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**ATTACHED EXHIBITS**

Exhibit No.\_\_\_(SRM-7)—Rebuttal Results of Operations Twelve-months ended   
 June 30, 2012

Exhibit No.\_\_\_(SRM-8)—1st Revised Response to WUTC Data Request 225

Exhibit No.\_\_\_(SRM-9)—Response to WUTC Data Request 208

Q. Are you the same Steven R. McDougal that previously submitted direct testimony on behalf of PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company) in this case?

A. Yes.

# Purpose and Summary of Testimony

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

A. The purpose of my rebuttal testimony is to respond to testimony of Washington Utilities and Transportation Commission (Commission) Staff witnesses Ms. Kendra A. White, Ms. Betty A. Erdahl, and Mr. Chris R. McGuire; Public Counsel Division of the Washington State Attorney General’s Office (Public Counsel) witnesses Mr. Sebastian Coppola and Mr. James R. Dittmer; and Boise White Paper, LLC (Boise) witness Mr. Michael C. Deen.

**Q. Please summarize your testimony.**

A. My rebuttal testimony explains and supports the Company’s revised overall revenue increase of $36.9 million. This is a reduction from the $42.8 million requested in the Company’s original filing. My testimony also provides:

* A detailed calculation of the $36.9 million requested base revenue increase, including a summary of the differences between the $42.8 million initial request and the current amount. The revised request includes updates and corrections to the Company’s initial filing, as well as the impact of restating and pro forma adjustments proposed by other parties that the Company has accepted.
* The Company’s response to certain revenue requirement adjustments proposed by intervening parties in this case that the Company contests.

# Revenue Requirement Increase

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

A. As shown on Page 1 of Exhibit No.\_\_\_(SRM-7), an overall revenue increase of $36.9 million is required to produce the 10.0 percent return on equity requested in this proceeding.

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

A. The Company’s revised revenue increase of $36.9 million is calculated using the same West Control Area inter-jurisdictional allocation methodology (WCA) used in the Company’s original filing. As discussed in more detail later in my testimony, as well as in the testimonies of Mr. R. Bryce Dalley and Mr. Gregory N. Duvall, the Company made certain modifications to WCA in its initial filing. The Company continues to use the modified WCA in its rebuttal position, incorporates certain updates and corrections to the filed case, and accepts certain adjustments proposed by other parties.[[1]](#footnote-1) In support of the revised calculation, Exhibit No.\_\_\_(SRM-7) shows the revised revenue requirement requested by the Company. This exhibit incorporates revisions to adjustments made in the Company’s direct filing and updates Tabs 1 and 2 of my original Exhibit No.\_\_\_(SRM-3).

# Revenue Requirement Adjustments

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

A. Yes. The Company incorporates the following revisions to the restating and pro forma adjustments presented in its direct filing.[[2]](#footnote-2) These revisions include some proposals from other parties.



## Adjustments to the Company’s Initial Filing

### Cost of Capital

**Q. Has the Company made any adjustments to its proposed cost of capital from its initial filing?**

A. Yes. As discussed in Mr. Bruce N. Williams’s rebuttal testimony, the Company is updating its capital structure and cost of long-term debt. As discussed in the rebuttal testimony of Dr. Samuel C. Hadaway, the Company continues to support a return on equity of 10.0 percent. Based on the updates to capital structure and cost of long-term debt, the Company’s overall rate of return in its rebuttal filing is 7.75 percent, as reflected in Table 1 below.

**TABLE 1**

|  |  |  |  |
| --- | --- | --- | --- |
| **Component** | **Percent of Total** | **Cost** | **Weighted Average** |
| **Long-Term Debt** | 47.50% | 5.29% | 2.51% |
| **Preferred Stock** | 0.28% | 5.48% | 0.02% |
| **Common Stock Equity** | 52.22% | 10.00% | 5.22% |
| **Total** | 100.00% |  | 7.75% |

The revenue requirement impact of updating the cost of capital reduces the Washington-allocated revenue requirement by approximately a $0.6 million from the Company’s initial filing.

### Net-to-Gross Conversion Factor

**Q. Has the Company changed the net-to-gross conversion factor from its initial filing?**

A. Yes. As discussed in detail below, Staff proposes a modification to the net-to-gross conversion factor associated with its calculation of uncollectible expense. Specifically, Staff removes the deduction of uncollectible expense from the calculation of Washington state public utility tax.[[3]](#footnote-3) Although the Company proposes calculating uncollectible expense included in the test year differently than Staff, the Company accepts Staff’s proposed methodological change to the development of the net-to-gross conversion factor. The Company’s response to Staff’s level of uncollectible expense included in the test year is discussed later in my testimony. This change to the net-to-gross conversion factor decreases the Company’s Washington-allocated revenue requirement by approximately $35,000 from the Company’s initial filing.

