Exhibit No.___(RBD-1T)
Docket No. UE-09___
Witness: R. Bryce Dalley

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
	)	Docket No. UE-09______
Complainant,	)	
vs.	)	
PACIFICORP dba Pacific Power	)	
Respondent.	)	

PACIFICORP

DIRECT TESTIMONY OF R. BRYCE DALLEY

February 2009

Q. Please state your name, business address and present position with PacifiCorp (the Company).

A. My name is R. Bryce Dalley and my business address is 825 NE Multnomah, Suite 2000, Portland, Oregon, 97232. I am currently employed as Manager of Revenue Requirement.

Qualifications

Q. Briefly describe your educational and professional background.

A. I received a Bachelor of Science degree in Business Management, with an emphasis in finance from Brigham Young University in 2003. In addition to my formal education, I have also attended various educational, professional and electric industry-related seminars. I have been employed by PacifiCorp since 2002 in various positions within the regulation and finance organizations. I assumed my current position in 2008.

Q. What are your responsibilities as Manager of Revenue Requirement?

A. My primary responsibilities include the calculation and reporting of the Company's regulated earnings or revenue requirement, application of the inter-jurisdictional cost allocation methodologies, and the explanation of those calculations to regulators in the jurisdictions in which the Company operates.

Q. Have you testified in previous regulatory proceedings?

A. Yes. I have testified before the Washington Utilities and Transportation Commission ("Commission") and the Oregon Public Utility Commission.

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 application. In support of this calculation, I provide testimony on the following:

- A description of the modifications the Company has implemented in this filing as a result of the accounting consultation meeting held last year, as stipulated to in the Company's last general rate case, Docket UE-080220 ("2008 Rate Case").
- A description of the West Control Area ("WCA") allocation methodology applied in this proceeding in determining the Washington-allocated revenue requirement.
- A summary of the calculation of the $38.5 million requested rate increase.
- A description of the test period used in this case, which is the historical twelve-months ended June 30, 2008 with restating and pro forma adjustments.
- 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 4.5 percent, which is far below the ROE requested in this case and the current authorized return.
- The deferral of the Chehalis natural gas plant ("Chehalis Plant") revenue requirement filed as a notice to the Commission per Senate Bill 6001 as Docket UE-082252 and how the Company proposes to recover these

prudently incurred costs.

Modifications to the Company's Filing

Q. Does the Company's methodology and format used in this rate case filing differ from that used in the 2008 Rate Case?

A. Yes. The Company has implemented several changes to this filing as a result of an accounting consultation meeting held on October 14, 2008. This meeting was convened as provided in paragraph 24 of the all-party settlement stipulation in Docket UE-080220, which states,

> "The Company will consult with Staff and other interested parties on accounting presentation, test period conventions, and appropriate documentation to demonstrate the prudence of new resources. These consultations will take place prior to the Company filing its next general rate case, and, to the extent possible, in time for the Company to reflect the recommendations in the Company's next general rate case filing, if not as part of the Company's presentation, then as part of its workpapers."

Participating parties at the meeting were representatives from Commission Staff, Public Counsel, and Industrial Customers of Northwest Utilities ("ICNU").

Q. Specifically, what changes have been adopted by the Company in this filing as a result of this accounting consultation meeting?

A. Five main changes have been implemented in this filing as a direct result of the discussion with parties during this meeting. First, several presentational changes have been made to facilitate review and auditing of the case. Second, the average of monthly averages ("AMA") rate base methodology has been applied to the historical and normalized rate base balances in this filing. Third, the Company has implemented the production factor approach in the calculation of the overall Washington-allocated revenue requirement. Fourth, the Company has only included a small subset of pro forma generation-related major capital additions. In addition, the Company has created a manual for the WCA allocation methodology. This manual is included in the Company's workpapers.

Q. What presentational changes have been made in this filing?

A. The Company has made a significant effort to present each of the restating and pro forma normalizing adjustments on both a Total Company and Washington-allocated basis. Each line item of every adjustment included in this filing is clearly distinguished as either a restating or pro forma adjustment. In addition, all cost components of each normalizing adjustment have been summarized and presented on the same adjustment page. These cost components include revenues, tax expenses, operation and maintenance expenses ("O&M"), and rate base impacts[1]. Finally, the Company has included adjustment summary pages which reflect each normalizing adjustment's overall impact to the Company's Washington-allocated requested rate increase in columnar format. The Company anticipates that these formatting changes will make it easier for the Commission and participating parties to navigate through and audit the Company's filing.

Q. Please describe the rate base methodology applied by the Company in this filing.

A. At the request of Commission Staff and other parties, the Company has used the AMA rate base methodology for the historical and normalized rate base balances in this filing. This methodology has historically been used by the Commission in determining rate base balances for the test period. The Company has also

[1] Cash working capital and interest expense true-up adjustments are presented as stand alone adjustments in the Company's filing. These two adjustments reflect the working capital and interest expense effects of the other restating and pro forma adjustments included in the Company's filing.

included a supplemental section (Tab 11) of Exhibit No.___(RBD-3) showing the Washington-allocated monthly balances used in this calculation for the historical period by Federal Energy Regulatory Commission ("FERC") account and WCA allocation factor.

