shows that the projected 2021 test year pension expense associated with the PacifiCorp Retirement Plan includes an anticipated Settlement Loss of $11.9 million. This discussion, and my recommended adjustment, applies to the PacifiCorp Retirement Plan as I am not recommending any adjustments to the projected contributions to the Union Local 57 pension plan.

Q. WHAT CAUSES THE SETTLEMENT LOSS PROJECTED BY RMP FOR THE TEST YEAR OF $11.9 MILLION?

A. RMP Witness Nikki L. Kobliha provides a fairly thorough description of the settlement loss and the factors that trigger recognition of the loss in her direct testimony at lines 597 through 630. Without repeating Ms. Kobliha's detailed discussion, I will provide a brief summary of my understanding regarding what has triggered the projected settlement loss for the test year. As pension accounting and the determination of pension costs under actuarial calculations are complex, this discussions should be considered a high-level description. In general, certain actuarial gains and losses that occur as a result of changes in actuarial assumptions and the difference between expected and actual pension plan experience are not recognized fully in the period incurred. Rather, and in general, the actuarial gains and losses are amortized and recognized as a part of the pension cost calculations over the average remaining life expectancy of the pension plan participants. This helps to smooth the impacts of both actuarial gains and losses on the annual pension costs and helps to avoid potentially extreme annual fluctuations in the resulting annual pension cost that would otherwise be caused by changes in actuarial assumptions and plan experience.

Under RMP's pension plan, certain non-union retiring employees can elect to receive either a lump sum cash distribution or an actuarial equivalent life annuity upon retirement. If the aggregate lump sum cash distributions to pension plan participants in a calendar year exceeds a threshold amount, then a portion of the previously unrecognized actuarial gains or losses must be recognized immediately in that calendar year. The threshold amount is based on the combination of the service cost component and the interest cost component of the pension cost calculation. In other words, a portion of the previously unrecognized gains and/or losses would be recognized in a single year instead of continuing to be amortized over the average remaining life of plan participants if the total amount of the lump sum distributions exceeds the threshold.

Over time, RMP has shifted from a defined benefit pension plan approach to a 401(k) plan approach for its employees, and benefit accruals for employees to the existing pension plans have been frozen. As a result, RMP no longer accrues annual service costs as a portion of the determination of the annual pension costs. Thus, the resulting threshold amount, all else being equal, would decline. Whether or not a settlement loss is recognized in a given year, and the amount of associated settlement loss that is recognized in that year, is dependent on many factors such as the threshold amount, the amount of employees that retire and the number of those retirees that elect the lump sum cash distribution, the resulting amount of lump sum cash distribution and the overall amount of unrecognized net actuarial losses. As of the time RMP submitted its filing, the external actuarial firm used by RMP projected that RMP will incur a settlement loss of approximately $11.9 million during the 2021 test year.

Q. DO YOU RECOMMEND THAT THE FULL PROJECTED SETTLEMENT LOSS BE INCLUDED IN THE TEST YEAR?

A. No, I do not. Instead, I recommend that on a going-forward basis, beginning with the test year in this case, the PSC allow RMP to defer the settlement losses, or settlement gains, that are triggered by the annual lump sum cash distributions exceeding the threshold and to recognize such deferred settlement losses (or gains) as part of annual pension costs over the remaining life expectancy of plan participants. In other words, the settlement losses (or gains) would continue to be recognized in annual pension costs the same way they would have been recognized had the recognition of the settlement loss (or gain) not been triggered.

Q. IS THIS RECOMMENDATION CONSISTENT WITH RMP'S REQUEST IN DOCKET NO. 18-035-48 – "APPLICATION OF ROCKY MOUNTAIN POWER FOR AN ACCOUNTING ORDER FOR SETTLEMENT CHARGES RELATED TO ITS PENSION PLANS"?

A. Yes, it is. The OCS opposed RMP's requested approval of a deferred accounting order in Docket No. 18-035-48 for the reasons identified by the OCS in that case. It is my understanding that those reasons focused on whether the accounting deferral was appropriate outside of a general rate case context and met the requirements for the special deferred accounting treatment between rate case proceedings. The requested change in accounting, and associated requested deferral, were being considered outside of a base rate case proceeding in that docket. It is my opinion that the establishment of deferral accounting associated with the settlement losses (or gains) caused by the total annual cash lump sum distributions exceeding the threshold requirement is appropriate for consideration as part of a rate case proceeding.

Q. WHAT ADJUSTMENT IS NEEDED TO IMPLEMENT THIS RECOMMENDATION?

A. As shown on Exhibit OCS 3.8D, the amortization of the estimated test year settlement loss of $11.9 million over the remaining life expectancy of plan participants of 21 years results in an annual amortization of the settlement loss of $566,667. This results in an $11,333,333 reduction to the resulting test year pension net periodic benefit costs. After consideration of the portion of employee labor and benefit costs that are allocated to expense accounts in RMP's filing, the result is a $7,554,017 ($3,332,281 Utah) reduction to test year expenses.

<u>Reliability Coordinator Fees</u>

Q. IN EXHIBIT OCS 3.9D, YOU REDUCE THE TEST YEAR EXPENSES ASSOCIATED WITH RELIABILITY COORDINATOR FEES. WHY IS THIS ADJUSTMENT NEEDED?

A. During the base year, PEAK Reliability served as RMP's reliability coordinator with the charges based on PacifiCorp paying a portion of

PEAK Reliability's overall budget. These services are now provided by the California Independent System Operator (CAISO) at a substantially lower cost. The table below shows the reliability coordinator expenses booked by RMP for each year, 2015 through 2020:

Reliability Coordinator Expense:

Year	Vendor	Amount
2015	PEAK Reliability	$ 3,635,241
2016	PEAK Reliability	$ 3,899,622
2017	PEAK Reliability	$ 3,873,262
2018	PEAK Reliability	$ 3,893,221
2019	PEAK Reliability	$ 5,059,884
2020	CAISO	$ 2,307,557

Source: Response to UAE DR 2.44(b)

Clearly the reliability coordinator fees charged to RMP declined substantially subsequent to the base year and these substantial cost savings should be included in the test year.

Q. WHAT ADJUSTMENT IS NEEDED TO ENSURE THE SUBSTANTIAL REDUCTION IN RELIABILITY COORDINATOR FEES IS REFLECTED IN THE TEST YEAR?

A. The base year reliability coordinator fees were escalated in RMP's filing as part of its escalation adjustment. As discussed later in this testimony, I recommend that the escalation factors be updated to reflect more recent information provided by RMP. This results in adjusted test year reliability coordinator fees of $5,042,174. I recommend that this amount be reduce to reflect the CAISCO reliability coordinator fees for the current year of $2,307,557. As shown on Exhibit OCS 3.9D, test year expenses should be reduced by $2,734,617 ($1,203,163 Utah) to reflect this substantial cost savings.[7]

<u>Transmission Power Delivery Bad Debt Expense</u>

Q. EXHIBIT RMP__(SRM-3) AT PAGE 20 OF 467 (PAGE 2.11) SHOWS THAT ADJUSTED TEST YEAR EXPENSES INCLUDE $1,018,619 ON A TOTAL PACIFICORP BASIS AND $486,995 ON A UTAH JURISDICTIONAL BASIS FOR UNCOLLECTIBLE ACCOUNTS EXPENSES RECORDED IN ACCOUNT 904 THAT ARE ALLOCATED USING THE CN ALLOCATION FACTOR. HAS RMP PROVIDED AN EXPLANATION FOR WHY THERE IS SUCH A HIGH LEVEL OF ALLOCATED UNCOLLECTIBLE ACCOUNTS EXPENSES IN THE TEST YEAR?

A. The portion of the base year expenses recorded in Account 904 – Uncollectible Accounts Expense that were allocated across the system using the CN factor, which is based on the number of customers, totaled $988,334. Included in this total was $981,923 for amounts recorded in a general ledger account for "Bad Debt Expense – Transmission PD." In response to OCS Data Request 14.11(a), the RMP explained that "Bad Debt Expense – Transmission PD" general ledger account "…records the

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[7] If the PSC adopts escalation factors that differ from the updated factors recommended in this testimony, then the adjustment presented in Exhibit OCS 3.9D should be revised at line A.2 to reflect the PSC approved escalation factor impacting the transmission operation expense accounts.

bad debt expense associated with transmission power delivery customers, including interconnection studies for which costs exceed the customer's deposit and/or customer collections and were subsequently written off." The attachment provided with the response to OCS Data Request 14.11 shows an entry of $922,282.60 recorded in this general ledger account in December 2019, but did not provide further explanation for this specific entry beyond the response quoted above.

Q. WHAT ELSE WAS RECORDED IN THE BASE YEAR IN ACCOUNT 904 – UNCOLLECTIBLE EXPENSE THAT WAS ALLOCATED USING THE CN FACTOR AND HOW DO THE AMOUNTS COMPARE TO PRIOR YEARS?

A. The attachment provided with the response to OCS Data Request 14.11 shows the following breakdown of costs recorded in Account 904 that were allocated using the CN factor, by general ledger account, for each year, 2017 through 2019:

Account 904 - Uncollectible Expense Allocated Using CN Factor

GL Account	2017	2018	2019
550775 - Bad Debt Expense - Transmission PD	2,791	298	981,923
550701 - Bad Debts Recoveries	(49,066)	(49,945)	(50,260)
550750 - Provision for Doubtful Accounts	53,684	82,809	56,152
550700 - Bad Debts Write-Offs	-	-	520
Total Allocated Using CN Factor	7,408	33,163	988,334

The above table excludes uncollectible expense specific to the Utah operations, which are directly assigned to Utah. In the most recent prior

Utah rate case proceeding, Docket No. 13-035-184, the amount of expense in Account 904 that was allocated using the CN factor in the base year ended June 2013 was $13,604. Clearly the base year expense in Account 904 in the current docket that is allocated using the CN factor of $988,334 is not reflective of typical circumstances. The amount recorded in general ledger account 550775 – Bad Debt Expense – Transmission PD during the base year is clearly an outlier.

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE ADJUSTED TEST YEAR UNCOLLECTIBLE ACCOUNT EXPENSE?

