

**STATE BOARD OF EQUALIZATION
OPEN MEETING
MINUTES OF MEETING HELD AUGUST 12, 2025**

In attendance: Commissioners Paul Woods, Jeff McCray, Janet Moyle, and Jared Zwygart. Nathan Nielson, and Christina Nelson, Deputies Attorney General. This meeting was open to the public and many guests attended online.

Commissioner Woods, Chairman for the State Board of Equalization, reconvened the State Board of Equalization for 2025 (Board) at 9:00 a.m. August 12, 2025.

The Board continued to hear from the County Assessors on conditions and challenges they are facing in their counties. The Consulting Appraiser from each district provided a brief overview of the status of their districts.

Consulting Appraiser, Marissa McCClurg, said District 5 covers most of the Magic Valley and Sun Valley areas and includes Blaine County, Gooding County, Jerome County, Lincoln County, Minidoka County, Power County, and Twin Falls County. Overall, they saw fewer appeals this year compared to the last few years. The market has been steady with lower sales numbers, but property values have remained firm. Only Jerome County had any issues in the ratio study time, but they were able to come back into compliance. Commissioner Woods recognized Assessor Janice West, Minidoka County, Assessor Jim Williams, Blaine County, Assessor Justin Baldwin, Gooding County, Assessor Mark Swenson, Jerome County, Assessor Norma Anaya, Lincoln County, Assessor Laura Porath, Power County, Assessor Brad Wills, Twin Falls County.

The Board moved on to the District 6 Assessor Reports. Consulting Appraiser Garin Evans began by recognizing the hard work of all the Assessors in the southeastern region of Idaho. The counties with which he works include Bannock County, Bear Lake County, Caribou County, Cassia County, Franklin County, and Oneida County. They've all been good to work with and enjoyable partners in this process. The region is primarily agricultural, and most supporting industries are tied to food production and processing. There were a few categories out of compliance for the ratio study, but they were identified and brought into compliance on the follow up study. They've all been preparing for any new system that may be implemented. They've also, as in other districts, experienced physical property access issues. Commissioner Woods recognized Assessor Anita Hymas, Bannock County, Assessor Aaron Cook, Caribou County, Assessor Jannelle Jensen, Bear Lake County, Assessor Martin Adams, Cassia County, Consulting Appraiser Garin Evans on behalf of Assessor Chris Barton, Franklin County, Assessor Kathleen Atkinson, Oneida County.

The Board recessed for five minutes.

Commissioner Woods reconvened the Board and welcomed Consulting Appraiser Leslie Warnberg of District 7. District 7 includes Bingham County, Bonneville County, Butte County, Clark County, Fremont County, Jefferson County, Madison County, and Teton County. Ms. Warnberg said although agriculture is a factor, each county has its own unique market. Most counties are still seeing growth, even though some properties are on the market longer, they haven't seen a decrease in values. Commissioner Woods recognized Assessor Donovan Harrington, Bingham County, Assessor Dustin Barron, Bonneville County, Assessor Carol Blanchard, Fremont County, Assessor Holly Standlee,

Butte County, Assessor Carrie May, Clark County, Assessor Jessica Roach, Jefferson County, Assessor Shawn Boice, Madison County, Assessor Havala Arnold, Teton County.

The Board recessed until 1:00 p.m. for lunch.

Commissioner Woods reconvened the Board at 1:17 p.m. They Board convened late because of an emergency building evacuation.

The Board will hear the PacifiCorp appeal. These proceedings are open to the public and testimony will be made under oath, per Administrative Rule 407. The Tax Commission will hold its questions until after the PacifiCorp presentation, then will again hold questions until after the state's presentation. Deliberations will occur after both presentations have been made. Maria Young, Administrative Assistant to the Board, administered the oath.

The hearing opened for **Docket No. 0-847-746-048, PacifiCorp**. PacifiCorp will present first, the state will make its presentation in rebuttal, then PacifiCorp will rebut the Tax Commission. The Board will hold their questions until the end. After all the questions and discussions, Commissioner Woods will close the public hearing, and no information will be received or shared amongst the Commissioners.

David Crapo, Attorney, represents PacifiCorp. He introduced Matthew Paz, the Assistant Director of Property Tax for PacifiCorp. He is here as a witness and to provide evidence. As discussed in the pre-hearing conference, they intend to provide their information and answer any questions the Board may have. They submitted a Power Point presentation that was made available to the Board.

Mr. Crapo said the issue they have is whether wildfires affect the value of PacifiCorp's property. He began by discussing the standard of value for the market value of operating property under Idaho law, saying it's the price at which the property would change hands between a willing buyer and a willing seller being knowledgeable of all relevant facts. He doesn't believe the facts are in dispute in this matter. Over the last 8 – 10 years, there have been many wildfires in the western United States that have negatively affected many different electric utilities, with huge payouts for damages, including economic and non-economic damage. There have also been changes in the ways to mitigate them. PacifiCorp has already paid \$1.3 billion in settlement payments and is scheduled to pay more, having already moved \$500 million that will be paid sometime within the next twelve months. Last year when they appeared before this body, PacifiCorp expected to pay \$2.7 billion in losses. That has affected the net operating income (NOI). Mr. Crapo reviewed the actual losses over the last five years. In 2020, \$252 million was booked as wildfire loss. In 2021, there was zero, in 2022, it was \$225 million, in 2023, \$1.9 billion, and in 2024, it was \$346 million, for a total of \$2.7 billion that is required to be recorded under GAAP (generally applied accounting principles) accounting. The actual amounts paid out total \$1.2 billion as of the end of December. He mentioned earlier it was \$1.3 billion because \$155 million was paid out earlier this [calendar] year and another \$500 million has been moved into the current year. PacifiCorp carries insurance, up to about \$530 million, so under payments received, insurance paid \$31 million in claims in 2022 and \$401 million in 2024, for a total of \$432 million. The accruals for wildfire, and the actual payments, are reflected in the slides Mr. Crapo presented. PacifiCorp's position is that the valuation models must consider wildfire losses properly and the Bureau (Tax Commission staff) did not consider them. The Bureau has taken out the wildfire losses as though they never happened. PacifiCorp doesn't believe that's consistent with the value standard of a willing buyer and a willing seller.

