Service Date: September 30, 2016

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFIC POWER & LIGHT COMPANY, Respondent.	DOCKET UE-152253 ORDER 15

ORDER GRANTING PACIFIC POWER'S MOTION FOR CLARIFICATION OF ORDERS 12 AND 13; GRANTING IN PART AND DENYING IN PART PACIFIC POWER'S REQUEST FOR A RETURN ON OVERHAUL INVESTMENTS IN JIM BRIDGER UNITS 3 AND 4; REVISING THE DECOUPLING MECHANISM TIMELINE; REJECTING PROPOSED TARIFF FILINGS, AND REQUIRING COMPLIANCE FILINGS

1 **PROCEEDING:** Pacific Power & Light Company (Pacific Power or the Company) filed a Motion for Clarification of Orders 12 and 13 (Motion for Clarification) in this docket with the Washington Utilities and Transportation Commission (Commission) on September 12, 2016. The Motion for Clarification requests that the Commission provide further guidance on two issues: (1) whether the pro forma capital additions Pacific Power included in its selective catalytic reduction (SCR) systems adjustment were intentionally excluded from the Company's rate base, and (2) a modification to Pacific Power's decoupling mechanism timeline.

2 On the same day it filed the Motion for Clarification, Pacific Power filed tariff sheets that result in a revenue requirement of $5,624,706, which is $229,368 higher than the figure the Commission authorized in Order 13. The Company also asserts that its second year compliance filing will result in a revenue requirement of $7,901,569, which is $293,578 more that the amount the Commission authorized the Company in Order 13. Pacific Power filed revisions to its tariff sheets on September 14, 2016.

MEMORANDUM

I. Background and Procedural History

3 On September 1, 2016, the Commission entered Order 12, Final Order Rejecting Tariff Sheets As Filed; Granting Accelerated Depreciation with Modifications; Granting Recovery of, but not Return on, SCR Investment; Granting Request for Two-Year Rate Plan; Authorizing Decoupling Proposal with Modifications; and Requiring Compliance Filings (Order 12).

4 In Order 12, the Commission recognized that the Company had a regulatory obligation to reduce emissions and meet its regional haze requirements.[1] However, the Commission also concluded that the SCR systems installed on the Jim Bridger Units 3 and 4 constituted only one possible means of compliance with Pacific Power's regulatory obligation.[2] Pacific Power did not meet "its burden to demonstrate the prudence of its decision to install the SCR systems on [Jim] Bridger Units 3 and 4,"[3] and also did not "provide documentation that would satisfy its responsibility to continually evaluate alternative compliance options prior to its execution of the [full notice to proceed with the installation of the SCR systems]."[4] Based on these determinations, the Commission authorized the Company to recover its SCR capital expenditures for both units but denied it the ability to collect a return on these same expenditures in Pacific Power's rate base.[5]

5 On September 9, 2016, the Commission entered Order 13, Supplemental Order Amending the Calculations in Order 12.[6] Specifically, the Commission supplemented Order 12 and authorized Pacific Power to increase its electric revenues by $5,395,338 during the first year of the two-year rate plan, and to increase its electric revenues by $7,607,991 during the second year. As stated above, the Company filed its compliance tariff sheets and Motion for Clarification on September 12, 2016.

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[1] Order 12, ¶ 114.

[2] *Id.*

[3] Order 12, ¶ 116.

[4] *Id.*

[5] *Id.*

[6] On September 12, 2016, the Commission entered Order 14, which granted the Company's request for an extension of the deadline for filing its compliance tariff sheets from "at least five full business days prior to [the required tariff sheets] stated effective date, which shall be no sooner than September 15, 2016." to September 12, 2016. Order 14, ¶ 1 (citing Order 12, ¶ 329).

