

Exhibit No.__(SRM-6T)
Docket UE-130043
Witness: Steven R. McDougal

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP d/b/a
Pacific Power & Light Company

Respondent.

Docket UE-130043

PACIFICORP

REBUTTAL TESTIMONY OF STEVEN R. MCDUGAL

August 2, 2013

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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

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

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

13 **Q. Please summarize your testimony.**

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

- 17 • A detailed calculation of the \$36.9 million requested base revenue
18 increase, including a summary of the differences between the
19 \$42.8 million initial request and the current amount. The revised
20 request includes updates and corrections to the Company's initial
21 filing, as well as the impact of restating and pro forma adjustments
22 proposed by other parties that the Company has accepted.

- 1 • The Company’s response to certain revenue requirement adjustments
2 proposed by intervening parties in this case that the Company contests.

3 **REVENUE REQUIREMENT INCREASE**

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

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

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

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

¹ Included in my workpapers is an updated workpaper reflecting the changes in the per books data including the Company’s rebuttal adjustments.

REVENUE REQUIREMENT ADJUSTMENTS

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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 These revisions include some proposals from other parties.

Filed Revenue Requirement	\$	42,800,673
Adjustments Revised by the Company in Rebuttal	Revenue Requirement Impact (\$)	
Cost of Capital		(557,128)
Net to Gross		(35,214)
3.6 Wheeling Revenue		(178,023)
3.8 Schedule 300 Fee Change		89,127
4.5 Remove Non-Recurring Entries		(295,118)
4.8 Insurance Expense		(271,521)
4.12 Uncollectible Expense		(319,596)
4.15 O&M Efficiency		(269,449)
5.1.1 Net Power Costs - Pro Forma		(2,447,747)
6.1 Hydro Decommissioning		(19,192)
6.3 Proposed Depreciation Rates - Expense		461,874
7.1 Interest True Up		58,067
7.2 Property Tax Expense		(164,626)
7.3 Renewable Energy Tax Credit		(1,107,495)
7.6 Flow-Through Adjustment		(72,601)
7.7 Remove Deferred State Tax Expense & Balance		(556,432)
8.4 Major Plant Additions		(135,223)
8.6 Powerdale Hydro Removal		(612)
9.1 Production Factor		(45,899)
Total Impact of Revisions	\$	(5,866,811)
Rebuttal Revenue Requirement	\$	36,933,863

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.

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

1 calculation of Washington state public utility tax.³ Although the Company
2 proposes calculating uncollectible expense included in the test year differently
3 than Staff, the Company accepts Staff's proposed methodological change to the
4 development of the net-to-gross conversion factor. The Company's response to
5 Staff's level of uncollectible expense included in the test year is discussed later in
6 my testimony. This change to the net-to-gross conversion factor decreases the
7 Company's Washington-allocated revenue requirement by approximately \$35,000
8 from the Company's initial filing.

9 **Federal Energy Regulatory Commission (FERC) Settlement**

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

12 A. Yes. Boise proposes including additional revenues projected as a result of the
13 settlement reached in the Company's recent FERC transmission rate case, FERC
14 Docket Nos. ER11-3643-000 and ER11-3643-001.⁴ Boise makes this adjustment
15 based on the Company's initial response to Staff Data Request 225.

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

17 A. Yes, in principle. FERC approved the settlement reached in the Company's
18 transmission rate case in May 2013, after the Company filed this general rate case
19 in January 2013. Accordingly, the impacts of the new OATT rates are now being
20 included as part of the Company's rebuttal filing in Adjustment 3.6 (Wheeling
21 Revenue). This adjustment, however, reflects the Company's revised response to
22 Staff Data Request 225. After Boise's testimony was filed in June 2013, the

³ Exhibit No.__(CTM-1T) at page 3.

⁴ Exhibit No.__(MCD-1CT) at pages 23-24.

1 Company discovered that it applied incorrect allocation factors in its initial
2 response to this data request and provided an updated response in July 2013. In
3 addition, the Company's revised response included updated projected revenues
4 from the FERC settlement. Included as Exhibit No.____(SRM-8) is a copy of the
5 Company's revised response to Staff Data Request 225. This adjustment reduces
6 Washington-allocated revenue requirement by approximately \$0.2 million from
7 the Company's initial filing.

