Exh. SEM-1T
Docket UE-19____
Witness: Shelley E. McCoy

BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP dba PACIFIC POWER & LIGHT COMPANY Respondent.	Docket UE-19____

PACIFICORP

DIRECT TESTIMONY OF SHELLEY E. MCCOY

December 2019

TABLE OF CONTENTS

ATTACHED EXHIBITS

Q. Please state your name, business address, and present position with PacifiCorp.

A. My name is Shelley E. McCoy. My business address is 825 NE Multnomah Street, Suite 2000, Portland, Oregon 97232. I am currently employed as a Revenue Requirement Manager. I am testifying for PacifiCorp dba Pacific Power & Light Company (PacifiCorp or the Company).

I. QUALIFICATIONS

Q. Briefly describe your education and professional experience.

A. I earned my Bachelor of Science degree in Accounting from Portland State University. 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 November of 1996. My past responsibilities have included general and regulatory accounting, budgeting, forecasting, and reporting.

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 Washington and California.

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 increase. The Company also requests authorization to begin amortization of certain deferred amounts. Specifically, my testimony provides the following:

- A description of the test period used in this case, which is the historical 12 months ended June 30, 2019 (Test Period), with restating and pro forma adjustments.

- The calculation of the $3.1 million revenue increase requested in this general rate case (GRC) representing the increase over current rates required for the Company to recover its Washington-allocated revenue requirement.

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

- The presentation of the normalized results of operations for the Test Period demonstrating that under current rates the Company will earn an overall return on equity (ROE) in Washington of 9.76 percent. This is less than the 10.20 percent requested by the Company and supported by Ms. Ann E. Bulkley in this proceeding.

- An explanation of the revenue requirement workpapers supporting the proposed revenue increase and normalized results of operations for the Test Period of this filing. Included as part of my workpapers is a summary revenue requirement model, which is similar in design to the model used by staff of the Washington Utilities and Transportation Commission (Commision) in the Company's last full GRC, docket UE-140762 (2014 Rate Case). This summary model is designed to facilitate easier review of the filing and is consistent with the models used in the Company's past rate cases.

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

A. The Company has prepared the current filing using a mid-year Commission Basis Report (CBR) for the Test Period, and incorporated known and measurable changes as discussed below in my testimony.

The Company's revenue requirement models calculate a required revenue increase of $3.1 million.

Q. Why has the Company proposed a mid-year CBR as the basis of this GRC?

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. What is the proposed rate effective date for the GRC?

A. The Company is requesting a rate effective date of January 1, 2021.

III. OVERVIEW OF THE TEST PERIOD PF THE GRC

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, 2019, to determine if adjustments were warranted to reflect normal or expected operating conditions, or maintain compliance with adjustments previously ordered by the Commission. Where appropriate, adjustments made to historical results have followed the same test period conventions as the Company's previous CBR filings, the 2014 Rate Case, and the Company's 2015 limited-issue rate case, docket UE-152253 (2015 Rate Case).

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

A. Retail revenues were developed by applying the current Commission-approved tariff rates to the Washington historical normalized loads for the Test Period. For consistency, allocation factors were developed using normalized loads for the PacifiCorp Balancing Authority Area West (PACW) for the same time period.

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

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

The Company's proposed net power costs (NPC) are based on forecast NPC for the 12 months ending December 31, 2021, which is the rate effective period in this case. Additionally, NPC incorporate the allocation changes agreed to in the Washington Inter-Jurisdictional Allocation Methodology (WIJAM) Memorandum of Understanding (MOU). For additional information on the WIJAM MOU, please see the direct testimony of Mr. Michael G. Wilding.

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, 2019.

Next the Company has included pro forma capital project additions through December 31, 2020, on an EOP basis. The majority of these capital additions are for non-emitting resources, including new and repowered wind generation. These balances will be in service and serving customers by the rate effective period. 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 to the historical Test Period.

Testimony is provided for the major pro forma capital additions. Mr. Timothy J. Hemstreet testifies on the repowering of the Company's wind generation resources. Mr. Chad A. Teply and Mr. Rick T. Link testify on the new wind generation resources. Mr. Richard A. Vail testifies on new transmission investments.