6 The Commission provided opportunities for the parties to respond to both the Motion for Clarification and the tariff sheets. On September 20, 2016, the Commission's regulatory staff (Staff) and Sierra Club filed responses to the Motion for Clarification.[7] On September 21, 2016, Staff filed a Response to Pacific Power's Compliance Filing (Staff's Response to Compliance Filing). Pacific Power filed its Reply in Support of Compliance Filing (Pacific Power's Reply) on September 22, 2016.

II. Pacific Power's Motion for Clarification

7 Pacific Power requests that the Commission clarify two aspects of Orders 12 and 13. The first issue arises from the Company's inclusion of several maintenance expenditures in the same pro forma adjustment as its SCR systems. The Company acknowledges that, in Order 12, the Commission denied Pacific Power the authority to collect a return on its SCR systems investment. The Commission, in Appendix A to Order 13 – Revenue Requirement Adjustment Summaries, similarly did not include a return on the various maintenance expenditures included in the SCR systems adjustment. Pacific Power asserts that the Commission's removal of the "non-SCR capital projects" from rate base, simply because these investments were aggregated with the SCR systems expenses, was a ministerial error that should now be corrected.[8]

8 The second issue concerns the Company's decoupling mechanism and its deferral timeline. Pacific Power asks that the Commission clarify that the deferral period should align with the months covered by its mid-year Commission Basis Report (CBR).[9] The Company admits that given the timing of this proceeding, the first CBR would contain information based on an abbreviated first year (i.e., the mechanism will not have been in effect for the full 12-month period).[10]

9 We grant Pacific Power's Motion for Clarification and discuss each of these issues in more detail below.

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[7] These will be referred to as Staff's Response and Sierra Club's Response, respectively. Public Counsel also filed a response on September 20, 2016, taking no position on the Company's filing.

[8] Motion for Clarification, ¶ 9.

[9] *Id.*, ¶ 12. The Company files its CBR with the Commission on October 31st of each year and includes data relating to Pacific Power's operations from July 1st of the previous year through June 30th of the same year as the October 31st CBR.

[10] Motion for Clarification, ¶¶ 12-13.

1. Return on Additional Projects at Bridger Units 3 and 4

10 Pacific Power concedes that it combined the expenses for the SCR systems and various other investments the Company made in Jim Bridger Units 3 and 4 into a single pro forma adjustment.[11] Exhibit No. SEM-9C, sponsored by its witness Shelley McCoy, breaks down the aggregated adjustment into four pro forma capital additions for Unit 3,[12] and five pro forma capital additions for Unit 4.[13] A line item "SCR System-Pollution Control" is included for each unit and constitutes by far the largest component of capital investment for each unit.

11 Pacific Power argues that its witness Mr. Chad Teply testified that the overhaul projects at Units 3 and 4 and undertaken during the SCR systems installation were "prudent, necessary, and in the best interests of customers."[14] Further, the Company asserts that none of the parties "challenged the prudence of the Jim Bridger maintenance overhaul projects that are separate from the SCR systems."[15] It notes that Staff contested "a few of the individual projects," but Staff's argument was based on the theory that the conversion of Units 3 and 4 from coal to natural gas would have made the overhauls unnecessary.[16] Pacific Power maintains that Staff did not object to the replacement projects based on any imprudence associated with the overhaul.[17]

12 If the Commission authorizes the Company to collect a return on these capital projects, Pacific Power's revenue requirement will increase by $316,571 in the first year of the two-year rate plan and by $295,836 in the second year.[18]

13 **Staff's Response.** In its Response, Staff argues that Pacific Power's characterization of the capital projects included in the SCR systems adjustment as "non-SCR," "obscures the

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[11] Motion for Clarification, ¶ 8. The overhaul expenses include burners, the cooling tower, air preheater baskets, and finishing superheater replacements for Unit 3, and burners, finishing superheater, steam cooler floor, hot reheat pipe replacements and an absorber reline for Unit 4. Teply, Exh. No. CAT-1CT at 2:14-18 and 16:12-17.

