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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations.	Docket No. 20-035-04

PETITION OF THE UTAH ASSOCIATION OF ENERGY USERS and THE UNIVERSITY OF UTAH FOR REVIEW OR REHEARING OF COMMISSION ORDER ISSUED DECEMBER 30, 2020

Pursuant to Utah Code §§ 54-7-15 and 63G-4-302, and Rule R746-1-801 of the Utah Administrative Code, the Utah Association of Energy Users ("UAE") and the University of Utah ("University") hereby submit this Petition for Review or Rehearing of the Public Service Commission of Utah's ("Commission") December 30, 2020 Order ("Order") regarding Rocky Mountain Power's ("RMP") general rate case filing. UAE and the University respectfully request that the Commission reconsider, and/or grant rehearing of, its Order to remedy each of the matters discussed herein.

INTRODUCTION

This Petition raises two issues; the first relates to the portion of the Commission's Order regarding revenue requirement associated with pension settlement losses and the second relates to the Commission's Order regarding rate design for Schedule 32 transmission voltage customers. UAE submitted testimony and argument on both issues and supports this Petition with respect to both issues. The University submitted testimony and argument only on the Schedule 32 rate design issue and joins this Petition only with respect to that issue.

Revenue Requirement Associated with Pension Settlement Losses

UAE requests that the Commission reconsider its decision to allow RMP to recover the full amount of RMP's forecast test year pension settlement losses in a single year rather than recovering these costs through a long-term amortization of this expense. Although UAE does not support adoption of the pension settlement loss balancing account ordered by the Commission, UAE is not here requesting that the Commission reconsider its decision to implement a balancing account mechanism for pension settlement losses. However, UAE first seeks reconsideration and rehearing with respect to the Commission's determination to allow RMP to recover the entirety of any year's pension settlement loss in rates in a single year rather than amortizing the recovery of these costs over the life of the pension plan. Second, if the Commission denies UAE's first request, UAE seeks reconsideration or rehearing—or simply clarification—regarding the amount of pension settlement losses that RMP may recover through this balancing account mechanism from year to year.

Rate Design for Schedule 32 Transmission Voltage Customers

UAE and the University raise two issues with respect to the Commission's ruling as it relates to rate design for Schedule 32 transmission voltage customers. First, the Daily Power Charges for Schedule 32 transmission voltage customer appear to result from a mathematical error. Second, UAE and the University request clarification regarding the revenue increase intended by the demand charges set for transmission voltage customers.

ARGUMENT

I. PENSION SETTLEMENT LOSSES

UAE requests that this Commission reconsider and, if necessary, grant a rehearing with respect to the portions of its Order regarding pension settlement losses.[1] As stated in the Order, RMP expects aggregate lump sum cash distributions from its pension plans to exceed a defined threshold in the test year and, as a result of the Financial Accounting Standards Board's Accounting Standards Codification Topic 715 ("FASB Rule"), RMP must immediately recognize a portion of its unrecognized actuarial gains or losses in earnings.[2] The Order asserts that "RMP forecasts Test Year pension losses of $11.9 million."[3] The Order further reflects RMP's preference "to include this full amount as a component of pension expense," which "would remain in rates until the next general rate case," and that the Office of Consumer Services and UAE oppose RMP's preferred treatment and instead recommend that the Commission treat these test year pension

[1] *See id*. at 29-32.
[2] *Id*. at 29.
[3] *Id*. at 30.

settlement losses as a component of pension expense by amortizing them "over the expected remaining life of the Pension Plans," just as RMP had proposed in Docket No. 18-035-48.[4]

UAE raises two issues with the Order as it pertains to pension settlement losses. Although UAE does not support adoption of the pension settlement loss balancing account ordered by the Commission, UAE is not here requesting that the Commission's reconsider its decision to implement such a balancing account mechanism. However, UAE first seeks reconsideration or rehearing with respect to the Commission's determination to allow RMP to recover the entirety of any year's pension settlement loss in rates in a single year rather than amortizing the recovery of these costs over the life of the pension plan in combination with the balancing account mechanism. Second, if the Commission denies UAE's first request, UAE seeks reconsideration or rehearing—or simply clarification—regarding the amount of pension settlement losses that RMP may recover through this balancing account mechanism from year to year.