### Federal Energy Regulatory Commission (FERC) Settlement

**Q. Do any parties propose any adjustments related to revenues from the Company’s Open Access Transmission Tariff (OATT)?**

A. Yes. Boise proposes including additional revenues projected as a result of the settlement reached in the Company’s recent FERC transmission rate case, FERC Docket Nos. ER11-3643-000 and ER11-3643-001.[[4]](#footnote-4) Boise makes this adjustment based on the Company’s initial response to Staff Data Request 225.

**Q. Does the Company agree with Boise’s adjustment?**

A. Yes, in principle. FERC approved the settlement reached in the Company’s transmission rate case in May 2013, after the Company filed this general rate case in January 2013. Accordingly, the impacts of the new OATT rates are now being included as part of the Company’s rebuttal filing in Adjustment 3.6 (Wheeling Revenue). This adjustment, however, reflects the Company’s revised response to Staff Data Request 225. After Boise’s testimony was filed in June 2013, the Company discovered that it applied incorrect allocation factors in its initial response to this data request and provided an updated response in July 2013. In addition, the Company’s revised response included updated projected revenues from the FERC settlement. Included as Exhibit No.\_\_\_(SRM-8) is a copy of the Company’s revised response to Staff Data Request 225. This adjustment reduces Washington-allocated revenue requirement by approximately $0.2 million from the Company’s initial filing.

### Schedule 300/Rule 6 Modifications

**Q. Has the Company made any modifications to its proposals to modify Schedule 300 and Rule 6?**

A. Yes. The Company filed a motion to withdraw its changes to Schedule 300 and Rule 6, which was granted by the Commission on July 29, 2013.[[5]](#footnote-5) Accordingly, the Company has revised Adjustment 3.8 (Schedule 300 Fee Change) to remove all impacts of the Company’s original proposal. This change increases Washington-allocated revenue requirement by approximately $0.1 million from the Company’s original filing.

### Jim Bridger Turbine Write-Off

**Q. Please describe Public Counsel’s proposed adjustment related to the Jim Bridger turbine write-off.**

A. Public Counsel proposes an adjustment to remove costs associated with a write-off for the Jim Bridger Unit 2 turbine upgrade.[[6]](#footnote-6) For purposes of this case, the Company agrees to remove all revenue requirement impacts associated with this expense. Public Counsel’s adjustment, however, erroneously removes the costs from rate base rather than operation and maintenance (O&M) expense. Because the write-off is included in the per books O&M data in FERC account 557 (Other Power Supply Expenses), the Company’s rebuttal adjustment removes this write-off from the Washington results of operations. Accordingly, the Company has revised Adjustment 4.5 (Remove Non-Recurring Entries) to reflect this change, resulting in a reduction to the Washington-allocated revenue requirement of approximately $0.3 million from the Company’s initial filing.

### Insurance Expense

**Q. Please describe Public Counsel’s proposed adjustment to insurance expense.**

A. Public Counsel proposes two adjustments to Adjustment 4.8 (Insurance Expense). First, Public Counsel proposes to reduce the amount of insurance expense included in the test period based on more recent policy information.[[7]](#footnote-7) Second, Public Counsel proposes to modify certain tax elements of the Company’s original restating adjustment.[[8]](#footnote-8)

**Q. Do you agree with these proposed modifications?**

A. Yes. The Company has incorporated both of these adjustments in its rebuttal revenue requirement. The impacts associated with these changes are captured in the Company’s revised Adjustment 4.8 (Insurance Expense), which reduces Washington-allocated revenue requirement by approximately $0.3 million from the Company’s initial filing.

### Uncollectible Expense

**Q. Please describe Staff’s and Public Counsel’s adjustments to uncollectible expense.**

A. Both Staff and Public Counsel modify the test period uncollectible expense and associated uncollectible rate used in the net-to-gross conversion factor to reflect a multi-year historical average of uncollectible expense. Staff proposes using an average percentage of write-offs to revenues reflecting “bad debts for the last five years . . . removing the years with the highest and lowest percentage[s.]”[[9]](#footnote-9) Public Counsel proposes a four-year historical average.[[10]](#footnote-10)

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

A. The Company accepts Public Counsel’s proposal to use a four-year average uncollectible expense rate (0.660 percent). The Company believes that, if a historical average is used, it is more appropriate to use a straight-line average than to exclude certain high or low years. Applying this methodology consistently will result in the Company recovering its actual uncollectible expenses. The Company’s revised Adjustment 4.12 (Uncollectible Expense) reduces Washington-allocated revenue requirement by $0.3 million from the Company’s initial filing.

As discussed above, the Company also incorporated Staff’s proposed change in the calculation of the net-to-gross conversion factor using the uncollectible expense rate as proposed by Public Counsel.

