Exh. SLC-1Tr
Docket UE-230172
Witness: Sherona L. Cheung

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP dba PACIFIC POWER & LIGHT COMPANY Respondent.	Docket UE-230172

PACIFICORP

DIRECT TESTIMONY OF SHERONA L. CHEUNG

REVISED July 7, 2023

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ATTACHED EXHIBITS

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

A. My name is Sherona L. Cheung, and my business address is 825 NE Multnomah Street, Suite 2000, Portland, OR 97232. I am currently employed as Revenue Requirement Manager for PacifiCorp.

I. QUALIFICATIONS

Q. Briefly describe your education and professional experience.

A. I earned my Bachelor of Commerce with a major in Finance in 2008. In 2011, I obtained my Certified Management Accounting designation in British Columbia, Canada. In addition to my formal education, I have attended several utility accounting, ratemaking, and leadership seminars and courses. I have been employed by the Company since May of 2013 in various positions within the regulation organization. In April 2021, I was promoted to Revenue Requirement Manager.

Q. What are your present duties?

A. My primary responsibilities include overseeing the calculation of the Company's revenue requirement and the preparation of various regulatory filings in Washington, Oregon, and California. I am also responsible for the calculation and reporting of the Company's regulated earnings and the application of the inter-jurisdictional cost allocation methodologies.

Q. Have you testified in previous regulatory proceedings?

A. Yes. I have previously provided testimony in California, Oregon, and Washington.

II. PURPOSE OF TESTIMONY

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

A. My testimony addresses the calculation of the Company's Washington-allocated revenue requirement and the requested revenue changes in base rates in this general rate case. The Company is also requesting authorization to begin amortization of certain deferred amounts. Under RCW 80.28.425, which requires every general rate case filing submitted after January 1, 2022, to include a proposal for a multi-year rate plan, the Company has prepared a Two-Year Rate Plan in this case with requested rate effective dates of March 1, 2024 (Rate Year 1), and March 1, 2025 (Rate Year 2), respectively. Specifically, my testimony provides the following:

- An overview of the revenue requirement development process, including discussions on the ways in which this filing has been prepared in compliance with ratemaking guidelines and policies established by the Washington Utilities and Transportation Commission (Commission).

- A description of the test period used in this case, which is the historical 12 months ended June 30, 2022 (Test Period), with restating and pro forma adjustments.

- The Company's plan to remove all revenue requirement components associated with coal-fired generation resources to ensure customer rates in Washington will not reflect these components starting January 1, 2026, as required by the Clean Energy Transformation Act (CETA).

- An explanation of the post-rate year reporting of provisional capital additions reflected in this case, and reporting mechanisms to evaluate potential true-ups and refunds to Washington customers.

- The calculation of the $26.8 million revenue increase requested in this case representing the increase over current rates required for the Company to recover its Washington-allocated revenue requirement for Rate Year 1, and $27.9 million revenue increase required for the Company to recover its Washington-allocated revenue requirement for Rate Year 2.

- A description of the deferred costs that the Company requests to begin amortizing concurrent with the rate effective period.

- The presentation of the normalized results of operations demonstrating that under current rates the Company will earn an overall return on equity (ROE) in Washington of 6.72 percent in Rate Year 1. This is less than the 10.30 percent requested by the Company and supported by Company witness Ann E. Bulkley in this proceeding. Assuming the Company's rate increase request for Rate Year 1 was granted, without a subsequent increase for Rate Year 2, the Company will earn an overall ROE in Washington of 7.27 percent. This will also be less than the 10.30 percent ROE requested in this case.

- An explanation of the revenue requirement workpapers supporting the proposed revenue increases and normalized results of operations for Rate Year 1 and Rate Year 2 in this filing. Included as part of my workpapers are summary revenue requirement models supporting both Rate Year 1 and Rate Year 2 revenue requirement, which is similar in design to the model used by staff of the Commission (Staff) in the last general rate case, docket UE-191024 (2020 Rate Case). These summary models are designed to facilitate easier review of the filing and is consistent with the models used in the Company's past rate cases.

III. OVERVIEW OF THE TWO-YEAR RATE PLAN

A. <u>Development of the Two-Year Rate Plan</u>

Q. Please explain the costs that are included in this filing.

A. The Company has prepared the current filing using historical accounting information for the Test Period and incorporated known and measurable changes for Rate Year 1 and Rate Year 2 respectively, discussed in greater detail below in my testimony. The Company's revenue requirement models calculate a required revenue increase of $26.8 million for Rate Year 1, and increase of $27.9 million for Rate Year 2.

Q. What is the proposed rate effective date for this case?

A. The Company is requesting a rate effective date of March 1, 2024, for Rate Year 1, and March 1, 2025, for Rate Year 2.

Q. Why is the Company proposing March effective dates?

A. The Company's filing and rate effective date request is timed to avoid administrative burden over the winter holidays.

Q. Relative to the rate years, for what time periods have adjustments been proposed?

A. For Rate Year 1, effective March 1, 2024, the Company has included adjustments through the end of calendar year 2024. For Rate Year 2, effective March 1, 2025, the adjustments are for calendar year 2025.

Q. Why has the Company included adjustments based on a calendar year for rate years that begin on March 1?

A. The Company prepares its Commission Basis Reports (CBR) on a calendar year basis. Preparing the adjustments in this case on a calendar year basis will better facilitate the provisional capital review process as proposed and reduce the administrative burden as compared to a non-calendar year basis.

Q. Why has the Company proposed July 2021 through June 2022 as the basis for the Test Period of this case?

A. Results for the Test Period reflect the latest available Washington-allocated 12-month period of data at the time the Company prepared this filing.

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

A. The Test Period was developed by analyzing the revenue requirement components in the historical period, 12 months ended June 30, 2022, to determine if adjustments were warranted to reflect normal or expected operating conditions or maintain compliance with adjustments previously ordered by the Commission. With exception of adjustments to reflect pro forma capital additions and associated depreciation balances (where the Company is utilizing for the first time provisional pro forma adjustments to bring into rates capital projects expected to be placed in-service beyond the rate effective date), adjustments made to historical results have followed the same test period conventions as the Company's previous general rate cases, including docket UE-140762 (2014 Rate Case), the Company's 2015 limited-issue rate case, docket UE-152253 (2015 Rate Case), and the 2020 Rate Case.

Q. Please describe the methodology used to develop rate year revenues.

A. Retail revenues were developed by applying the current Commission-approved tariff rates to the Washington historical normalized load. For consistency, allocation factors were developed using normalized loads for the same time period.

Q. Please provide an overview of the development of rate year costs in this case.

A. Operations and maintenance (O&M) expenses were developed using historical expense levels for the Test Period, normalized with restating adjustments, and known and measurable pro forma adjustments for calendar years 2024 and 2025 respectively.

The Company's proposed net power costs (NPC) in its direct filing are based on forecast NPC for the 12 months ending December 31, 2024, which is the calendar year (CY) period most closely aligned with the first rate effective period in this case. Additionally, NPC reflects the allocation changes agreed to in the Washington Inter-Jurisdictional Allocation Methodology (WIJAM) Memorandum of Understanding (MOU), as approved in the 2020 Rate Case. For additional information on the NPC forecast in this case, please refer to the direct testimony of Company witness Ramon J. Mitchell.

Q. Has the Company included an NPC forecast for the second rate effective period in its proposed rate plan?

A. No. The Company is holding the NPC forecast for the first rate year constant for the second year for purposes of the initial filing.

Q. Is the Company intending on updating NPC for Rate Year 2 results before rates becoming effective for the second rate year?

A. Yes. An NPC forecast for CY 2025 will be prepared so that Rate Year 2 results can be updated to reflect the most current NPC projections in rates that is to become effective on March 1, 2025. When an updated adjustment to NPC is prepared based on the CY 2025 forecast, various other adjustments tied to generation levels will also need to be produced. These adjustments include the Production Tax Credit adjustment, Wyoming Wind Generation Tax adjustment, as well as a Production Factor adjustment for Rate Year 2.

Q. Please describe the process used to develop Test Period plant and associated accumulated depreciation balances.

A. Plant and associated accumulated depreciation balances were developed using historical average of monthly averages (AMA) balances for the Test Period. Through a restating adjustment, the average net electric plant in-service balances are then adjusted to end-of-period (EOP) balances as of June 30, 2022.

In previous rate cases, the Company included pro forma capital additions through the last day prior to the requested rate effective date, on an EOP basis. In this rate case, with the proposal of a Two-Year Rate Plan, the Company is proposing to include pro forma capital additions through CY 2024 for Rate Year 1, and through CY

2025 for Rate Year 2, on an AMA basis. Pro forma project costs are included in the rate plan based on forecasted costs reflected in the Company's most recently available capital forecast from its business planning process. Project costs are then updated to reflect known and measurable changes. As required by the Commission's Policy Statement on Property that Becomes Used and Useful After Rate Effective Date (Policy Statement),[1] any provisional capital additions will be subject to an annual review process described in the direct testimony of Company witness Matthew D. McVee.

Consistent with the Policy Statement, corresponding offsets or credits to pro forma capital additions have been incorporated in the calculation of revenue requirement in this rate case. Where applicable, corresponding rate base credit balances such as depreciation and amortization reserves and accumulated deferred income tax balances have been calculated and included in this rate case to match the level of pro forma capital additions requested. The Company has also incorporated an average level of retirements and removals in its pro forma walk-forward of capital balances in this case. Furthermore, where efficiencies are identified, such as any anticipated decrease in NPC, and increase in PTCs, from the inclusion of more wind generation resources in Washington rates, those are also reflected in the Company's revenue requirement calculations.

The majority of pro forma capital additions are for non-emitting resources, including new and repowered wind generation, as well as necessary transmission assets that are required to facilitate Washington's transition out of emitting resources.

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[1] *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date*, Docket No. U-190531, Policy Statement ¶33 (Jan. 31, 2020).

Also included in this case are specific projects that are needed to update or replace PacifiCorp's outdated systems and facilities. Finally, the production factor adjustment was applied to the generation-related pro forma capital additions and associated revenue requirement components to adjust the pro forma cost levels back to the historical Test Period levels. In its direct filing, the Company has only calculated the production factor adjustment for Rate Year 1. Because the production factor adjustment is calculated based on the ratio of forecasted retail sales relative to historical levels, absent an NPC forecast for Rate Year 2 based on forecasted loads, a production factor for Rate Year 2 cannot yet be calculated. When an NPC forecast for Rate Year 2 becomes available, a production factor adjustment for Rate Year 2 will also be developed, and a production factor adjustment will need to be prepared for Rate Year 2 results.