A. Yes. I recommend that the amount included for GL Account 550775 – Bad Debt Expense – Transmission PD be excluded from the adjusted test year. As indicated above, the expenses recorded in this account are associated with the transmission power delivery customers and includes costs such as interconnection studies that cost more than the transmission customer deposits and/or transmission customer collections. RMP has not provided an explanation for why these costs are so high in the base year compared to prior levels, nor has it explained why these bad debts associated with the transmission power delivery customers should be included in rates charged to Utah ratepayers. RMP also has not provided any evidence indicating that the base year level of such costs is consistent with ongoing expense levels. As shown on Exhibit OCS 3.10D, test year expenses should be reduced by $988,207 ($472,456 Utah).[8] Since the $981,923 recorded in general ledger account 550775 – Bad Debt Expense – Transmission PD during the base year was escalated in RMP's filing, the adjustment factors in the escalation using the updated escalation factors discussed later in this testimony.

<u>Generation Overhaul Expense</u>

Q. PLEASE DISCUSS RMP'S ADJUSTMENT TO NORMALIZE GENERATION OVERHAUL EXPENSE.

A. RMP adjusted the base year generation overhaul expense to reflect a four-year average cost level based on the twelve month periods ended December 2016 through the base year ended December 2019. In deriving its adjustment, RMP used actual overhaul costs for the past four year period on a plant-by-plant basis. Expenses associated with overhauling the Cholla plant was removed by RMP from the determination of the four-year average cost level since operations are anticipated to cease at the plant before the start of the test year. RMP then escalated the resulting annual overhaul expense amounts to December 2019 dollars, applying escalation factors that ranged from 2.99% to 8.41%.

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[8] If the PSC adopts escalation factors that differ from the updated factors recommended in this testimony, then the adjustment presented in Exhibit OCS 3.10D should be revised at line A.2 to reflect the PSC approved escalation factor impacting the Customer Accounts - Operations expense accounts.

RMP's generation overhaul expense adjustment resulted in a $5,530,707 ($2,433,373 Utah) reduction to the recorded base year overhaul expense. The inclusion of overhaul costs in rates at an average, normalized level is consistent with past PSC decisions. However, RMP's application of escalation factors to the historical balances prior to averaging the cost is not.

Q. WHY ARE OVERHAUL EXPENSES BASED ON A FOUR-YEAR AVERAGE COST LEVEL?

A. The amount of expense incurred for the overhaul of generation facilities can vary significantly from year-to-year and from generation unit to generation unit. The amount of overhaul costs that are capitalized versus expensed will also vary between overhauls and between units depending on the specific work done during a particular overhaul. In order to ensure that base rates are not set at a level to include either an abnormally high level or an abnormally low level of generation overhaul expense, overhaul expense has historically been incorporated in rates based on an average level using a four year period in determining the average.

Q. HOW DOES RMP'S METHODOLOGY OF DETERMINING THE HISTORICAL AVERAGE OVERHAUL EXPENSE TO INCLUDE IN RATES DEVIATE FROM THE METHOD APPROVED BY THE PSC IN PRIOR CASES?

A. In the Orders in Docket No. 07-035-93, issued August 11, 2008, and Docket No. 09-035-23, issued February 18, 2010, the PSC included overhaul expense in rates based on a four-year average historical cost level for existing plants, excluding escalation, and a combination of actual and projected four-year average cost level for new generation plants. In each of those prior dockets, the PSC disallowed the escalation of the historical costs in determining the normalized cost level for inclusion in rates. This is acknowledged by Mr. McDougal in his direct testimony in this case at page 23, lines 497 through 502.

In the last three rate cases, Docket Nos. 10-035-124, 11-035-200 and 13-035-184, parties reached settlements that did not specifically address the method for normalizing generation overhaul costs in rates. Therefore, the normalizing treatment was not addressed in the PSC's Orders in any of those cases. In Docket No. 10-035-124, RMP did not escalate the historical costs in its filing, but instead followed the PSC approved methodology. However, the Division of Public Utilities (DPU) did recommend that the historical costs be escalated prior to determining the average, normalized balance of overhaul costs to include in rates in its pre-filed direct testimony in Docket No. 10-035-124. In the two most recent RMP rate case, Docket Nos. 11-035-200 and 13-035-184, both RMP and the DPU recommended that the historical costs be escalated prior to determining the average, and RMP used this same approach of escalating the costs in this docket. The OCS has consistently recommended that the costs not be escalated prior to averaging.

Q. HOW WAS THE ISSUE OF THE ESCALATION OF HISTORICAL GENERATION OVERHAUL COSTS FOR PURPOSES OF DETERMINING THE NORMALIZED COST LEVEL ADDRESSED BY THE PSC IN DOCKET NO. 07-035-93?

A. The PSC addressed this issue in the August 11, 2008 Order in Docket No. 07-035-93, at pages 81 – 82, as follows:

> First, in our recollection, this is the first time escalation within averaging has been proposed. We are not persuaded this is an appropriate approach and are concerned, if accepted here, such a practice would be extended to other cost items, by both PacifiCorp and Questar Gas Company. The basis for using averages of actual costs is because book amounts vary from year to year, and the costs in one year are not considered normal. In the next case, following the precedent established here, the Company will assert this year's actual expense, considered in this case to be abnormal, can be escalated to obtain a reasonable level of expense for the next year. This seems to defeat the purpose of constructing an average, which is to smooth out the year-to-year abnormalities. Escalation in the Company's approach serves merely to inflate the average, and the average is already higher than the budget.

Q. HOW WAS THE ISSUE ADDRESSED BY THE PSC IN DOCKET NO. 09-035-23?

A. In Docket No. 09-035-23, RMP again requested that the historical balances used in deriving the four-year average normalized cost be escalated, while the OCS again advocated against escalation of the historical amounts. In its direct testimony in that Docket, the DPU did not apply escalation to the historical balances in deriving its recommended normalized amount. However, in the DPU's surrebuttal testimony, their position was modified in that it recommended that the amounts be escalated. The PSC's February 18, 2010 Order in Docket No. 09-035-23, at page 96, describes the DPU's position: "According to the Division, the Commission could choose to leave the issue open for more discussion, if needed, in future cases without making any broad policy decisions here, but it recommends the adjustment adopted in the 2007 rate case not be made in this case."

At page 97 of its February 18, 2010 Order, the PSC resolved the issue as follows:

> In addition to those reasons enunciated in our prior order in Docket No. 07-035-93, the Company provides no analysis of how their approach when applied to historical data provides reasonable results over time. The evidence provided in this case, and in other recent cases, is not sufficient to support adoption of the Company's method. For these reasons we do not accept the Company's recommendation, rather we uphold our original decision in Docket No. 07-035-23 and therefore accept the Office's adjustment.

The Order specifically found that the evidence provided in the case, as well as in other then-recent cases, was not sufficient to support the escalation of the historical balances in deriving the normalized level to include in rates.

Q. HAS RMP PRESENTED ANY NEW EVIDENCE IN THIS CASE IN SUPPORT OF ESCALATION OF THE HISTORICAL BALANCES IN

DERIVING THE NORMALIZED GENERATION OVERHAUL EXPENSE LEVEL?

A. In my opinion, the information submitted in this case, and in the prior two rate cases, does not justify changing the PSC's position with regards to whether or not the historic overhaul costs should be escalated prior to determining the normalized cost level. RMP has not demonstrated that their approach of applying escalation factors to the historical data in normalizing overhaul expenses provides reasonable results over time. Beginning at page 24 of his direct testimony, at line 507, Mr. McDougal indicates that new evidence in support of the escalation of the costs has been presented in Docket Nos. 10-035-124 and 11-035-200 that were settled, so the "new evidence" had not been heard by the PSC. On page 24 of his testimony, Mr. McDougal then quotes from the DPU's testimony in Docket 11-035-200 which stated:

> First, economic theory suggests that in order to compare two values separated by time, the values need to have a common monetary base. That is, the values should be expressed in real terms, where the effects of inflation are taken into account, as opposed to nominal terms. Comparing values expressed in nominal terms – ignoring inflation – can lead to erroneous conclusions.

Mr. McDougal then expresses his agreement with the DPU's above quoted statement and provides an example comparing escalated and non-escalated amounts. Obviously, the amounts to which the escalation factors are applied are higher than the amounts in which the escalation was not applied in Mr. McDougal's examples since the example provided was during a period of inflation instead of deflation of costs. This is not new or compelling evidence that should justify the change in treatment with regards to this issue.

Q. PLEASE EXPLAIN WHY THE DESCRIPTION OF INFLATION AND THE IMPACTS OF INFLATION ON DOLLARS DOES NOT PERSUADE YOU TO CHANGE YOUR POSITION.

A. The hypothetical example presented by Mr. McDougal in his testimony focuses on the pressures of inflation on costs. However, it does not factor in the productivity offsets that have been and will continue to be realized by RMP. While some of the costs of the materials used in overhauling the generation units may be subject to inflation pressures, and the wages of employees performing the work may be increasing over time, there are also productivities that are realized. The experience gained from prior overhauls can be applied in future overhauls to make future overhauls more efficient. Lessons are learned and retained. Additionally, over the years RMP has undertaken several cost saving measures and strives to keep its costs under control. Mr. McDougal's hypothetical example may address inflation and compare different methods of inflating costs, but it is not specific to the overhaul expenses realized by RMP. It also does not address the productivities that are gained as a result of regularly performing overhauls on the various generation facilities and cost saving measures that are implemented by RMP. Additionally, as some of the steam units begin approaching retirement and the retirements for many units are earlier than previously anticipated, the extent of future overhaul work could be impacted compared to historic levels for which longer remaining lives of the units were anticipated by RMP.

I recommend that the PSC re-affirm, once again, that the historical generation overhaul expenses should not be escalated for purposes of normalizing generation overhaul expense to include in base rates.

Q. WHAT ADJUSTMENT IS NEEDED TO REMOVE THE IMPACTS OF THE ESCALATION FACTORS APPLIED BY RMP ON THE HISTORICAL COSTS?

A. As shown on Exhibit OCS 3.11D, test year expenses should be reduced by $1,334,270 ($587,039 Utah) to remove the impact of RMP's proposed escalation of the historical costs prior to normalization.

