

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

**Application of PacifiCorp d/b/a Rocky
Mountain Power for Approval and Report
of the Sale of Washington Service Area
and an Accounting Order**

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Docket No. 26-035-20

DIRECT TESTIMONY OF

LANE KOLLEN

FOR THE

OFFICE OF CONSUMER SERVICES

AUGUST 25, 2026

I. QUALIFICATIONS AND SUMMARY

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. My name is Lane Kollen. I am the President and a Principal of J. Kennedy and Associates, Inc. My business address is 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. I am appearing on behalf of the Utah Office of Consumer Services (“OCS”).

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I earned a Bachelor of Business Administration in Accounting degree and a Master of Business Administration degree, both from the University of Toledo. I also earned a Master of Arts degree in theology from Luther Rice University. I am a Certified Public Accountant (“CPA”), with a practice license, a Certified Management Accountant (“CMA”), and a Chartered Global Management Accountant (“CGMA”). I am a member of numerous professional organizations, including the American Institute of Certified Public Accountants, the Institute of Management Accounting, and the Society of Depreciation Professionals.

I have been an active participant in the utility industry for more than forty years, initially as an employee of The Toledo Edison Company from 1976 to 1983, then as a consultant providing services to electric and natural gas utilities from 1983 to 1986, and thereafter as a consultant providing services to large users of electricity, natural gas, and other utility services, and state and local government agencies.

I have testified as an expert witness on ratemaking, accounting, finance, tax, and planning issues in proceedings before regulatory commissions and courts at the federal and state levels on hundreds of occasions, including the Public Service Commission of Utah

24 (“Commission”) in a merger proceeding involving Dominion Resources, Inc., Questar
25 Corporation, and Questar Gas Company.¹

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

27 A. The purpose of my testimony is to address and make recommendations regarding
28 PacifiCorp’s, dba Rocky Mountain Power Company (RMP or Company), request for
29 approval of the sale of its Washington service area and certain generation, transmission,
30 and distribution assets to GEM, an indirect subsidiary of Portland General Electric
31 Company (“PGE”), and for approval of an accounting order.

32 I address and make recommendations regarding the Company’s proposed public
33 interest standard of no harm to customers and long-term financial benefits and the
34 application of the standard to the Company’s economic analyses provided in support of its
35 requests, including the conditions necessary to meet the public interest standard.

36 I also address and make recommendations regarding the non-net power cost (NPC)
37 components of the Company’s economic analysis; the proposed calculations and
38 allocations of the gain resulting from the sale (referred to as “goodwill” in the Company’s
39 application and witness testimonies), after offsetting reductions to that gain, between
40 PacifiCorp and the customers in each of the PacifiCorp states, including Washington; and
41 the proposed amounts and timing of proposed rate credits to Utah customers; including the
42 conditions necessary to meet the public interest standard.

43 In addition, I address and make recommendations regarding other ratemaking
44 implications of the proposed transaction, including the effects on the cost of capital used

¹ My qualifications and regulatory appearances are further detailed in Exhibit OCS 3.1D.

for the rate of return and the state income tax rate used in future ratemaking proceedings, and the conditions necessary to meet the public interest standard.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A. I recommend the Commission adopt and apply the Company's proposed public interest standard to inform and determine the conditions for approval of the transaction necessary to mitigate the harm to Utah customers and ensure there are long-term financial benefits. I recommend the Commission apply this standard in its review of the Company's economic analysis used to quantify the impacts of the transaction on customers during the transition period and the years after the transition period. I recommend the Commission also apply this standard in the allocation of the gain that forms the basis for the customer rate credits reflected in the economic analysis, and more specifically, the rate credits for Utah customers.

The Company's economic analysis is flawed and understates the net harm to customers reflected in the non-NPC component of the Company's economic analysis in all years after the transaction closes and therefore overstates the annual net benefits of the transaction to Utah customers claimed by the Company. More specifically, the Company failed to reflect all costs that will be reflected in the Utah revenue requirements and customer rates in all future years after the transaction closes. The Company failed to reflect the additional rate increases from the transaction due to increases in the weighted average cost of capital (WACC) caused by increases in the equity ratio and the average cost of debt. The Company also failed to reflect the additional rate increases from the transaction due increases in state income tax expense caused by an increase in the PacifiCorp blended state

67 income tax rate. These effects will increase the revenue requirements in future ratemaking
68 proceedings in the absence of conditions that mitigate the harm to customers.

69 I recommend the Commission adopt several conditions for Utah ratemaking
70 purposes necessary to meet the public interest standard. These conditions include a cap on
71 the equity ratio resulting from the use of the cash sales proceeds to rebalance the capital
72 structure, disallowance of increases in the average cost of debt caused by the use of cash
73 sales proceeds for early redemptions of debt, and a cap on the state income tax rate to no
74 more than the Utah statutory state income tax rate. OCS Witness Wellborn has reflected
75 these recommendations in a corrected economic analysis.

76 The Company's economic analysis also reflects other errors that overstate the harm
77 to Utah customers, although these errors are much less significant than the errors that
78 understate the harm. The Company failed to reflect the revenues it will receive from GEM
79 as a reduction to the corporate overhead costs during the transition period when the
80 Company provides transition services to GEM pursuant to the Transition Services
81 Agreement (TSA). The Company also failed to reflect any reduction in allocated corporate
82 overhead costs, including distribution overheads, in the transition period when it provides
83 diminished services to GEM compared to the present and in the post-transition period after
84 it no longer provides any transition services to GEM. In addition, the Company failed to
85 remove costs related to the McNary-to-Wallula transmission line that should have been
86 allocated to GEM and failed to include revenue offsets to the general and other costs
87 allocated to the non-Washington states, thus overstating the harm to the general and other
88 function.

