

Witness OCS – 3D

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	Docket No. 13-035-184
Rocky Mountain Power for Authority to)	
Increase Its Retail Electric Utility Service)	Direct Revenue
Rates In Utah and for Approval of Its)	Requirement Testimony
Proposed Electric Service Schedules)	of Donna Ramas
And Electric Service Regulations)	For the Office of
)	Consumer Services

REDACTED

May 1, 2014

180 **Q. DO YOU RECOMMEND THAT THE SEVERANCE COSTS BE**
181 **REMOVED FROM THE TEST YEAR?**

182 A. Yes. These appear to be non-recurring costs that were booked during the
183 base year ended June 2013. Absent RMP providing information
184 demonstrating that a similar level of severance costs will be incurred
185 during the test year, I recommend that the costs, totaling \$337,750, be
186 removed from the test year. As shown on Exhibit OCS 3.4D, after
187 removing the portion that is capitalized and the portion allocated to non-
188 utility, test year expenses should be reduced by \$239,852 on a total
189 Company basis and \$107,779 on a Utah basis.

190

191 **Pension Expense**

192 **Q. HOW DID RMP FORECAST THE TEST YEAR PENSION COST SHOWN**
193 **IN EXHIBIT RMP__(SRM-3), PAGE 4.2.2 OF \$21,778,500?**

194 A. According to Filing Requirement R746-700-20.C.3.e, the test year pension
195 cost of \$21,778,500 includes \$10,919,964 for the PacifiCorp Retirement
196 Plan and \$10,858,537 for projected contributions to the Union Local 57
197 pension plan, both of which are on a net of joint venture basis. Filing
198 Requirement R746-700-20.C.3.e shows that the amount of pension cost
199 included in the test year ending June 30, 2015 for the PacifiCorp
200 Retirement Plan was based on a projected net periodic benefit cost of
201 \$14,104,494 for the 2014 plan year and \$8,321,658 for the 2015 plan

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202 year. A 50% factor was applied to each of these amounts to derive the
203 projected test year net periodic benefit cost on a gross basis of
204 \$11,213,076. After application of the net of joint ventures factor of
205 97.386%, the amount included in the test year was \$10,919,964. This
206 discussion, and my recommended adjustment, applies to the PacifiCorp
207 Retirement Plan.

208 **Q. DID RMP PROVIDE THE SOURCE OF THE PROJECTED 2014 AND**
209 **2015 PENSION NET PERIODIC BENEFIT COST ASSOCIATED WITH**
210 **THE PACIFICORP RETIREMENT PLAN CONTAINED IN THE MINIMUM**
211 **FILING REQUIREMENTS?**

212 A. Yes. OCS Data Request 3.16(a) asked RMP to provide all information
213 received from the actuarial firm used by the Company for purposes of
214 determining the 2014 and 2015 PacifiCorp Retirement Plan amounts that
215 were used in determining the pension cost amounts in the filing. The
216 Company provided Attachment OCS 3.16-1, which it identifies as the
217 actuarial results for the pension plan used as the basis for the test year
218 amounts.

219 **Q. WERE YOU ABLE TO TRACE THE 2014 AND 2015 NET PERIODIC**
220 **BENEFIT COST AMOUNTS IN ATTACHMENT OCS 3.16-1 TO THE**
221 **2014 AND 2015 AMOUNTS CONTAINED IN THE MINIMUM FILING**
222 **REQUIREMENTS THAT WERE USED IN DETERMINING THE TEST**
223 **YEAR PENSION EXPENSE?**

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224 A. The amounts provided in the attachment for 2014 and 2015 did not tie
225 exactly into the amounts incorporated in the minimum filing requirements.
226 For example, the information provided by Confidential Attachment OCS
227 3.16-1 showed the 2014 net periodic benefit cost as \$14,858,000 whereas
228 the minimum filing requirements show the amount as \$14,101,494 or
229 94.9% of the total. Similarly, the 2015 net periodic benefit cost is shown
230 as \$8,828,000 whereas the minimum filing requirements show the 2015
231 amount as \$8,321,658. The Company provided the reconciliation in
232 response to UAE Data Request 7.3, Attachment 7.3, which broke down
233 the amounts provided in Attachment OCS 3.16-1 between the mining
234 operation employees and the electric operation employees. The amounts
235 contained in the minimum filing requirements exclude the mining
236 employees that participate in the PacifiCorp retirement plan.

