Table of Contents

[PURPOSE AND SUMMARY OF TESTIMONY 1](#_Toc403718428)

[REVENUE REQUIREMENT 2](#_Toc403718429)

[REVENUE ADJUSTMENTS 4](#_Toc403718430)

[Schedule 300 Fee Changes 4](#_Toc403718431)

[OPERATION AND MAINTENANCE AND ADMINISTRATIVE AND GENERAL EXPENSES 4](#_Toc403718432)

[General Wage Increases 4](#_Toc403718433)

[Insurance Expense 7](#_Toc403718434)

[Legal Expenses 9](#_Toc403718435)

[Collection Agency Fees 9](#_Toc403718436)

[IHS Global Insight Escalation Adjustment 10](#_Toc403718437)

[NET POWER COSTS 10](#_Toc403718438)

[Net Power Cost Update 10](#_Toc403718439)

[Qualifying Facilities 11](#_Toc403718440)

[DEPRECIATION 11](#_Toc403718441)

[INTEREST AND TAXES 12](#_Toc403718442)

[Interest True Up 12](#_Toc403718443)

[Property Taxes 12](#_Toc403718444)

[Washington Low Income Tax Credit 13](#_Toc403718445)

[RATE BASE ADJUSTMENTS 15](#_Toc403718446)

[Pro Forma Major Capital Additions 15](#_Toc403718447)

[Use of End-of-Period Rate Base 19](#_Toc403718448)

[Other Rate Base Adjustments 19](#_Toc403718449)

[PRODUCTION FACTOR ADJUSTMENT UPDATE 20](#_Toc403718450)

[TREATMENT OF DEFERRALS 20](#_Toc403718451)

[ADDITIONAL REVENUE REQUIREMENT EXHIBIT 26](#_Toc403718452)

**ATTACHED EXHIBITS**

Exhibit No. NCS-11—Rebuttal Results of Operations Twelve-months ended December 31, 2013

Exhibit No. NCS-12—Summary of Revenue Requirement Scenarios with Net Power Cost QF Alternatives (Updated)

Exhibit No. NCS-13—Summary of Revenue Requirement Scenario with Alternative Capital Structure (Updated)

Exhibit No. NCS-14—Summary and Calculation of Deferred Amounts Requested (Updated)

Exhibit No. NCS-15—Summary and Calculation of Deferred Amounts Requested (Hypothetical Amortization into Base Rates)

Exhibit No. NCS-16—Miscellaneous Support for Rebuttal Testimony of Natasha C. Siores

Q. Are you the same Natasha C. Siores that previously provided testimony in this case on behalf of Pacific Power & Light Company (Pacific Power or Company), a division of PacifiCorp?

A. Yes.

# Purpose and Summary of Testimony

1. **What is the purpose of your rebuttal testimony?**

A. The purpose of my testimony is to quantify and explain the corrections, revisions, and updates made to the Company’s proposed revenue requirement and to respond to testimony of the staff of the Washington Utilities and Transportation Commission (Staff) witnesses Ms. Betty A. Erdahl, Mr. Jason L. Ball, and Mr. David C. Gomez, the Public Counsel Section of the Washington State Attorney General’s Office (Public Counsel) witness Ms. Donna M. Ramas, and Boise White Paper, LLC (Boise) witness Mr. Bradley G. Mullins (collectively, the Parties).

**Q. Please summarize your testimony.**

A. My testimony explains and supports the Company’s revised overall revenue requirement increase of $31.9 million. This is an increase of $4.7 million from the amount requested in the Company’s initial filing as a result of revisions, corrections, and updates to various revenue requirement components. My testimony also provides the Company’s response to certain revenue requirement adjustments proposed by Staff and other intervening parties.

Finally, my testimony explains the Company’s position on the appropriate treatment of the deferred accounting requests that were consolidated into this general rate case.

# Revenue Requirement

****Q. What price increase is required to achieve the requested return on equity in this case?****

A. As shown on Page 1 of Exhibit No. NCS-11, an overall base price increase of $31.9 million is required to produce the 10.0 percent return on equity requested in this case.

**Q. Please describe the calculation of the revised overall revenue increase.**

A. The Company’s revised revenue increase of $31.9 million is calculated using the West Control Area inter-jurisdictional allocation methodology (WCA). In support of the revised calculation, Exhibit No. NCS-11 shows the Company’s revised Washington revenue requirement. This exhibit incorporates revisions to certain adjustments made in the Company’s initial filing and provides updates to the revenue requirement summary and account detail portions (tabs 1 and 2) of my original Exhibit No. NCS-3.

****Q. Is the Company incorporating any of the updates, corrections, or adjustments proposed by the Parties in its rebuttal revenue requirement calculation?****

A. Yes, the Company incorporated the following revisions to revenue requirement adjustments proposed in its initial filing, including some adjustments proposed by the Parties. Each is described in more detail later in this testimony.