I recommend the Commission also correct these errors in the same manner as I recommend the Commission correct the errors that understated the harm to customers as conditions of approval of the transaction pursuant to the public interest standard. OCS Witness Wellborn has reflected these recommendations in a corrected economic analysis.

The Company's calculations and allocations of the gain and the various offsets to the gain are flawed and insufficient to offset the net harm to Utah customers after the OCS corrections to the economic analysis even with the proposed rate credits. More specifically, the Company failed to directly assign the so-called "ADIT remeasurement" solely to PacifiCorp. Allocating the ADIT remeasurement solely to the non-Washington states is impermissible retroactive ratemaking. In addition, the Company's allocation and retention of 32% of the gain and allocation of 68% of the gain among all states, including Washington, diminishes the rate credits and the mitigation necessary to offset the harm to the non-Washington states from the transaction.

I recommend the Commission reject the ADIT remeasurement as a reduction to the gain allocated to the non-Washington states and instead directly assign the ADIT remeasurement to PacifiCorp. Alternatively, I recommend the Commission authorize the Company to record a regulatory asset equivalent to the ADIT remeasurement allocated to Utah, with the condition that neither the increase in the ADIT nor the regulatory asset be included in rate base and that neither the negative deferred income tax expense due to the reversal of the ADIT remeasurement nor the amortization of the regulatory asset be included in operating income for Utah ratemaking purposes.

Finally, I recommend that the entirety of the gain after offsetting reductions, as corrected in the OCS economic analysis, and after the required payments by PacifiCorp to

GEM for the Washington customers pursuant to the Asset Purchase and Service Area Transfer Agreement, be allocated among the non-Washington states, with no allocation to PacifiCorp. This reallocation of the gain from that proposed by PacifiCorp is necessary to meet the public interest standard for approval. The Commission should be aware that even in the absence of an allocation of the gain, PacifiCorp will obtain and retain more than \$500 million in present value benefits from the transaction through the elimination of costs that it does not presently recover in the non-Washington states. PacifiCorp also will obtain and retain substantial additional present value benefits from the transaction due to increased earnings, not only from the elimination of costs that it does not presently recover, but also through additional rate increases and earnings due to the investment and use of the cash sales proceeds to further improve its financial profile and reduce its risk exposures.

**II. STANDARD FOR APPROVAL FOR NO NET HARM TO CUSTOMERS
AND LONG-TERM BENEFITS FOR CUSTOMERS SHOULD BE ADOPTED
AND APPLIED IN THIS PROCEEDING**

Q. DESCRIBE THE COMPANY’S PROPOSED STANDARD FOR APPROVAL IN THIS PROCEEDING.

A. In its Application, the Company proposes a public interest standard of no harm to customers and long-term financial benefits. PacifiCorp Witnesses Joelle Steward and Richard Garlish reiterate the public interest standard from the Application and apply the standard to conclude that the transaction meets the no harm and long-term financial benefits thresholds.²

² Direct Testimony of Joelle Steward Direct at 2, “it will not adversely impact PacifiCorp’s Utah customers and will support the financial health of PacifiCorp.” Direct Testimony of Richard Garlish at 5, “the Service Area Transfer will not harm PacifiCorp’s Utah customers.” Direct Testimony of Richard Garlish at 2, “These benefits produce a financially stronger utility that directly benefits customers by allowing continued access to capital. The Service Area Transfer also benefits customers by providing a near-term rate credit.”

Q. HOW SHOULD THE COMMISSION APPLY THAT PUBLIC INTEREST STANDARD IN THIS PROCEEDING?

A. In its Application, the Company cites three factors in support of its request for the Commission to find the transaction in the public interest. First, the Company states that the transaction “will not increase rates for the Company’s Utah customers” and claims the “net effect” is “no change or a net credit.”³ The Company bases this claim on an economic analysis that calculated the Utah revenue requirements for one transition year and one post-transition year, but no other years. The Company’s economic analysis reflected a net harm to Utah customers during the transition period and used the gain, after offsetting reductions, allocated to the non-Washington states as the basis for rate credits over a three-year transition period in order to mitigate that net harm.

The Company claims there will be a net increase in the Utah annual revenue requirements of \$2.4 million during the transition period before the application of the rate credits and a reduction of \$20.7 million in the Utah annual revenue requirement after the application of the proposed \$23.0 million in annual rate credits for the first three years after the transaction closes. The Company claims there will a net reduction in the Utah annual revenue requirement of \$8.5 million in the post-transition period with no rate credits.⁴

I recommend the Commission correct the calculations in the Company’s economic analysis presented by PacifiCorp Witness Joelle Steward. I address and make recommendations regarding various flaws in the Company’s calculations of the non-NPC component of the economic analysis as well as in the calculation of the gain used to develop

³ Application at par. 16, page 9.

⁴ Direct Testimony of Joelle Steward at 13, Table 1

154 the rate credits. Witness Wellborn incorporates my recommendations in a corrected version
155 of the Company's economic analysis. The corrected analyses should be used to determine
156 whether there is a net harm or net benefit to Utah customers in the transition and post-
157 transition periods and to quantify the additional benefits that PacifiCorp should provide to
158 Utah customers necessary to offset the net harm from the transaction in order to meet the
159 public interest standard.

160 Second, the Company states "the testimony accompanying this application
161 demonstrates the Service Area Transfer improves the Company's overall system load and
162 resource balance and mitigates future resource adequacy challenges." Witness Wellborn
163 addresses this claim and the related flaws in this component of the Company's economic
164 analysis. To the extent the corrections to the economic analysis result in a net harm or
165 additional net harm to customers, then additional benefits for Utah customers are necessary
166 to meet the public interest standard.

