Exhibit No.___(SRM-1T)
Docket UE-13____
Witness: Steven R. McDougal

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PACIFICORP dba Pacific Power & Light Company Respondent.	)	Docket UE-13____

PACIFICORP

DIRECT TESTIMONY OF STEVEN R. MCDOUGAL

January 2013

Q. Please state your name, business address, and present position with PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company).

A. My name is Steven R. McDougal, and my business address is 201 South Main, Suite 2300, Salt Lake City, Utah, 84111. I am currently employed as the Director, Revenue Requirement, for the Company.

Qualifications

Q. Briefly describe your education and professional experience.

A. I received a Master of Accountancy from Brigham Young University with an emphasis in Management Advisory Services in 1983 and a Bachelor of Science degree in Accounting from Brigham Young University in 1982. In addition to my formal education, I have also attended various educational, professional, and electric industry-related seminars. I have been employed by PacifiCorp or its predecessor companies since 1983. My experience at the Company includes various positions within regulation, finance, resource planning, and internal audit.

Q. What are your responsibilities as Director, Revenue Requirement?

A. My primary responsibilities include overseeing the calculation and reporting of the Company's regulated earnings or revenue requirement, ensuring that the inter-jurisdictional cost allocation methodologies are correctly applied, and explaining those calculations to regulators in the jurisdictions in which the Company operates.

Purpose of Testimony

Q. What is the purpose of your testimony in this proceeding?

A. My direct testimony addresses the calculation of the Company's Washington-allocated revenue requirement and the revenue increase requested in the Company's filing. Specifically, my testimony provides the following:

- A description of the West Control Area inter-jurisdictional allocation methodology (WCA) applied in this proceeding to determine the Washington-allocated revenue requirement.
- A description of the test period used in this case, which is the historical 12 months ended June 30, 2012 (Test Period) with restating and pro forma adjustments.
- The calculation of the $42.8 million revenue increase requested in this general rate case representing the increase over current rates required for the Company to recover its Washington-allocated revenue requirement.
- The presentation of the normalized results of operations for the Test Period demonstrating that under current rates the Company will earn an overall return on equity (ROE) in Washington of 3.9 percent, which is less than the 9.8 percent ROE ordered by the Washington Utilities and Transportation Commission (Commission) in the Company's 2010 general rate case, Docket UE-100749 (2010 Rate Case), and less than the 10.0 percent requested by the Company and supported by Dr. Samuel C. Hadaway in this proceeding.
- A description of the revenue requirement workpapers supporting the proposed revenue increase and normalized results of operations for the Test Period. Included as part of my workpapers is a summary revenue requirement model, which is similar in design to the model used by

Commission Staff. This summary model is designed to facilitate easier review of the filing and is consistent with the model used in the Company's 2011 general rate case, docket UE-111190 (2011 Rate Case). This model was developed based on feedback that the Company received during the explanatory session held with the Commission's advisors in the 2010 Rate Case.

Allocation Methodology

Q. What allocation methodology has been applied in the calculation of the Washington results of operations?

A. Washington results of operations in this proceeding are based on the WCA, as approved by the Commission in Order 08, docket UE-061546,[1] with certain modifications. The modifications being proposed by the Company are discussed later in my testimony and in the direct testimonies of Mr. Gregory N. Duvall and Mr. R. Bryce Dalley.

Q. What period is used as the basis for calculating the allocation factors in this case?

A. The allocation factors in this case are based on historical normalized west control area loads, customer numbers, and plant balances for the 12 months ended June 30, 2012.

Overview of the Test Period

Q. Please provide an overview of the development of the Test Period?

A. The Test Period was developed by analyzing each of the revenue requirement components in the historical period to determine if a restating or pro forma

[1] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-061546, Order 08 at ¶ 43 (June 21, 2007).

adjustment was warranted to reflect normal or expected operating conditions.

The Company's proposed net power costs are based on pro forma normalized net power costs for the 12 months ending December 31, 2014, which is closely aligned with the rate effective period. This approach to calculating net power costs is also consistent with prior rate cases and recent Commission orders.

For consistency with the net power cost study used in this case, several generation-related items are reflected based on amounts for the 12 months ending December 31, 2014. Net power cost and pro forma plant additions are then adjusted using the production factor methodology discussed later in my testimony.

Q. Please describe the process used to develop Test Period costs and revenues.

A. Operations and maintenance (O&M) expenses were developed using historical expense levels for the 12 months ended June 30, 2012, normalized with restating and pro forma rate-making adjustments.