Mr. Crapo identified the issues to be discussed during this hearing; he's listed three – there are four issues – but there are three primaries. They believe the Bureau unrealistically appraised PacifiCorp's tangible property as if no wildfires have had an impact on value. Number 2: the Income Approach. He reviewed the HCLD (historical cost less depreciation) cost approach, the income approach, and the discounted cash flow model and how PacifiCorp believes the Bureau did not use the correct method of valuation. Idaho code section 63-205B deals with how to handle income when you have situations like PacifiCorp's. Statute provides three ways to normalize income. Mr. Crapo said PacifiCorp believes the Bureau did not use a four-year average. PacifiCorp received two appraisals: in one, it seemed the Bureau did use a four-year average, and in the second revised appraisal that adjusts the number, they don't know how the Bureau did it. They weren't given that information, but it doesn't seem they followed the four-year average. Last year, PacifiCorp appeared before the Board and the ruling was that wildfires are recurring, but the amount was unusual. PacifiCorp believes the typical model to explain that is discussed by Dr. Aswath Damodaran (a professor at New York University and often referred to by various state jurisdictions and taxpayers for valuation principles) wherein he advises that when an unusual number appears, average it. Use appraiser judgement and average the cycle to get something that is reasonable. PacifiCorp believes four years is reasonable, but the Bureau didn't do that. They took out wildfire losses completely and PacifiCorp believes that's inappropriate.

The last argument PacifiCorp has is that the Bureau gave 20% weight to the HCLD approach. Normally, that may be appropriate; however, HCLD doesn't recognize obsolescence. It's just book depreciation. Unless obsolescence is measured on what's allowed to be earned, or what could happen with the property, all forms of obsolescence are not captured. In unique circumstances, they should put less weight on this approach.

In summary, PacifiCorp's complaints, as listed in their appeal petition, are that they want to correct the net operating income, the capitalization rate, remove obsolescence from the cost approach and put less correlation on HCLD unless the obsolescence is removed. Mr. Crapo reviewed the first appraisal wherein the Bureau took the last two years and added back the wildfire losses after they were tax adjusted and said if there were no wildfire expenses or losses, that's what they think the NOI would be and PacifiCorp believes it writes out the loss. They don't think a would-be buyer would consider that. After they filed their appeal, they received another appraisal dated July 11, 2025 (PacifiCorp had already filed their appeal when they received the second appraisal). The Bureau changed the forecasted NOI from \$1.197 billion to \$1.160, down about \$37 million. In 2024, \$817 million was the actual NOI. The wildfire losses were \$346 million that year. If that's added back, and adjusted for taxes, it's \$1.79 billion. The same thing in 2023, they had a negative \$231 million and if \$1.9 billion of recorded losses are added back and tax adjusted, it's \$1.42 billion. They believe those adjustments aren't appropriate. They believe if standard appraisal practice is followed, at best they'd just take a 4 – 7-year average of the actual NOIs to get a more accurate estimate to capitalize into perpetuity.

Mr. Crapo reviewed a slide depicting some of the wildfires over the last decade to show that they're not unusual, they're recurring, and utilities must deal with them. One billion dollars is a large amount, and at least five companies have over that in damages. It's not unheard of; it's becoming normal. Mr. Crapo also noted that PacifiCorp's credit rating has also been downgraded twice over the last couple of years because of the risk associated with losses on wildfires. The one thing he should mention – and he's already talked about the actual losses and payouts, but there's still \$51 billion in claims filed against PacifiCorp in various lawsuits. That may not all need to be paid but he mentions it because there are significant claims outstanding. A buyer would not ignore that.

Mr. Crapo reviewed the language of Idaho code section 63-205B. It defines how to normalize the value. They believe these are recurring items, and even if the amount is unusual, it should be averaged. Mr. Crapo referenced guidance from Dr. Damodaran where he talks about extraordinary and recurring. Mr. Crapo outlined that PacifiCorp recommends averaging NOI and averaging the expense or loss over the appropriate cycle. They don't believe they have non-recurring expenses. Mr. Crapo discussed PacifiCorp's mitigation efforts, saying they're very proud of their efforts to mitigate fires, but they're expensive. Ignoring those costs will lead to an overvaluation.

In looking at the cost approach and the income approach, they must be correlated. He showed a slide depicting both approaches over the last 20 years saying they diverge indicating there is a problem with one of the approaches. The question is whether to continue to place the same weighting that's always been used, or whether the weighting is changed, or the approach is adjusted. They believe the cost approach, because it makes no adjustment for obsolescence, has become too high, arbitrary, and not tied to reality. The income approach is closer to real value. They'd be much better served by putting 100% weight on the income approach and no weight on the cost approach because of the risk.

PacifiCorp offers two proposals. The first is to use a four-year average of the actual NOIs to get \$804 million. They believe the discount rate should be higher because they have higher risk in their debt and because they believe there are errors in the cost of equity by the Bureau, but for the sake of simplicity, just use the Bureau's capitalization rate at 7.85% to get \$10 billion with 100% weight. They believe that is close to what a would-be buyer would consider based on all the risk, and all the damages associated with PacifiCorp. The second one, however, suggests continuing with the 20%/80% weighting to get the value at about \$13.8 billion as a system wide value. They believe these are appropriate. Mr. Crapo said PacifiCorp has been increasing its plant because it has a certificate of public necessity. They are obligated to do so and there have been some transmission projects in the works for many years. Their rating is BBB right now. That's why they believe placing the weight on the income approach is more appropriate and they believe the adjustments are appropriate.