167 Third, the Company states "the Service Area Transfer will provide long-term
168 financial benefits by relieving the Company from its obligation to make the required capital
169 expenditures necessary for compliance with Washington climate laws." This is neither a
170 benefit nor a harm to Utah customers. Rather, it is a very significant benefit to PacifiCorp
171 that will be realized and retained by PacifiCorp. It should be viewed as a benefit and
172 incentive for PacifiCorp to engage in the transaction, irrespective of and/or in lieu of
173 approving PacifiCorp's request to retain an allocation of the gain that OCS instead

recommends be used to offset the net harm to Utah customers as reflected in the corrected economic analysis described by OCS Witness Wellborn.

With respect to each of the Company's three claims, I recommend the Commission correct the calculations in the Company's economic analysis. I also recommend the Commission modify the proposed allocations of the gain and offsetting reductions to the gain between PacifiCorp and the states and between Washington and the non-Washington states in order to mitigate the harm to Utah customers reflected in the corrected economic analysis described by OCS Witness Wellborn.

**III. FLAWS IN NON-NET POWER COST COMPONENT OF THE COMPANY'S
ECONOMIC ANALYSIS UNDERSTATE THE HARM TO UTAH CUSTOMERS
FROM THE TRANSACTION**

**Q. BRIEFLY DESCRIBE THE NON-NPC COMPONENT OF THE COMPANY'S
ECONOMIC ANALYSIS.**

A. The non-NPC component of the Company's economic analysis reflects the Company's calculations of the net increase in the cost of service, or revenue requirement, as a result of the transaction that will be reflected in customer rates for each of the non-Washington states, including Utah customers. The Company's calculations indicate that the Utah non-NPC component of the cost of service will increase by \$31.9 million annually after the transaction closes.⁵ The increase in the Utah non-NPC component of the cost of service consists of an increase of \$6.8 million in production, an increase of \$12.4 million in transmission, an increase of \$1.5 million in distribution, and an increase of \$11.2 million in general and other.⁶

⁵ Direct Testimony of Joelle Steward at 13, Table 1.

⁶ Direct Testimony of Shelley McCoy at 3, Table 1.

The net increases in the cost of service for the non-Washington states are described by Company Witness Shelley McCoy in her Direct Testimony. The calculations are provided in her electronic workpapers. The net increases in the cost of service are due to the use of five state allocation factors after the transaction instead of six state allocation factors prior to the transaction.⁷ Company Witness McCoy describes the increases for the non-Washington states in the cost of service for each function as follows:⁸

The Production function includes the reallocation of costs of all of PacifiCorp's remaining generation plants, excluding the cost of fuel. The Transmission function reflects the reallocation of PacifiCorp's transmission system, which is almost entirely offset by new wheeling revenues from the transaction. The Distribution function reflects the reallocation of common costs such as management, engineering, safety and wildfire mitigation that supports distribution operations in all states. The General & Other function includes administrative and general costs, customer service, support costs and property taxes for the business.

Q. ARE THERE EFFECTS FROM THE TRANSACTION ON THE NON-NPC COST OF SERVICE THAT THE COMPANY FAILED TO REFLECT IN THE COMPANY'S ECONOMIC ANALYSIS?

A. Yes. The Company failed to include increases in the cost of service due to increases in the equity ratio and increases in the average cost of debt and the resulting increases in the weighted average cost of capital ("WACC") used for the return on rate base in future ratemaking proceedings. The Company also failed to include the increase in state income

⁷ The increases to the non-Washington states due to the use of the five state allocation factors are not fully offset by the reductions in costs directly assigned to Washington and excluded from PacifiCorp's remaining costs before the allocation factors are applied to those costs.

⁸ Direct Testimony of Shelley McCoy at 3-4.

tax expense resulting from an increase in the blended state income tax rate in future ratemaking proceedings.⁹

These increases in the cost of service, especially the increases in the equity ratio, will increase the net harm to customers in all years after the transaction closes and will require conditions in order to mitigate the harm to customers from the incremental rate increases.

Q. DESCRIBE HOW THE TRANSACTION WILL RESULT IN AN INCREASE IN THE EQUITY RATIO.

A. In its Application, the Company stated that it will use the cash proceeds and the retained portion of the gain to improve its “financial position,”¹⁰ but did not provide any specifics, other than to note that it no longer will incur costs imposed by Washington that are not recoverable from the other states.¹¹ Company Witness Joelle Steward stated that an allocation of the gain to PacifiCorp would allow the Company to “strengthen its financial profile.” As a practical matter, the gain retained by PacifiCorp, if any, and the use of the cash sales proceeds to improve its “financial position” will result in an increase in the PacifiCorp equity ratio and the average cost of debt reflected in the WACC and return used for ratemaking purposes.

The Company’s retained portion of the gain, if any, will result in a one-time increase in PacifiCorp’s earnings, which will, in turn, increase the retained earnings component of its common equity and its equity ratio going forward, all else equal. In addition, the savings

⁹ Response to OCS 4.12.

¹⁰ Application at 5-6, paragraph 8.

¹¹ Application at 12 wherein it states: “Regarding the Company’s financial position, the Service Area Transfer will help the Company meet the financial challenges associated with the rapidly changing utility landscape, supports stabilization of PacifiCorp’s its financial position, and builds investor confidence.”

from the elimination of the \$45 million in annual expense incurred for the Chehalis plant to comply with the Washington Climate Commitment Act (“CCA”) that it has been not been able to recover from the other states, except for California,¹² will increase PacifiCorp’s annual earnings before tax each year after the transaction closes, which will, in turn, increase the retained earnings component of its common equity and its equity ratio each year going forward, all else equal.