Plant and associated accumulated depreciation balances were developed using historical average of monthly average (AMA) balances for the 13 months ended June 30, 2012. Through a pro forma adjustment, the average net electric plants in service balances are adjusted to actual ending balances as of June 30, 2012. The case includes four pro forma capital additions that are projected to be placed in service before December 31, 2013, and one pro forma capital addition that is projected to be placed in service in February 2014. The pro forma capital additions are discussed in further detail in the direct testimonies of Mr. Mark R. Tallman and Mr. Dana M. Ralston. The production factor adjustment was applied to the pro forma capital additions and associated revenue requirement components to adjust the pro forma cost levels to the historical Test Period.

The 2011 Rate Case, included rate base balances on an AMA basis for the 13-month period ended December 2010. This case includes the full balances associated with investments placed in service during 2010, 2011, and the first six months of 2012. In addition, as discussed above, this case also includes balances associated with discrete pro forma capital additions projected to be placed in service before or during the rate effective period.

Net power costs for the west control area were developed using the Generation and Regulation Initiatives Decision model (GRID), based on terms of existing contracts, plant availabilities that are normalized using historical information, and pro forma retail load and market prices for the 12 months ending December 31, 2014. The production factor adjustment was applied to the pro forma level of net power costs to adjust the cost levels to the historical Test Period.

Retail revenues were developed by applying the current Commission-approved tariff rates to the Washington historical normalized loads for the 12 months ended June 30, 2012. For consistency, allocation factors were developed using normalized loads for the west control area for the same time period.

Revenue Requirement

Q. What is the Company's Washington revenue requirement for the Test Period?

A. The Company's revenue requirement for the Test Period is $346.9 million. This level of revenue will allow the Company to earn its recommended 10.0 percent ROE for the Test Period. At current rate levels, the Company will earn an ROE in Washington of 3.9 percent during the Test Period.

Revenue Requirement Calculation

Q. Please describe Exhibit No.___(SRM-2).

A. Exhibit No.___(SRM-2) is a summary of the Washington results of operations for the Test Period. This summary exhibit reflects the detailed calculations and supporting documents that are presented in Exhibit No.___(SRM-3). Page 1 is a revenue requirement adjustment summary. This page shows the rate base, net operating income (NOI),[2] and the Washington revenue requirement cumulative impact of the Company's restating and pro forma adjustments. Pages 2 and 3 show the Washington-allocated per books results and the cumulative impact of each of the major adjustment sections presented in Exhibit No.___(SRM-3). The far right column of page 3 shows the Washington-allocated normalized results for the Test Period.

Q. Please describe Exhibit No.___(SRM-3).

A. Exhibit No.___(SRM-3) is the Company's Washington Results of Operations Report (Report). The Report provides the per books and normalized totals for revenue, expenses, depreciation, net power costs, taxes, rate base, and loads for

[2] NOI is also referred to as "Operating Revenue for Return" in the Company's exhibits and workpapers.

the Test Period. Additionally, the Report provides the calculation of the WCA inter-jurisdictional allocation factors, a summary of monthly rate base balances used to develop the historical AMA balances, and detailed accounting extracts for the historical period.

The Report presents operating results in terms of both return on rate base and ROE. In the Report, net power costs are presented for the WCA and as allocated to the Company's Washington jurisdiction.

Q. Please describe how the Report is organized.

A. The Report is organized into the following sections or tabs:

- Tab 1—Summary reflects the Washington-allocated results based on the WCA. Column 1 (Unadjusted Results) on Page 1.0 reflects the per books Washington results and shows Washington ROE of 3.3 percent for the 12 months ended June 30, 2012. Column 2 (Restating Adjustments) shows the cumulative impact of the Washington-allocated restating adjustments included in the filing. Column 3 (Total Adjusted Actual Results) shows the Washington results including the restating adjustments. Column 4 (Pro Forma Adjustments) shows the cumulative impact of the Washington-allocated pro forma adjustments included in the filing. Column 5 (Total Normalized Results) shows the Washington-allocated normalized results for the Test Period, including all restating and pro forma adjustments, with an ROE of 3.9 percent. Column 6 (Price Change) reflects the necessary revenue increase of $42.8 million to achieve a 10.0 percent ROE. Column 7 (Results with Price Change) reflects the

Washington normalized results including the $42.8 million proposed revenue increase.

Page 1.1 of the Report shows the results of operations without the requested price change. Pages 1.2 and 1.3 support the calculation of the requested revenue increase and provide further details on the development of the net-to-gross conversion factor[3] which incorporates income taxes, uncollectible expenses, Washington Public Utility Tax, and the Commission regulatory fee. Pages 1.4 through 1.6 summarize the impact of each of the adjustment sections, which follow in tabs 3 through 9.