<u>Non-Labor O&M Expense Escalation Update</u>

Q. IN PRIOR RATE CASE PROCEEDINGS, RMP ESCALATED THE BASE YEAR NON-LABOR OPERATION AND MAINTENANCE (O&M) EXPENSES THAT WERE NOT ADJUSTED ELSEWHERE IN ITS FILING. DID RMP INCLUDE A SIMILAR ADJUSTMENT IN THIS PROCEEDING?

A. Yes, it did. RMP began with the actual base year O&M expenses and removed the unadjusted labor costs and several other expenses that were adjusted elsewhere in its filing. The remaining non-labor O&M expenses were then escalated by RMP for purposes of determining the projected test year expenses. As explained in RMP witness McDougal's direct testimony, at lines 545 – 559, RMP used indices provided by IHS Markit (previously known as IHS Global Insight) which are prepared at the FERC functional subcategory level that ties to FERC account numbers. This approach has been used by RMP in numerous prior Utah rate case proceedings.

Q. WHAT IHS MARKIT STUDY WAS USED BY RMP IN PREPARING THE FILING?

A. RMP witness McDougal explains at lines 555 – 556 of his direct testimony that RMP used the fourth quarter 2019 forecast that was released by IHS Markit on February 3, 2020.

Q. HAVE MORE RECENT INDUSTRY SPECIFIC INDICES BEEN PROVIDED BY IHS MARKIT?

A. Yes. In fact, in the Reply Testimony of Shelley E. McCoy filed by PacifiCorp on June 25, 2020 in PacifiCorp's Oregon rate case proceeding, Docket No. UE 374, PacifiCorp updated its O&M expense escalation adjustment to use industry-specific escalation factors provided in IHS Markit's First Quarter 2020 Forecast issued in May 2020. RMP provided the revised escalation factors by FERC functional subcategory that would result from the most recent IHS Markit study in the public portion of its response to OCS 5.1, specifically in Attachment OCS 5.1-2. The attachment consisted of an updated Exhibit RMP__(SRM-3), Page 4.10.7 that was based on the more recent study.

Q. DO YOU RECOMMEND THAT RMP'S O&M EXPENSE ESCALATION ADJUSTMENT BE UPDATED TO REFLECT THE MORE RECENT INDUSTRY SPECIFIC ESCALATION FACTORS?

A. Yes, I do. The industry specific escalation factor forecast has changed substantially since the study was prepared that was relied on by RMP in preparing its filing such that the study used in preparing the filing is no longer reflective of projected circumstances. RMP has agreed to reflect the impact of the more recent IHS Markit study in the Oregon rate case proceeding. I recommend that RMP's non-labor O&M expense escalation adjustment be updated in this proceeding as well.

Q. WHAT ADJUSTMENT IS NEEDED TO REFLECT THE MORE RECENT INDUSTRY SPECIFIC ESCALATION FACTORS PROVIDED BY IHS MARKIT?

A. As shown on Exhibit OCS 3.12D at page 3.12.3, RMP's adjusted test year non-labor O&M expenses should be reduced by $5,421,335 on a Utah jurisdictional basis. Exhibit OCS 3.12D shows RMP's escalation adjustment by account and allocation factor. It also provides the escalation factors used by RMP in deriving each of these adjustments and the updated escalation factors based on the more recent information provided by RMP.

<u>Expenses to Exclude from Escalation Adjustment</u>

Q. ABOVE YOU DISCUSS THE ADJUSTMENT NEEDED TO UPDATE THE ESCALATION FACTORS USED BY RMP IN ITS FILING. DO ADDITIONAL REVISIONS NEED TO BE MADE TO RMP'S NON-LABOR O&M EXPENSE ESCALATION ADJUSTMENT?

A. Yes. Several of the O&M expense adjustments recommended in this testimony that are based on amounts recorded in the base year ended December 31, 2019 are impacted by the escalation adjustment. Elsewhere in this testimony I report whether the recommended adjustment is impacted by the escalation adjustment.

Additionally, there are several costs included in the base year non-labor O&M expenses that should not have been escalated by RMP.

Q. WHAT COSTS WERE INCLUDED IN RMP'S ESCALATION ADJUSTMENT THAT SHOULD NOT HAVE BEEN ESCALATED?

A. RMP included the Utah situs uncollectible expense recorded in Account 904 in its escalation adjustment. This is the uncollectible expense that is specific to the Utah operations. In a separate adjustment in the filing, RMP applied the historic uncollectible rate to the normalized general business revenues for the test year to determine the adjusted test year uncollectible expense specific to the Utah operations. Additionally, the determination of the overall revenue requirements in the Jurisdictional Allocation Model also factors in the impact of the pro forma change in revenues on uncollectible expense. It is not appropriate to also escalate the base year uncollectible expense associated with the Utah operations. In response to OCS Data Request 5.4, RMP agreed that the uncollectible expense should not have been included in the escalation adjustment stating that it would remove the associated escalation in its rebuttal filing.

Additionally, the escalation adjustment is meant to be applied to the non-labor O&M expenses. Labor costs should not be escalated as part of the adjustment. There is a separate adjustment in RMP's filing that adjusted the base year labor costs, inclusive of salaries, wages and benefits, to the forecasted test year expense level. However, by applying the escalation adjustment to FERC Account 926 – Employee Pensions & Benefits Expense and FERC Account 929 – Duplicate Charges, the employee benefit costs increase RMP's non-labor O&M expense escalation adjustment.

Q. COULD YOU PLEASE ELABORATE ON HOW THE EMPLOYEE BENEFIT COSTS IN FERC ACCOUNT 926 AND 929 INCREASE THE NON-LABOR O&M EXPENSE ESCALATION ADJUSTMENT?

A. Yes. In the prior rate case, Docket No. 13-035-184, the amount of expense in Account 926 – Employee Pensions & Benefits Expense in the base year was $0. This is because RMP charged employee pension and benefit expenses to the various accounts to which labor costs were charged. In the current rate case, RMP's non-labor O&M expense escalation adjustment shows that RMP escalated $102,224,372 of Employee Pensions & Benefits Expense recorded in Account 926 during the base year. RMP also escalated ($127,351,347) of Duplicate Charges recorded in Account 929. The accounting for the pensions and benefits expense has apparently changed since the prior rate case in that the expenses are recorded in Account 926, then offset in Account 929 and redistributed to the various O&M expense accounts with labor costs. RMP explains in response to OCS Data Request 5.5(a): “The majority of the pension and benefit costs recorded in FERC Account 926 are offset in FERC Account 929” and “The costs that are offset are distributed to numerous FERC Accounts based on the underlying labor costs.” Different escalation factors are applied to Accounts 926 and 929, and the balances in those two accounts do not fully offset. As a result, the employee benefit costs are impacting the non-labor O&M expense escalation adjustment. RMP indicated in response to OCS Data Request 5.5(d) that a revision should be made to address this and that it will update its escalation adjustment in its rebuttal filing.

Q. WHAT ADJUSTMENT NEEDS TO BE MADE TO REMOVE THE IMPACT OF THE COSTS THAT SHOULD NOT HAVE BEEN INCLUDED IN THE NON-LABOR O&M EXPENSE ESCALATION ADJUSTMENT?

A. As shown on Exhibit OCS 3.13D, the following revisions need to be made to the expenses the escalation factors are applied to: (1) uncollectible expense specific to Utah operations of $3,868,502 should be removed from Account 904; (2) employee pension and benefit expenses in Account 926 of $102,224,372 should be removed in their entirety; and (3) duplicate charges in Account 929 of ($127,351,347) should be removed from the escalation calculation. As shown on Exhibit OCS 3.13D, test year expenses should be reduced by $520,499 on a Utah jurisdictional basis to remove the escalation of these costs. This amount is based on the updated escalation factors recommended previously in this testimony. If the PSC approves escalation factors that differ from the amounts recommended in this testimony, then the adjustment presented on Exhibit OCS 3.13D should be revised accordingly.

Colstrip Decommissioning Expense Correction

Q. WHAT IS THE PURPOSE OF THE ADJUSTMENT ON EXHIBIT OCS 3.14D TITLED "CORRECTION TO COLSTRIP DECOMMISSIONING EXPENSE"?

A. In Exhibit RMP__(SRM-3) at pages 161 and 162 (Page 6.6 and 6.6.1), RMP included an adjustment to reflect projected incremental decommissioning costs for several coal plants with the incremental costs amortized or spread over the estimated remaining life of each of the plants. In the public portion of RMP's response to DPU Data Request 4.4, RMP indicated that there was a formula error in its adjustment that did pick up the correct remaining life of the Colstrip plant that had been updated. The response explains that using the updated remaining life resulted in a decrease in depreciation expense of $729,127 on a Utah allocated basis. Thus, Exhibit OCS 3.14D corrects the error. As shown on Exhibit OCS 3.14D correction of the error reduces the annual decommissioning costs included in test year expense by $729,127. The associated impacts on the Accumulated Regulatory Liability – Incremental Decommissioning and Accumulated Deferred Income Taxes are also included in the exhibit.

Q. ARE YOU TAKING A POSITION ON THE REASONABLENESS OF THE INCREMENTAL DECOMMISSIONING COSTS REFLECTED BY RMP?

A. No, not at this time. The purpose of the above discussed adjustment is to correct a calculation error associated with the calculation of the annual amortization of the incremental decommissioning costs associated with the Colstrip plant that was identified by RMP in response to discovery. The OCS may take a position on the projected incremental decommissioning costs and whether or not those projected costs should be included in the adjusted test year upon review of testimony to be filed by other parties in this proceeding and in the concurrent depreciation docket, Docket No. 18-035-36.

<u>RATE BASE ADJUSTMENTS</u>

<u>Utah AMI Project</u>

Q. IN HIS DIRECT TESTIMONY, RMP WITNESS CURTIS B. MANSFIELD DISCUSSES THE UTAH ADVANCED METER INFRASTRUCTURE (AMI) PROJECT. HOW DOES THIS PROJECT IMPACT THE TEST YEAR REVENUE REQUIREMENT IN THIS CASE?

A. Since this project is specific to Utah, the costs are charged entirely to Utah operations. The attachment provided with RMP's 1st Supplemental Response to OCS Data Request 11.4 shows that $56,095,326 is included in net rate base in the test year for the project and $1,457,107 is included in test year depreciation expense. The attachment also shows that based on RMP's requested rate of return, the Utah AMI Project results in a $6,779,428 increase in revenue requirements in this case.