### Operation and Maintenance Efficiency

**Q. Please describe Public Counsel’s proposed change to the Company’s Adjustment 4.15 (O&M Efficiency).**

A. The Company’s pro forma Adjustment 4.15 (O&M Efficiency) reduced labor costs by approximately $0.8 million (on a Washington-allocated basis) to reflect efficiency initiatives implemented by the Company. Public Counsel proposes to make an adjustment to further decrease labor costs during the test period based on the Company’s response to a data request.[[11]](#footnote-11)

**Q. Do you accept this proposed adjustment?**

A. Yes. The Company agrees to adopt the adjustment proposed by Public Counsel. The Company has incorporated this change in revised Adjustment 4.15, which results in a reduction to the Washington-allocated revenue requirement of approximately $0.3 million from the Company’s initial filing.

### Net Power Costs

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

A. As outlined in the testimony of Mr. Duvall, the Company has made several adjustments and updates to its pro forma net power costs (NPC). These changes are reflected in revised Adjustment 5.1.1 (Net Power Costs—Pro Forma). This adjustment reduces the Washington-allocated revenue requirement by approximately $2.4 million from the Company’s initial filing.

### Hydro Decommissioning

**Q. Please describe Staff’s adjustment to hydro decommissioning.**

A. Staff proposes to modify the Company’s hydro decommissioning adjustment to include east-control-area accruals and updated actual spend amounts.[[12]](#footnote-12) In response to a Staff data request, the Company agreed to make these updates and corrections. After reviewing Staff’s testimony, however, the Company discovered that it had inadvertently applied the incorrect allocation factor to east-side depreciation reserve totals. The Company issued a revised response to Staff’s data request that corrected this error and clarified that east-side accruals are not allocated to Washington.

**Q. Does the Company accept Staff’s hydro decommissioning adjustment?**

A. Yes, in principle. The Company’s revised Adjustment 6.1 (Hydro Decommissioning) reflects the correct allocations as identified in the Company’s revised response to Staff’s data request. This revised adjustment reduces Washington-allocated revenue requirement by approximately $19,000 from the Company’s initial filing.

### Depreciation Expense

**Q. Please summarize Public Counsel’s adjustment to depreciation expense.**

A. Public Counsel proposes to reflect depreciation expense included in the test year on an “annualized” basis.[[13]](#footnote-13) This adjustment aligns depreciation expense with Public Counsel’s acceptance of the Company’s proposal to reflect rate base balances at end-of-period levels rather than average of monthly average.[[14]](#footnote-14) Public Counsel calculates its adjustment by escalating depreciation expense by the ratio of year-end rate base divided by the average of monthly averages (AMA) rate base.

**Q. Does the Company accept Public Counsel’s proposal as part of its rebuttal filing?**

A. Yes. The Company’s revised Adjustment 6.3 (Proposed Depreciation Rates—Expense) reflects acceptance of this proposal.

**Q. Is the Company making any other adjustments related to depreciation expense?**

A. Yes. In response to a Public Counsel data request, the Company identified necessary corrections to the allocations of certain tax items, which the Company is incorporating in its rebuttal filing. In addition, as part of revised Adjustment 6.3, the Company uses the updated depreciation rates presented in the supplemental testimony of Mr. Henry E. Lay in Docket UE-130052 (the Company’s 2013 Depreciation Study).

**Q. Please elaborate on the Company’s use of updated depreciation rates.**

A. On July 9, 2013, the Company filed a stipulation on behalf of parties addressing the Company’s depreciation study in Oregon (Docket UM 1647). As part of this stipulation, the parties agreed to certain modifications to the Company’s filed depreciation rates. To maintain uniformity across the Company’s six state jurisdictions, the Company filed supplemental testimony in Docket UE-130052 reflecting the modifications agreed to in the Oregon settlement.

**Q. Is the Company’s depreciation study under review in other jurisdictions in which the Company operates?**

A. Yes. As described in the supplemental testimony of Mr. Lay in Docket UE-130052, the Company’s depreciation study is currently under review in Utah, Wyoming, and Idaho. If further changes are made to depreciation rates in these state proceedings, the Company is proposing to defer any additional reductions to depreciation expense associated with changes to depreciation rates for system-allocated assets included in the west control area.

**Q. What is the total impact of the Company’s changes to Adjustment 6.3?**

A. The Company’s revised Adjustment 6.3 increases Washington-allocated revenue requirement by approximately $0.5 million from the Company’s initial filing.

### Interest True Up

**Q. Has interest expense been updated in the Company’s rebuttal filing?**

A. Yes. The Company’s revised Adjustment 7.1 (Interest True Up) reflects the Company’s updated weighted average cost of long-term debt and revised rate base balances. The Washington-allocated revenue requirement impact of these restating and pro forma adjustments is an increase of approximately $58,000 from the Company’s initial filing.

### Property Tax Expense

**Q. Please describe the Company’s adjustment to property tax expense.**

A. The Company has updated the property tax expense amount included in the test period to reflect booked accruals for the 12 months ended June 2013. This is an update from the Company’s initial filing where the Company reflected pro forma property taxes for that same period (12 months ended June 2013). This update, reflected in revised Adjustment 7.2 (Property Tax Expense), reduces the Washington-allocated revenue requirement by approximately $0.2 million from the Company’s initial filing.

