

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Application of	)	Docket No. 21-035-14
Rocky Mountain Power to Establish a	)	
Balancing Account for Pension	)	Direct Testimony of
Settlement Adjustments	)	Donna Ramas
	)	For the Office of
	)	Consumer Services

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**CONFIDENTIAL**

**CONFIDENTIAL INFORMATION INCLUDED**

Subject to Rule 746-100-16

June 22, 2021

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1           **INTRODUCTION**

2   **Q.    WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

3   A.    My name is Donna Ramas. I am a Certified Public Accountant licensed in  
4       the State of Michigan and Principal at Ramas Regulatory Consulting, LLC,  
5       with offices at 4654 Driftwood Drive, Commerce Township, Michigan  
6       48382.

7   **Q.    HAVE YOU PREPARED A SUMMARY OF YOUR QUALIFICATIONS  
8       AND EXPERIENCE?**

9   A.    Yes. I have attached Appendix I, which is a summary of my regulatory  
10       experience and qualifications.

11   **Q.    WHAT IS THE SUBJECT OF YOUR TESTIMONY AND ON WHOSE  
12       BEHALF ARE YOU APPEARING?**

13   A.    I was asked by the Utah Office of Consumer Services (OCS) to review  
14       Rocky Mountain Power's (RMP) application to establish a balancing  
15       account for pension settlement adjustments. Accordingly, I am appearing  
16       on behalf of the OCS.

17   **Q.    ARE YOU PRESENTING ANY EXHIBITS IN SUPPORT OF YOUR  
18       TESTIMONY?**

19   A.    Yes. Exhibit OCS 1.1D is being provided with this testimony, which  
20       consists of responses to data requests referenced in this testimony.

21   **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

22 A. I first explain why a balancing account is being established in this  
23 proceeding and provide some relevant background on the balancing  
24 account from the most recent RMP general rate case proceeding. I then  
25 present the OCS's recommended approach for calculating the balances to  
26 be included in the Pension Settlement Adjustments Balancing Account,  
27 herein after referred to as the PSABA, as well as the OCS's  
28 recommended approach for the collection or refund of balances in the  
29 PSABA. Finally, I explain why the balancing account calculation  
30 methodology proposed by RMP in this proceeding should be rejected.

31 **BACKGROUND**

32 **Q. CAN YOU FIRST EXPLAIN WHY A PSABA IS BEING ESTABLISHED**  
33 **AT THIS TIME?**

34 A. Yes. In the Public Service Commission's (PSC) December 30, 2020  
35 Order issued in RMP's recent general rate case proceeding, Docket No.  
36 20-035-04, RMP was directed to initiate a proceeding to establish a  
37 balancing account for Pension Settlement Adjustments. In issuing this  
38 directive, the Order, at page 32, stated as follows:

39 In sum, RMP may recover the \$11.9 million in settlement losses it  
40 anticipates incurring during the Test Year in rates effective January  
41 1, 2021. However, RMP will establish a balancing account and true-  
42 up, on an annual basis, the Pension Settlement Adjustments that it  
43 actually recognizes with the amount it recovered in rates. Our  
44 conclusions here are sufficient to resolve the issue as regards rates  
45 to be effective January 1, 2021. We direct RMP to initiate a

46 proceeding before the PSC on or before March 1, 2021 to establish  
47 the balancing account.<sup>1</sup>  
48

49 Ordering Paragraph 9, found at page 96 of the 2021 GRC Order, also  
50 states: "RMP shall initiate a proceeding by March 1, 2021 to establish a  
51 balancing account for pension settlement losses." Thus, the PSABA is  
52 being established as a result of the PSC directive.

53 **Q. WHAT AMOUNT WAS INCLUDED IN THE RECENT GENERAL RATE**  
54 **CASE FOR PENSION SETTLEMENTS?**

55 A. RMP's filing included \$11.9 million in the projected test year ending  
56 December 31, 2021 (2021 Test Year) for forecasted pension settlement  
57 losses on a total RMP basis. To the best of my knowledge, no party  
58 disputes this fact. The PSC specifically approved the inclusion of the  
59 \$11.9 million of forecasted pension settlement losses in rates, stating: "In,  
60 sum, RMP may recover the \$11.9 million in settlement losses it anticipates  
61 incurring during the Test Year in rates effective January 1, 2021."<sup>2</sup>

