

Exhibit No.____(NCS-1T)
Docket UE-14____
Witness: Natasha C. Siores

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT COMPANY,
a division of PacifiCorp

Respondent.

Docket UE-14____

**PACIFIC POWER & LIGHT COMPANY
DIRECT TESTIMONY OF NATASHA C. SIORES**

May 2014

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ATTACHED EXHIBITS

Exhibit No.__(NCS-2)—Summary of the Washington Results of Operations for the Test Period	
Exhibit No.__(NCS-3)—Results of Operations 12 Months Ended December 2013	
Exhibit No.__(NCS-4C)—Confidential Property Tax Estimation Procedure	
Exhibit No.__(NCS-5)—Washington West Control Area Inter-Jurisdictional Allocation Methodology (WCA) Manual	
Exhibit No.__(NCS-6)—Summary of Revenue Requirement Scenario with Alternative Capital Structure	
Exhibit No.__(NCS-7)—Summary of Revenue Requirement Scenarios with Net Power Cost QF Alternatives	
Exhibit No.__(NCS-8C)—Confidential IHS Global Insight Indices	
Exhibit No.__(NCS-9)—Summary and Calculation of Deferred Amounts Requested	

1 **Q. Please state your name, business address, and present position with Pacific**
2 **Power & Light Company (Pacific Power or Company), a division of PacifiCorp.**

3 A. My name is Natasha C. Siores. My business address is 825 NE Multnomah Street,
4 Suite 2000, Portland, Oregon 97232. I am currently employed as Director of
5 Regulatory Affairs and Revenue Requirement.

6 **QUALIFICATIONS**

7 **Q. Please describe your education and professional experience.**

8 A. I earned my Bachelor of Science degree in Commerce (Accountancy honors program)
9 from DePaul University in Chicago in 1993 and am a Registered Certified Public
10 Accountant in the state of Illinois. In addition to my formal education, I have
11 attended several utility accounting, ratemaking, and leadership seminars and courses.

12 I have been employed by the Company since September 2013. Before
13 PacifiCorp, I spent 10 years working for Northwest Natural Gas Company in the rates
14 and regulatory affairs department. My responsibilities included development of
15 revenue requirement, analysis of cost of service and rate base issues, pricing,
16 regulatory mechanisms, regulatory accounting and reporting, and development of rate
17 filings. I have previously testified in proceedings before the Washington Utilities and
18 Transportation Commission (Commission) and the Public Utility Commission of
19 Oregon.

20 **Q. What are your present duties?**

21 A. My primary responsibilities include oversight of regulatory proceedings and filings in
22 Washington, California, and Oregon. I am also responsible for the calculation and
23 reporting of the Company's regulated earnings and revenue requirement, application

1 of the inter-jurisdictional allocation methodologies, and the explanation of those
2 calculations to regulators in the jurisdictions in which the Company operates.

3 **PURPOSE OF TESTIMONY**

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

5 A. My direct testimony addresses the calculation of the Company's Washington-
6 allocated revenue requirement and the revenue increase requested in the Company's
7 filing and requests authorization to begin amortization of deferred amounts.

8 Specifically, my testimony provides the following:

- 9 • A description of the test period used in this case, which is the historical
10 12 months ended December 31, 2013 (Test Period) with restating and pro
11 forma adjustments.
- 12 • The calculation of the \$27.2 million revenue increase requested in this general
13 rate case representing the increase over current rates required for the
14 Company to recover its Washington-allocated revenue requirement.
- 15 • A description of the deferred amounts that the Company requests to begin
16 amortizing concurrent with the rate effective period.
- 17 • The presentation of the normalized results of operations for the Test Period
18 demonstrating that under current rates the Company will earn an overall return
19 on equity (ROE) in Washington of 6.16 percent. This is less than the
20 9.5 percent ROE authorized by the Commission in the Company's 2013
21 general rate case, Docket UE-130043 (2013 Rate Case), and less than the
22 10.0 percent requested by the Company and supported by Mr. Kurt G. Strunk
23 in this proceeding.

- 1 • An explanation of the revenue requirement workpapers supporting the
2 proposed revenue increase and normalized results of operations for the Test
3 Period. Included as part of my workpapers is a summary revenue requirement
4 model, which is similar in design to the model used by Commission Staff.
5 This summary model is designed to facilitate easier review of the filing and is
6 consistent with the models used in the Company's past rate cases.

7 **OVERVIEW OF TEST PERIOD AND ALLOCATION METHODOLOGY**

8 **Q. Please provide an overview of the development of the Test Period.**

9 A. The Test Period was developed by analyzing the revenue requirement components in
10 the historical period to determine if restating or pro forma adjustments were
11 warranted to reflect normal or expected operating conditions.

12 The Company's proposed net power costs are based on pro forma normalized
13 net power costs for the 12 months ending March 31, 2016, which is the rate effective
14 period in this case. This approach to calculating net power costs is consistent with
15 prior rate cases and recent Commission orders.

16 For consistency with the net power cost study used in this case, several
17 generation-related items, such as production tax credits, reflect amounts for the
18 12 months ending March 31, 2016. These generation-related items are adjusted to the
19 Test Period using the production factor methodology discussed later in my testimony.

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

22 A. Washington results of operations in this proceeding are developed using allocation
23 factors under the West Control Area inter-jurisdictional allocation methodology

1 (WCA), as approved by the Commission in Order 08, docket UE-061546,¹ and
2 reaffirmed in Order 05 of the 2013 Rate Case. As discussed in the testimony of
3 Mr. Gregory N. Duvall, in this case the Company proposes a modification regarding
4 the treatment of power purchase agreements (PPAs) with all Oregon and California
5 qualifying facilities (QFs) in the development of net power costs.