[12] Motion for Clarification, n. 4. *See* McCoy, Exh. No. SEM-9C at 1.

[13] *Id*. *See* McCoy, Exh. No. SEM-9C at 2.

[14] *Id.* at 4:2.

[15] Motion for Clarification, ¶ 7.

[16] *Id.* (citing Twitchell, Exh. No. JBT-1CT at 54:3-8; Twitchell, Exh. No. JBT-16; Teply, Exh. No. CAT-14CT at 5:1-6; and Pacific Power's Post-Hearing Brief, n. 244 and 245).

[17] *Id.* The Company also states that Staff did not propose a disallowance of the projects. *Id.*

[18] Motion for Clarification, ¶ 6.

fact…that some of these capital projects…would not have been included in the Jim Bridger overhauls had Pacific Power not proceeded with the SCR installation."[19] During the pendency of the case, Staff's witness Mr. Jeremy Twitchell sponsored Exh. No. JBT-16, a data request response from the Company to Staff in which Pacific Power acknowledges that various projects could have been avoided if it had converted Jim Bridger to run on natural gas instead of installing the SCR systems.[20] Specifically, Pacific Power stated that, for Unit 3, "the burner replacement and selective catalytic reduction (SCR) projects could have been avoided," while for Unit 4, "the burner replacement, absorber reline, and SCR projects could have been avoided."[21] As a result, Staff recommended disallowing the capital expenses of the SCR systems, and that the Commission disallow "the capital costs of other maintenance projects that would have been avoided in the gas conversion scenario."[22] Staff points to the Company's response to Staff's data request in Exhibit No. JBT-16 and Pacific Power's admission that the burners it installed on both units and the absorber reline on Unit 4 would have been avoidable had the Company converted the units to natural gas.[23]

14 Staff argues that these projects "were inextricably related to SCR installation," and like the SCR systems investment, the expenses associated with the burners replacement for Units 3 and 4 and the absorber reline for Unit 4 should not be included in Pacific Power's rate base.[24] Staff contends that because they are directly related to the SCR systems installation, these projects did not require an independent imprudence determination as the project expenses would not exist but for the imprudent decision related to the SCRs. According to Staff, the remaining capital projects within the SCR adjustment, those projects that would have been part of the overhaul regardless of Pacific Power's choice to install SCR or pursue gas conversion, should be allowed in the Company's rate base.[25]

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[19] Staff's Response, ¶ 3 (citing to Twitchell, Exh. No. JBT-16).

[20] *Id.*, ¶ 4. *See* Twitchell, Exh. No. JBT-16.

[21] Twitchell, Exh. No. JBT-16.

[22] Twitchell, Exh. No. JBT-1CT at 54:6-8.

[23] *Id.* at 55 (Table 1).

[24] Staff's Response, ¶¶ 5-6.

[25] *Id.*, ¶ 3. For Unit 3, Staff recommends the following expenses be included in rate base: the cooling tower replacement, the air preheater baskets replacement, and the finishing superheater replacement. Similarly, Staff would include the finishing superheater replacement, the steam cooler floor replacement, and the hot reheat pipe replacement expenses for Unit 4 in rate base. *See* Teply, Exh. No. CAT-1CT at 2:14-18 and 16:12-17.

15 **Sierra Club's Response.** In its Response, Sierra Club goes one step further and argues that Pacific Power should be denied a return on all capital projects included in the single pro forma adjustment with the SCR systems investment. It agrees with Staff that, at the very least, the Company would have avoided replacement of burners at Units 3 and 4, as well as the absorber reline at Unit 4, if Pacific Power had converted the facility to natural gas.[26] Sierra Club points to a statement from the Company, in the testimony of Mr. Rick Link, that it had additional options to fulfill its regional haze compliance obligation, "including greenfield natural gas resources, firm market purchases, demand side management, and incremental wind resources."[27] Sierra Club argues that each of these alternatives would have meant that Units 3 and 4 ceased operations, and therefore all of the expenditures Pacific Power terms 'non-SCR' would have been avoidable.[28]