8 **Schedule 300/Rule 6 Modifications**

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

11 A. Yes. The Company filed a motion to withdraw its changes to Schedule 300 and
12 Rule 6, which was granted by the Commission on July 29, 2013.⁵ Accordingly,
13 the Company has revised Adjustment 3.8 (Schedule 300 Fee Change) to remove
14 all impacts of the Company's original proposal. This change increases
15 Washington-allocated revenue requirement by approximately \$0.1 million from
16 the Company's original filing.

17 **Jim Bridger Turbine Write-Off**

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

20 A. Public Counsel proposes an adjustment to remove costs associated with a write-
21 off for the Jim Bridger Unit 2 turbine upgrade.⁶ For purposes of this case, the
22 Company agrees to remove all revenue requirement impacts associated with this

⁵ Order 04 (July 29, 2013).

⁶ Exhibit No.____(SC-1CT) at pages 25-27.

1 expense. Public Counsel's adjustment, however, erroneously removes the costs
2 from rate base rather than operation and maintenance (O&M) expense. Because
3 the write-off is included in the per books O&M data in FERC account 557 (Other
4 Power Supply Expenses), the Company's rebuttal adjustment removes this write-
5 off from the Washington results of operations. Accordingly, the Company has
6 revised Adjustment 4.5 (Remove Non-Recurring Entries) to reflect this change,
7 resulting in a reduction to the Washington-allocated revenue requirement of
8 approximately \$0.3 million from the Company's initial filing.

9 **Insurance Expense**

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

11 A. Public Counsel proposes two adjustments to Adjustment 4.8 (Insurance Expense).
12 First, Public Counsel proposes to reduce the amount of insurance expense
13 included in the test period based on more recent policy information.⁷ Second,
14 Public Counsel proposes to modify certain tax elements of the Company's
15 original restating adjustment.⁸

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

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

⁷ Exhibit No.__(SC-1CT) at page 31.

⁸ Exhibit No.__(JRD-1T) at page 18.

1 **Uncollectible Expense**

2 **Q. Please describe Staff's and Public Counsel's adjustments to uncollectible**
3 **expense.**

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

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

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

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

⁹ Exhibit No.__(CTM-1T) at pages 9-10.

¹⁰ Exhibit No.__(SC-1CT) at pages 29-30.

1 **Operation and Maintenance Efficiency**

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

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

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

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

14 **Net Power Costs**

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

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

¹¹ Exhibit No.____(SC-1CT) at page 32.

1 **Hydro Decommissioning**

2 **Q. Please describe Staff's adjustment to hydro decommissioning.**

3 A. Staff proposes to modify the Company's hydro decommissioning adjustment to
4 include east-control-area accruals and updated actual spend amounts.¹² In
5 response to a Staff data request, the Company agreed to make these updates and
6 corrections. After reviewing Staff's testimony, however, the Company
7 discovered that it had inadvertently applied the incorrect allocation factor to east-
8 side depreciation reserve totals. The Company issued a revised response to
9 Staff's data request that corrected this error and clarified that east-side accruals
10 are not allocated to Washington.

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

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

17 **Depreciation Expense**

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

19 A. Public Counsel proposes to reflect depreciation expense included in the test year
20 on an "annualized" basis.¹³ This adjustment aligns depreciation expense with
21 Public Counsel's acceptance of the Company's proposal to reflect rate base

¹² Exhibit No.__(JH-1T) at page 11.

¹³ Exhibit No.__(JRD-1T) at pages 10-11.

1 balances at end-of-period levels rather than average of monthly average.¹⁴ Public
2 Counsel calculates its adjustment by escalating depreciation expense by the ratio
3 of year-end rate base divided by the average of monthly averages (AMA) rate
4 base.

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

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

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

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

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

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

¹⁴ *Id.*

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

3 A. Yes. As described in the supplemental testimony of Mr. Lay in Docket UE-
4 130052, the Company's depreciation study is currently under review in Utah,
5 Wyoming, and Idaho. If further changes are made to depreciation rates in these
6 state proceedings, the Company is proposing to defer any additional reductions to
7 depreciation expense associated with changes to depreciation rates for system-
8 allocated assets included in the west control area.