Commissioner Woods thanked him for the presentation and opened the floor for questions from the Board. Commissioner Moyle asked about the rate adjustment before the public utilities commission (PUC). Mr. Crapo said they're required to go to the PUC in each of the six states where they operate: Idaho, Utah, Oregon, Washington, California, and Wyoming. They must define what a reasonably prudent expense incurred is and whether they can capture that in their rates. They've not been able to recover the losses from rate payers. Those expenses are paid by the investors. They are then asked what they're doing to mitigate wildfires, and the response is that they form a mitigation plan or form a fund in a state. Sometimes, the PUC or the legislature in a state will let them begin a fund, and California allowed a "self-insurance fund" about ten years ago, but they made the shareholders pay into it. Now there is talk that perhaps shareholders and rate payers can pay into it. Those types of things are in process, but they're not occurring in all states. PacifiCorp appeared before the PUC in a rate case and asked for its mitigation plan, and to help recover increased insurance costs. PacifiCorp carries about \$500 million in insurance for this type of damage; previously, that policy was only about \$6 million. Mr. Paz said it is now \$186 million for the same type of coverage. PacifiCorp went before the Utah PUC for rates, saying they'd like to increase rates to help with their mitigation plan, including putting in sensor stations, and burying lines to recover some of the insurance. The PUC said no. They allowed about 25% of the requested rate. PacifiCorp has appealed that ruling to the Utah Supreme Court. That's how serious this is for them in all six jurisdictions. They're not recovering everything they would like to think is a reasonable expense.

Commissioner Woods recognized Matt Shriver, Deputy Attorney General assigned to the Tax Commission, and representing the Operating Property Bureau, said the Board will hear from Shyanne Massie, Tax Appraiser and Jerott Rudd, Operating Property Bureau Chief. Mr. Shriver spoke briefly about the legal issues in response to Mr. Crapo. Mr. Shriver noted PacifiCorp has the burden of proof to establish beyond a preponderance of evidence that the Bureau's appraisal is incorrect. He's confident the Board will see that isn't the case and that the Bureau did follow applicable statutes and rules and generally accepted appraisal standards in a sense that better approximates the value of PacifiCorp's operating property in contrast to the proposals PacifiCorp has made.

Regarding the normalization and the "unusual, non-recurring items" of Idaho code section 63-205B, there are the three elements Mr. Crapo identified. There are no disputes about whether the statute permits some kind of adjustment to historical NOIs that are used in the income approach by the Bureau. The issue is when the statute permits, what does the phrase, "unusual and non-recurring items" mean. His interpretation of PacifiCorp's position is that only truly one-time items are considered non-recurring. He believes there is a good argument, even if their interpretation is correct, that the wildfire liability, stemming primarily from the 2020 Labor Day Weekend wildfires and the McKinney wildfire in 2022 could be considered, even under that narrow interpretation. Because of the way they read this term, they argue that the statute disallows the Bureau to adjust those NOIs and instead that the Bureau is required to include 2023 and 2024 in any kind of lookback that Idaho code section 63-205B prescribes. The state believes this is an impermissibly narrow reading and not how the term is intended to be used or ordinarily understood; it is not how industry experts use the terms. It's unusual, and he has seen no indication that it's ever occurred before, for PacifiCorp to have a negative net operating income. These wildfire expenses that contributed to that and to the historically low income seen in 2024, are the type of dramatic spikes in abnormal expenses that "unusual, non-recurring" is intended to encapsulate.

Mr. Shriver referred to his briefing to explain in more detail, saying Dr. Damodaran and James Hitchner (Managing Director of Financial Valuation Advisors and Chief Executive Officer of Valuation Products and Services) provide examples of one-time, unusually large, or abnormal, restructuring expenses. Mr. Shriver said he'd say that these types of wildfire liabilities have occurred since 2020 and are the type of expenses on an order of magnitude beyond what historically they've seen to be considered unusual, non-recurring, and that generally accepted appraisal practice requires normalization.

Mr. Shriver said Dr. Damodaran's theory, or methodology, isn't just to average, and if averaging doesn't work because of abnormally low numbers, it throws the whole averaging concept off. That's why the legislature said there needs to be potential adjustments to those NOIs for unusual, non-recurring items, which these wildfire liabilities are. The Bureau's method is consistent with PacifiCorp's history of earnings. He reviewed the 5-year history. He was surprised to see, in PacifiCorp's materials, the critique of the Bureau's use of the \$1.6 billion, instead of \$1.197 billion. He doesn't think, in context, it's a deviation from Idaho code section 63-205B. It's important to remember that this figure was the result of an amended appraisal. The original NOI was higher, and it was done as a good-faith effort to resolve the concerns PacifiCorp raised in the pre-hearing conference conversations and had the effect of reducing the Bureau's taxable value from \$635.6 million to \$622 million.

In conclusion, the Bureau's interpretation of Idaho code section 63-205B is correct and more consistent with appraisal theory, and it better estimates the income anticipated to be earned by

PacifiCorp than the alternatives offered. The proposal PacifiCorp has made asks the Board to expect into perpetuity \$804 million in net operating income. That number is even lower than it was this year. He doesn't know that is a reasonable estimate of what an investor would expect into perpetuity. PacifiCorp advocates using 100% weighting to the income approach. The Supreme Court, as referenced in his memorandum, says, "...there is no one factor that can be said to be the key to proper appraisal in taxable property." The problem in focusing solely on an income approach is that it only considers what a buyer would pay and ignores what a seller would agree to. The Bureau's reconciliation of the income and cost approach is consistent with the law, with good appraisal techniques and results in a more accurate estimate of PacifiCorp's fair market value.