16 Sierra Club contends that the Company's system optimizer (SO) model had the ability to select compliance options other than the SCR systems implementation.[29] It argues that Pacific Power's failure to take advantage of this ability of the SO model "informed [the Commission's] conclusions,"[30] and states:

> Had the Company conducted a proper ongoing analysis and determined in December 2013 that ceasing operations altogether at Jim Bridger units 3 and 4 was a viable option, then it also could conceivably have determined that it was able to avoid all of the non-SCR capital expenditures at those units.[31]

Sierra Club concludes that the exclusion of all capital expenditures from the Company's rate base was "entirely reasonable and consistent with the overall reasoning in Order 12."[32]

17 **Commission Decision.** In Order 12, the Commission denied Pacific Power a return on its SCR systems investment because the Company failed to demonstrate that this investment decision was prudent and failed to provide documentation of its obligation to continually evaluate alternative compliance options prior to its execution of the full notice to proceed

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[26] Sierra Club's Response, ¶ 2.

[27] *Id.* (citing Link, Exh. No. RTL-1CT at 5:18-6:10).

[28] *Id.*

[29] *Id.*, ¶ 3.

[30] *Id.*

[31] *Id.*

[32] *Id.*, ¶ 5.

with the installation of the SCR systems. With this order, we clarify that our denial of a return on investment also applies to Pacific Power's investment in the "major burner replacements" on Units 3 and 4, as well as the absorber reline on Unit 4.

18 By the Company's own admission, these projects would have been unnecessary had it not invested in the SCR systems on both units. We agree that these maintenance projects are directly related to the SCR installation, and therefore it is appropriate to treat them similarly.

19 That said, we do not accept Sierra Club's argument that each of the major maintenance projects on Units 3 and 4 should be excluded from Pacific Power's rate base. It is true that the Company had several routes it could have pursued to comply with the regional haze rules while still providing reliable and cost-effective service to customers. Unlike Staff, Sierra Club did not advocate during the pendency of the case for, nor is there evidence in the record to support its advocacy for certain renewable energy projects to replace Units 3 and 4 at this point in the proceeding. The evidentiary record is closed.

20 We know from the Company that, but for its investments in the SCR systems on both units, several projects would not have been necessary. Yet, the Company would have incurred various other major maintenance expenses in order to maintain safe and reliable operation of these units, regardless whether it pursued the SCR systems or converted the units to natural gas. Accordingly, we authorize Pacific Power recovery of these remaining major maintenance capital expenses in rate base, including a "return on:" the cooling tower replacement, the air preheater baskets replacement, and the finishing superheater replacement for Unit 3; and the finishing superheater replacement, the steam cooler floor replacement, and the hot reheat pipe replacement expenses for Unit 4.

2. Decoupling Mechanism Timeline

21 Pacific Power requests that the Commission authorize a modification of the decoupling timeline included in Order 12 to allow it to report data on its decoupling mechanism in its CBR for an abbreviated first year of its five year decoupling mechanism program.[33] Further, the Company requests that the Commission clarify that it does not expect the Company's next CBR, to be filed by October 31, 2016, to contain any data from this

[33] Motion for Clarification, ¶ 12.

decoupling mechanism since the program was not in effect during the relevant time period included in that CBR (July 1, 2015, through June 30, 2016).[34]

22 The Commission approved Pacific Power's decoupling mechanism, with modifications, in Order 12 on September 1, 2016. In an effort to allow adequate review time of the tariff filing resulting from Order 12, the Commission anticipated the decoupling mechanism commencing no sooner than September 15, 2016.[35] Table 1 below replicates the timeline approved in Order 12.

