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July 13, 2021

VIA ELECTRONIC FILING

Utah Public Service Commission
Heber M. Wells Building, 4th 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**
Rocky Mountain Power Rebuttal Testimony

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 rebuttal 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:

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

Sincerely,

Joelle Steward
Vice President, Regulation

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

Rebuttal Testimony of Nicholas L. Highsmith

July 2021

1 **Q. Are you the same Nicholas L. Highsmith who submitted direct testimony in this**
2 **proceeding on behalf of PacifiCorp d/b/a Rocky Mountain Power (“RMP” or the**
3 **“Company”)?**

4 A. Yes.

5 **PURPOSE OF TESTIMONY**

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of my rebuttal testimony is to provide a recap of the Company’s proposal
8 for the Pension Settlement Adjustments Balancing Account (“PSABA”). Additionally,
9 I respond to and rebut certain issues raised by the Division of Public Utilities (“DPU”)
10 witness Mr. Jeffrey S. Einfeldt, Office of Consumer Services (“OCS”) witness
11 Ms. Donna Ramas, and Utah Association of Energy Users (“UAE”) witness Mr. Kevin
12 C. Higgins.

13 **ACCOUNTING DEFERRAL REQUEST**

14 **Q. Please provide a brief summary of the Company’s proposal for the PSABA.**

15 A. As provided in further detail in my direct testimony, the Public Service Commission of
16 Utah (“Commission”) approved the creation of the PSABA to track and true-up, on an
17 annual basis, the pension settlement adjustments that the Company actually recognizes
18 with the amount it recovered in rates. The Company was further directed to initiate this
19 proceeding before the Commission to establish the balancing account.¹

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

21 A. The Company proposed a calculation based on the language from the 2021 GRC Order.

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

22 As such, the Company will calculate on an annual basis the difference between the
23 amount of Utah-allocated pension settlement loss collected in rates (“PSABA Base”)
24 versus the Utah-allocated pension settlement loss actually recognized. Any differences
25 will be deferred to a regulatory asset or regulatory liability with an annual carrying
26 charge at the Commission-approved customer deposit rate under Schedule No. 300.

27 **Q. Has any party opposed the Company’s proposed PSABA?**

28 A. No party has opposed the mechanics of the Company’s proposed PSABA. Parties have
29 raised concerns over what should be the appropriate PSABA Base for use in
30 determining the starting point against which the annual true-up is measured.

31 PSABA CALCULATION

32 **Q. What is the Company’s proposed PSABA Base?**

33 A. The PSABA Base should be set at \$7.9 million, total-Company, or \$3.5 million, Utah-
34 allocated, which is the amount of pension settlement losses that is being collected in
35 customer rates.

36 **Q. Why do parties have concerns with the Company’s proposed PSABA Base?**

37 A. To address this, I need to provide a further explanation of the calculation of the revenue
38 requirement of the pension settlement loss included in the 2021 General Rate Case,
39 Docket No. 20-035-04 (“2021 GRC”). When preparing a general rate case filing and
40 calculating the revenue requirement, the Company acquires a variety of information to
41 produce an accurate representation of conditions expected to occur in a test period. For
42 purposes of the 2021 GRC, the approved test period was calendar year 2021. One input
43 that was considered was a forecasted pension settlement loss of \$11.9 million, total-
44 Company, which was derived through actuarial projections.

45 As provided in further detail in my direct testimony, when calculating the
46 revenue requirement of the \$11.9 million pension settlement loss, the Company
47 included an incorrect accounting assumption and assumed a portion of the pension
48 settlement loss would be capitalized, thereby reducing the amount included in the case.
49 This incorrect accounting assumption resulted in only \$7.9 million of pension
50 settlement loss being included in the revenue requirement and customer rates. This is
51 where parties disagree with the Company's proposal.

52 Both Mr. Einfeldt and Ms. Ramas argue that the incorrect accounting
53 assumption made by the Company should result in setting the PSABA Base at an
54 amount greater than what is actually included in customer rates. Mr. Higgins takes a
55 slightly different approach and argues the PSABA Base should be set at the actual
56 amount in-rates; however, the incorrect accounting assumption should be applied to all
57 future pension settlement losses that are expensed. Either proposal likely results in
58 chronic under-recovery for the Company which I will address in greater detail later in
59 my testimony.

60 **Q. Is the Company's proposal for a \$7.9 million PSABA Base consistent with the**
61 **Commission's order in the 2021 GRC and on reconsideration?**

62 A. Yes. The Commission concluded that pension settlement losses are "plainly
63 recoverable" and that recovery should be recognized "consistent with the required
64 financial accounting standard."² The Commission authorized a "balancing account with
65 an annual true up" of "the Pension Settlement Adjustments that it actually recognized
66 with the amount it recovered in rates."³ The Commission reiterated this purpose in its

² *Id.* at 31.

³ *Id.* at 32.