- Tab 2—Results of Operations details the Company's overall revenue requirement, showing per books revenues, expenses, and rate base balances, on total-company and Washington-allocated bases, for the 12 months ended June 30, 2012, and fully normalized Washington-allocated results of operations for the Test Period by Federal Energy Regulatory Commission (FERC) account. The name of each FERC account provides a brief description of the revenues, expenses, or balances included in the account. For a more detailed description of each account please refer to the FERC Uniform System of Accounts (Code of Federal Regulations, Title 18, part 101).
- Tabs 3 through 9 provide supporting documentation for the restating and pro forma adjustments required to reflect normal or expected operating conditions of the Company. Each of these sections begins with a numerical summary in columnar format that identifies each adjustment

[3] The net-to-gross conversion factor is also referred to as the net-to-gross bump up factor in the Report.

made to the per books data and the adjustment's impact on the Test Period. Each column has a numerical reference to a corresponding page in the Report, which contains a "lead sheet" showing the type of adjustment (restating or pro forma), the FERC account(s), the WCA allocation factor(s), dollar amount(s), and a brief description of the adjustment. The specific adjustments included in each of these tabs are described in more detail below.

- Tab 10 contains the calculation of the WCA allocation factors.
- Tab 11 contains a summary of the Washington-allocated per books rate base balances by month for the 12 months ended June 30, 2012. These balances are shown by FERC account and WCA allocation factor.
- Tabs B1 through B20 contain the per books historical accounting system extracts for the 12-month period ended June 30, 2012, and are organized by major FERC function.

Tab 3—Revenue Adjustments

Q. Please describe the adjustments made in Tab 3.

A. **Temperature Normalization (page 3.1)—**This restating adjustment normalizes residential, commercial, and irrigation revenues in the Test Period by comparing actual sales to temperature normalized sales. Temperature normalization reflects temperature patterns that can be measurably different than normal, defined as the average temperature over a 20-year rolling time period (currently 1992 to 2011). Pages 3.1.4 through 3.1.6 provide the detailed support of the revenue adjustments from the per books data. Ms. Kelcey A. Brown discusses temperature normalization in her direct testimony.

Revenue Normalization (page 3.2)—This restating adjustment removes revenue items that should not be included in regulatory results. This restating adjustment normalizes base year revenue by removing items that should not be included in determining retail rates, such as Schedule 191 (System Benefits Charge), Schedule 96 (Hydro Deferral Amortization), Bonneville Power Administration (BPA) residential exchange credits, and out of period items. The associated tax impacts are also removed from the Test Period in this adjustment.

Effective Price Change (page 3.3)—This restating adjustment normalizes retail revenues for known and measurable changes since the end of the historical period ended June 30, 2012. This adjustment adds approximately $4.3 million of revenues for the rate increase approved by the Commission in the 2011 Rate Case, effective June 1, 2012.

SO2 Emission Allowances (page 3.4)—This pro forma adjustment removes the sales revenue booked during the 12 months ended June 30, 2012, and includes amortization of sales revenues over a five-year period. This method was approved in Order 06 in the 2010 Rate Case and used by the Company in the 2011 Rate Case. Washington's allocation of these revenues is determined by the allowances provided by the Jim Bridger and Colstrip Unit 4 generating resources.

Renewable Energy Credit (REC) and Renewable Energy Attribute (REA) Revenue (page 3.5)—In compliance with Commission Order 06 in the 2010 Rate Case, REC and REA revenues are passed back to Washington customers through a separate tracker mechanism effective April 3, 2011. Consistent with this ordered treatment, this restating adjustment removes all REC and REA revenues from the Test Period.

Wheeling Revenue (page 3.6)—This restating and pro forma adjustment reflects known and measurable changes to actual wheeling revenue for the 12 months ended June 30, 2012. Imbalance penalty revenue and expense is removed to avoid any impact on regulated results.

Ancillary Revenue (page 3.7)—The Company entered into contracts with Seattle City Light (SCL) to receive real time output from SCL's share of the Stateline wind farm. The Company returns power two months later. The Stateline ancillary services contract was renewed in December 2011. This pro forma adjustment adjusts the ancillary revenues associated with this contract to the pro forma level of revenues for the 12 months ending December 31, 2014, per the terms of the contract and consistent with the treatment of net power cost.

Schedule 300 Fee Change (page 3.8)—As discussed in the direct testimony of Ms. Barbara A. Coughlin, the Company is proposing changes to Schedule 300 charges. This pro forma adjustment reflects the additional revenue expected based on these tariff changes.

Tab 4—O&M Adjustments

Q. Please describe the adjustments included in Tab 4.

A. **Miscellaneous General Expense Adjustment (page 4.1)—**This restating adjustment removes certain miscellaneous expenses that should have been charged below-the-line to non-regulated expenses.

