BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR APPROVAL OF THE TRANSACTION TO CLOSE DEER CREEK MINE AND FOR A DEFERRED ACCOUNTING ORDER	)))))))	**CASE NO. PAC-E-14-10** **DIRECT TESTIMONY OF DOUGLAS K. STUVER REDACTED**

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-14-10

December 2014

INTRODUCTION

Q. Please state your name, business address, and present position with PacifiCorp dba Rocky Mountain Power (the "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.

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?

A. My testimony addresses the Company's proposed regulatory and accounting treatment for the closure of the Deer Creek Mine ("Closure") and related matters.

The Closure includes the withdrawal from the United Mine Workers of America ("UMWA") 1974 Pension Trust ("1974 Pension Trust"), the sale of certain mining assets ("Mining Assets"), and the execution of two coal supply agreements ("CSAs") with Bowie Resource Partners, LLC (or its designated subsidiary) ("Bowie"). Energy West has also settled its retiree medical obligation ("Retiree Medical Obligation") related to Energy West union participants. Together, the components of the Closure and settlement of the Retiree Medical Obligation constitute the transaction to close the Deer Creek Mine ("Transaction").

OVERVIEW

Q. Please describe the Transaction.

A. The Company is proposing to close the Deer Creek Mine in Emery County, Utah in 2015. The Closure will include withdrawal from the 1974 Pension Trust and transfer of the Retiree Medical Obligation associated with Energy West union participants to the UMWA. The Company has also entered into asset purchase and sale agreements with Bowie for the Mining Assets, which consist of the coal preparation plant and related assets located in Emery County, Utah ("Preparation Plant"); the central warehouse facility and related assets located in Emery County, Utah ("Central Warehouse"); and the Trail Mountain Mine and related assets located in Emery County, Utah ("Trail Mountain Mine") (collectively the "Mining Assets").[1] The Company has also executed two CSAs with Bowie for continued fuel supply to its Huntington and Hunter Power Plants.

[1] The Transaction also includes the sale of the assets of Fossil Rock Fuels LLC (Fossil Rock), a wholly owned subsidiary of the Company. These assets are not in Idaho rates, so the Idaho request for approval and a deferred accounting order does not address this aspect of the Transaction.

Q. Why is the Company proposing to close the Deer Creek Mine in 2015 and sell the Mining Assets?

A. Early closure of the Deer Creek Mine, including withdrawal from the 1974 Pension Trust, transfer of the Retiree Medical Obligation, sale of the Mining Assets, and execution of the CSAs will provide significant present value benefits to customers as outlined in Ms. Cindy A. Crane's testimony.

Q. Is the Company able to financially support the Transaction?

A. Yes. The Company has significant financial resources including a strong balance sheet, substantial net cash flows from operations and the ability to borrow any funds necessary to help finance the Transaction.

Certain costs associated with the Transaction will be incurred over a period of time (e.g., mine closure costs and CSA costs), while other costs of the Transaction could be incurred as a one-time event (e.g., pension withdrawal liability). In either case, the Company will be able to financially support the Transaction.

During the year ended December 31, 2013, the Company generated approximately $1.5 billion in net cash flows from operating activities. This amount of operating cash flows is well beyond what the Transaction is expected to require over a multi-year period of time. Further, the Company generated approximately the same amount of net cash flows from operating activities during the two prior years as well.

In addition to internally-generated funds, the Company has access to the capital markets and expects to be able to borrow any funds necessary for the

Transaction. This access was evidenced most recently by the Company's March 2014 issuance of $425 million of first mortgage bonds due 2024. PacifiCorp senior secured debt is currently rated 'A1' and 'A' by Moody's Investors Service and Standard & Poor's Ratings Services, respectively, both of which are investment grade ratings. The Company also has a commercial paper program that allows it to borrow funds on a shorter term basis to help finance shorter term cash needs in anticipation of a long-term financing should the Transaction require short-term financing.

Q. What are the estimated costs associated with the Transaction?

A. Estimated costs associated with the Transaction, including estimated unrecovered investment in the Deer Creek Mine and the Mining Assets, are as follows (in millions):

Unrecovered investment in Deer Creek Mine	$86
Unrecovered investment in Mining Assets	[redacted]
Closure costs	[redacted]
Retiree Medical settlement loss	[redacted]
1974 Pension Trust withdrawal	[redacted]
Estimated total	[redacted]

Q. Please provide an overview of the Company's proposed regulatory and accounting treatment for the costs associated with the Transaction.