Q. Please describe the Company's proposal to use EOP rate base balances.

A. EOP rate base is a practical means of reducing regulatory lag on plant additions that are used and useful in serving customers. EOP rate base also provides a better indication of balances and depreciation expense expected during the rate effective period by using the per books balances for the last month of the Test Period. In the 2015 Rate Case, the Commission approved the use of EOP rate base as an appropriate response to regulatory lag.[1] Additionally, the Commission has recognized EOP as an appropriate regulatory tool in times of abnormal growth in plant.[2] This case includes significant investments in renewable generation and associated transmission as shown in Adjustments 8.12 and 8.13, discussed below.

Q. Is the inclusion of post-test period pro forma plant additions consistent with previous Commission orders?

A. Yes. The Commission's long-standing practice is to consider post-test period major plant additions on a case-by-case basis following the used and useful and known and measurable standards.[3]

Allocation Methodology

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

A. This filing reflects the transition from the West Control Area Inter-Jurisdictional Allocation Methodology (WCA) to the new WIJAM as agreed to in the WIJAM

---

[1] *See WUTC v. Pac. Power & Light Co.*, Docket No. UE-152253, Order 12 at ¶ 172 (Sep. 1, 2016).
[2] *See WUTC v. Pac. Power & Light Co.*, Docket No. UE-140762, Order 08 at ¶ 145 (Mar. 25, 2015).
[3] *See* Docket No. UE-152253, Order 12 at ¶ 122; Docket UE-140762, Order 08 at ¶ 172; and *WUTC v. Pac. Power & Light Co.,* Docket-UE 130043, Order 05 at ¶¶ 201 & 209 (Dec. 4, 2013).

MOU. The changes include a system allocation of costs and benefits of non-emitting generation resources, excluding non-Washington qualifying facilities, and the transition to a system allocation for existing transmission resources.

Depreciation Changes

Q. Are changes being proposed to depreciation rates in this case?

A. Yes. This filing includes updated depreciation rates as filed with the Commission in the Company's September 2018 Depreciation Study,[4] except for the depreciation rates for the Jim Bridger and Colstrip generation plants and associated generation step-up (GSU) transformers. Please see the supplemental testimony of Ms. Nikki L. Kobliha on the proposed depreciation rates and the depreciation study in docket UE-180778.

Q. What are the proposed depreciation changes for the Jim Bridger and Colstrip plants?

A. In accordance with the WIJAM MOU, the Company is proposing to accelerate the depreciable lives for the Bridger and Colstrip plants and associated GSU equipment to a December 31, 2023, end of depreciable life for Washington customers. These dates are designed to facilitate the removal of coal from Washington rates by 2025, and possibly as early as 2023, in advance of the 2025 deadline contained in Washington's Clean Energy Transformation Act, while also providing flexibility for a potential realignment of generation assets among the Company's states. Please see the testimony of Mr. Wilding for additional information on the proposed accelerated depreciation of Jim Bridger and Colstrip.

---

[4] *In the matter of Pac. Power & Light* Co., Docket No. UE-180778, filed September 13, 2018.

Q. What changes are reflected in this rate case for the Klamath Hydro Facilities?

A. The 2018 Depreciation Study reflects a December 2020 end of depreciable life for the Klamath Hydro Facilities (Klamath). As such, no depreciation expense is included in this filing for Klamath. However, the date the dams will cease operation and transfer to the Klamath River Renewal Corporation is yet to be determined as all approvals have not been received. As the facilities are expected to continue operating, power from Klamath is reflected in the NPC studies included in this case.

Q. Does the Company anticipate any future expenditures for Klamath?

A. Possibly. Expenditures at the Klamath Facilities may continue up until the point of transfer to the Klamath River Renewal Corporation, and may even continue after the transfer until the time of decommissioning. The Company proposes that future expenditures not included in rates be recorded in a regulatory asset for future ratemaking proceedings.

IV. REVENUE REQUIREMENT FOR GRC

Q. What is the Company's Washington revenue requirement for the Test Period?

A. The Company's revenue requirement for the Test Period is $369.7 million. This level of revenue will allow the Company to earn its requested 10.20 percent ROE for the Test Period. At current rate levels, the Company will earn an ROE in Washington of 9.76 percent during the Test Period.