6 **Q. Please describe the process used to develop Test Period operations and**
7 **maintenance (O&M) expenses.**

8 A. O&M expenses were developed using historical expense levels for the 12 months
9 ended December 31, 2013, normalized with restating and pro forma adjustments.

10 **Q. Is the Company proposing an adjustment to better reflect O&M expenses**
11 **expected during the rate effective period?**

12 A. Yes. As discussed in the direct testimony of Mr. R. Bryce Dalley, the Company
13 proposes to include a pro forma adjustment to non-labor O&M expenses using IHS
14 Global Insight indices to better reflect the cost levels expected during the rate
15 effective year.

16 In addition, for labor-related O&M, the Company has included a pro forma
17 adjustment to reflect salary and wage expenses at levels expected in the rate effective
18 period. The adjustment is based upon known and measurable increases under union
19 contracts and known or anticipated increases for the non-union workforce.

20 These adjustments are discussed in greater detail later in my testimony.

¹ *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-061546, Order 08, ¶ 43 (June 21, 2007).

1 **Q. Has the Company used O&M escalation adjustments in its previous rate case**
2 **filings?**

3 A. Yes, the Company includes non-labor O&M escalation adjustments in its other
4 jurisdictions. The adjustment proposed in this case uses the same approach that has
5 been approved in California, Oregon, Utah, and Wyoming.

6 **Q. Do other utilities in Washington include O&M escalation adjustments in their**
7 **rate cases?**

8 A. Yes, in their last several rate cases, Avista has included a pro forma adjustment for
9 labor that reflects the cost levels that are expected in the rate effective year based on
10 the union and non-union wage increases known at the time.

11 **Q. Please describe the process used to develop Test Period electric plant in service**
12 **and associated accumulated depreciation balances.**

13 A. Electric plant in service and associated accumulated depreciation balances were
14 developed using historical average-of-monthly-averages (AMA) balances for the
15 13 months ended December 31, 2013. Through a restating adjustment, the average
16 net electric plant in service balances are then adjusted to actual ending balances as of
17 December 31, 2013. Next, pro forma capital additions that are greater than \$250,000
18 on a Washington-allocated basis projected to be placed in service before March 31,
19 2015, were added to rate base at end-of-period balances. Finally, the production
20 factor adjustment was applied to the generation-related pro forma capital additions
21 and associated revenue requirement components to adjust the pro forma cost levels to
22 the historical Test Period.

1 Testimony is provided for pro forma capital additions exceeding \$1.0 million
2 on a Washington-allocated basis. Mr. Richard A. Vail testifies about the Union Gap
3 Substation Upgrade Project, Selah Substation Capacity Relief Project, and Fry
4 Substation Project. Mr. Mark R. Tallman testifies about the Merwin Fish Collector.
5 And Mr. Dana M. Ralston testifies about a cooling tower replacement at Unit 1 of the
6 Jim Bridger generating plant. Plant additions greater than \$250,000 on a
7 Washington-allocated basis, but less than \$1.0 million, are separately identified and
8 described in my exhibits.

9 **Q. Is the use of pro forma plant additions and associated accumulated depreciation**
10 **balances consistent with prior Commission orders?**

11 A. Yes. The Commission allowed pro forma major plant additions in the Company's
12 2013 Rate Case² and in cases for other Washington utilities. By including pro forma
13 plant additions in this case, the Company's rate base better reflects balances during
14 the rate effective period.

15 **Q. Is the use of end-of-period balances for electric plant in service and associated**
16 **accumulated depreciation consistent with prior Commission orders?**

17 A. Yes. The Commission has allowed end of period rate base for the Company³ as well
18 as for Puget Sound Energy (PSE).⁴ Use of end-of-period rate base and inclusion of
19 pro forma plant additions continue to be an appropriate method of reducing regulatory
20 lag for plant additions that will be used and useful in serving customers during the
21 rate effective period.

² See *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Company*,
Docket UE-130043, Order 05, ¶ 184 (December 4, 2013).

³ *Id.* at 184.

⁴ See *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-130137/UG-130138,
Order 07, ¶¶ 46-48 (June 25, 2013).

1 **Q. Please describe the process used to develop Test Period net power costs.**

2 A. Net power costs for the west control area were developed using the Generation and
3 Regulation Initiatives Decision Tools model (GRID), based on terms of existing
4 contracts, plant availabilities that are normalized using historical information, and pro
5 forma retail load and market prices for the 12 months ending March 31, 2016. The
6 production factor adjustment, described later in my testimony, was applied to the pro
7 forma level of net power costs to adjust the cost levels to the historical Test Period.
8 The development of net power costs is discussed in detail in the testimony of
9 Mr. Duvall.

10 **Q. Please describe the process used to develop Test Period revenues.**

11 A. Retail revenues were developed by applying the current Commission-approved tariff
12 rates to the Washington historical normalized loads for the 12 months ended
13 December 31, 2013. For consistency, inter-jurisdictional allocation factors were
14 developed using normalized loads for the west control area for the same time period.

15 **Q. On April 14, 2014, the Company filed Advice No. 14-03 for a separate tariff**
16 **rider for the Merwin Fish Collector. Do Test Period base revenues include this**
17 **tariff rider?**

18 A. No. The Commission has not ruled on the proposed tariff rider. Accordingly, Test
19 Period base revenues do not include the Merwin tariff rider.

20 **Q. What will the Company do if the separate tariff rider for the Merwin Fish**
21 **Collector, docketed as UE-140617, is approved by the Commission?**

22 A. If the Commission approves the separate tariff rider, the Company will update its
23 request in this case to reflect revenues from the tariff rider in the Test Period. This

1 would reduce the revenue requirement in this case by approximately \$1.7 million.

