Exhibit No.___(RBD-1T)
Docket No. UE-10___
Witness: R. Bryce Dalley

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
Complainant,	)	Docket No. UE-10______
vs.	)	
PACIFICORP dba Pacific Power	)	
Respondent.	)	

PACIFICORP

DIRECT TESTIMONY OF R. BRYCE DALLEY

May 2010

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. My present position is 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, the 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 previously filed testimony on behalf of the Company in the states of California, Oregon, and Washington.

Purpose of Testimony

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

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

- The calculation of the $56.7 million revenue increase requested in this general rate case representing the increase over current rates required for the Company to recover its Washington-allocated revenue requirement.
- A description of the West Control Area (WCA) allocation methodology applied in this proceeding in determining the Washington-allocated revenue requirement.
- A description of the test period used in this case, which is the historic twelve-months ended December 31, 2009 (Test Period) with limited restating and pro forma adjustments.
- The presentation of the adjusted 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 1.9 percent, which is far below the return on equity requested in this case and the current authorized return.
- A description of the revenue requirement workpapers provided with the filing.

Allocation Methodology

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

A. The Company used the WCA allocation methodology, as approved by the

Washington Utilities and Transportation Commission (Commission) in Order 08, Docket UE-061546 to calculate Washington's Results of Operations and the associated ROE.

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

A. The allocation factors in this case are based on historic normalized west control area loads and plant balances for the twelve-months ended December 31, 2009, the historic Test Period.

Revenue Requirement

Q. What is the revenue requirement to achieve the requested ROE in this case?

A. At current rate levels, the Company will earn an overall ROE in Washington of 1.9 percent during the Test Period. This return is considerably less than the 10.6 percent ROE the Company is requesting in this proceeding. The total requested Washington revenue requirement is $328.5 million based on the WCA allocation methodology.

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 historic twelve-month period ended December 31, 2009. Each of the revenue requirement components in the historic period was analyzed to determine if a restating or pro forma adjustment was warranted to reflect normal operating conditions. The Company made very limited pro forma rate-making adjustments in this case in an effort to mitigate the proposed rate increase. In addition, the Company's Test Period reflects the

Company's general understanding of the principles articulated by the Commission in its recent orders in the Puget Sound Energy and Avista rate cases and is thus designed to minimize controversy associated with the filing.

The Company's net power costs are based on forecasted net power costs for the twelve-months ending March 31, 2012, which is tied to the rate effective period. This approach to calculating net power costs is also consistent with prior rate cases and recent Commission orders.

The historic information was also adjusted to include previous Commission-ordered adjustments. Several generation-related items were projected through the rate effective period, the twelve-months ending March 31, 2012, for consistency with the net power cost study used in this case. The generation-related components of revenue requirement were then adjusted using the production factor methodology discussed later in my testimony.

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

A. O&M expenses were developed using historic expense levels for the twelve-months ended December 31, 2009, normalized with restating and pro forma rate-making adjustments.

Plant and associated accumulated depreciation balances were developed using historic average of monthly average (AMA) balances for the twelve-months ended December 31, 2009. To mitigate rate impacts and minimize controversy, the Company has not included any pro forma capital additions in this filing. The Company's decision to forego pro forma adjustments for projected capital addition costs is case-specific, however, and the Company reserves the right to include such adjustments in future filings.

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 historic information, and pro forma retail load and market prices for the rate effective period, twelve-months ending March 31, 2012. The production factor was applied to the pro forma level of net power costs to adjust the cost levels to the historic Test Period.

Retail revenues were developed by applying the current Commission-approved tariff rates to the Washington historic normalized loads for the twelve-months ended December 31, 2009. 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 historic period for the Report is the twelve-months ended December 31, 2009. 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 6.2 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 1.9 percent. Column (4) Price Change reflects the necessary price increase of $56.7 million to raise the ROE from 1.9 percent to 10.6 percent in Washington. Column (5) Results with Price Change reflects the Washington normalized results with the $56.7 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. Pages 1.4 through 1.6 summarize the impact of each of the adjustment sections which follow in tabs 3 through 9.

- Tab 2 Results of Operations details the Company's overall revenue requirement, showing unadjusted costs, on a total company and Washington-allocated basis, for the twelve-months ended December 31, 2009, and fully normalized Washington-allocated results of operations for the Test Period by Federal Energy Regulatory Commission (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 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 - either restating or pro forma, the FERC account, the 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 twelve-months ended December 31, 2009. These balances are shown by FERC account and WCA allocation factor.
- Tabs B1 through B20 contain the historic results for the twelve-month period ended December 31, 2009 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 normalizes revenues in the Test Period by comparing actual sales to temperature normalized sales. Weather normalization reflects weather or temperature patterns which can be measurably different than normal, defined as the average weather over a 20-year rolling time period (currently 1990 through 2009). The time period was updated in early 2010, dropping off 1989 and adding 2009.