Q. Please describe Exhibit No. SEM-2.

A. Exhibit No. SEM-2 is a summary of the Washington results of operations for the Test Period. This summary exhibit reflects the detailed calculations and supporting documents that are presented in Confidential Exhibit No. SEM-3C. Page 1 of Exhibit

No. SEM-2 is a revenue requirement adjustment summary. This page shows the rate base, net operating income, and the Washington revenue requirement cumulative impact of the Company's restating and pro forma adjustments. Pages 2 and 3 show the Washington-allocated per books results and the cumulative impact of each of the major adjustment sections presented in Confidential Exhibit No. SEM-3C. The far right column of page 3 shows the Washington-allocated normalized results for the Test Period.

Q. Please describe Confidential Exhibit No. SEM-3C.

A. Confidential Exhibit No. SEM-3C is the Company's Washington Results of Operations Report (Report). The Report provides the per books and normalized totals for revenue, expenses, depreciation, net power costs, taxes, rate base, and loads for the Test Period. Additionally, the 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 Report presents operating results in terms of both return on rate base and ROE.

Q. Please describe how the Report is organized.

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

- Tab 1—Summary reflects the Washington-allocated results based on the new 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 9.76 percent. Column 6 (Price Change) reflects the necessary revenue increase of $3.1 million to achieve a 10.20 percent ROE. Column 7 (Results with Price Change) reflects the Washington normalized results including a $3.1 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 9. 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 Test Period 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 (Code of Federal Regulations, Title 18, part 101).

- Tabs 3 through 9 provide supporting documentation for the restating and pro forma adjustments required to reflect normal or expected operating conditions of the Company. 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 Test Period results. Each column has a numerical reference to a corresponding page in the Report, which contains a "lead sheet" showing the type of adjustment (restating or pro forma), the FERC account(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 10 contains the calculation of the WIJAM allocation factors.

- Tab 11 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.

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 3.1.3 through 3.1.4 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 97 (Power Cost Adjustment Mechanism), Schedule 93 (Decoupling), and out of period items.

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

Ancillary Revenue (page 3.4)—This pro forma adjustment reflects ancillary revenue changes that are consistent with the forecast NPC treatment reflected in adjustment 5.1 discussed below.

Tab 4—O&M Adjustments

Q. Please describe the adjustments included in Tab 4.

A. **Miscellaneous General Expense Adjustment (page 4.1)**—This restating adjustment removes certain miscellaneous expenses that should have been charged below-the-line to non-regulated expenses. 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 Adjustment (pages 4.2 and 4.3)—This restating and pro forma adjustment is used to compute general wage-related costs for the Test Period. The Company has several labor groups, each with different effective contract renewal dates. The 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 treatment of wages reflected in the Test Period 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 the rate effective period, to the annualized June 30, 2019 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.

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

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 and the 2015 Rate Case, the Company has updated these expenses and post-employment benefits based on the most recent actuarial projections for the rate effective period, resulting in an overall decrease to employee benefit costs reflected in this filing.

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

A. **Insurance Expense Adjustment (page 4.4)**—Consistent with previous Washington rate cases, the Company has replaced the base period liability and property damage expense with a rolling six-year average of damage expenses. Per Order 08 of the 2014 Rate Case, this restating adjustment also excludes expense accruals for three relevant events.

PacifiCorp is also proposing to establish a property insurance reserve account, to which monthly accruals will be made to cover property damages going forward. Establishing an insurance reserve account will increase rate stability because property damage expense will be accrued to the reserve at an amount based on the six-year average as calculated above, keeping expenses constant. When property damages occur, they will be charged to the reserve with no effect on expense.

Q. Please describe PacifiCorp's proposal in this proceeding with respect to property insurance coverage.

A. The Company's captive insurance policy with Berkshire Hathaway Energy Company expired March 21, 2011. Since that time PacifiCorp has been self-insured for non-Transmission and Distribution (T&D) property and T&D property losses. This self-insurance method covers O&M related damages. Capital related damages will be recovered as projects are added to rate base.

As described above, the annual accrual amount is calculated based on a six-year average of actual property damage expense. The reserve will be accrued in FERC account 228.1, Accumulated Provision for Property Insurance. When PacifiCorp experiences property damage due to an accident, fire, flood, storm, or other hazard, Washington customers' share of the expense is recorded against this reserve in FERC 228.1. The reserve will cover costs to repair Washington's distribution system plus Washington's share of costs for non-distribution equipment, such as generation or transmission.

The accrual level and six-year average of actual costs will continue to be evaluated and updated as appropriate in future rate case filings.

