Witness OCS – 3S

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	**)**	**Surrebuttal 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**

October 29, 2020

Table of Contents

INTRODUCTION AND PURPOSE OF SURREBUTTAL

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 PREVIOUSLY SUBMITTED TESTIMONY IN THIS DOCKET?

A. Yes. I submitted direct revenue requirement testimony on behalf of the Utah Office of Consumer Services (OCS) in this docket on September 2, 2020.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. I respond to the following issues addressed in the rebuttal testimony of RMP witness Steven R. McDougal: transmission power delivery bad debt expense, non-labor O&M expense escalation, RMP's inclusion of unpaid royalties in the Deer Creek Mine closure regulatory asset, and ongoing treatment of the protected property-related EDIT amortization under the Reverse South Georgia Method (RSGM). I briefly respond to the rebuttal testimonies of RMP witness McDougal and DPU witness William "Artie" Powell regarding whether historic generation overhaul expense should be escalated in determining the normalized expense level to include in the adjusted test year. I respond to the rebuttal testimony of Curtis B. Mansfield regarding whether or not the Utah Advanced Meter

Infrastructure Project should be included in revenue requirements in this docket. I also respond to the rebuttal testimony of RMP witness Nikki L. Kobliha regarding the amount of pension expense to be included in rates and whether or not net prepaid pension and other post-retirement benefit plan prepaid asset should be included in rate base. I also recommend that the new pension balancing account "alternative" proposed for the first time in the rebuttal testimonies of RMP witnesses Kobliha and McDougal be rejected. Failure to specifically address disagreements presented in rebuttal testimonies with any of the recommendations contained in my direct testimony should not be construed as agreeing with the rebuttal positions. I continue to stand by the recommendations contained in my direct testimony unless otherwise expressly discussed in this surrebuttal testimony.

I also present the updated OCS recommended overall revenue requirement for RMP. This includes the impact of several revisions made by RMP in its rebuttal filing, along with the impact of such revisions on several OCS recommendations discussed in this testimony. The OCS's updated overall revenue requirement also includes the impacts of the revisions discussed in the surrebuttal testimony of OCS witness Phil Hayet.

<u>SUMMARY OF POSITIONS ON RMP REVISIONS AND UPDATES</u>

Q. IN ITS REBUTTAL POSITION, RMP NOW PROPOSES A TWO STEP APPROACH FOR CHANGING RATES RESULTING FROM THIS PROCEEDING. DOES OCS OBJECT TO THE PROPOSED TWO STEP APPROACH?

A. In its rebuttal filing, RMP explains that portions of the Pryor Mountain and TB Flats wind projects have been delayed, resulting in some of the project assets not going into service by the January 1, 2021 start of the test year. As a result, RMP now proposes two separate rate increases – the first to go into effect on January 1, 2021 and the second incremental increase to go into effect on the later of: (a) July 1, 2021, or (b) 30 days after the last Pryor Mountain and TB Flats II wind project goes into service. For purposes of this proceeding, and based on the facts and circumstances inherent in this proceeding, it is my understanding that the OCS does not object to this two-step rate change approach. However, since OCS continues to oppose the inclusion of the Pryor Mountain wind project in revenue requirements in this proceeding, the OCS recommends that the second-step change in rates be limited to the impacts of the TB Flats II wind project assets projected to be placed into service after January 1, 2021.

Q. BESIDES THE NEW PROPOSED TWO-STEP RATE CHANGE APPROACH, RMP'S REBUTTAL FILING INCLUDED NUMEROUS

REVISIONS TO ITS ORIGINAL REVENUE REQUIREMENT CALCULATIONS. WERE THE REVISIONS EXTENSIVE?

A. Yes. RMP reduced the cost of debt from 4.81% to 4.79% and reduced its requested rate of return on equity from 10.20% to 9.80%. RMP also removed its originally proposed non-labor O&M expense escalation adjustment. In addition to these changes, RMP's rebuttal filing includes twenty-two (22) additional adjustments. These 22 additional adjustments, which are listed in Table 1 provided on page 7 of RMP witness McDougal's rebuttal testimony, reflected the acceptance of several intervenor recommended adjustments and revised numerous adjustments contained in RMP's original filing. The degree of modifications made to the original filing is fairly substantial.

Q. ARE THERE ANY ADJUSTMENTS PRESENTED IN RMP'S REBUTTAL FILING THAT ARE EITHER THE SAME AS, OR SIMILAR TO, ADJUSTMENTS PRESENTED IN YOUR DIRECT TESTIMONY?

A. Yes. RMP has accepted a number of recommendations contained in my direct testimony, several of which were corrections to RMP filed amounts. The table below identifies the adjustments contained in RMP's rebuttal filing that are either the same as, or very close to, an adjustment presented in my direct testimony:

Adjustment Title	RMP Rebuttal Page #	OCS Direct Exhibit #
NTUA Revenue Correction	10.3	OCS 3.5D
M&S Inventory Sales Revenue Correction	10.4	OCS 3.6D
Schedule 300 Fees	10.5	OCS 3.3D
Electric Plant Acquisition Adjustment	10.16	OCS 3.19D
Removal of TCJA Deferred Balances - Correction	10.19	OCS 3.18D

For each of the above adjustments, I am not revising the Jurisdictional Allocation Model (JAM) used in calculating the OCS recommended revenue requirements as the OCS adjustment and the RMP rebuttal adjustment are essentially the same. In the model used by the PSC in determining the ultimate revenue requirements resulting from its decision, the PSC could input either RMP's rebuttal adjustment or the OCS adjustment referenced in the above table.

RMP also agreed in its rebuttal filing with the premise of several OCS recommended adjustment, but RMP's rebuttal adjustment amount differed from the adjustment amount presented in my testimony. Adjustments falling into this category are identified in the table below:

Adjustment Title	RMP Rebuttal Page #	OCS Direct Exhibit #
Reliability Coordinator Fees	10.6	OCS 3.9D
UMWA Transfer Benefits Correction	10.11	OCS 3.7D
Colstrip Decommissioning Expense Correction	10.15	OCS 3.14D

For each of these three adjustments, I agree that the amounts presented in RMP's rebuttal filing should be used. Thus, in the model used in calculating the OCS recommended revenue requirement, I have turned off the three OCS adjustments listed in the above table and inserted the RMP rebuttal adjustments into the model. In other words, the three OCS adjustments listed above contained in Exhibits OCS 3.9D, OCS 3.7D and OCS 3.14D have been replaced with the RMP adjustments identified above.

To the best of my knowledge, the OCS and RMP are in agreement with the appropriate treatment of the eight adjustments identified in the two tables presented above.

Additionally, both Exhibit OCS 3.4D and RMP rebuttal adjustment 10.2 increase the amount of REC revenues included in RMP's original filing. The difference between the OCS adjustment and the RMP rebuttal adjustment is the inclusion in RMP's rebuttal adjustment of the REC revenues associated with the Pryor Mountain wind project. If the PSC agrees with the OCS position that the Pryor Mountain wind project should be excluded from revenue requirement in this proceeding, then the adjustment to increase the REC revenues contained in RMP's original filing should be based on Exhibit OCS 3.4D. If the PSC disagrees with the

OCS recommended exclusion of the Pryor Mountain wind project, then the adjustment should be based on RMP rebuttal adjustment 10.2.

Q. ARE THERE ADDITIONAL ADJUSTMENTS PRESENTED IN RMP'S REBUTTAL FILING THAT YOU ARE INCLUDING IN THE OCS REVENUE REQUIREMENT CALCULATIONS?