****Q. Please describe Exhibit No. NCS-11.****

A. Exhibit No. NCS-11 is the Company’s Washington Results of Operations Report (Report), revised to incorporate changes and updates outlined in the table above. The Report is organized in a manner similar to Exhibit No. NCS-3:

* Tab 1 (Summary) reflects the Washington-allocated results based on the WCA.
* Tab 2 (Results of Operations) details the Company’s overall rebuttal revenue requirement by Federal Energy Regulatory Commission (FERC) account and WCA allocation factor.
* Tabs 3 through 9 provide supporting documentation for restating and pro forma adjustments that have been revised or updated in the calculation of the Company’s rebuttal revenue requirement.

# Revenue Adjustments

## Schedule 300 Fee Changes

****Q. Do parties contest the Schedule 300 fee changes proposed by the Company in its initial filing?****

A. Yes, multiple parties oppose the Schedule 300 Fee changes proposed in the Company’s initial filing. Ms. Joelle R. Steward’s rebuttal testimony addresses these issues.

****Q. Did the Company make any revisions to the adjustment for Schedule 300 fee changes?****

A. Yes, consistent with the discussion in Ms. Steward’s rebuttal testimony, except for the change in tampering/unauthorized reconnect charges, the Company has withdrawn all proposed Schedule 300 fee change impacts from the Company’s revenue requirement calculation. The revised adjustment 3.8 (Schedule 300 Charges) increases revenue requirement by approximately $87,000.

# Operation and Maintenance and Administrative and General Expenses

## General Wage Increases

****Q. Please summarize Public Counsel’s position regarding the Company’s proposed general wage increase adjustment.****

A. Public Counsel recommends several modifications to the Company’s proposed general wage adjustment. Specifically, Public Counsel recommends:

* Limiting wage increases to those occurring by December 31, 2014;
* Reducing full-time-equivalent (FTE) employees (and associated costs) to reflect the actual FTE employee level as of June 2014;
* Reducing pension and other post-retirement employee benefits (OPEB) expenses to reflect information provided by the Company through discovery.[[1]](#footnote-1)

**Q. Does the Company agree with Public Counsel’s recommendations on the general wage increase adjustment?**

A. No. The Company maintains that the proposal supported in its direct filing is appropriate. As explained in my direct testimony, the Company annualized calendar year 2013 wage amounts by taking into account actual wages by labor group by month along with the dates each labor group received wage increases. The Company then adjusted wage levels through the rate-effective period by applying known and measurable pro forma wage increases that have occurred or are expected to occur through March 31, 2016. Reflecting wage levels in this manner more appropriately aligns wage and salary expense levels with the level of expense the Company will incur during the period in which rates will be effective. In addition, this treatment is consistent with the approach taken by Avista Corporation, d/b/a Avista Utilities (Avista) in its last general rate case.[[2]](#footnote-2) The appropriateness of this methodology is discussed in greater detail in the rebuttal testimony of Mr. Erich D. Wilson.

**Q. What is the Company’s position on Public Counsel’s recommendation regarding FTE levels and pension and OPEB expenses?**

**A. The Company disagrees with Public Counsel’s proposed adjustments. As discussed in Mr. Wilson’s rebuttal testimony, Public Counsel’s work force reduction adjustment is not appropriate because the Company is actively working to fill vacancies.**

**As discussed by Mr. Wilson, Public Counsel’s proposed adjustment to reduce pension and OPEB expense levels, which reduces the Company’s revenue requirement, does not consider other employee benefit costs that have increased since the historical period, such as health-care benefits. The Company has not proposed pro forma changes to employee benefits in this case, which is consistent with the treatment approved by the Commission in the Company’s 2013 general rate case. If pension and OPEB expense levels are adjusted from historical test period levels, other employee-benefit-related items should also be adjusted.**

**Q. Are there any problems with Public Counsel’s calculation of its pension adjustment?**

A. Yes. It appears Public Counsel calculated its pension expense adjustment by incorrectly comparing the pension expense from an actuarial report to the Company’s total pension expense reflected in the historical base period. This comparison is improper because the actuarial report relied on by Public Counsel does not include costs of the Local 57 multi-employer plan. Local 57 multi-employer plan costs, however, are included in the Company’s base historical period. Accordingly, Public Counsel’s adjustment effectively eliminates all costs associated with the Local 57 multi-employer plan, which overstates its adjustment by approximately $411,000 on a Washington-allocated basis.