PacifiCorp also raised obsolescence as an issue. Idaho code section 63-205B addresses obsolescence specifically. This statute was enacted in 2014 and was a compromise after years of litigation between industry and the Tax Commission on how to handle obsolescence. The Tax Commission at the time provided testimony to the Senate committee (February 19, 2014, for house bill 440) estimating that requiring a weighting of no more than 80% income and 20% cost would lead to between 7% and 28% lower assessments. The Tax Commission and the legislature found the compromise acceptable because of the ongoing litigation. In asking the Board to consider additional obsolescence would mean the Board ignores the statute that requires no more than 20% weight given the HCLD method, even if the appraiser were to find compelling reasons to place more weight, they are prohibited from doing so. Doing so accounts for "any and all forms of depreciation, including any and all forms of obsolescence. The appraiser shall not consider any further obsolescence." The statute is clear that additional obsolescence cannot be considered under circumstances where the Bureau has only placed 20% weight on that method.

The Bureau's method is consistent with the law, good appraisal techniques, and better estimates the income anticipated by PacifiCorp into the future. The Bureau respectfully requests the Board uphold the Bureau's value. Mr. Shriver yielded to Shyanne Massie, Appraiser. Commissioner Moyle asked if that committee meeting [for the house bill 440 mentioned by Mr. Shriver] wasn't because the Tax Commission lost a lawsuit from PacifiCorp. Mr. Shriver asked if Commissioner Moyle refers to the 2012 PacifiCorp decision. She said yes. Mr. Shriver said it was the decision that precipitated the change, yes.

Shyanne Massie is the appraiser for rate-regulated utilities. Ms. Massey reviewed the different valuation methodologies used in her appraisal, beginning with the cost approach. For this appraisal, she used the historic cost less depreciation (HCLD) which is based on actual financial data reported by the company. She reviewed her detailed cost approach calculation using the values reported by PacifiCorp, saying they reported \$37.6 billion in plant and service. From that, she subtracted about \$13.8 billion in depreciation resulting in a net plant value of just under \$23.9 billion. She added other components reported in their filings including construction work in progress and plant adjustments. Altogether, those additions brought the final cost indicator value to approximately \$28.4 billion.

The next valuation method she used was the income approach. She explained the process and reviewed her appraisal. She reviewed Idaho code section 63-205B wherein it says exactly what must be prepared for capitalization. She feels her interpretation of the code section is simple: They must use at least a 4-year average for net operating income, normalize each year to constant dollars using GDP (gross domestic product), and adjust any year that contains unusual, non-recurring items, and in this case, it's the wildfire losses. She reviewed her appraisal for PacifiCorp using their reported NOI for 2020 through 2024. The two wildfire years are highlighted, and she added back the after-tax portion of those extraordinary costs. Each year is converted to constant 2025 dollars using the GDP

implicit price deflator. She used a 4-year average, which came to approximately \$1.19 billion. That amount was in her initial report as the forecasted operating income. After a meeting with PacifiCorp and listening to their concerns regarding wildfire issues, she recalculated and concluded a 2025 forecasted NOI of \$1.16 billion. Using that forecasted NOI, she divided by 7.85%, the yield rate for an income indicator of \$14.7 billion. That figure flows into the system value reconciliation.

Ms. Massie said the market approach was considered, but there are no good comparables for this industry. There are no reliable sales of electric utility systems that can serve as meaningful indicators of value. The stock and debt approach was also considered, but PacifiCorp isn't publicly traded, which limits the applicability and availability of data. As a result, neither approach is appropriate for this property.

She reviewed the system value correlation in the final steps of her valuation process. The cost approach is weighted at 20% and the income approach is weighted at 80%. Given the volatility in PacifiCorp's income, if she wasn't constrained by Idaho code section 63-205B, she might have considered increasing the cost approach, but she maxed it out at 25% and as a result, she has a reconciled system value of approximately \$17.5 billion. She deducted about \$823 million for intangible personal property. The adjusted system value was then \$16.6 billion. She applied an Idaho allocation factor of 4.57% that is based on data provided from the company's regulatory filings. That factor reflects PacifiCorp's overall operations associated with Idaho and provides an Idaho allocated value of about \$763 million. Finally, she deducted licensed vehicles, business inventory exemption, and the personal property exemption resulting in a 2025 taxable value of \$622,117,762.

Ms. Massie reviewed the provisions she followed with Idaho code section 63-205B saying that subsection one sets the cost indicator at no more than 20%. Subsection two clarifies that the 20% accounts for all depreciation, including all the forms of obsolescence and that no additional obsolescence is applied. Her interpretation is that when HCLD is used, the statute limits the cost indicator's role at no more than 20% and treats obsolescence as included in that weighting. That's why, in her reconciliation, the cost indicator is carried at 20% and the income indicator at 80%. Ms. Massie yielded time to Mr. Rudd. Commissioner Moyle clarified the values between the two appraisals.

Jerott Rudd, Operating Property Bureau Chief, is responsible for the assessment of PacifiCorp for property tax purposes. He reviewed the process they used and the assessment of PacifiCorp this year. PacifiCorp suggests the Bureau should place 100% weight on the income approach because they suggest the cost approach is inflated. The Net Book Value is actually a value that PacifiCorp reports in their 10-K (an annual report required by the U.S. Securities and Exchange Commission (SEC) that provides a comprehensive summary of a company's financial performance) filing to the SEC. Their Net Book Value is over \$28 billion. They're suggesting in their income approach that PacifiCorp is worth about \$10 - \$13 billion.

