Exhibit No.___(RBD-1T)
Docket UE-11___
Witness: R. Bryce Dalley

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PACIFICORP dba Pacific Power & Light Company Respondent.	)))))))))))	Docket UE-11______

PACIFICORP

DIRECT TESTIMONY OF R. BRYCE DALLEY

July 2011

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.

Q. Briefly describe your education 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. I completed the Utility Management Certificate Program at Willamette University and 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, my testimony provides the following:

- A description of the West Control Area (WCA) allocation methodology applied in this proceeding to determine the Washington-allocated revenue requirement.
- A description of the test period used in this case, which is the historic 12-months ended December 31, 2010 (Test Period) with limited restating and pro forma adjustments.
- The calculation of the $12.9 million revenue increase requested in this general rate case representing the increase over current rates required for the Company to recover its Washington-allocated revenue requirement.
- The presentation of the normalized results of operations for the Test Period demonstrating that under current rates the Company will earn an overall return on equity (ROE) in Washington of 7.6 percent, which is less than the 9.8 percent ROE ordered by the Washington Utilities and Transportation Commission (Commission) in the 2010 Rate Case Docket UE-100749 (2010 Rate Case).
- A description of the Company's proposal to replace its current captive insurance policy with self insurance coverage for third-party liability and property.
- A description of the revenue requirement workpapers supporting the proposed revenue increase and normalized results of operations for the Test Period. Included as part of my workpapers is a summary revenue

requirement model, which is similar in design to the model used by the Commission Staff. This summary model is designed to facilitate easier review of the filing and was developed based on feedback received by the Company during the explanatory session held with the Commission advisors in the 2010 Rate Case.

In addition to support for the Company's revenue requirement, I discuss several items that were contested in the 2010 Rate Case and explain their treatment in this case or provide follow-up information as directed by the Commission.

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 Commission in Order 08, Docket UE-061546[1] to calculate Washington's Results of Operations and the associated ROE. As outlined in the Commission order, the WCA allocation methodology was approved on a five-year trial basis. A detailed review of the allocation methodology is required to be filed with the Commission in approximately June 2012.[2] As discussed later in my testimony, the Company has developed and implemented certain refinements to the WCA allocation methodology in this proceeding related to situs assignment of certain administrative and general costs.

[1] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-061546, Order 08 at ¶ 43 (June 21, 2007).
[2] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 06 at fn. 444 (March 25, 2011) (Order 06).

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, customer numbers and plant balances for the 12-months ended December 31, 2010, the historic Test Period.

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 12-month period ended December 31, 2010. In development of the Test Period 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.

In addition, as discussed in the direct testimony of Company witness Andrea L. Kelly, the Company's approach in this filing is to not contest issues decided by the Commission in the 2010 Rate Case. As a result, the normalized Test Period in this proceeding reflects the Commission's recently ordered revenue requirement methodologies. The Company's compliance with Order 06 in the 2010 Rate Case is described in greater detail later in my testimony.

The Company's proposed net power costs are based on pro forma normalized net power costs for the 12-months ending May 31, 2013, 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.

For consistency with the net power cost study used in this case, several generation-related items were projected through the rate effective period, the 12-months ending May 31, 2013. 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. Operation & Maintenance (O&M) expenses were developed using historic expense levels for the 12-months ended December 31, 2010, 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 12-months ended December 31, 2010. To mitigate the rate impact to customers 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, 12-months ending May 31, 2013. 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 12-months ended December 31, 2010. The loads used in the development of the revenues are consistent with the loads used in developing WCA allocation factors.

Consistent with Order 06 in the 2010 Rate Case, the Company has not reflected a temperature normalization adjustment to the loads associated with the Washington commercial class in the development of retail revenues, allocation factors, or net power costs.

Revenue Requirement

Q. What is the revenue requirement necessary to achieve the Company's authorized ROE?

A. At current rate levels, the Company will earn an overall ROE in Washington of 7.6 percent during the Test Period. The total requested Washington revenue requirement is $316.1 million based on the WCA allocation methodology.

