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**Q. Please state your name, business address, and present position with Pacific Power & Light Company (Pacific Power or Company), a division of PacifiCorp.**

A. My name is Norman K. Ross. My business address is 825 NE Multnomah Street, Suite 1900, Portland, Oregon 97232. I am employed as a Tax Director within the Company’s Tax Department.

# QUALIFICATIONS

**Q. Please describe your education and professional experience.**

A. I received a Bachelor’s degree in Business Administration with an emphasis in accounting from Seattle Pacific University in 1980. I am licensed as a Certified Public Accountant in the state of Washington. I also hold an Accreditation in Business Valuation (ABV) appraisal credential from the American Institute of Certified Public Accountants. In addition to my formal education, I have attended numerous professional courses many of which during recent years involved valuation related training. I have been employed by the Company in my present role since July 1998. Between 1987 and 1998, I was employed within the tax department of Pacific Telecom, Inc., PacifiCorp’s former rate regulated telecommunications subsidiary. My duties while at Pacific Telecom involved both income and non-income (sales, use, gross receipt, property, etc.) tax obligations. I have previously testified in regulatory proceedings before the Utah Public Service Commission and the Public Utility Commission of Oregon, and as an expert valuation witness during administrative level tax appeals before state taxing agencies and during formal hearings and district court trials in the states of Idaho, Montana, Oregon, Utah, Washington, and Wyoming. I have testified before state legislative subcommittees on matters related to the taxation of public utility operating property and proposed tax legislation.

**Q. What are your present duties?**

A. My responsibilities as a Tax Director include oversight of all compliance, accounting, financial reporting, financial planning, audit, and appeal-related activities related to the Company’s sales, use, excise, franchise, public utility, gross receipt, and property taxes as well as public utility fees payable to cities and states in which the Company operates. Because property tax represents the Company’s single largest operating tax expense item, much of my day-to-day work focuses on matters related to the valuation of the Company’s operating property for property tax assessment purposes.

# PURPOSE OF TESTIMONY

**Q. What is the purpose of your testimony in this proceeding?**

A. The purpose of my testimony is to provide an overview of the property tax assessment and estimation process and to respond to testimony provided by Washington Utilities and Transportation Commission Staff (Staff) witness Mr. Jason L. Ball in which he opposes the pro forma property tax adjustment included in this case.

# OVERVIEW OF PROPERTY TAX ASSESSMENT AND ESTIMATION PROCESS

**Q. Please provide an overview of the property tax assessment process.**

A. The Company’s operating property is valued on a centralized basis by appraisers on staff in each state’s department of revenue or tax commission. This valuation is unlike most commercial property, which is typically reported to and valued on a county-specific level. The centralized valuation process has historically been employed for companies whose property is operated in an integrated and interdependent manner across both county and state boundaries. The centralized valuation process employs approaches, procedures, and techniques that are more common to business valuation. The two most significant inputs relied upon during the valuation process are the net unrecovered investment in the Company’s operating property and the expected cash flows that will be derived from the operation of such property over time. These two fundamental inputs are employed within the cost and income approaches to value for the purpose of estimating the market value of taxable property.

**Q. How did the Company calculate the property tax expense that is included in this case?**

A. As described in Ms. Natasha C. Siores’ direct testimony, the Company included a pro forma adjustment to normalize the difference between the actual accrued property tax expense and the pro forma property tax expense for the 12 months ending December 31, 2014.[[1]](#footnote-1)

**Q. How did the Company produce a pro forma property tax adjustment?**

A. The specific procedures the Company employs when determining the value of operating property and the associated amount of property tax expense are discussed in greater detail in confidential Exhibit No. NCS-4C, submitted with the direct testimony of Ms. Siores in this case. To summarize that exhibit, the Company uses the state-specific valuation procedures (cost and income approaches) commonly employed by each state’s appraisal staff. Estimates are prepared in conformity with state-specific laws and administrative rules while taking into account available exemptions from taxation.

**Q. Generally, do the factors that impact the calculation of property tax expenses change from year to year?**

A. No. Although the absolute amount of property tax payable for a given year and state is not known until tax bills arrive, the factors that contribute to the Company’s annual property tax payment obligations are either known or forecast so that property tax expense can be determined for use in the Company’s revenue requirement. Importantly, neither the laws governing the types of property subject to property tax assessment nor the specific appraisal methods annually employed by the various states when appraising the Company’s operating property vary significantly from year to year. The Company’s determinations of assessed values in the pro forma period are based upon the application of known state-specific appraisal methodologies. And although property tax rates change to some extent from year to year, the degree of change from one year to the next is not typically significant.