Q. MR. MANSFIELD'S DIRECT TESTIMONY, AT LINE 586, INDICATES THAT THE TOTAL CAPITAL COSTS FOR THE UTAH AMI PROJECT ARE PROJECTED TO BE $77.9 MILLION. WHY IS THE NET RATE BASE AMOUNT OF $56.1 MILLION IDENTIFIED ABOVE SO MUCH LOWER THAN THE PROJECTED TOTAL PROJECT COST?

A. Exhibit RMP__(SRM-3) at pages 223 and 225 of 467 (Pages 8.5.26 and 8.5.28) identifies $31,361,536 of "AMI-Utah Meters 2019 – 2020" and $45,614,453 of "AMI – Utah IT Comm Network" being placed into service between January 2019 and December 2021 for a combined total amount of $76,975,989. The workpapers provided in support of RMP's projected plant additions contained in the filing show that RMP projected that approximately $32.6 million would be placed in service by December 31, 2020 (i.e., by the start of the test year) with the additional $44.4 million placed into service throughout 2021. The resulting average test year balance of Utah AMI plant in service is approximately $59.2 million. The overall rate base amount in the filing includes offsets associated with the projected accumulated depreciation and accumulated deferred income taxes, resulting in a net impact on rate base of $56.1 million.

Q. DOES RMP STILL PROJECT THAT $32.6 MILLION WILL BE PLACED INTO SERVICE BY THE START OF THE TEST YEAR AND $77 MILLION BY THE END OF THE TEST YEAR FOR THE UTAH AMI PROJECT?

A. No, it does not. The response to OCS Data Request 11.1(b) states as follows:

> The Utah Advanced Metering Infrastructure (AMI) project was delayed till the end of 2022 due to cybersecurity concerns, vendor recommended technology changes and COVID-19 pandemic related issues. Current forecasts project $27.4 million in capital expenditures and plant placed in service for 2022.

Based on the attachment provided with the response to OCS Data Request 11.1, RMP projects $1.9 million to be placed in service by the start of the test year with an additional $46.8 million placed into service between September 2021 and December 2021. On an average test year basis, the revised estimates would result in an average test year plant in service balance associated with the Utah AMI project of approximately $12 million, which is substantially less than the average test year plant in service balance incorporated in RMP's rate case filing of $59 million.

Q. DOES RMP WITNESS MANSFIELD ADDRESS THE ANNUAL O&M COSTS AND COST SAVINGS THAT ARE ANTICIPATED TO RESULT FROM THE UTAH AMI PROJECT?

A. Yes. At lines 590 through 598 of his direct testimony, Mr. Mansfield indicates that the expected O&M costs associated with the project include $3.5 million of information technology and communications costs and $0.8 million of customer service and project management costs for a combined total of $4.3 million. He also indicates that the new O&M costs going forward are estimated at $2.8 million after full implementation beginning in 2023. The testimony also indicates that these added costs are "offset by an annual savings of $7.8 million."

Q. HAS RMP PROVIDED ADDITIONAL INFORMATION REGARDING THE PROJECTED COST SAVINGS?

A. Yes. The response to OCS Data Request 5.16 indicated that the project is expected to be completed by the end of 2022 and that "The Company projects annual net operations and maintenance (O&M) savings of approximately $3.8 million, additional revenue of approximately $1.0 million, and capital savings of approximately $0.2 million starting in the year 2023." An attachment provided with the response identified the following anticipated net O&M savings:

Estimated Net Annual Cost Savings From Utah AMI Project

O&M Savings	Annual Benefit (Starting in 2023)
Eliminate Meter Reading Operating Costs	$ 355,000
Eliminate Field Collection Operating Costs	$ 1,490,000
Eliminate Field Quality Specialist Operating Costs	$ 305,000
Billing Suspends Reduction	$ 5,000
Improved Outage Detection Performance	$ 215,000
Avoided Net Metering Operating Costs	$ 4,215,000
New AMI Operating Costs	$ (2,805,000)
Total Net O&M Savings	$ 3,780,000

The attachment provided by RMP also identified the following anticipated increases in revenues resulting from the Utah AMI Project:

Estimated Increase in Revenues from Utah AMI Project

Additional Revenue	Annual Benefit (Starting in 2023)
Theft Reduction	$ 200,000
Revenue from Added Meters with VARs	$ 295,000
Revenue from Added Meters with Demand	$ 250,000
Revenue Recovery on Unaccounted for Energy	$ 105,000
Reduction in Write-offs	$ 130,000
Total Additional Revenue	$ 980,000

Q. SINCE RMP INCLUDED THE PROJECT COSTS IN RATE BASE, DID IT INCLUDE THE ANTICIPATED O&M COST SAVINGS AND ANTICIPATED INCREASE IN REVENUES THAT WILL RESULT FROM THE PROJECT IN THE ADJUSTED TEST YEAR?

A. No, it did not. Since the projected saving and increased revenues do not begin until the project is fully implemented, and RMP anticipates the benefits beginning in 2023, the associated net cost savings and incremental revenues were not included in RMP's filing.

Q. IN EXPLAINING WHY RMP PLANS TO DEPLOY AMI IN UTAH, MR. MANSFIELD IDENTIFIED EIGHT SEPARATE BENEFITS THAT WILL RESULT FROM THE AMI FUNCTIONALITY. WHAT BENEFITS WERE IDENTIFIED AND WHEN WILL THESE BENEFITS BEGIN TO BE REALIZED?

A. The benefits identified on line 555 through 575 of Mr. Mansfield's direct testimony include the following:

- Customer access to hourly energy consumption data enabling them to "make more informed energy decisions";
- Gives more information to the customer services representatives allowing them to "provide accurate responses to customer inquiries and facilitate customer complaint resolution";
- Reduction in number of estimated bills;
- Ability to remotely connect and disconnect at sites with smart meters without deploying employees to the customers' premises;
- More quickly "detect, react, and troubleshoot power outages";
- Receiving additional analytic information at sites with smart meters that can be used to assess performance and improve service;
- Reduction to meter read costs and connect/disconnect costs due to automation; and

- Reduction in vehicles used for drive-by meter reading which enhances safety and reduces carbon emissions.

RMP's response to OCS Data Request 11.2(a) indicated that the benefits summarized above are "anticipated to begin in January 2023."

Q. MR. MANSFIELD ALSO INDICATES ON LINES 634 – 635 OF HIS TESTIMONY THAT THE AMI WILL POSITION RMP TO "DEVELOP AND DELIVER A BUSINESS STRATEGY THAT IS DRIVEN BY WHAT THE CUSTOMER WANTS/EXPECTS." WHAT DID RMP IDENTIFY AS THE ITEMS THAT THE "CUSTOMER WANTS/EXPECTS" AND WHEN WILL THESE BEGIN TO BE REALIZED?

A. The benefits identified to address customers wants or expectations on line 636 through 649 of Mr. Mansfield's direct testimony include the following:

- New rate structures "designed with the new granular level of data and customer transparency";
- "Enable creation and participation in enhanced energy conservation programs";
- Improvement in communication with customers with emphasis on outage restoration efforts and conditions;
- Reduction in length and frequency of outages that will then reduce financial impact on customers and improve reliability metrics;
- Shorter service connection times that free up customer wait time and improving receipt of service;

- Addressing aging equipment proactively instead of reactively;
- "Allows proper equipment sizing which ultimately saves ratepayer money"; and
- Real time utility to customer "meter foundation, from which new and yet to be created smart grid technology can be delivered."

RMP's response to OCS Data Request 11.2(c) indicates that the above identified benefits: "…will begin development and testing during the project implementation timeframe with full Advanced Metering Infrastructure (AMI) data available anticipated to begin in January 2023.

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE TEST YEAR ASSOCIATED WITH THE UTAH AMI PROJECT?

A. Yes. I recommend that the Utah AMI Project be removed from the test year in its entirety. As discussed above, the project has been delayed such that the amount of plant currently projected to be placed in service by the end of the test year is substantially less than what was assumed in RMP's filing. The most recent estimates provided by RMP would result in an average test year plant in service amount of approximately $12 million compared to the $59.2 million assumed in the filing. Additionally, none of the net cost savings that RMP estimates will result from the project are included in the test year, and such net cost savings are not expected to be realized by RMP until 2023. RMP has also admitted in response to discovery that none of the eight identified benefits associated with the AMI functionality and none of the eight ways identified in which AMI will support a more customer driven delivery strategy will be realized during the test year. Such benefits are not anticipated to begin until January 2023. Clearly the Utah AMI Project will not be fully used and useful to the benefit of customers during the test year.

Q. WHAT ADJUSTMENT IS NEEDED TO REMOVE THE UTAH AMI PROJECT FROM THE TEST YEAR?

A. As shown on Exhibit OCS 3.15D, RMP's adjusted test year plant in service should be reduced by $59,155,430, accumulated depreciation should be reduced by $661,368 and Accumulated Deferred Income Taxes should be reduced by $2,387,635, resulting in a net reduction to rate base of $56,106,427. Additionally, RMP's adjusted test year depreciation expense should be reduced by $1,457,107. Each of these amounts are specific to the Utah operations.

<u>Net Pension and Post-Retirement Welfare Plan Prepaid Asset</u>

Q. ARE THERE ANY SIGNIFICANT BALANCE SHEET ITEMS THAT RMP IS REQUESTING TO INCLUDE IN RATE BASE IN THIS RATE CASE THAT HAVE NOT BEEN EXPLICITY ALLOWED FOR INCLUSION IN PRIOR RMP RATE CASE PROCEEDINGS?

A. Yes. RMP witness Nikki L. Kobliha addresses RMP's request to include PacifiCorp's prepaid pension asset and accrued other post-retirement assets, net of accumulated deferred income taxes, in rate base. This request results in: 1) $326.6 million being added to rate base for the prepaid pension balances; 2) $7 million being added to rate base for the other post-retirement asset balance; and 3) $81.3 million being deducted from rate base for the associated accumulated deferred income tax liabilities. The net result is a $252.3 million ($101.3 million Utah) increase in rate base.