Q. Does the Company have similar reserves in any other state?

A. Yes. The Company has property insurance reserves in Oregon, Utah, Wyoming, and Idaho. Additionally the Company has requested a similar reserve in its pending California rate case, with no party opposing the request.

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

A. **Advertising Adjustment (page 4.5) and Memberships and Subscriptions Adjustment (page 4.6)**—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 4.7)—This restating adjustment normalizes the Company's per books June 2019 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 both the 2013 Rate Case and 2014 Rate Case.

Legal Expense (page 4.8)—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.

Payment Fees and Bill Credits (page 4.9)—This adjustment adds into test period results the pro forma incremental expense due to the proposed inclusion of credit card and paystation fees in general rates. It also adds in the reduction in revenues for the proposed autopay and paperless billing credits. For details of these proposals, please refer to the direct testimony of Ms. Melissa S. Nottingham.

Remove Non-Recurring Entries (page 4.10)—Two accounting entries were made during the Test Period, that were related to prior period adjustments. This restating adjustment removes these items 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.[5] 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 met that criteria and has been fully amortized. All other environmental costs are to be expensed as incurred for Washington. This restating

---

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

adjustment adds back the actual base period expenditure amounts for remediation projects.

Credit Facility Fee Adjustment (page 4.12)—The Company incurs banking fees consisting of upfront and quarterly commitment fees on revolving credit facilities which support the Company's Commercial Paper issuances by providing a secondary source of repayment for the Commercial Paper. This adjustment corrects the accounting for these fees.

Amortization of Pension Settlement Adjustment (page 4.13)—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. This adjustment corrects the allocation of Washington's share of this amortization for the first six months of 2019 and annualizes the amount so that a full 12 months is reflected in the Test Period results.

Additionally, the Company's actuary is projecting a similar pension settlement loss in 2020. As such, 12 months of pension amortization that will be incurred during the rate effective period has been included on a pro forma basis.

Tab 5—Net Power Cost Adjustments

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 the PACW for the Test Period.

Net Power Costs-Pro Forma (page 5.2)—This adjustment adds in pro forma changes to NPC for the 12 months ending December 31, 2021, which is the rate effective period, and incorporates changes agreed to in the WIJAM MOU. 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, and 2014. Please refer to the direct testimony of Mr. Wilding for more information 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.

Colstrip Unit 3 Removal (page 5.3)—As directed by the Commission in Cause No. U-83-57, and updated in the 2015 Rate Case, this restating adjustment removes the revenue requirement components of the Colstrip Unit 3 resource from the Test Period.

REC Purchases (page 5.4)—In docket UE-161067, the Commission authorized the Company to recover the costs of unbundled Renewable Energy Credits (REC) through Schedule 95 until the conclusion of its next general rate case.[6] These REC purchases are necessary for compliance with Washington's renewable portfolio standard (RPS). This adjustment adds in the annual level of REC purchases to the Test Period. Please see Ms. Etta Lockey's testimony for further discussion of these REC purchases.

Nodal Pricing Unit 3 Removal (page 5.5)—This adjustment adds in pro forma capital and incremental O&M expenses for the new Nodal Pricing Model as agreed to

---

[6] *In the matter of Pac. Power & Light Co.*, Docket No. UE-161067, Order 01 (Feb. 9, 2017).

in PacifiCorp's Nodal Pricing Model MOU. Please refer to the testimony of Mr. Wilding for more information on the Nodal Pricing Model.

Tab 6—Depreciation and Amortization Adjustments

Q. Please describe the adjustments included in Tab 6.

A. **Pro Forma Depreciation and Amortization Expense (page 6.1-6.1.1)**—This adjustment enters into the Test Period results depreciation and amortization expense for the plant additions added to rate base in adjustment 8.4.

Pro Forma Depreciation and Amortization Reserve (page 6.2-6.2.1)—This adjustment enters into the Test Period results depreciation and amortization reserve for the plant additions added to rate base in adjustment 8.4.

End-of-Period Plant Reserves (page 6.3-6.3.3)—As discussed above, this restating adjustment walks the depreciation and amortization reserve from the June 2019 AMA balance to the June 30, 2019 EOP balance.