Mr. Rudd's presentation included an excerpt of Idaho code 63-205B(1)(b) talking about normalized income. He explained that normalization is a process used when performing an income indicator of value that looks at the income that's reported and identifies whether the income in the financial statement contains any expenses that don't constitute a company's normal business operation. If there are charges that don't constitute normal operations, those anomalies are eliminated to provide good data for forecasting. The Western States Association of Tax Administrators (WSATA) manual says that normalized net operating income is income that can reasonably be expected to be earned under normal operating conditions. At the end, it makes a point of saying that

if there are abnormal charges in the NOI, then one must adjust for them to avoid the impact of capitalizing those temporary conditions into perpetuity. Dr. Aswath Damodaran says similarly that when evaluating a firm with depressed current operating income, you must first decide whether the drop in income is temporary or permanent. If the change is temporary, then you must estimate the normalized operating income for the firm rather than using what was made or reported in the most recent year.

Normalization is an important process, especially with the advent of Idaho code section 63-205B that requires them to normalize. The last part of that code section talks about unusual, nonrecurring expenses. There's been talk about whether wildfire is recurring or nonrecurring. The Cambridge dictionary says nonrecurring are charges that don't happen regularly. In determining whether to normalize, one of the first things they review is the level of reported income by the company. As they've discussed, PacifiCorp reported a negative \$231 million NOI. In 2024, they reported an \$817 million net operating income. The Operating Property Bureau believes both are unusual and nonrecurring.

When looking for the cause of unusual, non-recurring net operating income, they try to isolate the cause and they were able to do that by looking at the revenue and expenses reported by PacifiCorp in their filing on the Federal Energy Regulatory Commission (FERC), Account 925 Form 1. They evaluated the injuries and damages on that form and determined that 2023 and 2024 were inflated due to wildfire losses. These were essentially a result of just two wildfire events mentioned earlier by Mr. Shriver. Most of the charges are the result of the 2020 Labor Day Weekend fires. They completed a 13-year average, removing the outliers, and that was about \$80 million. They also looked at the 10-year average prior to 2023 and it was about \$33 million per year. Mr. Rudd also pulled the Public Utilities Commission information and looked at the injuries and damages back to 2000 to ensure he wasn't missing something. PacifiCorp has not reported, in 24 years, injuries and damages of \$1.7 million. With that information, the Bureau felt this was right for a normalization process.

Last year, PacifiCorp appealed for the same issue, and a different methodology was used. In 2024, the appraiser used a 10-year history of revenue and expenses. She took an average expense ratio and applied that average expense ratio to the revenue that was generated in 2023 and established a normalized income. PacifiCorp didn't like that methodology and it was a big part of their presentation last year before the Board of Equalization. This year, when looking at how to normalize the wildfire, he reviewed a slide PacifiCorp had provided during the informal meeting in June 2024 and is identical to a slide they provided in their presentation. They normalized and came up with a wildfire loss net of tax, added it to the net operating loss to get a 2023 adjusted net operating income. That is the number they presented during the informal meeting last year, presumably to normalize the negative \$231 million. Instead of using the same methodology this year, Mr. Rudd used PacifiCorp's suggested methodology. He used the \$1.67 billion, applied a marginal tax rate of 24% instead of 25% because 24% is what was used in the rate regulated electric yield study and to be uniform with the other utilities. That provided a wildfire loss net of tax of \$1.274 billion. They added back the net operating loss to come up with a normalized income to be used in this year's appraisal, for 2023, of \$1.42 billion. That's used in Ms. Massie's 4-year average to come up with her income to capitalize. They did the same thing for the unusual non-recurring income that PacifiCorp achieved in 2024. They took the reported wildfire losses, tax affected it, added it to the actual income of \$817 million to get an adjusted, normalized net operating income to use in the 4-year averaging of \$1.79 billion. This is all reflected in Ms. Massie's appraisal.

PacifiCorp believes they can normalize by averaging the actual incomes, that they can normalize their perpetuity income by simply averaging the last four years of actual income. They're asking the Operating Property Bureau to put the negative \$231 million NOI into the average, and they're asking them to include an \$817 million NOI. Neither one is a normal level of operating income. Mr. Rudd said they would need to believe that wildfire risk will continue at the same level as when these two wildfire events happened, and going forward, they will achieve \$805 million each year. He doesn't feel that's realistic and there is no evidence to support the idea that wildfire risk is going remain at the level it was 3 – 5 years ago.

Mr. Rudd reviewed slides from the 2025 Fixed Income Investors Conference. The expectation is that wildfire risks will decrease. There are three reasons for this. First, they've invested billions of dollars to prevent wildfire probability. They've also considerably changed their operating practices. Second, they've reduced their wildfire consequence. They have approached the legislatures in each state wherein they operate to enact legislation that limits their liability in the non-economic damages. So far, they've been successful in at least three states. They're also working to create wildfire funds, and they've increased wildfire insurance. Last, they've reduced historic wildfire consequence. They're working to reduce the consequence of the two fire events discussed in this hearing. They've successfully settled over 2,000 complaints and the Oregon Department of Forestry recently came out with an investigation saying that PacifiCorp didn't contribute to the Beachie Creek fire. There are many ongoing investigations still. In every claim where there's been a judgement against PacifiCorp, they've filed an appeal.

Mr. Rudd talked about some of the mitigation strategies PacifiCorp has implemented. There are about seven strategies they're using to reduce wildfire risk. He talked about their wildfire prevention investments, saying they anticipate investing another \$2 billion between 2025 and 2027 and that it's likely those costs will be recovered from customer rates, further adding to the revenues PacifiCorp will generate in the future. He went on to say that in 2020, PacifiCorp, in its entire service territory, had only 55 weather stations. In 2024, they've increased the number of weather stations in their service territory to 600. There is simply no evidence that wildfire risk is going to continue at the same level it was previously.

