Rocky Mountain Power
Docket No. 20-035-04
Witness: Nikki L. Kobliha

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

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Rebuttal Testimony of Nikki L. Kobliha

October 2020

**Q. Are you the same Nikki L. Kobliha who previously submitted direct testimony and rebuttal testimony in the cost of capital phase in this proceeding on behalf of PacifiCorp d/b/a Rocky Mountain Power ("PacifiCorp" or the "Company")?**

A. Yes, I am.

## I. PURPOSE AND SUMMARY OF TESTIMONY

**Q. What is the purpose of your rebuttal testimony with respect to pension and other postretirement costs?**

A. In my rebuttal testimony in this phase, I respond to the testimony of Utah Association of Energy Users ("UAE") witness Mr. Kevin Higgins and the Office of Consumer Services ("OCS") witness Ms. Donna Ramas in matters related to pension settlement losses and the net prepaid pension and other postretirement asset (also referred to in my testimony as the "net prepaid").

**Q. Please summarize your rebuttal testimony.**

A. My rebuttal testimony (a) explains why it is appropriate for the Company to be allowed an opportunity to recover pension settlement losses, and I provide an alternative recovery treatment for the Commission's consideration and (b) provides additional information regarding the Company's request to include its net prepaid pension and other postretirement asset in rate base.

Specifically, my rebuttal testimony responds to (a) the recommendations by both Ms. Ramas and Mr. Higgins to reject the Company's inclusion of its projected pension settlement loss in the test period and to instead allow deferral and amortization over time and (b) the recommendations by both Ms. Ramas and Mr. Higgins to exclude the net prepaid from rate base.

**Pension Settlement Losses**

**Q. Mr. Higgins suggests that inclusion of a projected pension settlement loss in the test period is "too speculative" and does not reasonably represent ongoing pension cost to the Company while acknowledging that settlement losses are likely to be more common in a low interest rate environment.[1] How do you respond to these views?**

A. While it is difficult to accurately project future pension settlement losses, the Company based its projection on the best available information from its actuaries to determine there would be an estimated pension settlement loss in the test period. The Commission previously denied the Company's request to defer the impacts of pension settlement events in its order in Docket No. 18-035-48, stating that the loss was not unforeseeable or extraordinary and therefore not eligible for deferral between general rate proceedings. Based on this view, the Company believes it is appropriate to use the best available information to project pension settlement losses in the test period.

**Q. Both Mr. Higgins and Ms. Ramas recommend that starting with the test year in this proceeding, settlement losses (or gains) triggered by the excess of annual lump sum distributions over the applicable threshold be deferred and amortized over approximately 20 years.[2] How do you respond to this recommendation?**

A. In order to recover these costs, which have not been challenged as imprudent, the Company recommends some level of pension settlement losses be established in base rates. The Company's primary recommendation is that base rates reflect pension

[1] Direct Testimony of Mr. Kevin C. Higgins at lines 730-735.
[2] Direct Testimony of Ms. Donna Ramas at lines 507-515. Direct Testimony of Mr. Kevin Higgins at lines 737-742.

settlement losses using the information reflected in the test period. Alternatively, the Company recommends establishing a balancing account with an initial amount reflected in base rates using the pension settlement loss reflected in the test period. If neither of these options are acceptable, the Company's final option would be as it proposed in Docket No. 18-035-48, which requested the ability to defer and amortize all actual settlement losses going forward.

Absent one of these alternatives, the Company would not have the opportunity to recover pension settlement losses, which are merely amounts that would have otherwise been subject to recovery as part of net periodic benefit cost absent the pension settlement accounting trigger. Both Ms. Ramas and Mr. Higgins acknowledge this, with Mr. Higgins specifically stating that he does not "challenge the recovery" of the forecast settlement loss.[3]

**Q. Please describe the Company's alternative recommendation for a pension and other post-retirement balancing account.**

A. As an alternative to its initial filing, the Company proposes to establish a balancing account to track both on-going net periodic benefit cost of its pension and other post-retirement plans, pension settlement losses and any other potential settlement or curtailment gains or losses in the plans. A balancing account would alleviate parties' concerns over what is "in rates" as described below and the difficulty in projecting costs accurately. The Company currently has a property insurance balancing account that works similarly in that revenue requirement is established in each general rate case based on the expected level of expense with the intent to true up to any differences

[3] Id.

between actual and expected expense between general rate cases. If a balancing account is approved, the Company recommends including the regulatory asset or liability balance in the net prepaid pension and other postretirement asset for rate base purposes, as discussed below.