Q. Please describe the Accelerated Depreciation on Jim Bridger & Colstrip adjustment on page 6.4.

A. Consistent with the proposal to accelerate the depreciation schedule for the Jim Bridger and Colstrip generation plants and associated GSU equipment as explained in the direct testimony of Mr. Wilding, this pro forma adjustment reflects the incremental depreciation expense of using accelerated accrual rates for Jim Bridger and Colstrip. The revised end of life for depreciation purposes in this filing is December 31, 2023, for Jim Bridger and Colstrip. Incremental reserves are reflected on an average basis for the rate effective period. Tax impacts are also included accordingly.

Q. Please describe the Depreciation Study adjustment on page 6.5-6.5.5.

A. This filing includes updated depreciation rates as filed with the Commission in the Company's September 2018 Depreciation Study, except for the depreciation rates for Jim Bridger and Colstrip set forth in adjustment 6.4 discussed above. This adjustment reflects the incremental change in depreciation expense for the rate effective period using these proposed rates. Included in this adjustment is the change in the level of hydro decommissioning expense that is included in the 2018 Depreciation Study. The associated depreciation reserve balances have been walked forward to the rate effective period on an AMA basis and includes the change in the hydro decommissioning reserve in the study. The tax impacts of this adjustment are reflected in Adjustment 7.12 discussed below. Please see the testimony of Ms. Kobliha on the proposed depreciation rates and the 2018 Depreciation Study.

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 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 has been updated in the Company's revenue requirement model to 21 percent. The detail supporting this calculation is summarized on page 2.22 of the Report.

Q. Please describe the adjustments included in Tab 7.

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

Property Tax Expense (page 7.2)—This pro forma adjustment 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, 2021, the rate effective period. Details supporting the Company's calculation of pro forma property tax expense are included as Confidential Exhibit No. SEM-4C. This approach is consistent with the treatment in the 2013 Rate Case and the 2014 Rate Cases.

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. The credits are used in the year of production to the extent current federal income taxes are due, or, should the credits not be fully used in the year they are generated, they are carried back one year and forward 20 years to offset taxes in those years. This pro forma adjustment reflects this credit based on the qualifying production for the repowered and new wind facilities included in the pro forma capital additions described in Adjustments 8.12 and 8.13 below.

PowerTax Accumulated Deferred Income Tax Balance Adjustment (page 7.4)—This restating adjustment reflects the Company's property-related accumulated deferred income tax balances on a jurisdictional basis using results from the Company's tax fixed asset system, PowerTax.

Permanent Schedule M Adjustment (page 7.5)—This pro forma adjustment reflects the known and measurable changes to the permanent Schedule M items for the 12 months ended December 2020.

Remove Deferred State Tax Expense and Balance (page 7.6)—The Company's per books provision for deferred income tax and the balance for accumulated deferred income tax are computed using the Company's blended federal and state statutory tax rate. 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 Test Period.

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.

Allowance for Funds Used During Construction (AFUDC) Equity Adjustment (page 7.8)—This restating adjustment brings the appropriate level of AFUDC – Equity into results to align the tax Schedule M with regulatory income.

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 26, 2019, letter from the Washington Department of Revenue.

Wyoming Wind Generation Wind Tax Adjustment (page 7.10)—In accordance with the signed WIJAM MOU and proposed allocation changes for Washington, 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 Test Period 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.

Removal of TCJA Deferred Balances Adjustment (page 7.11)—This adjustment reflects the removal of tax deferral balances as a result of the TCJA that was enacted on December 22, 2017. The corporate income tax rate was reduced from 35 percent to 21 percent effective January 1, 2018. The related tax deferral balances are being removed from the base period and amortization via a separate tariff is being proposed as part of this rate case.

Q. Please describe the amortization of the deferred TCJA balances.

A. The Company is proposing a 10-year amortization of the deferred TCJA balances, including the 2020 deferral of current tax benefits due to the reduced tax rate. This amortization will result in a $7.1 million rate credit for Washington customers. Please see Exhibit No. SEM-5 for the details of the amortization schedule.

Q. Please continue describing the adjustments in Tab 7.

A. **Depreciation Study and 2020 Depreciation Tax Impacts (page 7.12-7.12.1)**—This pro forma adjustment reflects the tax impacts of Adjustment 6.5, Depreciation Study.

