

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFIC POWER & LIGHT
COMPANY,**

Respondent.

**DOCKETS UE-140762 and UE-140617
(consolidated)**

In the Matter of the Petition of

**PACIFIC POWER & LIGHT
COMPANY,**

**For an Order Approving Deferral of
Costs Related to Colstrip Outage.**

DOCKET UE-131384 (consolidated)

In the Matter of the Petition of

**PACIFIC POWER & LIGHT
COMPANY,**

**For an Order Approving Deferral of
Costs Related to Declining Hydro
Generation.**

DOCKET UE-140094 (consolidated)

**PACIFIC POWER & LIGHT COMPANY
REBUTTAL TESTIMONY OF NATASHA C. SOIRES**

November 2014

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2013

- Exhibit No. NCS-12—Summary of Revenue Requirement Scenarios with Net Power Cost
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- 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

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

4 A. Yes.

5 **PURPOSE AND SUMMARY OF TESTIMONY**

6 **Q. What is the purpose of your rebuttal testimony?**

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

14 **Q. Please summarize your testimony.**

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

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

1 **REVENUE REQUIREMENT**

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

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

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

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

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

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

Filed Revenue Requirement	\$27,201,266
Adjustments Withdrawn by Company in Rebuttal	Revenue Requirement Impact (\$)
3.8 Schedule 300 Changes	\$87,440
4.12 Collection Agency Fees	\$44,138
Total Impact of Withdrawals	\$131,577
Revised Revenue Requirement	\$27,332,843
Adjustments Revised by Company in Rebuttal	Revenue Requirement Impact (\$)
4.11 Legal Expenses	(\$127,537)
4.13 IHS Global Insight Escalation	(\$6,911)
6.2 Depr & Amort Res to December 2013 Balance	(\$1,256,047)
6.5 Retired Asset Depreciation Expense Removal	(\$28,755)
8.5 Miscellaneous Rate Base	\$393,350
8.11 Miscellaneous Asset Sales & Removal	\$375,239
Total Impact of Revisions	(\$650,662)
Revised Revenue Requirement	\$26,682,182
Updates to Pro Forma made by Company in Rebuttal	
5.1.1 Net Power Cost (Pro Forma)	\$5,693,116
7.2 Property Tax Expense	(\$427,676)
7.7 Remove Deferred State Tax	\$613
8.4 Pro Forma Major Plant Additions	(\$52,879)
9.1 Production Factor	\$43,602
Total Impact of Updates	\$5,256,776
Rebuttal Revenue Requirement	\$31,938,957

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

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

- 5
- 6 • Tab 1 (Summary) reflects the Washington-allocated results based on the WCA.
 - 7 • Tab 2 (Results of Operations) details the Company's overall rebuttal revenue
8 requirement by Federal Energy Regulatory Commission (FERC) account and
WCA allocation factor.

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

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

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

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

22 A. The Company disagrees with Public Counsel’s proposed adjustments. As discussed

¹ Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 19-28.

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).

1 in Mr. Wilson’s rebuttal testimony, Public Counsel’s work force reduction adjustment
2 is not appropriate because the Company is actively working to fill vacancies.

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

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

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

1 **Insurance Expense**

2 **Q. Please describe the insurance expense adjustments proposed by Staff and Public**
3 **Counsel.**

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

14 Public Counsel recommends excluding two incidents from the 2012 insurance
15 expense amount from the calculation of the six-year average in the Company's filing,
16 referring to the 2012 expense amount as an "anomaly" due to the above-average
17 amount recorded.⁶ Public Counsel also questions whether the two incidents are
18 appropriately allocated to Washington. The amount not covered by insurance for
19 each of these incidents is \$10 million. Therefore, Public Counsel recommends
20 excluding \$20 million (on a total-company basis) from the 2012 insurance expense

³ *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-111190, Settlement Stipulation at 5 (Feb. 21, 2012).

⁴ *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-130043, Revised Final Issues List (Aug. 23, 2013).

⁵ Testimony of Jason L. Ball, Exhibit No. JLB-1T at 13-15.

⁶ Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 31-35.

1 used to calculate the six-year average, resulting in a decrease in insurance expense of
2 \$3.3 million on a total-company basis, or approximately \$228,000 on a Washington-
3 allocated basis.