237 **Q. WAS THE COMPANY ASKED TO UPDATE THE PENSION EXPENSE**
238 **PROJECTIONS?**

239 A. Yes. By January 1, 2014, the Company would have been required to
240 select several of the actuarial assumptions for use in the 2014 pension
241 plan year. Additionally, the actual 2013 plan experience, which impacts
242 both the 2014 and 2015 pension net periodic benefit cost, would be
243 known. Consequently, in OCS Data Request 3.19 RMP was asked to
244 provide the net periodic benefit cost for the test year ending June 30, 2015
245 that would result if the assumptions used in preparing the filing were
246 revised to include the impact of the actual 2013 plan experience and the

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247 actuarial assumptions that were selected for the 2014 plan year for both
248 the 2014 and 2015 pension calculations since these would be the most
249 recent known and measurable assumptions selected by the Company.
250 The Company response referred to OCS Data Request 3.16, Attachment
251 OCS 3.16-3 and stated that "...the Company has not requested its
252 actuaries to provide revised pension expense for 2015 based on the
253 December 31, 2013 re-measurement results." Thus, updated 2015
254 pension expense projections have not been provided by RMP.

255 **Q. HOW DO THE UPDATED 2014 PENSION COST PROJECTIONS FOR**
256 **THE PACIFICORP RETIREMENT PLAN COMPARE TO THE AMOUNTS**
257 **ORIGINALLY USED BY RMP IN PREPARING ITS FILING?**

258 A. Attachment OCS 3.16-3 consists of a report from the actuarial firm used
259 by PacifiCorp, Towers Watson, and is titled "Actuarial Valuation Report
260 Disclosure for Fiscal Year Ending December 31, 2013 and 2014 Benefit
261 Cost under US GAAP." This actuarial valuation report was dated January
262 2014 and shows the 2014 net periodic benefit cost as \$11,641,917, which
263 is \$3,206,000 less than the projected 2014 net periodic benefit cost of
264 \$14,848,000 used by RMP at the time it prepared the filing. The response
265 to UAE Data Request 7.4, Attachment UAE 7.4, shows that (\$183,000) of
266 the updated 2014 net periodic benefit cost is associated with the mining
267 operations; thus, the electric operation portion would be \$11,824,917

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268 (\$11,641,917 + \$183,000).¹ The updated net periodic benefit costs
269 associated with the electric operation employees of \$11,824,917 is
270 \$2,276,577 less than the \$14,101,494 assumed in RMP's filing for 2014.

271 **Q. DO YOU RECOMMEND THAT THE IMPACT OF THE LOWER COST**
272 **PROJECTION PROVIDED BY TOWERS WATSON BASED ON MORE**
273 **RECENT ACTUAL INFORMATION BE REFLECTED?**

274 A. Yes. Unfortunately, the Company did not ask Towers Watson to also
275 calculate updated 2015 pension net periodic benefit cost projections on
276 their behalf. The actual 2013 pension plan experience will also impact the
277 2015 pension net periodic benefit costs. Absent RMP providing updated
278 estimates of the 2015 net periodic benefit costs from its actuarial firm as
279 requested in OCS Data Request 3.16, I recommend that test year pension
280 costs be reduced by the reduction in the projected 2014 net periodic
281 benefit costs. As indicated above, the 2014 net periodic benefit cost
282 provided by Towers Watson declined \$2,276,577 from the amount
283 considered in preparing the Company's filing for the electric operation
284 employees. After application of the net of joint ventures factor for 2014 of
285 97.386%, the reduction is \$2,217,067 ($\$2,276,557 \times 97.386\%$).

¹ For some reason not explained in the response the "net transition obligation" amount of (\$823,378) that was included in both the original 2014 net periodic benefit cost forecast and the updated forecast provided in the Confidential Attachment OCS 3.16-1 was not included in the reconciliation provided in the Confidential Attachment UAE 7.4 causing the final Net Periodic Benefit cost in the reconciliation in Confidential Attachment UAE 7.4 to not fully reconcile to the updated forecast provided by the actuarial firm. Consequently, I have assumed that the entire (\$823,378) is applicable to the electric operation employees.

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286 **Q. WHAT ADJUSTMENT DO YOU RECOMMEND?**

287 A. I recommend that the forecasted test year pension net periodic benefit
288 cost be reduced by \$2,217,067 on a net of joint venture basis. As shown
289 on Exhibit OCS 3.5D, after removing the portion that is capitalized and the
290 portion allocated to non-utility, test year expenses should be reduced by
291 \$1,574,441 on a total Company basis and \$668,102 on a Utah basis.