**Q. Does any party contest the property tax expense adjustment presented in the Company’s initial filing?**

A. Yes. Staff “rejects the Company’s pro forma adjustment, thereby, keeping property tax expense at the accrual level that was booked during the test year[,]”[[15]](#footnote-15) the 12 months ended June 2012. Staff argues that customers should not “bear the burden of an expense that is not realized by the Company.”[[16]](#footnote-16)

**Q. Is Staff’s property tax expense proposal consistent with other positions Staff has taken in this case?**

A. No. Staff’s property tax proposal is inconsistent with Staff’s position on the inclusion of pro forma capital additions. As discussed in greater detail below, Staff proposes that pro forma plant additions that are placed in service through January 2013 be included in the Washington revenue requirement. Staff does not, however, acknowledge the additional property tax expense that will be incurred associated with these significant capital additions.

**Q. Does the Company’s rebuttal property tax adjustment result in property tax expense “not realized by the Company”?**

A. No. The Company’s revised Adjustment 7.2 reflects the amount of property tax expense recorded on the Company’s accounting records for the 12 months ended June 2013. This property tax level accounts for increased level of plant in service and is a known and measurable level of expense.

**Q. Is the Company’s revised property tax expense consistent with other adjustments made in the Company’s rebuttal filing?**

A. Yes. Updating the amount of property tax expense in the test period to reflect more recent actual information is consistent with revisions the Company made to Adjustments 3.6 (Wheeling Revenues), 8.4 (Major Plant Additions), and 8.6 (Powerdale Hydro Removal). The Company’s revisions to Adjustments 8.4 and 8.6 are discussed later in my testimony.

### Renewable Energy Tax Credits

**Q. Please describe the Company’s revisions to the amount of renewable energy tax credits reflected in the Washington results of operations.**

A. Revised Adjustment 7.3 (Renewable Energy Tax Credit) has been updated to reflect the megawatt-hour output of qualifying renewable facilities as modeled in the Company’s rebuttal net power costs. This revised adjustment increases the amount of tax credits included in the test period and reduces the Washington-allocated revenue requirement by approximately $1.1 million from the Company’s initial filing.

### Tax Flow-Through Adjustment

**Q. Please describe Public Counsel’s proposed changes to income taxes.**

A. Public Counsel proposes that the Company use flow-through accounting treatment on two specific tax items: “Reg Liability—WA Low Energy Program,” and “Bridger Coal Company Gain/Loss on Assets Disposed.”[[17]](#footnote-17)

**Q. What is the “Reg Liability—WA Low Energy Program”?**

A. The “Reg Liability—WA Low Energy Program” is created when funds are collected from customers and held in a liability balancing account for the purpose of providing aid to certain customers who qualify for assistance in paying their electricity bill. Since the funds are collected before the disbursements, a timing difference exists. For tax purposes, the funds are considered revenue when collected and become deductible when paid. But for book purposes, the funds are treated as a pass-through and never recorded in revenue accounts.

**Q. Does the Company agree with the “Reg Liability—WA Low Energy Program” adjustment proposed by Public Counsel?**

A. Yes, in principle. The Company agrees that the tax impacts of the Schedule M reflecting the timing difference should be removed. However, it is more appropriate to remove this item from regulatory results entirely than to afford these items normalization or flow-through treatment.

**Q. What is the “Bridger Coal Company Gain/Loss on Assets Disposed”?**

A. The “Bridger Coal Company Gain/Loss on Assets Disposed” account balance is created when Bridger Coal Company sells, retires, or otherwise disposes of assets resulting in gains or losses. Book treatment of assets disposed is to record the gain or loss based on net book value less any proceeds received. The Schedule M entry adjusts the book gain on assets disposed to reflect the difference between net book basis of assets disposed and net tax basis of assets disposed due to differences in depreciation.

**Q. Please briefly describe Public Counsel’s proposed adjustment to the “Bridger Coal Company Gain/Loss on Assets Disposed.”**

A. The adjustment proposed by Public Counsel consists of two parts—an allocation factor component and a flow-through versus normalization component.

**Q. Does the Company agree with the allocation factor component of the adjustment?**

A. Yes. The Company agrees with the allocation factor correction proposed by Public Counsel and accepts it as part of the Company’s rebuttal filing.

**Q. Does the Company agree with the flow-through versus normalization component of the adjustment?**

A. No. As the Company stated in response to Public Counsel Data Request No. 172b, this book/tax timing difference is related to fixed assets and therefore must be afforded normalization treatment for ratemaking purposes rather than flow-through treatment as proposed by Public Counsel.

**Q. Are there similar book/tax timing differences included in this case that are afforded normalization treatment rather than flow-through treatment?**

A. Yes. The same item for PacifiCorp assets entitled “Gain/Loss on Property Dispositions” is an item related to fixed assets and is afforded normalization treatment rather than flow-through treatment.