Last year, PacifiCorp said the Operating Property Bureau did not use the 2023 NOI as required by Idaho statute. They said staff replaced, not adjusted the 2023 NOI and that the approach was arbitrary and capricious. In 2024, that isn't the case. He's just shown the Board how they calculated the normalization of the income. It isn't arbitrary and capricious. It's the same approach PacifiCorp suggested last year. Their second critique is that Idaho code section 63-205B allows NOI to be adjusted for unusual non-recurring items. It not only allows but requires them to normalize. They've said staff didn't articulate the items for which they believe the 2023 NOI should be adjusted. This year, they've been clear in articulating the cause of what those unusual non-recurring items were. They said staff didn't explain the basis for an adjustment methodology and this year staff used the exact methodology PacifiCorp suggested last year.

Mr. Rudd said his last two slides show a comparison of PacifiCorp year over year, their change in property and income. In 2024, the cost indicator of value for PacifiCorp was approximately \$26 billion. In one year, they added over \$2 billion worth of investment. Their 2025 cost indicator of value is \$28.6 billion. That's a total increase of invested cost of \$2.5 billion or a 9.7% increase year over year. Their net operating income in 2024, unadjusted actual, was negative \$231million. In 2025, their unadjusted actual is now \$817 million for a total increase in one year of over \$1 billion, or a 452% increase. He showed a comparison of PacifiCorp's year over year Idaho taxable value. PacifiCorp

appealed to the district court and the Idaho Tax Commission ultimately settled the 2024 Idaho taxable value in March 2025 at \$612,831,870. That is prior to the Railroad Revitalization and Regulatory Reform (4-R) Act adjustment. In 2025, the Idaho taxable value was \$622 million for a total increase in taxable value of just \$9.2 million, or 1.52%. There's income that's improved 452%, investment and plant that's increased almost 10%, and the taxable value is increasing at a rate of 1.52% year over year.

Mr. Rudd commented on some of the PacifiCorp slides, calling out Mr. Crapo's discussion on "a wide variation between value estimates often suggests that one approach is not as applicable as the others or that valuation procedures have not been properly applied." (PacifiCorp presentation, slide 11). Mr. Rudd completely agrees with that statement. He believes there is a valuation approach and procedure that isn't reliable. He'll disagree with them, though, because he believes the included approach is artificially low due to the requirements that Idaho code section 63-205B places on staff to determine a value by the income approach, namely requiring them to use historical incomes to project future benefit or income. That isn't typically done in appraisal. Typically, they want to look at what is anticipated or expected in the future. They could use what they've done in the past as a guide, but to require an average of historical incomes puts a limit on staff that makes the income approach less reliable. There is also a requirement that staff inflate their yield rate study for flotation costs. They don't do that for any other company except the rate regulated electrics. When they add points to a yield rate, it results in a lower value. That's part of the reason for the divergence in Mr. Crapo's chart in 2014 – 2015 when Idaho code section 63-205B became effective. In 2022, there is another spread, and Mr. Rudd said he believes that's because PacifiCorp invested \$2.5 billion in the last couple of years and that isn't captured in the income approach. As Ms. Massie mentioned, she may have put more weight on the cost approach, if she could. The cost approach is a highly relevant approach in the valuation of rate regulated electrics.

He further commented on the second point PacifiCorp made on that same slide. He's already responded to "the division's 2025 cost approach is 92% higher than their 2025 income approach" saying it's because of PacifiCorp's large investment into the cost approach that's not being considered in the valuation. Last, "the Division's 2025 cost approach is 177% higher than an income approach using a 4-year average of actual net operating income." Mr. Rudd said the only thing that highlights to him is that using actual incomes is wrong. Their dotted line, on that slide, shows that it goes even further below net book value, further below what makes sense, so that highlights to him that this income must be normalized in order to get to a value that makes sense for PacifiCorp.

On the next slide (slide 12) Mr. Rudd demonstrated the challenge, and the fatal flaw, in PacifiCorp's income estimate. They estimate an income using a 4-year average of the actual net operating income to come up with the \$804,939,530 that they capitalized. That's what they expect PacifiCorp to achieve into perpetuity. Mr. Rudd said if that's what they achieve next year, using the same methodology used this year, and using a 4-year average NOI and saying they're exactly right, and in 2026 they report an \$804 million NOI. The \$804 million replaces the \$1,363,194,533. Doing a 4-year average brings the projected income to capitalize next year to about \$690 million using this methodology. In 2027, the \$1,276,999,840 number would fall off, and again, if \$804 million is the projection, they'd have a 4-year average with two \$804 million, an \$817 million, and a negative \$237 million, the income to capitalize, using Idaho code section 63-205B, would be about \$547 million. There isn't an investor in the world that believes the assets of PacifiCorp are only going to generate an income of \$547 million. To him, this highlights the necessity of normalizing this income. It doesn't work to use actual incomes, and it results in a value that doesn't make sense for PacifiCorp.

He asked the Board to uphold the Bureau's value of \$622 million. Mr. Rudd stood for questions. Commissioner Moyle said that any way this is done, it's a timing issue as far as the appraisals. Mr. Rudd said that valuation is about what is anticipated in the future and that's the whole reason they normalize. They want to identify what is anticipated for the future, what an investor would pay for the future benefit they receive from this system of assets. That's why they're trying to determine a normal income for these assets. Commissioner Moyle asked why he feels fire mitigation would not be an ongoing expense. Mr. Rudd said he's sure they will continue to have some fire mitigation expenses, and those expenses will continue to be removed from the revenue they generate going forward. He doubts they will be spending \$2 - \$3 billion ongoing, into the future. He thinks at some point that it will level off. He expects they will seek to recover much of those costs from rate payers. He isn't saying all will be recovered, but he's sure it will be PacifiCorp's goal.

Commissioner Moyle asked if he's taking that into consideration when doing the appraisal. Mr. Rudd said he believes they are taking the wildfire into consideration. They are considerably lower than what they've done historically in their income projection at \$1.16.