A. The Company proposes to defer all costs associated with the Transaction as a regulatory asset. The Company proposes a carrying charge on the unamortized regulatory asset equal to its authorized rate of return. For purposes of determining the regulatory asset balance during the deferral period, the Company proposes to reduce the regulatory asset by any unpaid liabilities associated with the Transaction.

Until the time when rates next reset, the Company proposes to amortize the regulatory asset associated with its unrecovered investment at the current rate of depreciation for the Deer Creek Mine and the Mining Assets now reflected in base rates. This approach serves to minimize the amount of deferrals and align costs with amounts currently being recovered in rates.

As described in the Application, the Company also proposes to defer and amortize the incremental costs or benefits of replacement fuel supply under the CSAs until these costs are reflected in base rates. Because these costs and the unrecovered investment costs both relate to fuel supply, the Company proposes to amortize them through net power costs, subject to the Company's power costs adjustment mechanisms in each state without application of any existing sharing bands.

At the time rates are next reset, the Company proposes to add any unamortized investment to rate base, to be recovered over a period to be approved by the Commission. The Company will also reset base rates to reflect the CSAs.

The Company proposes to defer the accounting loss associated with the 1974 Pension Trust withdrawal on the basis that recovery of payments to the trust will continue for the foreseeable future until the Company's withdrawal liability can be quantified and amortized. The Company proposes rate base treatment of both the unamortized regulatory asset and outstanding liability associated with the withdrawal obligation.

The Company requests an accounting order allowing it to record as a regulatory asset the estimated [redacted] accounting loss associated with the settlement of its Retiree Medical Obligation. The difference between the funds the Company will transfer to the union and the Company's estimated Retiree Medical Obligation serves to reduce existing regulatory assets and will benefit customers through lower future expense, as described later in my testimony.

Q. Have you calculated the approximate amount of the requested regulatory assets associated with the Transaction?

A. Yes. As presented in Confidential Exhibit No. 7, the Company has projected the impacts of the Closure, Mining Asset sales, 1974 Pension Trust withdrawal and settlement of the Retiree Medical Obligation. The projections are based upon closure activities commencing after the filing of the application and the completion of the Mining Asset sales and 1974 Pension Trust withdrawal by May 2015. These projections also assume Energy West continues longwall mining through early December 2014.

The projected regulatory asset associated with the Mining Asset sales and Closure, including unrecovered investment, the settlement loss resulting from the transfer of the Retiree Medical Obligation and closure costs, is approximately [redacted] on a total-company basis. Although the Company will recognize most of these costs in 2014, certain costs will be recognized in 2015 and early 2016. Separately, a regulatory asset and a withdrawal liability of approximately [redacted] are estimated for the 1974 Pension Trust withdrawal, with recovery based on the estimated annual contribution required to the 1974 Pension Trust and continuing until contributions are no longer required.

CLOSURE OF THE DEER CREEK MINE

Q. What is the current ratemaking and accounting treatment associated with the Deer Creek Mine?

A. Consistent with the Company's 2013 depreciation study, the costs associated with the Deer Creek Mine are based upon mine closure occurring in 2019. Depreciation and operating costs are captured in the Company's base net power costs. The projected net book value of the Deer Creek Mine at December 31, 2014 is $86 million on a total-company basis.

Q. What are the accounting implications and proposed ratemaking treatment of the closure of the Deer Creek Mine?

A. The Company will be required to remove the net book value of the Deer Creek Mine from property, plant and equipment under generally accepted accounting principles ("GAAP"). For purposes of accounting under both GAAP and ultimately the Federal Energy Regulatory Commission's Uniform System of Accounts, the Company proposes to reclassify the net book value of the Deer Creek Mine assets from property, plant and equipment to a regulatory asset with rate base treatment.

The Company proposes to commence amortization as soon as depreciation ceases at an amount equal to the Deer Creek Mine depreciation currently reflected in rates. The Company proposes that the amortization of this regulatory asset, amortization of the undepreciated investment in the Mining Assets (discussed below), and the costs or benefits realized for replacement coal supply, all of which are included in net power costs, be subject to the Company's power cost adjustment mechanisms in each state without application of any existing sharing bands. At the time rates are next reset, the Company proposes to include in rate base any remaining investment, to be recovered over a period to be approved by the Commission.

Further information regarding the estimated accounting impacts of the Closure of the Deer Creek Mine is provided in Confidential Exhibit No. 7.