## Insurance Expense

Q. Please describe the insurance expense adjustments proposed by Staff and Pubic Counsel.

A. Insurance expense in the Company’s initial filing was based on a six-year average of actual damage expenses, which is consistent with the all-party stipulation in the Company’s 2011 general rate case, Docket UE-111190,[[3]](#footnote-3) and the Commission’s approval of the methodology used in the Company’s 2013 general rate case.[[4]](#footnote-4) In this case, Staff recommends excluding the 2012 insurance expense amount from the six-year average calculation and substituting it with the 2007 expense amounts to calculate a new six-year average.[[5]](#footnote-5) Staff asserts that the replacement of the 2012 insurance expense with the level from 2007 is more representative of the level of expense that is expected to occur during the rate-effective period. Staff’s adjustment reduces the Company’s Washington revenue requirement by approximately $237,000.

Public Counsel recommends excluding two incidents from the 2012 insurance expense amount from the calculation of the six-year average in the Company’s filing, referring to the 2012 expense amount as an “anomaly” due to the above-average amount recorded.[[6]](#footnote-6) Public Counsel also questions whether the two incidents are appropriately allocated to Washington. The amount not covered by insurance for each of these incidents is $10 million. Therefore, Public Counsel recommends excluding $20 million (on a total-company basis) from the 2012 insurance expense used to calculate the six-year average, resulting in a decrease in insurance expense of $3.3 million on a total-company basis, or approximately $228,000 on a Washington-allocated basis.

Q. What is the Company’s response to the proposed adjustments to insurance expense?

A. Both Public Counsel and Staff’s arguments suffer from the same methodological flaws. While it is true that the 2012 expense level represents a higher level of expense than other years used in the six-year average, this does not automatically classify it as an anomaly to be excluded. As Public Counsel states, “the use of an average is meant to normalize the costs that may have a high degree of variability from year-to-year.”[[7]](#footnote-7) To exclude any amount from the average because it is allegedly “too high” goes against the purpose of using an average in the first place. Arbitrarily removing years or events from the six-year-average calculation denies the Company the opportunity to recover costs of damages from incidents that inevitably arise. The Company contests Public Counsel’s and Staff’s recommendations to subjectively choose the elements of insurance expense to include in the six-year-average calculation.

The Company’s proposal appropriately normalizes the variability in insurance expense over a reasonable period without impairing the Company’s ability to recover prudently incurred costs. There is no justifiable reason to further alter this average. Further, Staff’s and Public Counsel’s positions do not provide a more accurate calculation of costs anticipated in the rate-effective period.

In addition, contrary to Public Counsel’s assertions, the Company appropriately allocated insurance expense using the System Overhead (SO) factor consistent with the currently approved WCA.

## Legal Expenses

****Q. Please describe revised adjustment 4.11 (Legal Expenses).****

A. It was the Company’s intent to exclude all costs related to the Wood Hollow fire in this case. Through discovery, it was determined that certain legal expenses related to Wood Hollow were inadvertently included in the case. As mentioned in the Company’s response to Boise data request 8.4, a correction to remove these legal expenses has been made as part of revised adjustment 4.11. The corresponding IHS Global Insight adjustment impact of making this correction is reflected in the Company’s revised adjustment 4.13, discussed later in my testimony.

## Collection Agency Fees

****Q. Did the Company make any revisions to the adjustment for Collection Agency Fees?****

A. Yes, as discussed in Ms. Steward’s rebuttal testimony, the Company is no longer proposing changes to its approach to recovering collection agency fees. Accordingly, revised adjustment 4.12 (Collection Agency Fees) removes the adjustment from the Company’s revenue requirement calculation, resulting in a revenue requirement increase of approximately $44,000.

## IHS Global Insight Escalation Adjustment

****Q. Is the Company making any modifications to adjustment 4.13 (IHS Global Insight Escalation)?****

A. The Company continues to support this adjustment as explained in Mr. R. Bryce Dalley’s rebuttal testimony.

A minor change has been made in revised adjustment 4.13 (IHS Global Insight Escalation) to reflect the corresponding change resulting from the legal fees correction discussed earlier in my testimony. The impact of this correction is a reduction of approximately $7,000 in revenue requirement.

# Net Power Costs

## Net Power Cost Update

**Q. Please describe the Company’s rebuttal adjustment associated with net power costs.**

A. As outlined in the rebuttal testimony of Mr. Gregory N. Duvall, the Company has updated net power costs (NPC). These changes are reflected in revised adjustment 5.1.1 (Net Power Costs Pro Forma). This update increases Washington’s revenue requirement by approximately $5.7 million.

In addition to the Company’s rebuttal update, the pro forma NPC has been revised to reflect the Company’s acceptance of Boise’s proposed adjustment for the wheeling expenses related to network integration transmission service provided by the Bonneville Power Administration, as discussed in more detail in Mr. Duvall’s rebuttal testimony.

## Qualifying Facilities

**Q. Did the Company update Exhibit No. NCS-7, which was submitted with your initial testimony?**

A. Yes. Exhibit No. NCS-12 is an update to Exhibit No. NCS-7. This exhibit provides a summary of the revenue requirement impacts of the Company’s primary and alternative proposals for the rate treatment of power purchase agreements with qualifying facilities located in California and Oregon. These proposals are discussed in more detail in Mr. Duvall’s direct and rebuttal testimonies.