**Net Prepaid Pension and Other Postretirement Asset**

**Q. Both Ms. Ramas and Mr. Higgins recommend excluding the net prepaid pension and other postretirement assets from rate base suggesting that the Company has not truly borne the costs to finance the net prepaid based on a comparison of the amount of net periodic benefit cost deemed to be "in rates" relative to actual net periodic benefit costs. Do you agree with this basis for recommending the net prepaid be excluded from rate base?**

A. No, I do not. I disagree with Ms. Ramas' statements and Mr. Higgins' inference that the Company has not borne the costs to finance the net prepaid because actual net periodic benefit costs are less than the amount included in the test period in the last general rate case and that the net prepaid should be computed using the amount that is reflected "in rates."

In a general rate case proceeding, the Commission sets rates to recover an overall revenue requirement comprised of a reasonable calculation of the costs and investments expected to be incurred for the period when the rates will be in effect. During the rate effective period, costs will vary from the amounts estimated in determining rates. Thus, the basis for establishing recovery of the net periodic benefit cost associated with the Company's pension and other postretirement plans is no different than that for other operating costs. To isolate net periodic benefit cost for the

Company's pension and other postretirement plans is unprincipled and disregards variances in other actual costs compared to what was estimated in setting rates.

**Q. Do Mr. Higgins and Ms. Ramas make valid arguments to support using the amounts viewed as "in rates" in their analyses?**

A. No they do not. While both Mr. Higgins and Ms. Ramas attempt to rely on the amount "in rates" as being that which was included in the Company's test period in its last general rate case, they each acknowledge that this is not how rates are determined and seem to agree with the Company's view on this point.

Mr. Higgins' states that "Utah customers fully fund these [pension] costs," noting the costs are not reset every year and thus are not reimbursed dollar for dollar since "that is not how ratemaking is done."[4] Ms. Ramas also acknowledges that rates are not reset annually; actual amounts will vary from year to year and both historical and forecast test periods have been used with no balancing account or true up.[5]

Ms. Ramas' analysis is centered on her view that in order for the Company to demonstrate it has borne the costs to finance the net prepaid, at a minimum, the actuarially determined expense would have to equal the amount collected "in rates" each year.[6] Ms. Ramas compared actual expense to this amount for each year since the last general rate case, suggesting the Company did not bear any financing costs but indicates this is based on a "hypothetical assumption" of what is in base rates.[7] She also acknowledges that "the amount ultimately included in the approved revenue

[4] Direct testimony of Mr. Kevin C. Higgins at lines 381-384, including footnote 15.
[5] Direct testimony of Ms. Donna Ramas at lines 1277-1290.
[6] Direct testimony of Ms. Donna Ramas at lines 1269-1272.
[7] Direct testimony of Ms. Donna Ramas at lines 1307-1310.

requirement in the case is not known"[8] due to the last case being settled and thus her analysis is included for "illustrative purposes."[9] Mr. Higgins also acknowledges that the last general rate case was settled and references the test period expense in that case as a *representation* of the amount "in rates."[10]

As described above, the Company alternatively recommends a balancing account be established for net periodic pension and other postretirement costs, which I believe would alleviate Ms. Ramas' and Mr. Higgins' concerns regarding what amounts are in rates and who bears the cost to finance the net prepaid.

**Q. Ms. Ramas and Mr. Higgins both mention that the Company's pension and other postretirement plans were in a net accrued position in certain historical years yet it was not included as an offset to rate base. Ms. Ramas suggests it would be unfair to charge ratepayers a return on the net prepaid today since the net accrued liability was not included in rate base historically.[11] How do you respond?**

A. While I agree that the Company was in a net accrued pension and other postretirement position in historical periods at which time the net accrued was not presented as an offset to rate base, the Company is proposing only prospective financing costs be included in rates. More importantly, there have been many years in which the Company has been in a net prepaid asset position yet the net prepaid was not included in rate base.

As indicated by Mr. Higgins and Ms. Ramas, the Company was in a net accrued position from as early as 1998 through 2006; however, since that time, the Company

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[8] *Id.*
[9] Direct testimony of Ms. Donna Ramas at lines 1311-1314.
[10] Direct testimony of Mr. Kevin C. Higgins at lines 346-348.
[11] Direct testimony of Ms. Donna Ramas at lines 1255-1259.

has been in a net prepaid position. The net prepaid averaged approximately $200 million from 2014 at the time of the Company's last general rate case filing through 2019, compared to an average net prepaid of nearly $8 million from 1998 through 2013. Please refer to Exhibit RMP___(NLK-1RR) in which I estimate the magnitude of the cumulative impact to revenue requirement if the net prepaid had been included in rate base in the periods for which information is available.

