ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

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December 31, 2018

VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY

Wyoming Public Service Commission
2515 Warren Avenue, Suite 300
Cheyenne, Wyoming 82002

Attn: Chris Petrie, Chief Counsel

Docket No. 20000-___-EA-18
Record No.________

RE: IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR AN ACCOUNTING ORDER FOR SETTLEMENT CHARGES RELATED TO ITS PENSION PLANS

Dear Mr. Petrie:

Rocky Mountain Power ("the Company") hereby submits for electronic filing its application for an accounting order for settlement charges related to its pension plan. An original and four copies are being provided for the docket.

All formal correspondence and staff requests regarding this matter be addressed to:

By E-mail (preferred):	datarequest@pacificorp.com
By regular mail:	Data Request Response Center PacifiCorp 825 NE Multnomah, Suite 2000 Portland, OR 97232
with copies to:	Stacy Splittstoesser Wyoming Regulatory Affairs Manager Rocky Mountain Power 315 W. 27th St. Cheyenne, Wyoming 82001 E-mail: stacy.splittstoesser@pacificorp.com

Yvonne Hogle
Assistant General Counsel
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1407 W. North Temple, Suite 320
Salt Lake City, Utah 84116
E-mail: yvonne.hogle@pacificorp.com

Please contact Stacy Splittstoesser, Wyoming Regulatory Affairs Manager at (307) 632-2677 if you have any questions.

Sincerely,

Joelle R. Steward
Vice President, Regulation

Enclosures

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BEFORE THE WYOMING PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR AN ACCOUNTING ORDER FOR SETTLEMENT CHARGES RELATED TO ITS PENSION PLANS	)))))))	Docket No. 20000-___-EA-18 (Record No. _______)

I. INTRODUCTION

Rocky Mountain Power, a division of PacifiCorp ("Company" or "Rocky Mountain Power"), hereby submits this application ("Application") to the Wyoming Public Service Commission ("Commission") respectfully requesting authority to (1) defer the expected impacts associated with the occurrence of a pension event in 2018, and any subsequent similar pension events; and (2) amortize the impact of pension events (*i.e.*, the increase or reduction in regulatory assets or liabilities) to expense over the same period that is used to amortize the underlying regulatory assets or liabilities with the opportunity to recover the amount in rates as part of net periodic benefit cost. Together, these requests allow the Company to account for the impact of pension events, such as settlements and curtailments, through deferral and amortization in a manner that closely approximates the amortization that would have continued if it were not for the accelerated recognition required by standard accounting principles due to occurrence of a pension event.

For financial reporting on its employer-sponsored retirement plans, referred to as non-contributory defined benefit pension plans, the Company typically records certain pension-related costs and credits as a regulatory asset or liability and amortizes the balance over the actuarial remaining life expectancy of pension plan participants. This allows for smooth recognition of the unrecognized costs each year through consistent amortization expense.

If certain pension events occur, however, Accounting Standards Codification (ASC) 715-30, which is the Financial Accounting Standards Board (FASB) accounting standard governing defined benefit pension plans, requires the Company to recognize portions of these otherwise amortizable costs in earnings in that year rather than continuing to record such costs as a regulatory asset or liability for amortization over a period of years. One of these pension events will occur in 2018, triggering a requirement for the Company to expense approximately $21 million in pension-related losses for the year, and this is likely to recur in future years as well, given the number of plan participants nearing retirement age and the current low interest rate environment. Absent a Commission order, this will necessitate recording certain pension-related gains or losses in annual earnings in each such year, rather than amortizing these gains and losses over the expected life of plan participants.

The requested order to defer this expense and to amortize these and similar costs going forward as a regulatory asset or liability, notwithstanding the occurrence of certain pension events, will reduce interannual variability in pension costs for the remaining life of the Company's non-contributory defined benefit pension plans.

In support of its Application, Rocky Mountain Power states as follows:

II. THE APPLICANT

1. Rocky Mountain Power is a division of PacifiCorp, an Oregon corporation, which provides electric service to retail customers through its Rocky Mountain Power division in the states of Wyoming, Utah, and Idaho, and through its Pacific Power division in the states of Oregon, California, and Washington.

2. Rocky Mountain Power is a public utility in the state of Wyoming subject to the Commission's jurisdiction with respect to its prices and terms of electric service to retail customers in Wyoming. Rocky Mountain Power's principle place of business in Wyoming is 2840 East Yellowstone Highway, Casper, Wyoming 82602.

3. Communications regarding this filing should be addressed to:

Stacy Splittstoesser
Wyoming Regulatory Affairs Manager
Rocky Mountain Power
315 W. 27th St.
Cheyenne, Wyoming 82001
E-mail: stacy.splittstoesser@pacificorp.com

Yvonne R. Hogle
Assistant General Counsel
Rocky Mountain Power
1407 West North Temple, Suite 320
Salt Lake City, Utah 84116
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In addition, Rocky Mountain Power requests that all data requests regarding this application be sent in Microsoft Word or plain text format to the following:

By email (preferred): datarequest@pacificorp.com

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, Oregon 97232

Informal questions may be directed to Stacy Splittstoesser, Wyoming Regulatory Affairs Manager at (307) 632-2677.