Revenue Requirement Calculation

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

A. Exhibit No.___(RBD-2) has been provided for convenience as a summary of the Washington Results of Operations for the Test Period. This summary exhibit reflects the detailed calculations and supporting documents that are presented in Exhibit No.___(RBD-3). Page 1 of this exhibit is a revenue requirement adjustment summary. This page shows the rate base, net operating income[3] (NOI), and the Washington revenue requirement impact of each of the Company's normalizing adjustments. Pages 2 and 3 show the Washington-allocated per books results as well as the total impact of each major adjustment section

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

discussed later in my testimony. The far right column of page 3 in this exhibit shows the Washington-allocated normalized results for the Test Period.

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 12-months ended December 31, 2010. The Report provides unadjusted and normalized totals for revenue, expenses, depreciation, net power costs, taxes, rate base and loads in the Test Period. Additionally, the Report provides the calculation of the WCA allocation factors, a summary of monthly rate base balances used to develop the historic AMA rate base balances, and detailed accounting extracts for the historic 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 4.6 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 7.6 percent. Column (4) Price Change reflects the necessary price increase of $12.9 million to raise the ROE from 7.6 percent to 9.8 percent in Washington. Column (5) Results with Price Change reflects the Washington normalized results with the $12.9 million proposed 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 conversion 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 12-months ended December 31, 2010, 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 in columnar format that identifies each adjustment made to the per books data and the adjustment's impact on the Test Period. Each column has a numerical

reference to a corresponding page in the Report, which contains a lead sheet showing the type of adjustment - either restating or pro forma, the FERC account, the WCA allocation factor, dollar amount and a 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 12-months ended December 31, 2010. These balances are shown by FERC account and WCA allocation factor.
- Tabs B1 through B20 contain the unadjusted historic accounting system extracts for the 12-month period ended December 31, 2010 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 residential revenues in the Test Period by comparing actual sales to temperature normalized sales. The commercial class has not been temperature normalized consistent with Order 06 in the 2010 Rate Case. 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 1991 to 2010). Pages 3.1.4 through 3.1.6 provide the detailed support of the revenue adjustments from the per books data.

Revenue Normalization (page 3.2) – This restating adjustment removes revenue items that should not be included in regulatory results. This restating adjustment normalizes base year revenue by removing items that should not be included to determine retail rates, such as Schedule 191 (System Benefits Charge), Schedule 96 (Hydro Deferral Amortization), Bonneville Power Administration (BPA) residential exchange credits, and out of period items. The associated tax impacts 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 end of the historic period ended December 31, 2010. This adjustment adds approximately $33.2 million of revenues for the rate increase approved by the Commission in the 2010 Rate Case, effective April 3, 2011.

SO2 Emission Allowances (page 3.4) – This restating adjustment removes the sales revenue booked during the 12-months ended December 31, 2010, and includes amortization of sales revenues over a 5-year period. This treatment was approved in Order 06 in the 2010 Rate Case. Washington's allocation of these revenues is determined by the allowances provided by the Jim Bridger and Colstrip 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.

Renewable Energy Credit (REC) Revenue (page 3.5) – The restating portion of this adjustment reallocates the 2010 booked REC revenues to the east and west control areas from the system assignment reflected in the per books data. Washington receives a Control Area Generation West (CAGW) percentage allocation of revenues from west control area resources.

Per Commission Order 06 in the 2010 Rate Case, REC revenues are passed back to customers through a separate tracker mechanism effective April 2011. Consistent with this ordered treatment, the pro forma portion of this adjustment removes all REC revenues from the Test Period.

Wheeling Revenue (page 3.6) – This restating and pro forma adjustment reflects known and measurable changes to actual wheeling revenue for the 12-months ended December 31, 2010. Imbalance penalty revenue and expense is removed to avoid any impact on regulated results.

Ancillary Revenue (page 3.7) – The Company entered into contracts with Seattle City Light (SCL) to receive real time output from SCL's share of the Stateline wind farm. The Company returns power two months later. The current Stateline ancillary services contract will expire December 31, 2011. This pro forma adjustment removes the booked ancillary revenues associated with this contract in the historical base period to be consistent with the pro forma net power cost treatment reflected on adjustment page 5.1.1 discussed below.

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 31, 2011, to the annualized December 31, 2010 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 2010 and January 2011. Payroll taxes were updated to capture the impact of the changes to employee salaries.