67 order denying parties' motion for reconsideration.⁴ Consistent with the Commission's
68 statement, the Company is seeking to recover the amount of pension settlement loss
69 actually recognized in the revenue requirement through the balancing account. If the
70 Company were forced to use an incorrect PSABA Base, the balancing account would
71 not true up the Company's actual costs. Using an incorrect PSABA Base would not
72 allow for an accurate true up of pension settlement losses.

73 **Q. When did the Company become aware of the change in accounting and incorrect**
74 **assumption used in calculating the revenue requirement in the 2021 GRC?**

75 A. Accounting Standards Codification 715-30-35-7A became effective January 1, 2018
76 and has been implemented correctly on the Company's accounting books since the
77 effective date. For purposes of calculating revenue requirement, the Company became
78 aware of the change related to pension settlement losses around August 2020 and fully
79 aware of all the impacts to revenue requirement in 2021.

80 **Q. Why did the Company not make a correction for the pension settlement loss in the**
81 **rebuttal filing of the 2021 GRC?**

82 A. As provided in the direct testimony of Ms. Nikki Kobliha in the 2021 GRC, the
83 Company's recommendation was to include the projected pension settlement loss in
84 base rates.⁵ This primary recommendation was maintained by Ms. Kobliha in her
85 rebuttal testimony. Updating the calculation of the revenue requirement in the 2021
86 GRC for pension settlement loss would have resulted in a higher requested rate change
87 for customers.

⁴ 2021 GRC, Order on Petitions for Review, Reconsideration, or Rehearing at 7 (February 26, 2021).

⁵ 2021 GRC, Kobliha direct at 29.

88 **Q. Is it true that the Company would correct its own error if the PSABA Base were**
89 **set at the Company’s proposed \$7.9 million?**

90 A. Technically, yes, but is important to consider the context. First and foremost, I believe
91 it is important to take into consideration the Company’s primary recommendation in
92 the GRC was to include the amount in base rates *without* a balancing account.
93 Secondly, the intent of the balancing account should be considered. The 2021 GRC
94 Order stated that “pension settlement losses that RMP incurs in the Test Year are not
95 sufficiently representative of the costs RMP is likely to incur in subsequent years...”
96 and that pension settlement losses are “uniquely unpredictable and volatile...”⁶ It is
97 apparent that the Commission has determined that pension settlement losses are a
98 prudent expense and the purpose of the balancing account is to ensure pension
99 settlement losses are not over- nor under-collected from customers.

100 **Q. On Page 12 of RMP’s Response in Opposition to Petitions for Review,**
101 **Reconsideration, or Rehearing, the Company states, “It could not be more clear**
102 **that the initial amount in the balancing account is \$11.9 million.” Would you like**
103 **to address this?**

104 A. Yes. I think this illustrates the complexity of the issue and misunderstanding of the
105 accounting. The actuarially projected \$11.9 million was consistent throughout the
106 filing. The error came in the calculation of the revenue requirement and capitalization
107 assumption that was no longer permitted under the Accounting Standards Codification
108 715-30-35-7A. The \$11.9 million, less capitalization, should be used when setting the
109 PSABA Base as it represents the forecasted expense amount included in the 2021 GRC

⁶ 2021 GRC, Order at 31 (December 30, 2020).

110 used to set customer rates.

111 **Q. What would be the impact if the Commission adopted the proposed PSABA Base**
112 **as recommended by Mr. Einfeldt or Ms. Ramas?**

113 A. Assuming actual pension settlement losses are annually equal to the \$11.9 million,
114 adopting either Mr. Einfeldt's or Ms. Ramas's proposal would result in an under-
115 recovery of approximately \$4.0 million, total-Company, equal to the amount assumed
116 capitalized and discussed in my direct testimony, each calendar year. Using an example
117 where actual pension settlement losses are \$2.0 million total-Company and the PSABA
118 Base is set at \$11.9 million, total-Company, as proposed by Mr. Einfeldt and
119 Ms. Ramas, the Company would be required to defer the full \$9.9 million difference to
120 a regulatory liability even though only \$7.9 million was collected from customers. This
121 accounting would result in the Company absorbing \$4.0 million. In Year 2, if pension
122 settlement losses were exactly \$11.9 million, the Company would under recover an
123 additional \$4.0 million. This would be true if the Company incurred a \$20.9 million
124 pension settlement loss in Year 3 and would continue regardless of the magnitude of
125 pension settlement losses in any year. Table 1 below illustrates this example.

126

TABLE 1

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
1 PSABA Base	\$ 11.9	\$ 11.9	\$ 11.9
2 Actual Pension Settlement Loss	\$ 2.0	\$ 11.9	\$ 20.9
3 Deferral - Ln. 2 - Ln. 3	\$ (9.9)	\$ -	\$ 9.0
4 Amount In-Rates	\$ 7.9	\$ 7.9	\$ 7.9
5 Amount Unrecovered - Ln. 2 - Ln. 3 - Ln. 4	\$ 4.0	\$ 4.0	\$ 4.0

*Figures are calculated using total-Company and used for illustrative purposes only

127 **Q. Would the financial impact to the Company change if Mr. Higgins’s proposal was**
128 **adopted?**