**Q. Does the Company’s approach to property tax expense in this case differ from its approach in the last general rate case?**

A. No. The Company’s approach and the property tax adjustment it proposes in this case are consistent with its approach in the previous case, Docket UE-130043. In both cases, the Company proposed that property tax expense be walked forward one year using the Company’s pro forma property tax adjustment.

**Q. Has Staff previously objected to the Company’s pro forma property tax adjustment?**

A. Yes, for similar reasons to those presented in this case.[[2]](#footnote-2) After the Company updated the adjustment using actual information through June 2013, Staff accepted the Company’s adjustment.[[3]](#footnote-3) Like the last case, the Company is updating the adjustment with actual information, although given the difference in the timing of the filing of the initial application, the Company is updating with nine months of actual information and three months of pro forma property tax expense. This update is described in the rebuttal testimony of Ms. Siores.

**Q. Did the Commission approve the Company’s pro forma adjustment in Docket UE-130043?**

A. Yes.[[4]](#footnote-4)

**Q. To what extent has the Company’s estimates of property tax expense varied from actual expense over time?**

A. Total property tax expense over the preceding five-year period, from 2009 through 2013, varied from estimated expense by less than one percent. This small variance indicates that the Company’s pro forma adjustment is known and measurable.

# RESPONSE TO STAFF TESTIMONY

**Q. Staff also reasons that the Company’s property tax adjustment should be rejected in favor of retaining a “representative amount of property tax expense relative to the revenues and rate base…in rates.”[[5]](#footnote-5) Do you agree?**

A. No. First, neither the methods employed by states when determining the assessed values of the Company’s operating property nor the tax rates applied to those values are directly a function of either revenues or rate base. Rather, assessed values and the associated amount of property tax expense are a function of the market value of the Company’s taxable operating property.

Second, given year-over-year increases in the Company’s investment in taxable operating property, future-period tax expense is certain to be higher than the “representative amount” of property tax expense derived from the historical test period. The Company’s proposed adjustment reflects the higher property tax expense amount that logically results from increases in taxable operating property and corresponding increases in net utility operating income.

Finally, Staff’s proposal to limit property tax expense to a historical amount invites the Commission to adopt an approach toward ratemaking that falls short of matching operating tax expense with the revenue stream needed to fund the payment of such taxes. Staff proposes that customer rates be set by reference to a 2013 property tax expense level that is no longer relevant. The appropriate amount of property tax expense to include when determining the Company’s revenue requirement is the amount of expense to be incurred during the rate-effective period.

**Q. How does actual property tax expense for 2013 compare with the amount of property tax expense the Company expects to incur for 2014 and 2015?**

A. The Company recorded $122.6 million in property tax expense for 2013 and expects to record on a normalized basis $124.2 and $133.1 million in property tax expense for calendar years 2014 and 2015, respectively. By the time electric rates are adjusted at the conclusion of this case, the Company’s annual property tax expense is expected to be $10.5 million higher ($133.1 million – $122.6 million = $10.5 million) than the amount that Staff asks the Commission to include when quantifying the Company’s revenue requirement. Staff’s recommendation will result in an understatement of the Company’s revenue requirement for property tax expense during the rate-effective period.

**Q. What is the amount of property tax expense included in the Company’s rebuttal revenue requirement?**

A. As discussed in the rebuttal testimony of Ms. Siores, the Company’s rebuttal revenue requirement reflects property tax expense of $124.2 million, which is the normalized amount the Company anticipates recording for calendar year 2014. As discussed above, this amount includes nine months of actual data and three months of pro forma data. And this amount is still far less than the property tax expense that the Company anticipates incurring in the rate-effective period.

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

A. Yes.

1. Direct Testimony of Natasha C. Siores, Exhibit No. NCS-1T at 23. [↑](#footnote-ref-1)
2. *Wash. Utils. & Transp. Comm’n v. PacifiCorp,* Docket UE-130043, Testimony of Betty A. Erdahl, Exhibit No. BAE-1T at 4-5 (June 21, 2013). [↑](#footnote-ref-2)
3. *See* *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-130043, Revised Final Issues List (Aug. 23, 2013). [↑](#footnote-ref-3)
4. *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-130043, Order 05, Appendix A (Dec. 4, 2013). [↑](#footnote-ref-4)
5. Testimony of Jason L. Ball, Exhibit No. JLB-1T at 19. [↑](#footnote-ref-5)