# Depreciation

**Q. Did the Company make any revisions to adjustment 6.2?**

A. Yes. In the process of calculating rebuttal revenue requirement, the Company identified a formula error in adjustment 6.2 (Depreciation & Amortization Reserve to December 2013 Balances) in the Company’s Regulatory Adjustment Model, resulting in an improper allocation of some adjustment balances in the Company’s initial filing. Revised adjustment 6.2 corrects for this formulaic error. This correction decreases Washington-allocated rate base by approximately $11.4 million, resulting in a decrease in revenue requirement of approximately $1.3 million.

**Q. Did the Company adopt any of the Parties’ proposed adjustments to depreciation expense?**

A. Yes. Public Counsel proposed an adjustment to reflect the reduced depreciation expense associated with pro forma major plant retirements in determining revenue requirement.[[8]](#footnote-8) For purposes of this case, the Company agrees that this adjustment is appropriate.

Public Counsel’s adjustment, however, is overstated because it does not take into account the corresponding tax impacts of removing depreciation expense from the test period. Accordingly, the Company developed adjustment 6.5 (Retired Assets Depreciation Expense Removal) to reflect the removal of depreciation expense associated with major plant retirements exceeding $250,000 on a Washington-allocated basis. Including tax impacts, this adjustment decreases Washington revenue requirement by approximately $29,000. This is based on the most recent asset retirement information available.

The Company proposes to update this adjustment in its compliance filing to reflect the depreciation expense impact of actual major plant retirements before the rate effective date to maintain consistency with the Company’s proposed treatment of pro forma major plant additions.

# Interest And Taxes

## Interest True Up

**Q. Did the Company make any revisions to adjustment 7.1 (Interest True Up)?**

A. Yes. The Company updated adjustment 7.1 (Interest True Up) to incorporate the impacts of the other adjustments included as part of the Company’s rebuttal position. No other changes have been made to this adjustment.

## Property Taxes

**Q. Did any intervening party oppose the Company’s pro forma property tax adjustment?**

A. Yes. Staff rejects the Company’s pro forma adjustment, thereby keeping property tax expense at the accrual level booked during the test year.[[9]](#footnote-9) Mr. Norman K. Ross addresses Staff’s concerns in his rebuttal testimony.

**Q. Did the Company update or revise its pro forma property tax adjustment?**

A. Yes. The Company updated the property tax expense adjustment to reflect booked accruals for the first nine months of the current calendar year (2014) and three months of forecasted property tax expense through December 2014. This update results in a decrease to revenue requirement of approximately $428,000.

## Washington Low Income Tax Credit

**Q. Please describe the Company’s proposed adjustment for the Washington Low Income Tax Credit.**

A. In its initial filing, the Company proposed a pro forma adjustment to the historical test period to reflect the most recent credit amount provided by the Washington Department of Revenue. This adjustment is consistent with the Company’s past rate case filings and replaces the credit amount booked for the 12-months ended December 31, 2013, with the latest annual approved credit at the of time the Company’s initial filing. The credit amount booked during the historical test period (the 12-months ended December 31, 2013) was $262,453.[[10]](#footnote-10) On July 26, 2013, the Company received a letter from the Washington Department of Revenue awarding a credit of $222,651 for the fiscal year ending June 30, 2014.[[11]](#footnote-11) The Company’s proposed revenue requirement adjustment therefore reduces the amount of the Washington Low Income Tax Credit by $39,804 to reflect the credit awarded for fiscal year 2014, which in turn increases the Company’s revenue requirement by approximately the same amount.

**Q. Staff rejects the Company’s proposed adjustment, arguing that the credit increases each year.[[12]](#footnote-12) Is this argument valid?**

A. No. The credit amount available to the Company each year is governed by RCW 82.16.0497, which sets a $2.5 million overall statewide annual limit on the Washington Low Income Credit for all fiscal years after 2007.[[13]](#footnote-13) The Company is one of over fifty electric and gas distribution businesses that annually qualify to receive a share of the $2.5 million. Pacific Power’s share varies from year to year.

In July 2014, the Washington Department of Revenue awarded the Company a credit of $165,998 for the fiscal year ending June 30, 2015, a reduction from the $222, 651 awarded for the fiscal year ended June 30, 2014.[[14]](#footnote-14) This demonstrates that the Washington Low Income Credit does not necessarily increase from year to year.

Note that if the Company were to reflect the updated amount of $165,998, the Company’s revenue requirement would increase by another $57,000.

**Remove Deferred State Tax Expense and Balance**

**Q.** **Please describe the Company’s update to adjustment 7.7 (Remove Deferred State Tax Expense and Balance).**

A. The Company updated adjustment 7.7 to reflect the impact of the Company’s rebuttal adjustments to revenue requirement. If additional adjustments proposed by other parties to this case are accepted by the Commission, adjustment 7.7 will need to be updated.