2 If the Commission rejects the tariff rider and approves the alternative petition
3 for an accounting order to defer the Washington-allocated revenue requirement
4 associated with the Merwin Fish Collector, the Company will seek to amortize the
5 deferral by including it in Schedule 92, to be effective concurrent with the rates
6 approved in this case.

7 **REQUEST FOR AMORTIZATION OF DEFERRED AMOUNTS**

8 **Q. What is the Company requesting to amortize?**

9 A. In this filing, the Company is requesting to begin amortization of deferred amounts
10 related to the following dockets: UE-131384—Deferral of Costs Related to Colstrip
11 Outage (Colstrip deferral); UE-132350—Deferral of Reduced Depreciation Expense
12 (depreciation deferral); and UE-140094—Deferral of Costs Related to Declining
13 Hydro Generation (hydro deferral). A summary of the estimated deferral amounts are
14 provided in the following table:

Table 1

Description	Estimated Deferral Amount
Colstrip Deferral	\$1.98 million
Depreciation Deferral	(\$0.88 million)
Hydro Deferral	\$3.29 million
Interest	\$0.55 million
Total	\$4.94 million

15 The Company proposes to amortize the sum of these deferrals in Schedule 92, which
16 is included in Exhibit No.__(JRS-12) accompanying the direct testimony of
17 Ms. Joelle R. Steward. As discussed above, if the Commission approves the

1 accounting order for the deferral related to the Merwin Fish Collector, the Company
2 will propose to amortize that deferral in addition to the deferrals shown in Table 1.

3 **Q. Is the \$4.94 million included in the \$27.2 million revenue increase requested in**
4 **this case?**

5 A. No. Since the Company is proposing to recover these deferrals in a separate
6 temporary rate schedule, the \$4.94 million is not included in the requested
7 \$27.2 million base rate increase. Please see Exhibit No.____(NCS-9) for the
8 calculations detailing the \$4.94 million that the Company is requesting to amortize.

9 **Q. What is the status of these deferral filings?**

10 A. The depreciation deferral was approved by Commission Order 01 in
11 Docket UE-132350. The Colstrip and hydro deferrals are pending Commission
12 action. For efficiency, and to minimize the frequency of rate changes, the Company
13 is requesting to amortize these deferrals through Schedule 92 concurrent with the rate
14 effective period in this case.

15 **REVENUE REQUIREMENT AND RESULTS OF OPERATIONS**

16 **Revenue Requirement**

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

18 A. The Company's revenue requirement for the Test Period is \$348.8 million. This level
19 of revenue will allow the Company to earn its recommended 10.0 percent ROE for
20 the Test Period. At current rate levels, the Company will earn an ROE in Washington
21 of 6.16 percent during the Test Period.

1 **Revenue Requirement Calculation**

2 **Q. Please describe Exhibit No.__(NCS-2).**

3 A. Exhibit No.__(NCS-2) is a summary of the Washington results of operations for the
4 Test Period.⁵ This exhibit summarizes the detailed calculations and supporting
5 documents that are presented in Exhibit No.__(NCS-3). Page 1 is a revenue
6 requirement adjustment summary. This page shows the rate base, net operating
7 income (NOI),⁶ and the cumulative impact of restating and pro forma adjustments.
8 Pages 2 and 3 show the Washington-allocated per-books results and the cumulative
9 impact of each of the major adjustment sections presented in Exhibit No.__(NCS-3).
10 The far right column of page 3 shows the Washington-allocated normalized results
11 for the Test Period.

12 **Q. Please describe Exhibit No.__(NCS-3).**

13 A. Exhibit No.__(NCS-3) is the Company's Washington Results of Operations Report
14 (Report). The Report provides the actual and normalized totals for revenue,
15 expenses, depreciation, net power costs, taxes, rate base, and loads for the Test
16 Period. Additionally, the Report provides the calculation of the WCA inter-
17 jurisdictional allocation factors, a summary of monthly rate base balances used to
18 develop the historical AMA balances, and detailed accounting extracts for the
19 historical period.

20 The Report presents operating results in terms of both return on rate base and
21 ROE. In the Report, net power costs are presented on a west control area basis and as

⁵ Exhibit No.__(NCS-2) is an extract from the revenue requirement summary model included in my workpapers. Thus, the "live" version of the summary, with formulas and references intact, can be found in the summary model.

⁶ NOI is also referred to as "Operating Revenue for Return" in the Company's exhibits and workpapers.

1 allocated to the Washington jurisdiction.

2 **Q. Please describe how the Report is organized.**

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

- 4 • Tab 1—Summary reflects the Washington-allocated results based on the
5 WCA allocation methodology.
 - 6 ○ Column 1 (Unadjusted Results) on Page 1.0 reflects unadjusted actual
7 Washington results and shows Washington ROE of 5.07 percent for
8 the 12 months ended December 31, 2013.
 - 9 ○ Column 2 (Restating Adjustments) shows the cumulative impact of the
10 Washington-allocated restating adjustments included in the filing.
 - 11 ○ Column 3 (Total Adjusted Actual Results) shows the Washington
12 results including the restating adjustments.
 - 13 ○ Column 4 (Pro Forma Adjustments) shows the cumulative impact of
14 the Washington-allocated pro forma adjustments included in the filing.
 - 15 ○ Column 5 (Total Normalized Results) shows the Washington-allocated
16 normalized results for the Test Period, including all restating and pro
17 forma adjustments, with an ROE of 6.16 percent.
 - 18 ○ Column 6 (Price Change) reflects the necessary revenue increase of
19 \$27.2 million to achieve a 10.0 percent ROE.
 - 20 ○ Column 7 (Results with Price Change) reflects the Washington
21 normalized results including the \$27.2 million proposed revenue
22 increase.

