BEFORE THE UTAH PUBLIC SERVICE COMMISSION

Application of Rocky Mountain Power To Establish a Balancing Account for Pension Settlement Losses	DOCKET NO. 21-035-14

SURREBUTTAL TESTIMONY

OF

KEVIN C. HIGGINS

On Behalf of

Utah Association of Energy Users

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I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kevin C. Higgins. My business address is 111 East Broadway, Suite 1200, Salt Lake City, Utah, 84111.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a Principal in the firm of Energy Strategies, LLC, a private consulting firm that specializes in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. ARE YOU THE SAME KEVIN C. HIGGINS WHO PRE-FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE UTAH ASSOCIATION OF ENERGY USERS ("UAE")?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. My Surrebuttal Testimony responds to several points in the Rebuttal Testimony of Mr. Nicholas Highsmith filed on behalf of Rocky Mountain Power ("RMP" or "the Company).

Q. PLEASE SUMMARIZE YOUR PRIMARY CONCLUSIONS AND RECOMMENDATIONS.

A. RMP's rebuttal filing does not cause me to change the conclusions and recommendations in my direct testimony. I continue to recommend that the Commission reject RMP's proposal to use the new Pension Settlement Adjustments Balancing Account ("PSABA") to correct its rate case error. Instead, for purposes of the PSABA, the Commission should deem 33.35% of the pension settlement loss to have been capitalized for ratemaking purposes. The PSABA baseline can be set at Utah's share of the $7.9 million as proposed by RMP, but any measurement of actual settlement losses in 2021 should be assigned a 33.35% capitalization factor, consistent with the ratemaking treatment in the general rate case. This same approach should continue to be used in subsequent years, *i.e.*, 33.35% of any future settlement losses in 2022 and thereafter should be deemed to be capitalized, until new rates are established in a subsequent rate case. This treatment will ensure consistency between any future deferral amounts and the baseline used for recovering settlement losses in the revenue requirement approved in the last rate case.

II. <u>RESPONSE TO RMP</u>

Q. AS AN INITIAL MATTER, DO YOU SEE ANY AREAS OF AGREEMENT BETWEEN YOU AND MR. HIGHSMITH REGARDING THE BASIC FACTS OF THIS CASE?

A. Yes. It appears that we are in agreement that RMP made an error in its general rate case filing and that the Company would like to use the establishment of the PSABA as a vehicle to correct that error.[1] We also agree that the amount of pension settlement losses that RMP included in total Company expense for the purpose of determining the Utah revenue requirement in the rate case was $7.9 million, even though the projected settlement loss for the 2021 test period is $11.9 million.[2] Indeed, I stated as much in my direct testimony in the rate case. Further, we agree that the $4.0 million difference between $11.9 million projected settlement loss and the $7.9 million included in expense was treated by RMP as being capitalized in the rate case.[3] Finally, we agree that, in hindsight, the capitalization of the pension settlement loss in the revenue requirement calculation was in error.[4]

My fundamental disagreement with RMP is not with Mr. Highsmith's depiction of these specific facts related to the general rate case. My disagreement with the Company involves the proper path forward in light of those facts.

Q. MR. HIGHSMITH STATES THAT THE ADOPTION OF YOUR PSABA RECOMMENDATION, OR THOSE OF THE DIVISION OF PUBLIC UTILITIES AND OFFICE OF CONSUMER SERVICES, WOULD RESULT IN "CHRONIC UNDER-RECOVERY FOR THE COMPANY." HOW DO YOU RESPOND TO THIS ASSERTION?

A. RMP's claim of "chronic under-recovery" should be given little weight, for several reasons. First, as I discussed in my direct testimony, pension settlement losses are <u>not</u> a cash cost to the Company. Not only is the $4.0 million (total Company) differential at

[1] Rebuttal Testimony of Nicholas L. Highsmith, lines 88-90; 100-110.
[2] Direct Testimony of Nicholas L. Highsmith, lines 63-66.
[3] *Id.*, lines 66-69.
[4] Rebuttal Testimony of Nicholas L. Highsmith, lines 106-108.

issue in this case not a cash cost – the entirety of the $11.9 million projected settlement loss is not a cash cost either (even though Utah customers are paying with cash their share of the $7.9 million that RMP included in expense as part of the revenue requirement approved by the Commission in the general rate case). Consequently, if the Commission denies RMP the ability to use the PSABA as a vehicle to correct its rate case capitalization error, it is not as if the Commission would be denying RMP the ability to recover a $4.0 million cash cost incurred in 2021, as no such cash cost was experienced by the Company for pension settlement losses.