A. Yes. I included RMP's revised cost of debt of 4.79% in the revenue requirement model. It is my understanding that OCS witness Woolridge accepted RMP's revision to the cost of debt in his surrebuttal testimony filed on October 8, 2020. I also added the following RMP rebuttal adjustments in the revenue requirement model used to determine the OCS recommended change in revenues:

Adjustment Title	RMP Rebuttal Page #
Wheeling Revenue Update	10.1
Insurance Premium Update	10.8
Wildland Fire O&M Update	10.9
WEBA - Full-Time Equivalent	10.10
WEBA CY 2021 Annualization	10.12
Rebuttal Net Power Cost Alignment	10.13
Nodal Pricing Model update	10.14
Pro Forma Tax Update	10.18
Pro Forma Plant Update	10.20
Repowering Capital Additions	10.21
Pryor Mtn. and TB Flats - Phase 2	10.22

RMP's rebuttal adjustment 10.20, which updates the pro forma plant additions contained in RMP's original filing, also modified the amounts included in the adjusted test year for the Utah AMI project. As explained later in this testimony, I continue to recommend that the Utah AMI project be excluded from the test year. As such, I have replaced my original adjustment to remove the AMI Project that was presented in Exhibit OCS 3.15D with Exhibit OCS 3.4S based on the updated amounts included in RMP's rebuttal filing. In flowing this change through the revenue requirement model, I turned off adjustment OCS 3.15D and inserted the new adjustment OCS 3.4S.

Additionally, RMP rebuttal adjustment 10.20 updated the amounts included in the test year associated with the Pryor Mountain wind project and RMP rebuttal adjustment 10.22 includes the portions of the Pryor Mountain wind project anticipated to be placed into service during 2021. As a result, the adjustments needed to reflect OCS witness Hayet's recommended removal the Pryor Mountain wind project have been revised in the OCS revenue requirement model based on RMP's updated amounts.

Q. ARE THERE ANY ADJUSTMENTS PRESENTED IN RMP'S REBUTTAL FILING THAT YOU ARE NOT INCLUDING FOR PURPOSES OF CALCULATING THE OCS RECOMMENDED REVENUE REQUIREMENT?

A. Yes. RMP's update to REC revenues was discussed above. Additionally, I continue to recommend that the transmission power delivery uncollectible expense be removed in its entirety. Thus, I recommend that the adjustment presented with my direct testimony in Exhibit OCS 3.10D be adopted instead of the revision presented in RMP rebuttal adjustment 10.4.

I also did not include RMP rebuttal adjustment 10.17 in which RMP increased the amount of property tax expense included in its adjusted test year. In its original filing, RMP increased the base year property tax expense of $148.8 million by $32.5 million ($14.2 million Utah).[1] RMP rebuttal adjustment 10.17 increases the base year property tax expense by an additional $10.1 million ($4.4 million Utah). This results in increasing the actual base year property tax expense of $148.8 million to $191.4 million,[2] an overall increase of approximately $42.6 million or 28.6%. Most of the updates contained in RMP's rebuttal filing were previously disclosed in response to discovery much earlier in this proceeding. I am not aware of RMP disclosing the potential update to the property tax expense previously in this proceeding and was not aware of the proposed change until RMP filed its rebuttal testimony earlier this month. Additionally, DPU witness JJ Adler challenged the amount of property tax expense contained in RMP's original filing, which RMP has now substantially increased. Given the lateness of this substantial change, concerns raised by DPU witness Adler, and the limited

---

[1] Exhibit RMP__(SRM-3) at Page 7.4 (page 173 of 467).

[2] Amounts shown in Exhibit RMP__(SRM-2R) at Page 10.17.1 (page 119 of 158).

information provided on this update by RMP with its rebuttal filing, I am not reflecting the property tax expense update in the OCS revenue requirement calculations. The OCS may choose to further address this issue, as warranted, pending additional information on this issue that may arise through the end of the hearings in this proceeding.

Q. ARE ANY ADDITIONAL REVISIONS BEING MADE TO ADJUSTMENTS RECOMMENDED IN THE DIRECT TESTIMONIES FILED BY OCS BEYOND THOSE DISCUSSED ABOVE AND IN THIS TESTIMONY?

A. Yes. As discussed in his surrebuttal testimony, OCS witness Hayet is no longer recommending disallowances associated with the Foote Creek wind repowering project and the Blundell outage, and is no longer recommending an adjustment to net power costs associated with market cap issues. The impacts of these modifications are included in the Jurisdictional Allocation Models used in determining the OCS recommended revenue requirements.

<u>OCS RECOMMENDED REVENUE REQUIREMENT</u>

Q. ARE YOU PRESENTING ANY EXHIBITS IN SUPPORT OF YOUR SURREBUTTAL TESTIMONY?

A. Yes. I am presenting Exhibits OCS 3.1S through OCS 3.5S. Exhibit OCS 3.1S presents a summary of the overall revenue requirement for both the first step change in rates and the second step change in rates, respectively. Similarly, Exhibit OCS 3.2S presents summaries of the overall revenue requirement for both the first step change in rates and the second step change in rates, respectively, under the alternate rate of return approach and recommendation addressed by OCS witness Dr. Woolridge. The column for “Total Adjusted Results” found on page 2 of each of these exhibits is based on the results inclusive of all Step 1 and Step 2 adjustments prior to the OCS recommended change in rates. The “Total Adjusted Results” have not been broken out on these summary schedules between the Step 1 adjusted amounts and the Step 2 amounts in order to avoid the potential of inadvertently disclosing any information deemed confidential by RMP. This is similar to the approach presented in RMP’s rebuttal filing in Exhibit RMP__(SRM-1R) at page 2 of 6 and Exhibit RMP__(SRM-2R) at page 2 of 158.

In preparing Exhibits OCS 3.1S and OCS 3.2S, I updated the Jurisdictional Allocation Models that were provided with my direct testimony for the revisions discussed herein and those discussed by OCS witness Hayet. Electronic copies of the Jurisdictional Allocation Models that were used in determining the revenue requirements resulting from OCS’s recommendations and in preparing the above referenced exhibits 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. PLEASE DESCRIBE THE REMAINING EXHIBITS BEING PROVIDED WITH THIS TESTIMONY.

A. Exhibit OCS 3.3S includes a summary schedule that presents all of the OCS recommended adjustments as they currently stand and the RMP rebuttal adjustments that OCS does not currently take issue with on a Utah jurisdiction basis.[3] The amounts presented in this exhibit will not tie directly into the summary schedules presented in Exhibits OCS 3.1S and OCS 3.2S as the amounts presented in Exhibit OCS 3.3S do not include the cash working capital impact and interest synchronization impact of each of the OCS recommended 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 Models. Exhibit OCS 3.3S also excludes amounts presented by Mr. Hayet that were identified as confidential by RMP and a rebuttal adjustment presented as confidential by RMP. These confidential adjustments have been entered into the Jurisdictional Allocation Models used to determine the OCS revenue requirements. The last two adjustments shown on Exhibit OCS 3.3S at page 5 of 5 were turned on in the Jurisdictional Allocation Models for purposes of the second step increase only as they pertain to the Pryor Mountain and TB Flats II wind projects anticipated by RMP to be placed into service during 2021.

[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. The amounts shown on this summary exhibit for the RMP rebuttal adjustments are from Exhibit RMP__(SRM-2R) at pages 44 – 47 of 158.

Exhibit OCS 3.4S, which replaces Exhibit OCS 3.15D filed with my direct testimony, provides the revised adjustment to remove the Utah AMI project from the test year. Also included with this testimony is Exhibit OCS 3.5S, which consists of the responses to data requests referenced in this testimony and attached exhibits.

Q. HAVE YOU CALCULATED THE OCS RECOMMENDED REVENUE REQUIREMENT BASED ON THE REVISIONS DISCUSSED PREVIOUSLY IN THIS TESTIMONY?