# Rate Base Adjustments

## Pro Forma Major Capital Additions

**Q. Please describe the Company’s proposed pro forma adjustment for major capital additions.**

A. This pro forma adjustment adds to rate base west control area plant additions greater than $250,000 on a Washington-allocated basis that will be placed in service before the rate-effective date.

**Q. Is the Company updating its pro forma adjustment for major capital additions in rebuttal?**

A. Yes. The Company updated the adjustment to reflect actual costs for projects placed in service through September 30, 2014, the latest month-end close data available when preparing the Company’s rebuttal testimony. These amounts are reflected in Exhibit No. NCS-11, page 8.4.2. Projects not in service by September 30, 2014, but expected to be in service before the rate effective date are included in revised adjustment 8.4 and reflect updated costs and in-service dates. In addition, the Company removed the Yale Rock Block Stabilization project from adjustment 8.4 because it is no longer expected to be placed in service before the rate effective date.

At the time of filing this rebuttal testimony, the Company’s revised adjustment for pro forma major capital additions decreases revenue requirement by approximately $53,000.

**Q. Please describe the Parties’ positions on the Company’s pro forma adjustment for major capital additions as proposed in the initial filing.**

A. Staff supports including pro forma capital additions, but proposes to limit the projects to those that are placed in service at the time of the Company’s rebuttal filing.[[15]](#footnote-15) Public Counsel supports including pro forma capital additions to address regulatory lag and rate case frequency, but proposes to limit the adjustment to amounts placed in service as of August 31, 2014.[[16]](#footnote-16) Boise proposes that all pro forma projects be excluded except the Merwin Fish Collector arguing that the Company did not provide sufficient information about 25 of the 30 pro forma capital additions.[[17]](#footnote-17)

**Q. What is the Company’s response to the Parties’ proposals?**

A. As discussed in more detail in Mr. Dalley’s rebuttal testimony, the Company continues to support the pro forma adjustment for major capital additions proposed in its initial filing. The Company will update pro forma project costs to reflect actual amounts placed in service before the rate effective date in the Company’s compliance filing in this case. Thus, the adjustment will reflect only the actual costs of projects that are in service and serving customers by the rate effective date.

**Q. Are there any computational problems in Public Counsel’s calculations?**

A. Yes. In the calculation of the revenue requirement impact of their proposed reduction to pro forma major plant additions adjustment, Public Counsel used the total-company change in depreciation expense rather than the Washington-allocated amount. In doing so, Public Counsel removes too much depreciation expense, which overstates the revenue requirement impact of its proposed adjustment by approximately $479,000.

The deferred tax calculation should also be adjusted. Public Council takes an over-simplified approach by applying the percentage of disallowance to the Washington-allocated deferred tax items. This approach does not accurately reflect the deferred tax impact of Public Counsel’s proposed reduction on pro forma capital addition amounts.

**Q. Does the Company have any concerns with Boise’s calculation of its change to the adjustment for pro forma capital additions?**

A. Yes. Boise overstates the impact of its adjustment on depreciation expense and accumulated depreciation. Boise uses a ratio of the total Merwin fish collector depreciation to total hydro depreciation expense to determine the amount of depreciation expense and associated reserve to remove from the Company’s proposed adjustment. This overstates the adjustment to depreciation expense by approximately $157,000 and to depreciation reserve by approximately $161,000. Boise also takes an over-simplified approach to the deferred tax calculation by taking the ratio of the Washington-allocated Merwin Fish Collector plant addition amounts to the total Washington-allocated plant additions allocated on the Control Area Generation West (CAGW), and applies that percentage to the Washington-allocated deferred tax amounts in the Company’s adjustment. Simplifications like these do not properly account for the impact on deferred taxes from the adjustments proposed.

**Q. Boise asserts that the Company did not provide sufficient information regarding all of its proposed capital additions. Do you agree?**

A. No. The Company’s proposed pro forma capital additions were discussed in my initial testimony and exhibits as well as the testimonies of Mr. Richard A. Vail, Mr. Mark R. Tallman and Mr. Dana M. Ralston. The company provided detailed initial testimony on all projects over $1.0 million on a Washington-allocated basis. In addition, the Company responded to numerous data requests regarding the proposed pro forma capital additions, including providing approval documents and other information for every one of the 30 projects in response to Public Counsel data request 53. A copy of the Company’s response to Public Counsel data request 53, including attachment 53.1 and a list of all of the documents provided with the response, is provided in Exhibit No. NCS-16.

**Q. Did Boise have concerns about specific capital projects?**

A. Yes. Boise criticizes the Company’s Jim Bridger Unit 1 cooling tower replacement project, the Union Gap substation upgrade, the Selah substation capacity relief project, and the Fry substation project. The three substation projects are addressed in Mr. Vail’s direct and rebuttal testimonies. I address Boise’s argument regarding the Jim Bridger cooling tower replacement project below.