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

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

Q. Are workforce levels reflected in the Test Period consistent with the actual levels for the historic period?

A. Yes. With the exception of reduced full time equivalents (FTEs) due to the implementation of new automated meters in the Company's Washington service territory described below, the Company's filing includes 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. **Automated Meter Reading (AMR) Savings (page 4.4) –** Beginning in August 2010, the Company replaced approximately 122,000 meters in the Yakima, Walla Walla and Sunnyside districts with new radio equipped digital meters. The new meters enable the Company to remotely obtain energy usage information and take full advantage of a proven technology to increase effectiveness and efficiency, improve customer satisfaction and reduce safety exposures for employees. Through the addition of these new meters, the Company was able to reduce its metering workforce by 20 meter readers.

This pro forma adjustment reflects the reduction in meter reading expense the Company anticipates as a result of the program through December 2011 as well as the associated meter additions and retirement impacts to electric plant in service.

Remove Non Recurring Entries (page 4.5) – A variety of accounting entries were made during the 12-months ended December 31, 2010 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. The associated tax impacts related to these entries are also removed through this adjustment. Details on the specific items in the adjustment can be found on page 4.5.1.

Pension Curtailment (page 4.6) – Order 09 in Docket UE-090205[4] 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 on January 1, 2009, but the effective date of the amortization per Commission order is January 1, 2010. This pro forma adjustment removes the actual amortization in the historic base period and replaces it with the pro forma amortization for the 12-months ending December 31, 2011.

DSM Removal Adjustment (page 4.7) – This restating adjustment removes actual Demand Side Management (DSM) revenues and expenses from regulated results since they are recovered through a separate tariff rider (Schedule 191). The associated tax entries are also removed through this adjustment.

Inverted Rates Advertising (page 4.8) – This restating adjustment removes the credit booked to set up a regulatory asset to defer advertising costs that were ordered by the Wyoming commission and are being recovered solely from Wyoming customers.

MidAmerican Energy Holdings Company (MEHC) Transition Cost Amortization (page 4.9) – MEHC severance cost is being amortized to expense in unadjusted results in accordance with the Commission order in Docket UE-

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

061546.[5] This restating adjustment removes Washington's amortization of the MEHC transaction change-in-control severance regulatory asset from the Test Period because it was fully amortized on June 30, 2010. This adjustment also removes from unadjusted results the expense credits booked when the Oregon and California MEHC transaction regulatory assets were established.

Affiliate Management Fee (MEHC Cross Charge) (page 4.10) – This restating adjustment removes the SERP component of the MEHC cross charge reflected in unadjusted results. By removing these expenses, the total amount of MEHC cross charge expense included in the Test Period is $7,273,086, on a total company basis. This amount is less than the $7.3 million level outlined in 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…"[6]

Because the level of cross charge expenses included in the Test Period is less than the MEHC acquisition commitment level, no further adjustment is necessary. This acquisition commitment expired on December 31, 2010.

Several components of the MEHC cross charge are booked below the line in unadjusted results and are not included in the Test Period. These components include capitalized expenses, legislative expenses, aircraft expenses in excess of commercial equivalent, and Long Term Incentive Plan (LTIP) expenses.

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[5] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-061546, Order 08 at ¶ 178 (June 21, 2007).
[6] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-051090, Order 07, Appendix A, p.14 (February 22, 2006).

The method used to develop the Test Period cross charge expense in this case is consistent with Commission Order 06 in the 2010 Rate Case.

Insurance Expense (page 4.11)

Q. Please explain the Company's proposed treatment of property and liability insurance.

A. In this case the Company is replacing its captive insurance policy with self insurance coverage for third-party liability, transmission and distribution (T&D) property, and non-T&D property.