**Q. What is the difference between PacifiCorp’s book/tax timing difference and the Bridger Coal Company book/tax timing difference?**

A. There is no difference other than the assets they relate to. PacifiCorp’s book/tax timing difference is related to the actual assets owned by PacifiCorp for the purpose of providing electric service to its customers. The Bridger Coal Company book/tax timing difference is related to the actual assets providing coal to the Jim Bridger Mine.

**Q. Are there any ramifications to PacifiCorp and its customers if the Bridger Coal Company book/tax timing difference were to be afforded flow-through treatment for rate making purposes?**

A. Yes. Flow-through treatment of book/tax timing differences related to fixed assets of a utility is a violation of normalization per Internal Revenue Code (IRC) Section 168(f)(2). The basic underlying provisions of IRC Section 168(f)(2) state that if a utility does not normalize, or its regulator does not allow normalization, that utility is required to use book lives and rates for income tax depreciation purposes, as opposed to the favorable accelerated depreciation methods generally available for income tax purposes. To take advantage of the accelerated depreciation for income tax purposes, normalization is required for book/tax differences related to fixed assets. Because the Gain/Loss on the disposition of these assets are timing differences that result from the use of accelerated income tax depreciation, the Company would lose its ability to take advantage of accelerated tax depreciation if these items were not normalized for regulatory purposes. This would have detrimental impacts on customers.

**Q. Is the Company proposing any other modifications to Adjustment 7.6 (Flow-Through Adjustment) in its rebuttal filing?**

A. Yes. The Company is proposing to correct the allocation factors for two Schedule M items. The first Schedule M item, “Cholla Plant Transaction Costs—APS Amort—WA”, was erroneously coded as situs to Washington. This is related to an east-side resource and should not be allocated to Washington. The second is the reclassification account “Reg Asset Balance Reclass” that should not be included in Washington results of operations.

**Q. What is the revenue requirement impact of the Company’s modifications to Adjustment 7.6 (Flow-Through Adjustment)?**

A. The combined modifications to Adjustment 7.6 reduce the Washington-allocated revenue requirement by approximately $73,000 from the Company’s initial filing. These modifications are included as part of the Company’s revised Adjustment 7.6.

### Remove State Deferred Tax Expense and Balance

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

A. The correction to allocation factors made in revised Adjustment 6.3 (discussed in detail above) results in changes to the level of the deferred income tax expense included in the Washington results of operations. Accordingly, the Company incorporates these changes into its revised Adjustment 7.7, resulting in a reduction to the Washington-allocated revenue requirement of approximately $0.6 million from the Company’s initial filing.

### Major Plant Additions

**Q. Has the Company modified Adjustment 8.4 (Major Plant Additions) as part of its rebuttal filing?**

A. Yes. Because all of the Company’s pro forma major plant additions were placed in service before June 2013 (except the Merwin Fish Collector), the Company revised Adjustment 8.4 to reflect actual amounts placed in service for these additions. As described in Mr. Mark R. Tallman’s rebuttal testimony, the Merwin Fish Collector is expected to be substantially complete and used and useful in February 2014. The Company’s revised Adjustment 8.4 reflects a February 2014 in-service date for the Merwin Fish Collector using the latest pro forma capital data. The Company has also updated the associated depreciation expense and depreciation reserve using the updated plant-in-service amounts. Finally, the Company has reflected updated O&M expense amounts related to the Swift Fish Collector based on more recent information, as discussed in more detail in Mr. Tallman’s rebuttal testimony. The impact of these revisions is to reduce the Washington-allocated revenue requirement by approximately $0.1 million from the Company’s initial filing.

**Q. Do the parties propose adjustments to the Company’s Adjustment 8.4?**

A. Yes. Staff and Public Counsel propose to remove two of the capital items included in the Company’s Adjustment 8.4 (Major Plant Additions). Both parties propose removing the Jim Bridger Unit 2 turbine upgrade and the Merwin Fish Collector from the Washington results of operations.[[18]](#footnote-18) Staff also proposes removal of O&M expense associated with the Merwin and Swift fish collectors,[[19]](#footnote-19) and both Staff and Public Counsel propose removal of depreciation expense and reserve associated with the Jim Bridger turbine upgrade and the Merwin Fish Collector.

**Q. Do you agree with these proposed modifications to Adjustment 8.4?**

A. No. Staff and Public Counsel propose “cut-off” dates for capital additions of January 11, 2013, and the end of February 2013, respectively. These parties argue that projects placed in service after the cut-off date should not be included in the Washington results of operations.