General Wage Increase Adjustment (pages 4.2 and 4.3)—This restating and pro forma adjustment is used to compute general wage-related costs for the Test Period. The Company has several labor groups, each with different effective contract renewal dates. The first step in this adjustment is to restate per books wage expenses by annualizing wage increases that occurred during the 12 months ended June 30, 2012. This was done by identifying actual wages by labor group by month along with the date each labor group received wage increases. The next step was to apply known and measurable pro forma wage increases that have occurred or will occur through June 30, 2013, to the annualized June 30, 2012 wage amounts.

The Company used union contract agreements to escalate union labor group wages, while increases for non-union and exempt employees were based on actual increases. Payroll taxes were updated to capture the impact of the changes to employee wages.

As part of this adjustment, Supplemental Executive Retirement Plan (SERP) expenses booked during the historical period have been removed from the Test Period.

The treatment of wages reflected in the Test Period is consistent with the method approved by the Commission in Order 06 in the 2010 Rate Case and used by the Company in the 2011 Rate Case. Refer to page 4.3.1 for more information on how this adjustment was developed.

Q. Please continue with your description of O&M adjustments in Tab 4.

A. **Irrigation Load Control Program (page 4.4)—**Payments are made to Idaho irrigators as part of the Idaho Irrigation Load Control Program, and a portion of the program's administrative costs are system allocated in the Company's per books data. This restating adjustment reallocates these costs to the Company's Idaho customers.

Remove Non-Recurring Entries (page 4.5)—A variety of accounting entries were made during the 12 months ended June 30, 2012, that are non-recurring or relate to prior periods. This restating adjustment removes these items from the Test Period to reflect normalized results. The associated tax impacts for these entries are also removed through this adjustment. Details on the specific items in the adjustment can be found on page 4.5.1.

Pension Curtailment (page 4.6)—Order 09 in the Company's 2009 general rate case, docket UE-090205 (2009 Rate Case)[4] permits deferral and amortization of the pension curtailment gain resulting from employee participation in the 401(k) retirement plan option. The amortization expired on December 31, 2012. This pro forma adjustment removes the amortization expense and associated tax impacts from the Test Period.

DSM Removal Adjustment (page 4.7)—This restating adjustment removes per books demand-side management (DSM) revenues and expenses from regulated results since they are recovered through a separate tariff rider (Schedule 191—System Benefits Charge Adjustment). The associated tax entries are also removed through this adjustment.

Insurance Expense Adjustment (page 4.8)—Consistent with the 2011 Rate Case, the Company has replaced the base period liability and property damage expense with a rolling six-year average of damage expenses. This adjustment

[4] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-090205, Order 09 (December 16, 2009).

also removes amounts from the Test Period that should not be charged to Washington, and corrects allocation and accounting of insurance charges.

The deductible for the general liability policy changed October 1, 2012, and the deductible for the non-transmission and distribution property insurance will change effective October 1, 2014. The deductible is increasing for both, which will help the Company manage premium costs. To the extent the Company can manage its exposure to claims charged against the deductible, it can manage total insurance expense (i.e., premium costs plus costs against the deductible).

Advertising Adjustment (page 4.9) and Memberships and Subscriptions Adjustment (page 4.10)—In the 2010 Rate Case, the Commission encouraged the Company to engage in a dialogue with Commission Staff, Public Counsel, and the Industrial Customers of Northwest Utilities (collectively referred to as the "Joint Parties") to explore effective means to refine the allocation of certain system-allocated costs. In compliance with this directive, on May 19, 2011, the Company held a conference call with Staff and the Joint Parties to discuss potential refinements to the allocation of certain costs. As a result of this meeting, all parties agreed that to the extent possible, advertising and membership expenses should be situs assigned to specific states instead of system allocated. These restating adjustments situs assign advertising and membership costs that were booked on a system-allocated basis if they can be attributed to a specific jurisdiction.

Automated Meter Reading (AMR) Savings (page 4.11)—Beginning in August 2010, the Company replaced approximately 122,000 meters in the Yakima, Walla

Walla, and Sunnyside districts with new radio equipped digital meters. This pro forma adjustment reflects the reduction to meter reading expense the Company anticipates for the 12 months ending June 30, 2013, that is not already reflected in the per books data.

Uncollectible Expense (page 4.12)—This restating adjustment adjusts the Company's per books June 2012 uncollectible expense to the June 2012 normalized level by applying the per books uncollectible rate (per books uncollectible expense divided by per books Washington general business revenues) to the normalized level of Washington general business revenues.