Commissioner Woods clarified that Mr. Rudd has said the income method, as required by statute, uses historical data as a method of projecting future earnings. We don't, however, attempt to peer into the future of what increases in revenue might be because of system growth, or what expenses might be. Statute requires staff to look back, and project forward, using a capitalization rate. The lookback acknowledges what the normalization process is trying to do to make sure that they aren't creating a mathematical anomaly because if you keep the anomaly in there, it will have unintended consequences for the next four years until it rolls off. That's problematic because it isn't reflective of what the ongoing perpetuity is. They're using the past as a projection of perpetuity. Last year, they didn't just use an NOI estimate for 2023 as a projection based on expenses as a percentage of revenue. PacifiCorp is trying to say wildfire expenses are likely to be a normalized expense going forward, but not at \$1.7 billion per year. They averaged and accounted for that knowing there is variability. Staff must, statutorily, use historic numbers. Mr. Rudd said he mentioned they used \$1.042 in 2023, they used \$1.079 in 2024. When they provided the appraisal to PacifiCorp, they still expressed concerns about wildfire and even though the approach used to normalize was the same one that PacifiCorp recommended in the informal meeting last year, they didn't like the fact that staff normalized. To address those concerns, staff decided to lower the income projection. They didn't use the \$1.197 that comes from the 4-year average, they reduced it to \$1.160 in a good-faith effort to address continued concerns about wildfire. He shared how they arrived at that number, saying he reviewed the year over year increase in normalized net operating income for 2023 to 2024. That increase was about 3.58%. PacifiCorp also expressed concern that Mr. Rudd had ignored the settlement agreement. To tie this offer to that settlement, he used the \$1.17 million that was capitalized and resulted in the settlement number, he increased it by 3.58% and came to something very close to \$1.16 million. It addressed their concerns and considered the settlement agreement.

Commissioner Moyle said, not being privy to those discussions, Mr. Rudd obviously felt there was something relevant to their request. Commissioner Woods said he was in those discussions, and he's sympathetic to wildfire, and it isn't just Idaho. They're trying to sift through claims listed on the 10K to determine what the real expenses were versus the potential liabilities. He asked staff to calculate values with the income method normalized using the method PacifiCorp critiqued, and that resulted in an adjustment. That was part of the reason for settlement and in looking at the wildfire issue, what will occur isn't just losses in the loss column because they've said they will continue to make investments to reduce that. There are increases in expenses, regardless which column they fall

into, then the potential revenues must be considered. Statute doesn't allow staff to do that because it's a rear-looking framework. That was just some of the conversations they had during the settlement.

Mr. Crapo was recognized to respond to the state. He said he was involved in the most recent court decision involving PacifiCorp; however, he was not involved in the 2012 PacifiCorp decision that preceded the statute change in 2014. He said he can comment on the models used, though, and he talked about the HCLD, noting Ms. Massie said she'd probably put more weight on it. He reminded the Board that HCLD has limitations. It is historic cost, less book depreciation and doesn't look at any market data to determine if there's any obsolescence. It's purely an accounting number and why it has so many problems and is why the court, and presumably the legislature, restricted the weighting of the HCLD up to 20%. That means one could use 100% weight on the income approach if that's the right appraiser judgement to use. PacifiCorp believes it's appropriate. They don't get full recovery on all these expenses. The Bureau mentioned that the income approach is rear ward looking. The goal is to only tax assets in existence on the lien date, not future assets. There is rationale, there is lag, but there are also some concerns.

Mr. Rudd talked about wildfire expenditures being a "temporary condition into perpetuity," that it has to be "normal operating conditions." PacifiCorp argues wildfire liability costs are not temporary but the new normal. They believe these are normal operating conditions. He referred to the slides highlighted by Mr. Rudd showing the mitigation efforts, reducing liability, having a plant, having prevention investments and weather stations. If it's never going to happen again, why are they wasting billions of dollars to try to help reduce the damages they expect. That alone should prove it's the new normal. That says some adjustment must be made. Mr. Crapo talked about how to normalize, saying statute says to use the GDP inflator to inflate the numbers for time, valued money, do at least a 4-year average (and it can be longer), and that they can adjust for non-recurring items. They believe wildfire costs are recurring. If it's extraordinary, then how should it be adjusted? They could lengthen the average, and Mr. Crapo suggested a 10-year average, saying they wouldn't get \$804 million NOI to capitalize, but they also wouldn't get \$1.160 billion, either. Using a 10-year average will be \$1.95 billion. So, they're making an adjustment of maybe \$100 million per year. Use appraiser judgement but make the adjustment, don't just ignore it and normalize it out and pretend it doesn't exist. Mr. Crapo asked for the slide he submitted as rebuttal that includes a quote from Dr. Damodaran who explains the averaging concept. Mr. Crapo said this text is from Dr. Damodaran's book [O]n Valuation: Security Analysis for Investment, page 91. He's talking about what to do when something's unusual. PacifiCorp thinks the wildfire expenses are recurring. The Board ruled last year that the amount may be unusually high. Dr. Damodaran talks about this, and Mr. Crapo highlighted those points in the text of Dr. Damodaran's book. If they have \$1.6 billion, average it over whatever staff believe is the right cycle that this may occur, and that would be perhaps a \$100 million adjustment, but it isn't zero.