Further, a significant portion of the cash sales proceeds will be available to PacifiCorp to reduce both its equity and debt capitalization, although there are temporary limitations on PacifiCorp’s ability to reduce its equity capitalization through dividends to its parent company. One limitation on the Company’s ability to reduce its equity capitalization is a commitment PacifiCorp made in conjunction with its acquisition by Berkshire Hathaway “prohibiting dividend payments, absent commission approval, if PacifiCorp’s equity ratio falls below 40% in Utah and 44% in other states.”¹³ Another limitation is a commitment by Berkshire Hathaway Energy Company (BHE) in late 2023 to suspend dividends for five years.”¹⁴ In short, any increase in the equity ratio due to the transaction cannot be cured through dividend payments unless and until those limitations no longer apply. However, those limitations on dividend payments do not apply to early redemptions of the Company’s outstanding debt. The Company likely will seek to reduce its debt capitalization, which will increase the equity ratio, all else equal. The Company stated that it plans to use the cash proceeds to avoid future debt financing.¹⁵ This will allow the Company to avoid new debt financing for future capital investments, as well as avoid

¹² Application at paragraph 7.

¹³ Response to UTLCG 4.14.

¹⁴ *Id.*

¹⁵ Direct Testimony of Joelle Steward at 15.

new debt financing to replace maturing debt. These reductions in new debt financing will increase the equity ratio, all else equal. In addition, the Company will or may use the cash sale proceeds to redeem outstanding debt prior to the maturity dates. The early redemptions of outstanding debt will increase the equity ratio, all else equal.

Q. DESCRIBE HOW THE TRANSACTION WILL OR MAY RESULT IN AN INCREASE IN THE AVERAGE COST OF DEBT.

A. In addition to rebalancing the equity and debt ratios to improve its financial profile, the Company may use the cash proceeds for early redemptions of outstanding debt prior to maturity. If the Company uses the proceeds to redeem debt with a coupon rate lower than market rates for new debt issuances, it likely will have to pay a make whole premium to the debtholders in order to redeem the debt. The early redemptions and exclusion of the lower cost debt will increase the average cost of the remaining debt, increase the WACC for ratemaking purposes, and increase the rate increases in future proceedings. In addition, the recovery of the make whole premium will further increase the average cost of the remaining debt, further increase the WACC for ratemaking purposes, and further increase customer rates, all else equal.

If the Company uses the proceeds to redeem debt with a coupon rate higher than market rates for new debt issuances, it likely will have to pay a premium over the principal to acquire the debt from the debtholders in order to redeem it, all else equal. The redemption of the higher cost debt, including recovery of any market premium, will or may increase

the cost of debt and the WACC for ratemaking purposes, and further increase rate increases in future proceedings, all else equal.

Q. WHAT ARE THE COMPANY'S PRESENT EQUITY AND DEBT RATIOS AND THE AVERAGE COST OF DEBT?

A. The Company's economic analysis reflects a 43.47% equity ratio, 0.01% preferred ratio, and a 56.52% debt ratio.¹⁶ The Company's economic analysis reflects an average 5.08% cost of debt.¹⁷

Q. WHAT IS THE EFFECT OF EACH 1.0% INCREASE IN THE EQUITY RATIO AND EACH 0.10% INCREASE IN THE COST OF DEBT ON THE ECONOMIC ANALYSIS?

A. The Company's economic analysis assumes that increases in non-NPC costs will be reflected in general rate increases when incurred. Similarly, increases in the non-NPC costs due to increases in the WACC should be reflected in general rate increases when incurred in the corrected economic analysis. Regardless of when the increases in rates actually are imposed, they will be permanent increases in the revenue requirement that will continue to grow as PacifiCorp's costs continue to grow and the costs allocated to Utah and the other states continue to grow.

The net effect of a 1.0% increase in the equity ratio is a \$7.0 million increase in the annual Utah revenue requirement (including the income tax effects) using the \$9,167.151 million Utah rate base reflected in the Company's economic analysis. The effect of a 0.10%

¹⁶ Refer to the electronic workpapers of Shelley McCoy provided with her Direct Testimony at tab "Capital Structure."

¹⁷ *Id.*

increase in the average cost of debt is another \$5.1 million increase in the annual Utah requirement using the Utah rate base reflected in the Company's economic analysis.

Q. WHAT ARE YOUR RECOMMENDATIONS?

A. I recommend the Commission cap the equity ratio resulting from the Company's retained share of the gain, if any, and the Company's use of the cash sales proceeds to rebalance the capital structure in future ratemaking proceedings at 48.47%, and increase of 500 basis points from the equity ratio in its economic analysis. An increase of this magnitude in the equity ratio is consistent with improving its financial profile and may result in an increase in its credit ratings. OCS Witness Wellborn has reflected this recommendation in the corrected economic analysis.

I also recommend the Commission disallow any increase in the average cost of debt due to early redemptions of debt using cash sales proceeds for that purpose in future rate proceedings. OCS Witness Wellborn also has reflected this recommendation in the corrected economic analysis.

Q. DESCRIBE THE INCREASE IN STATE INCOME TAX EXPENSE RESULTING FROM THE INCREASE IN THE PACIFICORP BLENDED STATE INCOME TAX RATE.

A. PacifiCorp calculates the state income tax expense for Utah ratemaking purposes using the blended state income tax rate pursuant to the 2020 Protocol.¹⁸ PacifiCorp calculates the system ADIT for each system book/tax temporary difference using the blended state income tax rate. PacifiCorp then allocates the system ADIT by temporary difference to each state for ratemaking purposes, except to Washington.¹⁹ Washington does not have a

¹⁸ Response to UTLCG 4.21.