III. BACKGROUND

A. The Company's Pension Plans.

The Company's pension plans include non-contributory defined benefit pension plans. The Company reduced the risk profile of these pension plans by closing them to all non-union employees hired after January 1, 2008, and freezing the accrual of benefits for non-union employees and union employees. The Company now provides most union and non-union employees with enhanced 401(k) plan benefits instead. Select non-union plan participants, however, did not elect to receive enhanced 401(k) plan benefits. Those employees continued to earn pension benefits based on a cash balance formula through December 31, 2016. For eligible non-union participants remaining in the pension plans, the basic benefit payable on or after termination is the balance of the participant's hypothetical cash balance as a lump sum or an actuarial equivalent life annuity.

B. Funded Status on the Balance Sheet.

ASC 715 (Retirement Benefits) requires recognition of the funded status of a defined benefit pension plan on the balance sheet on the measurement date (typically December 31). The funded status is the difference between the fair value of the plan assets and the benefit obligation. If the funded status is positive (*i.e.*, the fair value of the plan assets is greater than the obligation), then the Company reports a non-current asset on its balance sheet. If the funded status is negative (*i.e.*, the fair value of the plan assets is less than the obligation), then the Company reports a liability on its balance sheet; the liability can be a non-current and/or a current liability. As of the Company's most recent 10-K filed for the year ended December 31, 2017, its pension plans had a funded status of negative $140 million—meaning the plan's obligations were greater than the fair value of the plan's assets. Table 1 below provides the funded status of the plans for 2016 and 2017, in more detail.

Table 1: Funded Status of Company Pension Plans

Pension Plans (in millions)	2017	2016
Plan Assets and Fair Value, end of year	$1,111	$999
Less -Benefit Obligation, end of year	$1,251	$1,276
Funded Status	**($140)**	**($277)**

C. Net Periodic Benefit Costs.

The Company's net periodic benefit costs are the pension costs reflected on its books and include the following components:

- **Service Cost**: The actuarial present value of benefits attributed by a plan's benefit formula to services rendered by employees during the period. In other words, the service cost is the value of the employee benefits attributed to current year service.
- **Interest Cost**: Periodic interest on the benefit obligation that represents the increase in the obligation due to the passage of time.
- **Expected Return on Plan Assets**: The expected return on the plan's assets for the year, which is calculated using an expected long-term rate of return on plan assets.
- **Amortization of Unrecognized Prior Service Cost**: The amortization of any balances previously recorded in accumulated other comprehensive income ("AOCI") or regulatory asset/liability as a result of plan changes (discussed in greater detail below).
- **Amortization of Actuarial Gains/Losses**: The amortization of past actuarial gains and losses recorded in AOCI or regulatory asset/liability as a result of changes in actuarial assumptions such as the discount rate and the difference between actual and expected experience, such as the return on plan assets (discussed in greater detail below).

D. Unrecognized Net Periodic Benefit Costs (Past Actuarial Gains and Losses).

Unrecognized net periodic benefit costs include an accumulation of past actuarial gains and losses that result from changes in actuarial assumptions such as the discount rate and the difference between expected and actual experience, such as returns on plan assets. Under ASC 715, the portion of the funded status not yet recognized in net periodic benefit cost must be included in AOCI. The Company, as a regulated entity, applies the provisions of ASC 980 (Regulated GAAP[1]) and therefore records as a regulatory asset or liability an amount that is otherwise charged/credited to AOCI if it is probable that the amount will be reflected in setting future rates.

As of December 31, 2017, the funded status of the Company's pension plans included unrecognized net period benefit costs of $438 million, of which $418 million was reflected as a regulatory asset. Table 2 below demonstrates how the unrecognized net periodic benefit cost changed during calendar year 2017.

Table 2: Unrecognized Net Periodic Benefit Cost

Pensions (in millions)	Regulatory Asset	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2016	$491	$20	$511
Net (gain) loss arising during the year	($60)	$1	($59)
Net Amortization	($13)	($1)	($14)
Total	($73)	-	($73)
Balance, December 31, 2017	**$418**	**$20**	**$438**

Under ASC 715, the Company amortizes the majority of this balance on its books over approximately 21 years, which represents the actuarial assumption of the remaining life expectancy of plan participants (remeasured annually). This allows for smooth recognition of the unrecognized costs each year through consistent amortization expense.

[1] Generally Accepted Accounting Principles.

E. Pension Events That Impact Amortization of Unrecognized Costs

Settlements and curtailments are the two primary pension events that change the timing for recognizing previously unrecognized net periodic benefit costs in earnings, requiring immediate recognition to benefit costs rather than the longer term amortization to benefit costs.