Similar treatment was proposed in RMP's most recent prior rate case, Docket No. 13-035-184. That was the first docket in which RMP requested inclusion of the net prepaid pension and other post-retirement liability in rate base. The requested inclusion in rate base was opposed by the OCS and the Utah Association of Energy Users Intervention Group in that proceeding. Since the docket was resolved through the PSC's approval of an uncontested settlement stipulation addressing revenue requirements, which was silent with regards to the treatment of the net prepaid pension asset, the PSC did not issue a finding on RMP's requested inclusion. Thus, to the best of my knowledge, the net prepaid pension asset and other post-retirement asset has never been formally included in RMP's revenue requirements.

Q. WHAT IMPACT DOES THE INCLUSION OF THESE ITEMS HAVE ON THE REVENUE REQUIREMENTS IN THIS CASE?

A. At the rate of return requested by RMP in this case, the inclusion of the net $252.3 million ($101.3 million Utah) in rate base increases Utah revenue requirements by $10,513,135.[9] This adjustment accounts for almost 11% of the $95,786,460 increase in rates requested by RMP in this case.

Q. WHAT IS THE PREPAID PENSION ASSET AND OTHER POST-RETIREMENT ASSET?

A. The prepaid pension asset and other post-retirement asset is the difference between: (1) the cumulative amount of pension expense and post-retirement benefit expense recognized by RMP for accounting purposes; and (2) the cumulative amount of cash contributions made to the defined benefit plans. If the cumulative amount of cash contributions exceeds the cumulative amount of expense recognized on RMP's books for accounting purposes, the result is an asset. If the opposite occurs, i.e., the cumulative expenses exceed the cumulative cash contributions, then the result is a liability on RMP's books. In other words, the balance in the prepaid asset or the accrued liability each year is based on a running tally of the <u>total</u> amount of cash contributions made to the pension plan and the other post-retirement benefit (also referred to as "Other Post-Employment Benefits" or "OPEB") plan less the <u>total</u> amount of expense recorded on PacifiCorp's books over time.

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[9] Amount calculated by removing RMP's projected test year balances in the Jurisdictional Allocation Model used by RMP in determining the Utah revenue requirements.

Q. WILL THERE ALWAYS BE A PREPAID PENSION ASSET AND OTHER POST-RETIREMENT ASSET ON PACIFICORP'S BOOKS?

A. No. Over time, the total amount of cash contributions to the pension plan and the other post-retirement benefit plan should equal the total amount of expense associated with the plans. In other words, over the long-term, the total amount of cash contributions less the total amount expensed on RMP's books should equal $0. The total cumulative difference between the cash contributions made into the plans and total amount of expense recorded on the books will change from year to year, but over the long term they should ultimately equal.

Q. HAS THE CUMULATIVE DIFFERENCE BETWEEN THE TOTAL CASH CONTRIBUTIONS TO THE PENSION PLAN AND THE TOTAL PENSION EXPENSE ALWAYS RESULTED IN A PREPAID PENSION ASSET?

A. No, it has not. In the most recent prior rate case, Docket No. 13-035-184, RMP provided the annual expense amounts, annual cash contributions and the resulting prepaid assets and accrued liabilities for both its pension plan and its OPEB plan for the period 1997 through June 2013 in response to OCS Data Request 9.6 in that docket.[10] The response shows that from at least 1997 through the fiscal year ended March 2006, an

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[10] The response to OCS Data Request 9.6 and attachment thereto in Docket No. 13-035-184 is included with the data responses provided in Exhibit OCS 3.22D.

accrued pension liability existed on PacifiCorp's books. In other words, from at least 1997 through March 2006, the total amount of cumulative pension expense booked by PacifiCorp exceeded the total cumulative cash contributions to the pension plan. Similar information was also provided in the response for the other post-retirement benefit plan. The response shows that the other post-retirement benefit plan consistently had an accrued liability balance from at least 1998 through June 2013. The response also indicated that information prior to 1998 was not readily available, thus I am unable to determine if an accrued liability existed for RMP prior to 1997.

Q. DURING THE PERIOD IN WHICH THERE WAS AN ACCRUED PENSION LIABILITY ON PACIFICORP'S BOOKS, DID RMP REFLECT THE LIABILITY AS A REDUCTION TO RATE BASE?

A. No, it did not. As previously mentioned, the most recent prior RMP rate case was the first case in which RMP proposed to include the prepaid pension asset in rate base. In the numerous historical periods in which there was an accrued pension liability on PacifiCorp's books, the balance was not included as a rate base item.

Q. WHAT REASON DOES RMP PROVIDE FOR INCLUDING THE NET PREPAID BALANCE IN RATE BASE?

A. At page 33 of her testimony, lines 715 through 724, Ms. Kobliha provides the following reason for including the net prepaid balances in rate base:

> Over the life of a plan, cumulative contributions and expense will be equal. However, at any point during the life of a plan, cumulative contributions and expense will differ. The prepaid concept arises from cumulative contributions to the plans exceeding cumulative pension and other post-retirement expense (also referred to as net periodic benefit cost). While the Company recovers its net periodic benefit cost through cost of service, the Company finances any difference between the amounts cumulatively contributed to the plans and the amounts cumulatively recognized as expense for accounting purposes with its blended capital. Thus, inclusion of the net prepaid pension and other post-retirement asset in rate base earning a return at the Company's authorized WACC would allow the Company to recover its financing cost.

Thus, RMP is requesting to include the net asset in rate base to earn a return even though it did not include the net liability as a reduction to rate base in the many years over which a net liability balance existed.

Q. DO YOU AGREE THAT THE PREPAID PENSION BALANCE AND THE OTHER POST-RETIREMENT ASSET SHOULD BE INCLUDED IN RATE BASE?

A. No. Rather than separately addressing the pension and other post-retirement benefit plan balances, I will hereafter refer to them as the "net prepaid asset" for ease of discussion. I recommend that the net prepaid asset balance be excluded from rate base for the many reasons that I will address in this testimony.

Q. WHAT IS YOUR FIRST REASON FOR RECOMMENDING THAT THE NET PREPAID ASSET BE EXCLUDED FROM RATE BASE?

A. As discussed above, from at least 1997 through 2006 PacifiCorp had a net accrued liability. During that time, rate base was not reduced. It would be unfair to charge ratepayers a return now that PacifiCorp is in a net prepaid asset position when ratepayers did not benefit through a reduction to rate base during the many years in which a net accrued liability existed.

Q. HAS RMP DEMONSTRATED THAT THE NET PREPAID BALANCE THAT IT PROJECTS FOR THE TEST YEAR IN THIS CASE WAS FUNDED BY SHAREHOLDERS?

A. No, it has not. The average test year net prepaid balance added to rate base by RMP is based on the total difference between the amount of cash contributions and the actuarially determined amounts charged to expense on its books over many, many years going back as far as at least the early 1990s and possibly earlier. It is the cumulative difference between the cash funding and the actuarially determined expense that RMP contends it finances. In order for RMP's contention that it finances the cumulative difference, or the net prepaid asset, to be accurate, at a minimum, the amount of actuarially determined expense in each and every year would have to equal the amount collected in rates. This is not the case.

Q. WHY NOT?

A. The amount of pension expense and other post-retirement benefit expense factored into the rates charged to customers differs from the actual amount booked by RMP in any given year. This is true for many reasons. For example, rates are not reset annually and the amount of expense booked by RMP changes annually based on the actuarial projections and numerous actuarial assumptions. Additionally, during some of the past years that led to the cumulative difference between the cash funding and expense, rates were set based on historic test years. During more recent periods, rates were set based on forecast periods. Thus, actual amounts recorded by PacifiCorp on its books for the actuarially determined pension and other post-retirement benefit expense are different from the amount that is used in establishing the rates charged to customers. The differences are not trued-up for ratemaking purposes in Utah. There is no balancing account or deferral account established in Utah to account for the difference between the pension and OPEB expense incorporated in rates and the actual annual amount of expense recorded by RMP.

Q. IS THERE ANY INFORMATION YOU ARE ABLE TO PROVIDE THAT HIGHLIGHTS THE PREMISE THAT THE NET PREPAID ASSET MAY HAVE BEEN FINANCED, AT LEAST IN PART, BY RATEPAYERS?

A. Yes. In the most recent prior RMP rate case, Docket No. 13-035-184, the net prepaid balance requested by RMP for inclusion in rate base was approximately $162 million ($68.8 million Utah). In the current case, the net prepaid balance requested by RMP for inclusion in rate base is $252.3 million ($110.3 million Utah). This is a net increase of approximately $90.3 million on a total PacifiCorp basis.

As mentioned previously in this testimony, the prior rate case was resolved through the PSC's approval of an uncontested settlement stipulation addressing revenue requirements. The uncontested settlement stipulation was silent with regards to the amount of pension costs that were included in the agreed to revenue requirements. In that case, RMP's original filling incorporated $21,778,500 in pension costs and RMP's rebuttal filing included $21,069,290. While the amount ultimately included in the approved revenue requirement in the case is not known, for illustrative purposes the table below hypothetically assumes the amount was $21,069,290. The initial rate increase from Docket No. 13-035-184 took effect in September 2014. The table below provides a comparison of the assumed amount included in rates for illustrative purposes to the amount of pension expense actually booked by RMP for each year, 2015 through 2019, as well as the cumulative resulting difference.

	Pension Expense Prior Rate Case	Actual Booked Pension Expense	Difference
2015	$ 21,069,290	$ 18,515,051	$ 2,554,239
2016	$ 21,069,290	$ 13,195,146	$ 7,874,144
2017	$ 21,069,290	$ (12,374,669)	$ 33,443,959
2018	$ 21,069,290	$ 3,505,382	$ 17,563,908
2019	$ 21,069,290	$ (14,530,921)	$ 35,600,211
Cumulative Difference - 2014 to 2019			$ 97,036,461

If one were to assume that the amount effectively incorporated in base rates was $21,069,290 for illustrative purposes, then over the five year period, 2015 through 2019, the cumulative amount incorporated in base rates would exceed the actual cumulative amount of pension expense booked by RMP by approximately $97 million. During this same timeframe, the net prepaid asset on RMP's books has increased by $90.3 million. While the above amounts are based on a hypothetical assumption regarding the amount included in base rates for pension expense, consistent with the amount requested by RMP in its rebuttal filing in that proceeding, it provides an illustrative example showing that the prepaid balance is not fully funded by RMP or its shareholders.

