

April 20, 2021

***VIA ELECTRONIC FILING***

Utah Public Service Commission  
Heber M. Wells Building, 4<sup>th</sup> Floor  
160 East 300 South  
Salt Lake City, UT 84114

Attention: Gary Widerburg  
Commission Administrator

RE: **Docket No. 21-035-14 – In the Matter of the Application of Rocky Mountain Power to Establish a Balancing Account for Pension Settlement Adjustments**

Pursuant to the Scheduling Order and Notice of Hearing issued March 11, 2021 in the above referenced docket, Rocky Mountain Power (the “Company”) hereby submits for filing its direct testimony to establish a Pension Settlement Adjustment Balancing Account.

The Company respectfully requests that all formal correspondence and requests for additional information regarding this filing be addressed to the following:

By E-mail (preferred): [datarequest@pacificorp.com](mailto:datarequest@pacificorp.com)  
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By regular mail: Data Request Response Center  
PacifiCorp  
825 NE Multnomah, Suite 2000  
Portland, OR 97232

Informal inquiries may be directed to Jana Saba at (801) 220-2823.

Sincerely,



Joelle Steward  
Vice President, Regulation

**CERTIFICATE OF SERVICE**

Docket No. 21-035-14

I hereby certify that on April 20, 2021, a true and correct copy of the foregoing was served by electronic mail to the following:

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Mary Penfield  
Adviser, Regulatory Operations

Rocky Mountain Power  
Docket No. 21-035-14  
Witness: Nicholas L. Highsmith

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

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Direct Testimony of Nicholas L. Highsmith

April 2021

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name, business address, and present position with PacifiCorp**  
3 **dba Rocky Mountain Power (“the Company”).**

4 A. My name is Nicholas L. Highsmith, and my business address is 1407 W. North Temple,  
5 Suite 330, Salt Lake City, Utah 84116. I am currently employed as Revenue  
6 Requirement Manager.

7 **Q. Please summarize your education and business experience.**

8 A. I earned a Master of Business Administration and a Bachelor of Science degree in  
9 Finance from Weber State University. In addition to my formal education, I have also  
10 attended several utility accounting, ratemaking, and leadership seminars and courses. I  
11 have been employed with PacifiCorp since July 2013 and held various positions in  
12 regulation and finance.

13 **Q. What are your current responsibilities as Revenue Requirement Manager?**

14 A. My primary responsibilities include overseeing the calculation of PacifiCorp’s revenue  
15 requirement and the preparation of various regulatory filings in Utah, Idaho, and  
16 Wyoming. I am also responsible for the calculation and reporting of PacifiCorp’s  
17 regulated earnings and the application of the inter-jurisdictional cost allocation  
18 methodologies.

19 **Q. Have you submitted testimony in any previous regulatory proceedings?**

20 A. Yes, I have provided testimony with the Wyoming Public Service Commission;  
21 however, have not previously filed or submitted testimony with the Public Service  
22 Commission of Utah (“Commission”).

23 **II. PURPOSE OF TESTIMONY**

24 **Q. What is the purpose of your direct testimony?**

25 A. The purpose of my testimony is to explain and support the Company’s proposal for the  
26 Pension Settlement Adjustments Balancing Account (“PSABA”). Specifically, I will  
27 provide background on how this account was established, explain the proposed  
28 calculation to accurately true-up annual differences between the actual pension  
29 settlement losses and the amount recovered in rates, and present an illustrative example  
30 of the calculation and future reporting requirements.

31 **Q. What is the Pension Settlement Adjustments Balancing Account?**

32 A. In the Company’s most recent general rate case, Docket No. 20-035-04 (“2021 GRC”),  
33 the Commission approved the creation of a PSABA to track and true-up, on an annual  
34 basis, the pension settlement adjustments with the amount included in rates. To  
35 establish the PSABA, the Company was directed to initiate this proceeding before the  
36 Commission.<sup>1</sup>

37 **III. PENSION SETTLEMENT LOSSES**

38 **Q. What is a pension settlement loss?**

39 A. Accounting guidance provides for delayed recognition of certain gains and losses.  
40 These unrecognized costs include an accumulation of past actuarial gains and losses  
41 that result from changes in actuarial assumptions, such as the discount rate, and the  
42 difference between expected and actual experience. Under the Financial Accounting  
43 Standards Board’s Accounting Standards Codification Topic 715-30, the majority of

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<sup>1</sup> *Application of Rocky Mountain Power for Authorization to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket 20-035-04, Order at 32 (December 30, 2020) (“2021 GRC Order”).