Q. How has insurance coverage for these three categories been provided since the acquisition of the Company by MEHC?

A. As a condition of the MEHC acquisition approved in Docket UE-051090, the Company agreed to utilize a captive insurance company to provide property and liability insurance with premiums limited to $7.4 million annually. Washington specific commitment 5 states:

> "a) MEHC commits to use an existing, or form a new, captive insurance company to provide insurance coverage for PacifiCorp's operations. The costs of forming such captive will not be reflected in PacifiCorp's regulated accounts, nor allocated directly or indirectly to PacifiCorp. Such captive shall be comparable in costs and services to that previously provided through ScottishPower's captive insurance company Dornoch. MEHC further commits that insurance costs incurred by PacifiCorp from the captive insurance company for equivalent coverage for calendar years 2006 through 2010, inclusive, will be no more than $7.4 million (total company). Oregon Commission Staff has valued the potential increase in PacifiCorp's total company revenue requirement from the loss of ScottishPower's captive insurance affiliate as $4.3 million annually, which shall be the amount of the total company rate credit. This commitment expires on December 31, 2010.
>
> b) This commitment is offsetable if PacifiCorp demonstrates to the Commission's satisfaction, in the context of a general rate case, the costs included in PacifiCorp's rates for such insurance coverage is not more

than $7.4 million (total company)."[7]

Since the MEHC transaction, the Company has limited the captive insurance premiums in rates to $7.4 million, and the policy was renewed in March 2010 for an additional year. This acquisition commitment expired on December 31, 2010.

Q. What level of coverage was provided under the MEHC captive policy?

A. The coverage under the captive varied by category:

- Excess liability insurance provided indemnity for amounts the Company was legally obligated to pay for damages due to bodily injury, personal injury or property damage. The captive covered $750,000 per occurrence, in excess of a $250,000 deductible. Commercial insurance covers $175.0 million per occurrence after a deductible of $1.0 million.
- T&D property damage insurance covered property damage to overhead transmission and distribution lines related to both O&M and capital events. The first $25,000 of damages per event was defined as a deductible and was allocated to either O&M or capital. The captive then covered $10.0 million annually in excess of an annual $5.0 million aggregate deductible (over and above the $25,000 per-event deductible). There is no commercial insurance for T&D property damage.
- Non-T&D property damage covered all risks of direct physical loss or damage including boiler explosion, machinery and electrical breakdown, flood and earthquake. The captive covered $6.0 million per occurrence, in excess of a $1.5 million deductible. Commercial insurance covers $400

[7] *Id*, at pp. 14-15.

million per occurrence after a deductible of $7.5 million.

Q. When was the change from captive insurance coverage to self insurance implemented?

A. The change took effect after the captive coverage expired on March 21, 2011. The Test Period in this case reflects insurance expense on a pro forma basis for the 12-months ending December 31, 2011. Consequently, the Test Period includes captive insurance coverage for approximately three months and self insurance accruals for approximately nine months. Coverage currently provided by commercial carriers will continue, and the related premiums are included in this case at actual levels.

Q. How is this change reflected in revenue requirement?

A. The Company replaces the expense for captive insurance premiums with an accrual to self-insurance reserves. These self insurance reserves will cover O&M related damages. Capital related damages will be recovered as projects are added to rate base, consistent with other capital investments.

Q. Will there be any changes to the level of coverage compared to the captive insurance?

A. Yes. The initial deductible for each storm or casualty O&M event damaging Washington distribution property will be raised from the level under the captive policy of $25,000 to $250,000. The deductible for west control area transmission and west control area non-T&D property damages will be $1 million per event. O&M related damages for all costs up to these deductible limits will be charged to the proper functional O&M FERC account(s). Amounts exceeding these deductible limits will be charged to the accumulated insurance reserve. There will be no deductible amounts applied to capital projects.

Q. Please describe the Test Period treatment of third-party liability insurance.

A. As shown on page 4.11.1 of the Report, captive insurance premiums and coverage are assumed through March 21, 2011. For the remaining months of the calendar year 2011 pro forma period, self-insurance accruals replace the captive premiums. The level of the self-insurance accrual is a prorated three-year average of liability claim payments by MEHC captive insurance from January 2008 through December 2010. Washington's allocated portion of the Test Period amount is based on the System Overhead (SO) factor.