DEER CREEK CLOSURE COSTS

Q. Please describe the nature of the closure costs.

A. In conjunction with cessation of the Deer Creek Mine operations, the Company will incur certain closure costs. These include costs to remove everything from within the mine workings, install bulkheads in the coal seams and seal the mine portals; supplemental unemployment and medical benefits required under the terms of the labor agreement; severance benefits to be provided to nonunion employees; and certain royalties. The royalties include those that could potentially be imposed by the Bureau of Land Management as a result of not mining the previously planned coal reserve areas. PacifiCorp's current estimate for closure costs is [redacted], starting at the time Deer Creek Mine begins closure work, with certain costs continuing into early 2016.

Q. What is the Company's proposed regulatory and accounting treatment for Deer Creek Mine closure costs?

A. The Company proposes that all closure costs be deferred in a regulatory asset with a carrying charge equal to the Company's authorized rate of return. At the time rates are reset, the Company proposes to include in rate base the unamortized regulatory asset and recover the costs over a period to be approved by the Commission.

Further information regarding the estimated accounting impacts of the Closure of Deer Creek is provided in Confidential Exhibit No. 7.

MINING ASSET SALES

Q. What is the current ratemaking and accounting treatment associated with Mining Assets?

A. The Preparation Plant is utilized to stockpile and blend coal for the Hunter Power Plant. The net book value of the Preparation Plant is projected to be $20 million at December 31, 2014. Under the 2014 depreciation study, depreciation and operating costs associated with the Preparation Plant are based on a 2042 terminal life. The depreciation and operating costs for this asset are included in the Company's net power costs.

The Central Warehouse stores materials and supplies inventory for the Preparation Plant and the Deer Creek Mine. The net book value of the Central Warehouse is projected to be $0.3 million as of December 31, 2014. Under the 2014 depreciation study, the Central Warehouse is being depreciated based on a 2019 terminal life.

The Trail Mountain Mine assets to be sold are comprised substantially of a substation. The net book value associated with these assets is projected to be $0.7 million as of December 31, 2014. Recovery of and return on these assets is currently reflected in rates.

Q. **What is the Company's proposed regulatory and accounting treatment associated with the sales of the Mining Assets?**

A. The Preparation Plant will be sold in exchange for a [redacted]. No monetary consideration will be paid for the Central Warehouse property and the Trail Mountain Mine. As a result, the unrecovered investment after the sale of these assets is projected to be approximately [redacted] on a total-company basis.

The Company proposes to recover the approximately [redacted] unrecovered investment by establishing a regulatory asset, with amortization commencing immediately upon its establishment at the level of depreciation now reflected in rates.

The Company proposes that this amortization be combined with amortization of the Deer Creek Mine regulatory assets and costs or benefits realized for the replacement coal supply and be subject to the Company's power cost adjustment mechanisms in each state without application of any existing sharing bands. At the time rates are next reset, the Company proposes to include in rate base any remaining unrecovered investment in the Mining Assets, to be recovered over a period approved by the Commission.

Further information regarding the estimated accounting impacts of the sales of the Mining Assets is provided in Confidential Exhibit No. 7.

1974 PENSION TRUST

Q. What is the current ratemaking and accounting treatment associated with the 1974 Pension?

A. Energy West currently contributes $5.50 per union hour worked to the 1974 Pension Trust. The contributions are included in Energy West's operating costs, which are charged to the Company's fuel expense. Annually, these contributions aggregate to approximately $3 million and are currently included in the Company's base net power costs.

Q. What is the estimated amount of the 1974 Pension Trust withdrawal payment?

A. Energy West has the option to make either a lump-sum payment to satisfy its withdrawal obligation or to make annual installment payments. Energy West intends to negotiate with the 1974 Pension Trust at the time of withdrawal to elect the most economical choice—annual or lump sum. As of July 1, 2014, the withdrawal liability for Energy West (if Energy West withdrew before that date) was estimated to be $125.6 million. Annual payments are determined based upon the average hours worked and highest contribution rate over the preceding 10 plan years.

Q. What are the accounting implications associated with Energy West's anticipated withdrawal from the 1974 Pension?

A. Under the installment method, GAAP requires that these types of losses be recorded at their present value using a risk-free rate. A 30-year treasury rate will be used to discount the future payments. On November 4, 2014, the 30-year treasury rate projected for November 30, 2014 was 3.0848 percent, which results in an approximate [redacted] net present value. This liability, which is lower than the $125.6 million lump-sum payment, is the amount the Company would be required to record on its books.

Q. What is the Company's proposed regulatory treatment associated with anticipated withdrawal from the 1974 Pension?

A. To cover the Company's annual withdrawal payments, the Company proposes continuation of the on-going estimated $3 million annual payment already reflected in rates. The Company would defer the estimated [redacted] accounting loss associated with the withdrawal liability. Neither the regulatory asset nor the withdrawal liability would adjust over time since the $3 million would not contribute towards a reduction in principal. At some future date, when the plan terminates or the accrual of future benefits is frozen, this liability and associated regulatory asset could be finally quantified and amortized.