Exhibit RMP___(NLK-1RR) extends from Company witness Mr. Douglas K. Stuver's analysis in Exhibit RMP___(DKS-1R) in the Company's last general rate case in Docket No. 13-035-184[12]. In that exhibit, Mr. Stuver estimated the impact to revenue requirement that would have occurred had the net prepaid been included in rate base for the periods presented therein. For purposes of my illustration, I summarize the revenue requirement impact for the years presented in Exhibit RMP___(DKS-1R) from 1993 (the earliest year information was available for the other postretirement plan) through 2013 (the final year for which actual balances were available at the time). As one can see in Exhibit RMP__(NLK-1RR), the cumulative impact to revenue requirement through 2013 would have been a benefit to customers of nearly $2 million. By extending the analysis through 2019, the cumulative impact to revenue requirement over the full time period would have been an increase of nearly $50 million. While certain simplifying assumptions were made in the compilation of these estimates, such as not accounting for the time value of money and changes in the Utah allocation factor, rate of return and use of total company balances, my analysis clearly demonstrates that

[12] *In the Matter of the Application of Rocky Mountain Power for Authority 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. 13-035-184, Rebuttal Testimony of Douglas K. Stuver (June 4, 2014).

customers have not been harmed by the net prepaid (accrued) pension and other postretirement balance having been excluded from rate base and that, in fact, the Company lost the opportunity to recover significant costs to finance the net prepaid to date.

**Q. As further rational for Mr. Higgins' recommendation to exclude the net prepaid from rate base, he suggests to do so would result in an unreasonable transfer of risks to customers and indicates the issue is a matter of timing difference that should be borne by the Company.[13] How do you respond?**

A. Mr. Higgins' statements regarding the timing difference between contributions and net periodic benefit cost being a business risk the Company must manage is misplaced. The timing difference in the case of the net prepaid pension and other postretirement asset is driven by accounting requirements for expense recognition relative to funding requirements and occurs over the very long-term lives of the plans. Funding the pension plan is not unlike the Company's investments in property, plant and equipment that are utilized and depreciated over what are often very long useful lives. In this example, the Company finances the investments in the property, plant and equipment, recovers costs from customers based on annual depreciation expense over the useful lives and is allowed a return on its investment by including the net balance in rate base.

[13] Direct testimony of Mr. Kevin C. Higgins at line 363 and lines 385-387.

**Q. Ms. Ramas states that allowing the net prepaid to be included in rate base "could incentivize" the Company to contribute excess cash to the plans in order to earn its authorized return on those excess contributions and suggests that this would require scrutiny to ensure the plans are being funded prudently.[14] What is your response?**

A. I disagree with Ms. Ramas' suggestion that the Company would be incentivized to make excess contributions to its plans in order to earn an incremental return on the net prepaid. While there is flexibility in the level of contributions that can be made to the plans, contributions are subject to certain income tax deductibility limitations. Additionally, upon plan termination, any excess plan assets in the pension and other postretirement plans would be subject to significant excise and ordinary income taxes unless utilized for another qualifying plan. It is in the best interest of both customers and the Company to properly manage its plans to minimize exposure to such taxes and to avoid making contributions in excess of deductibility limits. It is also important to remember that contributions increase plan assets leading to higher expected asset returns which reduce pension cost.

**Q. Mr. Higgins recommends reducing the allowed return on the net prepaid pension and other postretirement assets to the expected return on assets assumption applicable to each plan.[15] Do you agree with this recommendation?**

A. No I do not. Mr. Higgins' recommendation would result in the Company not being made whole for its costs to finance the contributions in excess of expense that have given rise to the net prepaid. The Company does not specifically obtain financing for

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[14] Direct testimony of Ms. Donna Ramas at lines 1367-1372 and lines 1373-1375.
[15] Direct testimony of Mr. Kevin C. Higgins at lines 410-413.

its pension and other postretirement plan contributions such that they are financed with the blend of long-term debt and equity described in the cost of capital portion of my testimony. Thus, the expected return on assets assumption is irrelevant when considering the Company's cost to finance the contributions. The net prepaid is no different than any other rate base item in that it represents the difference in timing of cash outlays and the recognition of the related expense. Like any other rate base item, this timing difference results in the Company incurring financing costs and with no specific form of financing obtained to finance plan contributions, they are financed with the Company's blended capital structure. Therefore, I recommend that the Commission continue to allow the return to be set at the Company's weighted average cost of capital.