**Q. Are Staff’s and Public Counsel’s proposals consistent with Commission precedent?**

A. As Staff acknowledges, “the Commission practice has been historically highly variable. Previous Commission decisions have ranged from rejecting all pro forma plant additions, to allowing pro forma plant additions that were projected to be placed in service well into the rate year.”[[20]](#footnote-20) Because of this variability, Staff states that it has “considerable flexibility in developing its recommendation” and that the “guiding principle” behind its recommendation in this case was “practicality[.]”[[21]](#footnote-21)

As discussed in Mr. William R. Griffith’s rebuttal testimony, the parties’ removal of these pro forma capital additions is perplexing given the “Commission’s recent commitment to actively seek solutions to issues such as earnings attrition and the timely recovery of infrastructure investments (regulatory lag) and to improve the efficiency, predictability, and consistency of ratemaking decisions in Washington.”[[22]](#footnote-22) In particular, the parties’ removal of a plant addition that is already in service and used and useful at the time the parties filed testimony seems punitive.

**Q. Did the Company limit the pro forma capital additions included in this general rate case filing?**

A. Yes. Only five major capital additions were included in the Company’s general rate case filing. The Company limited the pro forma capital additions it chose to include in the filing to minimize controversy and to be consistent with previous Commission orders allowing pro forma adjustments for major plant additions to match the in-service date with the start of recovery of those investments.[[23]](#footnote-23) One factor considered by the Commission when allowing inclusion of a pro forma capital addition in rates is whether the benefits of the project are included in power costs. In this case, the benefits of the Jim Bridger Unit 2 upgrade are reflected in the development of pro forma net power costs. The Commission also considers whether the project is required by a governmental authority or provides environmental benefits. In this case, the Merwin Fish Collector is required by the Company’s FERC license[[24]](#footnote-24) and provides environmental benefits by improving fish passage around the Merwin hydroelectric facilities.[[25]](#footnote-25)

**Q. Because the Merwin Fish Collector is projected to be placed in service in February 2014, are the capital costs included at their full balances?**

A. No. The project is included using an AMA calculation for calendar year 2014, the rate effective period. The project is therefore only included in the Washington results of operations for 10.5 months.

**Q. Mr. Griffith’s rebuttal testimony includes an alternative proposal for including the Company’s investment in the Merwin Fish Collector in rates. Please describe this proposal.**

A. If the Commission decides to remove the Merwin Fish Collector from the Washington results of operations in this case, then the requests that the Commission approve a separate tariff rider to include the revenue requirement of the Merwin Fish Collector in rates once the project is placed in service and is used and useful for customers. The Company uses similar approaches in California, Oregon, and Utah when significant capital additions are placed in service. For example, the Company added a significant transmission project to rates in Oregon through a separate tariff rider after a prudence review of the project was conducted as part of a general rate case.[[26]](#footnote-26)

Because no party in this proceeding disputes the prudence of the Merwin Fish Collector, this alternative approach would address any concerns about the timing of the in-service date while allowing the parties to thoroughly review the costs of the project at the time the separate tariff rider is filed. The Company would submit an advice filing once the project is operational. In addition, the Company would facilitate the parties’ review of the costs by providing updates of capital expenditures as requested.

**Q. Staff proposes removal of O&M expense associated with the Swift and Merwin fish collectors. Please respond.**

A. Staff removes these costs from the Washington results of operations as not known and measurable. It is unreasonable, however, for Staff to assume that these significant capital additions (mandated under the Company’s FERC licenses) will not require increased O&M expense. The development of the O&M figures included in the Washington results of operations in the Company’s rebuttal filing is discussed in the rebuttal testimony of Mr. Tallman.

### Powerdale Hydro

**Q. Is the Company making any modifications to Adjustment 8.6 (Powerdale Hydro Removal)?**

A. Yes. In response to a Staff data request, the Company agreed to update this adjustment to include actual spend through June 2013. The Company’s revised Adjustment 8.6 results in a reduction in Washington-allocated revenue requirement of less than $1000 from the Company’s initial filing.

### Production Factor

**Q. Please describe the Company’s modification to Adjustment 9.1 (Production Factor).**

A. The Company’s revised Adjustment 9.1 reflects modifications to the production factor for changes made in revised Adjustment 5.1.1 (Net Power Costs—Pro Forma) and revised Adjustment 8.4 (Major Capital Additions). These revisions to Adjustment 9.1 result in a reduction in the Washington-allocated revenue requirement of approximately $46,000 from the Company’s initial filing.

## Adjustments Contested by the Company

**Q. Have the parties made other proposed adjustments to the Company’s Washington results of operations?**

A. Yes. The parties have proposed changes related to allocation factors, revenue normalization, labor expenses, rate base balance methodology, and investor supplied working capital. The Company, however, does not agree with these proposals, as addressed in more detail below.

### WCA Modifications—Allocation Factors

**Q. Please describe the modifications made by the Company in calculating the WCA allocation factors.**

A. As described in my direct testimony and in the direct and rebuttal testimonies of Mr. Dalley, the Company is proposing to modify the calculation of the Control Area Generation West (CAGW) allocation factor to align with the Company’s cost of service (COS) study.[[27]](#footnote-27)

**Q. Do parties oppose the Company’s calculation and assignment of allocation factors?**

A. Yes. Staff, Public Counsel, and Boise all recommend that the Commission reject the Company’s modifications to the WCA allocation factors and, in some instances, propose additional modifications to further reduce Washington’s share of total-company revenue requirement.