Settlements are irrevocable actions that relieve the employer of primary responsibility for a pension benefit obligation and eliminate significant risks related to the obligation and the assets used to affect the settlement. When the Company provides a plan participant with a lump sum cash distribution (consistent with plan provisions), the payout qualifies as a settlement. If the aggregate of all lump sum cash distributions in a calendar year exceed a defined threshold (service cost plus interest cost), ASC 715 requires the Company to recognize in earnings a pro rata portion of the unrecognized actuarial gains or losses recorded in AOCI or as a regulatory asset. The amount that is reclassified from AOCI or the regulatory asset when this occurs is not a new cost; it is merely an acceleration of the recognition of the cost in earnings (that is, amortization of the expense over a period of years rather than recognition as an expense in a single year).

Curtailments result from a significant reduction in the expected years of future services of plan employees or the elimination for a significant number of employees the accrual of defined benefits for some or all of their future services. A curtailment typically results from amendments to benefit plan documents to eliminate the accrual of future plan benefits. In the event of a curtailment, ASC 715 requires that the Company recognize in earnings any previously existing prior service cost/credits within AOCI or a regulatory asset that relate to the affected participants that was expected to be amortized after the effective date of the plan change. The Company's recognition in earnings of the curtailment event occurs in a single year, whereas absent the curtailment, the amounts would continue to amortize.

Historically, the Company has requested approval from the Commission to apply Regulated GAAP upon the occurrence of pension events, which has allowed the Company to remove the items from recognition in earnings and instead create either a regulatory asset or liability.[2]

F. Anticipated Pension Events and Proposed Treatment.

Under ASC 715, the threshold for recognizing gains or losses in earnings is the sum of the service cost and interest cost components of net periodic benefit cost for the year. As noted above, to the extent all settlements (lump sum cash distributions to plan participants) exceed the threshold, resulting in a partial settlement, a portion of previously unrecognized gains and losses must be recognized in earnings immediately. The Company's threshold for settlements has declined over the last few years due to low interest costs resulting from decreased discount rates and lower service cost due to freezing of the pension plans. A low interest rate environment that incentivizes retirees to elect lump sum cash distributions coupled with a low threshold results in a higher likelihood of future settlements. Changes in discount and interest rates may result in more years with total annual settlement amounts that exceed the threshold for recognition of gains and losses.

In accordance with Regulated GAAP, the Company currently records the actuarial gains and losses and prior service costs and credits as a regulatory asset or liability in lieu of recognizing the amounts in AOCI. These amounts are amortized over future periods based on specified amortization periods determined under the relevant Commission orders, or over the current ASC 715 period (approximately 21 years). Given the uncertainty and potential volatility in the timing

[2] *See, e.g., In the Matter of the Application of Rocky Mountain Power for Approval of an Accounting Order Regarding Pension Curtailment and Pension Measurement Date Change,* Docket No. 20000-336-EA-08 (Record No. 11944), Notice and Order Approving Accounting Order, (January 20, 2009); *In the Matter of the Application of Rocky Mountain Power for Approval of the Transaction for Closure of Deer Creek Mine and a Deferred Accounting Order,* Docket No. 20000-464-EA-14 (Record No. 14041), Order (May 15, 2015).

and potential impact of pension events that are largely beyond the Company's control, the Company proposes to maintain unrecognized net periodic benefit costs in a regulatory asset or liability account in all years in order to continue recovering those amounts through amortization (using the current ASC 715 period), rather than recognizing an immediate gain or loss in earnings in years when a triggering pension event occurs. This would allow for recognition of relatively stable pension costs. The Company's proposal here would have no immediate impact on customer rates.

IV. REQUEST FOR ACCOUNTING ORDER

For the reasons set forth above, Rocky Mountain Power respectfully requests authority to (1) defer as part of a regulatory asset associated with the Pension Regulatory Asset, an expense of approximately $21 million related to the settlement or pension event the Company expects in 2018 which the Company must otherwise recognize and record against its income statement under applicable accounting regulations and (2) amortize the expense over the same period as the Pension Regulatory Asset, which is currently being amortized over approximately 21 years, with the opportunity to recover the amount in rates as part of net periodic benefit costs. The Company's request is consistent with amortization of actuarial losses and gains in years in which no triggering pension event occurs. The Company's proposal is designed to maintain normalized pension costs and credits and avoid exposing customers to potential cost volatility from single year "pension events."

V. CONCLUSION

Based on the foregoing, the Company respectfully requests that the Commission issue an order authorizing the Company to: (1) defer the expected impacts associated with the occurrence of a pension event in 2018, and any subsequent similar pension events; and (2) amortize the impact of pension events (*i.e.*, the increase or reduction in regulatory assets or liabilities) to expense over the same period that is used to amortize the underlying regulatory assets or liabilities with the opportunity to recover the amount in future rates as part of net periodic benefit cost.

RESPECTFULLY SUBMITTED this 31st day of December, 2018.

ROCKY MOUNTAIN POWER

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