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

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

12 **Interest True Up**

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

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

19 **Property Tax Expense**

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

21 A. The Company has updated the property tax expense amount included in the test
22 period to reflect booked accruals for the 12 months ended June 2013. This is an
23 update from the Company's initial filing where the Company reflected pro forma

1 property taxes for that same period (12 months ended June 2013). This update,
2 reflected in revised Adjustment 7.2 (Property Tax Expense), reduces the
3 Washington-allocated revenue requirement by approximately \$0.2 million from
4 the Company's initial filing.

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

7 A. Yes. Staff "rejects the Company's pro forma adjustment, thereby, keeping
8 property tax expense at the accrual level that was booked during the test year[,]"¹⁵
9 the 12 months ended June 2012. Staff argues that customers should not "bear the
10 burden of an expense that is not realized by the Company."¹⁶

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

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

19 **Q. Does the Company's rebuttal property tax adjustment result in property tax**
20 **expense "not realized by the Company"?**

21 A. No. The Company's revised Adjustment 7.2 reflects the amount of property tax
22 expense recorded on the Company's accounting records for the 12 months ended

¹⁵ Exhibit No.____(BAE-1T) at page 4.

¹⁶ *Id.* at 5.

1 June 2013. This property tax level accounts for increased level of plant in service
2 and is a known and measurable level of expense.

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

5 A. Yes. Updating the amount of property tax expense in the test period to reflect
6 more recent actual information is consistent with revisions the Company made to
7 Adjustments 3.6 (Wheeling Revenues), 8.4 (Major Plant Additions), and 8.6
8 (Powerdale Hydro Removal). The Company's revisions to Adjustments 8.4 and
9 8.6 are discussed later in my testimony.

10 **Renewable Energy Tax Credits**

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

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

19 **Tax Flow-Through Adjustment**

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

21 A. Public Counsel proposes that the Company use flow-through accounting
22 treatment on two specific tax items: "Reg Liability—WA Low Energy Program,"

1 and “Bridger Coal Company Gain/Loss on Assets Disposed.”¹⁷

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

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

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

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

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

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

¹⁷ Exhibit No.____(JRD-1T) at pages 16-17.

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

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

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

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

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

11 A. No. As the Company stated in response to Public Counsel Data Request No.
12 172b, this book/tax timing difference is related to fixed assets and therefore must
13 be afforded normalization treatment for ratemaking purposes rather than flow-
14 through treatment as proposed by Public Counsel.

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

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

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

22 A. There is no difference other than the assets they relate to. PacifiCorp’s book/tax
23 timing difference is related to the actual assets owned by PacifiCorp for the

1 purpose of providing electric service to its customers. The Bridger Coal
2 Company book/tax timing difference is related to the actual assets providing coal
3 to the Jim Bridger Mine.

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

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

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

22 A. Yes. The Company is proposing to correct the allocation factors for two Schedule
23 M items. The first Schedule M item, "Cholla Plant Transaction Costs—APS

1 Amort—WA”, was erroneously coded as situs to Washington. This is related to
2 an east-side resource and should not be allocated to Washington. The second is
3 the reclassification account “Reg Asset Balance Reclass” that should not be
4 included in Washington results of operations.

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

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

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

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

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

20 **Major Plant Additions**

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

23 A. Yes. Because all of the Company’s pro forma major plant additions were placed

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

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

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

¹⁸ Exhibit No.__(SC-1CT) at pages 22-25; Exhibit No.__(CRM-1T) at page 3.

¹⁹ Exhibit No.__(CRM-1T) at page 11-12.

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

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

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

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

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

²⁰ *Id.* at 7 (footnotes omitted).

²¹ *Id.*

²² Exhibit No.____(WRG-1T) at pages 1-2.

