

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFIC POWER & LIGHT
COMPANY,**

Respondent.

**DOCKETS UE-140762 and UE-140617
(consolidated)**

In the Matter of the Petition of

**PACIFIC POWER & LIGHT
COMPANY,**

**For an Order Approving Deferral of
Costs Related to Colstrip Outage.**

DOCKET UE-131384 (consolidated)

In the Matter of the Petition of

**PACIFIC POWER & LIGHT
COMPANY,**

**For an Order Approving Deferral of
Costs Related to Declining Hydro
Generation.**

DOCKET UE-140094 (consolidated)

**PACIFIC POWER & LIGHT COMPANY
REBUTTAL TESTIMONY OF NORMAN K. ROSS**

November 2014

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

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

6 **QUALIFICATIONS**

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

8 A. I received a Bachelor's degree in Business Administration with an emphasis in
9 accounting from Seattle Pacific University in 1980. I am licensed as a Certified
10 Public Accountant in the state of Washington. I also hold an Accreditation in
11 Business Valuation (ABV) appraisal credential from the American Institute of
12 Certified Public Accountants. In addition to my formal education, I have attended
13 numerous professional courses many of which during recent years involved valuation
14 related training. I have been employed by the Company in my present role since July
15 1998. Between 1987 and 1998, I was employed within the tax department of Pacific
16 Telecom, Inc., PacifiCorp's former rate regulated telecommunications subsidiary.
17 My duties while at Pacific Telecom involved both income and non-income (sales,
18 use, gross receipt, property, etc.) tax obligations. I have previously testified in
19 regulatory proceedings before the Utah Public Service Commission and the Public
20 Utility Commission of Oregon, and as an expert valuation witness during
21 administrative level tax appeals before state taxing agencies and during formal
22 hearings and district court trials in the states of Idaho, Montana, Oregon, Utah,
23 Washington, and Wyoming. I have testified before state legislative subcommittees on

1 matters related to the taxation of public utility operating property and proposed tax
2 legislation.

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

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

11 **PURPOSE OF TESTIMONY**

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

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

18 **OVERVIEW OF PROPERTY TAX ASSESSMENT AND ESTIMATION PROCESS**

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

20 A. The Company's operating property is valued on a centralized basis by appraisers on
21 staff in each state's department of revenue or tax commission. This valuation is
22 unlike most commercial property, which is typically reported to and valued on a
23 county-specific level. The centralized valuation process has historically been

1 employed for companies whose property is operated in an integrated and
2 interdependent manner across both county and state boundaries. The centralized
3 valuation process employs approaches, procedures, and techniques that are more
4 common to business valuation. The two most significant inputs relied upon during
5 the valuation process are the net unrecovered investment in the Company's operating
6 property and the expected cash flows that will be derived from the operation of such
7 property over time. These two fundamental inputs are employed within the cost and
8 income approaches to value for the purpose of estimating the market value of taxable
9 property.

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

12 A. As described in Ms. Natasha C. Siores' direct testimony, the Company included a pro
13 forma adjustment to normalize the difference between the actual accrued property tax
14 expense and the pro forma property tax expense for the 12 months ending
15 December 31, 2014.¹

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

17 A. The specific procedures the Company employs when determining the value of
18 operating property and the associated amount of property tax expense are discussed in
19 greater detail in confidential Exhibit No. NCS-4C, submitted with the direct
20 testimony of Ms. Siores in this case. To summarize that exhibit, the Company uses
21 the state-specific valuation procedures (cost and income approaches) commonly
22 employed by each state's appraisal staff. Estimates are prepared in conformity with

¹ Direct Testimony of Natasha C. Siores, Exhibit No. NCS-1T at 23.

1 state-specific laws and administrative rules while taking into account available
2 exemptions from taxation.

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

5 A. No. Although the absolute amount of property tax payable for a given year and state
6 is not known until tax bills arrive, the factors that contribute to the Company's annual
7 property tax payment obligations are either known or forecast so that property tax
8 expense can be determined for use in the Company's revenue requirement.

9 Importantly, neither the laws governing the types of property subject to property tax
10 assessment nor the specific appraisal methods annually employed by the various
11 states when appraising the Company's operating property vary significantly from year
12 to year. The Company's determinations of assessed values in the pro forma period
13 are based upon the application of known state-specific appraisal methodologies. And
14 although property tax rates change to some extent from year to year, the degree of
15 change from one year to the next is not typically significant.

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

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

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

3 A. Yes, for similar reasons to those presented in this case.² After the Company updated
4 the adjustment using actual information through June 2013, Staff accepted the
5 Company's adjustment.³ Like the last case, the Company is updating the adjustment
6 with actual information, although given the difference in the timing of the filing of
7 the initial application, the Company is updating with nine months of actual
8 information and three months of pro forma property tax expense. This update is
9 described in the rebuttal testimony of Ms. Siores.

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

12 A. Yes.⁴

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

15 A. Total property tax expense over the preceding five-year period, from 2009 through
16 2013, varied from estimated expense by less than one percent. This small variance
17 indicates that the Company's pro forma adjustment is known and measurable.

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).

³ *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-130043, Revised Final Issues List (Aug. 23, 2013).

⁴ *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-130043, Order 05, Appendix A (Dec. 4, 2013).

1 **RESPONSE TO STAFF TESTIMONY**

2 **Q. Staff also reasons that the Company’s property tax adjustment should be**
3 **rejected in favor of retaining a “representative amount of property tax expense**
4 **relative to the revenues and rate base...in rates.”⁵ Do you agree?**

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

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

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

⁵ Testimony of Jason L. Ball, Exhibit No. JLB-1T at 19.

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

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

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

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

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

21 A. Yes.