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), Bonneville Power Administration (BPA) residential exchange credits, and out of period items. The associated tax impacts related to these items are also removed from the Test Period in this adjustment.

Effective Price Change (page 3.3) – This pro forma adjustment normalizes retail revenues for known and measurable changes that have occurred since the historic period. First, this adjustment adds approximately $13.5 million of revenues for the rate increase ordered in the Company's last rate case, Docket UE-090205 (2009 Rate Case) effective January 1, 2010. Second, this adjustment removes approximately $1.2 million of TransAlta mine revenues from the results of operations due to a retail service termination notice effective September 12, 2009. The load associated with the TransAlta mine has also been removed from the calculation of allocation factors in this case.

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 adjustment removes the sales occurring in the historic period and includes amortization of sales over a fifteen-year period. This treatment was approved by the Commission in Docket UE-940947. Washington's allocation of revenues is determined by allowances provided by the Jim Bridger Coal and Colstrip Coal Unit 4 generating resources. These revenues have been adjusted back to the Test Period using the production factor as outlined on adjustment page 9.1, discussed later in my testimony.

Green Tag Revenue (page 3.5) – 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 attributes 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. This restating adjustment removes actual green tag revenues booked during the historic period. Pursuant to the Washington Administrative Code 480-109-020, the

Company is banking all eligible RECs generated during the twelve-months ending March 31, 2012, the same period used in determining pro forma net power costs in this filing.

Wheeling Revenue (page 3.6) – This restating adjustment reflects known and measurable changes to actual wheeling revenue for the Test Period. Imbalance penalty revenue and expense is removed to avoid any impact on regulated results.

Tab 4 – O&M Adjustments

Q. Please describe the adjustments included in Tab 4.

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

General Wage Increase Adjustment (pages 4.2 and 4.3) – This restating and pro forma adjustment is used to compute general wage-related costs for the Test Period. The Company has several labor groups, each with different effective contract renewal dates. The first step in this adjustment is to restate labor expenses by annualizing salary increases that occurred during the historic 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 was to apply known and measurable pro forma wage increases that have occurred, or will occur through December 2010, to the annualized December 2009 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 increases effective in January 2009 and January 2010. Payroll taxes were updated to capture the impact of the changes to employee salaries. Refer to page 4.3.1 for more information on how this adjustment was calculated.

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

A. No. The Company's filing assumes a constant level of workforce based on the historic base period.

Q. Has the Company included any pro forma adjustments to employee benefits, incentives, or pensions?

A. No. For purposes of this filing, the Company has not included any pro forma adjustments to employee benefits, incentives, or pensions from the amounts reflected in the historic base period. This has been done to minimize controversy in this case and the rate impact to customers. The Company, however reserves the right to include such adjustments in future filings.

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

A. **Pension Curtailment (page 4.4) –** Order No. 09 of the 2009 Rate Case permits deferral and amortization of the Pension Curtailment Gain resulting from employee participation in the 401(k) retirement plan option. Amortization began on the Company's books effective January 1, 2009, but the Commission order calls for the amortization to begin on January 1, 2010. This pro forma adjustment removes the actual amortization in the base period and replaces it with the amortization for the twelve-months ending December 31, 2010.

MEHC Affiliate Management Fee (page 4.5) – This restating adjustment complies with the MidAmerican Energy Holdings Company (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. This commitment expires December 31, 2010.

DSM Removal Adjustment (Page 4.6) – This restating adjustment removes Demand Side Management (DSM) expenses from regulated results since they are recovered through a separate tariff rider (Schedule 191). Actual DSM revenues for Washington are included in retail revenues and are removed from the results in the Revenue Normalization adjustment, page 3.2.

Remove Non Recurring Entries (page 4.7) – A variety of accounting entries were made during the twelve-months ended December 31, 2009 that are non-recurring in nature or relate to prior periods. This restating adjustment removes these items from the Test Period to reflect normalized results. Details on the specific items in the adjustment can be found on page 4.7.1.

Remove MEHC Severance (page 4.8) – MEHC severance cost is being amortized to expense in unadjusted results in accordance with Docket UE-060546. This amortization expires June 30, 2010. This pro forma adjustment removes the base period amortization expense and associated rate base balance.

Tab 5 – Net Power Cost Adjustments

Q. Please describe the adjustments included in Tab 5.

A. **Net Power Costs (pages 5.1 and 5.2) –** 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 5.2.1 of the Report. The first study simulates actual net power costs for the west control area for the twelve-month period ended December 31, 2009. The second study reflects normalized net power costs for the same historic period. The third is a pro forma study of projected net power costs for the rate effective period, twelve-months ending March 31, 2012. The pro forma power costs are adjusted back to the historic 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 Company witness Gregory N. Duvall for more information on the calculation of net power costs included in this filing.