Q. THE TABLE ABOVE SHOWS THAT RMP RECORDED NEGATIVE PENSION EXPENSE ON ITS BOOKS IN 2017 AND 2019. WHAT IMPACT DOES NEGATIVE PENSION EXPENSE HAVE ON THE PREPAID PENSION ASSET?

A. Negative pension expense increases the prepaid pension asset. If $0 is contributed to the pension plan assets in a given year and the pension expense is negative in that year, then the prepaid pension asset balance increases. This is because the prepaid pension asset balance (or potential accrued liability) is the difference between the cumulative amount of pension expense recorded on RMP's books and the cumulative amount of cash contributions. Thus, if RMP contributes $0 to the plan but the actuarial calculations result in negative expense, the asset that it is seeking to include in rate base and earn a return on increases.

At lines 779 – 784 of her testimony, Ms. Kobliha addresses the impact of negative pension expense as follows:

> Negative net periodic benefit cost increases the net prepaid but remains appropriate to include in rate base. Since the Company recovers pension and other post-retirement benefit cost through cost of service, negative expense flow through to customers resulting in a lower cash position for the Company. The Company incurs

> financing costs on the difference between cumulative contributions and cumulative net periodic benefit cost regardless of whether that cost is positive or negative.

The quote above implies that the negative pension expense was included in base rates charged to customers and flowed through to customers. However, as indicated previously in this testimony, there is no true-up between the amount of pension expense included in rates and the amount recorded on RMP's books. While RMP recorded negative pension expense on its books in 2017 and 2019, which would have increased the prepaid pension balance, negative pension expense was not incorporated in base rates in RMP's prior rate case. While the amount of pension expense was not specified in the settlement agreement, no party was advocating a negative pension expense in that proceeding.

Q. THE NET PREPAID BALANCE IS BASED IN PART ON THE AMOUNT OF CASH CONTRIBUTIONS MADE BY PACIFICORP TO THE PLANS. DOES PACIFICORP HAVE ANY DISCRETION WITH REGARDS TO THE AMOUNT OF CASH CONTRIBUTED TO THE PLAN IN ANY GIVEN YEAR?

A. Yes. There is a great deal of discretion with regards to the annual pension contributions made by PacifiCorp with a huge range between the minimum required funding level and the maximum tax deductible funding level. If RMP is allowed to include the prepaid pension asset in rate base on a going-forward basis, this could incentivize higher amounts of cash contributions to the plan in order to ensure a return on the amounts funded. Thus, in future cases, closer scrutiny would need to be made to ensure that the plans are being funded prudently if the net prepaid pension balance is permitted to be included in rate base to earn a return.

Q. WHAT ADJUSTMENT SHOULD BE MADE TO REMOVE THE NET PREPAID ASSET FROM RATE BASE IN THIS CASE?

A. The necessary adjustment is provided in Exhibit OCS 3.16D. As shown on this exhibit, removal of the prepaid pension asset and the post-retirement asset net of the associated accumulated deferred income taxes results in a $252,335,342 ($110,256,718 Utah) reduction to rate base in this case.

<u>Deer Creek Mine Closure Regulatory Asset</u>

Q. WHAT IS THE BALANCE OF DEER CREEK MINE CLOSURE REGULATORY ASSET THAT RMP IS SEEKING TO RECOVER IN THIS CASE?

A. RMP Adjustment 8.14 contained in Exhibit RMP__(SRM-3) at page 278 of 467 (Page 8.14.6) provides the following breakdown of the Utah share of the Deer Creek Mine Closure regulatory asset that RMP seeks to recover in this case:

Deer Creek Mine Closure Cost Regulatory Asset, per Company

Description		Balance at 12/31/20
Deer Creek Mine Closure Costs	$	32,231,870
Savings Resulting from Deer Creek Mine Closure	$	(22,361,177)
Retiree Medical Obligation Settlement Loss	$	5,471,658
Recovery Royalties	$	5,249,190
Total Balance - Utah Basis	$	20,591,541

Q. DO YOU RECOMMEND ANY REVISIONS TO THE ABOVE IDENTIFIED AMOUNTS?

A. Yes, I am recommending two revisions. The first revision removes the impact of estimated amounts that have not yet been paid on the carrying charges that are included in the balance. The second revision removes the estimated amount included for Recovery Royalties.

Q. PLEASE DISCUSS YOUR FIRST RECOMMENDED REVISION.

A. Included in the Deer Creek Mine Closure Costs of $32,231,870 is $5,788,049 of carrying charges. The response to OCS Data Request 7.2(b) explains that the carrying charges have been accrued monthly since December 2014 on the balance of closure costs at PacifiCorp's cost of debt. The Settlement Stipulation adopted by the PSC in Docket No. 14-035-147, at Paragraph 20.a., states: "The carrying charge for incurred and funded costs should be at the Company's authorized cost of debt until the Company's next general rate case."

In response to OCS Data Request 7.2, RMP provided an attachment that included a detailed breakdown of the closure costs incurred through December 31, 2019 and a breakdown of the carrying charges that totaled $5,788,049. Review of the attachment shows that the costs to which RMP applied the carrying charges included recovery royalties starting in February 2016. The recovery royalties, which will be discussed further below, are estimated costs that have not been paid by RMP. Based on the Settlement Stipulation quoted above, such unfunded costs should not have been included in the calculation of the carrying charges. If the spreadsheet provided as the attachment to the response to OCS Data Request 7.2 is modified to remove the recovery royalties from the carrying cost calculation, the carrying costs decline from the $5,788,059 included by RMP in the regulatory asset to $5,369,716, which is a reduction of $418,333.

Q. PLEASE DISCUSS YOUR SECOND RECOMMENDED REVISION.

A. The Deer Creek Mine Closure Cost regulatory asset that RMP seeks to recover in this case included $5,249,190 for recovery royalties. In response to OCS Data Request 7.5 and UAE Data Request 4.10, RMP has indicted that the estimated Utah share of the recovery royalties has been revised to $7,582,437; however, $5,249,190 is the amount included in RMP's filing. These recovery-based royalties are estimated amounts that are not yet known or measurable. The response to OCS Data Request 7.5 states, in part, as follows:

> This is a projected royalty calculation based upon the total estimated recovery of Deer Creek mine closure costs anticipated from the Company's five state jurisdictions. The final amounts will not be known until negotiations are underway and settled with the Office of Natural Resources Revenue (ONRR), a unit of the U.S. Department of the Interior. Payments would be due upon settlement.

UAE Data Request 4.10(d) asked RMP to "…provide all correspondence from and between PacifiCorp and any entity that is seeking to recover royalties in connection with the closure of the Deer Creek Mine between 2014 and 2020. RMP responded, in part, that it "…has not received correspondence from the ONRR in connection with the Deer Creek mine closure."

Since the recovery-based royalty obligation has not yet been paid to the ONRR, the final amount is not yet known and measurable, and RMP has not yet begun negotiations to settle the amount due with the ONRR, the recovery-based royalties should not yet be included in the Deer Creek Mine Closure cost regulatory asset that RMP is seeking to recover in this case. Rather, the recovery-based royalties should not be included in a regulatory asset to be recovered from ratepayers before the amount is known. Additionally, a prudence review should be conducted prior to the recovery of these costs from Utah ratepayers to ensure that RMP took prudent steps in negotiating the amount ultimately owed to the ONRR prior to recovery of such amounts from Utah ratepayers.

Q. WHAT IS YOUR RECOMMENDED OVERALL REDUCTION IN THE DEER CREEK MINE CLOSURE REGULATORY ASSET REQUESTED BY RMP FOR RECOVERY IN THIS RATE CASE?

A. As shown on Exhibit OCS 3.17D, I recommend that the regulatory asset be reduced by $5,667,523. This includes removal of the carrying charges on the unpaid royalties of $418,333 and removal of the Utah share of the estimated recovery royalties of $5,249,190.

Q. RMP PROPOSES TO OFFSET OR “BUY-DOWN” THE DEER CREEK MINE CLOSURE COST REGULATORY ASSET WITH A PORTION OF THE EDIT REGULATORY LIABILITY BALANCE. DO YOU AGREE THAT IT IS REASONABLE TO OFFSET THE DEER CREEK MINE CLOSURE REGULATORY ASSET WITH THE EDIT REGULATORY LIABILITY IN THIS CASE?

A. Yes, I do. However, the amount of Deer Creek Closure Cost regulatory assets should be reduced from the $20,581,541 proposed by RMP to $14,914,008 to reflect the impact of the $5,667,523 reduction to the regulatory asset discussed above. This will result in a larger balance of EDIT regulatory liability remaining in the test year.

Q. PREVIOUSLY YOU INDICATED THAT THE RECOVERY-BASED ROYALTIES SHOULD NOT BE INCLUDED IN THE DEER CREEK MINE CLOSURE COST REGULATORY ASSET TO BE RECOVERED FROM RATEPAYERS UNTIL THE AMOUNT IS KNOWN AND SUBJECT TO A PRUDENCE REVIEW. ARE THERE ANY ADDITIONAL COSTS OR

BENEFITS THAT SHOULD CONTINUE TO BE DEFERRED ASSOCIATED WITH THE DEER CREEK MINE CLOSURE AFTER THE COMPLETION OF THIS RATE CASE?

A. Yes. As part of the Deer Creek Mine Closure, RMP sold certain assets, specifically the Fossil Rock assets and coal reserves, to Bowie Resource Partners. As a result of the transaction, RMP was granted an overriding royalty on all coal that will be produced from the Fossil Rock coal leases. The Settlement Stipulation reached in the Deer Creek Mine Closure case, Docket No. 14-035-147, indicates in Paragraph 25 that "The Parties agree that the PSC should enter an order authorizing that any future Fossil Rock royalty revenue, if any, will be deferred and credited to customers in future rate cases." In response to OCS Data Request 7.7, RMP stated that "PacifiCorp is entitled to receive overriding royalties from Wolverine (formerly Bowie Resource Partners) on coal produced from the Fossil Rock coal reserves." If and when RMP receives overriding royalties on coal produced from the Fossil Rock coal reserves, then the requirement that the amounts received be deferred should continue to be addressed in future rate cases consistent with the Settlement Stipulation.