1 Page 1.1 of the Report shows the results of operations without the
2 requested price change. Pages 1.2 and 1.3 support the calculation of the
3 requested revenue increase and provide further details on the development of
4 the net-to-gross conversion factor⁷ which incorporates income taxes,
5 uncollectible expenses, Washington Public Utility Tax, and the Commission
6 regulatory fee. Pages 1.4 through 1.6 summarize the impact of each of the
7 adjustment sections, which follow in tabs 3 through 9.

- 8 • Tab 2—Results of Operations details the Company’s overall revenue
9 requirement, showing per-books revenues, expenses, and rate base balances,
10 on total-company and Washington-allocated bases, for the 12 months ended
11 December 31, 2013, and fully normalized Washington-allocated results of
12 operations for the Test Period by Federal Energy Regulatory Commission
13 (FERC) account. The name of each FERC account provides a brief
14 description of the revenues, expenses, or balances included in the account.
15 For a more detailed description of each account please refer to the FERC
16 Uniform System of Accounts (Code of Federal Regulations, Title 18,
17 part 101).
- 18 • Tabs 3 through 9 provide supporting documentation for the restating and pro
19 forma adjustments required to reflect normal or expected operating conditions
20 of the Company. Each of these sections begins with a numerical summary in
21 columnar format that identifies each adjustment made to the per-books data
22 and the adjustment’s impact on the Test Period. Each column has a numerical
23 reference to a corresponding page in the Report, which contains a “lead sheet”

⁷ The net-to-gross conversion factor is also referred to as the net-to-gross bump up factor in the Report.

1 showing the type of adjustment (restating or pro forma), the FERC account(s),
2 the WCA allocation factor(s), dollar amount(s), and a brief description of the
3 adjustment. The specific adjustments included in each of these tabs are
4 described in more detail below.

- 5 • Tab 10 contains the calculation of the WCA allocation factors.
- 6 • Tab 11 contains a summary of the Washington-allocated per-books rate base
7 balances by month for the 12 months ended December 31, 2013. These
8 balances are shown by FERC account and WCA allocation factor.
- 9 • Tabs B1 through B20 contain the per-books historical accounting system
10 extracts for the 12-month period ended December 31, 2013, and are organized
11 by major FERC function.

12 **Tab 3—Revenue Adjustments**

13 **Q. Please describe the adjustments made in Tab 3.**

14 **A. Temperature Normalization (page 3.1)**—This restating adjustment normalizes
15 revenues in the Test Period by comparing actual sales to temperature normalized
16 sales. Temperature normalization reflects temperature patterns that can be
17 measurably different than normal, defined as the average temperature over a 20-year
18 rolling time period (currently 1993 to 2012). Pages 3.1.4 through 3.1.6 provide the
19 detailed support of the revenue adjustments from the per-books data.

20 **Revenue Normalization (page 3.2)**—This restating adjustment removes revenue
21 items that should not be included in regulatory results. This adjustment normalizes
22 base year revenue by removing items that should not be included in determining retail
23 rates, such as Schedule 191 (System Benefits Charge), Schedule 96 (Hydro Deferral

1 Amortization), and out of period items. The associated tax impacts are also removed
2 from the Test Period in this adjustment.

3 **Effective Price Change (page 3.3)**—This restating adjustment normalizes retail
4 revenues for known and measurable changes since the end of the historical period
5 ended December 31, 2013. This adjustment adds approximately \$17 million of
6 revenues for the rate increase approved by the Commission in the 2013 Rate Case,
7 effective December 11, 2013.

8 **SO2 Emission Allowances (page 3.4)**—This pro forma adjustment removes the sales
9 revenue booked during the 12 months ended December 31, 2013, and includes
10 amortization of sales revenues over a five-year period. This method was approved in
11 previous rate cases for the Company, including in Order 06 of the Company’s 2010
12 general rate case in Docket UE-100749 (2010 Rate Case), as well as in the
13 Company’s 2011 general rate case in Docket UE-111190 (2011 Rate Case) and the
14 2013 Rate Case. Washington’s allocation of these revenues is determined by the
15 allowances provided by the Chehalis, Hermiston, Jim Bridger, and Colstrip Unit 4
16 generating resources.

17 **Renewable Energy Credit (REC) and Renewable Energy Attribute (REA)**
18 **Revenue (page 3.5)**—In compliance with Commission Order 06 in the 2010 Rate
19 Case, REC and REA revenues are passed back to Washington customers through a
20 separate tracker mechanism effective April 3, 2011. Consistent with this ordered
21 treatment and as included in the 2011 Rate Case and 2013 Rate Case, this restating
22 adjustment removes all REC and REA revenues from the Test Period.

23 **Wheeling Revenue (page 3.6)**—This adjustment reflects known and measurable

1 changes to actual wheeling revenue for the 12 months ended December 31, 2013.
2 Imbalance penalty revenue and expense is removed to avoid any impact on regulated
3 results. This adjustment reflects the impact of the FERC rate case, FERC
4 Docket No. ER 11-3643.

5 **Ancillary Revenue (page 3.7)**—This adjusts revenue to account for the contract the
6 Company entered into with Seattle City Light (SCL) to receive real time output from
7 SCL’s share of the Stateline wind farm and return power two months later. This
8 contract was renewed in December 2011. The ancillary revenue booked in the
9 12 months ended December 31, 2013, is adjusted to reflect the expected revenue per
10 the terms of the SCL contract for the 12 months ending March 31, 2016, to be
11 consistent with the pro forma net power costs treatment reflected in adjustment 5.1
12 discussed below.