Q. Why has the Company applied the production factor methodology in this filing?

A. During the Company's discussion with Commission Staff and other parties, it was evident that the production factor was considered the preferred approach in Washington when using pro forma net power costs and pro forma major capital additions. As such, the Company has elected to implement this methodology in the calculation of the Washington-allocated rate increase in this filing.

The production factor is calculated by dividing the Washington normalized historical retail load by the Washington pro forma load. This factor is then applied to generation-related costs and balances included in the filing as a means to adjust the pro forma components of the revenue requirement calculation to the test period, twelve-months ended June 2008. This methodology is discussed in more detail later in my testimony.

Q. What pro forma capital additions have been included in the calculation of the Washington-allocated requested rate increase?

A. This filing includes a small subset of generation-related major capital additions. As discussed later in my testimony, these additions relate to significant investment that the Company has made to add new generation resources to its portfolio, or to upgrade and improve existing resources. Each of the capital additions included in this filing is discussed in detail in Exhibit No.___(RBD-3), which is described later in my testimony.

Q. Overall, did the Company find the accounting consultation meeting to be beneficial?

A. Yes. The Company found the open dialogue, suggestions and recommendations from the parties valuable and informative. It is anticipated that the changes the Company has made as a result of this meeting will ease the review and auditing process of the case, as well as reduce discovery. The Company will continue to work with Commission Staff and other parties on presentation preferences and methodologies.

Allocation Methodology

Q. What allocation methodology has been applied in the calculation of the Washington Results of Operations?

A. The Company has used the WCA allocation methodology, as approved by the Commission in Order 08, Docket UE-061546 to calculate Washington's Results of Operations and the associated ROE. This allocation methodology includes all generation and transmission resources that lie within or have delivery capability to the west control area. The use of this methodology resulted in a Washington ROE of 4.5 percent for the test period twelve-months ended June 2008, and a required rate increase of $38.5 million to earn an 11.00 percent ROE.

Q. What period is used as the basis for the Washington allocation percentages used in this case?

A. The Washington allocation percentages in this filing are based on historical normalized Washington loads and plant balances in relation to normalized west control area loads and plant balances, for the historical test period of twelve-months ended June 2008.

Summary of the Requested Price Increase

Q. Please describe some of the key areas where the Company has experienced cost increases that support the $38.5 million requested price increase.

A. Since the 2008 Rate Case, the Company has incurred cost increases to serve its customers in two main areas: new plant investment and net power costs.

- The Company continues to make significant investment to serve its customers. Washington-allocated net electric plant in service ("EPIS") has increased by more than $125 million from the amount included in the 2008 Rate Case. Two new generation resource investments, not previously included in Washington's revenue requirement, include the Chehalis Plant and the Marengo II wind resource ("Marengo II"). These new resources are described in detail in the direct testimony of Company witnesses Mr. Stefan A. Bird, Mr. Gregory N. Duvall and Mr. Mark R. Tallman. In addition, the Company has included a full year of the investment in the Marengo I wind resource ("Marengo I") and the Goodnoe Hills wind resource ("Goodnoe Hills"). These resources were both found prudent by the Commission in the 2008 Rate Case, but were not included in the revenue requirement calculation at their full plant balance levels due to rate base averaging as filed in that proceeding.
- In connection with the inclusion of the new resources described above, the

Company has incurred additional depreciation and O&M expenses. Washington-allocated O&M expenses in this filing, excluding net power costs, are approximately $2.8 million higher than the 2008 Rate Case. Washington-allocated depreciation and amortization expenses are approximately $2.9 million higher than the 2008 Rate Case.

- Net power costs, as addressed in the direct testimony of Company witness Dr. Hui Shu, are projected to increase approximately $64 million on a west control area basis or approximately $10 million on a Washington-allocated basis as compared to the amounts included in the 2008 Rate Case.

Overview of the Test Period

Q. What is the test period of this filing?

A. The test period in this case is based on the historical twelve-month period ended June 30, 2008. Each of the revenue requirement components in the historical period was analyzed to determine if a restating or pro forma adjustment was warranted to reflect normal operating conditions. The historical information was also adjusted to include previous Commission-ordered adjustments. Several generation-related items were projected through the rate effective period, twelve-months ending December 2010. The adjustments that use pro forma data through the rate effective period were adjusted back to the test period using the production factor methodology.

Q. Please describe the process used to develop test period costs and revenues.

A. O&M expenses were developed using historical expense levels for the twelve-months ended June 30, 2008, normalized with restating and pro forma rate-making adjustments. Incremental O&M expenses related to new generation plant investments were included at pro forma levels for the rate effective period, twelve-months ending December 2010. These pro forma expenses were adjusted back to the historical test period using the production factor methodology.

Plant and associated accumulated deprecation balances were developed using historical AMA balances for the twelve-months ended June 30, 2008. These plant balances were normalized with restating and pro forma rate-making adjustments. Major generation-related capital additions and associated accumulated depreciation were included through the rate effective period, twelve-months ending December 2010 using AMA balances. These capital additions and associated accumulated depreciation and depreciation expense were adjusted to the historical test period using the production factor methodology.