A. Yes. In its rebuttal filing, RMP requests an increase in revenue requirement of $72.0 million, with a $49.5 million increase in revenues effective January 1, 2021 and an additional $22.5 million incremental increase effective July 1, 2021 or later. Based on the OCS's analysis, RMP's current rates should be decreased, not increased. Based on the combination of the various revisions contained in RMP's rebuttal filing for which the OCS does not take issue and the OCS recommended adjustments, OCS is recommending a decrease in the current level of Utah revenue requirement of $50,928,803 effective January 1, 2021. This would be followed by an increase in revenue requirements of $13,671,693 effective July 1, 2021 or later, resulting in an overall net reduction in revenues after the Step 2 rate change of $37,257,110 when compared to current rates. This decrease, as well as the Step 1 and Step 2 recommended change in revenues, is shown on Exhibit OCS 3.1S, page 1 of 3. This is based on the OCS recommended overall rate of return of 6.90%[4].

As shown on Exhibit OCS 3.2S, page 1 of 3, under the alternate approach resulting in an overall rate of return of 6.92%,[5] the result is a decrease in the current level of Utah revenue requirement of $44,762,028 for Step 1 and a decrease in current level of Utah revenue requirement of $31,010,411 after the Step 2 change in rates of $13,751,617.

Q. IN HIS SURREBUTTAL TESTIMONY, OCS WITNESS HAYET INDICATES THAT THE OCS IS NO LONGER CHALLENGING RMP'S PROPOSED INCLUSION OF THE PRODUCTION TAX CREDITS IN THE ENERGY BALANCING ACCOUNT. IF THE PSC DETERMINES THAT THE PRODUCTION TAX CREDITS SHOULD NOT BE INCLUDED IN THE ENERGY BALANCING ACCOUNT, WOULD THAT DETERMINATION IMPACT THE OCS RECOMMENDED REVENUE REQUIREMENT UNDER THE TWO STEP REVENUE CHANGE APPROACH?

A. Yes, it would. The amount of Production Tax Credits (PTC) included in RMP's rebuttal filing for the delayed portions of the Pryor Mountain and TB Flats II wind projects that are anticipated to be placed into service during

---

[4] The overall rate of return reflects the impact of RMP's reduction in the cost of debt from 4.81% to 4.79%.
[5] Ibid.

2021 are based on RMP’s anticipated amount of PTCs to be realized on those projects during 2021. These were included as part of RMP’s proposed Step 1 change in rates. Thus, RMP’s rebuttal filing does not include a full annualized level of PTCs that will be generated from the delayed Pryor Mountain and TB Flats II projects through either the Step 1 or Step 2 change in rates. If PTCs are trued-up annually in the EBA, ratepayers would still get the full benefit of the PTCs associated with the delayed projects. However, if the PTCs are not included in the EBA and RMP is permitted to reflect the full capital costs associated with the Pryor Mountain and TB Flats II projects through the Step 1 and subsequent Step 2 change in rates, ratepayers will be paying a return on the full projected capital investment amounts without receiving the full benefit of the anticipated PTCs. This situation would continue until the next Utah base rate case, which could be several years into the future.

If the PSC decides that the PTCs should not be included in the EBA, this concern could be addressed by modifying the Step 1 and Step 2 rate increases. The PSC could: 1) remove the PTCs associated with the delayed resources from the Step 1 change in rates; and 2) include the annual level of PTCs associated with the delayed resources in the Step 2 change in rates. RMP provided the information needed to calculate the appropriate adjustments to the PTCs for the Step 1 and Step 2 rate changes in its response to OCS Data Request 25.1, Attachment OCS

25.1-2.[6] The Pryor Mountain and TB Flats II projects are each separately identified in the response attachment, which would enable the PSC to determine the impact based on its decision regarding OCS's recommended disallowance of the Pryor Mountain wind project.

<u>RESPONSE TO RMP REBUTTAL ON OCS RECOMMENDATIONS</u>

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

Q. IN YOUR DIRECT TESTIMONY, YOU RECOMMENDED THAT THE AMOUNT INCLUDED IN RMP GENERAL LEDGER ACCOUNT 550775 – BAD DEBT EXPENSE – TRANSMISSION PD, WHICH IS INCLUDED IN FERC ACCOUNT 904 – UNCOLLECTIBLE ACCOUNTS EXPENSE AND ALLOCATED USING THE CN FACTOR, BE REMOVED FROM THE TEST YEAR. DID RMP AGREE WITH YOUR RECOMMENDATION?

A. While RMP agreed to reduce the amount included in the test year, it did not agree to fully remove the costs. Instead, RMP witness McDougal recommends that the amount to include in the test year be based on a three-year average amount of $328,337. This was calculated by RMP based on the following amounts: $2,791 for 2017; $298 for 2018; and $981,923 for 2019.[7]

---

[6] The response to OCS Data Request 25.1 and Attachment OCS 25.1-2 is being provided as part of Exhibit OCS 3.5S. The confidential attachment referenced in the response is excluded from Exhibit OCS 3.5S.

[7] Rebuttal Testimony of Steven R. McDougal at 246 – 268.

Q. DO YOU AGREE WITH RMP'S PROPOSED INCLUSION OF THE COSTS BASED ON THE MOST RECENT THREE-YEAR AVERAGE EXPENSE LEVEL?

A. No, I do not. As explained in my direct testimony, at lines 613 – 622, these expenses are associated with transmission power delivery customers and includes costs such as interconnection studies that cost more than the transmission customer deposits and/or transmission customer collections. I also explained in the above referenced testimony that RMP has not provided an explanation for why the costs are so high in the base year nor why these costs should be included in rates charged to Utah ratepayers. RMP's rebuttal testimony did not shed further light on why these specific types of costs should be recovered from Utah ratepayers, nor did RMP explain why the costs for interconnection studies exceeded the transmission customer deposits and/or transmission customer collections. As such, I continue to recommend that the full amount recorded in this general ledger account be excluded from the test year expenses charged to Utah ratepayers.

Q. SINCE RMP'S REBUTTAL DID NOT SHED FURTHER LIGHT ON WHY THE COST WAS SO HIGH IN THE TEST YEAR, DID YOU SEEK FURTHER INFORMATION AFTER REVIEWING MR. MCDOUGAL'S REBUTTAL TESTIMONY?

A. At lines 242 – 245 of his rebuttal testimony, Mr. McDougal indicated that $922,000 of the expense included in the test year was associated with one single customer uncollectible expense. When asked to explain the factors that caused the $922,000 to become uncollectible, RMP stated as follows in its redacted response to OCS Data Request 24.6:

> …The Company reserved this amount following the probable assessment of recovery based on a factual and legal analysis. Factors assessed included, Customer's project suspension, likelihood of future missed project milestones due to the suspension, and customer communications challenging Customer's obligations for remitting payment to invoices. The Company is still pursing options to resolve the issues under the agreement, but given these risk factors the Company determined it was appropriate to recognize a reserve.

As such, the Company is still pursing payment of this amount that it charged to transmission power delivery uncollectible expense during the base year.

Q. IN HIS REBUTTAL TESTIMONY AT LINES 247 THROUGH 253, MR. MCDOUGAL CONTENDS THAT LARGER TRANSMISSION POWER DELIVERY UNCOLLECTIBLE EXPENSES ARE NOT UNCOMMON. DO YOU WISH TO ADDRESS THIS ASSERTION?

A. Yes. Table 2 found at line 253 of Mr. McDougal's rebuttal testimony shows that the only large Transmission PD uncollectible expense amounts recorded during the period 2015 through 2019 were recorded in 2016 for $664,066 and $981,923 recorded during the 2019 base year. As indicated above, $922,000 of the amount recorded in the 2019 base year was for a potential uncollectible associated with a single customer. In the redacted response to OCS Data Request 24.7(a), RMP described the cause of the large amount booked to Transmission power delivery uncollectible expense during 2016 as follows:

> The uncollectible expense is largely related to one customer. In 2016 PacifiCorp had a transmission customer that executed point-to-point agreement on file with FERC. The customer, either shortly prior to service commencing or shortly thereafter declared bankruptcy. PacifiCorp took action to terminate the agreement; however, the agreement was active for six months and the customer never took service. PacifiCorp charged the customer approximately $652,000 in revenue, which was then recorded to bad debt totaling $661,232.52 in recognition of not being able to collect on this agreement as well as writing off remaining study costs due from the customers.