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

17 **Wind Wake Loss Revenues (page 3.9)**—The Company receives compensation for
18 losses incurred at the Leaning Juniper wind plant due to another wind plant nearby
19 that disturbs the wind patterns around Leaning Juniper. This adjustment reflects the
20 expected revenue for the 12 months ended March 31, 2016, consistent with the net
21 power costs treatment in adjustment 5.1. This adjustment is necessary for proper
22 matching, as the compensation for lost energy is embedded within the pro forma net
23 power cost calculation.

1 **Tab 4—O&M Adjustments**

2 **Q. Please describe the adjustments included in Tab 4.**

3 **A. Miscellaneous General Expense Adjustment (page 4.1)**—This restating adjustment
4 removes certain miscellaneous expenses that should have been charged below-the-
5 line to non-regulated expenses and reallocates gains and losses on property sales to
6 reflect appropriate allocation among the Company’s jurisdictions.

7 **General Wage Increase Adjustment (pages 4.2 and 4.3)**—This restating and pro
8 forma adjustment is used to compute general wage-related costs for the Test Period.
9 The Company has several labor groups, each with different effective contract renewal
10 dates. The purpose of adjustment 4.2 is to normalize per-books wage expenses by
11 annualizing wage increases that occurred during the 12 months ended December 31,
12 2013. This was done by identifying actual wages by labor group by month along with
13 the date each labor group received wage increases. This treatment of wages reflected
14 in the Test Period is consistent with the method approved by the Commission in the
15 Company’s past rate cases.

16 Adjustment 4.3 was then completed by applying known and measurable pro
17 forma wage increases that have occurred or are expected to occur through March 31,
18 2016, to the annualized December 31, 2013 wage amounts calculated in adjustment
19 4.2. The Company used union contract agreements to adjust union labor group
20 wages, while increases for non-union and exempt employees were based on actual or
21 anticipated increases. Payroll taxes were updated to capture the impact of the
22 changes to employee wages.

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

3 **Q. Has the Company included any pro forma adjustments to employee benefits?**

4 A. No. Consistent with prior filings, the Company has not included any pro forma
5 adjustments to pro forma benefits from the amounts reflected in the historical Test
6 Period. This has been done to minimize controversy in the case. The Company,
7 however, reserves the right to include such adjustments in future filings.

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

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

14 **Remove Non-Recurring Entries (page 4.5)**—Two accounting entries were made
15 during the 12 months ended December 31, 2013, that are non-recurring in nature or
16 relate to prior periods. This restating adjustment removes these items from the Test
17 Period to reflect normalized results. Details on the specific items in the adjustment
18 can be found on page 4.5.1.

19 **DSM Removal Adjustment (page 4.6)**—This restating adjustment removes actual
20 per-books demand-side management (DSM) revenues and expenses from regulated
21 results since they are recovered through a separate tariff rider (Schedule 191—System
22 Benefits Charge Adjustment). The associated tax entries are also removed through
23 this adjustment.

1 **Insurance Expense Adjustment (page 4.7)**— Consistent with prior Washington rate
2 cases, the Company replaced the actual per-books base period liability and property
3 damage expense with a rolling six-year average of damage expenses.

4 **Advertising Adjustment (page 4.8) and Memberships and Subscriptions**

5 **Adjustment (page 4.9)**— Consistent with recent prior cases, the Company includes
6 these restating adjustments to situs-assign advertising and membership costs that were
7 booked on a system-allocated basis to the extent attributable to a specific jurisdiction.
8 This approach was the result of collaboration with parties after the 2010 Rate Case,
9 and was included in the 2011 Rate Case and 2013 Rate Case.

10 **Uncollectible Expense (page 4.10)**—This restating adjustment adjusts the
11 Company’s actual uncollectible expense for the 12 months ended December 2013 to a
12 four-year average normalized level. This is done by applying the four-year average
13 unadjusted uncollectible rate (uncollectible expense divided by unadjusted general
14 business revenues) to the normalized level of general business revenues. The
15 Company agreed to the use of a four-year average uncollectible rate in the 2013 Rate
16 Case.

17 **Legal Expense (page 4.11-4.11.1)**—Consistent with past rate case treatment,
18 including the 2013 Rate Case, this restating adjustment reallocates the Company’s
19 actual legal expenses for the 12 months ended December 31, 2013. Legal expenses
20 are situs assigned to the extent attributable to a specific jurisdiction.

21 **Collection Agency Fees (page 4.12)**—As discussed in the testimony of
22 Ms. Coughlin, the Company is proposing a change to the method in payment of
23 collection agency fees. This adjustment reflects the expected cost savings resulting

1 from the change in method.

2 **IHS Global Insights Escalation (page 4.13)**—As mentioned above, this adjustment
3 escalates non-labor and non-power cost O&M expenses using industry-specific
4 escalation indices. Projected increases or decreases in this adjustment are based on
5 IHS Global Insight indices that provide a detailed assessment of the electric utility
6 costs for materials and services only, and exclude labor expense, according to the
7 Uniform System of Accounts defined by FERC for major electric utilities.

8 The IHS indices are prepared at the FERC functional subcategory and are
9 denoted with their corresponding FERC account number. The individual FERC
10 account indices are then combined into broader indices representing operation,
11 maintenance or total operation and maintenance expenses. The IHS study used to
12 prepare this filing was the fourth quarter 2013 forecast, released February 4, 2014.

13 The IHS data is proprietary and subject to copyright protection, therefore the indices
14 used in the Company's case are provided in Confidential Exhibit No.__(NCS-8C).