292 **Post-Retirement Benefits Expense/(Income)**

293 **Q. HOW DID RMP FORECAST THE TEST YEAR POST-RETIREMENT**
294 **BENEFIT COST SHOWN IN EXHIBIT RMP__(SRM-3), PAGE 4.2.2 OF**
295 **NEGATIVE \$907,162?**

296 A. Filing Requirement R746-700-20.C.3.e shows the test year post-
297 retirement benefit cost was based on the net periodic benefit income of
298 (\$458,137) for the 2014 plan year and (\$1,400,912) for the 2015 plan
299 year. A 50% factor was applied to each of these amounts to derive the
300 projected test year net periodic benefit income on a gross basis of
301 (\$929,525). After application of the net of joint ventures factor of
302 97.594%, the amount included in the test year was (\$907,162). Due to the
303 funding position of the post retirement benefit plan, the Company is in an
304 income position (i.e., negative expense amount) instead of an expense
305 position for the electric operations employees.

306 **Q. DID RMP PROVIDE THE SOURCE OF THE PROJECTED 2014 AND**
307 **2015 NET PERIODIC BENEFIT INCOME ASSOCIATED WITH THE**

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308 **POST-RETIREMENT BENEFIT PLAN CONTAINED IN THE MINIMUM**
309 **FILING REQUIREMENTS?**

310 A. Yes. OCS Data Request 3.18(a) asked RMP to provide all information
311 received from the actuarial firm used by the Company for purposes of
312 determining the 2014 and 2015 post-retirement benefit amounts that were
313 used in determining the amounts incorporated in the filing. The Company
314 provided Attachment OCS 3.18-1, which it identifies as the "...actuarial
315 results for the FAS 106 plan used as the basis for the test year
316 amounts..." OCS Data Request 13.6 asked the Company to reconcile the
317 amounts provided in Attachment OCS 3.18-1 to the amounts provided in
318 the filing requirements at R746-700-20.C.3.e.

319
320 The reconciliation, which was provided as Attachment OCS 13.6, showed
321 the actuarially projected 2014 net periodic benefit cost for the post-
322 retirement benefits for mining and electric operations combined as
323 \$7,167,000, with \$7,625,000 being removed for the mining employees.
324 This left a net periodic benefit income amount of (\$458,000) for the electric
325 operations employees which ties to the (\$458,137) contained in the filing
326 requirements for 2014. Similarly, the reconciliation showed the actuarially
327 projected 2015 net periodic benefit cost for the post-retirement benefits for
328 the mining and electric operations employees combined as \$6,623,000,
329 with \$8,024,000 being removed for the mining employees. This left a net
330 periodic benefit income amount of (\$1,401,000) for the electric operations

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331 employees which ties to the (\$1,400,912) contained in the filing
332 requirements for 2015. The table below shows the total projected
333 amounts for 2014 and 2015 with the split between the mining and the
334 electric operations employees in each of those periods.

335

	2014	2015
Net Periodic Benefit Cost - Mining Employees	\$ 7,625,000	\$ 8,024,000
Net Periodic Benefit Income - Electric Operations	\$ (458,000)	\$ (1,401,000)
Total Net Periodic Benefit Cost/(Income)	\$ 7,167,000	\$ 6,623,000

336

337 **Q. WAS THE COMPANY ASKED TO UPDATE THE POST-RETIREMENT**
338 **BENEFIT PLAN EXPENSE PROJECTIONS?**

339 A. Yes. Similar to the pension plan previously discussed, the Company
340 would have also been required to select several of the actuarial
341 assumptions for use in the 2014 plan year for its post retirement benefit
342 plan. Additionally, the actual 2013 plan experience, which impacts the
343 2014 and 2015 net periodic benefit cost/(income), would be known. OCS
344 Data Request 3.21 asked RMP to provide the actuarial assumptions that
345 were selected for use in the 2014 plan year. The data request also asked
346 RMP to provide the revised post-retirement benefit plan expense for 2014,
347 2015 and the test year ending June 30, 2015 that would result if the
348 assumptions used in preparing the filing were revised to include: (1) the
349 impact of the actual 2013 plan experience; and (2) the actuarial
350 assumptions that were selected for the 2014 plan year for both the 2014
351 and 2015 post-retirement benefit plan calculations. The Company

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352 response referred to OCS Data Request 3.18, Attachment OCS 3.18-2
353 and stated that "...the Company has not requested its actuaries to provide
354 revised FAS 106 expense for 2015 based on the December 31, 2013 re-
355 measurement results." Thus, updated 2015 expense projections have not
356 been provided by RMP.