Legal Expense (page 4.13)—Consistent with the stipulation in the 2011 Rate Case, this restating adjustment reallocates the Company's per books legal expenses. Legal expenses are situs assigned to the extent they can be attributed to a specific jurisdiction.

Naughton Write-off (page 4.14)—This restating adjustment removes Washington's allocated share of the Naughton Unit 3 write-off that occurred in June 2012. The Naughton plant is not included in the WCA.

O&M Efficiency (page 4.15)—The Company implemented efficiency initiatives that are not factored into the General Wage Increase Adjustment (pages 4.2 and 4.3). This pro forma adjustment reduces the Company's O&M expense levels for the Test Period to reflect these efficiencies.

Tab 5—Net Power Cost Adjustments

Q. Please describe the adjustments included in Tab 5.

A. **Net Power Costs (pages 5.1 and 5.1.1)—**The net power cost adjustments normalize power costs by adjusting sales for resale, purchase power, wheeling, and fuel in a manner consistent with the contractual terms of sales and purchase agreements, and normal hydro and weather conditions for the WCA. Three separate net power cost studies, modeled by GRID, are included in the Report. The results of each study are summarized on page 5.1.2. The first study calculates actual WCA net power costs for the 12-month period ended June 30, 2012. The second study reflects restated net power costs for the same period. The third is a study of pro forma net power costs for the 12 months ending December 31, 2014, which is closely aligned with the rate effective period.

The pro forma power costs are adjusted to the historical period using the production factor adjustment as shown on page 9.1. Please refer to the direct testimony of Mr. Duvall for more information on the development of net power costs included in this filing.

James River Royalty Offset (page 5.2)—On January 13, 1993, the Company executed a contract with James River Paper Company with respect to the Camas mill, later acquired by Georgia Pacific. Under the agreement, the Company built a steam turbine and is recovering the capital investment over the 20-year operational term of the agreement as an offset to royalties paid to James River based on contract provisions. The contract costs of energy for the Camas unit are included in the Company's net power costs as purchased power expense, but GRID does not include an offsetting revenue credit for the capital and maintenance cost recovery. This pro forma adjustment adds the royalty offset to FERC account 456, other electric revenue, for the 12-month period ending

December 31, 2014, the same period used in determining pro forma net power costs in this filing.

BPA Residential Exchange (page 5.3)—The Company receives a monthly purchase power credit from BPA. This credit is treated as a 100 percent pass-through to eligible customers. Both a revenue credit and a purchase power expense credit are posted in per books data. This restating adjustment reverses the BPA purchase power expense credit recorded in unadjusted results. The revenue credit is removed from Test Period results in the Revenue Normalization adjustment, page 3.2.

Colstrip Unit No. 3 Removal (page 5.4)—As directed by the Commission in Cause U-83-57[5], this restating adjustment removes the revenue requirement components of the Colstrip Unit No. 3 resource from the Test Period.

Tab 6—Depreciation and Amortization Adjustments

Q. Please describe the adjustments included in Tab 6.

A. **Hydro Decommissioning (page 6.1)—**Based on the Company's depreciation study approved by the Commission in docket UE-071795[6], an additional $19.4 million is required for the decommissioning of various hydro facilities. This pro forma adjustment walks forward the decommissioning expenditures through June 30, 2013. The reserve does not include funds for Powerdale, which was reclassified to unrecovered plant. A separate Commission order was received

[5] *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Company*, Cause No. U-83-57, Second Supplemental Order (June 12, 1984).
[6] See *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-071795, Order 01 (April 10, 2008).

to recover the estimated decommissioning costs of Powerdale as reflected on page 8.6 of the Report.

Depreciation and Amortization Reserve to June 2012 Balance (page 6.2)— This restating adjustment walks the depreciation and amortization reserve from the June 2012 AMA balance to the June 2012 per books balance.

Proposed Depreciation Rates (page 6.3 and 6.3.1)—This restating adjustment normalizes the depreciation expense and reserve to reflect the impact of the proposed depreciation rates as filed with the Commission in a separate docket in January 2013.

Tab 7—Tax Adjustments

Q. Please describe how state income tax expense is treated in this filing.

A. No state income tax expense is included in the calculation of Washington's revenue requirement. Under the WCA, state income taxes are situs assigned based on each state's statutory tax rate. Because Washington has no state income tax, no state income tax expense is included in this filing.

Q. How has federal income tax expense been calculated?

A. Federal income tax expense for ratemaking is calculated using the same methodology that the Company uses in preparing its filed income tax returns. The detail supporting this calculation is summarized on page 2.22 of the Report.