**Q. Please describe and respond to the issues Boise raised regarding the Jim Bridger Unit 1 cooling tower replacement project.**

A. Boise claims that the Jim Bridger Unit 1 cooling tower replacement project should be excluded, alleging that cost and timing of the project appear uncertain based on the Company responses to Public Counsel data request 54.[[18]](#footnote-18)

**Q. Are Boise’s concerns valid?**

A. No. The replacement of the Jim Bridger Unit 1 cooling tower was completed and placed in service earlier this year and is now providing service to customers. The costs associated with this project are therefore known and measurable and the project is used and useful in serving Washington customers. There is no uncertainty about the final costs of the project or the project’s in service date.

Boise’s position is based on the mistaken premise that the Company’s revised response to Public Counsel data request 54 was an *update* when it was actually a correction, as noted in the revised response itself.**[[19]](#footnote-19)**

## Use of End-of-Period Rate Base

**Q. Has the Company made any changes to its adjustment to reflect plant in service at end-of-period balances?**

A. No. Mr. Dalley addresses the Parties’ positions on the use of end-of-period rate base balances in his rebuttal testimony.

## Other Rate Base Adjustments

**Q. Did the Company make any other rate base adjustments in its revenue requirement calculation?**

A. Yes. In preparing the rebuttal revenue requirement, the Company identified an error in adjustment 8.5-8.5.1 (Miscellaneous Rate Base Deductions). Two account balances were not removed from unadjusted results before being added back into rate base through the Investor Supplied Working Capital adjustment. By leaving the balances (which are credits or reductions to rate base) in unadjusted results and including the balances in the Investor Supplied Working Capital adjustment, these balances were included twice in the Company’s test period rate base. To remedy this, the Company prepared revised adjustment 8.5 to remove the “Injuries & Damages Provisions” and “Pension & Benefits Provisions” accounts from unadjusted results.

In addition, the Company is correcting adjustment 8.11 (Miscellaneous Asset Sales and Removals). This adjustment was intended to remove from the test period cost items related to assets that have been sold or removed. Through discovery, the Company determined that it inadvertently removed depreciation expense related to hydro plants still in service. The Company corrects this error in revised adjustment 8.11. This represents an increase in revenue requirement of approximately $379,000.

# Production Factor Adjustment Update

Q. Please describe any updates to adjustments included in Tab 9.

A. As explained in my direct testimony, the production factor is applied to a selection of pro forma adjustments as a means of adjusting pro forma generation-related components of the revenue requirement to test period expense and balance levels, including pro forma net power costs and pro forma major plant additions. The Company updated the production factor adjustment to reflect changes to the pro forma rebuttal adjustments for net power costs and major plant additions.

# Treatment of Deferrals

**Q. Please provide an overview of the deferral requests that are relevant to this case.**

A. In direct testimony, the Company requested to begin amortization of deferrals from the following Dockets: UE-131384—Deferral of Costs Related to Colstrip Outage (Colstrip deferral); UE-132350—Deferral of Reduced Depreciation Expense (depreciation deferral); and UE-140094—Deferral of Costs Related to Declining Hydro Generation (hydro deferral). The Commission consolidated the Colstrip deferral and hydro deferral dockets with this rate case in Order 05. In addition, in Docket UE-140617, the Commission authorized deferral of the revenue requirement associated with the Merwin fish collector and consolidated the docket with this case.

**Colstrip Deferral**

**Q. What are the parties’ positions regarding the Company’s Colstrip deferred accounting request?**

A. Staff recommends recovery of the deferred amounts related to an extended outage at the Colstrip generating plant, but further recommends excluding interest on the deferred amounts and amortizing the deferred amounts through inclusion in base rates (rather than through a separate tariff rider as the Company proposed).[[20]](#footnote-20) Boise disagrees that the costs associated with the Colstrip outage qualify for deferred accounting because the outage was not an extraordinary event.[[21]](#footnote-21) Boise also claims the Company has not provided an updated estimate of the costs incurred and that the costs are not prudent.

**Q. How does the Company respond?**

A. The prudency of the costs incurred as a result of the Colstrip outage is addressed by Mr. Ralston in his rebuttal testimony. The Colstrip deferral is also addressed in the rebuttal testimony of Mr. Duvall.

Staff’s position to remove interest expense does not account for the time value of the money. The deferred amounts represent actual costs incurred by the Company on behalf of its customers. Without interest, the Company will have incurred financing costs related to the deferred amounts that would never be recovered.

The Company also continues to support the use of a separate tariff rather than including the amounts in base rates. This method allows the Company to set the separate tariff rider to zero (or withdraw the tariff) once the deferred amounts are fully amortized. If the deferrals are included in permanent base rates, the rates will not be changed until the Company’s next rate case.