62 **Q. WAS ADDITIONAL INFORMATION SUBMITTED IN THE RATE CASE**  
63 **DOCKET AFTER THE 2021 GRC ORDER WAS ISSUED CONFIRMING**  
64 **THAT \$11.9 MILLION OF FORECASTED PENSION SETTLEMENT**  
65 **LOSSES WAS INCORPORATED IN RMP'S RATE CASE FILING AND**

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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 No. 20-035-04, Order at 32 (Utah P.S.C., December 30, 2020) ("2021 GRC Order")*

<sup>2</sup> *Id.*

66           **THAT THE PSC APPROVED THE INCLUSION OF THE \$11.9 MILLION**  
67           **OF FORECASTED PENSION SETTLEMENT LOSSES IN THE RATES**  
68           **EFFECTIVE JANUARY 1, 2021?**

69    A.    Yes. On January 29, 2021, the Utah Association of Energy Users (UAE)  
70           and the University of Utah jointly filed a Petition for Review or Rehearing  
71           of the Order that asked, in part, for the PSC to clarify portions of the  
72           December 30, 2021 Order pertaining to the ratemaking treatment of  
73           RMP’s forecasted pension settlement losses included in the test year. On  
74           the same day, the OCS filed a Joinder to the Petition with respect to the  
75           pension settlement loss issues, hereinafter referred to as the “Intervenors’  
76           Joint Petition.” The Intervenors’ Joint Petition explained that “...while  
77           RMP projects \$11.9 million (Total Company) in 2021 pension settlement  
78           losses, RMP’s request was to include \$7.9 million (Total Company) of this  
79           forecasted settlement loss in pension expense and to capitalize the  
80           remaining balance.”<sup>3</sup> The Intervenors’ Joint Petition also stated that “The  
81           only portion that should be included in the balancing account is Utah’s  
82           share of the Total Company pension settlement losses that are being  
83           expensed,”<sup>4</sup> and went on to state: “Identifying the amount of pension  
84           settlement loss actually being expensed is important for the additional  
85           reason that this amount will set the baseline for the balancing account and

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<sup>33</sup>       *Petition of the Utah Association of Energy Users and the University of Utah For  
Review or Rehearing of Commission Order Issued December 30, 2020, Docket  
No. 20-035-04, at 8 (January 29, 2021)(“Intervenors Joint Petition”).*

<sup>4</sup>       *Id.*

86 tracking mechanism established by the Commission.”<sup>5</sup> The Intervenors’  
87 Joint Petition also stated: “The Commission would, therefore, need to  
88 identify the amount of forecast test year pension settlement loss to be  
89 included in pension expense so that, in a future balancing account  
90 proceeding, parties can compare that number to the amount actually  
91 expensed.”<sup>6</sup>

92

93 On February 16, 2021, RMP filed its Response in Opposition to Petitions  
94 for Reconsideration, Review or Rehearing (“RMP’s Response”). That  
95 filing included, at pages 11 – 14, a section titled “There is no need to  
96 reconsider or clarify the initial amount in the balancing account or how the  
97 account will operate.” This section of RMP’s Response included the  
98 following statements:

99 - First, UAE’s argument that the initial amount to be included in the  
100 balancing account is unclear is disingenuous. The Company presented  
101 undisputed evidence that \$11.9 million in actuarially-projected pension  
102 settlement losses are forecast in the test period, and its rate request  
103 included that amount.

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. . . .

- The Commission clearly stated that the test year included \$11.9 million  
in pension settlement losses.

. . . .

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<sup>5</sup> *Id.*

<sup>6</sup> *Id.* at 9.

111 - It could not be more clear that the initial amount in the balancing  
112 account is \$11.9 million.<sup>7</sup> (citations omitted).  
113

114 As demonstrated by the above statements, RMP was firm in its position  
115 that the forecasted \$11.9 million in pension settlement losses: (1) was  
116 included in the test year; (2) was included in its rate request; (3) was  
117 approved for inclusion in the test year by the PSC; and (4) is the initial  
118 amount for inclusion in the balancing account.