Table 1: Timeline for Decoupling:

Year 1 (Sept. 15, 2016 – Sept. 14, 2017)	
Sept. 15	Effective date of filing. Start of first deferral period.
Oct. 31	CBR filed for results of operations July 1, 2015 – June 30, 2016
Sept. 14	End of first deferral period
Years 2-5 (Sept. 15, 2017 – Sept. 14, 2021)	
Sept. 15	Start of deferral period
Oct. 31	CBR filed
Dec. 1	Proposed rate adjustment to Schedule 93
Feb. 1	Effective date of Schedule 93 rate adjustment
Sept. 14	End of deferral period (12 months)*

*Pacific Power has committed to conducting an evaluation of its decoupling mechanism at the end of Year 3, ending on September 14, 2019.

23 In its Motion for Clarification, Pacific Power argues that the deferral period of September 15 through September 14 of the following year "does not align with the 12 months included in the Company's mid-year CBR filing."[36] As noted above, the Company's CBRs are filed with the Commission by October 31 of each year, but they contain data for the previous July 1 through June 30.[37] Pacific Power proposes an abbreviated first year of the deferral period, from September 15, 2016, through June 30, 2017, with the Company reporting data from this period in its mid-year CBR filing on October 31, 2017.[38] Table 2 illustrates the Company's proposed timeline for the decoupling mechanism.

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[34] *Id.*, ¶ 13.

[35] *See* Order 12 at 50 (Table 1).

[36] Motion for Clarification, ¶ 11.

[37] *Id.*, ¶ 14 (Table 1).

[38] *Id.*

Table 2: Timeline for Decoupling:

Year 1 (Sept. 15, 2016 – June 30, 2017)	
September 15, 2016	Effective date of filing, Start of first deferral period.
June 30, 2017	End of first deferral period
Years 2-4 (July 1, 2017 – June 30, 2020)	
July 1	Start of deferral period
October 31	Mid-Year CBR filed for results of operations July 1 through June 30
December 1	Proposed rate adjustment to Schedule 93
February 1	Effective date of Schedule 93 rate adjustment
June 30	End of deferral period (12 months)*
Year 5 (July 1, 2020 – September 14, 2021)	
July 1, 2020	Start of deferral period
September 14, 2021	End of deferral period
October 31, 2021	Mid-Year CBR filed for results of operations July 1, 2020, through June 30, 2021
December 1, 2021	Proposed rate adjustment to Schedule 93**
February 1, 2022	Effective date of Schedule 93 rate adjustment

* Pacific Power has committed to conducting an evaluation of its decoupling mechanism at the end of Year 3, ending on June 30, 2019.
** The final Schedule 93 filing on December 1, 2021, will include the impacts for the small stub period (July 1, 2021, through September 14, 2021).

24 **Responses.** Staff supports the Company's request to modify the decoupling schedule. Sierra Club takes no position on this issue.

25 **Commission Decision.** We agree that the proposed decoupling timeline is reasonable, and we approve it as illustrated in Table 2 above.

III. Compliance Filings

1. Idaho Power Asset Exchange adjustment reclassification

26 During the pendency of this proceeding, the Company used a pro forma adjustment to represent its Idaho Power Exchange Asset revenue request. In Order 12, the Commission authorized Pacific Power to recover only costs associated with the West Control Area (WCA) Correction Assets in the Idaho Power Asset Exchange adjustment, and disallowed the Company's requested recovery of expenses associated with the Exchange

Assets and Reassignment Assets.[39] In its calculations for its tariff filing, Pacific Power modified the approved portion of the Idaho Power Asset Exchange adjustment so that it is now using a restating calculation instead of the pro forma calculation.

27 Pacific Power admits that its "correction to the Idaho Power [A]sset [E]xchange adjustment to comprehensively capture all revenue requirement impacts from the exclusion of exchange assets and reassignment assets" results in an increase in the Company's revenue.[40] Pacific Power contends that, in Order 12, the Commission anticipated this modification when it stated that "the resulting revenue requirement calculation by the Company was expected to vary from the dollar amount stated in the Commission's summary of adjustments."[41]

28 **Staff's Response to Compliance Filing.** Staff supports the Company's revision of the Idaho Power Asset Exchange adjustment to a restating adjustment on compliance.