Other witnesses in this rate case sponsor direct testimony in support of significant pro forma capital additions. Specific pro forma capital projects with total project costs below the threshold for separate discussion in testimonies but are above $10 million in costs on a total-company basis are described in further detail on pages 8.4.47 through 8.4.59 in Exhibit No. SLC-4. All pro forma capital project details, including investment type identification (*i.e.*, specific, programmatic, or projected), expected in-service dates, and in-service amounts can be found on pages 8.4.33 through 8.4.46 in Exhibit No. SLC-4, and the corresponding supporting electronic workpapers. Project costs are presented and organized in the referenced exhibit pages and workpapers supporting adjustment 8.4 by calendar year, which aligns with the proposed annual review periods described by Company witness McVee.

Company witness Timothy J. Hemstreet testifies on the development of repowered wind generation resources, including Rock River I and Foote Creek II-IV. Company witness Ryan D. McGraw provides testimony discussing major wind generation projects, Rock Creek I and Rock Creek II. Company witness Richard A. Vail testifies on new transmission and distribution investments, while Company witness Jayson Branch provides testimony on the North Temple Property. Company witness Thomas R. Burns and Company witness Rick T. Link testify on the economic analysis supporting the development of new wind generation and transmission resources, as well as the gas conversion projects at Jim Bridger Units 1 and 2. Company witness William J. Comeau's direct testimony addresses the Company's investment to replace the Company's legacy Customer Service System. Finally, Company witness Allen E. Berreth discusses in greater detail the capital project additions related to wildfire mitigation included in this case.

Q. Will all pro forma capital additions included in this filing be subject to review and true-up in the Company's proposed provisional capital review process?

A. In its direct filing, the Company has included pro forma capital investments beyond the Test Period ended June 30, 2022. This means pro forma capital projects included in this case spans from July 1, 2022, through December 31, 2025. The Company proposes to update all forecasted pro forma capital project costs from July 1, 2022, through December 31, 2022, with actual in-service amounts in its rebuttal testimony in this case. This update will ensure that 2022 capital rate base included in Washington rates reflect actual in-service costs and alleviate the need for a true-up review for 2022 capital project costs. Provisional capital projects forecasted to be placed in-service in calendar years 2023 onwards will be subject to the provisional capital review process.

Q. How will the pro forma capital additions from January 1, 2023, to December 31, 2025, be updated?

A. These pro forma capital additions are considered provisional and will be updated and reviewed through the provisional capital review process described in the testimony of Company witness McVee and also described later in my testimony.

Q. Are changes being proposed to depreciation rates in this case, aside from depreciation proposals discussed in the sections below regarding Jim Bridger and Colstrip?

A. No. Depreciation expense reflected in the Company's revenue requirement calculation is based on approved depreciation rates by the Commission in the Company's 2018 Depreciation Study,[2] consistent with the 2020 Rate Case.

B. Allocation Methodology

Q. What allocation methodology did you apply in the calculation of the Washington results of operations?

A. This filing reflects WIJAM as agreed to in the WIJAM MOU and approved in the 2020 Rate Case. Accordingly, a system allocation of costs and benefits of non-emitting generation resources, excluding non-Washington qualifying facilities, and a system allocation for existing transmission resources are included in the calculation in Washington rates in this rate case.

[2] *In the matter of Pac. Power & Light* Co., Docket No. UE-180778, (Sept. 13, 2018).

C. Jim Bridger and Colstrip Generation Resources

Q. Are Jim Bridger plant (Jim Bridger) and Colstrip Unit 4 (Colstrip) still being included in the calculation of revenue requirement in this GRC?

A. Yes.

Q. As approved in the 2020 Rate Case, Jim Bridger and Colstrip were to be fully depreciated by December 31, 2023. Why is the Company continuing to include these assets in rate base?

A. While preparing the current rate case, the Company assessed the impacts of a scenario in which the entirety of Jim Bridger and Colstrip were excluded from its NPC forecast. The analysis revealed substantial costs to Washington customers with these resources excluded, when compared to a scenario where these resources are included. Accordingly, the Company is proposing to continue utilizing Jim Bridger and Colstrip to serve Washington customers until at least December 31, 2025.[3] For further discussion on the impacts on NPC from excluding Jim Bridger and Colstrip from the NPC forecast, please refer to the direct testimony of Company witness Mitchell. As described in further detail in the testimony of Company witness McVee, the December 31, 2023 date was designed to provide flexibility in facilitating the removal of coal costs from Washington rates by 2025, and *possibly* as early as 2023, in advance of the 2025 deadline contained in Washington's CETA, whereby coal-fired generation must be out of customer rates. Accordingly, in this proceeding, the Company is recommending for the continued inclusion of Jim Bridger and Colstrip

[3] Jim Bridger Units 1 and 2 which will be converted to natural gas-fueled resources have proposed depreciable lives extended through 2029 in this case.

assets in rates as a way to mitigate increasing energy costs while continuing its transition to clean energy resources.

Q. If the 2020 Rate Case approved depreciation expense levels were intended to fully depreciate Jim Bridger and Colstrip by the end of 2023, why is there still a net asset balance to be included in this case?

A. Accelerated depreciation expense levels from the 2020 Rate Case were approved based on rate base balances through the end of 2020. Since then, the Company has continued to place in-service additional capital costs primarily required for maintenance purposes, or for compliance with existing environmental requirements. Also built into the calculation of depreciation rates is an assumed level of cost of removal, which includes decommissioning costs, which is reflected as negative net salvage in the depreciation study. As a result, the net asset balance should not be expected to be zero at the end of 2023. As demonstrated in Table 1, the estimated net book value (NBV) of steam generation plant balances at the end of 2023, on a Washington-allocated basis, is expected to be negative.

Table 1 – Washington-Allocated Net Book Value of Steam & Associated GSU Plant (2023 EOP)

	Jim Bridger – All Units	Colstrip Unit 4
Gross Plant	$277.8 million	$26.4 million
Accumulated Reserves	($286.1 million)	($27.2 million)
Net Book Value	($8.3 million)	($0.8 million)

Q. Is the Company requesting any pro forma capital additions to Jim Bridger and Colstrip?

A. Yes. As described above for all capital additions in this rate case, capital additions for Jim Bridger and Colstrip units are being included in this rate case for capital projects expected to be placed in-service through CY 2024 for Rate Year 1, and CY 2025 for Rate Year 2. These capital costs are necessary to maintain compliance with existing environmental regulations, or to continue operating these plants. Please refer to the direct testimony of Company witness Brad D. Richards for additional details regarding the ongoing capital costs associated with the Jim Bridger and Colstrip facilities that have been included in this proceeding.

Q. How are these pro forma capital additions being included in Washington's rate base through the proposed rate plan?

A. Capital additions to Jim Bridger Units 1 and 2, which will be converted to gas-fired units, are included in Washington's rate base at Washington's share of full jurisdictionally allocated project costs, based on approved WIJAM allocation factors, on an AMA basis for 2024 for Rate Year 1, and on an AMA basis for 2025 for Rate Year 2.

Capital additions to Jim Bridger Units 3 and 4, and Colstrip Unit 4, which will continue to operate as coal-fired units, are being included in Washington's rate base on a pro-rated basis based on the number of months to the CETA deadline to fully eliminate coal-fired resources from Washington's allocation of electricity (CETA deadline), and the number of months until the closure date as outlined in the 2021 Integrated Resource Plan (IRP). These pro-rated additions are then jurisdictionally allocated into Washington's rate base using approved WIJAM allocation factors. For example, a Jim Bridger Unit 3 or 4 capital addition that is placed in-service in December 2023 would result in pro-ration calculations as follows:

- Months to CETA deadline: 25 (1 month in 2023, 12 months in 2024 and 12 months in 2025)
- Months to end of life in the 2021 IRP of 2037: 169 (1 month in 2023, 12 months each in 2024-2037 respectively for 14 years)
- Pro-ration calculation formulaically computes as follows:

$$\frac{1+2x12}{1+14x12} = \frac{25}{169} = 14.8\%$$

In this example, 14.8 percent of the total-company project costs placed in-service in December 2023 would then be allocated into Washington's rate base using the WIJAM approved Jim Bridger-Generation (JBG) factor. The monthly proration of all Jim Bridger Units 3 and 4, and Colstrip Unit 4 costs for pro forma capital projects included in this case can be found in pages 10.6.4 through 10.6.6 in Exhibit No. SLC-4 for Rate Year 1, and pages 14.7.4 through 14.7.6 in Exhibit No. SLC-5 for Rate Year 2.

The pro forma calculation of pro-rated capital additions to coal-fired resources is necessary to ensure that Washington customers pay for the additions that will support these units' operations until the CETA deadline. This calculation achieves that by deriving a fractional share of the plant additions placed in-service and only adding that fractional share into Washington rates.

Q. Is the Company proposing updated depreciation rates for Jim Bridger and Colstrip?

A. Yes. Since the depreciation levels approved in the 2020 Rate Case were calculated to fully depreciate remaining projected net book balances for assets in-service through December 2020 (including negative net salvage) by December 2023, new depreciation rates need to be developed. Since coal-fired resources are required to be removed from Washington rates by the end of 2025, the Company is proposing to extend the depreciable lives for Jim Bridger Unit 3, Unit 4 and Colstrip Unit 4 assets to December 2025. With the conversion of Jim Bridger Units 1 and 2 to natural gas-fired resources, the Company is proposing to extend the depreciable lives for Jim Bridger Unit 1, Unit 2, and its common assets to December 2029. This date was chosen to align with the date by which retail sales of electricity in Washington must be greenhouse gas neutral.

Utilizing the proposed December 2025 depreciable life described above, the Company incorporated the same underlying assumptions from the 2018 Depreciation Study, and walked the NBV of Jim Bridger Unit 3 and Unit 4 and Colstrip Unit 4 assets forward through December 2023 (while also adding in pro forma capital additions as requested in this rate case), to recalculate updated composite depreciation rates for each plant. A similar recalculation was made for Jim Bridger Unit 1, Unit 2 and common assets to develop composite depreciation rates based on the proposed December 2029 depreciable life.