I do not challenge RMP's accounting treatment for these amounts it determined to be uncollectible. However, for the reasons expressed in my direct testimony, it remains my recommendation that the transmission power delivery uncollectible expense be removed from the test year instead of being replaced with a three-year average amount as proposed by RMP.

<u>Generation Overhaul Expense</u>

Q. IN DISCUSSING YOUR RECOMMENDED ADJUSTMENT TO GENERATION OVERHAUL EXPENSE, RMP WITNESS MCDOUGAL STATES ON LINES 853 – 854 OF HIS REBUTTAL TESTIMONY THAT YOU "…PROPOSE TO REDUCE REVENUE REQUIREMENT ON A UTAH-ALLOCATED BASIS BY $2.4 MILLION." IS THIS ASSERTION CORRECT?

A. No, it is not. As stated on lines 804 – 806 of my direct testimony: "…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." Additionally, Exhibit OCS 3.11D filed with my direct testimony shows that I reduced RMP's proposed test year expenses by $1,334,270 on a total RMP basis and $587,039 on a Utah jurisdictional basis. Thus, the assertion that my recommended adjustment reduces revenue requirement by $2.4 million on a Utah-allocated basis is clearly erroneous. I do note that RMP's adjustment to generation overhaul expense, which included the escalation of historic costs used in determining the RMP proposed normalized expense level, reduced base year expenses by approximately $2.4 million. This is shown on Exhibit RMP__(SRM-3) at Page 4.6. Perhaps RMP has confused the adjustment contained in its original filing with my recommended adjustment.

Q. CAN YOU PLEASE BRIEFLY SUMMARIZE WHAT THE OCS, RMP AND DPU AGREE ON WITH REGARDS TO THE DETERMINATION OF NORMALIZED GENERATION OVERHAUL EXPENSE TO INCLUDE IN THE TEST YEAR?

A. To the best of my knowledge, OCS, RMP and DPU all agree that the amount of generation overhaul expense should be based on an average of historic costs in order to normalize the amount of such expense to include in the test year. Additionally, no party has disputed the use of the four year period, 2016 through 2019, for use in determining the historic average normalized expense level in this docket.

Q. WHAT IS THE CRUX OF THE DISAGREEMENT ON THIS ISSUE?

A. Where the parties differ is in regards to whether or not the historic costs should be inflated prior to calculating the average expense amount to include in the test year. In determining the normalized expense level, RMP escalated the actual historic costs incurred during 2016, 2017 and 2018 to what it contends are 2019 cost levels or 2019 dollars. In escalating the 2016 through 2018 actual expenses, RMP applied factors ranging from 2.99% to 8.41% with different factors being applied to the coal plant overhauls than those applied to the natural gas fired plant overhauls.[8] The direct testimony of DPU witness Powell, at lines 19 – 24, indicates that the DPU supports RMP's method to estimate or forecast generation overhaul expense and "…recommends the Commission approve its use."[9]

It has consistently been the position of the OCS that the costs should not be escalated prior to determining the normalized expense. The PSC agreed with the OCS's position that the historic costs should not be

---

[8] Escalation factors used by RMP and plant identification are shown in Exhibit RMP__(SRM-3) at Pages 4.6.1 and 4.6.2.

[9] While it is clear from reviewing Dr. Powell's direct and rebuttal testimonies that he believes the historic costs should be restated in 2019 dollars prior to averaging, it is not clear if he agrees that the specific escalation rates applied by RMP in restating the historic costs are the appropriate rates to be used in the calculations.

inflated prior to determining the normalized four-year average expense level in all cases in which it has addressed the issue in an order, specifically in its August 11, 2008 Order issued in Docket No. 07-035-93 and in its February 18, 2010 Order issued in Docket No. 09-035-23.

Q. AFTER REVIEWING THE DIRECT AND REBUTTAL TESTIMONIES OF DPU WITNESS POWELL AND THE REBUTTAL TESTIMONY OF RMP WITNESS MCDOUGAL, ARE YOU MODIFYING YOUR RECOMMENDATION ON THIS ISSUE?

A. No, I am not. Nothing in Dr. Powell's or Mr. McDougal's testimonies on this issue changed my position or opinion. I continue to stand by my direct testimony on this issue, which was presented in lines 631 – 806 of that testimony. I also continue to recommend that the PSC stand by its prior findings on this issue. It remains my belief that the historic costs should not be escalated for purposes of determining the normalized generation overhaul expense level to include in the test year. Thus, I continue to recommend that the generation overhaul expense included in the test year by RMP be reduced by $1,334,270 ($587,039 Utah jurisdictional) to remove the impacts of RMP's escalation of 2016, 2017 and 2018 historic costs in deriving the normalized expense level.

Q. ARE THERE ANY SPECIFIC STATEMENTS IN DR. POWELL'S REBUTTAL TESTIMONY THAT YOU WISH TO ADDRESS?

A. Yes. First, at lines 13 – 15 of his rebuttal testimony, Dr. Powell states: "Specifically, Ms. Ramas suggests that using a flawed method to estimate

GOE is acceptable in order to account for potential efficiency gains PacifiCorp realizes in conducting overhauls." I do not agree that basing the normalized generation overhaul expense on an average of actual historic costs is "a flawed method."

Additionally, at lines 27 – 44 of his rebuttal testimony, Dr. Powell discusses accounting for efficiency gains in estimating generation overhaul expense and states on lines 32 – 34: "Second, to the extent that there are cost savings improvements in PacifiCorp's overhaul procedures, these improvements are properly reflected in the choice of an appropriate inflation rate." It was not clear to me if Dr. Powell agrees that the specific inflation rates used by RMP in its adjustment are what he believes are the appropriate inflation rates to be use in determining the normalized expense level, or if his testimony is limited to whether or not inflation should be applied without opining on whether or not RMP's proposed inflation rates are appropriate or reasonable.

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

Q. IN YOUR DIRECT TESTIMONY, YOU RECOMMENDED THAT RMP'S NON-LABOR O&M EXPENSE ESCALATION ADJUSTMENT BE UPDATED BASED ON MORE RECENT INDUSTRY SPECIFIC ESCALATION FACTORS THAT WERE PROVIDED TO RMP. WHAT WAS THE IMPACT OF THIS RECOMMENDATION?

A. In its original filing, RMP increased the base year non-labor O&M expenses by $3,542,567 for escalation.[10] The escalation factors used in the Company's adjustment was based on the fourth quarter 2019 forecast that was released by IHS Markit on February 3, 2020. In my direct testimony, I recommended that the escalation factors be updated based on the most recent IHS Markit study that was provided to the Company. Based on the more recent forecast provided to the Company by IHS Markit, I recommended that RMP's non-labor O&M Expense adjustment be reduced by $5,421,335.[11] The result is a net reduction in the base year non-labor O&M expenses of $1,878,768.[12] As shown on Exhibit OCS 3.12D provided with my direct testimony, the reason the result is a reduction to the base year expenses is because many, but not all, of the updated escalation factors are negative based on the more recent IHS Markit forecast.

Q. DID RMP AGREE WITH YOUR RECOMMENDED UPDATE TO THE ESCALATION FACTORS?

A. No, it did not. Rather than updating for this more recent escalation forecast provided to RMP by IHS Markit, Mr. McDougal instead states at lines 824 – 826 of his rebuttal testimony: "Due to the overall uncertainty of

---

[10] Exhibit RMP__(SRM-3), Pages 4.10 through 4.10.4.

[11] The calculation of this amount, along with the escalation factors used in calculating the adjustment, was presented in Exhibit OCS 3.12D.