29 **Commission Decision.** Compliance filings are examined by the Commission and either accepted or rejected based on whether the tariff sheets proposed by the company comply with the terms and conditions of the Commission's final order. In fact, WAC 480-07-883 states that:

> A party must strictly limit the scope of its compliance filing to the requirements of the final order to which it relates. If the commission finds that a compliance filing varies from the requirements or conditions of the order authorizing or requiring it, either by falling short of or by exceeding the authorization, conditions, or requirements of the order, the commission may reject the filing unless it has preapproved the variance.

30 Pacific Power points to a footnote in Order 12 where we stated that "[t]he revenue requirement in the compliance filing may vary from the dollar amount of the revenue requirement as stated in this order as the compliance filing reflects the removal of the cost of these groups of assets."[42] The Company, however, has misinterpreted the Commission's intent. In its single adjustment, Pacific Power did not provide the Commission solely with the WCA Correction Assets total, exclusive of the other two asset groups. The footnote simply recognizes that our calculation for the WCA

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[39] Order 12, ¶¶ 216-217.

[40] Pacific Power's cover letter accompanying compliance tariff filing at 2 (Sept. 12, 2016).

[41] *Id.* (citing Order 12, n. 336).

[42] Order 12, n. 336.

Correction Assets adjustment could change slightly since the Company had not broken this asset category out from the Reassignment and Exchange Asset figures.

31 The footnote was not a directive to the Company to modify the adjustment from a pro forma calculation to a restating one. Nor should Pacific Power have read Order 12 as such given that Appendix A to Order 13, the summary of adjustments the Company refers to in its compliance filing cover letter, continues to use the pro forma calculation of the adjustment.

32 Additionally, a compliance tariff filing is not the appropriate place to modify an adjustment that has already been reviewed and ruled upon by the Commission. Compliance tariff filings must not vary from the terms of our orders. We reject Pacific Power's tariff filing on this basis.

2. SCR Interest Synchronization and Tax Treatment

33 The vast majority of the approximately $230,000 increase in revenues the Company proposes collecting through its tariff sheets, over and above what the Commission authorized in Order 12 and further explained in Order 13, results from its treatment of the SCR debt interest and associated tax calculation. In its compliance filing, Pacific Power states that "the Company's revenue requirement model resulted in modifications in the interest true-up adjustment and the PowerTax accumulated deferred income tax balance adjustment to reflect accurately the interest expense and tax impacts of the Commission-ordered adjustments."[43]

34 **Staff's Response to the Compliance Filing.** Staff notes that Pacific Power's tariff filing generates revenue that is "slightly" different from the revenue requirement in Order 13.[44] Staff, unable to reconcile the disparity, suggests that "it may result from different treatment of the following three issues: tax update, interest synchronization, Jim Bridger overhaul projects."[45] Staff does not believe that the revenue requirement disparity itself renders the tariff filing noncompliant, so long as the filing reflects the intent of the Commission's decision.[46]

35 **Pacific Power's Reply.** The Company asserts that the majority of the revenue increase in its compliance filing, from that authorized by the Commission, is based on two

[43] Pacific Power's Cover Letter to the Compliance Filing at 2 (Sept. 12, 2016).

[44] Staff's Response to Compliance Filing, ¶ 2.