Net power costs for the west control area were developed using the Generation and Regulation Initiatives Decision tools 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 rate effective period, twelve-months ending December 2010. The production factor 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 twelve-months ended June 2008. The loads used in the development of the revenues are consistent with the loads used in developing WCA allocation factors.

Revenue Requirement Calculation

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

A. Exhibit No.___(RBD-2) has been provided for convenience as a summary version of the Washington Results of Operations for the test period. This exhibit shows the Washington-allocated actual results as well as the impact of each major adjustment section discussed later in my testimony. The far right column of page 2 in this exhibit shows the Washington-allocated normalized results for the test period. This exhibit reflects a summary of the detailed calculations and supporting documents that are presented in Exhibit No.___(RBD-3).

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

A. Exhibit No.___(RBD-3), which was prepared under my direction, is the Company's Washington results of operations report ("Report"). The historical period for the Report is the twelve-months ended June 30, 2008. The Report provides totals for revenue, expenses, depreciation, net power costs, taxes, rate base and loads in the test period. The Report presents operating results for the period in terms of both return on rate base and ROE. Within the Report, net power costs are presented for the west control area and as allocated to the Company's Washington jurisdiction.

Q. Please describe how Exhibit No.___(RBD-3) is organized.

A. The Report is organized into sections marked with tabs as follows:

- Tab 1 Summary is the Washington-allocated results based on the WCA allocation methodology. Column (1) Unadjusted Results on Page 1.0 is the

Washington results of operations and shows the unadjusted Washington earnings of 0.93 percent ROE. Column (2) Normalizing Adjustments shows the impact of the Washington-allocated restating and pro forma adjustments included in the filing. Column (3) Total Normalized Results shows the Washington-allocated normalized results for the test period with an ROE of 4.5 percent. Column (4) Price Change reflects the necessary price increase of $38.5 million to raise the ROE from 4.5 percent to 11 percent in Washington. Column (5) Results with Price Change reflects the Washington normalized results with the $38.5 million price increase included.

Page 1.1 shows the restating and pro forma adjustments in separate columns. Column (5) of page 1.1 is identical to Column (3) on page 1.0. Pages 1.2 and 1.3 support the calculation of the requested price increase and provide further details on the development of the net-to-gross bump-up factor which incorporates income taxes, uncollectible expenses, Washington revenue tax, and the Commission regulatory fee. Page 1.4 summarizes 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 unadjusted costs, on a total company and Washington-allocated basis, for the twelve-months ended June 30, 2008, and fully normalized Washington-allocated results of operations for the test period by FERC account.

- Tabs 3 through 9 provide supporting documentation for the restating and pro forma adjustments required to reflect ongoing costs of the Company. Each of these sections begins with a numerical summary that identifies each adjustment made to the June 2008 actual results and the adjustment's impact on the case. 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, WCA allocation factor, dollar amount and a brief description of the adjustment. The specific adjustments included in each of these tab sections 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 historic rate base balances by month for the test period. These balances are shown by FERC account and WCA allocation factor.
- Tabs B1 through B20 contain the historical results for the twelve-month period ended June 30, 2008 and are organized by major FERC function.

Tab 3 – Revenue Adjustments

Q. Please describe the adjustments made to revenue in Tab 3.

A. **Temperature Normalization (page 3.1) –** This restating adjustment recalculates Washington's revenue based on temperature normalized historical loads assuming average temperature patterns. The temperature normalization procedure applied in this filing is described in detail in the direct testimony of Company witness Dr. Romita Biswas.

Revenue Normalization (page 3.2) – This restating adjustment normalizes base year revenue by removing items that should not be included to determine retail rates, such as rate schedule 191 (Systems Benefits Charge), and the Centralia Gain and Merger credit which have expired.

Effective Price Change (page 3.3) – This pro forma adjustment normalizes retail revenues for known and measurable changes that have occurred since the historical period. First, this adjustment adds approximately $18.2 million of revenues for the rate increase ordered in the 2008 Rate Case effective October 15, 2008. Second, this adjustment removes approximately $1.7 million of TransAlta mine revenues from the results of operations due to a retail service termination notice from the customer effective September 2009.

SO2 Emission Allowances (page 3.4) – Over the years, the Company's annual revenue from the sale of sulfur dioxide ("SO2") emission allowances has been uneven. This restating and pro forma adjustment removes the sales occurring in the historical period and includes amortization of sales over a fifteen-year period. This treatment was approved in Docket UE-940947. This adjustment also includes amortization of pro forma sales from July 2008 through June 2009. Washington's allocation of the revenues is determined by the allowances provided by the Jim Bridger Coal and Colstrip Coal Unit 4 generating resources.

Joint Use Revenue (page 3.5) – During calendar year 2007 several entries related to joint use revenue were booked to incorrect FERC accounts and/or locations. This restating adjustment corrects the accounting entries to reflect proper account assignment and allocation factors.