Electric Lake Settlement (page 5.3) – The entries associated with this settlement relate to east side resources and are not included in the west control area. As a result, this restating adjustment removes these entries from the Test Period.

BPA Residential Exchange (page 5.4) – The Company receives a monthly purchase power credit from BPA. This credit is treated as a 100 percent pass-through to eligible customers. Both a revenue credit and a purchase power expense credit are posted to unadjusted results. This restating adjustment reverses the BPA purchase power expense credit recorded in unadjusted results. The revenue credit is removed from Test Period results in the Revenue Normalization adjustment, page 3.2.

James River Royalty Offset (page 5.5) – 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 FERC account 456, other electric revenue, for the twelve-month period ending March 31, 2012, the same period used in determining pro forma net power costs in this filing.

Removal of Colstrip Unit No. 3 (page 5.6) – 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 makes a small correction to the booked accumulated reserve so that the proper balances are reflected for the east and west control areas. The pro forma aspect of the adjustment walks forward the depreciation accrual and decommissioning expenditures through December 31, 2010.

Tab 7 – Tax Adjustments

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

A. No state income tax expense is included in the calculation of Washington's revenue requirement. Under the WCA 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 has federal income tax expense been calculated?

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

Q. How has the Company treated temporary book-tax differences in the revenue requirement calculation in this filing?

A. As explained in detail in the direct testimony and exhibits of Company witness Ryan Fuller, the Company has reflected all temporary book-tax differences on a normalized basis as part of the revenue requirement in this case, with the exception of the temporary book-tax difference associated with the equity allowance for funds used during construction (AFUDC).

Q. Please describe the adjustments included in Tab 7.

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

Accumulated Deferred Income Tax Factor Correction (page 7.2) – This restating adjustment corrects allocation factors on certain accumulated deferred tax balances in the historic period so that deferred tax balances are reflected appropriately in the Test Period. Page 7.2.1 contains additional details for each of these correcting adjustments.

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

Malin Line Amortization (page 7.4) – In 1981, the Company built and placed in service the Malin-Midpoint transmission line. The Company was eligible for investment tax credits and accelerated tax depreciation associated with this investment. 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 is being 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.

Washington – Financial Accounting Standard (FAS) 109 Flow-Through (page 7.5) – As discussed by Mr. Fuller, the income taxes in this case have been presented on a fully normalized basis. Accordingly, this restating adjustment removes base period Washington-allocated income tax flow-through associated with non-property related book-tax differences from the base period.

Equity AFUDC (page 7.6) – This adjustment reflects the appropriate level of equity AFUDC into regulated results to align the tax Schedule M with regulatory income.

Public Utility Tax Adjustment (page 7.7) – 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.

Remove Deferred State Tax Expense (page 7.8) – The Company's base period accumulated deferred income taxes and deferred income tax expense are computed using the Company's federal and state blended statutory income tax rate of 37.951%. Since state income taxes are not included for Washington under the WCA allocation methodology, this restating adjustment removes state deferred income tax expense from the Washington-allocated deferred income tax expense and a corresponding amount from the accumulated deferred income tax balances.

Current Year Deferred Income Tax Normalization (page 7.9) – As explained by Mr. Fuller, the income taxes in this case have been presented on a fully normalized basis. As a result, this restating adjustment removes base period Washington-allocated income tax flow-through associated with property related book-tax differences from the historic results.

Medicare Deferred Tax Expense (page 7.10) – On March 23, 2010, the Patient Protection and Affordable Care Act was signed into law. The Act, including a subsequent amendment to the Act (the amendment is known as the Health Care and Education Reconciliation Act signed into law March 30, 2010), changes the deductibility of certain costs incurred for post-retirement prescription drug coverage.

Designed to encourage employers to continue providing high quality prescription drug coverage, the Medicare Prescription Drug, Improvement, and

Modernization Act of 2003 contains provisions for a federal subsidy for employers offering post-retirement prescription drug coverage to its retirees that is at least as valuable as the Medicare Part D standard drug benefit. Under the current rules, employers are permitted to deduct the entire cost of providing the coverage, even though a portion is offset by the subsidy. For taxable years beginning after December 31, 2012, the Act repeals the current rule permitting deduction of the portion of the expense that is offset by the subsidy.

The employer's promise to provide post-retirement prescription drug coverage is recorded as a component of the other post-employment benefit (OPEB) obligation reflecting this future liability. On a gross basis, the OPEB obligation includes a pre-subsidy liability for the future benefits to retirees, which is offset by a subsidy receivable from the federal government to arrive at the net OPEB obligations. The net amount is actuarially determined.