¹⁹ *Id.*

state income tax and Washington does not recover state income tax expense in the revenue requirement. Consequently, PacifiCorp does not recover the Washington allocation of this expense and is harmed as a result.²⁰

However, Washington has a state utility tax that it does recover in the revenue requirement. PacifiCorp also allocates this expense and recovers it from the non-Washington states in their revenue requirements pursuant to the 2020 Protocol.²¹ Consequently, PacifiCorp benefits from this double recovery.

Q. HOW ARE THESE EFFECTS REFLECTED BY THE COMPANY IN ITS ECONOMIC ANALYSIS?

A. The Company's economic analysis reflected the elimination of the allocation of the Washington state utility tax to non-Washington state customers as a reduction in the non-NPC component revenue requirements, but did not include the increase in the state income tax expense to the non-Washington states caused by the increase in the blended state income tax rate in the non-NPC component revenue requirement.²²

Q. HOW DOES THE UTAH STATE INCOME TAX RATE COMPARE TO THE PACIFICORP BLENDED STATE INCOME TAX RATE BEFORE THE TRANSACTION AND AFTER THE TRANSACTION?

A. The Utah statutory state income tax rate is 4.45%.²³ The Utah statutory rate is only slightly less than the blended state income tax rate of 4.54% prior to the transaction. However, the

²⁰ *Id.*

²¹ *Id.*

²² Direct Testimony of Shelley McCoy at 4 wherein she states "Not included in Table 1 or in the estimated revenue requirement impact is the change in the blended state tax rate described by Ms. Kobliha. The change in the blended tax rate will be included in future general rate cases and results of operations filings."

²³ Response to OCS 2.37.

339 Utah statutory rate is much less than the blended state income tax rate of 5.00% after the
340 transaction closes.

341 **Q. WHY DOES THAT MATTER?**

342 A. It matters because any blended state income tax rate that is greater than the Utah statutory
343 rate results in a subsidy to the other states that have higher statutory rates. The subsidy that
344 presently exists is not significant, but it will be significant after the transaction closes absent
345 a condition that limits the future ratemaking recovery to the state income tax expense
346 calculated using the Utah statutory rate.

347 **Q. WHAT ARE YOUR RECOMMENDATIONS?**

348 A. I recommend the Commission first include the increase in the state income tax expense
349 using the post transaction blended state income tax rate in the Utah non-NPC component
350 of the economic analysis to reflect the harm to Utah customers.

351 I recommend the Commission consider limiting the increase in the state income tax
352 expense by using the Utah statutory rate of 4.45% in lieu of the PacifiCorp blended state
353 income tax rate after the transaction in future rate proceedings. This recommendation is
354 consistent with the Washington Utilities and Transportation Commission (WUTC)
355 exclusion of state income tax expense in the Washington revenue requirement based on the
356 fact that Washington has no state income tax. However, this recommendation assumes no
357 extension of the 2020 protocol and assumes that a successor allocation method will not rely
358 on the blended state income tax rate.

359 **Q. HAVE YOU QUANTIFIED THE EFFECTS OF YOUR RECOMMENDATIONS?**

360 A. Yes. The effect is an increase of \$2.4 million in the Utah non-NPC annual revenue
361 requirement from using the post transaction blended state income tax rate in lieu of using

the pre transaction blended state income tax rate as reflected in the Company's economic analysis. The effect is a reduction of \$2.9 million in the non-NPC annual revenue requirement from using the Utah statutory income tax rate in lieu of the post transaction blended state income tax rate, although this is not reflected directly in the corrected economic analysis. The net effect of these two recommendations would be a reduction of \$0.5 million in the non-NPC annual revenue requirement.

I note that the Company calculated an increase of \$1.3 million in the non-NPC annual revenue requirement from using the post transaction blended state income tax rate in lieu of using the pre transaction blended state income tax rate in response to UTLCG discovery.²⁴ However, the Company's calculation understated the harm to Utah customers because it incorrectly reflected the pre transaction six state allocation factors instead of the post transaction five state allocation factors.

**IV. OTHER FLAWS IN NON-NET POWER COST COMPONENT OF THE
COMPANY'S ECONOMIC ANALYSIS OVERSTATE THE HARM TO UTAH
CUSTOMERS FROM THE TRANSACTION**

**Q. ARE THERE OTHER FLAWS IN THE NON-NPC COMPONENT OF THE
COMPANY'S ECONOMIC ANALYSIS THAT OVERSTATE THE HARM TO
UTAH CUSTOMERS FROM THE TRANSACTION?**

A. Yes. The Company failed to reflect the revenues from GEM as a reduction to the corporate overhead costs during the transition period when the Company provides limited transition services to GEM pursuant to the Transition Services Agreement. The Company also failed to reflect any reduction in corporate overhead costs, including distribution overheads, in either the transition period or in the post-transition period.

²⁴ Response to UTLCG 4.25.

The transaction will require action by PacifiCorp to implement the actual cost reductions necessary to right size its services and administrative and general functions to reflect the “excluded services” that will not be provided to or recovered from GEM during the transition period pursuant to the Transition Services Agreement or at all after the transition period when it provides no services to GEM. The Company plans no reductions in these corporate overhead costs after the transaction closes, despite the fact that fewer resources will be necessary to provide fewer services. The Company’s opposition to reducing costs will require the Commission to impose conditions to ensure the savings are reflected in future ratemaking proceedings even if PacifiCorp fails to actually achieve any savings.

Q. ARE THE REVENUES FROM GEM DURING THE TRANSITION PERIOD FULLY COMPENSATORY?

A. No. In addition to excluding the listed overhead services, the Transition Services Agreement also excludes “executive costs,” although that term is not defined in the agreement.