If the Commission decides that the deferred amounts should be included in base rates, a corresponding balance should be reflected in rate base to account for the carrying cost during amortization as shown in Exhibit No. NCS-15. Staff does not recognize this in its proposal.

Boise’s claim that the Company has not provided an updated estimate of the replacement power costs referred to in the Company’s deferral application is incorrect.[[22]](#footnote-22) The Company provided the actual net power costs in Exhibit No. NCS-9 included in its initial filing. The Company will address Boise’s legal arguments that the Colstrip deferral does not meet the Commission’s deferral standards in briefing.

**Depreciation Deferral**

**Q. What are the parties’ positions regarding the Company’s proposal to amortize its depreciation deferral?**

A.No party contests the amortization of the depreciation deferral, although Staff reiterates its argument to exclude interest and to amortize the deferred amounts through base rates.[[23]](#footnote-23)

**Q. How does the Company respond?**

A. For the reasons discussed above, the Company proposes that these amounts be amortized through a separate tariff rider with interest to account for the time value of money. In this case, interest reflects the time value of money for the Company’s customers because this deferral is a credit to customers. If the Commission chooses to amortize these amounts in base rates, a corresponding balance should be reflected in rate base to account for the carrying costs during amortization (see Exhibit No. NCS-15).

**Deferral for Low Hydro Conditions**

**Q. What are the parties’ positions regarding the Company’s hydro deferral?**

A.Staff rejects the Company’s proposal to recover costs deferred as a result of low hydro conditions based on the premise that this would result in dollar-for-dollar recovery of a portion of net power costs.[[24]](#footnote-24) According to Staff, because dollar-for-dollar recovery of net power costs was rejected in the 2013 rate case, the Company’s hydro deferral should be rejected. Public Counsel also rejects the deferral, stating that it is not appropriate to defer a select portion of net power cost variances between rate cases.[[25]](#footnote-25) Boise rejects the hydro deferral because it believes hydro conditions in 2014 are “about normal” and the hydro deferral is one-sided.[[26]](#footnote-26)

**Q. How does the Company respond?**

A. The Company continues to support amortization of its hydro deferral, as further addressed in Mr. Duvall’s rebuttal testimony. The revenue requirement in this case has been updated to reflect the most recent net power cost information as shown in Table 1 below.

**Merwin Fish Collector Deferral**

**Q. What are the parties’ positions regarding the Company’s Merwin deferral?**

A.Staff recommends that only a portion of the deferred revenue requirement for the Merwin fish collector be allowed—the deferred operations and maintenance and depreciation expenses—and that interest on the deferred amounts should not be allowed.[[27]](#footnote-27) Like the other deferrals, Staff recommends amortizing the Merwin deferral through base rates. Public Counsel rejects the Merwin deferral, stating that it is not appropriate to defer revenue requirement of a single project between rate case proceedings.[[28]](#footnote-28) Boise also rejects the Merwin deferral, claiming that allowing recovery of deferred amounts and allowing Merwin in rate base through the pro forma capital additions adjustment would provide double recovery.[[29]](#footnote-29)

**Q. How does the Company respond?**

A. The Commission’s order approving the Merwin deferral (Docket UE-140617) stated that the Company may defer the full revenue requirement associated with the Merwin fish collector for potential future recovery in customer rates, including the *return on* portion of the revenue requirement.[[30]](#footnote-30) Staff claims that limiting the deferral to the *return of* portion of revenue requirement removes an alleged incentive for utilities to use deferred accounting for cost recovery and encourages the use of other ratemaking mechanisms (such as an expedited rate filing) when seeking to add plant additions to rate base.[[31]](#footnote-31)

Staff’s proposal to selectively limit a significant portion of the cost associated with this investment is inappropriate and would result in the Company’s shareholders absorbing prudently incurred costs to serve its customers. The *return on* investment is a real and quantifiable component of the cost of service and excluding these amounts would not reflect sound ratemaking principles and would be punitive. If Staff proposes to limit the amount that a utility can recover through deferred accounting, it should be done on a basis other than deeming one component of revenue requirement more appropriate for recovery than another.

Public Counsel rejects the Company’s proposal to amortize the Merwin deferral because it deems it inappropriate to defer revenue requirement for a capital project between rate cases.[[32]](#footnote-32) Recovery of the Merwin deferral is appropriate, especially given that the project was placed in service very soon after the Company’s last general rate case. It is also important to note that no party disputes the prudence of this investment.

Boise’s position that recovery of the deferral along with the inclusion of the Merwin project in rate base through the pro forma major capital additions adjustment would result in double recovery is inaccurate.[[33]](#footnote-33) The Merwin deferral tracks the revenue requirement of the project from April 14, 2014 (the date of the deferred accounting petition) until the rate effective date in this case (March 31, 2015). The proposed pro forma capital addition for the Merwin project includes the revenue requirement associated with the project from March 31, 2015, forward. There is therefore no double recovery of Merwin if the Commission allows amortization of the Merwin deferral. If the amortization is not approved, the Company will never recover over $1.7 million in prudently incurred costs.