Alternatively, if the Company is successful in negotiating a one-time pre-payment of the annual installments that is more economical to customers, the Company proposes that the amount be deferred until the next rate reset, with rate base treatment of the unrecovered amount.

Further information regarding the estimated accounting impacts of the 1974 Pension Trust withdrawal is provided in Confidential Exhibit No. 7.

RETIREE MEDICAL OBLIGATION

Q. What is the current ratemaking and accounting treatment associated with the Retiree Medical Obligation?

A. Energy West employees earn benefits under the Company's retiree medical plan. The Company accounts for its Retiree Medical Obligation under Accounting Standards Codification Section 715-60, formerly known as FAS 106 ("FAS 106"). The Company recovers its costs associated with the plan through inclusion of FAS 106 expense in its general rate case filings with the portion attributable to Energy West participants included in fuel costs.

Q. What is the proposed regulatory and accounting treatment associated with the proposed settlement of the Retiree Medical Obligation?

A. Energy West successfully settled the Retiree Medical Obligation by transferring assets to the UMWA [redacted]. This difference of [redacted] serves to reduce existing unrecognized actuarial losses currently reflected in the Company's regulatory assets that would otherwise have been amortized to FAS 106 expense in the future and thus represents a significant benefit to customers. Settlement accounting under GAAP requires that the Company accelerate recognition of a portion of the remaining unrecognized actuarial losses. The resulting estimated settlement loss of [redacted] represents accelerated recognition of actuarial losses that would also have been amortized to FAS 106 expense absent the settlement. For this reason, the Company proposes to defer the settlement loss for future recovery over a period to be determined by the

Commission. As the Retiree Medical Obligation for the Energy West union participants is a component of the Company's overall retiree medical plan, the Company proposes that, once reflected in rates, the settlement loss be amortized to operations and maintenance expense.

INCOME TAX CONSIDERATIONS

Q. What are the income tax implications of the Transaction?

A. The Company proposes that the regulatory asset for deferred income taxes related to Deer Creek Mine be recharacterized and included in the regulatory asset for Closure costs. The income tax benefits associated with the Transaction will be passed onto customers through a reduction to rate base by the accumulated deferred income tax liability associated with the regulatory asset and a reduction in cost of service as the regulatory asset is amortized and the associated timing difference reverses.

CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes.

REDACTED
Case No. PAC-E-14-10
Exhibit No. 7
Witness: Douglas K. Stuver

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ROCKY MOUNTAIN POWER

REDACTED
Exhibit Accompanying Direct Testimony of Douglas K. Stuver

Summary of Deferral Costs

December 2014

(All amounts are estimates)
($ in millions)

	Projected Balances	Adjustments 2014-2016: Reclassify NBV PP&E to Reg. Asset	Closure Costs	UMWA 1974 Pension Trust	Retiree Medical Settlement	Sell Assets in 2015	As Adjusted Balances	Total Unrecovered Investment	Total Closure Costs	1974 Pension Trust	Retiree Medical Settlement Loss	**Total Regulatory Asset**	Regulatory Asset, excl. 1974 Pension Trust
PP&E, incl. CWIP and PS&I:	[redacted]												
Deer Creek plant in-service													
Deer Creek CWIP & PS&I													
Mining Assets in-service (to be sold)													
Materials & supplies inventory													
Regulatory asset for retiree medical (isolated)													
Regulatory asset related to income taxes													
ARO asset and regulatory difference													
[redacted]													
Newly established regulatory assets:													
Unrecovered investment													
Loss on assets sold													
Closure costs:													
Union supplemental unemployment & medical													
Nonunion severance													
Royalties													
Inventory write-off													
Unrecovered reclamation (ARO) costs													
Income tax regulatory asset													
Miscellaneous, incl. on-going labor													
UMWA 1974 Pension Trust withdrawal													
Retiree Medical Settlement													
Working capital and tax balances													
Newly established liabilities:													
Accrued closure costs													
Royalty obligations													
UMWA 1974 Pension Trust withdrawal liability													
Total													
<u>Rate base:</u>													
PP&E													
Unrecovered investment													
Loss on assets sold													
Closure costs													
UMWA 1974 Pension Trust withdrawal													
Amounts collected for ARO													
Working capital													
Royalty obligations													
UMWA 1974 Pension Trust withdrawal liability													
ADIT													

Note - excludes deferrals associated with replacement fuel supply.