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

3 A. Yes. Only five major capital additions were included in the Company's general
4 rate case filing. The Company limited the pro forma capital additions it chose to
5 include in the filing to minimize controversy and to be consistent with previous
6 Commission orders allowing pro forma adjustments for major plant additions to
7 match the in-service date with the start of recovery of those investments.²³ One
8 factor considered by the Commission when allowing inclusion of a pro forma
9 capital addition in rates is whether the benefits of the project are included in
10 power costs. In this case, the benefits of the Jim Bridger Unit 2 upgrade are
11 reflected in the development of pro forma net power costs. The Commission also
12 considers whether the project is required by a governmental authority or provides
13 environmental benefits. In this case, the Merwin Fish Collector is required by the
14 Company's FERC license²⁴ and provides environmental benefits by improving
15 fish passage around the Merwin hydroelectric facilities.²⁵

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

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

²³ See *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11, ¶ 21 (April 2, 2010).

²⁴ *PacifiCorp*, 123 FERC ¶ 62,258, Ordering Paragraphs E, F; Article 401 (June 26, 2008) (FERC Project No. 935 Licensing Order).

²⁵ See, e.g., *id.*, ¶ 22.

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

3 **Please describe this proposal.**

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

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

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

22 A. Staff removes these costs from the Washington results of operations as not known

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).

1 and measurable. It is unreasonable, however, for Staff to assume that these
2 significant capital additions (mandated under the Company's FERC licenses) will
3 not require increased O&M expense. The development of the O&M figures
4 included in the Washington results of operations in the Company's rebuttal filing
5 is discussed in the rebuttal testimony of Mr. Tallman.

6 **Powerdale Hydro**

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

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

13 **Production Factor**

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

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

1 **Adjustments Contested by the Company**

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

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

8 **WCA Modifications—Allocation Factors**

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

11 A. As described in my direct testimony and in the direct and rebuttal testimonies of
12 Mr. Dalley, the Company is proposing to modify the calculation of the Control
13 Area Generation West (CAGW) allocation factor to align with the Company's
14 cost of service (COS) study.²⁷

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

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

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.

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

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

6 **Revenue Normalization**

7 **Q. Please describe Public Counsel's proposed revenue normalization**
8 **adjustment?**

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

19 **Labor Expense Adjustments**

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

21 A. Staff and Public Counsel both sponsor various labor-related adjustments,
22 including adjustments to remove the escalation of annual incentive plan (AIP)

²⁸ Exhibit No.____(JRD-1T) at pages 11-13.

1 expenses, reduce the amount of executive compensation, and disallow expenses
2 related to compensation for MidAmerican Energy Holdings Company officers.

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

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

8 **Rate Base Balance Methodology**

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

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

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

13 A. For states using historical test periods, adjusting electric plant in service to end-
14 of-period balances minimizes regulatory lag by reflecting rate base balances at
15 levels closer to the rate effective period. The Company agrees with Public
16 Counsel that using end-of-period rate base balances is "an equitable and
17 reasonable approach to addressing 'regulatory lag.'"²⁹

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

19 A. No. Staff proposes that the Commission reject this modification and revert to the
20 use of AMA rate base balances.³⁰

21 **Q. Please respond to Staff's proposal.**

22 A. As discussed by Mr. Griffith, Staff's approach is disappointing. Staff rejects the

²⁹ Exhibit No.__(JRD-1T) at page 2.

³⁰ Exhibit No.__(BAE-1T) at pages 5-8.

1 Company's proposal in this case despite supporting the use of end-of-period rate
2 base balances for PSE as "necessary and useful" to address PSE's persistent
3 under-earnings and regulatory lag.³¹ Staff also supported the equivalent of the use
4 of end-of-period rate base balances in Avista's most recent rate case by
5 calculating its attrition adjustment including rate base additions through the rate
6 year.³²

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

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

17 A. No. Staff does not correctly calculate the impact of its adjustment by not
18 applying consistent treatment to all of the Company's restating and pro forma
19 adjustments. Staff states that its adjustment would result in a \$1.28 million
20 reduction to the Company's filed Washington revenue requirement. But in

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.

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.

1 response to Staff Data Request 208, the Company stated that using AMA rate
2 base balances would result in an *increase* to filed revenue requirement of
3 \$0.3 million.³³ In other words, the Company elected to include this adjustment in
4 its filed position despite the fact that it negatively impacted the revenue
5 requirement in this case because using end-of-period rate base balances is sound
6 long-term regulatory policy that mitigates regulatory lag.

7 **Investor Supplied Working Capital**

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

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

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

14 A. Yes.

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.