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

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

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

⁷ Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 33:21-22 (emphasis added).

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

4 **Legal Expenses**

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

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

13 **Collection Agency Fees**

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

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

1 **IHS Global Insight Escalation Adjustment**

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

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

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

10 **NET POWER COSTS**

11 **Net Power Cost Update**

12 **Q. Please describe the Company's rebuttal adjustment associated with net power**
13 **costs.**

14 A. As outlined in the rebuttal testimony of Mr. Gregory N. Duvall, the Company has
15 updated net power costs (NPC). These changes are reflected in revised adjustment
16 5.1.1 (Net Power Costs Pro Forma). This update increases Washington's revenue
17 requirement by approximately \$5.7 million.

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

1 **Qualifying Facilities**

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

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

9 **DEPRECIATION**

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

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

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

20 A. Yes. Public Counsel proposed an adjustment to reflect the reduced depreciation
21 expense associated with pro forma major plant retirements in determining revenue
22 requirement.⁸ For purposes of this case, the Company agrees that this adjustment is
23 appropriate.

⁸ Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 17-19.

1 expense at the accrual level booked during the test year.⁹ Mr. Norman K. Ross
2 addresses Staff's concerns in his rebuttal testimony.

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

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

8 **Washington Low Income Tax Credit**

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

11 A. In its initial filing, the Company proposed a pro forma adjustment to the historical test
12 period to reflect the most recent credit amount provided by the Washington
13 Department of Revenue. This adjustment is consistent with the Company's past rate
14 case filings and replaces the credit amount booked for the 12-months ended
15 December 31, 2013, with the latest annual approved credit at the of time the
16 Company's initial filing. The credit amount booked during the historical test period
17 (the 12-months ended December 31, 2013) was \$262,453.¹⁰ On July 26, 2013, the
18 Company received a letter from the Washington Department of Revenue awarding a
19 credit of \$222,651 for the fiscal year ending June 30, 2014.¹¹ The Company's
20 proposed revenue requirement adjustment therefore reduces the amount of the
21 Washington Low Income Tax Credit by \$39,804 to reflect the credit awarded for

⁹ Testimony of Jason L. Ball, Exhibit No. JLB-1T at 19.

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).

¹¹ Exhibit No. NCS-3, page 7.5.2.

1 fiscal year 2014, which in turn increases the Company's revenue requirement by
2 approximately the same amount.

3 **Q. Staff rejects the Company's proposed adjustment, arguing that the credit**
4 **increases each year.¹² Is this argument valid?**

5 A. No. The credit amount available to the Company each year is governed by
6 RCW 82.16.0497, which sets a \$2.5 million overall statewide annual limit on the
7 Washington Low Income Credit for all fiscal years after 2007.¹³ The Company is one
8 of over fifty electric and gas distribution businesses that annually qualify to receive a
9 share of the \$2.5 million. Pacific Power's share varies from year to year.

10 In July 2014, the Washington Department of Revenue awarded the Company
11 a credit of \$165,998 for the fiscal year ending June 30, 2015, a reduction from the
12 \$222, 651 awarded for the fiscal year ended June 30, 2014.¹⁴ This demonstrates that
13 the Washington Low Income Credit does not necessarily increase from year to year.

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

16 **Remove Deferred State Tax Expense and Balance**

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

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

¹² Testimony of Betty A. Erdahl, Exhibit No. BAE-1T at 5-7.

¹³ See RCW 82.16.0497(1)(a).

¹⁴ See Exhibit No. NCS-16.

1 **RATE BASE ADJUSTMENTS**

2 **Pro Forma Major Capital Additions**

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

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

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

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

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

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

23 A. Staff supports including pro forma capital additions, but proposes to limit the projects

1 to those that are placed in service at the time of the Company's rebuttal filing.¹⁵
2 Public Counsel supports including pro forma capital additions to address regulatory
3 lag and rate case frequency, but proposes to limit the adjustment to amounts placed in
4 service as of August 31, 2014.¹⁶ Boise proposes that all pro forma projects be
5 excluded except the Merwin Fish Collector arguing that the Company did not provide
6 sufficient information about 25 of the 30 pro forma capital additions.¹⁷

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

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

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

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

21 The deferred tax calculation should also be adjusted. Public Council takes an
22 over-simplified approach by applying the percentage of disallowance to the

¹⁵ Testimony of Betty A. Erdahl, Exhibit No. BAE-1T at 7-9.