<u>**Non-Protected Property EDIT Regulatory Liability Correction**</u>

Q. WHAT IS THE PURPOSE OF THE ADJUSTMENT ON EXHIBIT OCS 3.18D?

A. There are three separate types of EDIT that resulted from the Tax Cuts and Jobs Act ("TCJA") that was signed into law by President Trump on December 22, 2017. This includes protected property-related EDIT, non-protected property-related EDIT and non-protected non-property EDIT. Separate regulatory liabilities were established for the Utah portion of each of these EDIT categories. An additional regulatory liability was also established to record the amortization of the protected property-related EDIT balance that is owed to ratepayers. As explained in the direct testimony of RMP witness McDougal, at lines 225 – 227, the non-protected property and non-protected non-property EDIT regulatory liability balances have been used to buy-down a portion of the Utah-allocated share of the Dave Johnston generation plant, and this treatment was approved by the PSC in its approval of the Settlement Stipulation in Docket No. 17-035-69, which addressed various impacts of the TCJA.

Since the non-protected property EDIT and non-protected non-property EDIT regulatory liabilities were used to buy-down a portion of the Dave Johnston generation plant, RMP removed the thirteen-month average balance of these regulatory liabilities from the base year in determining the test year rate base as part of its Adjustment 7.7 in Exhibit RMP__(SRM-3). However, RMP removed an incorrect amount. In response to OCS Data Request 10.2, RMP agreed that it made a mathematical error in calculating the 13-month average balance of the non-protected property

EDIT regulatory liability for purposes of its Adjustment 7.7. RMP should have removed $7,188,432 from the test year associated with the regulatory liability instead of $3,619,919. As shown on Exhibit 3.18D, the adjusted test year regulatory liabilities should be reduced by $3,568,513, which increases rate base by this same amount.

Acquisition Adjustment Buy-Down

Q. RMP HAS PROPOSED THAT A PORTION OF THE EDIT REGULATORY LIABILITY BE USED TO BUY-DOWN OR PAY OFF SEVERAL REGULATORY ASSETS. ARE THERE ANY ADDITIONAL ASSETS THAT YOU WOULD RECOMMEND THE EDIT REGULATORY LIABILITY BE USED TO BUY-DOWN?

A. Yes. Included in the adjusted test year rate base is $141,186,242 ($62,118,414 Utah) in Account 114 - Electric Plant Acquisition Adjustment and $137,303,921 ($60,410,290 Utah) in Account 115 – Accumulated Provision for Asset Acquisition Adjustment associated with the Craig/Hayden plant acquisitions. This results in a net rate base impact associated with the Craig/Hayden Electric Plant Acquisition Adjustment of $3,882,321 ($1,708,124 Utah) in the test year. The test year also includes $4,706,208 ($2,070,614 Utah) for the associated acquisition adjustment amortization expense. The Craig/Hayden Electric Plant Acquisition Adjustment will be fully amortized by RMP in April 2022. Since it is not known how long rates from this case will be in effect, I recommend that the EDIT regulatory liability be used to pay off the remaining Utah portion of the unamortized balance of the Craig/Hayden electric plant acquisition adjustment that will remain on RMP's books at the start of the test year. This would ensure that the annual amortization is not incorporated in base rates since the balance will be fully amortized with four months after the end of the test year in this case.

Q. IS THERE ANY INDICATION THAT RMP MAY BE AMENABLE TO THIS OFFSET?

A. In response to OCS Data Request 13.2, RMP indicated, in part, that it "…may be willing to consider offsetting the remaining portion of Utah's share of the unamortized balance of the system-allocated Electric Plant Acquisition adjustment balance with a portion of the deferred Tax Cuts and Jobs Act benefits." I recommend that the offset be considered for the Craig/Hayden Electric Plant Acquisition Adjustment, which accounts for approximately $141.2 million of the total system allocated Electric Plant Acquisition Adjustment of $144.7 million, since this specific acquisition adjustment will be fully amortized in April 2022 under the current amortization period.

Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION?

A. As shown on Exhibit OCS 3.19D, the net impact on rate base is a reduction of $3,882,321 ($1,708,124 Utah) and amortization expense is reduced by $4,706,208 ($2,070,614 Utah). The exhibit also shows that $2,743,431 of the EDIT Regulatory Liability would be used to buy-down

Utah's share of the remaining unrecovered Craig/Hayden Electric Plant Acquisition Adjustment balance as of December 31, 2020.

SUBSCRIBER SOLAR PROGRAM ACCOUNTING CONCERNS

Q. HAVE YOU PREVIOUSLY BEEN ASKED TO REVIEW SOME OF THE ACCOUNTING ASSOCIATED WITH THE EXISTING SUBSCRIBER SOLAR PROGRAM?

A. Yes. The OCS asked me to review RMP's 2019 Annual Report of the Subscriber Solar Program filed in Docket No. 20-035-14 as well as some additional information obtained by the OCS in that docket associated with amounts included in the annual report.

Q. BASED ON THE INFORMATION YOU REVIEWED AND DISCUSSIONS WITH OCS PERSONNEL, DO YOU HAVE ANY GENERAL COMMENTS REGARDING THE ACCOUNTING ASSOCIATED WITH THE EXISTING SUBSCRIBER SOLAR PROGRAM?

A. Yes. Initially I found some of the language used in the report confusing. For example, the reporting includes what is titled a liability account balance. This led to some confusion as the balance is actually a regulatory asset to RMP. The use of the term liability would pertain apparently to subscribers, and potentially other non-subscribing ratepayers in the future, owing amounts to RMP. What is being called a "Liability Account Balance" is in reality a regulatory asset that RMP is amortizing and charging to expense, including the expenses in this rate case. The regulatory asset account includes the start-up costs that were incurred for the program, program management and administrative costs, marketing costs and interest on the unamortized balance. While the additional costs being incurred associated with program management, administrative costs, marketing and interest are added to the regulatory asset, the regulatory asset is reduced by the amortization of the costs over the program duration.

Additionally, the determination of the annual amortization expense that is being booked by RMP associated with what it termed the Liability Account Balance is fairly complex. In response to OCS Data Request 12.10 in this case, RMP provided some of the responses to OCS data requests in Docket No. 20-035-14. This included the response to OCS 5.1 in Docket No. 20-035-14. In that response, RMP described how the amount of monthly amortization expense being booked by RMP is determined. The response stated, in part:

> The start-up costs to develop and implement the program have been tracked and deferred for future recovery from program subscribers. These costs are updated monthly for any additional expenses incurred regarding administration, marketing, etc. The amortization of these costs are calculated using the Microsoft Excel function 'Goal Seek' which determines the estimated monthly amount needed to amortize the current balance fully over the remaining life of the program (through 2036). Interest is calculated using a mid-month convention, on the beginning balance and new activity. This interest is factored into the Microsoft Excel function.

In the Reply Comments filed by RMP in Docket No. 20-035-14, RMP agreed to provide additional information that was requested by both the DPU and OCS. This additional information is helpful in reviewing the "liability account" (i.e., regulatory asset) balance and the determination of the annual amortization expense that is being booked by RMP. The purpose of this testimony is not to indicate that RMP is not accounting for the existing Subscriber Solar Program correctly. Rather, it is to point out some of the accounting complexities caused by the program.

Q. IS THE AMORTIZATION EXPENSE ASSOCIATED WITH THE "LIABILITY ACCOUNT" INCLUDED IN THE EXPENSES IN THIS RATE CASE?

A. Yes. Test year expenses included $137,691 for the amortization. This amortization is assigned fully to Utah and is the amortization of current and past program costs and interest applied to the account.

Q. DO YOU HAVE ANY CONCERNS REGARDING THE "LIABILITY ACCOUNT" AND THE INCLUSION OF THE AMORTIZATION THEREOF IN THE REVENUE REQUIREMENTS?

A. In response to OCS Data Request 12.1, RMP provided the impacts of the existing solar subscriber program on the test year in this case. Based on that response, the program revenues appear to be covering the program costs, inclusive of the amortization expense associated with the current and past program costs. However, I do have a concern that the program costs and interest being deferred and the associated amortization expense could negatively impact non-subscribing customers in a future proceeding.

Q. PLEASE EXPLAIN THIS CONCERN.

A. The method of calculating the monthly amortization expense factors in not only past program costs, but also new program management, administrative and marketing costs as they are incurred. The method also factors in interest on the unamortized balances. The calculated amortization expense spreads the costs and estimated future interest to the remaining years of the program, with the amortization expense amount changing monthly. The amortization expense is increasing annually as new program costs and interest are added which are amortized over the shorter remaining term of the program. The amount of amortization expense associated with the existing Subscriber Solar Program was $110,342 in 2017, $124,683 in 2018 and $137,691 in 2019. Presumably the annual amortization expense will continue to grow through the remaining term of the existing program as annual program costs and interest are being added to the amount being amortized each year, while the remaining months available for amortization are declining. While program costs may have been considered when developing the rates to charge subscribers, interest on the unrecovered program costs may not have been considered. There is a concern that at some future time the amount of revenues collected from subscribers may not fully cover the program costs and amortization of the "liability account," causing non-subscribing ratepayers to pick up part of the program costs and interest being amortized. While I do not know if this will occur, it is a concern and something that should be reviewed in future rate case proceedings.

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS ASSOCIATED WITH THE SUBSCRIBER SOLAR PROGRAM?

A. No, I am not. The purpose of the above testimony is to provide some background and share some accounting concerns. OCS witness Alyson Anderson provides specific recommendations regarding the Subscriber Solar Program in her testimony.