A. The Balancing Account Should Be Designed to Amortize Pension Settlement Losses Over the Life of the Pension Plan Rather than Recover the Entirety of Any Year's Pension Settlement Loss in Rates in a Single Year

UAE requests that the Commission reconsider its ruling declining to adopt the proposal by UAE and OCS to amortize pension settlement losses over 20 years. The adoption of the settlement loss balancing account and long-term amortization of settlement losses are not mutually exclusive. Moreover, the adoption of the settlement loss balancing account does not negate the sound ratemaking principles for amortizing the recovery of these costs from customers over an extended period rather than imposing a single-year cost burden on customers that is associated with the incurrence of a settlement loss, which is inherently grounded in long-term const considerations.

[4] *Id*.

The Commission should reconsider its decision not to adopt UAE's amortization recommendation for pension settlement losses for several reasons.

First, the Order misstates the implications of adopting UAE's recommendation when it states that "requiring the settlement losses to be amortized as the OCS and UAE recommend would be ignoring the fact that the settlement losses occurred."[5] Amortizing settlement losses over 20 years does ***not*** have the effect of ignoring that the settlement losses occurred. Rather, UAE recommends that the losses be fully recognized in rates but simply recovered over 20 years, starting Jan. 1, 2021.[6] During this time, the amortization expense would be recovered in rates and the unamortized balance would appear as a regulatory asset in rate base, earning RMP's approved weighted average cost of capital.[7] This is sound ratemaking, as the amortization approach smooths the effects of the settlement loss over the expected life of the plan participants. This is exactly what happens when settlement costs do not exceed the FASB accounting threshold and is exactly what RMP requested when it sought deferred accounting for pension settlement losses in Docket No. 18-035-48.

Second, from a cost causative standpoint, settlement losses are related to long-term obligations to retired employees, and the cost recovery mechanism should match the nature of these costs. Settlement losses are incurred when pension plan participants elect lump-sum distributions that exceed a defined threshold.[8] The election of a lump-sum distribution is the

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[5] *Id*.
[6] See UAE Exhibit RR 1.10, p.3.
[7] UAE did not include a regulatory asset return in this proceeding because the 2021 settlement loss is booked on the last day of the test period. However, in future rate cases the unamortized balance would be included in rate base.
[8] Direct Testimony of Nikki L. Kobliha at 607-610.

payout of a pension benefit that has accrued to a Company employee after years of employment. It front-loads a pension payout that would have otherwise been made over the participant's remaining lifetime. From a cost causative standpoint, such a payout is an inherently long-term proposition. Requiring customers at any point in time to absorb the full cost of such settlement losses in a single year is incongruent with the matching principle in ratemaking. The irregularity of singular settlement loss events is recognized in the Commission's own finding that pension settlement losses "are a uniquely unpredictable and volatile accounting phenomenon," and are "not sufficiently representative of the costs RMP is likely to incur in subsequent years owing to the contingent and binary nature of Pension Settlement Adjustments."[9] The most appropriate ratemaking treatment for such irregular events that are rooted in long-term cost obligations is to smooth them out over time through an amortization approach. The Commission should have determined that forecast test year settlement losses may be treated as a regulatory asset in rate base and amortized over the expected life of the plan participants, even in conjunction with a balancing account.

Under such an approach, the balancing account would track the actual settlement losses incurred in any year. Each year, 5% of the balancing account would be amortized. The initial amortization expense would be Utah's share of the $0.595 million total Company amortization expense proposed by UAE. RMP would earn its weighted average cost of capital on the average annual unamortized balance. The amount of amortization expense that is recovered in rates would be reset each general rate case.

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[9] *Id*. at 31.

Adoption of UAE's recommendation to amortize pension settlement losses combined with the Commission's proposed balancing account mechanism would require RMP to submit a filing any time the FASB Rule triggers a Pension Settlement Adjustment and, in this manner, the Commission could identify new regulatory assets to be amortized. In such an event, the balancing account or tracking mechanism would identify pension settlement losses when they occur and amortize the associated expense over a 20-year period. If there are additional settlement losses in the future, this tracking mechanism would be used to add the expense associated with those pension settlement losses to the balancing account and amortize them accordingly. This process does not require rate changes between now and the next general rate case. The Commission would simply direct RMP to add or subtract to the balancing account and then reset the going-forward amount of amortization expense to be recovered in rates in the next general rate case.

This is what RMP requested in Docket No. 18-035-48 and what UAE and others indicated in that docket they would support if RMP made the same request in the next general rate case. Such a tracking mechanism combined with UAE's recommendation would ensure that RMP is made whole in the event that it experiences pension settlement losses in 2021 or any other year, but also protects customers from paying excessive rates that recover expenses associated with long-term cost obligations in a single year.