Q. Please describe the adjustments included in Tab 7.

A. **Interest True-Up (page 7.1)—**This restating and pro forma adjustment details the adjustment to interest expense required to synchronize the Test Period interest expense with rate base. This is done by multiplying Washington net rate base by the Company's weighted cost of debt in this case. This adjustment is calculated in two parts. First, the interest expense is calculated for all of the restating adjustments included in this filing. Second, the interest expense is calculated for all of the adjustments included in the filing, including those that are pro forma in nature.

Property Tax Expense (page 7.2)—This pro forma adjustment normalizes the difference between per books accrued property tax expense and the pro forma property tax expense for the 12 months ending June 30, 2013. Details supporting the Company's calculation of pro forma property tax expense are included as Confidential Exhibit No.___(SRM-4C).

Renewable Energy Tax Credit (page 7.3)—The Company is entitled to recognize a federal income tax credit as a result of placing renewable generating plants in service. The tax credit is based on the kilowatt-hours generated by a qualified facility during the facility's first ten years of service. The credits are utilized in the year of production to the extent current federal income taxes are due, or, should the credits not be fully utilized in the year they are generated, they are carried back one year and forward 20 years to offset taxes in those years. This restating and pro forma adjustment reflects this credit based on the qualifying production as modeled in GRID for the pro forma net power cost study. In addition, the Utah Renewable Energy Tax Credit booked expense is removed from the Test Period since it is a state tax credit and as explained above, Washington receives no state income tax under the WCA.

PowerTax Accumulated Deferred Income Tax (ADIT) Balance Adjustment

(page 7.4)—This restating adjustment reflects the Company's property-related accumulated deferred income tax balances on a jurisdictional basis using results from the Company's tax fixed asset system, PowerTax.

Washington Low Income Tax Credit (page 7.5)—This pro forma adjustment reflects the change to Public Utility Tax Credit for the Low Income Home Energy Assistance Program (LIHEAP), per a July 26, 2012 letter from the Washington Department of Revenue.

Washington Flow-Through Adjustment (page 7.6 & 7.6.1)—The Company's per books data for income taxes is reported on a tax-normalized basis. This restating adjustment converts the per books data for income taxes from a normalized basis to a partial flow-through basis, consistent with Order 06 and Order 07[7] in the 2010 Rate Case. This is accomplished by removing the deferred income tax benefits/expense and accumulated deferred income tax assets/liabilities for temporary book-tax differences that are not 1) required to be normalized by law, or 2) required to be normalized by Commission order.

Remove Deferred State Tax Expense and Balance (page 7.7)—The Company's per books provision for deferred income tax and the balance for accumulated deferred income tax are computed using the Company's blended federal and state statutory tax rate. State income taxes are a system cost for the Company that is not recoverable in Washington under the WCA. Accordingly, after all adjustments are made to income taxes, this final adjustment is made to remove deferred state income tax expenses and balances from the Test Period.

Washington Public Utility Tax Adjustment (page 7.8)—This pro forma

[7] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 07 (May 12, 2011).

adjustment recalculates the Washington Public Utility Tax expense based on the normalized revenues included in the Test Period, as discussed in adjustment pages 3.1, 3.2, and 3.3 above.

Equity Allowance for Funds Used During Construction (AFUDC) (page 7.9)—This restating adjustment reflects the appropriate level of equity AFUDC into regulated results to align the tax Schedule M with regulatory income.

Tab 8—Rate Base Adjustments

Q. Please describe the adjustments included in Tab 8.

A. **Jim Bridger Mine (page 8.1)—**The Company owns a two-thirds interest in the Bridger Coal Company (BCC), which supplies coal to the Jim Bridger generating plant. The Company's investment in BCC is recorded on the books of Pacific Minerals, Inc., a wholly-owned subsidiary. Because of this ownership arrangement, the coal mine investment is not included in Account 101, Electric Plant in Service. This restating adjustment is necessary to properly reflect the June 2012 balance associated with the BCC plant investment in the Test Period. The Bridger Mine adjustment was stipulated to and approved in the Company's 2003 general rate case, docket UE-032065[8], and has been included in all rate case filings since. Consistent with Order 06 in the 2010 Rate Case, materials and supplies and pit inventory balances associated with the BCC have been excluded from the Test Period.

Environmental Settlement (page 8.2)—On April 27, 2005, the Commission granted a request by the Company for an accounting order relating to the

[8] *See Wash. Utils.& Transp. Comm'n v. PacifiCorp*, Docket UE-032065, Order 06 (October 27, 2004).

treatment of environmental remediation costs in docket UE-031658.[9] The Commission authorized the Company to record and defer costs prudently incurred in connection with its environmental remediation program. Costs of projects in excess of $3 million on a total-company basis, incurred from October 2003 through March 2005, were authorized to be deferred and amortized over a ten-year period. Only one project, the Third West Substation Cleanup, qualified for this treatment. This restating adjustment removes the per books balance and amortization expense from FERC accounts 182.391 and 925, except for the Third West Substation Cleanup, and adds to the Test Period actual expenditure amounts for small remediation projects that occurred during the 12 months ended June 30, 2012.