119 **Q. DID THE PSC MODIFY THE FINDINGS IN ITS 2021 GRC ORDER WITH**  
120 **REGARDS TO CLARIFICATION SOUGHT IN THE INTERVENOR'S**  
121 **JOINT PETITION?**

122 A. No, it did not. On February 26, 2021, the PSC issued its *Order on*  
123 *Petitions for Review, Reconsideration, or Rehearing* in Docket No. 20-035-  
124 04 (Utah P.S.C., February 26, 2021). In the February 26, 2021 Order, the  
125 PSC discussed the Joint Intervenors' requested clarification and RMP's  
126 Response thereto with regards to the pension settlement loss issue, but  
127 did not provide further specificity regarding the amount of pension  
128 settlement loss included in rates. The PSC did confirm that its Order  
129 found that RMP may recover the \$11.9 million of forecasted settlement  
130 losses for the test year in rates effective January 1, 2021.<sup>8</sup> The February

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<sup>7</sup> *Rocky Mountain Power's Response in Opposition to Petitions for Reconsideration, Review or Rehearing*, Docket No. 20-035-04, at 12-13, (February 16, 2021) ("RMP's Response").

<sup>8</sup> *Order on Petitions for Review, Reconsideration, or Rehearing*, Docket No. 20-035-04, at 7 (Utah P.S.C., February 26, 2021).



131 26, 2021 Order did state: “Although we intended to be clear in the order,  
132 we reiterate we intend the balancing account we have approved to exist  
133 for the sole purpose of tracking the specific Pension Settlement  
134 Adjustment that RMP represents it is forced to make when lump sum  
135 withdrawals exceed the threshold under FASB’s rule.”<sup>9</sup> The PSC also  
136 stated:

137 The points Intervenors raise with respect to RMP’s plan to capitalize,  
138 rather than expense, a portion of the \$11.9 million raises a genuine  
139 and significant question as to whether any capitalized portion will  
140 constitute a realized expense in the Test Year. Intervenors’ concern  
141 that ratepayers in Utah should bear only their share of company-wide  
142 expenses is also valid and must be addressed. It should go without  
143 saying that the balancing account should reflect only a Utah-  
144 allocated expense, not a system expense.<sup>10</sup>  
145

146 The PSC left the operational details of the PSABA to be developed in the  
147 current docket.

148 **OCS RECOMMENDED BALANCING ACCOUNT METHODOLOGY**

149 **Q. COULD YOU PLEASE FIRST SUMMARIZE THE PURPOSE OF THE**  
150 **PSABA THAT IS TO BE ESTABLISHED IN THIS DOCKET?**

151 **A.** The PSC’s 2021 GRC Order directed that “...RMP will establish a  
152 balancing account and true-up, on an annual basis, the Pension  
153 Settlement Adjustments that it actually recognizes with the amount it

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<sup>9</sup> *Id.* at 8.

<sup>10</sup> *Id.*

154 recovered in rates.”<sup>11</sup> Thus, the purpose of the PSABA is to allow for a  
155 true-up of the difference between the amount of pension settlement losses  
156 included in base rates effective January 1, 2021 and the amount of  
157 Pension Settlement Adjustments RMP actually incurs each year. This  
158 could result in either a regulatory asset balance under which RMP would  
159 be permitted to recover additional amounts from ratepayers or a regulatory  
160 liability balance under which RMP would owe amounts to ratepayers.  
161 Whether or not the balancing account results in a regulatory asset or a  
162 regulatory liability is dependent upon how the actual amount of Pension  
163 Settlement Adjustments experienced by RMP compares to the amount  
164 incorporated in base rates.

165 **Q. HOW SHOULD THE BALANCE TO BE INCLUDED IN THE PSABA BE**  
166 **CALCULATED?**

167 A. I recommend that the amount to be recorded in the PSABA be calculated  
168 as the difference between the \$11.9 million pension settlement loss RMP  
169 included in its general rate case filing, which was approved by the PSC for  
170 recovery, and the amount of pension settlement loss or pension  
171 settlement gain actually realized by RMP each year. Each of these  
172 amounts should be included in the calculation on a Utah jurisdictional  
173 basis.

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<sup>11</sup> 2021 GRC Order at 32.

174 **Q. WHAT ALLOCATION FACTOR SHOULD BE USED TO DETERMINE**  
175 **THE UTAH JURISDICTIONAL AMOUNT OF FORECASTED PENSION**  
176 **SETTLEMENT LOSS INCLUDED IN THE RATES EFFECTIVE**  
177 **JANUARY 1, 2021?**