A balancing account or other tracking mechanism for Pension Settlement Adjustments is entirely consistent with UAE's recommendation to treat such losses like other pension settlement expenses by converting them to a regulatory asset to be amortized over the remaining life of the plan participants.

UAE recommends that the Commission reconsider its ruling regarding pension settlement losses and adopt the recommendation put forward by UAE and OCS.

B. <u>If the Commission Rejects UAE's First Request for Reconsideration, the Commission Should Clarify the Amount of Pension Settlement Losses to be Recovered in Rates</u>

If the Commission declines to adopt UAE's first Request for Reconsideration as discussed above, UAE seeks reconsideration, rehearing, and/or clarification as to the amount of test year pension settlement losses that RMP is allowed to recover in rates. If there is to be a balancing account and "true up" mechanism associated with pension settlement losses, the Company and the parties require clarity regarding the base revenue requirement associated with pension settlement losses included in rates as well as the intended operation of the true-up. The Order notes that "RMP forecasts Test Year pension losses of $11.9 million."[10] This statement is true, but RMP did not propose to include in pension expense all of that $11.9 million in forecast pension settlement losses. Rather, while RMP projects $11.9 million (Total Company) in 2021 pension settlement losses, RMP's request was to include $7.9 million (Total Company) of this forecasted settlement loss in pension expense and to capitalize the remaining balance.[11] The only portion that should be included in the balancing account is Utah's share of the Total Company pension settlement losses that are being expensed.

Identifying the amount of pension settlement loss actually being expensed is important for the additional reason that this amount will set the baseline for the balancing account and tracking mechanism established by the Commission. If the Commission declines to reconsider its decision

[10] *Id*. at 30.
[11] *See* Phase I Direct Testimony of Kevin C. Higgins at lines 705-710; UAE Exhibit RR. 1.10.

with respect to UAE's recommendation regarding amortization of pension settlement losses, the balancing account for Pension Settlement Adjustments would be used to determine whether base rates have charged Utah customers the correct amount for the amount of pension settlement losses that have been expensed. The Commission would, therefore, need to identify the amount of forecast test year pension settlement loss to be included in pension expense so that, in a future balancing account proceeding, parties can compare that number to the amount actually expensed.

Further, the Order does not detail the "true up" process the Commission envisions for the balancing account. UAE assumes that the Commission intends for RMP to open a docket each year after 2021 in which a Pension Settlement Adjustment either does not occur or results in pension settlement losses other than those forecast for the test year, and that the result of that docket will be to include a rider on customer bills that adjusts RMP's level of recovery based on the level of pension settlement losses in the previous year. If the Commission intends some other process, UAE requests that the Commission clarify and detail its intentions. The Order does not provide sufficient guidance to the parties on that matter and will likely lead to disagreements about how this mechanism should be implemented.

II. SCHEDULE 32 RATE DESIGN FOR TRANSMISSION VOLTAGE CUSTOMERS

UAE and the University respectfully request that the Commission reconsider the portion of the Order regarding rate design for Schedule 32 transmission voltage customers.[12] The Commission declined to adopt either the Schedule 32 rate design proposal offered by RMP or the proposal offered by UAE and the University, finding that these proposals required support from a

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[12] *See id*. at 86-90.

Cost of Service study that could not be completed due to a lack of data.[13] Instead, the Commission sought to maintain in new rates the same approximate revenue ratio of the Schedule 32 Delivery Facilities Charges ("DFC") to Daily Power Charges ("DPC") as existed in rates as of the rate case filing, which the Commission calculated to be 55/45.[14] Using this 55/45 ratio, along with RMP's pricing model (Exhibit RMM-1SR, filed by RMP on November 12), and "the target rate change for Schedule 32 approximately equal to the amount to be collected in rates," the Commission "calculate[d] a DFC of $4.35 and DPCs of $0.71 and $0.61."[15]

UAE and the University do not herein challenge the Commission's decision not to adopt their proposed rate design for Schedule 32, do not challenge the Commission's Order as it relates to rate design for Schedule 32 primary and secondary distribution customers, and do not challenge the Commission's adoption of the 55/45 demand charge revenue ratio. UAE and the University raise two issues with respect to the Commission's ruling as it relates to rate design for Schedule 32 transmission voltage customers. First, the DPC rates for Schedule 32 transmission voltage customer in the Order appear to result from a mathematical error. Second, UAE and the University request clarification regarding the revenue increase intended by the demand charges set for transmission voltage customers.