¹⁶ Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 12-17.

¹⁷ Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 7.

1 Washington-allocated deferred tax items. This approach does not accurately reflect
2 the deferred tax impact of Public Counsel's proposed reduction on pro forma capital
3 addition amounts.

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

6 A. Yes. Boise overstates the impact of its adjustment on depreciation expense and
7 accumulated depreciation. Boise uses a ratio of the total Merwin fish collector
8 depreciation to total hydro depreciation expense to determine the amount of
9 depreciation expense and associated reserve to remove from the Company's proposed
10 adjustment. This overstates the adjustment to depreciation expense by approximately
11 \$157,000 and to depreciation reserve by approximately \$161,000. Boise also takes an
12 over-simplified approach to the deferred tax calculation by taking the ratio of the
13 Washington-allocated Merwin Fish Collector plant addition amounts to the total
14 Washington-allocated plant additions allocated on the Control Area Generation West
15 (CAGW), and applies that percentage to the Washington-allocated deferred tax
16 amounts in the Company's adjustment. Simplifications like these do not properly
17 account for the impact on deferred taxes from the adjustments proposed.

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

20 A. No. The Company's proposed pro forma capital additions were discussed in my
21 initial testimony and exhibits as well as the testimonies of Mr. Richard A. Vail, Mr.
22 Mark R. Tallman and Mr. Dana M. Ralston. The company provided detailed initial
23 testimony on all projects over \$1.0 million on a Washington-allocated basis. In

1 addition, the Company responded to numerous data requests regarding the proposed
2 pro forma capital additions, including providing approval documents and other
3 information for every one of the 30 projects in response to Public Counsel data
4 request 53. A copy of the Company's response to Public Counsel data request 53,
5 including attachment 53.1 and a list of all of the documents provided with the
6 response, is provided in Exhibit No. NCS-16.

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

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

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

15 A. Boise claims that the Jim Bridger Unit 1 cooling tower replacement project should be
16 excluded, alleging that cost and timing of the project appear uncertain based on the
17 Company responses to Public Counsel data request 54.¹⁸

18 **Q. Are Boise's concerns valid?**

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

¹⁸ Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 12-13.

1 Boise’s position is based on the mistaken premise that the Company’s revised
2 response to Public Counsel data request 54 was an *update* when it was actually a
3 correction, as noted in the revised response itself.¹⁹

4 **Use of End-of-Period Rate Base**

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

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

9 **Other Rate Base Adjustments**

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

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

21 In addition, the Company is correcting adjustment 8.11 (Miscellaneous Asset
22 Sales and Removals). This adjustment was intended to remove from the test period
23 cost items related to assets that have been sold or removed. Through discovery, the

¹⁹ Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-4C at 62.

1 Company determined that it inadvertently removed depreciation expense related to
2 hydro plants still in service. The Company corrects this error in revised adjustment
3 8.11. This represents an increase in revenue requirement of approximately \$379,000.

4 **PRODUCTION FACTOR ADJUSTMENT UPDATE**

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

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

12 **TREATMENT OF DEFERRALS**

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

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

1 **Colstrip Deferral**

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

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

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

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

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

20 The Company also continues to support the use of a separate tariff rather than
21 including the amounts in base rates. This method allows the Company to set the
22 separate tariff rider to zero (or withdraw the tariff) once the deferred amounts are

²⁰ Testimony of Jason L. Ball, Exhibit No. JLB-1T at 13.

²¹ Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 62-67.

1 fully amortized. If the deferrals are included in permanent base rates, the rates will
2 not be changed until the Company's next rate case.

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

7 Boise's claim that the Company has not provided an updated estimate of the
8 replacement power costs referred to in the Company's deferral application is
9 incorrect.²² The Company provided the actual net power costs in Exhibit No. NCS-9
10 included in its initial filing. The Company will address Boise's legal arguments that
11 the Colstrip deferral does not meet the Commission's deferral standards in briefing.