Customer Advances for Construction (page 8.3)—Customer advances were recorded in the historical period using a corporate cost center location rather than state-specific locations. This restating adjustment corrects the WCA allocation of customer advances reflected in the Test Period.

Major Plant Additions (page 8.4)—This pro forma adjustment adds to rate base WCA plant additions greater than $10 million from July 2012 through December 2013. There are three WCA hydro capital additions that will be placed in service before December 31, 2012, a turbine upgrade at Jim Bridger with a May 2013 projected in-service date and an additional WCA hydro capital addition for a Merwin Fish Collector that will be placed in service in different stages between May 2013 and February 2014. These pro forma capital additions are discussed in detail in the direct testimonies of Mr. Tallman and Mr. Ralston. This adjustment

[9] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-031658, Order 01 (April 27, 2005).

also incorporates the associated depreciation expense and accumulated reserve impacts. The production factor adjustment was applied to the pro forma capital addition revenue requirement components to adjust the costs and balances to the historical Test Period levels.

Miscellaneous Rate Base Adjustment (page 8.5-8.5.1)—This restating adjustment removes working capital, fuel stock, materials and supplies, prepayments, and other miscellaneous rate base balances from the Test Period in compliance with Order 06 of the 2010 Rate Case. The associated tax impacts related to these balances are also removed in this adjustment.

Powerdale Hydro Removal (page 8.6)—As authorized in 2007 in docket UE-070624,[10] the unrecovered plant balance associated with the Powerdale hydro plant was transferred to a regulatory asset and amortized over three years. The Powerdale unrecovered plant regulatory asset was fully amortized in December 2010. This pro forma adjustment removes the unrecovered plant amortization expense and regulatory asset balance from the Test Period. In addition, the decommissioning of the Powerdale plant was substantially completed during 2010. The Company began amortizing the decommissioning regulatory asset in April 2011 as authorized in the 2010 Rate Case. This adjustment removes the Powerdale operating expenses and regulatory asset balance from the Test Period results and adds the decommissioning amortization expense and asset balances for the 12 months ending June 2013.

Removal of Colstrip Unit 4 AFUDC (page 8.7)—This restating adjustment removes AFUDC from electric plant in service for the period that Colstrip

[10] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-070624, Order 01 (October 24, 2007).

construction work in progress (CWIP) was allowed in rate base. This treatment was authorized in Cause U-81-17[11] and has been included in all the Company's Washington rate case filings since that time.

Trojan Removal Adjustment (page 8.8)—This restating adjustment removes the Trojan amortization expense, balances, and tax impacts from the Test Period as ordered by the Commission in docket UE-991832.[12]

Customer Service Deposits (page 8.9)—This restating adjustment includes customer service deposits as a reduction to rate base. It also reflects the interest paid on the customer service deposits. This adjustment was accepted by the Commission in the 2006 Rate Case[13] and is consistent with all of the Company's rate cases filings since that time,

Regulatory Asset Amortization Adjustment (page 8.10)—The Chehalis Regulatory Asset was booked in December 2009 in accordance with the 2009 Rate Case.[14] The general business revenues charged as the regulatory asset was amortized during the 12 months ended June 30, 2012, were removed from per books results in the revenue normalization adjustment, page 3.2. This adjustment adds the amortization expense for the 12 months ending June 30, 2013, to the Test Period. Additionally, this adjustment removes the amortization expense related to the Oregon Independent Evaluator, which should have been allocated situs to Oregon.

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[11] *See Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Company*, Cause No. U-81-17, Second Supplemental Order (December 16, 1981).
[12] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-991832, Third Supplemental Order at ¶ 42 (August 9, 2000).
[13] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-061546, Order 08 (June 21, 2007).
[14] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-090205, Order 09 at ¶ 15 (December 16, 2009).

Miscellaneous Asset Sales and Removals Adjustment (page 8.11)—This adjustment removes the electric plant in service balances, accumulated depreciation balances, depreciation expenses and O&M expenses from the per books data for the 12 months ended June 2012 for the Condit facility. Consistent with the treatment reflected in this adjustment, the pro forma net power costs shown on page 5.1.1 do not include generation output from the Condit facility.

Plant Balances to June 2012 Balance (page 8.12 – 8.12.6)—This adjustment modifies the gross plant balances from June 2012 AMA levels to the actual June 2012 ending balances. The associated accumulated reserve impacts are accounted for on adjustment page 6.4.