44 the Company's unrecognized net loss is currently amortized over approximately  
45 20 years, or the average remaining life expectancy of plan participants. A pension  
46 settlement loss occurs when the aggregate lump sum cash distributions in a calendar  
47 year exceed a defined threshold (service cost plus interest cost) and requires an  
48 immediate recognition of a portion of the unrecognized actuarial gains or losses. If not  
49 for this requirement, such portion of the net actuarial loss would otherwise be amortized  
50 over the average remaining life expectancy of plan participants.

51 **Q. Was a pension settlement loss included in the January 1, 2021 to December 31,**  
52 **2021 "Test Period" in the 2021 GRC?**

53 A. Yes. Using actuarial projections, a forecasted pension settlement loss of \$11.9 million,  
54 on a total-Company basis, was included in the Test Period for the 2021 GRC.

#### 55 **IV. PENSION SETTLEMENT LOSS CAPITALIZATION**

56 **Q. How was the \$11.9 million pension settlement loss accounted for in the 2021 GRC?**

57 A. To adjust for and capture the forecasted pension settlement loss of \$11.9 million, the  
58 Company included this amount as part of the total wage and employee benefit expense  
59 adjustment in the 2021 GRC. The Company then uses historical data to calculate the  
60 ratio of wages and employee benefits that are expensed versus capitalized.

61 **Q. Would you like to clarify how pension expense was included in the revenue**  
62 **requirement in the 2021 GRC?**

63 A. Yes. Like other wage and benefit items, a portion of the \$11.9 million settlement loss  
64 included in the 2021 GRC was assumed to be capitalized, which resulted in  
65 \$7.9 million, total-Company, of pension settlement loss expense included in the  
66 revenue requirement. The Company assumed approximately 33.3 percent, or

67 \$4.0 million, of the loss would be capitalized based on the historical treatment of wages  
68 and benefits expenses but did not consider the change in accounting rules<sup>2</sup> that requires  
69 capitalization of service cost only.

70 **Q. How does the change in accounting rules of the pension settlement loss affect your**  
71 **proposal in this docket?**

72 A. The accounting rule change does not impact the PSABA; however, only \$7.9 million  
73 of the \$11.9 million projected settlement loss was included in base rates.<sup>3</sup> Therefore,  
74 the starting balance for the pension balancing account should be \$7.9 million.

75 **Q. Will a percentage of actual pension settlement losses ever be capitalized?**

76 A. No. Based on the accounting guidance changes discussed previously in my testimony,  
77 all pension settlement losses are recognized and expensed in the period which they  
78 occur (absent deferral accounting) and no amounts are subject to capitalization. No  
79 portion of historical pension settlement losses in the rate case were capitalized since  
80 the accounting changes became effective January 1, 2018.

## 81 **V. PENSION SETTLEMENT ASSET BALANCING ACCOUNT**

82 **Q. Please describe the proposed calculation of the PSABA.**

83 A. The Company proposes a calculation based on the language in the 2021 GRC Order,  
84 which states: "...[the Company] will establish a balancing account and true-up, on an  
85 annual basis, the Pension Settlement Adjustments that it actually recognizes with the  
86 amount it recovered in rates."<sup>4</sup> As such, the Company will calculate, on an annual

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<sup>2</sup> Accounting Standards Codification Topic 715-30-35-7A states "The service cost component shall be the only component of net periodic pension cost eligible to be capitalized as part of the cost of inventory or other assets." This was effective January 1, 2018 under the Financial Accounting Standards Board's Accounting Standards Update No. 2017-07.

<sup>3</sup> 2021 GRC at Exhibit RMP\_\_ (SRM-3) at Page 4.2.2.

<sup>4</sup> 2021 GRC Order at 32.

87 basis, the difference between the amount of Utah-allocated pension settlement loss  
88 collected in-rates versus the Utah-allocated amount expensed. Any differences will be  
89 deferred to a regulatory asset or regulatory liability with an annual carrying charge at  
90 the Commission-approved customer deposit rate under Schedule No. 300.

91 **Q. How does the Company propose to collect or refund differences between pension**  
92 **settlement losses in-rates and the amount expensed?**

93 A. The Company will continue to defer any differences booked into the regulatory asset  
94 or regulatory liability until the rate treatment is determined via a separate proceeding  
95 or general rate case. If a material balance is reached in either the regulatory asset or  
96 regulatory liability, the Company would initiate a proceeding to present its proposal  
97 for regulatory treatment, which may include a new tariff to amortize the balance;  
98 otherwise, the balance will be addressed in the next general rate case.