Second, if the Commission denies RMP the ability to use the PSABA as a vehicle to correct its rate case capitalization error, it would place RMP in exactly the same position as the Company placed itself when it made the strategic decision not to correct its capitalization error during the pendency of the rate case. Under my PSABA proposal, RMP would receive the same 2021 pension settlement outcome as the Company received in the general rate case in which its pension settlement revenue adjustment was *approved by the Commission as filed.* Such an outcome hardly justifies RMP's complaint that accepting my recommendation would subject the Company to "chronic under-recovery."

Third, had capitalization of pension settlement losses remained permissible, then (a) the $7.9 million pension settlement loss that RMP included in expense plus (b) the return on, and of, the capitalized portion of the settlement loss would have constituted the entirety of RMP's 2021 cost recovery for the pension settlement loss. According to Mr. Highsmith, Utah's share of the return on and of the capitalized portion of the settlement loss is only around $200,000 per year.[5] It follows then that the total revenue for pension settlement losses that RMP would have expected to recover from Utah customers in 2021 under its filed case (which it won) – if capitalization were still permissible – was Utah's share of the $7.9 million total Company settlement loss expense (i.e., $3.5 million) plus $0.2 million in revenue from capitalization of the settlement loss. It is not reasonable to conclude that the Company's inability to explicitly recover this additional $200,000 per year in capitalization revenue constitutes a "chronic under-recovery" that can only be remedied by deferral of Utah's share of the Company's $4.0 million capitalization error ($1.7 million).

Fourth, under conventional ratemaking, utilities are not typically permitted to capture single-issue expense deferrals for pension settlement losses. Yet the PSABA provides RMP that opportunity going forward. Thus, through the PSABA, RMP is uniquely positioned to minimize future under-recovery of pension settlement losses in a way that is generally unavailable to other utilities. For RMP to also use the PSABA to cure its general rate case filing error is a misapplication of this new mechanism.

Fifth, my PSABA proposal to assign a 33.35% capitalization factor to actual settlement losses maintains consistency with the ratemaking treatment of settlement losses approved in the general rate case based on RMP's filed case. It is reasonable to continue to apply this capitalization factor so long as the PSABA baseline amount is based on the amount of pension settlement loss included in Utah rates as determined in the 2020 general rate case, Docket No. 20-035-04. If the PSABA mechanism is

[5] *Id.*, lines 141-145.

continued after the rate effective period of the *next* general rate case, then the application of the 33.35% capitalization factor to any future settlement losses would no longer be necessary, as undoubtedly RMP will not capitalize any pension settlement losses in its next general rate case filing.

Q. YOU STATED THAT THE ENTIRETY OF THE $11.9 MILLION PROJECTED SETTLEMENT LOSS IS NOT A CASH COST TO THE COMPANY. IF THAT IS TRUE, WHAT IS THE NATURE OF THESE COSTS?

A. As I discussed in my direct testimony, in the ordinary course of determining the revenue requirement in general rate cases, RMP ratepayers pay down RMP's pension plan's previously unrecognized losses over time, since the amortization of these prior losses is a component of the accounting pension cost that is included in rates. When there is a settlement loss, this means that a portion of previously unrecognized losses must be recognized in earnings in a single year rather than amortized to pension cost over a longer period. This is not a cash cost; rather, what it means is that over the remaining life of the plan, future pension expense will be somewhat reduced due to the settlement loss recognized in the current year. Thus, the pension settlement loss conveys a future benefit to customers by reducing the amount of previously unrecognized losses that must be recovered over the life expectancy of pension plan participants. Since the recovery of future pension costs in rates will be based on the pension accounting cost, the Company sought in the rate case to capture the benefit of the future lower accounting costs by recovering the pension settlement loss in rates from current customers. While this recovery could have been effected through an amortization of the pension settlement loss over the expected life of the plan participants,[6] the Company was successful in arguing for a lump-sum amount recovered in a single year from current customers, which is the subject of the deferral in this case. In short, a pension settlement loss does not involve cash cost to the Company in the year that it is incurred, but rather a change to the timing of when this pension-related cost is recognized for accounting purposes.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

[6] *See* for example, Wyoming Public Service Commission, Docket No. 20000-590-EA-20 (Record No. 15464), Memorandum Opinion, Findings and Order (July 15, 2021) at ¶ 201.