For ratemaking purposes, the Company does not include the OPEB obligation (liability) in rate base. However, the actuarially determined level of OPEB expense is included in the Company’s annual expenses in the results of operations, and the Company has treated the OPEB expense as deductible for income tax purposes, including the portion that is offset by the federal subsidy. With the change in law, the subsidy receivable will remain not taxable, but a corresponding amount of OPEB related costs will become non-deductible for income tax purposes. This restating adjustment increases deferred income tax expense associated with this change in law.

Average Balance for Accumulated Deferred Income Tax - Property (page 7.11) – This restating adjustment allocates on a jurisdictional basis the base period property-related accumulated deferred income tax (ADIT) liability. The net increase to the accumulated deferred income tax liability is primarily attributable to the use of a beginning-ending average as opposed to the AMA methodology used in reporting the historic data for deferred tax balances.

Washington Low Income Tax Credit (page 7.12) – 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 23, 2009 letter from the Washington Department of Revenue.

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 prior two general rate cases 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. This formula is also used by the BPA 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., a wholly-owned subsidiary. Because of this ownership arrangement, the coal mine investment is not included in Account 101 - Electric Plant in Service. This restating adjustment is necessary to properly reflect the 2009 AMA balance associated with the BCC plant investment in the Test Period. The Bridger Mine adjustment was stipulated to and approved in Docket UE-

032065, and has been included in all rate case filings since. The Bridger Mine balance has been adjusted by the production factor as outlined on adjustment page 9.1.

Environmental Remediation (page 8.3) – On April 27, 2005, the Commission granted a request by the Company for an accounting order relating to the 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. Costs of projects in excess of $3 million system-wide, incurred from October 2003 through March 2005, are to be deferred and amortized over a ten-year period. Only one project, the Third West Substation Cleanup, qualifies for this treatment. This restating adjustment removes the balance and amortization from FERC accounts 182.391 and 925, except for the Third West Substation Cleanup, and adds the cost for small remediation projects that cannot be deferred, per the Commission's 2005 order.

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

Miscellaneous Rate Base Adjustment (page 8.5) – This restating adjustment removes prepayments and other miscellaneous rate base balances from the Test Period. The associated tax impacts related to these balances are also removed in this adjustment.

Removal of Colstrip Unit 4 AFUDC (page 8.6) – 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 its inception in July 1984.

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 December 2010. The Company proposes to begin amortizing the decommissioning costs once they are included in rates.

Trojan Removal Adjustment (page 8.8) – This restating adjustment removes the Trojan amortization expense, balances, and tax impacts from the Test Period as ordered by the Commission in the Third Supplemental Order, Docket UE-991832.

Customer Service Deposits (page 8.9) – This restating adjustment includes customer service deposits as a reduction to rate base. It also reflects the interest paid on the customer service deposits. This adjustment was included in the Company's rebuttal case and accepted by the Commission in its final order in Docket UE-061546 and also is consistent with the Company's last two cases, Dockets UE-080220 and UE-090205.

Chehalis Regulatory Asset (page 8.10) – The Chehalis regulatory asset was created on the Company's books in December 2009 in accordance with the Commission's final order in the 2009 Rate Case. This pro forma adjustment replaces the regulatory asset amount in unadjusted results with the calendar year 2010 AMA balance and amortization.

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 generation-related components of the revenue requirement to Test Period expense and balance levels. The production factor has been calculated by dividing Washington's normalized historic 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.

Q. Does the Company agree that all generation related revenue requirement items should be adjusted by the production factor, including costs and balances already reflected at their historic Test Period levels?

A. No. The Company does not agree that it is appropriate to apply the production factor to items included in the Test Period already reflected at historic Test Period levels. Instead, the Company believes the appropriate treatment of the production factor should be to only adjust components of the Test Period that reflect costs anticipated in the rate effective period, such as net power costs. The Company used this approach for application of the production factor in the 2009 Rate Case. However, in an effort to mitigate rate impacts and minimize controversy in this case, the Company has applied the production factor to all generation-related revenue requirement components as explained in the preceding question. The Company reserves the right to propose a different application of the production factor in future rate case filings.

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

A. **Tab 10, Allocation Factors –** This section summarizes the derivation of the jurisdictional allocation factors using the WCA allocation methodology. These factors are based on the normalized historic loads and the plant balances for the twelve-months ended December 31, 2009. 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.

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

Tabs B1 through B20 – These tabs contain extracts of the historic results from the Company's accounting system for the Test Period and are organized by major

FERC function. The data contained in this section of the exhibit match the unadjusted data found under Tab 2 – Results of Operations.

Revenue Requirement Workpapers

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

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

Q. Does this conclude your direct testimony?

A. Yes.