99 **Q. How will the Utah-allocated balance be determined in the PSABA?**

100 A. The Company will use the allocation factors as approved in the most recent general  
101 rate case—currently the 2021 GRC—to determine the Utah-allocated balance.

102 **Q. Will the Commission and interested parties be informed of the current balance**  
103 **in the PSABA regulatory asset/liability?**

104 A. Yes. The Company will report the total regulatory asset or regulatory liability balance  
105 in the Pension SABA each year on or about May 15<sup>th</sup>. Included in the report will be a  
106 detailed calculation showing the difference of the Utah-allocated pension settlement  
107 loss in-rates and Utah-allocated amount expensed, as well as the calculation of the  
108 carrying charge. An illustrative example of the calculation and report that would be  
109 filed annually is provided as Exhibit RMP\_\_(NLH-1).



110 Q. **Does this conclude your direct testimony?**

111 A. Yes.

Rocky Mountain Power  
Exhibit RMP\_\_ (NLH-1)  
Docket No. 21-035-14  
Witness: Nicholas L. Highsmith

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

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Exhibit Accompanying Direct Testimony of Nicholas L. Highsmith  
Pension Settlement Adjustments Balancing Account Example

April 2021

Rocky Mountain Power  
 Exhibit RMP (NLH-1)  
 Utah Pension Settlement Adjustments Balancing Account

Line No.	Description	Reference	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	Footnotes:
1	Actual Pension Settlement Loss		\$ 11,900,000	\$ 5,000,000	\$ 15,000,000	\$ -	\$ 7,000,000	(1)
2	Utah System Overhead Allocation Factor	Doc. No. 20-035-20	43.569%	43.569%	43.569%	43.569%	43.569%	(1)
3	Actual Utah-Allocated Pension Settlement Loss	Ln 1 x Ln 2	\$ 5,184,769	\$ 2,178,474	\$ 6,535,423	\$ -	\$ 3,049,864	
4	Settlement Losses Recovered In-Rates	Doc. No. 20-035-04	11,900,000					(2)
5	Assumed Capitalized Rate	Doc. No. 20-035-04	33.35%					
6	Utility Labor Portion (Expense In-Rates)	Ln 2 x (1 - Ln 3)	\$ 7,931,718	\$ 7,931,718	\$ 7,931,718	\$ 7,931,718	\$ 7,931,718	
7	Utah System Overhead Allocation Factor	Doc. No. 20-035-04	43.569%	43.569%	43.569%	43.569%	43.569%	
8	Utah-Allocated Pension Settlement Loss In-Rates	Ln 6 x Ln 7	\$ 3,455,809	\$ 3,455,809	\$ 3,455,809	\$ 3,455,809	\$ 3,455,809	
9	<b>Regulatory Asset/Liability</b>							
10	Beginning Balance - Deferred Amount	Ln 13 + Ln 3 - Ln 8	\$ 1,728,960	\$ 509,935	\$ 3,605,052	\$ 258,836	\$ (139,240)	
11	Carrying Charge Annual Rate	Ln 14 or Ln 15	3.37%	3.04%	3.04%	3.04%	3.04%	(3)
12	Carrying Charge	Ln 10 x Ln 11	\$ 58,309	\$ 15,502	\$ 109,594	\$ 7,869	\$ (4,233)	
13	Ending Deferral Balance	Ln 10 + Ln 12	\$ 1,787,269	\$ 525,437	\$ 3,714,645	\$ 266,705	\$ (143,472)	(4)
<b>Carrying Charge Rates</b>								
14	Carrying Charge Rate (Jan 2021 - Mar 2021)		4.37%					(3)
15	Carrying Charge Rate (Apr 2021- Present)		3.04%					(4)

FOOTNOTES:

- 1) The Company provides this exhibit strictly for illustrative purposes only. Not intended to show actual projected future settlement loss amounts.
- 2) In Docket No. 20-035-04, the forecasted settlement loss of \$11.9 million was included in the Wage and Employee Benefit adjustment and therefore a portion of the loss was capitalized.
- 3) The carrying charge of 4.37 percent applied to January 2021 through March 2021.
- 4) The carrying charge of 3.04 percent applied to April 2021 through 2025. The actual carrying charge rate used will be the customer deposit interest rate set in Schedule No. 300.