UAE Exhibit RR 3.5
Docket No. 22-057-03

DEU Response to
UAE Data Request 5.01

P.S.C.U. Docket No. 22-057-03
UAE Data Request No. 5.01
Requested by the Utah Association of Energy Users
Date of DEU Response September 13, 2022

UAE 5.01: **2023 pension cost.** Please refer to DEU's response to UAE Data Request 1.09 and Attachment 1 to that response.

a. Please provide the derivation of the portion of the projected 2023 pension cost that DEU projects it will capitalize.

b. Has DEU included in test year rate base the capitalized portion of its projected 2023 pension cost? If so, please provide the amount of capitalized 2023 pension cost included in rate base and cite to where this amount is reflected in DEU's revenue requirement model.

c. Please confirm that DEU projects that it will capitalize ($11,076,744) of its ($21,121,355) total projected 2023 pension cost (-$21,121,355 total cost + $10,044,611 expense). If denied, please provide DEU's projection of the capitalized 2023 pension cost.

d. Please confirm that the service cost component of DEU's 2023 projected pension cost is $6,953,800 (UAE 1.09 Attachment 1, page 5). If denied, please provide the service cost component of the projected 2023 pension cost.

e. Please explain whether DEU's 2023 pension cost capitalization assumptions are consistent with FASB's Accounting Standards Update No. 2017-07, which limits the component of net periodic pension cost eligible to be capitalized to the service cost component.

f. If DEU's response to UAE Data Request 1.09 is not consistent with FASB's Accounting Standards Update No. 2017-07, please provide the portion of projected 2023 pension cost that DEU projects it will capitalize and the portion DEU projects it will expense in accordance with FASB's limitations on capitalizing pension cost.

Answer: a. 2023 Forecasted Pension Cost – ($21,121,355)
Less Pension Cost Expensed -- <u>($10,044,611)</u> see MDR_22 B.04
Pension Cost Capitalized – ($11,076,744)

The expense portion of pension was derived by applying the average pension expense/total pension cost ratio for 2020 and 2021 to the total 2023 Pension cost – ($21,121,355) * 48% = ($10,044,611)--trued up to tie to total overhead expense.

b. The capitalized portion of the pension credit ($11.076 million) is included in the 2023 capital budget (shown in DEU Exhibit 3.22, column A). A portion of the capital budget is assumed to remain in the 107 account and is not included in rate base. The 107 amounts are shown in DEU Exhibit 3.22 column D. After the 107 adjustment the net additions are shown in column E. The "net additions" amounts are added to plant account balances gradually by month in 2023 and the account balances are then averaged to derive the 13-month average 2023 rate base amounts. This calculation can be found in the rate case model, DEU Exhibit 4.20, in the RB Forecast tab. The 2023 balances are shown from columns AL – AW, and the 13-month average is shown in column BA. The net additions calculation is also in DEU Exhibit 4.20 in the 101_106 Projection tab, with the 2023 amounts beginning in column P.

From a modeling perspective, the Company has removed the pension credit assumed in the expensed labor budget for 2023 so that the net amount remaining in expense is $0. This was done in the "pension" tab of the model. This is consistent with the treatment in Docket No. 19-057-02. Should the pension credit amount in the labor expense budget be adjusted higher or lower than what was assumed at the time of filing, the Company would adjust both the labor forecast as well as the pension adjustment amount so that the net effect of the pension credit on expense remains at $0 in the 2023 test period. Consistent with the treatment in Docket No. 19-057-02, the Company has not proposed removing the capitalized portion of the pension credit in this case, but doing so would cause an increase to the capital budget and to rate base in the 2023 test period.

c. Refer to part a. above.

d. The forecasted service cost has not changed from what was reported in UAE 1.09.

e. DEU adopted ASU 2017-07 effective January 1, 2018; however, the ASU did not result in a financial statement impact at DEU because DEU accounts for its participation in the parent company's pension plan in accordance with multi-employer pension accounting (ASC 715-30-55-64). Under multi-employer pension accounting, the pension costs allocated by a parent to a subsidiary are treated as employee benefit costs and classified with similar benefit costs in the subsidiary's financial statements. As a result, DEU does not separately record pension expense with a service and non-service component and the ASU did not impact DEU's regulatory recovery, thus the ASU did not impact DEU's capitalization policies.

f. As outlined above, DEU's accounting is consistent with ASU 2017-07. Please see previously provided response to UAE Data Request 1.09. In its response to UAE Data Request 1.09, DEU provided 2023 pension cost estimates; however, 2023 pension costs will not be finalized until DEU receives the updated actuarial report in Q1 2023.

In addition to the above – the FERC also gave the following guidance related to ASU 2017-17 and its impact on regulatory treatment:

In response to the FASB's ASU 2017-07, the Federal Energy Regulatory Commission (FERC) issued Docket No. AI18-1-000 dated December 28, 2017. After discussing the requirements stated in ASU 2017-17, the FERC instructions state in part:

Question: Is it appropriate for jurisdictional entities to capitalize pension and PBOP costs using the method prescribed under ASU No. 2017-07?

Response: Provided that the pension and PBOP costs are based on appropriate labor costs and have a definite relation to construction as required under Electric Plant Instruction No. 4, Gas Plant Instruction No. 4, and Service Company Property Instruction No. 367.52, jurisdictional entities may continue to capitalize the service cost component and non-service cost components of pension and PBOP costs as it has traditionally been the widely accepted practice, or they may elect to capitalize only the service cost component of pension and PBOP costs, as prescribed by ASU No. 2017-07. Both methods are appropriate and are not precluded by the Commission's accounting requirements.

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