**Q. Please describe Exhibit No. NCS-14.**

A. Exhibit No. NCS-14 is an update to Exhibit No. NCS-9, which was included in the Company’s initial filing. Exhibit No. NCS-14 is revised to reflect an update to the hydro deferral and to remove Colstrip’s return on capital component from the Colstrip deferral calculations. Added to the presentation of the summary on Exhibit No. NCS-14, page 1, is the Merwin deferred balance as filed in Docket UE-140617. Interest on the Merwin deferred balance is also included in the accumulated interest calculation. Table 1 below summarizes the requested amortization amounts.

**TABLE 1**

**($ millions)**

|  |  |
| --- | --- |
| Description | Requested Amortization |
| Colstrip Deferral | $1.97 |
| Depreciation Deferral | ($0.88) |
| Hydro Deferral | $2.44 |
| Merwin Deferral | $1.69 |
| Interest | $0.64 |
| Total | **$5.86** |

# Additional Revenue Requirement Exhibit

**Q. Please describe Exhibit No. NCS-13.**

A. Exhibit No. NCS-13 details the calculation of rebuttal revenue requirement using the Company’s primary cost of capital proposal and alternative scenarios discussed in the testimonies of Mr. Bruce N. Williams and Mr. Kurt G. Strunk.

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

A. Yes.

1. Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 19-28. [↑](#footnote-ref-1)
2. *See e.g.*, *Wash. Utils. & Transp. Comm’n v. Avista Utilities*, Docket UE-120436, Direct Testimony of Elizabeth M. Andrews, Exhibit No. EMA-1T at 28 (Apr. 2, 2012). [↑](#footnote-ref-2)
3. *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-111190, Settlement Stipulation at 5 (Feb. 21, 2012). [↑](#footnote-ref-3)
4. *See* *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-130043, Revised Final Issues List (Aug. 23, 2013). [↑](#footnote-ref-4)
5. Testimony of Jason L. Ball, Exhibit No. JLB-1T at 13-15. [↑](#footnote-ref-5)
6. Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 31-35. [↑](#footnote-ref-6)
7. Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 33:21-22 (emphasis added). [↑](#footnote-ref-7)
8. Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 17-19. [↑](#footnote-ref-8)
9. Testimony of Jason L. Ball, Exhibit No. JLB-1T at 19. [↑](#footnote-ref-9)
10. This amount reflects actual credits recorded for calendar year 2013, which includes $87,882 of actual credits recorded from January 1, 2013, through June 30, 2013, (six months of fiscal year 2013) and $174,572 of actual credits recorded from July 1, 2013, through December 31, 2013, (six months of fiscal year 2014). [↑](#footnote-ref-10)
11. Exhibit No. NCS-3, page 7.5.2. [↑](#footnote-ref-11)
12. Testimony of Betty A. Erdahl, Exhibit No. BAE-1T at 5-7. [↑](#footnote-ref-12)
13. *See* RCW 82.16.0497(1)(a). [↑](#footnote-ref-13)
14. *See* Exhibit No. NCS-16. [↑](#footnote-ref-14)
15. Testimony of Betty A. Erdahl, Exhibit No. BAE-1T at 7-9. [↑](#footnote-ref-15)
16. Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 12-17. [↑](#footnote-ref-16)
17. Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 7. [↑](#footnote-ref-17)
18. Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 12-13. [↑](#footnote-ref-18)
19. Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-4C at 62. [↑](#footnote-ref-19)
20. Testimony of Jason L. Ball, Exhibit No. JLB-1T at 13. [↑](#footnote-ref-20)
21. Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 62-67. [↑](#footnote-ref-21)
22. Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 63. [↑](#footnote-ref-22)
23. Testimony of Jason L. Ball, Exhibit No. JLB-1T at 13. [↑](#footnote-ref-23)
24. Testimony of David. C. Gomez, Exhibit No. DCG-1CT at 16-18. [↑](#footnote-ref-24)
25. Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 42-45. [↑](#footnote-ref-25)
26. Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 67-68. [↑](#footnote-ref-26)
27. Testimony of Jason L. Ball, Exhibit No. JLB-1T at 13. [↑](#footnote-ref-27)
28. Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 45-47. [↑](#footnote-ref-28)
29. Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 68-71. [↑](#footnote-ref-29)
30. *Wash. Utils. & Transp. Comm’n v. PacifiCorp,* Docket UE-140762, Order 03 (May 29, 2014). [↑](#footnote-ref-30)
31. Testimony of Jason L. Ball, Exhibit No. JLB-1T at 27-28. [↑](#footnote-ref-31)
32. Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 45-47. [↑](#footnote-ref-32)
33. Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 70. [↑](#footnote-ref-33)