[12] Amount calculated as RMP's recommended increase in expense of $3,542,567 less OCS recommended adjustment of $5,421,335 results in a net reduction to base year O&M expense of $1,878,768.

escalation as a result of COVID-19, the Company has removed all non-labor escalation from the revenue requirement." Thus, rather than utilizing the more recent forecast provided by IHS Markit, the Company instead decided to no longer include the non-labor O&M expense escalation adjustment in its filing.

Q. DO YOU AGREE THAT THE NON-LABOR O&M EXPENSE ESCALATION ADJUSTMENT CONTAINED IN RMP'S ORIGINAL FILING SHOULD SIMPLY BE REMOVED INSTEAD OF UPDATED AS YOU PROPOSED?

A. No, I do not. RMP's rebuttal position on this issue is inconsistent with its position taken in a rate case in another jurisdiction earlier this year, inconsistent with prior RMP rate cases in Utah, and inconsistent with a recent PSC finding.

Q. CAN YOU PLEASE ELABORATE ON WHY RMP'S POSITION IS INCONSISTENT WITH ITS POSITION IN ANOTHER JURISDICTION?

A. Yes. As explained in my direct testimony, at lines 831 – 835, the Reply Testimony of PacifiCorp witness Shelley E. McCoy filed on June 25, 2020 in PacifiCorp's Oregon rate case proceeding updated the O&M expense escalation adjustment to use the industry-specific escalation factors provided in IHS Markit's First Quarter 2020 Forecast. It is worth noting that Mr. McDougal confirms on lines 801 – 805 of his rebuttal testimony that the data response I relied upon in calculating my adjustment provided the IHS report for "Quarter 1, 2020." The data response, specifically the response to OCS Data Request 5.1, was provided by RMP on June 29, 2020, which is four days after the filing of Ms. McCoy's Reply Testimony in Oregon.

At pages 27 and 28 of her Reply Testimony in Oregon Docket UE375 filed on June 25, 2020, when asked "How do the escalation factors from IHS Markit compare to the All-Urban CPI recommended by Staff", PacifiCorp witness McCoy stated:

> Where the All-Urban CPI is one generic inflation factor, the escalation percentages provided by IHS Markit are industry specific. The IHS Markit indices are based on detailed information contained in FERC's Uniform System of Accounts for major electric utilities. IHS Markit forecasts electric utility O&M cost indices at the FERC Account level. This level of detail allows electric utilities to escalate very specific costs by appropriate measures. These forecasts are based on a uniform set of assumptions about how the U.S. economy will perform and therefore reflects common industry inter-relationships. The level of detail provided and industry-specific analysis incorporated in the IHS Markit indices result in more encompassing escalation factors versus a single generic inflation factor.

Thus, while PacifiCorp supported the use of the First Quarter 2020 IHS Markit forecast in the recent Oregon proceeding approximately three months ago, RMP is now taking the position that the forecast should not be used in this proceeding. It is worth noting that PacifiCorp's updated escalation adjustment increased O&M expense in the Oregon case as the escalation period spanned from June 2019 to December 2021, whereas the escalation period in RMP's adjustment in this proceeding spans from December 2019 to December 2021. While I do understand that different

Company witnesses address the escalation of the non-labor O&M expenses in different jurisdictions, it is incongruous of the Company to support the use of the updated forecast when the result is an increase in the respective base year non-labor O&M expenses and then approximately three months later argue that the same forecast should not be used when the result is a reduction in base year non-labor O&M expenses. While Mr. McDougal references uncertainties surrounding Covid-19 in his rebuttal testimony for not reflecting the updated escalation factors, uncertainty regarding the impacts of Covid-19 clearly also existed when the Company's reply testimony was filed in Oregon in late June, 2020.

Q. WILL YOU ALSO ELABORATE ON YOUR STATEMENT THAT RMP'S POSITION IS INCONSISTENT WITH A RECENT PSC FINDING?

A. Yes. In Docket No. 19-057-02 involving Dominion Energy Utah's ("DEU") most recent request for an increase in distribution rates, DEU escalated its historic base year non-labor O&M expenses to test year levels using inflation factors provided in the Global Insight[13] Power Planner report, which provided projected inflation factors by FERC account. In Docket No. 19-057-02, I recommended that DEU's base year non-labor O&M expenses not be escalated due to DEU's history of reducing its O&M expenses coupled with DEU's forecast that O&M expenses would be

[13] IHS Markit was formerly IHS Global insights.

lower in the test year compared to the base year. In its February 25, 2020 Order in Docket 19-057-02, at page 20, the PSC found as follows regarding the issue:

> We find that DEU has provided sufficient evidence to support its non-labor O&M inflation factors. We find it reasonable that efficiency gains achieved in previous years are not necessarily certain to be repeated in the Test Year, and we find that DEU's 2020 budget supports its proposed non-labor O&M inflation factors. Additionally, we find it a reasonable expectation that DEU will face inflationary risk during the Test Year. Based on the foregoing, we find DEU's non-labor O&M inflation factors in this case are reasonable and we do not order any adjustment to DEU's requested revenue requirement based on this issue.

A footnote to the first sentence of the above quoted finding states: "DEU argues these inflation adjustments have been present in Utah customer utility rates since the PSC Order in Docket No. 07-035-93 allowed Rocky Mountain Power the use of such inflators in its case, where the PSC determined non-labor expense inflation adjustments were appropriate in that case."

While RMP has regularly applied escalation factors to its non-labor O&M expense in prior rate case proceedings, it would now have the PSC ignore this long-standing practice when the results would be a reduction to the base year non-labor O&M expenses. Whether the resulting IHS Markit (previously IHS Global Insight) escalation factors are positive (i.e., inflation) or negative (i.e., deflation) should have no bearing on the appropriateness of the application of the escalation factors if the purpose of the adjustment is to reflect the impacts of inflation in determining forecasted test year expenses.

Q. DO YOU CONTINUE TO SUPPORT THE ADJUSTMENT RECOMMENDED IN YOUR DIRECT TESTIMONY?

A. Yes, I do. Based on RMP's original filing, my recommended update to the IHS Markit escalation factors reduced RMP's adjusted test year non-labor O&M expenses by $5,421,335. As indicated previously in this testimony, the result of this adjustment is a reduction in the base year non-labor O&M expense of $1,878,768.

Q. IN YOUR DIRECT TESTIMONY, YOU ALSO RECOMMENDED AN ADJUSTMENT TO EXCLUDE CERTAIN EXPENSES FROM RMP'S ESCALATION ADJUSTMENT. DID RMP ADDRESS THIS RECOMMENDATION?

A. Yes. In his rebuttal testimony, at lines 842 – 850, Mr. McDougal indicated that I noted two corrections that needed to be made to the non-labor O&M expense escalation adjustment to remove RMP's escalation of uncollectible expense and the escalation of employee benefit costs that were adjusted elsewhere in RMP's filing. In addressing this issue, Mr. McDougal stated: "Based on the Company's exclusion of all non-labor O&M escalation in rebuttal, the corrections as proposed by Ms. Ramas and Mr. Davis are no longer required." As I continue to recommend that the non-labor O&M expense be escalated based on the updated IHS

Markit escalation factors, these corrections, which were presented in Exhibit OCS 3.13D, are still needed.

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

Q. RMP HAS PROPOSED TO OFFSET THE DEER CREEK MINE CLOSURE COST REGULATORY ASSET WITH AMOUNTS OWED TO RATEPAYERS FOR THE PROTECTED PP&E EDIT AMORTIZATION REGULATORY LIABILITY. COULD YOU PLEASE SUMMARIZE YOUR RECOMMENDED REVISIONS TO THE DEER CREEK MINE CLOSURE REGULATORY ASSET BALANCE?