A. The Daily Power Charges for Schedule 32 Transmission Voltage Customers May Result from a Mathematical Error

UAE and the University respectfully request that the Commission reconsider the summer and winter DPC set in the Order for Schedule 32 transmission voltage customers, which appear to

[13] *See id*. at 88-89.
[14] *See id*. at 89.
[15] *See id*. at 89 (indicating Commission's use of "the information presented in RMP's pricing model, RMP Exhibit RMM-1SR, filed on November 12, 2020.").

be the result of a mathematical error. As noted above, UAE and the University do not herein challenge the Commission's determination to maintain a forecast revenue ratio of 55/45 between DFC and DPC revenues or the use of RMP's pricing model updated for the decisions in this case.

In this docket, RMP proposed to ensure that Schedule 32 demand rates were designed to recover the same level of cost as the combination of Facilities and Power demand charges applicable to full requirements rate schedules by utilizing a formula set forth in the Schedule 32 tab of its pricing model,[16] a concept in which the Company, UAE, and the University were all in agreement.[17] This formula was also utilized by RMP and UAE witnesses to support the various Schedule 32 rate design proposals in this docket.[18] The formula is designed to allow the user to start with the total facilities charges and monthly demand charges for the full rate requirements schedules and then back out the desired Schedule 32 DFC, which then yields the correct DPC for summer and winter months. Utilizing this formula and inputting the DFC charges identified in the Order for Schedule 32 primary and secondary distribution voltage customers, and the corresponding Schedules 6 and 8 facilities and power charges, yields the DPC charges set in the Order for those Schedule 32 customers.[19] In other words, the DFC and DPC charges for Schedule 32 <u>distribution</u> voltage customers are properly calculated to recover the same level of cost as the combination of the Facilities and Power demand charges associated with demand service for Schedules 6 and 8 customers.

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[16] *See* RMP Exhibit RMM-1SR (Tab labeled "Sch32 COS").
[17] *See* Rebuttal Testimony of Robert Meredith at 1009-1011, Direct Testimony of Justin Bieber at 365-367, Direct Testimony of Chris Benson at 367-369.
[18] *See, e.g.*, Robert Meredith rebuttal workpaper titled "Table 6 – Sch 32 Demand-Related Pricing" (Tab titled "RMP Proposed Schedule 32"); UAE Direct COS Exhibit 2.3.
[19] *See* UAE Petition for Review Exhibit 1.2 (Tab "DPC Calcs" at Columns B-E).

This is not the case for Schedule 32 transmission voltage customers. Starting with the Schedule 9 facilities and power charges and then backing out the $4.35 per kW DFC set by the Commission in the Order yields a summer DPC of $0.68 per kW and a winter DPC of $0.59 per kW.[20] As such, the summer DPC of $0.71 per kW and the winter DPC of $0.61 per kW as set in the Order are 3 and 2 cents, respectively, higher than they should be with a DFC of $4.35 per kW. Utilizing the forecast billing units in the pricing model, a DFC of $4.35 and DPCs of $0.68 and $0.59 would yield a forecast revenue ratio that is closer to the 55/45 ratio than the rates identified in the Order.[21] These adjusted DPCs would still yield approximately the same revenue increase over current charges and would still represent an increase to Schedule 32 transmission voltage demand charges that is greater than 15%.[22]

The Commission's method of calculating the DPCs set forth in the Order is unclear. It appears, however, that the Commission either failed to utilize the same formula for transmission voltage customers as it did for distribution voltage customers (and which had been utilized by all parties in proposing Schedule 32 rate designs in this docket) or utilized the formula incorrectly. In either event, UAE and the University respectfully request that this Commission reconsider its Order as it pertains to the DPCs for Schedule 32 transmission voltage customers and order a summer DPC of $0.68 per kW and a winter DPC of $0.59 per kW. Using the calculations in the Company's Schedule 32 tab of its pricing model, these DPC rates in combination with the $4.35 DFC set by the Commission in the Order, would add up to the total facilities and power charges

[20] *See id*. at Column G.
[21] *Compare* UAE Petition for Review Exhibit 1.1 (Tab "RevSum") Cells G:16-17 *with* Cells J:16-17.
[22] *See id*. at Cell K:12.

that full requirements customers would otherwise pay, a concept in which the Company, UAE, and the University were all in agreement. It would also result in a ratio of DFC to DPC revenues that is closer to the 55/45 ratio identified in the Order than the ratio that results from the rates set by the Commission.