**Pension and Other Postretirement Costs Conclusion**

**Q. What are your final recommendations related to pension and other postretirement cost matters?**

A. I recommend the Company be allowed to recover its net periodic pension and other postretirement costs and pension settlement losses based on the level of expense projected in the test period, as well as be allowed to continue to earn a return on its net prepaid pension and other postretirement asset based on the Company's weighted average cost of capital.

Alternatively, I recommend the Commission authorize a balancing account for all pension and other postretirement costs, including events such as pension settlements, with any resulting regulatory asset or liability being included in the net prepaid pension and other postretirement asset at the Company's weighted average cost of capital. If the Commission authorizes a pension and other postretirement balancing account, I recommend revenue requirement be established based on the net periodic benefit cost and settlement loss included in the Company's test period in this proceeding.

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

A. Yes.

Rocky Mountain Power
Exhibit RMP___(NLK-1RR)
Docket No. 20-035-04
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Exhibit Accompanying Rebuttal Testimony of Nikki L. Kobliha

Net Prepaid Impact on Revenue Requirement

October 2020

**Exhibit RMP__(NLK-1RR)**
**Docket No. 20-035-04/Rocky Mountain Power**
Historic pension and postretirement prepaid (accrued) balances and what the impact to revenue requirement would have been if the Company's current proposal was in place
Dollars in millions

| Fiscal Period Ending | Subtotal** | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|---|---|---|---|---|---|---|---|---|
| **Total Company*** ** | | | | | | | | |
| Prepaid/(accrued) pension balance | | $ 304.8 | $ 286.3 | $ 273.1 | $ 335.3 | $ 331.8 | $ 345.1 | |
| Pension accumulated deferred income taxes | | (116.0) | (108.6) | (103.6) | (127.3) | (81.6) | (84.8) | |
| **Net pension prepaid(accrued)** | | $ 188.8 | $ 177.6 | $ 169.4 | $ 208.1 | $ 250.2 | $ 260.2 | |
| | | | | | | | | |
| Prepaid/(accrued) other postretirement balance | | $ (40.5) | $ (31.9) | $ (22.4) | $ (10.8) | $ 3.2 | $ 10.3 | |
| Other postretirement accumulated deferred income taxes | | 14.5 | 13.2 | 9.4 | 5.9 | (0.3) | (2.1) | |
| **Net postretirement prepaid(accrued)** | | $ (26.0) | $ (18.8) | $ (12.9) | $ (4.8) | $ 2.8 | $ 8.1 | |
| | | | | | | | | |
| **Net prepaid (accrued), after tax** | | $ 162.8 | $ 158.9 | $ 156.5 | $ 203.2 | $ 253.1 | $ 268.3 | |
| | | | | | | | | |
| **Utah allocated** | | | | | | | | |
| Utah allocation percentage | | 42.998% | 43.273% | 42.754% | 43.114% | 43.287% | 43.064% | |
| **Utah's allocated net prepaid(accrued), after tax** | $ 72.8 | $ 70.0 | $ 68.7 | $ 66.9 | $ 87.6 | $ 109.5 | $ 115.6 | |
| Authorized return on rate base**** | | 10.774% | 10.665% | 10.665% | 10.665% | 9.222% | 9.222% | |
| **Revenue Requirement** | $ (1.9) | $ 7.7 | $ 7.4 | $ 7.2 | $ 8.2 | $ 9.1 | $ 10.4 | $ 48.2 |

**NOT ADJUSTED FOR TIME VALUE OF MONEY**
*Shaded amounts are from Exhibit DKS-1R to Doug Stuver's rebuttal testimony in the last general rate case in Docket No. 13-035-184 ending with 2013, which was the final period with actual balances available at the time.
**Cumulative revenue requirement from earliest date information available through 2013, the latest date for which actual balances were available at the time of the last general rate case.
***For simplicity, includes total co view from 2014 through 2019 and thus includes some relatively minor deferral balances associated with other jurisdictions.
****For simplicity, derived from results of operations calculations for 2014 through 2019.

| | |
|---|---|
| Average after-tax net prepaid 1993 through 2013 | $ 2.2 |
| Average after-tax net prepaid 1998 through 2013 | $ 7.7 |
| Average after-tax net prepaid 2014 through 2019 | $ 200.5 |