15 The resulting O&M expense better reflects cost levels during the test year.

16 **Tab 5—Net Power Cost Adjustments**

17 **Q. Please describe the adjustments included in Tab 5.**

18 **A. Net Power Costs (pages 5.1-5.1.1)**— The net power cost adjustments normalize
19 power costs by adjusting sales for resale, purchase power, wheeling, and fuel in a
20 manner consistent with the contractual terms of sales and purchase agreements, and
21 normal hydro and weather conditions for the west control area. Three separate net
22 power cost studies are included in the Report. The results of each study are
23 summarized on page 5.1.2.

1 The first study reflects actual west control area net power costs for the 12-
2 month period ended December 31, 2013. The second study reflects restated net
3 power costs for the same period. The third is a study of pro forma net power costs for
4 the 12 months ending March 31, 2016, which is the rate effective period. The use of
5 pro forma net power costs is consistent with approved treatment in prior rate cases,
6 including the Company's 2010, 2011, and 2013 rate cases. Please refer to the direct
7 testimony of Mr. Duvall for more information on the development of net power costs
8 included in this filing.

9 The pro forma power costs are adjusted to Test Period levels using the
10 production factor adjustment as shown on page 9.1

11 **James River Royalty Offset (page 5.2)**—On January 13, 1993, the Company
12 executed a contract with James River Paper Company with respect to the Camas mill,
13 later acquired by Georgia Pacific. Under the agreement, the Company built a steam
14 turbine and is recovering the capital investment over the operational term of the
15 agreement as an offset to royalties paid to James River based on contract provisions.
16 The contract is set to expire on December 31, 2015. The contract costs of energy for
17 the Camas unit are included in the Company's net power costs as purchased power
18 expense, but GRID does not include an offsetting revenue credit for the capital and
19 maintenance cost recovery. This pro forma adjustment adds the royalty offset to
20 FERC account 456, other electric revenue, for the 12-month period ending March 31,
21 2016, the same period used in determining pro forma net power costs in this filing.

1 **Colstrip Unit No. 3 Removal (page 5.3)**—As directed by the Commission in Cause
2 U-83-57,⁸ this restating adjustment removes the costs and balances of Unit 3 of the
3 Colstrip generating plant from the Test Period.

4 **Tab 6—Depreciation and Amortization Adjustments**

5 **Q. Please describe the adjustments included in Tab 6.**

6 A. **Hydro Decommissioning (page 6.1)**—Based on the Company’s latest depreciation
7 study approved in Docket UE-130052, an additional \$8.85 million is required for the
8 decommissioning of various hydro facilities. This pro forma adjustment walks
9 forward the decommissioning expenditures through December 2014. The reserve
10 does not include funds for Powerdale, which was reclassified to unrecovered plant.
11 A separate Commission order allows recovery of the estimated decommissioning
12 costs of Powerdale as reflected on page 8.6 of the Report.

13 **Depreciation and Amortization Reserve to December 2013 Balance (page 6.2-**
14 **6.2.2)**—This restating adjustment changes the depreciation and amortization reserve
15 from December 2013 AMA balances to actual December 31, 2013 balances. This
16 matches Adjustment 8.12, Plant Balances to December 2013 Balance, as discussed in
17 detail below.

18 **Depreciation Study and Annual Depreciation (page 6.3-6.3.2)**—This restating
19 adjustment normalizes depreciation expense and reserve in the historical Test Period
20 to reflect both the impact of the depreciation rates approved by the Commission in
21 Docket UE-130052 and the impact of adjusting plant balances from a December 2013

⁸ *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light Co.*, Cause No. U-83-57, Second Supplemental Order (June 12, 1984).

1 AMA basis to a year-end December 31, 2013 basis. This treatment is consistent with
2 that approved in the 2013 Rate Case.

3 **Vehicle Depreciation—Depreciation Study (page 6.4-6.4.2)**—This restating
4 adjustment normalizes depreciation expense and reserve to reflect the impact of the
5 depreciation rates for vehicles approved by the Commission in Docket UE-130052.

6 **Tab 7—Tax Adjustments**

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

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

12 **Q. How has federal income tax expense been calculated?**

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

16 **Q. Please describe the adjustments included in Tab 7.**

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

1 **Property Tax Expense (page 7.2)**—This pro forma adjustment normalizes the
2 difference between actual accrued property tax expense and the pro forma property
3 tax expense for the 12 months ending December 31, 2014. Details supporting the
4 Company’s calculation of pro forma property tax expense are included as
5 Confidential Exhibit No.__(NCS-4C). This approach is consistent with the
6 treatment in the 2013 Rate Case.

7 **Renewable Energy Tax Credit (page 7.3)**—The Company is entitled to recognize a
8 federal income tax credit as a result of placing renewable generating plants in service.
9 The federal tax credit is based on the kilowatt-hours generated by a qualifying facility
10 during the facility’s first ten years of service. The credits are used in the year of
11 production to the extent current federal income taxes are due, or, should the credits
12 not be fully utilized in the year they are generated, they are carried back one year and
13 forward 20 years to offset taxes in those years.

14 This restating and pro forma adjustment reflects this credit based on the
15 qualifying production as modeled in GRID for the pro forma net power cost study.

16 **PowerTax Accumulated Deferred Income Tax (ADIT) Balance Adjustment**
17 **(page 7.4)**—This restating adjustment reflects the Company’s property-related
18 accumulated deferred income tax balances on a jurisdictional basis using results from
19 the Company’s tax fixed asset system, PowerTax.

20 **Washington Low Income Tax Credit (page 7.5)**—This pro forma adjustment
21 reflects the change to Public Utility Tax Credit for the Low Income Home Energy
22 Assistance Program (LIHEAP), per a July 26, 2013 letter from the Washington
23 Department of Revenue.