178 A. Labor costs incurred by RMP impact numerous FERC accounts and  
179 numerous jurisdictional allocation factors within those accounts. In the  
180 rate case proceeding, projected test year labor costs were spread to  
181 various FERC accounts and allocation factors within the FERC accounts  
182 using the actual Base Year ended December 31, 2019 spread of base  
183 labor costs. The projected labor costs spread in this manner included  
184 employee benefits and pensions, inclusive of the projected pension  
185 settlement loss. This allocation methodology used in the recent rate case  
186 proceeding was confirmed by RMP in its response to OCS Data Request  
187 1.2 (a), which stated in part: "Overall wage and benefits are initially  
188 spread based on the base period actual labor and benefits allocation  
189 spread by account and factor combination." According to the same  
190 response, "The final overall labor allocation spread to Utah was  
191 44.0768%." Thus, I recommend that the "final overall labor allocation  
192 spread to Utah", as provided by RMP, of 44.0768% be applied to the total  
193 Company pension settlement loss included in the 2021 Test Year of \$11.9  
194 million for purposes of determining the amount of pension settlement  
195 losses included in the PSC determined revenue requirement. This would  
196 result in \$5,245,139 of pension settlement losses being included in current

197 rates on a Utah jurisdictional basis.<sup>12</sup> The actual Utah jurisdictional  
198 pension settlement adjustments should be compared to the resulting  
199 \$5,245,139 for purposes of calculating the amount to be deferred in the  
200 PSABA.

201

202 While the \$11.9 million (total Company) - \$5,245,139 Utah jurisdictional  
203 basis - of forecasted 2021 pension settlement losses may have been  
204 assumed to be spread between expense and capital in the recent rate  
205 case proceeding, the PSC's 2021 GRC Order made it clear that the full  
206 amount of the forecasted pension settlement losses requested by RMP  
207 was included in the approved revenue requirements.

208 **Q. WHAT ALLOCATION FACTOR SHOULD BE APPLIED TO THE**  
209 **PENSION SETTLEMENT LOSSES/GAINS ACTUALLY REALIZED BY**  
210 **RMP IN THE PSABA CALCULATIONS?**

211 A. In response to OCS Data Request 1.2, RMP indicated that the actual  
212 pension settlement losses will be booked to FERC account 926 when  
213 incurred, and that FERC Account 926 is allocated using the System  
214 Overhead (SO) factor. Since this is how RMP indicates the pension  
215 settlement adjustments are assigned to FERC accounts and allocated on  
216 its books, I recommend that the SO allocation factor be applied to the  
217 actual pension settlement losses/gains for purposes of determining the

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<sup>12</sup> Calculated as \$11,900,000 x 44.0768%.

218 actual amount on a Utah jurisdictional basis to compare to the \$5,245,139  
219 (Utah jurisdictional) amount included in base rates.

220

221 I do note that in the annual Renewable Energy Credit Balancing Account  
222 (RBA) filings submitted by RMP, the actual Renewable Energy Credit  
223 (REC) revenues are calculated on a Utah jurisdictional basis based on the  
224 jurisdictional allocation factors for the applicable RBA year and compared  
225 to the REC revenues on a Utah jurisdictional basis that are incorporated in  
226 base rates.<sup>13</sup> Thus, a similar jurisdictional allocation approach would be  
227 followed for the PSABA under this recommendation.

228 **Q. WOULD THE OCS OBJECT TO THE USE OF A DIFFERENT**  
229 **ALLOCATION FACTOR FOR PURPOSES OF DETERMINING THE**  
230 **AMOUNT OF PENSION SETTLEMENT LOSS INCLUDED IN CURRENT**  
231 **BASE RATES?**

232 A. In the interest of narrowing the issues for the PSC's consideration in this  
233 docket, the OCS would not object to the application of the final SO  
234 allocation percentage in the rate case, which RMP identified in the  
235 response to OCS 1.2 as 43.569%, to the \$11.9 million of Pension  
236 Settlement Loss included in the 2021 Test Year for purposes of

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<sup>13</sup> For an example of the jurisdictional allocation approach used in the RBA filings, see Exhibit RMP\_\_(GB-2) provided with the Direct Testimony of RMP witness Grant Bagby in *Application of Rocky Mountain Power Company for Authority to Revise Rates in Tariff Schedule 98, Renewable Energy Credits Balancing Account*, Docket No. 21-035-05.