The Company is recommending a depreciation rate applicable to generation step up assets of zero percent, as these assets consist of small balances and are presumed to be fully depreciated by the end of 2023. Since the Company is not anticipating pro forma investments on the GSU assets to be capitalized and added to these balances through CY 2025, a zero percent depreciation rate is appropriate.

Q. Please provide a summary of the rate base balances and non-NPC O&M expenses projected to be in rates associated with Jim Bridger and Colstrip as of December 31, 2025.

A. Table 2 summarizes the rate base balances and non-NPC O&M expenses, on a Washington-allocated basis, projected to be in rates as of December 31, 2025.

Table 2 – Washington-allocated Jim Bridger & Colstrip Balances in Rates at December 31, 2025

	Jim Bridger – All Units	Colstrip – Unit 4
Gross Plant	$283.8 million	$27.5 million
Accumulated Reserves	($289.8 million)	($28.3 million)
Net Book Value	($6.0 million)	($0.8 million)
Depreciation Expense	$2.5 million	$0.6 million
O&M Expense	$14.0 million	$1.1 million
Fly Ash Revenues	$2.3 million	$0

Q. How will the Company ensure that costs associated with coal-fired resources will cease to be part of Washington rates starting January 1, 2026?

A. The Company is proposing a compliance filing be made in the fourth quarter of 2025, in advance of January 1, 2026, to remove coal-fired generation costs from rates.

Q. How will the necessary change in rates be calculated?

A. In this proposed compliance filing, the Company will calculate the rate change required to remove the gross plant balance of Jim Bridger Units 3 and 4, and Colstrip Unit 4 from Washington rates. An equivalent balance in accumulated reserves will also be removed. The reason accumulated reserves will be removed only up to the balance in gross plant is because, as discussed above, these coal-fired generation assets are over-depreciated by design. Accumulated reserve balances accumulate beyond the gross plant balance for these generation units to account for negative net salvage, which represents cost of removal, including decommissioning costs, that are accrued throughout the depreciable life of these assets. Accordingly, the Company is proposing that the excess accumulated reserve balances remain in Washington's rate base as a benefit to customers, until such time when decommissioning work is fully resolved.

Also included in the compliance filing calculation will be the depreciation expense for Jim Bridger Units 3 and 4, and Colstrip Unit 4, as well as the O&M expenses in rates for these generation units. Fly ash revenues, derived from Jim Bridger plant's coal operations, will need to be removed from rates as well. The NBV of the Jim Bridger mine will also need to be removed from rates that will be effective January 1, 2026.

Finally, NPC in rates will need to be updated to no longer reflect coal-fired generation resources. The net impact of all the changes discussed above will result in either an increase or decrease in Washington rates to become effective January 1, 2026.

Q. Are any of the balances described above known as of now?

A. Yes. In compiling this Two-Year Rate Plan, the Company has already quantified the gross plant balance for Jim Bridger Units 3 and 4, Colstrip Unit 4, and Jim Bridger mine that will be in rate base that are effective in Rate Year 2. Depreciation expense, O&M expense, and fly ash revenues are also known quantities calculated in this case. For this reason, the non-NPC components driving this price change can already be quantified at this time. However, the impact to NPC for the removal of coal-fired resources at the end of 2025 is not yet known. Accordingly, the NPC component driving price change for the removal of coal-fired resources from Washington rates cannot yet be quantified.

Q. What is the estimated impact for the non-NPC effects of removing coal-fired resources from Washington rates?

A. Table 3 below highlights key changes in non-NPC components of revenue requirement from removing coal-fired resources from Washington rates:

Table 3 – Summary of Coal-Fired Resources Balances Removed

	Jim Bridger – Units 3 & 4	Colstrip – Unit 4	Jim Bridger mine
Gross Plant	$121.9 million	$27.5 million	$41.2 million
Accumulated Reserves	($121.9 million)	($27.5 million)	($36.8 million)
Net Book Value	$0	$0	$4.4 million
Depreciation Expense	$1.4 million	$0.6 million	$0
O&M Expense	$0.7 million	$1.1 million	$0
Fly Ash Revenues	($2.3 million)	$0	$0

By removing the balances as quantified in Table 3, taking into account all necessary tax impacts, interest and revenue-sensitive true-ups, the estimated revenue requirement impact of changes to non-NPC components from the removal of coal-fired resources from Washington rates would result in a rate *reduction* of approximately $4.3 million. This estimated reduction would offset any potential increases from NPC changes due to the removal of coal-fired resources from Washington rates at the end of 2025. It is important to note, that this estimated impact is subject to change based on the final approved capital rate base associated with coal-fired resources in the outcome of this rate case. Ultimately, the Company will calculate the coal-fired resource removal impact based on the approved asset balances in rates as of December 31, 2025.

D. Klamath Hydroelectric Facilities

Q. Please explain the transfer of the lower Klamath hydro facilities to the Klamath River Renewal Corporation (KRRC).

A. On November 17, 2022, FERC issued a license surrender order for the Lower Klamath Project (FERC Project 14803), giving final approval for the transfer of four main-stem Klamath hydroelectric developments from PacifiCorp to a third-party dam removal entity known as the KRRC and the states of California and Oregon as co-licensees. The KRRC will carry out removal of the Lower Klamath Project set to begin in early 2024. These dams are formally known as J.C. Boyle, Copco No. 1, Copco No. 2, and Iron Gate. For CY 2023, or until removal of the dams begin, the Company will continue to operate and receive the generation produced by each of these dams under the terms of an O&M agreement with KRRC.

Q. How did the Company reflect the treatment of the lower Klamath hydro facilities in this case?

A. The Company began with actual net plant balances for the Test Period. Using actual booked depreciation for July through December 2022, the Company walked the Test Period balance from June 2022 to December 2022. Since the Lower Klamath Project assets were transferred to the KRRC in December 2022, the Company recorded an accounting entry which retired the assets from hydro plant and recorded the assets in intangible plant. The Company then walked forward the intangible plant asset from

December 2022 to December 2023 using the 20 percent depreciation rate that is used for Klamath hydroelectric generation assets. These assets were transferred to intangible plant as the lower Klamath assets will continue to provide benefits for PacifiCorp customers until removal of the facilities begins.

Beginning January 2024, the Company assumes the Lower Klamath Project developments will cease operation and removal will begin by the KRRC. Another accounting entry will be required to move the ending net plant balance as of December 2023 from intangible plant to a regulatory asset. In this case, the Company is requesting to recover the projected regulatory asset balance over five years beginning with the rate effective date of this case.

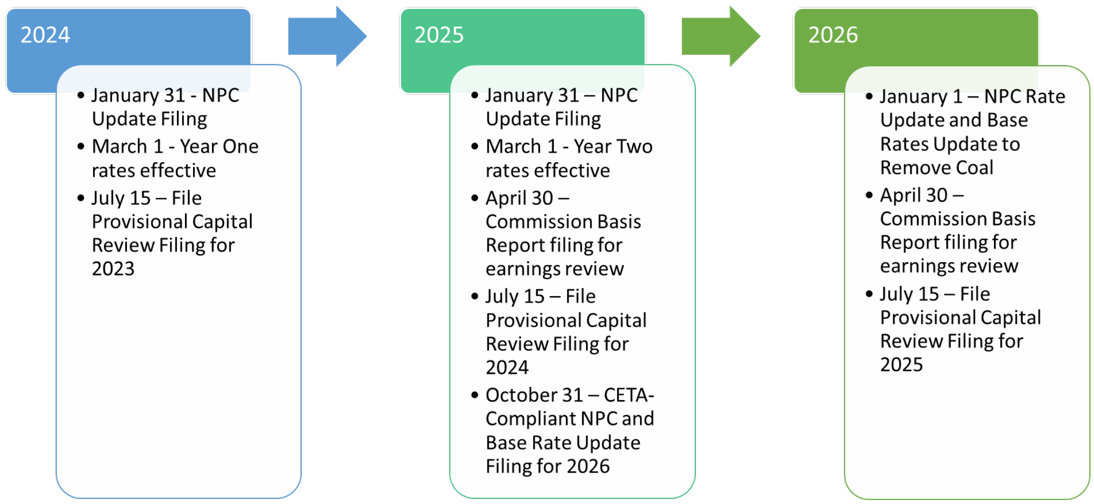
Q. Why is PacifiCorp proposing to recover the Lower Klamath Project regulatory asset balance over five years?

A. A five-year recovery period aligns with the 20 percent depreciation rate for Klamath hydro assets that have been placed in service post-2019.

E. <u>Provisional Capital Review Process</u>

Q. What is the schedule for the provisional capital review process?

A. Company witness McVee presents the Company's proposed schedule for the provisional capital review as follows:



Q. How is the Company proposing that parties conduct their review?

A. Similar to the approach outlined in Puget Sound Energy (PSE) witness Susan E. Free's testimony, the Company is also recommending an annual retrospective review on a portfolio basis. As described in PSE witness Free's testimony, "[a] retrospective review using a portfolio basis allows for actual costs for projects that are above or below their estimated amounts to be accepted if they were prudently incurred, provided that on a portfolio basis, their combined costs are within reason compared to what was used to set rates."[4]

Q. What does PacifiCorp consider as costs "within reason compared to what was used to set rates"?

A. The guidance set forth in RCW 80.28.425(6) states,

> If the annual commission basis report…demonstrates that the reported rate of return on rate base of the company for the 12-month period ending as of the end of the period for which the annual commission basis report is filed is more than .5 percent higher than the rate of return authorized by the commission in the multiyear rate plan for such a company, the company shall defer all revenues that are in excess of .5 percent higher than the rate of return authorized by the commission

[4] *WUTC v. Puget Sound Energy*, Docket No. UE-220066, Exhibit SEF-1T at 32 (Jan. 31, 2022).

> for refunds to customers or another determination by the commission in a subsequent adjudicative proceeding.[5]

Accordingly, the Company views recalculated revenue requirement for any reporting period as reflective of costs "within reason compared to what was used to set rates" so long as the recalculated revenue requirement reports a rate of return that is within .5 percent (or fifty basis points) higher or lower than its authorized rate of return from the most recent rate case. In such instances where the Company's recalculated revenue requirement for a reporting period is within fifty basis points of its authorized rate of return, costs in rates should be considered reasonable, and the Company should not be required to refund any earnings variances.