Wheeling Revenue (page 3.6) – During the historical period there were various wheeling revenue transactions that the Company does not expect to occur in the test period. The restating component of this adjustment removes the revenues associated with prior periods and contract terminations. The pro forma component of this adjustment includes pro forma wheeling revenue for the twelve-months ended June 30, 2009, including additional revenue for the Malin-Indian Springs contract.

Green Tag Revenue (page 3.7) – In order to help meet jurisdiction-specific renewable portfolio standards, a market for green tags or Renewable Energy Credits ("RECs") is developing where the tag or green traits of qualifying power production facilities can be detached and sold separately from the power itself. Generally, wind, solar, geothermal and some other resources qualify as renewable resources, although each state may have a different definition. The restating component of this adjustment removes actual green tag revenues booked during the historical period. The pro forma component of this adjustment adds the Washington-allocated pro forma green tag revenues for the rate effective period, twelve-months ending December 2010. The pro forma revenues are based on the renewable generation output as modeled by GRID in the pro forma net power cost study. These revenues are adjusted back to the test period through application of the production factor detailed in adjustment page 9.1. This adjustment is based on current Washington laws and rules related to the Renewable Portfolio Standard. If the law or rules are modified in such a manner that it would benefit Washington customers for the Company to bank the green tags, rather than sell them, the

Company's rebuttal case would be updated to reflect the change in policy.

Clark Storage Revenue (page 3.8) – The Clark Storage & Integration Agreement was terminated in December 2007. This restating adjustment removes the revenue credit from the results of operations to reflect a normalized level of ancillary service revenues.

Revenue Correcting Adjustment (page 3.9) – This restating adjustment corrects the allocation code assignment on several revenue transactions in unadjusted results of operations. When these revenues were originally booked in the Company's accounting system, improper tax jurisdiction codes were entered, resulting in an incorrect factor assignment. This adjustment is necessary to properly reflect these revenue entries in the Washington results of operations.

Rental Income Adjustment (page 3.10) – This restating adjustment corrects an allocation error for sub-lease rental income, which was incorrectly assigning these revenues on a situs basis. The rental income is now being allocated on the system overhead ("SO") factor. This adjustment also annualized the sublease rental income that occurred during the historical period for a contract beginning in December 2007.

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.

Wage & Employee Benefit Adjustment (page 4.2 and 4.3) – This restating and pro forma adjustment is used to compute labor-related costs for the test period. Labor-related costs are computed by adjusting salaries, incentives, benefits and costs associated with FAS 87 (pension), FAS 106 (post retirement benefits) and FAS 112 (post employment benefits) for changes expected beyond the actual costs experienced in the twelve-months ended June 30, 2008. Page 4.3.2 is a numerical summary starting with actual labor costs for the twelve-months ended June 2008 and summarizing the adjustments made to reflect the test period level of expense. This summary is followed by the detailed worksheets that describe the method of adjusting these costs components.

The first step is to restate labor expenses by annualizing salary increases that occurred during the historical base period. 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 is to apply pro forma wage increases expected to occur through June 2009 to the annualized June 2008 salaries. The Company used union contract agreements to escalate union labor group wages, while increases for non-union and exempt employees were based on actual merit increases. Payroll taxes were updated to capture the impact of the changes to employee salaries.

A pro forma adjustment was also made to incentive compensation, pension expenses, and other employee benefit costs expected to be incurred for the twelve-months ending June 2009. The Company utilizes an incentive compensation program as part of its philosophy of delivering market competitive pay structured in a manner that benefits customers with safe, adequate and reliable electric service at a reasonable cost.

Q. How does the Company's filing with the Commission in Docket UE-081997 affect the pension expenses included in the test period in this filing?

A. Pension expenses included in this filing were calculated using an average of pro forma expense levels for calendar years 2008 and 2009. The calendar year 2009 pro forma expense levels include preliminary data from the Company's actuary, Hewitt Associates, but do not include final adjustments. The Company's filing in Docket UE-081997 requests a ten-year amortization of a curtailment gain and measurement date change, discussed in detail in the direct testimony of Company witness Mr. Steven R. McDougal in that docket.

Q. Will the Company update this filing when an order is issued by the Commission in Docket UE-081997?

A. Yes. The Company will update this filing, either through the discovery process or in its rebuttal position, to implement any changes in pension expense levels for the test period resulting from a Commission order in that docket.

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

A. **MidAmerican Energy Holdings Company ("MEHC") Transition Savings (page 4.4) –** The Company eliminated many positions as a result of the MEHC transaction. These savings were made possible by the payment of change-in-control severance. This restating adjustment removes the severance expense from results because it is being amortized to expense in unadjusted results in accordance with Order 08, Docket UE-061546. This adjustment also reflects the savings of eliminating these positions by removing from the historical period amounts paid to these employees.

Irrigation Load Control Program (page 4.5) – Incentive payments made to Idaho customers participating in the irrigation load control program were system-allocated in unadjusted data. This restating adjustment corrects that allocation and assigns these costs directly to Idaho consistent with other demand side management ("DSM") programs.