A. Yes. In my direct testimony, I first reduced RMP's regulatory asset balance by $418,333 to remove the carrying charges that had been applied by RMP to estimated recovery royalty costs that had not yet been paid by RMP. In his rebuttal testimony, at line 1108 through 1115, RMP witness McDougal agreed that the carrying charges should be reduced to exclude the carrying charges that were applied to the recovery royalties, indicating that there was an oversight in the Company's calculation of the carrying charges.

My second recommended reduction to the amount of Deer Creek Mine Closure Regulatory Asset balance to be offset by the Protected PP&E EDIT Amortization Regulatory Liability was to remove the estimated and unpaid recovery-based royalties.

Q. DID RMP AGREE WITH YOUR SECOND ADJUSTMENT TO EXCLUDE THE ESTIMATED RECOVERY-BASED ROYALTIES?

A. No, it did not. In fact, RMP increased the estimated amount of recovery-based royalties that it seeks to offset in this case with the Protected PP&E EDIT Amortization Regulatory Liability, increasing the amount from $5,249,190 to $6,777,197.[14] RMP witness McDougal provided the following explanation for why RMP believes it should be permitted to recover the estimated recovery-based royalties at this time as part of this docket at lines 1130 – 1134 of his rebuttal testimony:

> The Deer Creek Mine was closed in 2014, nearly seven years ago, and nearly all final reclamation activities have been completed. Deferring recovery-based royalties for consideration in a future GRC simply continues to 'kick the can down the road.' This causes intergeneration equity problems by putting the burden of past costs on future ratepayers.

Q. DO YOU HAVE A RESPONSE?

A. Yes, I most certainly do. I first wish to address Mr. McDougal's statement that considering the recovery-based royalties in a future rate case "…continues to 'kick the can down the road.'" This is the first general rate case proceeding for RMP since the Deer Creek Mine Closure regulatory asset was approved by the PSC in its April 29, 2015 Order in Docket No. 14-035-147. If any kicking of the proverbial can occurred, it was RMP that chose when to file for an increase in rates and performed the referenced "kicking."

---

[14] Exhibit RMP__(SRM-2R) at Page 10.24.1 (page 142 of 158).

Additionally, while the mine was closed in 2014, the Company has not yet even begun negotiations with the Office of Natural Resources Revenue (ONRR) to settle the amount of recovery-based royalties that are due to ONRR. As explained in my direct testimony, at lines 1423 through 1456, the amount of recovery-based royalty obligation has not yet been paid and the amount due is not yet known and measurable. I do not agree that these estimated amounts should be offset in this case with the known and measurable Protected EDIT Amortization Regulatory Liability that has previously been paid by RMP's ratepayers. The recovery-based royalties, once known and measurable and actually paid by RMP, could be considered in a future rate case at which time a prudence review can be conducted to ensure that prudent steps were taken in negotiating the amount ultimately owed to the ONRR prior to the recovery of such amounts from ratepayers. As also explained in my direct testimony at lines 1475 – 1497, there is the potential that RMP may receive overriding royalties on coal produced from the Fossil Rock coal reserves that would serve to reduce the regulatory asset associated with the amounts RMP ultimately is required to pay to ONRR for the recovery-based royalties.

Protected Property EDIT Amortization

Q. IN YOUR DIRECT TESTIMONY, AT LINES 1699 THROUGH 1721, YOU EXPLAINED THAT THE ANNUAL AMORTIZATION OF THE PROTECTED PROPERTY-RELATED EDIT LIABILITY FLUCTUATES

ANNUALLY UNDER THE RSGM METHODOLOGY AND DISCUSSED THE IMPACTS OF PLANT RETIREMENTS AND CHANGES IN DEPRECIATION RATES ON THE ANNUAL AMORTIZATION. YOU ALSO RECOMMENDED 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. DID RMP AGREE WITH YOUR RECOMMENDATION?

A. No, it did not. RMP witness McDougal expresses RMP's disagreement with my proposed deferral treatment in his rebuttal testimony at lines 1148 – 1166. Mr. McDougal states on lines 1158 – 1160 that "…to isolate only one component of the revenue requirement and require tracking would not accurately capture and reflect the year to year changes on those assets." He also indicates on lines 1165 – 1166 that "…the Company does not agree with Ms. Ramas's proposal, unless a tracking mechanism were to be established for all revenue requirement components."

Q. DOES RMP'S REBUTTAL TESTIMONY ON THIS ISSUE CAUSE YOU TO CHANGE YOUR RECOMMENDATION?

A. No, it does not. To the best of my knowledge, no parties dispute the fact that the Protected Property-Related EDIT regulatory liability balance is an amount owed to RMP's ratepayers that resulted from the Tax Cuts and Jobs Act. Additionally, no one has disputed the use of the Reverse South

Georgia Method (RSGM) for amortizing the regulatory liability balance. As pointed out in my direct testimony, at lines 1708 – 1710, the amortization of this regulatory liability has fluctuated under the RSGM with the annual amortization being $26.2 million for 2018, $26.4 million for 2019 and $36.9 million for 2020. The annual amortization included in RMP's adjusted 2021 test year is $21,794,547.[15] I continue to recommend that RMP be required to defer the difference between the amortization incorporated in rates for this regulatory liability and the amount actually booked by RMP for consideration in the next rate case.

Q. HAS THE PSC ADDRESSED A SIMILAR ISSUE IN ANOTHER PROCEEDING?

A. Yes. In the recent DEU rate case proceeding, Docket No. 19-057-02, I presented a similar recommendation for the PSC's consideration. DEU is amortizing its plant-related EDIT balance using the Average Rate Assumption Method (ARAM). In that case, I recommended that DEU be required to defer the difference between the actual annual amortization of the plant-related EDIT balance and the amount included in base rates in a regulatory liability account to ensure that DEU's ratepayers receive the full amount of EDIT owed to them. No other parties addressed my recommendation in the docket. In addressing my recommendation, the

[15] Exhibit RMP__(SRM-3) at Pages 7.7 and 7.7.1 (pages 181 and 182 of 467).

PSC found as follows on page 25 of its February 25, 2020 order issued in the docket:

> We find OCS's recommendation is reasonable to ensure neither DEU nor ratepayers unduly benefit from estimating plant-related EDIT in base rates. We direct DEU to track the difference between the annual amortization of plant-related EDIT included in base rates in this case and the actual annual amortization under the ARAM, and provide this information in the next GRC. However, without comment or support from other parties we decline to approve a regulatory liability at this time.

In this proceeding, RMP has commented on, and disagreed with, my recommended deferral of the difference between the actual amortization and the amortization included in base rates for the protected property-related EDIT regulatory liability balance. If the PSC does not adopt my recommendation, then I would recommend that it at least require that the difference be tracked with the information provided by RMP as part of the initial filing in its next rate case.

<u>Utah AMI Project</u>

Q. IN YOUR DIRECT TESTIMONY, YOU RECOMMENDED THAT THE UTAH AMI PROJECT BE REMOVED FROM THE TEST YEAR. IN HIS REBUTTAL TESTIMONY, RMP WITNESS CURTIS B. MANSFIELD STATES THAT YOU RECOMMENDED THE PROJECT BE REMOVED "…BECAUSE THE PROJECT HAS BEEN DELAYED AND IS NOW ANTICIPATED TO BE COMPLETED AFTER THE END OF THE TEST YEAR." IS THIS A CORRECT SUMMARIZATION OF THE REASONS

FOR YOUR RECOMMENDED REMOVAL OF THE PROJECT FROM THE TEST YEAR?

A. No, not really. The project delay was one of several reasons referenced in my direct testimony for recommending that the project be excluded from the test year. The reasons for the recommended removal were addressed at lines 1007 - 1126 of my direct testimony and will not be repeated herein. However, as summarized on lines 1115 - 1126 of that testimony: 1) the average test year plant in service estimates were substantially reduced by RMP; 2) none of the net cost savings RMP estimates to result from the project are included in the test year; 3) net cost savings are not anticipated by RMP until sometime in 2023; 4) the eight benefits identified by RMP associated with the AMI functionality will not be realized during the test year; and 5) none of the eight ways identified by RMP in which AMI will support a more customer driven delivery strategy will be realized during the test year. In short, the project will not be fully used and useful to the benefit of RMP's ratepayers during the test year.