Q. Why is the portfolio basis a reasonable approach to perform retrospective reviews on provisional capital costs?

A. The requirement of multi-year rate plans necessitates the inclusion of pro forma capital investments in Washington's rate cases to alleviate regulatory lag, in order to make multi-year rate plans a viable means to set rates in Washington. Accordingly, the Policy Statement also mandates a safeguard for customers from paying for any capital costs in rates that significantly differ from actual capital costs placed in-service to serve customers by requiring these forecasted capital amounts be deemed provisional and subject to review and possible true-up.

While the Company places a heavy emphasis on prudently managing and planning capital expenditures, with strong process controls and governance mechanisms in place, over the course of a multi-year rate plan there will inevitably be times when the Company's implementation of planned capital expenditures will

[5] RCW 80.28.425(6).

deviate from forecasted schedules and cost estimates. Often these deviations result from circumstances that are unforeseen by the Company, and completely outside of the Company's control. In such instances, the Company assesses the circumstances to respond and adapt its plan in a reasonable, timely manner, which will often result in different investment decisions than those initially forecasted. This ability to adapt to everchanging business needs and external influences allow the Company to manage its overall forecast in a prudent manner. Such adaptations are analogous to the flexibility required in managing a household budget, whereby an unplanned event such as a burst pipe, might require funds to repair the pipe that were previously allotted for a planned roof replacement. When this happens, a homeowner would divest funds from the planned project to pay for the necessary repairs. Both expenditures would be considered reasonable given the circumstances, and neither should be penalized under the right circumstances.

Given the duration of multi-year rate plans, the likelihood of unavoidable pivots from planned expenditures is almost inevitable. For this reason, ratemaking under multi-year rate plans necessarily need to allow for flexibility to enable utility companies to continuously make prudent decisions to run its business. Rigidly requiring utility companies to subscribe to capital forecast plans prepared at one point in time could unintentionally lead to bad business decisions. Fear of penalty for adapting in response to a business need could create inappropriate incentives for a utility company to strictly implement capital expenditures as planned, or terminate capital project developments for fear of cost overruns due to conditions that are out of their control. It is critically important that a balanced review and true-up process for provisional capital investments reflected in rates be adopted that recognizes the flexibility necessary to prudently manage a utility business in a dynamic environment to enable the best outcomes for customers.

Q. Please identify the scope of the investments reviewed in each provisional capital review year.

A. Please see the table below for the investment period in each provisional capital review year.

Provisional Capital Review Year	Investment Period	Filing Date	Review Period Ends	Rate Effective Date
2023	January 1, 2023, to December 31, 2023	July 15, 2024	November 1, 2024	March 1, 2025
2024	January 1, 2024, to December 31, 2024	July 15, 2025	November 1, 2025	Refund/True-Up will occur either in subsequent rate proceeding or stand-alone rate filing
2025	January 1, 2025, to December 31, 2025	July 15, 2026	November 1, 2026	Refund/True-Up will occur either in subsequent rate proceeding or stand-alone rate filing

Q. What information will the Company provide on each filing date to allow for the review of the provisional capital investments?

A. The Company will provide the following information to facilitate the annual provisional capital review, as required in the Policy Statement:

1. Total Washington-allocated rate base for reporting period.
2. Actual project totals (on a Washington-allocated basis) placed in-service for reporting period by plant function.

3. Actual in-service amounts (on a Washington-allocated basis) for significant specific projects placed in-service during the reporting period.
4. Narrative explanation for significant deviations between actual and forecasted investments for specific projects placed in-service during the reporting period.
5. A proposal for the treatment of any deviations from the provisional rate base.

Q. How will any offsetting factors, such as benefits received or for which the Company has applied through the Inflation Reduction Act and Infrastructure Investment and Jobs Act be incorporated in reported capital in-service balances?

A. Should any credits be received or applied through any means, including legislative measures, these credits would be recorded as a reduction to overall costs capitalized in the Company's electric plant in-service balances, and reflected as lower actual rate base in the reporting period. This lower electric plant in-service balance would then be compared to the amounts in rates. Any excess amounts included in Washington's provisional rates sufficiently large enough to result in the Company's actual rate of return for the reporting period being greater than 50 basis points higher than its authorized rate of return, would be reflected as the basis on which the Company will calculate the necessary amounts to be trued-up and refunded to customers.

Q. Is the Company's proposed provisional capital review process reasonable and supportive of the intent in the Policy Statement?

A. Yes. Specifically, paragraph 28 of the Policy Statement stated the Commission's intended goals with regards to multi-year rate plans, which include ensuring general consistency with longstanding rate making practices, principles and standards, maintaining flexibility, avoiding overly prescriptive guidance, and supporting streamlined processes by requiring additional process only when necessary.[6] Using annual CBR as the basis to perform the annual review is consistent with long standing practice and prevents from creating new reporting processes. The portfolio approach ensures that the Company is afforded some level of flexibility to prudently manage investment decisions given the perpetually dynamic nature of running a utility company, and avoids implementation of overly prescriptive guidance from the Commission. Therefore, the Company's proposed retrospective review process, relying on annually filed CBR and comparison of actual capital costs versus in-rates capital costs on a portfolio basis is aligned with the stated intents of the Policy Statement.

IV. REVENUE REQUIREMENT

Q. What is the Company's Washington revenue requirement for the two rate years under the proposed Two-Year Rate Plan?

A. The Company's revenue requirement for the Rate Year 1 is $431.8 million. This level of revenue will allow the Company to earn its requested 10.30 percent ROE for Rate Year 1. At current rate levels, the Company will earn an ROE in Washington of 6.72 percent during the first rate year.

The calculated revenue requirement for Rate Year 2 is $459.7 million. This level of revenue will allow the Company to earn its requested 10.30 percent ROE for Rate Year 2. Rate Year 2 assumes the Company's Rate Year 1 request is approved as

[6] *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date*, Docket No. U-190531, Policy Statement ¶28 (Jan. 31, 2020).

filed. At this presumed approved rate levels, the Company will earn an ROE in Washington of 7.27 percent in the second rate year.

Q. Please describe how the revenue requirement for Rate Year 1 and Rate Year 2 are modelled in this filing.

A. Rate Year 1 revenue requirement is modelled using the same methodology as all previous rate cases, utilizing a combination of the Company's Jurisdictional Allocation Model (JAM), and Regulatory Adjustment Model (RAM). As with previous filings, summary revenue requirement models are provided, which are similar in design to the model used by Staff in past rate cases to review revenue requirement calculations.

Rate Year 2 proposed revenue requirement is supported only by a summary revenue requirement model.

Q. Please describe Exhibit No. SLC-2 and Exhibit No SLC-3.

A. Exhibit No. SLC-2 is a summary of the Washington results of operations for Rate Year 1, and Exhibit No. SLC-3 is a summary of the Washington results of operations for Rate Year 2. These exhibits summarize the detailed calculations and supporting documents that are presented in Exhibit No. SLC-4 for Rate Year 1, and Exhibit No. SLC-5 for Rate Year 2. Page 1 of Exhibit No. SLC-2 and Exhibit No. SLC-3 are revenue requirement adjustment summaries for Rate Year 1 and Rate Year 2 respectively. These pages show the rate base, net operating income, and the Washington revenue requirement impact of the Company's restating and pro forma adjustments for the two rate years. The remaining pages in Exhibit No. SLC-2 and Exhibit No. SLC-3 show the Washington-allocated per books results (or in the case of

Rate Year 2 calculations, the Washington-allocated Rate Year 1 results) and the cumulative impact of each of the major adjustment sections presented in Exhibit No. SLC-4 and Exhibit No. SLC-5. The far right column on the last page of each exhibit shows the Washington-allocated normalized results for each of the two rate years.

Q. Please describe Exhibit No. SLC-4.

A. Exhibit No. SLC-4 is the Company's Washington Results of Operations Report for Rate Year 1 (RY1 Report). The RY1 Report provides the per books and normalized totals for revenue, expenses, depreciation, net power costs, taxes, rate base, and loads for Rate Year 1. Additionally, the RY1 Report provides the calculation of the WIJAM allocation factors, a summary of monthly rate base balances used to develop the historical AMA balances, and detailed accounting extracts for the historical period. The RY1 Report presents operating results in terms of both return on rate base and ROE.

Q. Please describe how the RY1 Report is organized.

A. The RY1 Report is organized into the following sections or tabs:

- Tab 1—Summary reflects the Washington-allocated results based on WIJAM. Column 1 (Unadjusted Results) on Page 1.0 reflects the per books Washington results for the Test Period. Column 2 (Restating Adjustments) shows the cumulative impact of the Washington-allocated restating adjustments included in the filing. Column 3 (Total Adjusted Actual Results) shows the Washington results including the restating adjustments. Column 4 (Pro Forma Adjustments) shows the cumulative impact of the Washington-allocated pro forma adjustments included in the filing. Column 5 (Total Normalized Results) shows the Washington-allocated normalized results for the Test Period, including all restating and pro forma adjustments, with an ROE of 6.72 percent. Column 6 (Price Change) reflects the necessary revenue increase of $26.8 million to achieve a 10.30 percent ROE. Column 7 (Results with Price Change) reflects the Washington normalized results including a $26.8 million calculated revenue increase.

- Page 1.1 of the Report shows total adjusted results of operations and the calculated price change. Pages 1.2 and 1.3 support the calculation of the requested revenue increase and provide further details on the development of the net-to-gross conversion factor, which incorporates income taxes, uncollectible expenses, Washington Public Utility Tax, and the Commission regulatory fee. Pages 1.4 through 1.6 summarize the impact of each of the adjustment sections, which follow in tabs 3 through 10. Pages 1.7 through 1.36 show each revenue requirement adjustment as presented in the Company's summary revenue requirement model.

- Tab 2—Results of Operations details the Company's overall revenue requirement, showing per books revenues, expenses, and rate base balances, on a total-company and Washington-allocated basis, for the Test Period and fully normalized Washington-allocated results of operations for the Rate Year 1 by Federal Energy Regulatory Commission (FERC) account. The name of each FERC account provides a brief description of the revenues, expenses, or balances included in the account. For a more detailed description of each account please refer to the FERC Uniform System of Accounts.