237 determining the base amount to which to compare actual pension  
238 settlement loss/gains to on a Utah jurisdiction basis. This would result in  
239 \$5,184,771 on a Utah jurisdictional basis included in current base rates for  
240 recovery of the forecasted test year pension settlement loss.<sup>14</sup> RMP's  
241 proposed PSABA calculation methodology presented in Exhibit  
242 RMP\_\_(NLH-1) applies this factor (i.e., the final SO allocation percentage  
243 in the 2021 GRC) in calculating the Utah jurisdictional amount. While not  
244 objecting to the use of the 43.569% SO allocation factor if such factor is  
245 adopted by the PSC for determining the amount incorporated in base  
246 rates in order to narrow the contentious issues in this docket, the use of  
247 the 44.0768% Utah jurisdictional factor recommended previously in this  
248 testimony for purposes of determining the amount included in the 2021  
249 Test Year would be more consistent with the jurisdictional allocation  
250 methodology applied by RMP in the rate case filing.

251 **Q. COULD YOU PLEASE SUMMARIZE HOW YOU RECOMMEND THE**  
252 **AMOUNT TO BE DEFERRED ANNUALLY UNDER THE PSABA**  
253 **SHOULD BE CALCULATED?**

254 A. Yes. RMP would apply the actual SO allocation factor for the applicable  
255 PSABA year to the actual pension settlement loss or pension settlement  
256 gain it incurs that year to determine the actual pension settlement

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<sup>14</sup> Amount calculated as \$11.9 million x 43.5695% SO allocation factor.

257 loss/gain on a Utah jurisdictional basis. It would then compare that  
258 amount to the \$5,245,139 included in Utah jurisdictional base rates for the  
259 pension settlement loss. The difference would be recorded in the PSABA.  
260 Since other balancing accounts currently established by the PSC, such as  
261 the Energy Balancing Account (EBA) and the RBA include provisions for  
262 the application of carrying charges, OCS does not object to the application  
263 of carrying charges to the PSABA balances.

264 **Q. HAS RMP ADDRESSED HOW IT RECOMMENDS THE PSABA**  
265 **BALANCE BE ADDRESSED IN RATES CHARGED TO UTAH**  
266 **RATEPAYERS?**

267 A. Yes. In his direct testimony, RMP witness Nicholas L. Highsmith indicates  
268 that the Company will “continue to defer any differences booked into the  
269 regulatory asset or regulatory liability until the rate treatment is determined  
270 via a separate proceeding or general rate case.”<sup>15</sup> Mr. Highsmith  
271 continues the discussion, stating: “If a material balance is reached in  
272 either the regulatory asset or regulatory liability, the Company would  
273 initiate a proceeding to present its proposal for regulatory treatment, which  
274 may include a new tariff to amortize the balance; otherwise, the balance  
275 will be addressed in the next general rate case.”<sup>16</sup> The testimony does not  
276 define what RMP considers to be a “material balance.” Under this

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<sup>15</sup> Direct Testimony of Nicholas L. Highsmith, at lines 93-95.

<sup>16</sup> *Id.* at lines 95-98.

277 approach, whether or not the PSABA balance is addressed prior to the  
278 next GRC would apparently be at RMP's discretion.

279 **Q. DOES THE OCS HAVE A POSITION ON HOW THE PSABA BALANCE**  
280 **SHOULD BE EITHER COLLECTED FROM OR REFUNDED TO**  
281 **CUSTOMERS?**

282 A. Yes. As background, the amount of pension settlement loss or gain will  
283 vary from year to year dependent upon many factors, including the  
284 number of RMP employees that retire in a given year that choose to elect  
285 a lump sum distribution from the pension plan assets. The actual pension  
286 settlement adjustment recorded by RMP is often \$0. This variability was  
287 acknowledged by the PSC in its 2021 GRC Order in which it indicated that  
288 "we find these pension settlement losses that RMP incurs in the Test Year  
289 are not sufficiently representative of the costs RMP is likely to incur in  
290 subsequent years owing to the contingent and binary nature of Pension  
291 Settlement Adjustment", and "if FASB's threshold is not triggered, RMP  
292 will incur no such losses and this appears to have commonly been the  
293 case in prior years."<sup>17</sup>

294

295 Given the fact that current base rates include approximately \$5.2 million of  
296 pension settlement losses on Utah jurisdictional basis, the balance in the  
297 PSABA could reach significant levels. Given this real potential, whether

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<sup>17</sup> 2021 GRC Order at 31.



298 the PSABA balance continues to be deferred to the next rate case or  
299 addressed before the next rate case should not be left solely to RMP's  
300 discretion.