Incremental Generation O&M (page 4.6) – This pro forma adjustment reflects pro forma O&M expenses for the rate effective period, calendar year 2010, for Marengo I, Goodnoe Hills, Marengo II, and the Chehalis Plant. These resources were placed into service in August 2007, May 2008, June 2008, and September 2008 respectively. These expenses have been adjusted by the production factor to align these expenses with other test period expenses. The production factor treatment is detailed on adjustment page 9.1.

Postage Expense (page 4.7) – This pro forma adjustment adds additional customer billing postage costs to reflect the U.S. Postal Service rate increase effective May 12, 2008.

Remove Non Recurring Entries (page 4.8) – Various accounting entries were made during 2007 that were non-recurring in nature or relate to prior periods. This restating adjustment removes these items reducing Washington-allocated operating expenses. Details on the specific items in the adjustment can be found on page 4.8.2.

Blue Sky (page 4.9) – This restating adjustment removes costs associated with the Blue Sky program that were initially included in regulated results. The Blue

Sky program is designed to encourage voluntary participation in the acquisition and development of renewable resources. To prevent non-participants from subsidizing the program this adjustment removes administrative and other expenses directly associated with the program.

Gas Swap (page 4.10) – During the twelve-months ended June 30, 2008 several natural gas swap entries were inadvertently booked to FERC account 557. Natural gas swaps are normally charged to FERC account 547.1 and are considered to be part of net power costs. Since FERC account 557 is not a part of net power costs in the Company's filing, this restating adjustment removes the amounts from unadjusted results to be consistent with net power cost treatment.

MEHC Affiliate Management Fee (page 4.11) – This restating adjustment complies with the MEHC acquisition commitment WA 4 which states:

> "MEHC and PacifiCorp will hold customers harmless for increases in costs retained by PacifiCorp that were previously assigned to affiliates relating to management fees…This commitment is offsetable to the extent PacifiCorp demonstrates to the Commission's satisfaction, in the context of a general rate case the following:
>
> i) Corporate allocations from MEHC to PacifiCorp included in PacifiCorp's rates are less than $7.3 million…"

(Order 07, Docket UE-051090). This adjustment limits the MEHC corporate charge to PacifiCorp to $7.3 million.

DSM Amortization Removal (page 4.12) – Washington allows for recovery of DSM expenses through the customer efficiency services rate adjustment (Schedule 191). This restating adjustment removes Washington DSM costs in order to prevent a double recovery through base rates and Schedule 191.

Administrative & General ("A&G") Cost Commitment (MEHC) (page 4.13) – Based on Order 07, Docket UE-051090, commitment WA 7, the Company must reduce its administrative and general expense below $228.8 million on a total company basis, adjusted for inflation. This restating adjustment demonstrates the A&G expense included the test period is below the required level.

Western Electric Coordinating Council ("WECC") Fees (page 4.14) – Since its formation, the WECC has been responsible for coordinating and promoting electric system reliability. Recently, WECC's role has significantly expanded into the compliance area. This pro forma adjustment includes the increase in mandated membership WECC fees over the twelve-months ended June 2008 levels.

Preliminary Coal Plant Expense (page 4.15) – The Company was planning to build three coal units, Bridger unit 5, Hunter unit 4, and IPP unit 3. These projects were abandoned by the Company and the related expenses were written off to FERC account 557. This restating adjustment removes these write-offs and the associated O&M expenses from regulatory results of operations.

Compliance Department (page 4.16) – As of June 18, 2007, the electric utility industry has been operating under mandatory, enforceable reliability standards. Utilities and other bulk power industry participants that violate any of the standards will face enforcement actions including increased compliance monitoring and testing requirements and/or possible monetary sanctions of up to $1 million per day. In order to comply with these enhanced reliability standards, the Company requires the addition of thirteen full-time employees as well as increased program and information technology costs. This pro forma adjustment adds to results of operations the increase in O&M expenses for these employees and technology costs.

Q. Did the Company make an adjustment for changes in workforce levels?

A. The wage and employee benefit adjustment (pages 4.2 and 4.3) assumes a constant level of workforce. However, other adjustments account for minor changes in workforce levels such as: 1) the labor savings from the reduction in the number of employees due to the MEHC transaction was reflected in the MEHC Transition Savings adjustment page 4.4, and 2) the additional costs from the increase in compliance staffing as stated in the Compliance Department adjustment page 4.16.

Tab 5 – Net Power Cost Adjustments

Q. Please describe the adjustments included in Tab 5.

A. **Net Power Costs (page 5.1) –** The net power cost adjustment normalizes 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 on a west control area basis. Three separate net power cost studies, modeled by GRID, have been included in this filing. The results of each study are summarized on page 5.1.1 of the Report. The first study simulates actual net power costs for the west control area for the twelve-month period ended June 2008. The second study reflects normalized net power costs over the same historical period. The third is a pro forma study of projected net power costs for the rate effective period, twelve-months ending December 2010. The pro forma power costs are adjusted back to the historical period using the production factor and included in the results of operations. Adjustment page 9.1 shows the production factor treatment of these pro forma expenses. Please refer to the direct testimony of Dr. Shu for more information on the calculation 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 twenty-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 account 456, other electric revenue, for the twelve-month period ending June, 30 2009.