- Tabs 3 through 10 provide supporting documentation for the restating and pro forma adjustments required to reflect normal or expected operating conditions of the Company through Rate Year 1. Each of these sections begins with a numerical summary in columnar format that identifies each adjustment made to per books data and the adjustment's impact on Rate Year 1 results. Each column has a numerical reference to a corresponding page in the RY1 Report, which contains a "lead sheet" showing the type of adjustment (restating or pro forma), the FERC account(s), the WIJAM allocation factor(s), dollar amount(s), and a brief description of the adjustment. The specific adjustments included in each of these tabs are described in more detail below.

- Tab 11 contains the calculation of the WIJAM allocation factors.

- Tab 12 contains a summary of the Washington-allocated per books rate base balances by month for the Test Period. These balances are shown by FERC account and WIJAM allocation factor.

- Tabs B1 through B20 contain the per books historical accounting system extracts for the Test Period, and are organized by major FERC function.

A. Tab 3—Revenue Adjustments

Q. Please describe the adjustments made in Tab 3.

A. **Temperature Normalization (page 3.1)**—This restating adjustment normalizes residential, commercial, and irrigation revenues in the Test Period by comparing actual sales to temperature normalized sales. Temperature normalization reflects temperature patterns that can be measurably different than normal, defined as the average temperature over a 20-year rolling time period. Pages 3.1.5 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 and normalizes base year revenue by removing items that should not be included in determining retail rates, such as Schedule 191 (System Benefits Charge), Schedule 94 (Rate Case Reconciliation Refund), Schedule 93 (Decoupling), and out of period items. Also reflected in this adjustment is the annualization impacts of price changes that became effective in the 12 months ended June 2022.

Wheeling Revenue – Year 1 (page 3.3)—This adjustment reflects the normalized level of wheeling revenues for the Rate Year 1 by adjusting the actual revenues for normalizing and pro forma changes.

B. Tab 4—O&M Adjustments

Q. Please describe the adjustments included in Tab 4.

A. **Miscellaneous Expense & Revenue Adjustment (page 4.1)**—This restating adjustment removes certain miscellaneous expenses that should have been charged below-the-line to non-regulated expenses. It also reallocates certain items such as gains and losses on property sales and regulatory commission expense to reflect the appropriate allocation among the Company's jurisdictions.

General Wage Increase Adjustments (pages 4.2 and 4.3)—This restating and pro forma adjustment is used to compute general wage-related costs for Rate Year 1. The Company has several labor groups, each with different effective contract renewal dates. The purpose of adjustment 4.2 is to normalize per books wage expenses by annualizing wage increases that occurred during the Test Period. This was done by identifying actual wages by labor group by month along with the date each labor group received wage increases. This annualization treatment of wages is consistent with the method approved by the Commission in the Company's past rate cases.

Adjustment 4.3 was then completed by applying known and measurable pro forma wage increases that have occurred or will occur through CY 2024, to the annualized June 30, 2022 wage amounts calculated in adjustment 4.2. The Company used union contract agreements to adjust union labor group wages, while increases for non-union and exempt employees were based on actual or anticipated increases. Payroll taxes were updated to capture the impact of the changes to employee wages.

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

A. Yes. Consistent with the adjustments to pension and post-retirement welfare benefits approved by the Commission in the 2014 Rate Case, the 2015 Rate Case, and the 2020 Rate Case, the Company has updated these expenses and post-employment benefits based on the most recent actuarial projections for CY 2024.

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

A. **Pension Related Non-Service Adjustment (page 4.4)**—This adjustment reflects in the rates for Rate Year 1 pension and post-retirement related non-service expenses at anticipated CY 2024 levels. These expenses have historically been included in the Company's results of operations reports in the General Wages Increase (GWI) adjustment. However, because these expenses are no longer eligible for capitalization under generally accepted accounting principles and are therefore not included in the Company's capitalization calculations, they will be accounted for in this new adjustment going forward. All other pension-related service expenses will continue to be included in the GWI adjustment.

In docket UE-181042, the Commission authorized the Company to defer a 2018 pension settlement loss and amortize the deferral amount over the average remaining life of the pension plan participants, 21 years at the time. In the 2020 Rate Case, the Company's actuary projected a similar pension settlement loss in 2020; as such, 12 months of pension amortizations expected to be incurred during the rate effective period was included on a pro forma basis. The Company is currently not expecting any pro forma pension settlement expenses for CY 2023 nor CY 2024; nevertheless, taking into account a pro forma settlement loss amount recorded in December 2022, this adjustment restates the expected annual settlement loss amortization and includes it into results on a pro forma basis.

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

Insurance Expense Adjustment (page 4.5)—In the 2020 Rate Case, the Company proposed establishing a property insurance reserve account, to which monthly accruals will be made to cover property damages going forward. When property damages occur, they will be charged to the reserve with no effect on expense. The Company's proposal was approved. The adjustment in this case uses the Commission-approved methodology for self-insurance accruals from the 2020 Rate Case, updated for the most recent rolling six-year average of property damage expenses. Consistent with previous Washington rate cases, the Company has replaced the base period property damage expense with a rolling six-year average of damage expenses.

For injury and damages expenses related to third-party liability, the adjustment utilizes a three-year historical average of actual cash paid on claims net of insurance receivables. In the Company's prior rate cases, injuries and damages were reflected in the revenue requirement using a six-year historical average of accounting accruals. To better reflect the conditions of actual payments, the Company is now requesting to use actual cash paid as opposed to accounting accruals.

Total-company liability insurance premiums were $25.0 million for the 12 months ended June 2022. Latest premiums, effective August 15, 2022, were $32.2 million. Accordingly, this adjustment reflects the pro forma increase in liability insurance premium into Washington rates. The increase in the renewed liability insurance premiums on a Washington-allocated basis is approximately $505 thousand. The increase in renewed liability insurance premium is attributable to wildfire risk and other factors outside PacifiCorp's control. Meanwhile, property insurance premium, in comparing the latest amount effective August 2022 and the amount in the historical Test Period reflected a modest decrease. This adjustment also reflects the pro forma decrease in property insurance premium in the case.

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

A. **Advertising (page 4.6) and Memberships and Subscriptions Adjustments (page 4.7)**—The Company includes these restating adjustments to situs assign advertising and membership costs that were booked on a system-allocated basis to the extent they can be attributed to a specific jurisdiction.

Revenue-Sensitive/Uncollectible Expense (page 4.8)—This restating adjustment normalizes the Company's per books June 2022 uncollectible expense to a four-year average by applying the four-year average uncollectible rate to the normalized level of Washington general business revenues. The use of the four-year average uncollectible rate was agreed to by the Company in its rebuttal testimony in the 2013 general rate case, docket UE-130043 (2013 Rate Case), and included in the final revenue requirement calculations approved by the Commission in all general rate cases since the 2013 Rate Case.

This adjustment also restates regulatory fees in the Test Period to reflect levels consistent with the currently approved regulatory fee rate of 0.4 percent. Starting in 2022, the Commission approved an increase in regulatory fees from 0.2 percent to 0.4 percent. This rate is applicable to revenues starting in 2022. Because the historical Test Period includes six months of accounting data pre-dating the change in regulatory fee rate, this adjustment is necessary to normalize regulatory fee levels in the case in alignment with the currently approved 0.4 percent rate into the rate years of this rate case.

Legal Expenses (page 4.9)—Consistent with past rate case treatment, this restating adjustment reallocates the Company's per books legal expenses. Legal expenses are situs assigned to the extent they can be attributed to a specific jurisdiction.

Remove Non-Recurring Entries (page 4.10)—An accounting entry was made during the Test Period, to reverse an accrual amount posted in a prior reporting period. This restating adjustment removes this reversal entry from the Test Period to reflect normalized results.

Environmental Remediation (page 4.11)—The Commission authorized the Company to record and defer costs prudently incurred in connection with its environmental remediation program in docket UE-031658, Order 01.[7] Costs of projects in excess of $3 million on a total-company basis, incurred from October 2003 through March 2005, were authorized to be deferred and amortized over a ten-year period. Only one project at the time met this criterion and has been fully amortized since. All other environmental costs are to be expensed as incurred for Washington. This restating adjustment adds back the actual base period expenditure amounts for remediation projects.

Payment Services Fees (page 4.12)—This adjustment adds into Rate Year 1 results the incremental expense due to an increase in payment processing fees for customer payments processed by Paymentus, the vendor who handles the Company's Interactive Voice Response payments, web, and mobile application payments, effective March 2023.

Incremental O&M Expenses (page 4.13)—This adjustment adds into Rate Year 1 expected changes in specific categories of O&M expenses. First, this adjustment reflects into Rate Year 1 results the incremental Transmission & Distribution (T&D)

[7] *In the matter of Pac. Power & Light Co.*, Docket No. UE-031658, Order 01 (Apr. 27, 2005).

O&M expenses through CY 2024. For further discussion on the requested increase to T&D O&M expense, please refer to the direct testimony of Company witness Berreth. The adjustment also reflects into Rate Year 1 results operating expenses for the Fall Creek Fish Hatchery, in which PacifiCorp has an obligation to fund for eight years after dam removal under the Klamath Hydroelectric Settlement Agreement (KHSA). For further discussion on the Fall Creek Hatchery project, please refer to the direct testimony of Company witness Hemstreet.

C. <u>Tab 5—Net Power Costs Adjustments</u>

Q. Please describe the adjustments included in Tab 5.

A. **Net Power Costs (Restating) (page 5.1)—**This restating adjustment normalizes net power costs by adjusting sales for resale, purchase power, wheeling, and fuel in a manner consistent with the contractual terms of sales and purchase agreements, and normal hydro and weather conditions for Washington for the Test Period.

Net Power Costs (Pro Forma) – Year 1 (page 5.2)—This adjustment adds in pro forma changes to NPC for the 12 months ending December 31, 2024. The use of pro forma NPC is consistent with approved treatment in previous rate cases, including the Company's rate cases filed in 2010, 2011, 2013, 2014, and 2019. Please refer to the direct testimony of Company witness Mitchell for more detailed discussions on the development of NPC included in this filing**.**

The pro forma NPC are adjusted to Test Period levels using the production factor adjustment as shown on page 9.1.