301

302 OCS is not advocating for annual surcharges or surcredits under the  
303 PSABA at this time. Rather, the balance in the PSABA should be taken  
304 into consideration in determining whether surcharges or surcredits should  
305 be implemented and whether the balance should continue to be deferred  
306 to the next rate case. It is currently not known when the next general rate  
307 case proceeding will be filed by RMP in Utah. Given this uncertainty,  
308 coupled with the variability in the annual Pension Settlement Adjustments,  
309 there is a real likelihood that the PSABA could reach substantial levels by  
310 the time of the next rate case if left unaddressed in the interim.

311

312 RMP has committed to report on the PSABA balance each year on or  
313 about May 15<sup>th</sup> with detailed calculations showing how the balances were  
314 determined.<sup>18</sup> OCS recommends that parties, inclusive of RMP, be  
315 permitted to petition the PSC to request the implementation of a surcredit  
316 or surcharge after the review of the annual reporting if the balance in the  
317 PSABA reaches a certain threshold. While the PSC has discretion

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<sup>18</sup> Direct Testimony of Nicholas L. Highsmith at lines 102-108.

318 regarding what a reasonable threshold would be, the OCS recommends  
319 an initial threshold of +/- \$10 million on a Utah jurisdictional basis. If RMP  
320 or another party files such a petition when the threshold is met, the parties  
321 could then address whether the PSABA balance should be addressed  
322 through surcharges or surcredits in a single year or amortized and spread  
323 over a number of years. This would allow some flexibility should the  
324 PSABA balance reach material amounts. The OCS would also not object  
325 to the automatic triggering of a proceeding to address the PSABA balance  
326 in the event the threshold is met instead of leaving it to the discretion of  
327 RMP and interested parties if that is the PSC's preference.

328 **RMP'S PROPOSED PSABA CALCULATION**

329 **Q. ARE THERE ANY FUNDAMENTAL DIFFERENCES BETWEEN THE**  
330 **OCS'S RECOMMENDED CALCULATION OF THE PSABA BALANCE**  
331 **AND THAT PROPOSED BY RMP?**

332 A. Yes. The difference in the recommended Utah jurisdictional allocation  
333 percentage to apply to the amount of pension settlement loss included in  
334 the test year was discussed previously in this testimony and does not  
335 have a material impact. However, the determination of the amount of  
336 pension settlement loss included in Utah rates to which the actual Pension  
337 Settlement Adjustments will be compared differs significantly between the  
338 OCS recommended calculation approach and that proposed by RMP.

339 **Q. IS THERE A DISAGREEMENT REGARDING THE AMOUNT OF**  
340 **FORECASTED PENSION SETTLEMENT LOSS INCLUDED IN THE**  
341 **2021 TEST YEAR IN THE 2021 GRC?**

342 A. No, there is not. To the best of my knowledge, there is no dispute that  
343 \$11.9 million of forecasted pension settlement losses was included in the  
344 2021 test year. In his direct testimony in this proceeding, at lines 53 – 54,  
345 RMP witness Highsmith states that “Using actuarial projections, a  
346 forecasted pension settlement loss of \$11.9 million, on a total-Company  
347 basis, was included in the Test Period for the 2021 GRC.” As previously  
348 indicated in this testimony, RMP’s Response in Opposition to Petitions for  
349 Reconsideration, Review or Rehearing filed on February 16, 2021 in  
350 Docket No. 20-035-04 confirmed RMP’s position that the forecasted \$11.9  
351 million in pension settlement losses: (1) was included in the test year; (2)  
352 was included in its rate request; (3) was approved for inclusion in the test  
353 year by the PSC; and (4) is the initial amount for inclusion in the balancing  
354 account. As also previously discussed in this testimony, the PSC’s 2021  
355 GRC Order, at page 32, stated: “In sum, RMP may recover the \$11.9  
356 million in settlement losses it anticipates incurring during the Test Year in  
357 rates effective January 1, 2021.”

358 **Q. DOES RMP’S PROPOSED PSABA CALCULATION METHODOLOGY**  
359 **SIMPLY APPLY THE UTAH JURISDICTIONAL ALLOCATION FACTOR**  
360 **TO THE \$11.9 MILLION PENSION SETTLEMENT LOSS INCLUDED IN**  
361 **THE 2021 TEST YEAR IN THE RATE CASE IN DETERMINING THE**

362 **BASE AMOUNT TO WHICH THE ACTUAL PENSION SETTLEMENT**  
363 **ADJUSTMENTS WILL BE COMPARED?**

364 A. No, it does not. RMP proposes to reduce the \$11.9 million by 33.35% or  
365 approximately \$4 million prior to applying the Utah jurisdictional allocation  
366 percentage. On a total Company basis, this would result in the actual  
367 Pension Settlement Adjustments realized by RMP being compared to  
368 \$7,931,718 instead of the full \$11.9 million of pension settlement losses  
369 included in the 2021 test year in RMP's rate case filing.