Q. WHAT ARE YOUR RECOMMENDATIONS?

A. I recommend the Commission correct the Company’s economic analysis to reflect the revenues from GEM on a fully compensatory basis, including the “executive costs,” as an offset to the increase in costs allocated to the non-Washington states during the transition period and to reflect the savings from the reduction in these corporate overhead and distribution overhead costs during the post transition period as conditions to approval of the transaction. The fully compensatory costs during the transition period and the savings

in the post transition period should be equivalent to the allocated increases in these costs to the non-Washington states reflected in the Company's economic analysis, all else equal.

I also recommend the Commission direct the Company to reduce its costs in both the transition and post-transition periods to actually achieve the savings as a condition to approval of the transaction.

In addition, I recommend the Commission reflect the greater of the actual savings in the test period or the estimated savings from this proceeding in the revenue requirement in future ratemaking proceedings as a condition to approval of the transaction so that the requirement to reduce its costs has consequences if the Company fails to do so.

Q. HAVE YOU QUANTIFIED THE EFFECTS OF YOUR RECOMMENDATIONS?

A. Yes. The effects are an estimated reduction of \$4.2 million in the Utah non-NPC annual revenue requirement, and \$13.3 million on a system basis, in both the transition and post-transition periods. OCS Witness Leah Wellborn has reflected the effects of these recommendations in the corrected economic analysis.

Q. DESCRIBE THE OTHER COMPANY ERRORS THAT OVERSTATE THE NON-NPC COMPONENT OF THE ECONOMIC ANALYSIS.

A. The Company has acknowledged two other errors in its economic analysis in response to Utah Large Consumer Group discovery in this proceeding. The Company failed to remove the costs related to the McNary-to-Wallula transmission line that should have been allocated to GEM.²⁵ The Company also failed to include revenue offset to the general costs allocated to the non-Washington states.²⁶

Q. WHAT ARE YOUR RECOMMENDATIONS?

²⁵ Response to UTLCG 5.5.

²⁶ Responses to UTLCG 13.10, 13.12, and 13.13.

429 A. I recommend the Commission correct these errors in the non-NPC component of
430 Company's economic analysis.

431 **Q. WHAT ARE THE EFFECTS OF YOUR RECOMMENDATIONS?**

432 A. The first effect is a reduction of \$0.3 million in the non-NPC Utah revenue requirement to
433 correct the allocation error related to the costs of the McNary-to-Wallula transmission line
434 during both the transition and post-transition periods. The second effect is a reduction of
435 \$1.3 million in the non-NPC Utah revenue requirement to correct the revenue offset to the
436 general costs allocated to the non-Washington states during both the transition and post-
437 transition periods. OCS Witness Leah Wellborn has reflected the effects of these
438 recommendations in the corrected economic analysis.

439 **V. THE COMPANY'S CALCULATION AND ALLOCATION OF THE GAIN**
440 **FROM THE SALE AFTER OFFSETTING REDUCTIONS INCLUDES ERRORS**
441 **THAT UNDERSTATE THE GAIN ALLOCATED AND RATE CREDITS**
442 **AVAILABLE TO UTAH CUSTOMERS NECESSARY TO MEET THE PUBLIC**
443 **INTEREST STANDARD**

444 **Q. DESCRIBE BRIEFLY THE COMPANY'S CALCULATION AND ALLOCATION**
445 **OF THE GAIN FROM THE SALE AND THE OFFSETTING REDUCTIONS TO**
446 **THE GAIN.**

447 A. The Company's calculations and allocations are described by PacifiCorp witness Nikki
448 Kobliha and reflected in her electronic workpapers. Company Witness Kobliha provided
449 an exhibit to her testimony and the underlying Excel workbook summarizing the
450 Company's calculations, allocations, and proposed rate credits.²⁷ Company Witness
451 Steward reflected the Utah rate credits in the Company's economic analysis as an offset to
452 the net harm during the transition period. I address the flaws in the calculations and

²⁷ Exhibit RMP___(NLK-1) Calculation, Allocation and Assignment of Goodwill Value.

allocations reflected in that exhibit, as well as the necessary reduction in the gain retained by PacifiCorp to mitigate the harm to Utah customers.

Q. DESCRIBE BRIEFLY THE CALCULATIONS AND ALLOCATIONS SUMMARIZED ON COMPANY WITNESS KOBLIHA'S EXHIBIT RMP_(NLK-1).

A. The first step in the Company's calculations and allocations was to allocate the \$504.746 million gain from the transaction,²⁸ referred to by the Company in its Application and witness testimonies as "goodwill," between PacifiCorp and the states, including Washington. This resulted in \$350.358 million allocated to the states, including \$105.754 million allocated to Utah, and \$154.388 million allocated to and retained by PacifiCorp before any offsetting reductions to the gain allocated to the states and PacifiCorp.

In the second step, the gain allocated to Washington was reduced by \$49.058 million for the Washington real estate tax due to the sale; there was no allocation of the Washington real estate tax to PacifiCorp or the non-Washington states

In the third step, the gain allocated to all the states and to PacifiCorp was reduced by \$14.100 for other selling costs.

In the final step, the gain allocated to the non-Washington states was further reduced by \$66.301 million for the so-called ADIT remeasurement. After this step, the remaining gain allocated to Utah was \$68.951 million. The Company divided the \$68.951 million by three years to calculate the \$23.0 million in annual rate credits to Utah customers for the three years following the transaction close.

Q. WHAT IS THE SIGNIFICANCE OF THE GAIN AND THE RATE CREDITS IN THE COMPANY'S ECONOMIC ANALYSIS?

²⁸ The Company calculated the gain as the difference in the cash sales price (\$1,906.417 million) less the net book value of the assets transferred in the sale (\$1,401.671 million).