Pryor Mountain REC Revenues (page 5.3)—In docket UE-210328, the Company petitioned the Commission to allow deferred accounting treatment for the revenue from the Renewable Energy Credits (REC) sales revenues associated with the Pryor Mountain wind facility, and to be allowed to accrue interest on the unamortized balance at the quarterly rate published by the FERC. The Company's petition was approved in Final Order 03.[8] This adjustment adds into Rate Year 1 results the amortization of Washington's share of Pryor Mountain REC Revenues deferred in 2021, 2022, and forecasted to be deferred through 2023. The Company is requesting a one-year amortization period for these deferred revenues. In addition to the amortization of deferred amounts, the Company is also adding into Washington's base rates an annual level of projected revenues expected from the sales of RECs associated with the Pryor Mountain wind facility.

WRAP Fees (page 5.4)—This adjustment annualizes a new Western Resource Adequacy Program (WRAP) fee in the Test Period to reflect the expected annual levels into the rate years. Given the recent trends in decommissioning coal plants and increasing renewable integration across the industry, this resource adequacy group works to coordinate activities related to a comprehensive review of resource adequacy in the Western Power Pool (WPP) region.

Aurora Access Fees (page 5.5)—This adjustment adds into base rates the costs associated with Aurora and Gurobi access fees, as these costs are anticipated to be incurred to facilitate the review of annual NPC filings in Washington.

[8] *In the Matter of PacifiCorp d/b/a Pac. Power & Light Co., Petition for an Order Approving Deferral of Revenues Related to Renewable Energy Credits*, Docket No. UE-210328, Order 03 (Jan. 18, 2022) (consolidated with Docket No. 201532).

D. Tab 6—Depreciation and Amortization Adjustments

Q. Please describe the adjustments included in Tab 6.

A. **Pro Forma Depreciation and Amortization Expense – Year 1 (page 6.1-6.1.1)**— This adjustment normalizes and pro forms Test Period depreciation and amortization expense to reflect levels consistent with the projected plant additions added to rate base in adjustment 8.4. Also reflected in this adjustment is the removal of accelerated depreciation expense associated with Jim Bridger and Colstrip. Pro forma depreciation expense associated with Jim Bridger and Colstrip are then added back into results for Rate Year 1 through various adjustments in Tab 10, while Rate Year 2 adjustments for Jim Bridger and Colstrip are reflected in Tab 14.

Pro Forma Depreciation and Amortization Reserve – Year 1 (page 6.2-6.2.1)— This adjustment pro forms Test Period depreciation and amortization reserve for the plant additions added to rate base in adjustment 8.4.

End-of-Period Plant Reserves – Historical (page 6.3-6.3.3)—As discussed above, this restating adjustment walks the depreciation and amortization reserve from the June 2022 AMA balance to the June 30, 2022 EOP balance.

Q. Please describe the Decommissioning and Other Plant Closure Costs Adjustment – Year 1 on page 6.4.

A. In the 2020 Rate Case, the Company was approved to reflect in rates incremental decommissioning and other plant closure costs for Jim Bridger and Colstrip, as detailed in the 2018 depreciation study, and the revised decommissioning study. These costs were approved to be collected over ten years starting with the effective date of the 2020 Rate Case, from January 2021 through December 2030. These costs were approved to be collected in rates, with the accumulation of a credit balance to a regulatory liability account. This adjustment includes into results an annual level of decommissioning and other closure costs, and the corresponding regulatory liability balance on an AMA basis for CY 2024.

This adjustment also includes Jim Bridger Mine reclamation costs, which were also approved to be collected through December 2030 in the 2020 Rate Case. However, in the 2020 Rate Case, estimated reclamation costs were calculated assuming that the mine ceases to operate at the end of 2023. In the current proceeding, the Company is proposing to continue including coal-fire resources and the Jim Bridger Mine in Washington rates through 2025. Accordingly, estimated reclamation costs for the Jim Bridger Mine has been recalibrated to reflect on-going operations through 2025. The updated total reclamation is then spread evenly annually through 2030, which was the approved end of the collection period for these costs approved in the 2020 Rate Case. Similar with decommissioning and other closure costs, an annual level of estimated reclamation costs, and the corresponding regulatory liability balance on an AMA basis for CY 2024 is reflected through this adjustment.

E. 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 WIJAM, state income taxes are situs assigned based on each state's statutory tax rate. This is consistent with how state income taxes were treated under the West Control Area Inter-Jurisdictional Allocation Methodology (WCA).

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. On December 22, 2017, Congress passed and the President signed the Tax Cuts and Jobs Act (TCJA) setting a new corporate income tax rate of 21 percent where the previous rate was 35 percent. Accordingly, the federal income tax rate is reflected in the Company's revenue requirement model at 21 percent. The detail supporting this calculation is summarized on page 2.22 of Exhibit No. SLC-4.

Q. Please describe the adjustments included in Tab 7.

A. **Interest True-Up – Year 1 (page 7.1)**—This restating and pro forma adjustment details the adjustment to interest expense required to synchronize the interest expense with rate base. This is done by multiplying Washington net rate base by the Company's weighted cost of debt. This adjustment is calculated in two parts. First, the interest expense is calculated for all the restating adjustments included in this filing for Rate Year 1. Second, the interest expense is calculated for all Rate Year 1 adjustments, including those that are pro forma in nature.

Property Tax Expense – Year 1 (page 7.2)—This pro forma adjustment normalizes the difference between per books accrued property tax expense for the Test Period and the pro forma property tax expense for the 12 months ending December 31, 2024. Details supporting the Company's calculation of pro forma property tax expense are included as Confidential Exhibit No. SLC-7C. This approach is consistent with the treatment in the 2013 Rate Case, 2014 Rate Case, and 2020 Rate Case.

Production Tax Credit (PTC) (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 10 years of service. This pro forma adjustment reflects this credit based on the qualifying production for the repowered and new wind facilities included in the pro forma capital additions described in adjustments 8.4 and 8.11 below.

PowerTax Accumulated Deferred Income Tax Balance Adjustment – Year 1 (page 7.4)—This pro forma adjustment reflects the Company's property-related accumulated deferred income tax (ADIT) balances on a jurisdictional basis using results from the Company's tax fixed asset system, PowerTax. PowerTax calculates pro forma ADIT balances by taking into account pro forma capital additions reflected in this case, thus properly reflecting the corresponding pro forma rate base credits associated with the pro forma rate base additions accordingly. This adjustment also includes the tax impacts for the 12 months ending December 2024 for adjustments 8.8 and 8.9.

Permanent Schedule M Adjustment – Year 1 (page 7.5)—This pro forma adjustment reflects the known and measurable changes to the permanent Schedule M items and other federal tax credits for the 12 months ending December 2024.

Remove Deferred State Tax Expense and Balance – Year 1 (page 7.6)—The Company's per books provision for deferred income tax and the balance for ADIT are computed using the Company's blended federal and state statutory tax rate. State income taxes are a system cost for the Company that is not recoverable in Washington. Accordingly, after all adjustments are made to income taxes, this final adjustment is made to remove deferred state income tax expenses and balances from the Rate Year 1 results.

It is important to note that if additional adjustments by any party are proposed in this proceeding, the impact of such adjustment will need to include an adjustment to remove the deferred state tax expense and balance as described on page 7.6.

Washington Public Utility Tax Adjustment (page 7.7)—This restating adjustment recalculates the Washington Public Utility Tax expense based on the normalizing adjustments made to Test Period revenues, as discussed in adjustment pages 3.1 through 3.2 above.

Removal of TCJA Deferred Balances Adjustment (page 7.8)—This adjustment removes from rate base the Excess Deferred Income Taxes (EDIT) balances for the jurisdictions that are returning the EDIT benefits to customers via a separate tariff. In accordance with the Final Order 09/07/12 in the 2020 Rate Case, the deferred TCJA balances as of December 31, 2020, were to be amortized over five years, beginning January 1, 2021, through tariff schedule 197. This adjustment also includes a CY 2024 forecast for the protected EDIT balances and related EDIT amortization using the Reverse South Georgia Method (RSGM) for Rate Year 1.

Q. Please continue describing the adjustments in Tab 7.

A. **Washington Low Income Tax Credit (page 7.9)**—This pro forma adjustment reflects the change to Public Utility Tax Credit for the Low Income Home Energy

Assistance Program, per a July 27, 2022, letter from the Washington Department of Revenue.

Wyoming Wind Generation Wind Tax Adjustment (page 7.10)—In accordance with the approved WIJAM, the Company is including a system allocation of all non-emitting generation resources, including wind generation located in the state of Wyoming, in this filing. This adjustment normalizes into the results the Wyoming Wind Generation Tax, which is an excise tax levied upon the privilege of producing electricity from wind resources in the state of Wyoming. The tax is on the production of any electricity produced from wind resources for sale or trade on or after January 1, 2012, and is to be paid by the producer of the electricity. New wind facilities are exempt from the tax for three years following the date the facility first produces electricity for sale. The tax is one dollar on each megawatt hour of electricity produced from wind resources at the point of interconnection with an electric transmission line.

F. Tab 8—Rate Base Adjustments

Q. Please describe the adjustments included in Tab 8.

A. **End-of-Period Plant Balances – Historical (page 8.1)**—This adjustment modifies the gross plant balances from June 2022 AMA levels to the actual June 30, 2022 EOP balances. This adjustment to gross plant balances is intended to alleviate attrition and minimize regulatory lag by annualizing new rate base additions of the year, similar to the method approved in the 2015 Rate Case and 2020 Rate Case. The associated accumulated reserve impacts are accounted for on adjustment page 6.3.