Removal of Colstrip Unit No. 3 (page 5.3) – As directed by the Commission in Cause U-83-57, this restating adjustment removes the costs and balances of the Colstrip Unit No. 3 resource from the results of operations.

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 latest depreciation study approved in Docket UE-071795, an additional $19.4 million is required for the decommissioning of various hydro facilities. This adjustment has both restating and pro forma components. The restating component of this adjustment annualizes the depreciation expense to reflect a full year of expense in the test period. The pro forma aspect adjusts the rate base balances through June 30, 2009.

New Depreciation Rates (page 6.2) – This restating adjustment normalizes July to December 2007 depreciation expense to reflect the impact of the new depreciation rates which were effective January 1, 2008 as ordered in Docket UE-071795.

Tab 7 – Tax Adjustments

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 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 adds to expense the difference between actual accrued property tax expense for the twelve-months ended June 30, 2008 and the average pro forma property tax expense for calendar years 2008 and 2009. In Confidential Exhibit No.___(RBD-4C) the Company has provided a comprehensive description of the Company's property tax estimation procedures used in the development of test period property taxes included in this filing.

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. Under the calculation required by Internal Revenue Service Code Sec. 45(b)(2), the most current renewable electricity production credit is 2.1 cents per kilowatt hour of the electricity produced from renewable energy. This pro forma adjustment reflects this credit based on the qualifying production as modeled in GRID for the pro forma net power cost study. These credits have been adjusted back to the test period using the production factor as outlined on adjustment page 9.1.

Q. Are the renewable energy tax credits refundable when the Company has a net tax operating loss?

A. No. The renewable energy tax credits are not refundable when the Company has a net operating loss, but must be carried back one year and carried forward 20 years and utilized against the Company's net tax liability in each of those years respectively.

Q. How would renewable energy tax credits be accounted for in a general rate case in the event the Company was not able to utilize the production tax credits in the year generated or in the carry back year?

A. With respect to revenue requirement, the renewable energy tax credits would be treated as a deferred tax benefit and included as a reduction to revenue requirement. An associated deferred tax asset would be included in rate base.

Q. How have the renewable energy tax credits been treated in the current general rate case?

A. The renewable energy tax credits have been included as a current tax benefit reducing current income taxes with no corresponding rate base impacts due to the fact that the renewable energy tax credits have the ability to be utilized either in the current tax year or in the carry back tax year of the general rate case.

Q. Please continue with your description of the tax adjustments in Tab 7.

A. **Malin Line Amortization (page 7.4) –** In 1981, the Company built a transmission line called Malin-Midpoint and placed it into service. The Company was eligible for investment tax credits and accelerated tax depreciation. The Company entered into a Safe Harbor Lease transaction to transfer these tax benefits to an unrelated third party. As ordered in Docket UE-050684, the Company has treated this transaction as a sale of part of the benefits associated with the property and is amortizing the cash receipts over the life of the assets. The gain will be amortized over 30 years (composite book life of the plant) with a rate base deduction for the unamortized balance. In 1988, the substation was sold to Amoco and therefore the only amortization remaining is on the transmission line which is reflected in this restating adjustment.

Flow-Through Deferred Tax Balances and Expenses (pages 7.5 and 7.6) – Page 7.5 reflects the removal of the June 2008 AMA balances for all non-property related deferred taxes. The associated deferred tax expenses are removed in adjustment 7.6. These restating adjustments flow through to income the current tax impacts on these items. Line item detail has been provided as backup in the Report.

Power Tax Update Adjustment (page 7.7) – This restating adjustment updates the allocation method related to property-related items in the historical period. Due to Washington's use of the WCA allocation methodology, the Company's deferred tax system needed to be rerun for tax years 2007 and 2008 under this methodology. The resulting changes are reflected in this adjustment.

Non-Recurring/Separate Tariff Adjustment (page 7.8) – This restating adjustment removes non-recurring or separately recovered book/tax differences from the schedule M's in order to properly report current tax expense. Line item detail has been provided as backup on page 7.8.1 of the Report.

Low Income Tax Credit (page 7.9) – This pro forma adjustment reflects the known and measurable change to the Public Utility Tax Credit for Low Income Home Energy Assistance Program ("LIHEAP") for the 2009 authorized credit amount, per a July 24, 2008 letter from the Washington Department of Revenue.

Public Utility Tax Adjustment (page 7.10) – This pro forma adjustment recalculates the Washington Public Utility Tax expense based on the normalized revenues included in this filing, as discussed in adjustments 3.1, 3.2, and 3.3

above.

Investment Tax Credit Balance (page 7.11) – This pro forma adjustment reflects the change in unamortized investment tax credit ("ITC") balance for the period ending June 2009, based on the known and measurable amortization of this account plus the correction for the level of amortization incorrectly stated in the historical period.

Production Activity Deduction (page 7.12) – This restating adjustment removes the production activity deduction (schedule M deduction) from the historical period since the regulatory taxable income allocated to production is negative due in large part to the bonus depreciation, the majority of which is allocated to the production function.