A. Short of denying approval for the transaction, the allocation of the gain and rate credits are the primary tools the Commission has to offset the net harm to Utah customers from increases in costs reflected in the corrected economic analysis described by OCS Witness Wellborn.²⁹ It also is important to remember that the harm reflected in the corrected economic analysis is recurring on an annual basis in the post-transition period when there no longer are any rate credits to offset that harm.

In order to offset the additional harm to Utah customers reflected in the corrected economic analysis, the Commission first should correct the Company's calculations, allocations of the gain, and offsetting reductions in order to determine the gain that is available for rate credits before any allocation of the gain to PacificCorp. The gain is the only source of funds available to offset the additional harm identified by OCS witnesses in the corrected economic analysis, other than additional contributions from PacificCorp .

Q. DESCRIBE THE ADIT REMEASUREMENT OFFSET TO THE GAIN ALLOCATED TO THE NON-WASHINGTON STATES.

A. The ADIT remeasurement is a reduction to the gain that is allocated to the non-Washington states, including Utah. PacificCorp records ADIT for each book/tax temporary difference at the system level using the blended state income tax rate and then allocates the ADIT to each state for ratemaking purposes. However, Washington does not allow recovery of state income tax expense using the blended state income tax rate nor does it subtract the state ADIT from rate base.

²⁹ Other OCS conditions also will mitigate the potential harm to Utah customers, including, but not limited to, the OCS recommendations to cap the equity ratio, disallow increases in the average cost of debt, and require PacificCorp to actually reduce its overhead costs to offset the harm from simply reallocating those costs to five states instead of to six states. Changes in certain of those conditions could further mitigate the potential harm to Utah customers. For example, the Commission could cap the increase to the equity ratio at less than the 500 basis points I recommend. This more restrictive condition would further mitigate the recurring annual harm from the transaction to Utah customers in the post-transition years but also would limit the improvement in the Company's financial profile.

PacifiCorp will record an increase in deferred income tax expense (debit) and an equivalent increase in the ADIT liability as a result of the transaction due to the increase in the blended state income tax rate. The Company's proposal to use the increase in deferred income tax expense as a reduction to the gain allocated to the states, will result in no effect on PacifiCorp's net income. None of the ADIT remeasurement was allocated to PacifiCorp or used to reduce the gain allocated to PacifiCorp.

Q. IS THAT REASONABLE?

A. No. The Company's proposal is impermissible retroactive ratemaking disguised as a cost of the transaction and used to reduce the gain allocated to the non-Washington states. While it is correct that the ADIT remeasurement will be triggered by the transaction, it is a cost that should be borne by PacifiCorp, not allocated to and recovered from the non-Washington states. The ADIT is a cost related to the current income tax expense and deferred income tax expense incurred in prior years. Both current income tax expense and deferred income tax expense were recovered from customers in the non-Washington states in prior years. The Company's approach presumes that its recovery of income tax expense in prior years was insufficient and that it now is entitled to retroactively recover the additional income tax expense as if the higher blended state income tax rate had been in effect in those prior years. Although I am not a lawyer or offering a legal opinion, that is impermissible retroactive ratemaking in my experience.

In addition, if the higher blended state income tax rate had been in effect for deferred tax expense in those prior years, then the higher blended state income tax rate would have been in effect for current income tax expense as well. The same temporary differences that would have been reflected in the deferred tax expense at the higher rate

would have caused an equivalent reduction in current income tax expense at the higher rate in those same prior years.³⁰ If the Company is allowed to retroactively recover increases in deferred income tax expense that would have been incurred in those prior years at the higher blended state income tax rate, then the Company should be required to retroactively refund the equivalent reductions in current income tax expense that would have been experienced in those same prior years at the higher blended state income tax rate.

Further, PacifiCorp retained the carrying charge benefit of the ADIT allocated to Washington in prior years because it was not reflected as a subtraction from rate base in the calculation of the revenue requirement.

Finally, there will be no increase in the state income tax rate for Utah if the Commission directs the Company to utilize the Utah statutory income tax rate for the state income tax expense in future ratemaking proceedings. If the ADIT remeasurement is calculated for Utah at the Utah statutory income tax rate, there will be a reduction in the ADIT allocated to Utah for ratemaking purposes.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE ADIT REMEASUREMENT?

A. I recommend the Commission reject the ADIT remeasurement as a reduction to the gain allocated to the non-Washington states and instead directly assign the ADIT remeasurement to PacifiCorp. However, if the Commission does not reject the ADIT remeasurement, but does adopt the OCS recommendation to require the Company to use the Utah statutory income tax rate in future rate proceedings, there would be a reduction to the ADIT allocated to Utah, not an increase, all else equal. Witness Wellborn has reflected this recommendation

³⁰ Response to OCS 4.14, describing the effects of book/tax temporary differences on current income tax expense and deferred income tax expense, as well as income taxes payable, and ADIT.

to directly assign the ADIT remeasurement to PacifiCorp and increase the related rate credits to Utah customers in the corrected economic analysis.

Alternatively, I recommend the Commission authorize the Company to record a regulatory asset equivalent to the ADIT remeasurement allocated to Utah, with the condition that neither the increase in the ADIT nor the regulatory asset be included in rate base and that neither the negative deferred income tax expense due to the reversal of the ADIT remeasurement nor the amortization of the regulatory asset be included in operating income for Utah ratemaking purposes. Under this alternative approach, PacifiCorp would defer the one-time increase in deferred income tax expense to a regulatory asset to match the increase in the ADIT liability. PacifiCorp then would amortize the regulatory asset to expense as the ADIT liability reverses and is reflected in negative deferred income tax expense.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE ALLOCATION OF THE GAIN AND THE PROPOSED RATE CREDITS?