Mr. Crapo referred to the state's slide number 15 that depicts the informal settlement discussion they had with PacifiCorp in June. He believes the conversation has been taken out of context. Mr. Paz and PacifiCorp looked at how the Bureau's ratio analysis last year of historic data which didn't account for wildfires and didn't consider any of the normal operating expenses that were being incurred. PacifiCorp argued that they should have taken wildfire out of the actual amount and tax affected it to get an NOI of \$1.25 billion. The methodology used last year was wrong, they're failing to account for other expenses. They're saying to get the numbers right if the theory's right. PacifiCorp would say they've removed a recurring expense. It's interesting that staffs four years include 2020 when PacifiCorp had \$136 million in wildfire expense that the Bureau didn't remove. In 2022, they had \$64 million that wasn't normalized out, but in 2024, they did take the wildfire expense out because

it was a big number. That's where appraiser judgement comes in and they believe it's a mistake to take it all out, when PacifiCorp has paid \$1.3 billion in losses, \$155 million already this year, and another \$500 million to be paid out over the next 12 months. A willing buyer will consider those costs in the overall price of the company. Mr. Crapo referred again to the mitigation costs, the economic damages and prevention. There's no guarantee they will be able to recover those costs in rates. The new normal is that any electric utility in the Northwest must deal with these expenses and they should not be ignored.

Mr. Crapo talked about the 2025 settlement offer saying a ten-year average will be closer to a reasonable amount. Their proposed recommendation of what a willing buyer and willing seller would agree to is realistic. They ask for adjustments. Mr. Paz commented on future cash flows, saying they have multiple claims to sort through, and they don't know what will happen. They can't predict normal cash flows, because there's too much uncertainty, and bankruptcy is not off the table. They have had some wildfire legislation successes in Utah, Wyoming, and Idaho, but they must consider economic and non-economic damages. They don't have protection on the west coast. They haven't had the same successes there. Mr. Rudd mentioned that they have 66,000 miles of distribution lines across six states and 17,000 miles of transmission lines; those are in higher consequence areas. They're very exposed. They view all these expenses as recurring; it's the new normal. Mr. Crapo emphasized that they are always liable for economic damages. Even if they're not culpable, they must still pay non-economic. They strongly believe the appropriate action for this Board would be to normalize some of that expense by averaging, either the expense or the NOI. They're asking for the evaluation to be more realistic to current exposure.

Commissioner Moyle asked when they began expensing these as not extraordinary. Mr. Paz said the extraordinary concept went away in 2015. They began incurring these expenses in 2020. If they have unusual, or larger than normal items, they're listed on a separate line. Commissioner Zwygart said PacifiCorp has presented that the Bureau hasn't considered fire expenses, yet the only year he sees that the Bureau did anything with it was 2023. In 2024, they left that as an expense, so he asked PacifiCorp to explain. Mr. Crapo confirmed that Commissioner Zwygart is referring to their slide 14 and said that it isn't just wildfire. It's all injury and damages including wildfire. Their understanding is that in any of the NOIs the Bureau has used up to and including 2022, all injuries were left in the NOI and not adjusted. In 2023 and 2024, they took it all out. In 2023, they adjusted out the wildfire and left in whatever other injury there was. Their concern is that a good portion of the wildfire piece should also be left and normalized.

Commissioner Woods said everyone at the Tax Commission is sympathetic to the challenges they've faced both in providing reliable electricity and preventing wildfire, and they have a couple of things going on: the huge claim of \$1.7 billion, and they're proactively investing money to ensure that isn't the new normal. The state is attempting to arrive at market value. Commissioner Woods said if he sells a house for \$500,000 but has \$600,000 in debt, that doesn't make the value of the property negative \$100,000. He agrees the number shouldn't be zero and asked staff if they used the number zero in the income method. Mr. Rudd said they attempted to normalize injuries and damages. They didn't remove the entire thing. He continued to explain their accounting to normalize the injuries and damages. Mr. Crapo said the wildfire costs were completely removed and that's where their issue lies. Commissioner Woods said staff made a normalization adjustment, but Mr. Crapo is saying they didn't make any adjustment for wildfire. He believes they're using two different terms. He's giving staff an opportunity to explain: what's being claimed is that the number for wildfire is zero. Is that correct? Mr. Rudd said they attempted to normalize the injuries and damages. Every year, prior to 2023, if there were wildfire losses, they were always included in the injuries and damages. Staff tried to

normalize the injuries and damages account using averages higher than have been used in the past. The abnormality came in 2023 with the two identified wildfire events. The past didn't have, in their opinion, unusual, non-recurring, wildfire expenses. Commissioner Moyle said staff were inconsistent in how they averaged. Commissioner Zwygart asked staff to review what they were given and how it was identified. Mr. Rudd reiterated that they viewed the injuries and damages in 2023 and 2024 as unusual non-recurring. Commissioner Zwygart asked where they take into consideration the \$1.6 million? Mr. Rudd said when something is considered unusual and non-recurring, in order to get to a normalized income, they are trying to get to an amount of income that the company would generate in a normal year. They don't anticipate the \$1.67 million and the \$481 million to be ongoing, recurring, as PacifiCorp does. Staff believe those were unusual non-recurring; therefore, they normalized the income by tax affecting that expense and removing it from the normalization process. Pluses and minuses are not as important in appraisals. Mr. Crapo followed up to further explain what the state did.

Commissioner Woods noted PacifiCorp has put forward two values for the Board to consider. One: if 100% is put on the income method, the Idaho portion is \$435 million. Two: if 80%/20% is split between the cost and income method, it's \$591 million. The Tax Commission's value is \$622 million. Those are the numbers presented to the Board. Commission Moyle noted those aren't the only values they have to use.

Commissioner Woods closed the hearing for **Docket No. 0-847-746-048** and thanked everyone for their presentations. The Board will discuss, deliberate, and recommend a decision on this hearing tomorrow; they'll also hear the Idaho Hydroelectric Companies' stipulated waiver of hearing.

There being no further business, Commissioner Woods recessed the Board until 9:00 a.m. on Wednesday, August 13, 2025.

Maria Young
Secretary

Paul Woods
Chairman of the Idaho State Board of Equalization