Deferred Tax Balance Amortization Adjustment (page 7.13) – Until Docket UE-032065, the Company was recording full normalization of non-property-related book/tax differences. In discussions with Staff during that proceeding it was determined that all non-property-related book/tax differences should use flow-through tax treatment. The Company has used flow-through treatment on all non-property-related book/tax differences in all Washington rate case filings since that time. As a result of this change in methodology, the deferred tax liability that was created due to past normalization treatment is no longer being amortized to expense. This restating adjustment returns the entire benefit to customers in this rate case by amortizing the entire balance to deferred tax expense in FERC account 41110. Page 7.13.1 of the Report shows the line item details for the existing deferred tax liability balance.

Q. How are state income taxes treated in this filing?

A. No state income taxes are included in the calculation of Washington's revenue requirement. Under the WCA allocation methodology, 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 have federal income tax expenses 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.

Tab 8 – Rate Base Adjustments

Q. Please describe the adjustments included in Tab 8.

A. **Cash Working Capital (page 8.1) –** In Docket UE-061546, the Company proposed inclusion of cash working capital based on a Lead-Lag study methodology. Commission Staff proposed the calculation of cash working capital based on the investor supplied working capital formula ("ISWC"). Both proposals were rejected by the Commission in Order 08, Docket UE-061546, which states:

> The problem here is that neither the Company nor Staff calculated working capital in a manner consistent with the WCA allocation methodology. Mr. Schooley, for Staff, testified that he performed his ISWC analysis on a total company basis, not a WCA basis, and then applied an allocation factor based on Washington plant relative to total system plant. This, he believes, "captures it to a certain degree."
>
> Mr. Wrigley, for PacifiCorp, testified that the Company relied on the same 2003 lead lag study putatively relied on in the 2005 rate proceeding. That study looked at PacifiCorp on a total Company basis and then performed an allocation based on either the revised protocol or modified accord allocation methodology. We expressly rejected the

> revised protocol in the 2005 Rate Case Order and the modified accord allocation methodology is obsolete.
>
> Due to the basic flaws in both parties' working capital analyses and assumptions, as in the prior case, we are unable to resolve the working capital issue here.

(Paragraphs 162-164).

As a result of the Commission's decision, the Company has calculated cash working capital in this proceeding and in the 2008 Rate Case on the basis of the "1/8 of O&M" formula. This methodology divides total Washington-allocated normalized O&M expenses (less fuel and purchased power expenses) by eight, the approximate number of 45 day periods within a year. The Company believes that this methodology, applied in this proceeding, is an acceptable alternative to the calculations previously rejected by the Commission. The Bonneville Power Administration ("BPA") also uses this formula in the calculation of average system costs for investor owned utilities. This adjustment is calculated separately for the restating and pro forma adjustments included in this filing.

Jim Bridger Mine (page 8.2) – 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. ("PMI"), a wholly-owned subsidiary. Because of this ownership arrangement, the coal mine investment is not included in Account 101 -Electric Plant in Service. This adjustment is necessary to properly reflect the BCC plant investment in the test period. The restating aspect of this adjustment adds the June 2008 AMA balance of the Bridger Mine to rate base, while the pro forma aspect of this adjustment reflects the pro forma June 2009 AMA balance of the mine. The Bridger Mine adjustment was stipulated to and approved in Docket UE-032065, and has been included in all rate case filings since.

Environmental Settlement Adjustment (page 8.3) – On April 27, 2005 the Commission granted a request by the Company for an accounting order relating to the Company's treatment of environmental remediation costs in Docket UE-031658. The Commission authorized the Company to record and defer costs prudently incurred in connection with its environmental remediation program. Additional costs of existing projects expected to exceed $3 million system-wide and incurred from October 13, 2003, the date the petition was submitted, through Fiscal Year 2005 are to be deferred and amortized over a ten-year period. These costs, subject to deferral, will only include those amounts paid to outside vendors or contractors and will not include internal employee or legal costs. Currently, only one project, the Third West Substation Cleanup, can be deferred. This restating adjustment removes the balance and amortization from FERC accounts 182.391 and 925, except for the Third West Substation Cleanup.

Customer Advances for Construction (page 8.4) – Customer advances were recorded in the historical period using a corporate cost center location rather than state-specific locations. This restating adjustment corrects the allocation of customer advances.

Pro forma Major Plant Additions (page 8.5) – This pro forma adjustment places into rate base the major plant additions for the period July 2008 to December 2010. These additions are included in rate base using the AMA methodology. Each of the plant additions included in this filing is itemized and explained in detail on pages 8.5.1 through 8.5.3 of the Report. Detailed backup and work papers included in the Company's filing show how the monthly balances and expenses have been calculated.

The most significant plant additions included in this adjustment are the new generating resources described earlier in my testimony. This adjustment also adds into the test period results the associated depreciation expense, accumulated depreciation, and deferred tax impacts for these capital additions.

Since these additions are reflected at AMA balance levels for the rate effective period, December 2010, they have been adjusted back to the historical period by applying the production factor as shown on adjustment page 9.1.

Miscellaneous Rate Base Adjustment (page 8.6) – This restating adjustment removes cash, prepayments, and other miscellaneous rate base balances from the test period.