12 **Depreciation Deferral**

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

15 A. No party contests the amortization of the depreciation deferral, although Staff
16 reiterates its argument to exclude interest and to amortize the deferred amounts
17 through base rates.²³

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

19 A. For the reasons discussed above, the Company proposes that these amounts be
20 amortized through a separate tariff rider with interest to account for the time value of
21 money. In this case, interest reflects the time value of money for the Company's
22 customers because this deferral is a credit to customers. If the Commission chooses

²² Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 63.

²³ Testimony of Jason L. Ball, Exhibit No. JLB-1T at 13.

1 to amortize these amounts in base rates, a corresponding balance should be reflected
2 in rate base to account for the carrying costs during amortization (see Exhibit No.
3 NCS-15).

4 **Deferral for Low Hydro Conditions**

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

6 A. Staff rejects the Company's proposal to recover costs deferred as a result of low
7 hydro conditions based on the premise that this would result in dollar-for-dollar
8 recovery of a portion of net power costs.²⁴ According to Staff, because dollar-for-
9 dollar recovery of net power costs was rejected in the 2013 rate case, the Company's
10 hydro deferral should be rejected. Public Counsel also rejects the deferral, stating
11 that it is not appropriate to defer a select portion of net power cost variances between
12 rate cases.²⁵ Boise rejects the hydro deferral because it believes hydro conditions in
13 2014 are "about normal" and the hydro deferral is one-sided.²⁶

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

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

19 **Merwin Fish Collector Deferral**

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

21 A. Staff recommends that only a portion of the deferred revenue requirement for the
22 Merwin fish collector be allowed—the deferred operations and maintenance and

²⁴ Testimony of David. C. Gomez, Exhibit No. DCG-1CT at 16-18.

²⁵ Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 42-45.

²⁶ Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 67-68.

1 depreciation expenses—and that interest on the deferred amounts should not be
2 allowed.²⁷ Like the other deferrals, Staff recommends amortizing the Merwin
3 deferral through base rates. Public Counsel rejects the Merwin deferral, stating that it
4 is not appropriate to defer revenue requirement of a single project between rate case
5 proceedings.²⁸ Boise also rejects the Merwin deferral, claiming that allowing
6 recovery of deferred amounts and allowing Merwin in rate base through the pro
7 forma capital additions adjustment would provide double recovery.²⁹

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

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

17 Staff’s proposal to selectively limit a significant portion of the cost associated
18 with this investment is inappropriate and would result in the Company’s shareholders
19 absorbing prudently incurred costs to serve its customers. The *return on* investment
20 is a real and quantifiable component of the cost of service and excluding these
21 amounts would not reflect sound ratemaking principles and would be punitive. If

²⁷ Testimony of Jason L. Ball, Exhibit No. JLB-1T at 13.

²⁸ Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 45-47.

²⁹ Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 68-71.

³⁰ *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-140762, Order 03 (May 29, 2014).

³¹ Testimony of Jason L. Ball, Exhibit No. JLB-1T at 27-28.

1 Staff proposes to limit the amount that a utility can recover through deferred
2 accounting, it should be done on a basis other than deeming one component of
3 revenue requirement more appropriate for recovery than another.

4 Public Counsel rejects the Company's proposal to amortize the Merwin
5 deferral because it deems it inappropriate to defer revenue requirement for a capital
6 project between rate cases.³² Recovery of the Merwin deferral is appropriate,
7 especially given that the project was placed in service very soon after the Company's
8 last general rate case. It is also important to note that no party disputes the prudence
9 of this investment.

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

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

21 A. Exhibit No. NCS-14 is an update to Exhibit No. NCS-9, which was included in the
22 Company's initial filing. Exhibit No. NCS-14 is revised to reflect an update to the

³² Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 45-47.

³³ Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1CT at 70.

1 hydro deferral and to remove Colstrip’s return on capital component from the Colstrip
2 deferral calculations. Added to the presentation of the summary on Exhibit No. NCS-
3 14, page 1, is the Merwin deferred balance as filed in Docket UE-140617. Interest on
4 the Merwin deferred balance is also included in the accumulated interest calculation.
5 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

6 **ADDITIONAL REVENUE REQUIREMENT EXHIBIT**

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

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

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

12 A. Yes.