**Q. Has the Company adopted any of the parties’ proposed changes to allocation factors in its rebuttal position?**

A. No. As discussed in the testimonies of Mr. Dalley and Ms. Joelle R. Steward, the Company opposes these changes. Accordingly, the Company’s rebuttal revenue requirement uses the allocation factors proposed in its initial filing.

### Revenue Normalization

**Q. Please describe Public Counsel’s proposed revenue normalization adjustment?**

A. Public Counsel accepts the Company’s use of end-of-period rate base balances, but asserts that the rate base valuation must also include an “annualized” level of revenues that can be expected to be collected from customers being served at the end of the test period.[[28]](#footnote-28) As discussed in the rebuttal testimony of Ms. Steward, this approach is flawed because the Company does not serve a static number of customers. Public Counsel’s proposed approach does not capture customer variation throughout the year, including seasonal customers. In addition, Public Counsel’s adjustment does not account for changes in allocation factors or the production factor, which would be affected with changes in load. For these reasons, the Company disagrees with Public Counsel’s proposed adjustment.

### Labor Expense Adjustments

**Q. Please describe the parties’ proposed adjustments to labor expenses.**

A. Staff and Public Counsel both sponsor various labor-related adjustments, including adjustments to remove the escalation of annual incentive plan (AIP) expenses, reduce the amount of executive compensation, and disallow expenses related to compensation for MidAmerican Energy Holdings Company officers.

**Q. Do you agree with the proposed labor adjustments?**

A. No. As further discussed in the rebuttal testimony of Mr. Erich D. Wilson, the Company’s labor expenses are consistent with Commission precedent and reflect prudently incurred costs that benefit ratepayers. Accordingly, the Company does not accept the parties’ proposals.

### Rate Base Balance Methodology

**Q. Please describe the Company’s proposed rate base balance methodology.**

A. In its initial filing, the Company included a restating adjustment to reflect electric plant in service balances at end-of-test-year levels instead of AMA levels.

**Q. Why did the Company include this restating adjustment?**

A. For states using historical test periods, adjusting electric plant in service to end-of-period balances minimizes regulatory lag by reflecting rate base balances at levels closer to the rate effective period. The Company agrees with Public Counsel that using end-of-period rate base balances is “an equitable and reasonable approach to addressing ‘regulatory lag.’”[[29]](#footnote-29)

**Q. Does Staff agree with the use of end-of-period rate base balances?**

A. No. Staff proposes that the Commission reject this modification and revert to the use of AMA rate base balances.[[30]](#footnote-30)

**Q. Please respond to Staff’s proposal.**

A. As discussed by Mr. Griffith, Staff’s approach is disappointing. Staff rejects the Company’s proposal in this case despite supporting the use of end-of-period rate base balances for PSE as “necessary and useful” to address PSE’s persistent under-earnings and regulatory lag.[[31]](#footnote-31) Staff also supported the equivalent of the use of end-of-period rate base balances in Avista’s most recent rate case by calculating its attrition adjustment including rate base additions through the rate year.[[32]](#footnote-32)

As Staff acknowledges, the Commission has supported the use of year-end rate base as appropriate if it is used as a means to mitigate regulatory lag or if a utility has been unable to earn its authorized rate of return over a historical period. As detailed in the rebuttal testimony of Mr. Griffith, the Company has experienced chronic under-earning since the adoption of the WCA in 2006. The use of a year-end rate base is necessary to more appropriately match rate base balances reflected in the test period with those that will actually be experienced during the rate effective period.

**Q. If the Commission decides to utilize AMA rather than year-end rate base balances should it adopt Staff’s proposed adjustment?**

A. No. Staff does not correctly calculate the impact of its adjustment by not applying consistent treatment to all of the Company’s restating and pro forma adjustments. Staff states that its adjustment would result in a $1.28 million reduction to the Company’s filed Washington revenue requirement. But in response to Staff Data Request 208, the Company stated that using AMA rate base balances would result in an *increase* to filed revenue requirement of $0.3 million.[[33]](#footnote-33) In other words, the Company elected to include this adjustment in its filed position despite the fact that it negatively impacted the revenue requirement in this case because using end-of-period rate base balances is sound long-term regulatory policy that mitigates regulatory lag.

### Investor Supplied Working Capital

**Q. Has the Company revised the amount of investor-supplied working capital included in its Washington-allocated revenue requirement?**

A. No. As described in the rebuttal testimony of Mr. Douglas K. Stuver, the Company continues to support its proposed modifications to the ISWC calculation.