A. I recommend that the gain, after the direct assignment of the ADIT remeasurement to PacifiCorp, be allocated entirely to the non-Washington states to offset the harm to the customers in those states from the transaction. I recommend the gain allocated to Washington and reflected as payments to GEM pursuant to the Asset Purchase and Service Area Transfer Agreement be directly assigned to PacifiCorp as a cost of the transaction. This recommendation is necessary to mitigate the harm from the transaction to the non-Washington states based on the corrected economic analysis addressed by OCS Witness Wellborn, although it still is not sufficient to offset the harm to Utah customers in the years after the transition period.

The following table compares side by side the impacts of the gain as proposed by PacifiCorp and the gain to be allocated under OCS's proposal, assuming a conservative assumption that the WA allocation is a commitment agreed to as part of the sale.

Table 1: OCS Recommendation for Allocation of Gain

Asset	PacifiCorp Goodwill Calc.	OCS Recommendation	Change
Sale Price	1,906,416,968	1,906,416,968	0
Asset Net Book Value	(1,401,670,788)	(1,401,670,788)	0
Washington Real Estate Excise Tax	(49,058,478)	(49,058,478)	0
Other selling costs	(14,100,000)	(14,100,000)	0
Sale Credit to WA per Transfer Agreement		(84,300,000)	(84,300,000)
ADIT Remeasurement + Gross-Up	(66,301,200)	0	66,301,200
Pre-Tax Allocation of Gain	375,286,502	357,287,702	(17,998,800)
Allocated Gain			
Washington	84,325,599	0	(84,325,599)
Oregon	40,044,813	100,040,557	59,995,744
California	1,591,186	3,572,877	1,981,691
Utah	68,951,322	175,070,974	106,119,652
Idaho	8,884,104	25,010,139	16,126,035
Wyoming	21,613,592	53,593,155	31,979,563
Company Retained	149,875,887	0	(149,875,887)
Total	375,286,503	357,287,702	(17,998,801)

The OCS recommendation for a reallocation of the gain results in an additional rate credit of \$106 million (for a total of \$175 million including the \$68 million proposed by PacifiCorp). This additional \$106 million could be spread over 3 or more years, to ensure a breakeven result in the near-term, but the long-term risks are still outstanding. For simplicity, OCS Witness Wellborn has reflected this recommendation to directly assign the ADIT remeasurement to PacifiCorp and increased the related rate credits to Utah customers in the corrected economic analysis as a 3-year rate credit to match the Company's proposal.³¹ This treatment also highlights the Company's limited 2-year snapshots in the

³¹ Refer to the Direct Testimony of Leah Wellborn at 10, Table 2.

576 economic analysis, which doesn't fully disclose or quantify the ongoing harm to customers
577 in the post-transition period.

578 **VI. THE TRANSACTION WILL RESULT IN PRESENT VALUE BENEFITS OF**
579 **MORE THAN \$500 MILLION TO PACIFICORP EVEN IF ALL OF THE GAIN IS**
580 **USED TO OFFSET THE NET HARM TO CUSTOMERS AND NONE OF THE**
581 **GAIN IS ALLOCATED TO PACIFICORP**

582 **Q. WILL THE TRANSACTION RESULT IN BENEFITS TO PACIFICORP EVEN IF**
583 **THE ENTIRETY OF THE GAIN AFTER OFFSETTING REDUCTIONS IS**
584 **ALLOCATED TO THE STATES?**

585 A. Yes. As a starting point, the Company no longer will incur the costs related to the
586 Washington CCA that it cannot recover from the non-Washington states under the 2020
587 Protocol. This will increase its earnings before tax by \$45 million annually, all else equal.³²
588 This will provide PacifiCorp a \$500 million net present value benefit before tax over the
589 next 20 years.

590 There are other quantifiable benefits to PacifiCorp. The Company stated in
591 response to OCS discovery, that it had not analyzed or quantified benefits that it would
592 retain other than the elimination of \$45 million in unrecoverable expenses incurred to
593 comply with the CCA.³³ The OCS discovery sought a listing and quantification of other
594 benefits from the transaction to PacifiCorp.³⁴ The discovery also requested that PacifiCorp
595 perform the analyses if had not already done so.³⁵ However, the Company failed to provide
596 or perform any analyses in response to the OCS discovery.³⁶ Notwithstanding, the

³² Application at 5

³³ Response to OCS 4.16.

³⁴ *Id.*

³⁵ *Id.*

³⁶ *Id.*

597 Company's failure to perform any such analyses, there are other benefits that PacifiCorp
598 will achieve. One benefit is the increase in earnings due to the elimination of the state
599 income tax expense allocated to Washington that has not been allowed rate recovery.
600 Another benefit is the increase in earnings from increases in revenues from customers in
601 all five states after the transaction closes due to the increase in the equity ratio.

602 In addition, there are other nonquantifiable benefits cited in the Application,
603 characterized as "better position[ing] the Company to meet the financial challenges
604 associated with the rapidly changing utility landscape,"³⁷ the statement by PacifiCorp
605 Witness Joelle Steward that the transaction "will help reduce risk,"³⁸ and PacifiCorp
606 Witness Richard Garlish's declaration that this is "a targeted and necessary step towards
607 strengthening PacifiCorp's financial stability by streamlining its operations, reducing its
608 risk profile, and adding a much-needed infusion of funds to increase liquidity."³⁹

609 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

610 **A.** Yes.

³⁷ Application at 4, paragraph 6.

³⁸ Direct Testimony of Joelle Steward at 10.

³⁹ Direct Testimony of Richard Garlish at 2.