Q. Please describe the treatment of property insurance in the Test Period.

A. As shown on page 4.11.2 of the Report, captive insurance premiums and coverage for T&D and non-T&D property are assumed to be in place through March 21, 2011. For the remaining months of the calendar year 2011 pro forma period, self insurance accruals are included using a prorated 3.75-year average of actual damages from April 2007 through December 2010. Damages are included only to the extent they exceed the revised deductibles by category. The allocation of accruals and actual storm or casualty costs will be consistent with the allocation of similar types of electric plant in service (i.e. distribution is situs assigned and west control area transmission and non-T&D are allocated on the CAGW factor).

Based on the average property damages over the last 3.75 years, the self insurance accruals for property damages will initially be established using Washington-allocated amounts for distribution, west control area transmission, and west control area non-T&D property.

Due to the increase in deductible limits, expenses for Washington distribution, west control area transmission, and west control area Non-T&D property damages that are currently classified as insurance expense will be transferred to O&M. Page 4.11.3 of the Report shows that under the revised deductibles additional amounts of O&M are required to cover Washington distribution, west control area transmission, and west control area non-T&D property damages. The Company has included the effect of this transfer as an additional O&M expense in the Test Period in order to set rates at a level that will adequately cover expected storm and casualty damage.

Allocation Refinements

Q. Has the Company implemented any cost allocation refinements as a result of Commission Order 06 of the 2010 Rate Case?

A. Yes. Per Paragraph 253 of Order 06 in the 2010 Rate Case, the Commission encouraged the Company to engage in a dialogue with Commission Staff, Public Counsel, and the Industrial Customers of Northwest Utilities (ICNU) to explore effective means to refine the allocation of certain system allocated costs. Compliant with this directive, on May 19, 2011, the Company held a conference call with Staff, Public Counsel, and ICNU to discuss potential refinements to the allocation of certain costs.

As a result of this meeting, all parties agreed that to the extent possible, advertising expenses and memberships and subscriptions expenses should be situs assigned to specific states instead of system allocated. The advertising adjustment page 4.12 and the memberships and subscriptions adjustment page 4.13 have been prepared in accordance with this agreement.

Q. Please describe how these two new adjustments have been developed.

A. **Advertising Expense (page 4.12) –** This restating adjustment re-allocates the per books system-allocated advertising expenses for the 12-months ended December 31, 2010. This adjustment was calculated by re-allocating state specific media costs for airtime on a situs basis and situs-assigning system-allocated costs where a specific state was identifiable based on the SAP accounting order designation.

Memberships and Subscriptions (page 4.13) – This restating adjustment reallocates system-allocated memberships and subscription fees in the historic period to situs locations where possible.

Q. Did the parties discuss other categories of costs that could be situs assigned?

A. Yes. The parties discussed every FERC account in the administrative and general (A&G) expense category (FERC accounts 920 through 935). However, there was not agreement among parties that the treatment should change at this time for cost categories other than those discussed above. For example, certain parties expressed concerns regarding additional risk and volatility to Washington customers related to situs assignment of external legal expenses.

Tab 5 – Net Power Cost Adjustments

Q. Please describe the adjustments included in Tab 5.

A. **Net Power Costs (pages 5.1 and 5.1.1) –** The net power cost 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 5.1.2 of the Report. The first study calculates actual net power costs for the west control area for the 12-month period ended December 31, 2010. 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, 12-months ending May 31, 2013.

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 9.1.1 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 development of net power costs included in this filing.

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

31, 2013, the same period used in determining pro forma net power costs in this filing. Adjustment page 9.1.1 shows the production factor treatment of these pro forma revenues.

BPA Residential Exchange (page 5.3) – The Company receives a monthly purchase power credit from BPA. This credit is treated as a 100 percent pass-through to eligible customers. Both a revenue credit and a purchase power expense credit are posted 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.

Colstrip Unit No. 3 Removal (page 5.4) – As directed by the Commission in Cause U-83-57[8], this restating adjustment removes the costs and balances of the Colstrip Unit No. 3 resource from the Test Period.

Tab 6 – Depreciation and Amortization Adjustments

Q. Please describe the adjustments included in Tab 6.

A. **Hydro Decommissioning (page 6.1) –** Based on the Company's latest depreciation study approved by the Commission in Docket UE-071795[9], 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

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

[9] See *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-071795, Order 01 (April 10, 2008).

control areas. The pro forma aspect of the adjustment walks forward the decommissioning expenditures through December 31, 2011. The reserve does not include funds for Powerdale, which was reclassified to unrecovered plant. A separate order was received to recover the estimated decommissioning costs of Powerdale as seen on adjustment page 8.7.