PROTECTED PP&E EDIT AMORTIZATION REGULATORY LIABILITY

Q. WHAT IS THE PROTECTED PP&E EDIT AMORTIZATION REGULATORY LIABILITY?

A. Previously in this testimony, I indicated that there are three separate types of EDIT that resulted from the TCJA. These include protected property-related EDIT, non-protected property-related EDIT and non-protected non-property EDIT. Separate regulatory liabilities were established for the Utah portion of each of these EDIT categories. An additional regulatory liability was also established to record the annual amortization of the protected property-related EDIT balance that is owed to ratepayers. This is the Protected PP&E EDIT Amortization Regulatory Liability. Exhibit RMP__(SRM-6) provided with RMP witness McDougal's direct testimony shows that from 2018 through 2020, RMP anticipates amortizing a total of

$89,513,563 of the protected property-related EDIT balance using the Reverse South Georgia Method ("RSGM") of amortization that is allowed for under the IRS normalization provisions. The $89,513,563 of cumulative amortization is then grossed-up for the tax impacts, resulting in an estimated Protected PP&E EDIT Amortization Regulatory Liability balance of $118,697,113 as of December 31, 2020. RMP included the projected 2021 amortization of the protected property-related EDIT balance under the RSGM methodology in determining the revenue requirements; thus, the projected 2021 amortization is not included in the regulatory liability. It is only the amortizations that occur prior to the establishment of new base rates resulting from this case that are included in the regulatory liability balance.

Q. ABOVE YOU INDICATE THAT RMP INCLUDED THE PROJECTED 2021 AMORTIZATION OF THE PROTECTED PROPERTY-RELATED EDIT BALANCE UNDER THE RSGM METHODOLOGY IN THE REVENUE REQUIREMENTS. DO YOU HAVE ANY SPECIFIC RECOMMENDATIONS REGARDING THE AMORTIZATIONS GOING FORWARD?

A. Yes. The amount of annual amortization of the protected property-related EDIT liability fluctuates annually under the RSGM methodology. As an example, the early retirement of plants can have a substantial impact on the resulting annual amortization. As shown on Exhibit RMP__(SRM-6), the annual amortization under the RSGM method was $26.2 million in

2018 and $26.4 million in 2019 and then increased to $36.9 million in 2020. The projected annual amortization under the RSGM methodology that was included in the 2021 test year in this case is $21.8 million. The amount of amortization was much higher in 2020 due in part to the retirement of Cholla. Additionally, the new depreciation rates impact the amortization beginning in 2020. Since the protected property-related EDIT regulatory liability is owed to ratepayers, I recommend that RMP be required to defer the difference between the amount of protected property-related EDIT amortization incorporated in base rates and the actual amount of amortization that results under the RSGM methodology. The resulting balance in the deferral account could then be considered in future rate case proceedings.

Q. RETURNING FOCUS TO THE PROTECTED PP&E EDIT AMORTIZATION REGULATORY LIABILITY THAT WAS ACCUMULATED FROM 2018 TO 2020, COULD YOU PLEASE DESCRIBE RMP'S PROPOSED USE OF THIS REGULATORY LIABILITY?

A. Yes. RMP is proposing to use the Protected PP&E EDIT Amortization Regulatory Liability to pay off four separate regulatory assets. This includes the following regulatory assets and estimated December 31, 2020 balances: (1) 2017 Protocol of $11,743,341;[11] (2) EIM Benefit of $9,573,636; (3) Carbon generating plant closure of $10,292,396; and (4) Deer Creek mine closure of $20,581,541. RMP also proposes to use the remaining regulatory liability balance of $66,506,219 to as a mitigation measure to offset some of the impacts of the proposed rate increase during 2021 and 2022. Specifically, under RMP's proposal, it would offset its proposed $95.79 million increase in rates by $44.3 million in 2021 and $22.2 million in 2022. RMP proposes to use Schedule 197, Federal Tax Act Adjustment, to flow the estimated $66.5 million remaining regulatory liability to customers during 2021 and 2022.

Q. SINCE RMP PROPOSES TO FLOW THE BALANCE OF THE REGULATORY LIABILITY THAT REMAINS AFTER THE PAY OFF OF THE VARIOUS REGULATORY ASSETS OVER A TWO-YEAR PERIOD, DID RMP INCLUDE THE ESTIMATED AVERAGE BALANCE OF THE REGULATORY LIABILITY DURING THE TEST YEAR AS A REDUCTION TO RATE BASE?

A. No, it did not. In response to OCS Data Request 10.1, RMP indicated that it "agrees that given the proposed rate mitigation strategies and short-term nature of the refund, Utah customers should be paid a carrying charge

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[11] The total projected balance for the 2017 Protocol Regulatory Asset is $13.2 million as of December 31, 2020. On Exhibit RMP__(SRM-6), RMP applied $1,456,659 of remaining non-EDIT Tax Benefits Regulatory Liability to the regulatory asset with the Protected PP&E EDIT Amortization Regulatory Liability used for the remaining balance of $11,743,341.

equal to the approved customer deposit rate for the period in which the carrying charge is calculated." Thus, while RMP did not include the projected average balance of the regulatory liability as an offset to reduce rate base, it does agree that carrying charges should be applied. This would increase the balance that goes to customers.

Q. DO YOU AGREE WITH RMP'S PROPOSED USE OF THE PROTECTED PP&E EDIT AMORTIZATION REGULATORY LIABILITY?

A. Not entirely. I do not oppose RMP's use of the regulatory liability balance to pay off the regulatory assets it has proposed. This would include the pay-off of the 2017 Protocol regulatory asset, the EIM benefit regulatory asset, the carbon generation plant closure regulatory asset, and the Deer Creek Mine Closure regulatory asset. As discussed previously in this testimony, I have recommended several revisions to the Deer Creek Mine Closure regulatory asset that reduces the regulatory asset balance. This results in a corresponding increase in the remaining balance of the regulatory liability available. Previously in this testimony, I also recommended that the regulatory liability be used to pay off the remaining unamortized balance of the Craig/Hayden Electric Plant Acquisition Adjustment. As shown on Exhibit OCS 3.20D, at Page 3.20.1, the revisions to the Deer Creek Mine Closure regulatory asset and the proposed pay off of the Craig/Hayden Electric Plant Acquisition Adjustment would result in a remaining Protected PP&E EDIT Amortization Regulatory Liability balance of $69,430,331. This is approximately $2.9 million higher than the $66.5 million remaining balance determined by RMP in its recommendations.

While I do agree that the use of the regulatory liability to pay off certain regulatory assets is reasonable, I do not recommend that the remaining balance be flowed back to customers over the short two-year period as proposed by RMP in this case.

Q. SINCE RMP'S PROPOSAL WOULD OFFSET THE PROPOSED RATE INCREASE BY $44.2 MILLION IN 2021 AND $22.2 MILLION IN 2022, WHY DO YOU NOT AGREE WITH THIS APPROACH?

A. Under RMP's proposal, the regulatory liability would be used to offset a portion of the substantial increase in revenues it is requesting in this case. As discussed previously in this testimony, the OCS is recommending a reduction in base rates resulting from this case, not the substantial increase in rates proposed by RMP. Thus, the short term mitigation measure that would exhaust the regulatory liability balance is not needed to offset a substantial increase in revenues if the OCS's recommendations are adopted by the PSC in this proceeding. While it is not currently known what change in rates will ultimately be decided by the PSC as a result of this case, I would be very surprised if the rates are increased by the PSC to the degree requested by RMP in this proceeding.

Q. WHAT DO YOU RECOMMEND BE DONE WITH THE REGULATORY LIABILITY BALANCE THAT REMAINS AFTER THE PAY OFF OF THE VARIOUS REGULATORY ASSETS?

A. As indicated above, the Protected PP&E EDIT Amortization Regulatory Liability balance as of December 31, 2020, after paying off various regulatory assets and the remaining Craig/Hayden Electric Plant Acquisition Adjustment, is $69,430,311. I recommend that this balance be amortized using an initial amortization period of 10 years with the average test year unamortized balance being included in rate base, thereby reducing rate base. As shown on Exhibit OCS 3.20D, this would result in a $65,958,796 reduction to rate base and a negative amortization expense of $6,943,031.

Q. ABOVE YOU INDICATE THAT YOU ARE RECOMMENDING AN “INITIAL AMORTIZATION PERIOD OF 10 YEARS.” CAN YOU PLEASE EXPLAIN WHY YOU USE THE TERM “INITIAL” AND WHY YOU ARE RECOMMENDING SUCH A LONG AMORTIZATION PERIOD?

A. Yes. To the best of my knowledge, no party disputes that the Protected PP&E EDIT Amortization Regulatory Liability is owed to ratepayers. I recommend that the PSC and the parties retain some flexibility with regards to the use of this regulatory liability in the future. While I would normally recommend a much shorter amortization period for this regulatory liability to return the funds to customers more promptly, there seems to be a higher level of uncertainty at this time regarding factors that could put upward pressure on rates in the future. This includes factors such as the uncertainty regarding potential early retirements of coal plants, potential addition of new generation plants in coming years, and the potential impacts of the Covid-19 public health emergency. By setting an initial amortization period of ten years, this would leave a larger regulatory liability balance that could be considered for use in future proceedings to offset such pressures. In the next rate case, the treatment and use of the remaining unamortized balance could be reconsidered at that time.

I do not make this recommendation lightly. However, it is my opinion at this time that a longer amortization period that provides for greater flexibility in the future should be considered by the PSC in this proceeding. Since the unamortized balance would be used to offset rate base, and the amortization results in the return of the balance to customers over time, customers still benefit from this recommendation while retaining flexibility in these unprecedented times.

Q. COULD THE PSC ALSO USE A SHORTER AMORTIZATION PERIOD?

A. Yes. There are many options available to the PSC for returning this regulatory liability to Utah ratepayers. For example, if the amount of revenue requirement resulting from this case differs from that proposed by OCS and the PSC's findings result in an increase in revenues for RMP instead of the OCS recommended decrease in rates, the PSC could select a shorter amortization period, such as five years, or even three years, if needed to fully offset the rate increase that would otherwise occur. During the current public health emergency, it would be reasonable for the PSC to take into account the overall revenue requirement resulting from its findings in the remaining areas at issue in this rate case proceeding and then select the amortization period that is needed to offset the resulting increase in rates if an increase would result.

Additionally, if the PSC's findings result in a fairly substantial increase in the revenue requirements, despite the recommendations of the OCS in this case, then the PSC could also consider the approach recommended by RMP that would offset the increase in rates for a period of two years. Such use of the regulatory liability balance may be reasonable under current circumstances during the public health emergency. Since the OCS is recommending a reduction in revenues from this case, it is the OCS's opinion that if a rate decrease is approved by the PSC, there are benefits associated with a longer amortization period for the regulatory liability and the flexibility that a longer amortization provides.

Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?

A. Yes.