Q. **Has the company included a Cash Working Capital (CWC) balance in the Test Period in this proceeding?**

A. Yes. In the 2010 Rate Case, the Commission approved the Investor-Supplied Working Capital (ISWC) method for determining CWC. Adjustment page 8.13 (Investor-Supplied Working Capital) reflects a restating adjustment using the ISWC method with proposed modifications to the classification of derivatives, pension and other post-retirement costs and frozen derivative values. The calculation of CWC and support for the Company's proposed modifications are addressed in the direct testimony of Mr. Douglas K. Stuver.

Tab 9—Production Factor

Q. Please describe the adjustments included in Tab 9.

A. **Production Factor (page 9.1)—**The production factor is a means of adjusting pro forma generation-related components of the revenue requirement to Test Period expense and balance levels. The production factor has been calculated by dividing Washington's normalized historical retail load by the Washington pro forma load for the 12 months ending December 31, 2014. This factor is then applied to the pro forma net power cost and pro forma major plant addition revenue requirement components.

As part of the collaborative discussions, held with Commission Staff, the Industrial Customers of Northwest Utilities, and Public Counsel as a result of the 2011 Rate Case settlement, the parties agreed that the production factor would be applied only to revenue requirement components that are adjusted beyond the historical test period. The Company's application of the production factor adjustment in this case is consistent with that agreement.

Tab 10—Allocation Factors

Q. Please describe the data included in Tab 10.

A. In Tab 10, the derivation of the jurisdictional allocation factors using the WCA is summarized. These factors are based on the normalized historical loads and the plant balances for the 12 months ended June 30, 2012. As discussed above and in the direct testimony of Ms. Brown, Washington residential, commercial, and irrigation loads have been temperature normalized in this case.

Page 10.2 shows each of the WCA allocation factors applied in this filing, as well as a page reference to the corresponding backup page within the Report that shows the calculation of that factor.

Q. Please describe the Company's proposed modifications to WCA allocation factors in this case.

A. The Company proposes to modify the calculation of the Control Area Generation West (CAGW) allocation factor.[15] This factor reflects a weighted average of demand and energy using west control area loads.[16] As originally approved, the WCA applies the weightings at 75 percent demand and 25 percent energy.[17] In addition, the demand component in the approved WCA is derived using 12 monthly coincident peaks. This approach, however, is inconsistent with the Commission-approved cost of service study used by the Company.

The Company uses the peak credit method in the cost of service study, which results in demand/energy weightings of 38 percent/62 percent. The Company's cost of service study also uses class loads coincident with the Company's highest 100 winter and highest 100 summer hourly retail WCA peak loads (200 coincident peaks) in determining the demand and energy classification percentages used to allocate generation and transmission costs. Accordingly, the Company has modified the development of the CAGW factor to reflect the 38 percent/62 percent demand/energy weightings and use of 200 coincident peaks in determining the demand component of the factor.

These proposed changes are shown on page 10.5 (38 percent/62 percent demand/energy weightings) and page 10.10 (200 coincident peaks) of the Report.

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[15] 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.
[16] West control area loads include Washington, Oregon, and California.
[17] Docket No. UE-061546, Order 08 at ¶¶ 45, 57.

Q. Please describe the remaining portions of the Report.

Tab 11—Historical Rate Base: This section shows the Washington-allocated monthly balances used in the calculation of the AMA balance for the historical period by FERC account and WCA allocation factor.

Tabs B1 through B20: These tabs contain extracts of the historical results from the Company's accounting system for the Test Period and are organized by major FERC function. The data contained in this section of the exhibit ties to the per books data found under Tab 2—Results of Operations.

Q. Please describe Exhibit No.___(SRM-5).

A. Exhibit No.___(SRM-5) is the Washington West Control Area Inter-Jurisdictional Allocation Methodology (WCA) Manual. This manual has been updated to reflect the Company's proposed modifications in this case.

Revenue Requirement Workpapers

Q. Please describe the workpapers supporting the revenue requirement calculations.

A. In compliance with WAC 480-07-510(3), several revenue requirement workpapers have been provided as part of the Company's filing. Two summary files have been prepared outlining the organization of these files and serve as a guide to the other workpapers. The document titled "Revenue Requirement Workpaper Summary" contains a written description of the workpapers, as well as a brief discussion of the Company's revenue requirement models. The file named "Revenue Requirement Workpaper Flow Chart" provides an illustrative example of the interconnection of the workpapers and how the individual files are included in the exhibits described above.

Q. Does this conclude your direct testimony?

A. Yes.