357 **Q. HOW DOES THE UPDATED 2014 POST-RETIREMENT PLAN COST**
358 **PROJECTIONS COMPARE TO THE AMOUNTS ORIGINALLY USED**
359 **BY RMP IN PREPARING ITS FILING?**

360 A. Attachment OCS 3.18-2 consists of a report from the actuarial firm used
361 by PacifiCorp, Towers Watson, for the PacifiCorp Postretirement Welfare
362 Plan and is titled "Actuarial Valuation Report disclosure for Fiscal Year
363 Ending December 31, 2013 and 2014 Benefit Cost under US GAAP." This
364 actuarial valuation report was dated January 2014 and shows the 2014
365 net periodic benefit cost as \$5,259,256, which is \$1,907,744 less than the
366 projected 2014 net periodic benefit cost of \$7,167,000 used by RMP at the
367 time it prepared its filing. It is also less than the projected 2015 net
368 periodic benefit cost of \$6,623,000 used in the filing.

369 **Q. HOW DOES THIS \$1,907,744 REDUCTION TO THE PROJECTED 2014**
370 **AMOUNT TRANSLATE TO THE PORTION OF THE NET PERIODIC**
371 **BENEFIT COST/(INCOME) APPLICABLE TO ELECTRIC OPERATIONS**
372 **EMPLOYEES?**

373 A. The actuarial information provided by RMP in response to OCS Data
374 Request 3.18 did not break down the updated 2014 net periodic benefit

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375 costs between the mining employees and the electric operations
376 employees. However, a breakdown between the electric operations and
377 the mining operations was provided in response to UAE Data Request 7.2,
378 Attachment UAE 7.2. The attachment shows that \$6,064,000 of the
379 updated 2014 net periodic benefit costs is associated with the mining
380 operations; thus, the electric operation net periodic benefit income would
381 be (\$804,744) (\$5,259,256 - \$6,064,000).² The updated net periodic
382 benefit income associated with the electric operation employees of
383 (\$804,744) is \$346,607 greater than the (\$458,137) assumed in RMP's
384 filing for 2014.

385 **Q. DO YOU RECOMMEND THAT THE IMPACT OF THE LOWER COST**
386 **PROJECTION PROVIDED BY TOWERS WATSON, WHICH WAS**
387 **BASED ON MORE RECENT ACTUAL INFORMATION, BE**
388 **REFLECTED?**

389 **A.** Yes. Unfortunately, the Company did not ask Towers Watson to also
390 calculate updated 2015 net periodic benefit cost projections on their
391 behalf. The actual 2013 post-retirement benefit plan experience will also
392 impact the 2015 net periodic benefit income. Absent RMP providing

² For some reason not explained in the response the "amortization of regulatory (liability)/asset" amount of \$489,171 that was included in both the original 2014 net periodic benefit cost forecast and the updated forecast provided in the Attachment OCS 3.18-2 was not included in the reconciliation provided in the Confidential Attachment UAE 7.2 causing the final Net Periodic Benefit cost in the reconciliation in Attachment UAE 7.2 to not fully reconcile to the updated forecast provided by the actuarial firm. Consequently, I have assumed that the entire \$489,171 is applicable to the electric operation employees.

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393 updated estimates of the 2015 net periodic benefit income from its
394 actuarial firm, I recommend that test year net periodic benefit income be
395 increased by the increase in the projected 2014 net periodic benefit
396 income. As indicated above, the 2014 net periodic benefit income based
397 on the updated amounts provided by Towers Watson increased \$346,607
398 from the amount considered in preparing the Company's filing for the
399 electric operation employees. After application of the net of joint ventures
400 factor for the test year of 97.594%, the increase is \$338,268 ($\$346,607 \times$
401 97.594%).

402 **Q. WHAT ADJUSTMENT DO YOU RECOMMEND AT THIS TIME?**

403 A. I recommend that the forecasted test year pension net periodic benefit
404 income be increased by \$338,268 on a net of joint venture basis. As
405 shown on Exhibit OCS 3.6D, after removing the portion that is capitalized
406 and the allocation to non-utility, test year expenses should be reduced by
407 \$240,220 on a total Company basis and \$101,935 on a Utah basis.

408 **401(k) Administration Costs**

409 **Q. ARE THERE ANY ADDITIONAL TEST YEAR LABOR COSTS THAT**
410 **YOU RECOMMEND BE ADJUSTED?**

411 A. Yes. During the base year, the Company recorded \$504,846 on its books
412 for 401(k) administration costs. RMP carried the base year cost of
413 \$504,846 forward to the test year. The amount recorded during the base
414 year is not reflective of a typical annual expense level for the 401(k)

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