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. 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.

Renewable Energy Tax Credit (page 7.2) – 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 west control area 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 9.1.1.

In addition, the Oregon Business Energy Tax Credit (BETC) booked deferred expense is removed from unadjusted results since it is a state tax credit and as explained above, Washington receives no state income tax under the WCA allocation method.

Malin Line Amortization (page 7.3) – 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[10], the Company has treated this transaction as a sale of part of the benefits

[10] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-050684, Order 04 at ¶ 142 (April 17, 2006).

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 Public Utility Tax Adjustment (page 7.4) – 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. The Test Period tax amount is offset by the known and measurable 2011 authorized credit for the Low Income Home Energy Assistance Program (LIHEAP), based on the July 29, 2010 letter from the Washington Department of Revenue.

Equity Allowance for Funds Used During Construction (AFUDC) (page 7.5) – This restating adjustment reflects the appropriate level of equity AFUDC into regulated results to align the tax Schedule M with regulatory income.

Washington Flow-Through Adjustment (page 7.6 & 7.6.1) – The Company's per books data for income taxes is reported on a normalized basis. This restating adjustment converts the per books data for income taxes from a normalized basis to a partial flow-through basis, consistent with Order 06 and Order 07[11] in the 2010 Rate Case. This is accomplished by removing the deferred income tax benefits/expense and accumulated deferred income tax assets/liabilities for temporary book-tax differences that are not 1) required to be normalized by law, or 2) required to be normalized by Commission order.

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

Remove Deferred State Tax Expense and Balance (page 7.7) – The Company's per books provision for deferred income tax and the balance for accumulated deferred income tax are computed using the Company's blended federal and state statutory tax rate (37.951 percent). State income taxes are a system cost for the Company that is not recoverable in Washington under the WCA allocation method. Accordingly, after all adjustments are made to income taxes, this final restating adjustment is made to remove state income tax from the adjusted Test Period.

Accumulated Deferred Income Tax (ADIT) Balance Adjustment (page 7.8) – This restating adjustment reports the Company's property-related accumulated deferred income tax balances on a jurisdictional basis using jurisdictionally allocated results from the Company's tax fixed asset system.

This adjustment also reflects the known and measurable change to the accumulated deferred income tax balances for guidance received from the Internal Revenue Service (Rev. Proc. 2011-26) on March 29, 2011, which affected the Company's estimate of bonus depreciation for assets placed in service during 2010. This resulted in an adjustment to deferred income tax expense for depreciation flow-through.

Tab 8 – Rate Base Adjustments

Q. Please describe the adjustments included in Tab 8.

A. **Customer Service Deposits (page 8.1) –** 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[12] and also is consistent with the Company's last three cases, Dockets UE-080220[13], UE-090205[14], and the 2010 Rate Case.[15]

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 2010 actual 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[16], and has been included in all rate case filings since.

Consistent with Order 06 in the 2010 Rate Case, materials and supplies and pit inventory balances associated with the Bridger Mine have been excluded from the Test Period. The Bridger Mine balance has been adjusted by the production factor as outlined on adjustment page 9.1.1.

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.[17] The Commission authorized the Company to record and defer costs prudently incurred

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[12] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-061546, Order 08 (June 21, 2007).
[13] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-080220, Order 05 (October 8, 2008).
[14] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-090205, Order 09 (December 16, 2009).
[15] *See* 2010 Rate Case, Order 06.
[16] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-032065, Order 06 (October 27, 2004).
[17] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-031658, Order 01 (April 27, 2005).

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 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 reflected in the Test Period.

Removal of Colstrip Unit 4 AFUDC (page 8.5) – 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[18] and has been included in all the Company's rate case filings since its inception.

Miscellaneous Rate Base Adjustment (page 8.6-8.6.2) – This restating adjustment removes working capital, fuel stock, materials and supplies, prepayments, and other miscellaneous rate base balances from the Test Period in compliance with Order 06 of the 2010 Rate Case. The associated tax impacts related to these balances are also removed in this adjustment.