Regulatory Assets & Liabilities Amortization – Year 1 (page 8.2)—This adjustment adds into results the amortization of several regulatory assets not addressed elsewhere in this case, including:

- Deferral of costs associated with the COVID-19 Public Health Emergency—Order 01 in docket UE-200234 approved the Company to defer costs, revenues and benefits identified in its petition. The deferred balances were not to accumulate any interest. This adjustment includes the summation of all COVID-19 costs approved to be eligible for deferral treatment per Order 01 in docket UE-200234. The Company is requesting a one-year amortization period for these deferred costs.
- Deferral of costs related to Electric Vehicle Supply Equipment (EVSE) Pilot Program—Costs incurred through the EVSE Pilot Program was approved in docket UE-180809 for deferral accounting treatment for later ratemaking treatment. The Company is seeking approval to recover the deferred expenses associated with the EVSE Pilot Program in this proceeding. A one-year amortization of this balance has been included in this adjustment.
- Deferral of costs associated with CETA—The Company filed an application in docket UE-210414 with the Commission to defer non-capital costs incurred to comply with the broader requirements under CETA. This adjustment includes into results the amortization of CETA associated costs deferred through December 2022 over a one-year amortization period.

Q. Does Adjustment 8.2 reflect any additional adjustments for other regulatory assets or liabilities?

A. Yes. Adjustment 8.2 also adds into results the amortization of the accumulated regulatory liability approved in docket UE-152253 for Washington's accelerated depreciation of Jim Bridger and Colstrip facilities. This regulatory liability was approved to be amortized over three years in the 2020 Rate Case. This adjustment reflects the end of amortization of this regulatory liability balance at the end of 2023.

Q. Please continue describing the adjustments in Tab 8.

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

Pro Forma Major Plant Additions – Year 1 (page 8.4-8.4.2)—This pro forma adjustment adds to rate base plant additions on a Washington-allocated basis that will be placed in-service through December 2024. Not included in this adjustment are the new major wind generation projects, which are included in Rate Year 1 results in adjustment 8.11, and new major transmission investments, which are reflected in adjustment 8.12. Specific projects over $10 million (total-Company basis) are described beginning on page 8.4.47. As discussed above, additional details on the major capital investment projects included in this case can be found in the testimonies of other witnesses in this filing.

The production factor adjustment on pages 9.1 and 9.1.1 is applied to the pro forma capital addition revenue requirement components for generation to adjust the costs and balances to Test Period levels.

Miscellaneous Rate Base (page 8.5-8.5.1)—This restating adjustment removes working capital, fuel stock, materials and supplies, prepayments, and other miscellaneous rate base balances from the Test Period in compliance with previous rate case treatment.

Customer Service Deposits (page 8.6)—This restating adjustment includes customer service deposits as a reduction to rate base. It also reflects the interest paid on the customer service deposits. This adjustment was accepted by the Commission in the

2006 general rate case, docket UE-061546, and is consistent with all of the Company's rate cases filings since that time.[9]

Investor Supplied Working Capital (page 8.7)—This adjustment reflects a restatement of working capital using the Investor Supplied Working Capital (ISWC) method with the approved modifications to the classification of derivatives, pension and other post-retirement costs and frozen derivative values as approved in the 2013 Rate Case.

Furthermore, as agreed upon in the 2020 Rate Case settlement agreement,[10] approved by the Commission, the Company has provided ISWC calculations that reflect a greater level of detail, in the same format as was provided in PacifiCorp's Second Supplemental Response to WUTC Data Request No. 81 in docket UE-191024.

Labor Day Wildfire Restoration Capital Removal (page 8.8)—This adjustment removes from rate base the historical capital additions placed in-service as part of Labor Day Wildfire restoration efforts. This adjustment also removes the associated Test Period depreciation reserves. These assets are excluded from the pro forma depreciation expense calculations in adjustment 6.1 and adjustment 14.2, which effectively removes any associated depreciation expense in the Test Period from revenue requirement in this rate case. The Company is excluding capital projects related to the Labor Day wildfire events from this rate case at this time. The Company may seek recovery of these projects in a future proceeding.

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[9] *WUTC v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket No. UE-061546, Order 08 (June 21, 2007).
[10] *WUTC v. PacifiCorp db/a Pac. Power & Light Co.*, Docket No. UE-191024, Order 09/07/12, Appendix B at ¶44 (Dec. 14, 2020).

WIJAM Transmission Reallocation (page 8.9)—This adjustment takes the identified list of transmission-voltage, radial lines connecting resources excluded from Washington rates as defined in the Company's 2021 limited-issue rate filing (LIRF), and reallocate the asset balances, and corresponding depreciation reserves from the Company's accounting records as of June 2022 from a system-allocation based on System-Generation (SG) factor to be allocated on a Control-Area Generation East (CAGE) factor, which effectively removes these assets from Washington's rate base. Similar radial lines connecting to Chehalis and Hermiston generation resources that are included in Washington rates are taken from an SG allocation to be reallocated into rate base on a Control-Area Generation West (CAGW) factor. Annual depreciation expense associated with these assets are being reallocated to match the corrected allocation of the underlying assets through adjustment 6.1.

Klamath Hydroelectric Assets Transfer – Year 1 (page 8.10)—This adjustment reflects the ratemaking treatment for lower Klamath as described earlier in my testimony. Specifically, this adjustment seeks to recover the remaining plant balance over five years associated with the lower Klamath dams that were transferred to the KRRC in December 2022. This adjustment also removes from expense all associated O&M expense in the Test Period.

Confidential Wind Generation Capital Additions – Year 1 (page 8.11)—This pro forma adjustment adds the capital additions and depreciation amounts for the new wind generation projects set to occur before December 2024. Per the WIJAM MOU, this adjustment has been prepared using the SG allocation factor for Washington.

Please refer to the direct testimonies of Company witnesses Burns, Hemstreet, Link, and McGraw respectively, for additional information on these projects.

The production factor adjustment on page 9.1 and 9.1.1 is applied to the pro forma capital addition revenue requirement components for generation to adjust the costs and balances to Test Period levels.

Major Transmission Capital Additions – Year 1 (page 8.12)—This pro forma adjustment adds the capital additions, gross plant retirements, and depreciation amounts for the major transmission projects set to be placed in-service through December 2024. In accordance with WIJAM, this adjustment has been prepared using the SG allocation factor for Washington. For additional details on the Company's pro forma transmission capital additions, please refer to the direct testimony of Company witnesses Link and Vail.

G. Tab 9—Other Adjustments

Q. Please describe the adjustments included in Tab 9.

A. **Production Factor Adjustment – Year 1 (page 9.1-9.1.1)**—The production factor is a means of adjusting pro forma generation-related components of the revenue requirement to Test Period expense and balance levels. The production factor was calculated by dividing Washington's normalized historical retail sales by the Washington pro forma sales for the 12 months ending December 31, 2024. This factor is then applied to the pro forma NPC, pro forma fly ash revenues, and other pro forma generation-related adjustments including pro forma plant additions, pro forma generation O&M expenses, pro forma generation depreciation expense and pro forma changes to thermal generation-related revenue requirement components.

Consistent with previous rate cases, the production factor is applied only to revenue requirement components related to generation that are adjusted beyond the historical Test Period.

H. Tab 10—Thermal Generation Adjustments

Q. Please describe the first three adjustments included in Tab 10.

A. The first three adjustments in Tab 10 primarily work in conjunction to remove all Test Period balances associated with Jim Bridger and Colstrip to set up a starting point on which to add back the pro forma rate base balances into the forecast periods for these resources which will continue to benefit Washington customers.

Specifically, adjustment 10.1, Removal of Coal-Fired Generation Assets, removes from Test Period rate base the recorded gross plant and depreciation reserve for Jim Bridger and Colstrip balances in the Company's accounting system as of June 30, 2022, net of Jim Bridger Selective Catalytic Reduction (SCR) systems rate base that has been disallowed in Washington's rate base, and Colstrip Unit 3 rate base, both of which are removed in subsequent adjustments.

Adjustment 10.2, Jim Bridger SCRs Removal, adjusts out of rate base the specific projects related to SCRs installed at Jim Bridger Units 3 and 4 that are disallowed from Washington's rate base per Order 12 of docket UE-152253. Test period depreciation expense associated with these assets are removed through adjustment 6.1. However, Order 12 in docket UE-152253 only denied the Company from collecting any return *on* these investments. Accordingly, this adjustment adds back into results the annual depreciation expense expected through CY 2024 so the Company may continue to collect a return *of* these investments.

Adjustment 10.3 removes all revenue requirement components of the Colstrip Unit 3 resource, except depreciation expense, from the Test Period, as directed by the Commission in Cause No. U-83-57 and updated in the 2015 Rate Case. Colstrip Unit 3 depreciation expense is removed through adjustment 6.1.

Q. Please describe the remaining adjustments in Tab 10.

A. **Jim Bridger Mine Rate Base – Year 1 (page 10.4)**—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. These restating and pro forma adjustments are necessary to properly reflect the balance associated with the BCC plant investment in Washington rates for the rate period. The Jim Bridger Mine adjustment was stipulated to and approved in the Company's 2003 general rate case, docket UE-032065, and has been included in all rate case filings since.[11] Consistent with Order 06 in the Company's 2010 Rate Case, docket UE-100749, materials and supplies and pit inventory balances associated with BCC are not included.[12]

Existing Coal-Fired Generation Assets – Year 1 (page 10.5)—This adjustment adds back into Washington's rate base gross plant balances for existing Jim Bridger and Colstrip previously removed in adjustment 10.1. This adjustment also calculates the associated accumulated depreciation reserve on these assets through CY 2023, and continues walking forward the depreciation reserve balances through CY 2024

[11] *WUTC v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket No. UE-032065, Order 06 (Oct. 27, 2004).
[12] *WUTC v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket No. UE-100749, Order 06 (Mar. 25, 2011).

utilizing the depreciation rates for coal-fired resources that are being proposed in this rate case. The CY 2024 AMA depreciation reserves are then included into results. Also included in this adjustment is the projected CY 2024 annual depreciation expense for these coal-fired assets.

Pro Forma Jim Bridger Units 3 & 4, and Colstrip 4 Additions – Year 1 (page 10.6)—This adjustment adds in pro forma additions associated with Jim Bridger Units 3 and 4, and Colstrip 4 through CY 2024 into results on an AMA basis. Corresponding depreciation expense, reserves and tax impacts are also reflected. As discussed in earlier sections of my testimony, pro forma capital additions made to Jim Bridger Units 3 and 4, and Colstrip 4 are being included in Washington's rate base on a pro-rated basis based on the number of months to the CETA deadline, and the number of months remaining until closure date per the 2021 IRP. Company witness Richards' direct testimony provides detail descriptions of the pro forma additions at Jim Bridger and Colstrip included in this rate case.