[45] *Id.*

[46] *Id.*

adjustments: the PowerTax accumulated deferred income tax balance adjustment updating the Company's deferred tax balances based on Orders 12 and 13,[47] and the treatment of debt interest on the SCR systems.[48] In its Reply, the Company asserts that the Commission's calculations in Order 13, Appendix A may reflect an interest expense tax deduction (*i.e.,* a revenue requirement benefit) associated with the SCR systems, without reflecting the interest expense.[49] Pacific Power contends that including the interest expense tax deduction without providing for the interest expense is contrary to the Commission's decision in Order 12 allowing a "return of" the Company's investment in the SCR systems.[50] The Company argues the Commission must exclude the interest expense deduction for the calculation of income tax expense on the SCR systems (as reflected in the Company's compliance filing) or include the interest expense for rate making purposes.[51] Pacific Power also points to Internal Revenue Code section 168(i)(9) specifically forbids the use of inconsistent estimates, projections, assumptions, and the like, in the calculation of and the application of tax expense, depreciation expense, and the deferred tax reserve for ratemaking purposes.[52]

36 **Commission Decision.** We reject the Company's proposed treatment of interest expense and corresponding income tax deduction as inconsistent with our intent to deny a "return on" the investment in the SCR systems. Our decision in Order 12 was clear that Washington ratepayers should not bear the costs associated with the SCR systems – only the dollar-for-dollar recovery of the direct investment in such facilities. We did so because we concluded that the Company failed to bear its burden to demonstrate that the investment in the SCR systems was prudent. The Company asserts the Commission should allow a reduction to the regulatory interest expense resulting in a corresponding increase to income taxes for ratemaking purposes based on an incorrect belief that the Commission did not adjust interest expense accurately to reflect exclusion of the cost of debt financing of the SCR investment.

37 Our decision to allow a "return of" but deny a "return on" the SCR investment does not directly impact the actual debt costs incurred by the Company. Nor does it mean we

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[47] Pacific Power's Reply, ¶ 7.

[48] *Id.*, ¶ 8.

[49] *Id.*, ¶ 10.

[50] *Id.*

[51] *Id.*, ¶ 11.

[52] *Id.*, ¶ 12.

intended to authorize a hypothetical adjustment to federal income taxes (FIT). The Company mistakenly argues that we should increase revenue requirement for FIT the Company will not pay, through modification of the interest synchronization (i.e., interest true-up) adjustment in the Company's and Commission's revenue requirement models. Contrary to Pacific Power's assumptions, the model the Commission used to develop the Company's final revenue requirements properly reflects interest expense as we intended.

38 We also reject the Company's contention that our treatment of interest expense contravenes ratemaking principles or the income tax normalization rules. As with many issues presented to us for resolution, the Commission retains broad discretion to determine how and the extent to which the Company may be allowed a "return of" but not a "return on" investments such as the SCR system, and it is entirely within our authority to prescribe the precise method or manner we use to derive the Company's authorized revenue requirement. Finally, income tax normalization rules reflected in Internal Revenue Code section 168 address the effects of ratemaking on the regulatory recognition of depreciation, not on debt financing costs.

39 Accordingly, we reject the proposed interest expense and tax-adjustment.

ORDER

THE COMMISSION ORDERS That:

40 (1) The Motion for Clarification of Orders 12 and 13, filed by Pacific Power & Light Company, is granted.

41 (2) The tariff sheet revisions filed on September 12, 2016, and revised on September 14, 2016, are rejected.

42 (3) Pacific Power & Light Company is authorized and required to file tariff sheets that are necessary and sufficient to effectuate the terms of this Order. The Company must file tariff sheets that will provide increased revenues of $5,676,702 for the first year of the rate plan. The Company is authorized and required to file tariff sheets that increase revenues of $7,998,615 for the second year of the rate plan, effective September 15, 2017.

43 (4) The Commission Secretary is authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of Orders 12 and 13, consistent with this order.

44 (5) The Commission retains jurisdiction to effectuate the terms of this order.

Dated at Olympia, Washington, and effective September 30, 2016.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

ANN E. RENDAHL, Commissioner

NOTICE TO PARTIES: This is an Interlocutory Order of the Commission. Administrative review may be available through a petition for review, filed within 10 days of the service of this Order pursuant to *WAC 480-07-810*.