B. <u>UAE and the University Request Clarification Regarding the Revenue Increase Sought from the Demand Charges for Transmission Voltage Customers</u>

UAE and the University request clarification regarding the revenue increase the Commission intends for RMP to collect from Schedule 32 transmission voltage customers as a result of the demand charges set in the Order. The Commission approved a 2.65% increase in rates to Schedule 32 transmission voltage customers, which it stated in the Order was an "approximately $300,000 increase."[23] UAE and the University agree that Schedule 32's rates must cover its assigned revenue increase, consistent with the increase to Schedule 9 rates. However, UAE and the University seek clarification with respect to the Commission's conclusion that a 2.65% increase yields an "approximately $300,000 increase" to the revenue that RMP will collect from Schedule 32 customers. It is unclear how a $300,000 increase in revenue is consistent with the assigned revenue increase for Schedule 32.

The increase to the DFC and DPC for Schedule 32 transmission voltage customers set forth in the Order will increase the Schedule 32 revenue collected from those customers by 17%.[24] UAE and the University have not been able to recreate the Commission's calculations that support an approximately $300,000 revenue increase based on a 2.65% rate increase. Utilizing the billing

[23] Order at 88 ("[I]t "it would not be reasonable to maintain the status quo of Schedule 32 in light of the revenue requirement and spread decisions we approve in this case, including a 2.65%, or approximately $300,000 increase, to Schedule 32.").
[24] *See* UAE Petition for Review Exhibit 1.1 (Tab "RevSum" at Cell H:15).

determinants in RMP's pricing model, the Commission may have inadvertently included costs associated with the "Renewable Energy PPA," which are *not* RMP revenues and should *not* be included in calculating a revenue increase for Schedule 32 customers. That cost is paid to the developer of the renewable energy facility and is *not* revenue to RMP.[25]

The pricing model includes revenues associated with the Renewable Energy PPA in the "subtotal" of forecast revenues for Schedule 32 transmission voltage customers and states that this "subtotal" is $11,605,048.[26] This "subtotal" in the pricing model includes $9,885,782 in expected costs that the Schedule 32 customer will pay to the developer for energy received from the Renewable Energy PPA.[27] As a result, this "subtotal" includes costs that are not revenues to RMP and should not be included in any calculation intended to identify the amount of revenue increase that results from a percentage rate increase to transmission voltage customers. A 2.65% increase to this "subtotal" would yield an increase of $307,534. If this is the manner in which the Commission calculated the "approximately $300,000 increase" in revenue from a 2.65% increase in rates, then this calculation overstates the revenue increase required from Schedule 32 transmission voltage customers.

To the extent that the Commission's rate design determination for Schedule 32 transmission voltage customers was based on a revenue increase that included revenues for the Renewable Energy PPA, UAE and the University respectfully request that the Commission

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[25] Contractual arrangements between RMP and a Schedule 32 customer may result in the customer paying those amounts to RMP and then requiring RMP to pay those amounts on to the developer of the renewable energy facility, but these are not revenues to RMP that should be accounted for when considering RMP's revenue requirement.
[26] *See* RMP Exhibit RMM-1SR ("Blocking-Step2" tab) at Cell I:2587. This subtotal does not include revenues from supplemental energy, which is supplied at Schedule 9 rates.
[27] *See id* at Cell I:2585

reconsider that determination. If the Commission determined that a 2.65% increase to Schedule 32 transmission voltage customers should yield an additional $300,000 to RMP in a manner that is different than described above, UAE and the University request clarification of that determination so that they can understand the source of this target revenue increase.

Based on the foregoing, UAE and the University respectfully request that the Commission reconsider or provide clarification regarding this portion of its Order.

CONCLUSION

Based on the foregoing, UAE requests that the Commission reconsider and/or provide clarification regarding the portions of its Order related to pension settlement losses to the demand charges for Schedule 32 transmission voltage customers.

DATED this 29th day of January 2021.

Respectfully submitted

By: /s/ ______________________________

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CERTIFICATE OF SERVICE
Docket No. 20-035-04

I hereby certify that a true and correct copy of the foregoing was served by email this 29th day of January 2021 on the following:

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