Pro Forma Jim Bridger Units 1 & 2 Additions – Year 1 (page 10.7)—This adjustment brings into results pro forma capital additions associated with Jim Bridger Units 1 and 2, including costs to convert the units to gas-fired generation resources. Depreciation reserves are included in this rate case on an AMA basis for CY 2024 An annual level of depreciation expense for CY 2024 is also added into results. Please refer to Company witness Richards' testimony for a detailed discussion of pro forma capital projects at Jim Bridger included in this case.

Fly Ash Revenues – Year 1 (page 10.8)—Test Period fly ash revenues are updated to reflect projected levels for the 12 months ending December 2024 in this adjustment.

I. <u>Tab 11—Allocation Factors</u>

Q. Please describe the data included in Tab 11.

A. In Tab 11, the derivation of the jurisdictional allocation factors using the WIJAM is summarized. These factors are based on the normalized historical loads and the plant balances for the Test Period.

Page 11.2 shows each of the WIJAM allocation factors applied in this filing, as well as a page reference to the corresponding backup page within the RY1 Report that shows the calculation of that factor.

J. <u>Tab 12—Historical Rate Base</u>

Q. What information is presented in Tab 12 of the RY1 Report?

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

Q. What is the last section contained in Exhibit No. SLC-4?

A. Exhibit No. SLC-4 concludes with Tabs B1 through B20, which contain extracts of the historical results from the Company's accounting system for the Test Period and are organized by major FERC function. The data contained in this section of the exhibit ties to per book data found under Tab 2 of the RY1 Report.

Q. Please provide an overview of Exhibit No. SLC-5.

A. Exhibit No. SLC-5 is the Company's Washington Results of Operations Report for Rate Year 2 (RY2 Report). This exhibit provides supporting documentation for the incremental pro forma adjustments prepared in the calculation of Rate Year 2 revenue requirement. Starting with the modelled outcome for CY 2024, revenue requirement components in the forecast period 12 months ending December 31, 2024, is examined and analyzed to determine if further incremental adjustments were warranted to reflect expected operating conditions through CY 2025. More specifically, Tab 13 adds into results incremental revenue and expense adjustments expected through CY 2025. Tab 14 pro forms capital additions and associated depreciation components to reflect CY 2025 balances. Rate base balances continue to be included on an AMA basis in CY 2025 results. Tab 15 is the Rate Year 2 equivalent to Tab 7 in Rate Year 1 results, where interest and tax impacts are normalized to synchronize with the pro formed results for CY 2025. Finally, Tab 16 presents any further adjustments required to reflect incremental changes between CY 2024 and 2025 into rates that do not fit into categories of adjustments presented elsewhere in my exhibit. Similar to the RY1 Report, the RY2 Report also presents operating results in terms of both return on rate base and ROE.

Q. Please describe how the RY2 Report is organized.

A. The RY2 Report starts with several pages summarizing the impact to revenue, expense, depreciation, NPC, taxes, rate base and loads of the incremental adjustments layered on to Rate Year 1 results, including a numerical summary in columnar format that identifies each adjustment made and the adjustment's impact on Rate Year 2 results. Each column has a numerical reference to a corresponding page in the RY2 Report, which contains a "lead sheet" showing the type of adjustment (restating or pro forma), the FERC account(s), the WIJAM allocation factor(s), dollar amount(s), and a brief description of the adjustment, consistent with those presented in the RY1 Report. Behind each "lead sheet", is supporting documentation for each incremental adjustment made. These adjustment pages are organized into the sections or tabs, similar to those provided in the RY1 Report. Continuing with the section numbering convention in Exhibit No. SLC-4, the first tab presented in Exhibit No. SLC-5 is Tab 13. I describe each adjustment in greater detail below.

K. Tab 13—Revenues & Expenses Adjustments (Year 2)

Q. Please describe the adjustments included in Tab 13.

A. **Wheeling Revenues – Year 2 (page 13.1)**—This adjustment reflects the normalized level of wheeling revenues for the Rate Year 2 by adjusting the actual revenues for incremental pro forma changes between CY 2024 and CY 2025.

General Wage Increase – Year 2 (page 13.2)—This pro forma adjustment is used to compute general wage-related costs for Rate Year 2. Known and measurable pro forma wage increases that are expected to occur through CY 2025 are applied to the annualized results CY 2024 wage amounts calculated in adjustment 4.3. Methodologies used to forecast CY 2025 general wage-related costs remains the same as those used to forecast CY 2024 general wage-related costs in adjustment 4.3, with the only difference being that this adjustment walks forecasted information out through CY 2025, whereas adjustment 4.3 only does so through CY 2024.

Pryor Mountain REC Revenues – Year 2 (page 13.3)—Through adjustment 5.3, the Company requested to amortize Washington's share of deferred revenues from the sales of Pryor Mountain RECs over one-year. Accordingly, this adjustment reflects the termination of this amortization amount in rates for Rate Year 2.

L. <u>Tab 14—Capital Additions & Depreciation Adjustments (Year 2)</u>

Q. Please describe the adjustments included in Tab 14.

A. **Pro Forma Major Plant Additions – Year 2 (page 14.1)**—This pro forma adjustment adds to rate base plant additions on a Washington-allocated basis that will be placed in-service after December 2024, through December 2025. Rate base balances are included in revenue requirement on an AMA basis for CY 2025. Similar with Rate Year 1 adjustments, new major wind generation projects and major transmission projects are reflected in two separate adjustments in Tab 14 respectively.

Pro Forma Depreciation and Amortization Expense – Year 2 (page 14.2)—This adjustment pro forms CY 2024 depreciation and amortization expense to reflect levels consistent with the projected plant additions added to rate base through CY 2025 in adjustment 14.1.

Pro Forma Depreciation and Amortization Reserves – Year 2 (page 14.3)—This adjustment pro forms CY 2024 depreciation and amortization reserves for the plant additions added to rate base in adjustment 14.1.

Decommissioning and Other Plant Closure Costs – Year 2 (page 14.4)—This adjustment walks forward the decommissioning, other plant closure, and Jim Bridger mine reclamation costs amortization and regulatory liability balances from CY 2024 levels to CY 2025 levels. Regulatory liability rate base balances are reflected in Rate Year 2 rates on a December 2025 AMA basis.

Jim Bridger Mine Rate Base – Year 2 (page 14.5)—Adjustment 14.5 walks the Jim Bridger mine rate base amounts added into CY 2024 results in adjustment 10.4

through CY 2025 to reflect the mine rate base balances on a December 2025 AMA basis.

Q. What are the remaining adjustments in Tab 14?

A. Adjustments 14.6 through adjustment 14.10 are essentially the Rate Year 2 extensions of various capital rate base adjustments included for Rate Year 1 in Tabs 8 and 10 respectively. Each adjustment continues to walk gross plant, depreciation reserves, and associated tax impacts through CY 2025 to reflect these balances on a December 2025 AMA basis in Rate Year 2 rate base. Correspondingly, an annual level of depreciation expense for 2025 is also reflected through these adjustments. The below table summarizes which Tab 14 adjustments correspond to which Rate Year 1 adjustments in Tabs 8 and 10.

Adjustment	**Rate Year 1 Reference**	**Rate Year 2 Reference**
Existing Coal-Fired Generation Assets	Adj. 10.5	Adj. 14.6
Pro Forma Jim Bridger Units 3, 4, and Colstrip 4 Additions	Adj. 10.6	Adj. 14.7
Pro Forma Jim Bridger Units 1 & 2 Additions	Adj. 10.7	Adj. 14.8
Confidential Wind Generation Capital Additions	Adj 8.11	Adj. 14.9
Major Transmission Capital Additions	Adj. 8.12	Adj. 14.10

M. <u>Tab 15—Interest & Taxes Adjustments (Year 2)</u>

Q. What adjustments are contained in Tab 15.

A. Tab 15 contains interest true-up and tax related adjustments for Rate Year 2. All adjustments in tab 15 have a Rate Year 1 equivalent provided in Tab 7. The only difference between Tab 15 and Tab 7 adjustments is that Tab 15 adjustments reflects incremental effects of tax adjustments between CY 2024 and CY 2025 results of operations.

N. Tab 16—Other Adjustments (Year 2)

Q. Please describe the adjustments included in Tab 16.

A. **Regulatory Assets & Liabilities Amortization – Year 2 (page 16.1)**—This adjustment reflects in CY 2025 results the termination of proposed regulatory asset amortizations added into rates through adjustment 8.2. Since the Company is requesting a one-year amortization period for all deferred costs, upon the start of Rate Year 2, all amounts should be fully amortized.

Klamath Hydroelectric Assets Transfer – Year 2 (page 13.2)—This adjustment carries on the amortization through CY 2025 of the remaining plant balance associated with the lower Klamath dams that were transferred to KRRC in December 2022.

V. DESCRIPTION OF ADDITIONAL EXHIBITS AND WORKPAPERS

A. Additional Revenue Requirement Exhibits

Q. Please describe Confidential Exhibit No. SLC-6C.

A. Confidential Exhibit No. SLC-6C presents supporting documentation for the revenue requirement calculations reflected in Exhibit No. SLC-4 and Exhibit No. SLC-5 which contains confidential information. An example of the type of information contained in this exhibit include union contract increases reflected in this case through CY 2024 and CY 2025, where negotiations may still be on-going.

Q. Please describe Confidential Exhibit No. SLC-7C.

A. As mentioned above in the description of adjustment 7.2 Property Tax Expense, Confidential Exhibit No. SLC-7C provides a description of the methodology and calculation of pro forma property tax expense.

1. Revenue Requirement Workpapers

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

A. The Company has filed workpapers required by WAC 480-07-510(3) to expedite review of this filing, including several revenue requirement workpapers. Two summary files have been prepared outlining the organization of these files and serve as a guide to the other workpapers. The document named "Cheung Workpaper Index (WA 2023 GRC)" contains an overview of how the workpapers have been organized. A spreadsheet file named "Revenue Requirement Workpaper Flow Chart (WA 2023 GRC)" provides an illustrative example of the interconnection of the workpapers and how the individual files are integrated in the exhibits described above.

Q. Does this conclude your direct testimony?

A. Yes.