Q. ON LINES 45 – 46 OF HIS REBUTTAL TESTIMONY, MR. MANSFIELD STATES: "MS. RAMAS, BASED ON RESPONSES TO DATA REQUESTS, ANTICIPATES ONLY $12 MILLION OF UTAH AMI PROJECT TO BE PLACED INTO SERVICE ON AN AVERAGE TEST YEAR BASIS." DO YOU PERSONALLY ANTICIPATE THAT $12 MILLION OF THE UTAH AMI PROJECT WILL BE PLACED INTO SERVICE ON AN AVERAGE TEST YEAR BASIS?

A. No. The $12 million average test year balance is an estimate of the updated amount that was provided by RMP, not me. I have no way to know at this point in time if the project has been further delayed beyond the previous amounts provided by RMP in response to discovery or if RMP will actually book components of the total AMI project to plant in service during the test year that would result in an average test year balance of $12 million. At lines 1115 – 1117 of my direct testimony, I stated that "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." I do know that RMP does not project any of its estimated cost savings resulting from the project will be realized during the test year and that the customer benefits and functionality associated with the project are not anticipated to be realized by RMP during the test year.

Q. AT LINES 1057 - 1108 OF YOUR DIRECT TESTIMONY, YOU IDENTIFIED THE EIGHT BENEFITS MR. MANSFIELD INDICATED WOULD RESULT FROM THE AMI FUNCTIONALITY AND EIGHT WAYS THAT MR. MANSFIELD CONTENDS THE AMI PROJECT WOULD ADDRESS CUSTOMER WANTS OR EXPECTIONS. IN THAT TESTIMONY, YOU REFERENCED RMP'S DISCOVERY RESPONSES IN WHICH RMP INDICATED THAT THESE BENEFITS WERE NOT ANTICIPATED TO BEGIN UNTIL 2023. HAS RMP CHANGED ITS

POSITION ON THE TIMING OF THE PURPORTED RATEPAYER BENEFITS?

A. Yes, but only to a very limited degree. At lines 92 – 94 of his rebuttal testimony, Mr. Mansfield states: "For example, the first three benefits stated above are scheduled to be available to residential customers with new AMI meters by the end of 2021 when the Gen5 field network is completed in their neighborhoods." The first three referenced benefits were stated at lines 69 through 77 of Mr. Mansfield rebuttal testimony and include: 1) "Provide customers access to data regarding their hourly energy consumption, which will enable them to make more informed energy decisions"; 2) "Provide better customer service by giving the Company's customer service representatives information necessary to provide accurate responses to customer inquiries and facilitate customer complaint resolution"; and 3) reduction in the number of estimated bills. However, at lines 58 – 60 of his rebuttal testimony, Mr. Mansfield states that "The field network will be substantially complete by the end of 2021 and the system will begin reading the existing automatic meter reading meters soon after." Clearly if any of the purported benefits do in fact begin before the end of the test year, they will be extremely limited.

Additionally, when asked about the date the Gen5 field network will be completed and rolled out and for the anticipated schedule for the completion phases of the Gen5 field network in OCS Data Requests

24.3(a) and (b), RMP stated that “The Gen5 field network is scheduled to be completed in April 2022” and that “While a final, detailed deployment schedule has not been completed, install of the Gen5 field network components is scheduled to begin in February 2021 and completed in April 2022.”

After referencing the asserted test year benefits identified in Mr. Mansfield’s rebuttal testimony, OCS Data Request 24.3(c) posed the following question: “Since some of the benefits are anticipated to begin during the test year, such as better customer service and ability to remotely read bills (i.e., benefits 1 and 3 identified on lines 69 – 77 of the testimony), please explain why none of the anticipated cost savings from the AMI project would begin to be realized during the test year.” The response stated as follows:

> Costs and benefits are calculated on an annual basis. To be conservative in the financial analysis, benefits are not usually stated until the year in which they would be predominately attained.

Clearly RMP’s inclusion of a portion of the AMI project costs in the revised test year rate base while reflecting $0 of RMP’s projected cost savings would result in a mismatch of the project costs and the associated benefits.

Q. DO YOU CONTINUE TO RECOMMEND THAT THE UTAH AMI PROJECT BE EXCLUDED FROM THE TEST YEAR?

A. Yes, I do for the reasons expressed in my direct testimony. Additionally, I note that OCS witness Ron Nelson provided additional reasons for the OCS recommended exclusion of Utah AMI project costs from the test year. My recommended adjustment has been revised based on the updated Utah AMI project costs included in the RMP's rebuttal filing, which substantially reduced the amount included in the original filing. As shown on Exhibit OCS 3.4S, RMP's adjusted test year plant in service should be reduced by $12,449,578, accumulated depreciation should be reduced by $67,903, and accumulated deferred income taxes should be reduced by $199,140. Additionally, RMP's updated adjusted test year depreciation expense should be reduced by $271,809. Each of these amounts are specific to the Utah operations.

<u>Pension Expense</u>

Q. IN ITS INITIAL FILING, RMP INCLUDED THE FULL PROJECTED SETTLEMENT LOSS FOR THE TEST YEAR AS PART OF THE TEST YEAR PENSION EXPENSE. WHAT DID YOU RECOMMEND IN YOUR DIRECT TESTIMONY WITH REGARDS TO THE TREATMENT OF RMP'S PROJECTED SETTLEMENT LOSS?

A. In my direct testimony, at lines 456 – 504, I discussed the factors that cause the settlement loss projected by RMP for the test year. That will not be repeated herein. After describing the factors that cause a settlement loss, I provided my recommended treatment for the settlement loss at lines 507 - 515 of my direct testimony as follows:

> …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.

As explained at lines 516 – 522 of the testimony, this recommendation was consistent with RMP's requested treatment of settlement losses in Docket No. 18-035-48. Under this recommended approach, I reduced RMP's projected 2021 settlement loss to reflect a 21 year amortization of the settlement loss based on the remaining life expectancy of plan participants. I continue to recommend this approach.

Q. SINCE YOUR RECOMMENDATION WAS CONSISTENT WITH THE APPROACH RMP SOUGHT IN DOCKET NO. 18-035-48, DID RMP AGREE WITH YOUR RECOMMENDATION?

A. While indicating RMP's preference for different treatment, Ms. Kobliha explained on lines 47 – 50 of her rebuttal testimony that if its primary and alternative recommendation is not "acceptable", then "…the Company's final option would be as it proposed in Docket No. 18-035-48, which requested the ability to defer and amortize all actual settlement losses going forward." At lines 32 – 37 of her rebuttal testimony, Ms. Kobliha indicated that: "The Commission previously denied the Company's request to defer the impacts of settlement events in its order in Docket No. 18-035-

48, stating that the loss was not unforeseeable or extraordinary and therefore not eligible for deferral between general rate proceedings" and "Based on this view, the Company believes it is appropriate to use the best available information to project pension settlement losses in the test period." At lines 44 – 45 of her rebuttal testimony, Ms. Kobliha states: "The Company's primary recommendation is that base rates reflect pension settlement losses using the information reflected in the test period."

While it is correct that the PSC rejected RMP's requested accounting order for settlement charges in its May 22, 2019 Order in Docket No. 18-035-48, RMP was seeking the change in accounting for the settlement losses outside of the context of a general rate case proceeding in that proceeding. As indicated on lines 527 – 531 of my direct testimony, "It is my opinion that the establishment of deferral accounting associated with the settlement losses (or gains) caused by the annual cash lump sum distributions exceeding the threshold requirement is appropriate for consideration as part of a rate case proceeding."