370 **Q. WHY DOES RMP PROPOSE TO REDUCE THE FORECASTED 2021**  
371 **PENSION SETTLEMENT LOSS THAT WAS APPROVED BY THE PSC**  
372 **FOR INCLUSION IN RATES BY 33.35% (APPROXIMATELY \$4**  
373 **MILLION) IN ITS PROPOSED PSABA CALCULATION**  
374 **METHODOLOGY?**

375 A. In his direct testimony, RMP witness Highsmith explains that when  
376 incorporating the \$11.9 million of forecasted pension settlement loss in  
377 RMP's rate case filing, RMP included the \$11.9 million as part of its total  
378 wage and employee benefit expense adjustment. In the total wage and  
379 employee benefit adjustment, RMP assumed approximately 33.35% of the  
380 forecasted 2021 Test Year labor costs would be capitalized. Mr.  
381 Highsmith then explains that this approach taken by RMP in its rate case  
382 filing did not consider a change in accounting rules. Under the change in  
383 accounting rules, only the service cost component of pension costs and  
384 other post-retirement benefit costs (such as post-retirement healthcare

385 benefits) can be capitalized. Pension settlement losses/gains are not  
386 eligible for capitalization as they are not considered service costs.

387

388 As disclosed in footnote 2 found on page 4 of Mr. Highsmith's direct  
389 testimony, the change in the pension accounting rule "was effective  
390 January 1, 2018 under the Financial Accounting Standards Board's  
391 Accounting Standards Update No. 2017-07." In other words, the  
392 adjustment made by RMP to include the \$11.9 million of forecasted  
393 pension settlement loss in the test year assumed a portion of the costs  
394 would be capitalized even though such costs cannot be capitalized under  
395 Generally Accepted Accounting Principles (GAAP).

396

397 As a result of the error made by RMP in its rate case filing, for purposes of  
398 calculating the PSABA balance RMP plans to reduce the \$11.9 million of  
399 forecasted pension settlement losses that the PSC allowed for inclusion in  
400 rates by the \$4 million that RMP essentially capitalized in its labor and  
401 benefit cost adjustment in the rate case filing. In other words, under  
402 RMP's proposal, it would be permitted to retroactively correct an error  
403 made in its rate case filing by collecting a higher amount from Utah  
404 ratepayers through the operation of the Pension Settlement Adjustment  
405 Balancing Account.

406 **Q. COULD YOU PLEASE EXPLAIN FURTHER HOW RMP'S PROPOSED**  
407 **PSABA CALCULATION METHODOLOGY WOULD RESULT IN RMP**

408 **RETROACTIVELY CORRECTING AN ERROR IT MADE IN THE RATE**  
409 **CASE FILING?**

410 A. Yes. It is undisputed that RMP's rate case filing included \$11.9 million of  
411 forecasted pension settlement loss in the 2021 Test Year. If RMP's  
412 forecast proves to be accurate and it actually incurs a pension settlement  
413 loss of \$11.9 million in 2021, RMP would still be permitted to defer  
414 \$3,968,282 on a total Company basis, or \$1,728,960 (pre-carrying  
415 charges) on a Utah jurisdictional basis for the 2021 PSABA period. This is  
416 demonstrated on Exhibit RMP\_\_(NLH-1), which shows a deferral ending  
417 balancing of \$1,728,960 for the 2021 PSABA period before carrying  
418 charges and \$1,787,269 after carrying charges are applied.

419

420 In response to OCS Data Request 1.9(c), RMP states: "Correcting the  
421 capitalized portion of the \$11.9 million expense regarding the forecasted  
422 2021 settlement loss would have increased the revenue requirement in  
423 Docket No. 20-035-04 by approximately \$1.8 million, Utah-allocated."

424 Under RMP's proposed PSABA calculations, if approved, RMP would  
425 effectively be permitted to retroactively correct an error made in its rate  
426 case filing through the operation of the PSABA. The PSC should not allow  
427 this retroactive correction.