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

A. Yes.

1. Included in my workpapers is an updated workpaper reflecting the changes in the per books data including the Company’s rebuttal adjustments. [↑](#footnote-ref-1)
2. For ease in identifying the revenue requirement impact of the Company’s rebuttal changes, in this testimony, the Company identifies the incremental impact of each change made to the revenue requirement adjustments included in its initial filing. Consistent with Commission rule WAC 480-07-510, however, Exhibit No.\_\_\_(SRM-7) shows the rebuttal restating and pro forma adjustments to per books data (not the incremental impact). In other words, the revised adjustments presented in Exhibit No.\_\_\_(SRM-7) replace the adjustments presented in the initial filing. [↑](#footnote-ref-2)
3. Exhibit No.\_\_\_(CTM-1T) at page 3. [↑](#footnote-ref-3)
4. Exhibit No.\_\_\_(MCD-1CT) at pages 23-24. [↑](#footnote-ref-4)
5. Order 04 (July 29, 2013). [↑](#footnote-ref-5)
6. Exhibit No.\_\_\_(SC-1CT) at pages 25-27. [↑](#footnote-ref-6)
7. Exhibit No.\_\_\_(SC-1CT) at page 31. [↑](#footnote-ref-7)
8. Exhibit No.\_\_\_(JRD-1T) at page 18. [↑](#footnote-ref-8)
9. Exhibit No.\_\_\_(CTM-1T) at pages 9-10. [↑](#footnote-ref-9)
10. Exhibit No.\_\_\_(SC-1CT) at pages 29-30. [↑](#footnote-ref-10)
11. Exhibit No.\_\_\_(SC-1CT) at page 32. [↑](#footnote-ref-11)
12. Exhibit No.\_\_\_(JH-1T) at page 11. [↑](#footnote-ref-12)
13. Exhibit No.\_\_\_(JRD-1T) at pages 10-11. [↑](#footnote-ref-13)
14. *Id.* [↑](#footnote-ref-14)
15. Exhibit No.\_\_\_(BAE-1T) at page 4. [↑](#footnote-ref-15)
16. *Id.* at 5. [↑](#footnote-ref-16)
17. Exhibit No.\_\_\_(JRD-1T) at pages 16-17. [↑](#footnote-ref-17)
18. Exhibit No.\_\_\_(SC-1CT) at pages 22-25; Exhibit No.\_\_\_(CRM-1T) at page 3. [↑](#footnote-ref-18)
19. Exhibit No.\_\_\_(CRM-1T) at page 11-12. [↑](#footnote-ref-19)
20. *Id.* at 7 (footnotes omitted). [↑](#footnote-ref-20)
21. *Id.* [↑](#footnote-ref-21)
22. Exhibit No.\_\_\_(WRG-1T) at pages 1-2. [↑](#footnote-ref-22)
23. *See Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11, ¶ 21 (April 2, 2010). [↑](#footnote-ref-23)
24. *PacifiCorp,* 123 FERC ¶ 62,258, Ordering Paragraphs E, F; Article 401 (June 26, 2008) (FERC Project No. 935 Licensing Order). [↑](#footnote-ref-24)
25. *See, e.g., id.,* ¶ 22. [↑](#footnote-ref-25)
26. *In the Matter of PacifiCorp d/b/a Pacific Power Request for a General Rate Revision*, Docket No. UE 246, Order No. 12-493 at 5-9 (December 20, 2012), Order No. 13-195 at 1 (May 23, 2013) (Public Utility Commission of Oregon). [↑](#footnote-ref-26)
27. Costs and balances for the Jim Bridger generating plant and associated transmission are allocated using the Jim Bridger Generation (JBG) factor. This factor is a modification of the CAGW factor. The modifications to the CAGW factor discussed above are also applied to the JBG factor. [↑](#footnote-ref-27)
28. Exhibit No.\_\_\_(JRD-1T) at pages 11-13. [↑](#footnote-ref-28)
29. Exhibit No.\_\_\_(JRD-1T) at page 2. [↑](#footnote-ref-29)
30. Exhibit No.\_\_\_(BAE-1T) at pages 5-8. [↑](#footnote-ref-30)
31. *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-121697 and UG-121705, and Dockets UE-130137 and UG-130138, Testimony of Thomas E. Schooley, Exhibit No.\_\_\_(TES-4T) at page 6. [↑](#footnote-ref-31)
32. *Wash. Utils. & Transp. Comm’n v. Avista Corp. d/b/a/ Avista Utilities,* Dockets UE-120436 and UG-120437, Dockets UE-110876 and UG-110877*,* Testimony of Kathryn H. Breda, Exhibit No.\_\_\_(KHB-1CT) at page 8. [↑](#footnote-ref-32)
33. A copy of the Company’s written response to 208 is attached as Exhibit No.\_\_\_(SRM-9). The complete attachments provided in the Company’s response to the data request are voluminous and are included in Mr. McDougal’s workpapers. [↑](#footnote-ref-33)