Q. WHAT ADDITIONAL "ALTERNATIVE" APPROACH DID RMP RECOMMEND IN ITS REBUTTAL FILING?

A. At lines 45 – 47 of her rebuttal testimony, Ms. Kobliha states: "Alternatively, the Company recommends establishing a balancing account with an initial amount reflected in base rates using the pension settlement loss reflected in the test period." This newly proposed balancing account approach will be addressed in the next section of this testimony.

<u>Pension Balancing Account</u>

Q. WHAT IS YOUR UNDERSTANDING OF RMP'S NEW REQUEST FOR A PENSION BALANCING ACCOUNT?

A. In their rebuttal testimonies, RMP witnesses Kobliha (lines 57 -70) and McDougal (lines 1244 – 1266) propose a pension balancing account as an alternative to its initial filing. Under the alternative proposal, RMP would still include the full amount of projected 2021 settlement loss as part of pension expense. Starting with the rate effective date from this case, RMP would then book the difference between the actual annual pension expense and the amount of pension expense included rates to a regulatory asset or regulatory liability account. Ms. Kobliha explains that this new balancing account would include "…on-going net periodic benefit costs of its pension and the other post-retirement plans, pension settlement losses and any other potential settlement or curtailment gains or losses in the plans."

Q. DO YOU RECOMMEND THAT THE PSC ADOPT THIS "ALTERNATIVE" APPROACH AND ESTABLISH A PENSION BALANCING ACCOUNT?

A. No, I do not. This newly proposed "alternative" would result in a substantial shift in how pension costs are treated for ratemaking purposes in Utah. Pensions and other post-retirement benefits have been accounted for using the accrual method of accounting for many, many years. Likewise, the determination of pension expense and other post-retirement benefit expense to include in rates has also been based on the accrual method of accounting for many, many years. During that long timeframe, there has not been a balancing account in place associated with the costs. I do not recommend that now, many years after the transition to accrual accounting, that a balancing account approach be implemented. I do not agree that it would be reasonable to implement a substantial change in the approach for recovering pension and other post-retirement benefit costs based on a proposal offered by RMP so late in these proceedings and less than one month prior to the start of hearings.

While the triggering of settlement losses may occur during the test year and possibly subsequent years due to factors discussed in my direct testimony and the direct testimony of RMP witness Kobliha, the approach recommended in my direct testimony for addressing the potential settlement losses and settlement gains would result in less volatility than the method proposed by RMP. In my direct testimony, I recommended that on a going-forward basis RMP be allowed to defer settlement losses, or settlement gains, that are triggered by the annual lump sum cash distributions exceeding the threshold and to recognize the deferrals as part of annual pension costs over the remaining life expectancy of plan participants. This is how these losses and gains would have been accounted for absent the triggering events causing the need to recognize the settlement losses and/or settlement gains.

As explained in my direct testimony and previously in this testimony, my recommended approach for recognizing the settlement losses in pension expense is consistent with that requested by RMP in Docket No. 18-035-48. Interestingly, in its December 31, 2018 Application in that case, in Section IV – Request for Accounting Order, at page 9, RMP stated as follows:

> …The Company's request is consistent with amortization of actuarial losses and gains in years in which no triggering pension event occurs. The Company's proposal is designed to maintain normalized pension costs and credits and avoid exposing customers to potential volatility from single year 'pension events.'

Net Pension and Post-Retirement Welfare Plan Prepaid Asset

Q. IN YOUR DIRECT TESTIMONY, YOU RECOMMENDED THAT THE NET PREPAID PENSION ASSET AND THE POST-RETIREMENT ASSET CONTINUE TO BE EXCLUDED FROM RATE BASE. DID RMP AGREE WITH YOUR RECOMMENDATION?

A. No, it did not. Ms. Kobliha addressed this issue in her rebuttal testimony. RMP continues to recommend that $252.3 million ($110.3 million Utah) be included in rate base for the net prepaid pension balances and other post-retirement asset balance net of the associated accumulated deferred income tax liabilities.

Q. DID ANYTHING IN MS. KOBLIHA'S REBUTTAL TESTIMONY CAUSE YOU TO CHANGE YOUR RECOMMENDATION ON THIS ISSUE?

A. No, it did not. I continue to recommend that the prepaid pension asset and the post-retirement asset be excluded from rate base for the reasons discussed in my direct testimony at lines 1136 – 1375. Nothing in Ms. Kobliha's rebuttal testimony caused me to change my recommendation on this issue.

Q. ARE THERE ANY STATEMENTS IN MS. KOBLIHA'S REBUTTAL TESTIMONY ON THIS ISSUE THAT YOU WISH TO ADDRESS?

A. Yes. At lines123 – 126 of her rebuttal testimony, Ms. Kobliha states: "While I agree that the Company was in a net accrued pension and other postretirement position in historical periods at which time the net accrued was not presented as an offset to rate base, the Company is proposing only prospective financing costs be included in rates." Additionally, at lines 164 – 169 of her rebuttal testimony, Ms. Kobliha asserts that pension plan funding is "not unlike the Company's investments in property, plant and equipment…" I disagree. In evaluating this issue, the PSC should keep in mind that the amount of prepaid pension asset is the cumulative total over the entire life of the plan of the difference between the amount of pension expense recognized for accounting purposes and the amount of cash contributions made to the plan. It was not until that last Utah rate case that RMP proposed for the first time to include the net prepaid pension assets in rate base even though the current balance is the accumulation of the activity over the entire life of the pension plan. Unlike cash expended on property, plant and equipment, the prepaid pension balance is determined based not only on actual cash contributions to the plan but also by the actuarially determined pension expense. Many assumptions go into the actuarial calculations used to determine the amount of pension expense booked in a given year. Changes from year to year in those actuarial assumptions impact the amount of calculated pension expense and actuarial gains and losses included in the determination. Comparison of the net prepaid pension asset to property, plant and equipment is much too simplistic and not an apples-to-apples comparison.

As explained on lines 1327 through 1361 of my direct testimony, negative pension expense increases the amount of the prepaid pension asset. In years in which RMP recognized negative pension expense for accounting purposes and contributed $0 in cash to the plan assets in the same year, the prepaid pension asset grows. Thus, the amount RMP shareholders would earn a return on would increase even though no cash was contributed to the plan.

Q. AT LINES 170 – 185 MS. KOBLIHA DISCUSSES YOUR CONCERN REGARDING THE DISCRETION RMP HAS WITH REGARDS TO

MAKING CASH CONTRIBUTIONS TO THE PENSION PLAN. CAN YOU PLEASE COMMENT ON THIS SECTION OF HER TESTIMONY?

A. Yes. At lines 177 – 178, Ms. Kobliha states: “While there is flexibility in the level of contributions that can be made to the plans, contributions are subject to certain income tax deductibility limitations.” She also indicates at lines 181 – 183 that “It is in the best interest of both customers and the Company to properly manage its plans to minimize exposure to such taxes and to avoid making contributions in excess of deductibility limits.” This seems to downplay the extent of the flexibility that RMP has regarding the amounts it can contribute to its pension plan assets. OCS Data Request 24.1 asked RMP to provide for each year, 2011 through 2020 year to date, the minimum required funding amount, the maximum allowed funding under the ERISA and IRS provisions, and the actual amount of cash contributions made by the Company. The response and attachment thereto, provided as part of Exhibit OCS 3.5D, demonstrates the wide range of flexibility regarding plan funding. For example, during the period 1/1/2011 to 1/1/2020, the minimum required contribution was $0 in four of the years shown while the maximum deductible contribution amount identified by RMP for each year, 2011 through 2020 ranged from a low of $569,879,267 to a high of $836,498,206.

Q. DOES THIS COMPLETE YOUR PREFILED SURREBUTTAL TESTIMONY?

A. Yes.