129 A. Yes. The fundamental calculation of the deferral is the same, however, Mr. Higgins’s
130 proposal assumes a hypothetical capitalization on each component of pension
131 settlement losses. Using the same example illustrated above, I have illustrated
132 Mr. Higgins’s proposal as Table 2 below:

133

TABLE 2

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
1 Beginning Pension Settlement Loss	\$ 11.9	\$ 11.9	\$ 11.9
2 Capitalization	66.7%	66.7%	66.7%
3 PSABA Base - Ln. 1 x Ln. 2	\$ 7.9	\$ 7.9	\$ 7.9
4 Actual Pension Settlement Loss	\$ 2.0	\$ 11.9	\$ 20.9
5 Capitalization	66.7%	66.7%	66.7%
6 Hypothetical Expense - Ln. 4 x Ln. 5	\$ 1.3	\$ 7.9	\$ 13.9
7 Deferral - Ln. 6 - Ln. 3	\$ (6.6)	\$ -	\$ 6.0
8 Amount In-Rates	\$ 7.9	\$ 7.9	\$ 7.9
9 Amount Unrecovered - Ln. 4 - Ln. 7 - Ln. 8	\$ 0.7	\$ 4.0	\$ 7.0

*Figures are calculated using total-Company and used for illustrative purposes only

134 As shown in Table 2, the unrecovered amount would change based on the magnitude
135 of the pension settlement loss. In years where the actual pension settlement loss was
136 less than the beginning pension settlement loss, the Company’s unrecovered portion
137 would be less than the \$4.0 million. In years where actual pension settlement losses
138 were greater, the Company would experience a larger unrecovered amount. If actual
139 pension settlement losses were exactly \$11.9 million, the Company would absorb the
140 same \$4.0 million.

141 **Q. What is the impact to the PSABA Base if a hypothetical capitalization assumption**
142 **were included.**

143 A. If a hypothetical capitalization assumption were included on the \$4.0 million in the
144 PSABA Base, the Utah allocated PSABA Base would increase from \$3.5 million to
145 \$3.7 million, or approximately \$0.2 million.

146 **Q. Does the Company agree with parties recommended approaches for the**
147 **calculation of the deferral in the PSABA?**

148 A. No. The Company has acknowledged an incorrect accounting assumption was used in
149 the calculation of the revenue requirement from the 2021 GRC to set customer rates;
150 however, this error should not disregard the fundamental intent of the PSABA. This
151 balancing account was created to track the difference between the amount of pension
152 settlement loss included in customer rates and the actual amount expensed.
153 Furthermore, this error should not result in chronic under-earning. In the Year 1
154 example on Table 1, where the Company has a pension settlement loss of \$2.0 million,
155 the Company would experience a negative financial impact of Utah's share of the
156 \$4.0 million, an amount greater than the settlement loss in its entirety.

157 **ALLOCATION OF PENSION SETTLEMENT EXPENSE**

158 **Q. Do any parties present testimony on the Company's proposal to allocate the**
159 **PSABA Base?**

160 A. Ms. Ramas presents an alternative allocation proposal, however, states "the OCS would
161 not object to the application of the final SO allocation percentage in the rate case."⁷

162 The Company used the final System Overhead ("SO") allocation percentage from the

⁷ Direct Testimony of Donna Ramas at Page 11.

163 2021 GRC in the preparation of Exhibit RMP___(NLH-1) and is still proposing that
164 allocation factor be used for the PSABA Base.

165 **Q. Have parties made recommendations related to the allocation of actual pension**
166 **settlement loss?**

167 A. Yes. Ms. Ramas proposes that the Company use the actual SO allocation factor from
168 the applicable year be applied to actual pension settlement loss.⁸

169 **Q. Does the Company have any concerns with this approach?**

170 A. Since pension settlement losses can occur at any point in a given year and the final SO
171 allocation factor for the applicable year would not be known until around April of the
172 following year, the Company proposes that actual pension settlement losses be
173 allocated using the final SO factor from the most recently filed Utah year-end Results
174 of Operations report.

175 **MATERIALITY THRESHOLD**

176 **Q. Mr. Einfeldt and Ms. Ramas ask the Commission to allow for an implementation**
177 **of a sur-credit or sur-charge if the PSABA deferral balance reaches a material**
178 **balance. Would you like to address this proposal?**

179 A. The Company has committed to providing parties the balance of the PSABA annually
180 in the calendar year-end Results of Operations report. In between rate cases, the
181 Company or any other stakeholder can initiate a proceeding for collection, refund, or
182 other regulatory treatment of the balance if any stakeholder deems the amount to be
183 material. As such, setting a specific threshold is unnecessary.

⁸ Direct Testimony of Donna Ramas at Page 12.

184 **Q. Does this conclude your rebuttal testimony?**

185 **A. Yes.**

CERTIFICATE OF SERVICE

Docket No. 21-035-14

I hereby certify that on July 13, 2021, a true and correct copy of the foregoing was served by electronic mail to the following:

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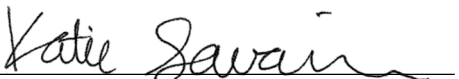
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