Docket No. UE 263
Exhibit PAC/900
Witness: Douglas K. Stuver

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

PACIFICORP

Direct Testimony of Douglas K. Stuver

March 2013

DIRECT TESTIMONY OF DOUGLAS K. STUVER

TABLE OF CONTENTS

ATTACHED EXHIBITS

Exhibit PAC/901 – Pension and Other Postretirement Welfare Plan Balances

Q. Please state your name, business address, and present position with PacifiCorp d/b/a Pacific Power (PacifiCorp or Company).

A. My name is Douglas K. Stuver and my business address is 825 NE Multnomah Street, Suite 1900, Portland, Oregon 97232. My present position is Senior Vice President and Chief Financial Officer.

QUALIFICATIONS

Q. Briefly describe your education and professional experience.

A. I have a Bachelor of Arts degree in business administration from the University of Pittsburgh and am a Certified Public Accountant licensed in Pennsylvania.

I worked for Ernst & Young for eight years in auditing and have since worked for Enserch Energy Services, CNG Energy Services, and Duke Energy Corporation in various accounting and risk management capacities. I joined PacifiCorp in 2004 as the controller for the commercial and trading division and moved into my current role as Senior Vice President and Chief Financial Officer in March 2008.

Q. What are your responsibilities as Senior Vice President and Chief Financial Officer?

A. My primary responsibilities include the accounting, treasury, tax, financial planning and analysis, external financial reporting, commodity risk management, and internal audit functions for PacifiCorp.

PURPOSE OF TESTIMONY

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

A. My direct testimony addresses the inclusion of PacifiCorp's prepaid pension asset and accrued other post-retirement liability, net of accumulated deferred income taxes, in rate base (see Exhibit PAC/901). My testimony supports inclusion of this balance in rate base as an appropriate means to recover the costs of financing cumulative contributions made to the Company's pension plan in excess of cumulative expense.

RATE TREATMENT OF PREPAID PENSION ASSET

Q. What is the Company's proposed rate treatment for its prepaid pension asset?

A. PacifiCorp seeks to recover its financing costs prospectively for the existing prepaid pension asset and accrued other post-retirement liability, net of accumulated deferred income taxes, by including the net balance as a component of rate base. The existing prepaid pension asset represents cumulative contributions made to the Company's pension plan in excess of cumulative expense. To date, the Company has borne the costs to finance the contributions in excess of expense without rate recovery.

Q. What method of recovery for the Company's pension and other post-retirement benefit plans is currently in place in Oregon?

A. Currently, recovery is provided based on expense for both the pension and other post-retirement benefits plans. The costs of financing the difference between contributions and pension and other post-retirement expense are not currently considered in the Oregon ratemaking process.

Q. What balance is the Company proposing to include in rate base associated with the prepaid pension asset and accrued other post-retirement liability?

A. Based on a 13-month average for the period ending December 31, 2014, the revenue requirement in this case reflects $176.5 million (total-company basis) in rate base as presented in Exhibit PAC/901. This amount reflects PacifiCorp's prepaid pension asset less its accrued other post-retirement liability and is net of accumulated deferred income tax liabilities (the "net prepaid pension asset").

Q. What is the rationale supporting the Company's proposal to include the net prepaid pension asset in rate base?

A. Historically, for ratemaking purposes in Oregon, the Company has recovered pension and other post-retirement costs based on the amount recorded to *expense*. Using this approach, investor capital is required to finance any difference between the amounts *contributed* to the plans and the amounts included in rates as *expense*.

For example, if the Company records $10.0 million of pension and other post-retirement benefits expense but contributes $15.0 million to the pension and other post-retirement benefit plans, customer rates reflect the $10.0 million in expense, and investor capital is used to finance the $5.0 million of contributions in excess of the amount expensed. Accordingly, it would be appropriate to include this $5.0 million in rate base to compensate investors for their cost of capital. Likewise, if the Company records $15.0 million of pension and other post-retirement benefits expense but contributes $10.0 million to the pension and other post-retirement benefit plans, customer rates reflect $5.0 million more than the Company has contributed. Accordingly, it would be appropriate to reduce rate base by $5.0 million for these customer-provided funds.

Q. Why do PacifiCorp's cumulative contributions exceed cumulative expense recognized?

A. PacifiCorp makes contributions to its plans based on funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA), which encompass the funding requirements of the federal Pension Protection Act of 2006, and in accordance with Company policy. In recent years, funding requirements have increased as a result of changes stemming from the Pension Protection Act and market conditions. As a result of the Pension Protection Act, PacifiCorp has been required to increase contributions to its pension plan to achieve both minimum ERISA funding requirements and funding targets established by the Pension Protection Act. These contributions have outpaced expense recognized to date for accounting purposes. Since the bases for determining expense and contributions are different—with expense driven by accounting guidance and contributions driven by ERISA funding requirements—the accounting expense differs from the amounts required to be contributed to the plans.

Expense is determined based on accounting guidance from the Financial Accounting Standards Board, which requires that expense be actuarially determined and reflect the service component of expense over the time period during which services are rendered by the employees. The accounting guidance was previously provided under Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pension*s, and Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement*

Benefits Other Than Pensions. This guidance was codified into Accounting Standards Codification Topic 715—*Compensation—Retirement Benefits*. Other post-retirement welfare plans are not subject to the same federal regulations as pension plans because there are no specific funding requirements. PacifiCorp's funding policy for its other post-retirement plan is to contribute an amount equal to expense plus estimated Medicare Part D subsidies to be received during the year. This policy has been consistently applied over time with the exception of certain one-time charges taken several years ago for which no matching contributions were made. This has resulted in a consistent accrued position (cumulative expense exceeds cumulative contributions) for the other post-retirement welfare plan from year to year.

Q. Please describe why the Company's proposed ratemaking treatment is based in sound regulatory principles.

A. The Company's proposed ratemaking treatment for its net prepaid pension asset appropriately recognizes the financing costs associated with the Company's pension and other post-retirement benefit plans in revenue requirements. PacifiCorp's net prepaid pension asset at any point in time represents the amount of cumulative contributions in excess of cumulative expense recognized to date. To the extent a prepaid balance exists, PacifiCorp incurs financing costs associated with these cumulative contributions in excess of cumulative expense. Those financing costs cease only when the prepaid balance goes to zero (i.e., when cumulative contributions equals cumulative expense) or moves into an accrual position. PacifiCorp is not seeking to recover past financing costs incurred on past prepaid balances. Instead, PacifiCorp is seeking to recover prospective financing costs on the prepaid balance that will exist during the forecast test period.

Q. Has the Commission opened a docket to investigate treatment of pension costs in utility rates?

A. Yes. The Commission opened docket UM 1633 to investigate the appropriate rate treatment of pension costs. The Company is actively participating in this docket, along with other utilities, Commission Staff, and various intervening parties. Although docket UM 1633 is in its early stages, the Company's proposal in this rate case is consistent with the position PacifiCorp has communicated to other parties during the workshops in docket UM 1633. Commission resolution of docket UM 1633 while this rate case is pending may provide additional guidance to the Company and may require modification of the Company's proposal in this case.

Q. Does this conclude your direct testimony?

A. Yes.