428 **Q. WHEN DID RMP KNOW ABOUT THE ERROR IN THE PENSION**  
429 **SETTLEMENT LOSS ADJUSTMENT INCORPORATED IN ITS RATE**  
430 **CASE FILING?**

431 A. In response to OCS Data Request 1.9(b), RMP stated: “The Company first  
432 became aware of the potential error related to pension settlements during  
433 the preparation of the rebuttal filing...” OCS Data Request 2.3(a) asked  
434 RMP, in part, why the error was not addressed or corrected as part of the  
435 Company’s rebuttal filing in the rate case. OCS Data Request 2.3(b)  
436 asked RMP to “provide a copy of any internal correspondence, studies or  
437 reports, if any exist, addressing (i) the impact of the errors caused by  
438 capitalizing a portion of the settlement loss and/or capitalizing a portion of  
439 the PacifiCorp Retirement Plan net periodic benefit costs (prior to the  
440 settlement loss), and (ii) whether or not the errors should be disclosed  
441 and/or corrected in Docket No. 20-035-04.” While the Company objected  
442 to OCS Data Request 2.3(b) “...to the extent it calls for documents and  
443 communications protected by the attorney-client privilege and/or work  
444 product doctrine”, it did provide a Confidential Attachment in response.

445 **\*\*\*BEGIN CONFIDENTIAL\*\*\*** [Redacted]  
446 [Redacted]  
447 [Redacted]  
448 [Redacted]  
449 [Redacted]  
450 [Redacted]  
451 [Redacted]  
452 [Redacted]  
453 [Redacted]

454 [REDACTED]

455 [REDACTED]

456 [REDACTED]

457 [REDACTED]

458 [REDACTED]

459 [REDACTED]

460 [REDACTED]

461 [REDACTED]

462 [REDACTED]

463 [REDACTED]

464 [REDACTED]

465 [REDACTED]

466 [REDACTED]

467 [REDACTED]

468 [REDACTED]

469 [REDACTED]

470 [REDACTED]

471 [REDACTED]

472 [REDACTED]

473 [REDACTED]

474 [REDACTED]

475 [REDACTED]

476 **\*\*\*END CONFIDENTIAL\*\*\***

477 A copy of the Confidential Attachment is being provided as part of Exhibit

478 OCS 1.1D with this testimony.



479 **Q. WAS THE ERROR MADE BY RMP IN ITS RATE CASE FILING LIMITED**  
480 **TO THE FORECASTED PENSION SETTLEMENT LOSS COMPONENT**  
481 **OF THE WAGE AND EMPLOYEE BENEFIT ADJUSTMENT?**

482 A. No. Under the change in the accounting rules that was effective January  
483 1, 2018, only the service cost component of employee pensions and  
484 employee post-retirement benefits are eligible for capitalization. In RMP's  
485 rate case filing, it included the full amount of its forecasted pension costs  
486 and post-retirement benefit costs in its wage and employee benefits  
487 expense adjustment. In response to OCS Data Request 1.8, RMP agreed  
488 that "The forecasted 2021 PacifiCorp Retirement Plan (PRP) amount of -  
489 \$3.1 million should not have been capitalized in the Wage and Benefit  
490 adjustment." Additionally, in response to OCS Data Request 2.4, RMP  
491 stated: "Correcting the capitalized portion of the -\$3.1 million expense  
492 regarding the forecasted 2021 PacifiCorp Retirement Plan amount would  
493 have decreased the revenue requirement in Docket No. 20-035-04 by  
494 approximately \$466,000, on a Utah-allocated basis."

495 **Q. DESPITE KNOWING ABOUT THE ERROR MADE IN ITS RATE CASE**  
496 **FILING PRIOR TO THE SUBMISSION OF REBUTTAL TESTIMONY,**  
497 **WAS IT STILL RMP'S POSITION THAT THE FULL \$11.9 MILLION OF**  
498 **FORECASTED 2021 PENSION SETTLEMENT LOSSES WERE**  
499 **INCLUDED IN ITS CASE?**

500 A. Yes. As discussed near the beginning of this testimony, RMP's Response  
501 in Opposition to Petitions For Reconsideration, Review, Or Rehearing,

502 Docket No. 20-035-04, filed on February 16, 2021, at page 12, stated:  
503 “The Company presented undisputed evidence that \$11.9 million in  
504 actuarially-projected pension settlement losses are forecast in the test  
505 period, and its rate request included that amount.” The sentence  
506 referenced the Direct Testimony of Nikki L. Kobliha in the revenue  
507 requirement phase of the proceeding, at lines 638 – 640.

508 **Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?**

509 A. Yes.