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

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

A. No. Consistent with the final ordered rate base in the 2010 Rate Case, the Company has not reflected a CWC balance in the normalized Test Period. The Company's decision to forego a CWC adjustment is case-specific, however, and the Company reserves the right to include such adjustment in future filings.

Q. Please continue with your description of the rate base adjustments in Tab 8.

A. **Powerdale Hydro Removal (page 8.7) –** As authorized in 2007 in Docket UE-070624[19], the unrecovered plant balance associated with the Powerdale hydro plant was transferred to a regulatory asset and amortized over three years. The Powerdale unrecovered plant regulatory asset was fully amortized in December 2010.

This pro forma adjustment removes the unrecovered plant amortization expense and regulatory asset balance from the Test Period. In addition, the decommissioning of the Powerdale plant was substantially completed during 2010. The Company began amortizing the decommissioning regulatory asset in April 2011 as authorized in the 2010 Rate Case. This adjustment removes the 2010 amortization expense and asset balance associated with the decommissioning of Powerdale and replaces it with the pro forma 2011 amortization expense and asset balances.

Regulatory Asset Amortization Adjustment (page 8.8) – The Chehalis Regulatory Asset was booked in December 2009 in accordance with UE-

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

090205.[20] The general business revenues charged as the regulatory asset was amortized in 2010 were removed from unadjusted results in the revenue normalization adjustment 3.2. This pro forma adjustment reflects the amortization of the regulatory asset in the pro forma period, 12-months ending December 31, 2011. This adjustment also replaces the Chehalis regulatory asset balance in unadjusted results with the pro forma AMA balance for the period ending December 31, 2011.

Per the Commission's order in Docket UE-060703[21], the Company was authorized to establish a regulatory asset for the Washington portion of the expenses incurred in connection with Grid West. This pro forma adjustment replaces the amortization and balance of the Grid West regulatory asset in unadjusted results with the pro forma AMA balance and amortization for the 12-months ending December 2011.

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 Docket UE-991832.[22]

Condit Hydro Removal Adjustment (page 8.10) – The Condit Hydroelectric Project is located on the White Salmon River in south-central Washington and has a generating capacity of 14.7 megawatts. The Company is moving forward with the decommissioning of the facility after receipt of an essential sediment management permit from the United States Army Corps of Engineers (Corps), the

[20] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-090205, Order 09 at ¶ 15 (December 16, 2009).
[21] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-060703, Order 01 (July 26, 2006).
[22] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-991832, Third Supplemental Order at ¶ 42 (August 9, 2000).

final major regulatory step.

The decommissioning and removal of this facility results from a relicensing process that began in 1991 and culminated in a multi-party settlement agreement in 1999. On December 16, 2010, the Company received a Surrender Order from the FERC providing for dam decommissioning. FERC modified the Surrender Order on April 21, 2011, which, along with the Corps permit, provides the regulatory certainty the Company needed to proceed to remove the 125-foot high dam. On June 8, 2011, FERC completed review and approval of requisite project removal design and resource management plans. Dam removal was determined to be less costly to customers than the fish passage that would be required for operation as part of the federal dam relicensing process.

After the initial breach and draining of the reservoir in October 2011, demolition of the remaining portion of the dam is scheduled to begin in spring 2012 and be completed by August 31, 2012. Restoration work throughout the former reservoir area is planned to be completed by the end of 2012.

This pro forma adjustment removes the electric plant in service balances, accumulated depreciation balances, and O&M expenses from the per books data for the 12-months ended December 31 2010. No depreciation expense was booked during 2010.

Consistent with the treatment reflected in this adjustment, the pro forma net power costs shown in adjustment 5.1.1 do not include generation output from the Condit facility.

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, 12-months ending May 31, 2013. This calculation is detailed on page 9.1.4 of the Report. This factor is then applied to 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 its rate case filing in Docket UE-090205. However, consistent with the approach in the Company's 2010 Rate Case, the Company has applied the production factor to the 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 remaining portions 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 12-months ended December 31, 2010. In compliance with Commission Order 06 in the 2010 Rate Case, loads associated with the Washington commercial class have not been normalized for temperature.

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

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 per books 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.