Powerdale Hydro Removal (page 8.7) – Powerdale is a hydroelectric generating facility located on the Hood River in Oregon. This facility was scheduled to be decommissioned in 2010; however, in 2006 a flash flood washed out a major section of the flow line. The Company determined that the cost to repair this facility was not economical and determined it was in the customers' best interest to cease operation of the facility.

This restating and pro forma adjustment reflects the treatment approved by the Commission in Docket UE-070624. During 2007, the net book value (including an offset for insurance proceeds) of the assets to be retired was transferred to the unrecovered plant regulatory asset. In addition, future decommissioning costs are deferred in a regulatory asset, offset by a credit reflecting the pro forma amounts not yet incurred through June 2009. The Company proposes to begin amortizing the decommissioning costs once they are included in rates.

Removal of Colstrip Unit 4 AFUDC (page 8.8) – This restating adjustment removes AFUDC from electric plant in service for the period that Colstrip construction work in progress ("CWIP") was allowed in rate base. This treatment was authorized in Cause U-81-17 and has been included in all the Company's rate case filings since then.

Trojan Removal Adjustment (page 8.9) – This restating adjustment removes the Trojan amortization expense, balances, and tax impacts from the test period as ordered by the Commission in the Third Supplemental Order, Docket UE-991832.

Customer Service Deposits (page 8.10) – This restating adjustment includes customer service deposits as a rate base deduction and also includes the interest paid on these deposits. This treatment was accepted by the Commission in Order 08 in Docket UE-061546.

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 components of the revenue requirement to test year 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 rate effective period. This calculation is detailed on page 9.1.3 of the Report. This factor is then applied to all of the generation-related components of the revenue requirement that rely on pro forma data for the rate effective period, calendar year 2010. These adjustments include Green Tag Revenues (page 3.7), Incremental Generation O&M Expenses (page 4.6), Net Power Costs (page 5.1), Federal Renewable Energy Tax Credits (page 7.3), and Pro Forma Major Plant Additions (page 8.5).

Q. Please describe the rest of Exhibit No.___(RBD-3).

A. **Tab 10, Allocation Factors**- summarizes the derivation of the jurisdictional allocation factors using the WCA allocation methodology. These factors are based on the normalized historical loads and the plant balances for the twelve-months ended June 30, 2008. 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 Tab 10 that shows the calculation of that factor.

Q. From your analysis what do you conclude about the overall reasonableness of the Company's results included in this proceeding?

A. Based on Exhibit No.___(RBD-3), the Company will need the requested rate increase to recover its cost of serving Washington customers and provide a fair and equitable return for shareholders.

Chehalis Plant Revenue Requirement Deferral Filed in Docket UE-082252

Q. Please describe the costs the Company is currently deferring as filed with the Commission in Docket UE-082252.

A. On December 18, 2008 the Company filed a notice with the Commission to begin deferring costs related to the recently acquired Chehalis Plant. WAC 480-100-435(1) allows the Company to "account for and defer for later consideration by the [C]ommission costs incurred in connection with the long-term financial commitment, including operating and maintenance costs, depreciation, taxes, and cost of invested capital" for power plants intended to comply with the emissions performance standards ("EPS"). The Company is deferring these prudently incurred costs from the acquisition date of the resource, September 15, 2008, until the plant is included in base rates.

Q. Has the Company included costs and balances related to the Chehalis Plant as part of the revenue requirement calculation in this rate case filing?

A. Yes. As explained above, the costs and balances for the Chehalis Plant are one of the significant investments the Company has made since the 2008 Rate Case. Pending a prudence decision by the Commission in this proceeding, costs and balances associated with this resource will be included in base rates no later than January 2010. As such, the Company anticipates deferring the costs related to the Chehalis Plant for approximately fifteen and a half months (September 15, 2008 to January 2010).

Q. What is the expense deferral amount projected to be over that period?

A. As filed in Docket UE-082252, the Company anticipates deferring approximately $1 million per month or approximately $15.5 million for the fifteen and half month deferral period. These estimates will be replaced with actual costs as WAC 480-100-435(2)(b) requires utilities deferring costs under this statute to file quarterly reports documenting actual balances of costs deferred. The Company is currently in the process of finalizing the actual costs and balances for the quarter ending December 31, 2008, and will file this update with the Commission upon completion.

Q. How does the Company propose recovering these deferred costs?

A. The Company proposes to recover the deferred costs for the Chehalis Plant through the existing rate Schedule 96, Hydro Deferral Surcharge, which was ordered in the last general rate case for recovery of deferred hydro costs. By including the deferred costs related to the Chehalis Plant in this schedule the Company proposes to change the name of Schedule 96 to Deferral Amortization Surcharge.

Q. Does the Company propose modifying present Schedule 96 rates to expedite the recovery period of the Chehalis Plant deferred costs?

A. No. To minimize the impact to customers, the Company proposes no change to present Schedule 96 rates. Schedule 96 was created in the 2008 Rate Case to recover approximately $2 million per year over an approximate three-year period. The amortization of deferred costs would continue at current rates until the remaining Hydro Deferral and Chehalis Plant deferred balances are completely amortized.

Q. Does this conclude your direct testimony?

A. Yes.