1 **Washington Flow-Through Adjustment (page 7.6-7.6.1)**—The Company’s per-
2 books data for income taxes is reported on a tax-normalized basis. This restating
3 adjustment converts the per-books data for income taxes from a normalized basis to a
4 partial flow-through basis, consistent with prior Commission orders including those
5 in the 2010, 2011, and 2013 rate cases.⁹ This is accomplished by removing the
6 deferred income tax benefits/expense and accumulated deferred income tax
7 assets/liabilities for temporary book-tax differences that are not (1) required to be
8 normalized by law, or (2) required to be normalized by Commission order.

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

16 It is important to note that if additional adjustments by any party are proposed
17 in this case, the impact of such adjustment will need to include an adjustment to
18 remove the deferred state tax expense and balance as described on page 7.7.

19 **Washington Public Utility Tax Adjustment (page 7.8)**—This pro forma adjustment
20 recalculates the Washington Public Utility Tax expense based on the normalized
21 revenues included in the Test Period, as discussed in adjustment pages 3.1, 3.2, and
22 3.3 above.

⁹ See *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-100749, Order 07 (May 12, 2011).

1 **Tab 8—Rate Base Adjustments**

2 **Q. Please describe the adjustments included in Tab 8.**

3 A. **Jim Bridger Mine (page 8.1)**—The Company owns a two-thirds interest in the
4 Bridger Coal Company (BCC), which supplies coal to the Jim Bridger generating
5 plant. The Company’s investment in BCC is recorded on the books of Pacific
6 Minerals, Inc., a wholly-owned subsidiary. Because of this ownership arrangement,
7 the coal mine investment is not included in FERC account 101, Electric Plant in
8 Service. This restating adjustment is necessary to properly reflect the December 2013
9 balance associated with the BCC plant investment in the Test Period. The Bridger
10 Mine adjustment was stipulated to and approved in the Company’s 2003 general rate
11 case, Docket UE-032065¹⁰, and has been included in all rate case filings since.
12 Consistent with the Company’s 2010, 2011, and 2013 rate cases, materials and
13 supplies and pit inventory balances associated with the BCC have been excluded from
14 the Test Period.

15 **Environmental Settlement (page 8.2)**—The Commission authorized the Company
16 to record and defer costs prudently incurred in connection with its environmental
17 remediation program in Docket UE-031658.¹¹ Costs of projects in excess of
18 \$3 million on a total-company basis, incurred from October 2003 through March
19 2005, were authorized to be deferred and amortized over a ten-year period. The Third
20 West Substation Cleanup qualified for this treatment. This restating adjustment
21 removes the balance and amortization expense from FERC accounts 182.391 and

¹⁰ See *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-032065, Order 06 (October 27, 2004).

¹¹ See *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-031658, Order 01 (April 27, 2005).

1 925, except for the Third West Substation Cleanup, and adds to the Test Period actual
2 expenditure amounts for small remediation projects that are not deferred per the
3 Commission's order.

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

8 **Major Plant Additions (page 8.4-8.4.1)**—This pro forma adjustment adds to rate
9 base west control area plant additions greater than \$250,000 on a Washington-
10 allocated basis that will be placed in service between January 1, 2014, through
11 March 31, 2015. Descriptions of these capital additions are included beginning on
12 page 8.4.4. As discussed above, inclusion of pro forma plant additions is consistent
13 with Commission Order 05 in the 2013 Rate Case.¹²

14 This adjustment also incorporates the associated depreciation expense and
15 accumulated reserve impacts. The production factor adjustment on page 9.1 is
16 applied to the pro forma capital addition revenue requirement components to adjust
17 the costs and balances to Test Period levels.

18 **Miscellaneous Rate Base Adjustment (page 8.5-8.5.1)**—This restating adjustment
19 removes working capital, fuel stock, materials and supplies, prepayments, and other
20 miscellaneous rate base balances from the Test Period in compliance with prior rate

¹² Please note that the investment amount for the Merwin Fish Collector project included in this pro forma adjustment reflects only the investment placed in service after December 31, 2013, which was \$49.333 million on a system basis. This is in addition to investment of \$9.036 million that was placed in service in December 2013 and included in per-books balances. Thus, the total-company investment in the Merwin Fish Collector included in this case is \$58.4 million.

1 case treatment. The associated tax impacts related to these balances are also removed
2 in this adjustment.

3 **Powerdale Hydro Removal (page 8.6)**—As authorized in 2007 in
4 Docket UE-070624,¹³ the unrecovered plant balance associated with the Powerdale
5 hydro plant was transferred to a regulatory asset and amortized over three years. The
6 Powerdale unrecovered plant regulatory asset was fully amortized in December 2010.

7 This pro forma adjustment removes the unrecovered plant amortization
8 expense and regulatory asset balance from the Test Period. In addition, the
9 decommissioning of the Powerdale plant was substantially completed during 2010.
10 The Company began amortizing the decommissioning regulatory asset in April 2011,
11 as authorized in the 2010 Rate Case. This adjustment removes the Powerdale
12 operating expenses and regulatory asset balance from the Test Period results and adds
13 the decommissioning amortization expense and asset balances for the 12 months
14 ending December 31, 2014.

15 **Removal of Colstrip Unit 4 AFUDC (page 8.7)**—This restating adjustment removes
16 allowance for funds used during construction (AFUDC) from electric plant in service
17 for the period that Colstrip construction work in progress (CWIP) was allowed in rate
18 base. This treatment was authorized in Cause U-81-17¹⁴ and has been included in all
19 the Company's Washington rate case filings since that time.

20 **Trojan Removal Adjustment (page 8.8)**—This restating adjustment removes the
21 Trojan amortization expense, balances, and tax impacts from the Test Period as

¹³ See *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-070624, Order 01 (October 24, 2007).

¹⁴ See *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Cause No. U-81-17, Second Supplemental Order (December 16, 1981).

1 ordered by the Commission in Docket UE-991832.¹⁵

2 **Customer Service Deposits (page 8.9)**—This restating adjustment includes customer
3 service deposits as a reduction to rate base. It also reflects the interest paid on the
4 customer service deposits. This adjustment was accepted by the Commission in the
5 2006 Rate Case¹⁶ and is consistent with all of the Company’s rate cases filings since
6 that time.

7 **Regulatory Asset Amortization Adjustment (page 8.10)**—The Chehalis Regulatory
8 Asset was booked in December 2009 in accordance with Docket UE-090205.¹⁷ The
9 general business revenues charged as the regulatory asset was amortized during the
10 12 months ended December 31, 2013, are removed from per-books results in the
11 revenue normalization adjustment page 3.2. This adjustment recognizes the
12 amortization of the regulatory asset for the 12 months ended December 2013.

13 **Miscellaneous Asset Sales and Removals Adjustment (page 8.11)**—This
14 adjustment removes the electric plant in service balances, accumulated depreciation
15 balances, depreciation expenses, and O&M expenses from the actual unadjusted data
16 for the 12 months ended December 31, 2013, for the sale or removal of the following
17 assets: Snake Creek hydroelectric plant, Deseret Power’s portion of Hunter Unit 2
18 scrubber and turbine upgrade, Condit hydroelectric plant, and St. Anthony
19 hydroelectric plant.

¹⁵ See *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-991832, Third Supplemental Order, ¶ 42 (August 9, 2000).

¹⁶ See *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-061546, Order 08 (June 21, 2007).

¹⁷ See *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-090205, Order 09, ¶ 15 (December 16, 2009).

1 **Plant Balances to December 2013 Balance (page 8.12-8.12.6)**—This adjustment
2 modifies the gross plant balances from December 2013 AMA levels to the actual
3 December 31, 2013 ending balances. This adjustment to gross plant balances reduces
4 regulatory lag by reflecting rate base balances at end of Test Period levels. This
5 methodology was approved in the 2013 Rate Case. The associated accumulated
6 reserve and depreciation expense impacts are accounted for in adjustments 6.2 and
7 6.3, respectively.

8 **Investor Supplied Working Capital (page 8.13)** —This adjustment adds to rate
9 base cash working capital using the Investor-Supplied Working Capital (ISWC)
10 method consistent with the method approved in the 2013 Rate Case.

11 **Tab 9—Production Factor**

12 **Q. Please describe the adjustments included in Tab 9.**

13 **A. Production Factor (page 9.1-9.1.1)**—The production factor is a means of adjusting
14 pro forma generation-related components of the revenue requirement to Test Period
15 expense and balance levels. The production factor was calculated by dividing
16 Washington’s normalized historical retail load by the Washington pro forma load for
17 the 12 months ending March 31, 2016. This factor is then applied to the pro forma
18 net power cost, pro forma ancillary services revenue, pro forma James River royalty
19 offset, pro forma renewable energy tax credits, and pro forma plant addition revenue
20 requirement components.

21 Consistent with prior rate cases, including the 2013 Rate Case and 2011 Rate
22 Case, the production factor is applied only to revenue requirement components that
23 are adjusted beyond the historical Test Period.

1 **Tab 10—Allocation Factors**

2 **Q. Please describe the data included in Tab 10.**

3 A. The derivation of the inter-jurisdictional allocation factors using the WCA is
4 summarized in Tab 10. These factors are based on the normalized historical loads
5 and the plant balances for the 12 months ended December 31, 2013.

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

9 **Q. Please describe the remaining portions of the Report.**

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

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

17 **DESCRIPTION OF ADDITIONAL EXHIBITS AND WORKPAPERS**

18 **Additional Revenue Requirement Exhibits**

19 **Q. Please describe Confidential Exhibit No.__(NCS-4C).**

20 A. As mentioned above in the description of adjustment 7.2 Property Tax Expense,
21 Confidential Exhibit No.__(NCS-4C) provides a description of the methodology and
22 calculation of pro forma property tax expense.

1 **Q. Please describe Exhibit No.__(NCS-5).**

2 A. Exhibit No.__(NCS-5) is the WCA Manual that provides explanations and
3 derivations of the allocation factors used in this case.

4 **Q. Please describe Exhibit No.__(NCS-6).**

5 A. Exhibit No.__(NCS-6) details the calculation of revenue requirement results using
6 the cost of capital alternatives and scenarios discussed in the testimony of
7 Mr. Bruce N. Williams. This exhibit provides support for the revenue requirement
8 impacts mentioned in Mr. Williams's testimony.

9 **Q. Please describe Exhibit No.__(NCS-7).**

10 A. Exhibit No.__(NCS-7) details the calculation of revenue requirement results using
11 the net power cost alternatives discussed in the testimony of Mr. Duvall. This exhibit
12 provides support for the revenue requirement impacts mentioned in Mr. Duvall's
13 testimony.

14 **Q. Please describe Confidential Exhibit No.__(NCS-8C).**

15 A. As detailed above in the description for adjustment 4.13, IHS Global Insight
16 Escalation, the indices are proprietary information and are therefore provided in this
17 Confidential Exhibit No.__(NCS-8C)

18 **Q. Please describe Exhibit No.__(NCS-9).**

19 A. As mentioned above, the Company is requesting to begin amortizing the Colstrip,
20 hydro, and depreciation deferrals concurrent with rates approved in this case.

21 Exhibit No.__(NCS-9) provides calculations detailing the \$4.94 million that the
22 Company is requesting to amortize for these three deferrals.

1 **Revenue Requirement Workpapers**

2 **Q. Please describe the workpapers supporting the revenue requirement**
3 **calculations.**

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

12 **Q. Does this conclude your direct testimony?**

13 A. Yes.