Tab 8—Rate Base Adjustments

Q. Please describe the adjustments included in Tab 8.

A. **Jim Bridger Mine (page 8.1)**—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 the Test Period. The 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.[7] Consistent with Order 06 in the Company's 2010 Rate Case, docket UE-100749, materials and supplies and pit inventory balances associated with BCC have been excluded from the Test Period.[8]

Regulatory Asset Amortization (page 8.2)—This adjustment adds into results the amortization of several regulatory assets and liabilities, including:

- Deferred revenues for accelerated coal-fired depreciation—In the 2015 Rate Case the Commission approved the Company's proposal to increase revenue requirement for accelerated depreciation of Jim Bridger and Colstrip, but also required the Company to defer these revenues in FERC Account 254, Other Regulatory Liabilities. In conjunction with the 2018 Depreciation Study and this rate case filing, the Company is proposing to amortize this balance over three years, providing an offset to the increase in depreciation for the further acceleration of Jim Bridger and Colstrip as described above in Adjustment 6.4 above. Additionally the Company has two small residual balances from previous deferrals that are being proposed to offset against this balance.[9] Please refer to page 8.2.4 for details about the residual balances.

- Repowering Project Deferrals—The Company has filed applications with the Commission to defer the revenue requirement of repowering certain wind facilities. If approved, the deferral period would range from the in-service date of the project until included in rates, or January 1, 2021. A three-year amortization of these balances have been included in this adjustment.

- Colstrip Unit 3 Carrying Charges—In Cause No. U-86-02 the Commission approved recovery of deferred carrying charges related to Colstrip Unit 3. The amortization of this balance will be complete in February 2021. Accordingly the Company has reduced the amortization included in results for the Test Period to reflect the reduced expense during the rate effective period.

---

[7] *WUTC v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket No. UE-032065, order 06 (Oct. 27, 2004).
[8] *WUTC v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket UE-100749, Order 06 (Mar. 25, 2011).
[9] Docket No. UE-140762, Order 08 at ¶¶ 172, 249-251, authorizing recovery of deferred expenses for the Merwin Fish Collector and return of excess deferred depreciation expense. The residual balances are $(3,432) and $6,648, respectively.

- REC Purchases Deferral—In November 2019 the Company filed a petition requesting deferred accounting treatment for the purchase of unbundled RECs necessary for compliance with the RPS for calendar year 2020. This adjustment brings into results one year of amortization of this balance, assuming a three-year amortization schedule.

Q. Does Adjustment 8.2 include deferred costs for the Company's Electric Vehicle Supply Equipment Pilot Program (EVSE Pilot Program)?

A. No. The Commission approved deferral of costs for the Company's EVSE Pilot Program in docket UE-180809 with consideration for recovery in the next general rate case.[10] However, given the ongoing implementation of this program the Company is unable to estimate the total costs of the program at this time, and as such has not proposed an amortization of the balance or recovery in this filing. Instead the Company will request consideration of the EVSE Pilot Program costs in a future proceeding.

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.

Major Plant Additions (page 8.4-8.4.3)—This pro forma adjustment adds to rate base plant additions on a Washington-allocated basis that will be placed in service by December 31, 2020. Not included in this adjustment are the wind repowering projects, Adjustment 8.12, and the new wind generation resources and associated

---

[10] *In the matter of Pac. Power & Light Co.*, Docket No. UE-180809, Order 01 (Jan. 31, 2019).

transmission, Adjustment 8.13. Projects over $10 million (total-Company basis) are described beginning on page 8.4.29. Additional details on the Vantage-Pomona Heights 230kV and the Goshen-Sugarmill-Rigby 161kV transmission lines can be found in the testimony of Mr. Vail. As discussed above, inclusion of pro forma plant additions is consistent with previous Commission decisions in at least the last three general and limited-issue rate cases.

The production factor adjustment on page 9.1 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 Adjustment (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.

Removal of Colstrip Unit 4 AFUDC (page 8.6)—This restating adjustment removes AFUDC from electric plant in-service for the period that Colstrip construction work in progress was allowed in rate base. This treatment was authorized in Cause No. U-81-17 and has been included in all the Company's Washington rate case filings since that time.

Customer Service Deposits (page 8.7)—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

PacifiCorp's 2006 rate case and is consistent with all of the Company's rate cases filings since that time.[11]

Investor Supplied Working Capital (page 8.8)—This adjustment reflects a restatement of working capital using the Investor Supplied Working Capital 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.

Removal of Jim Bridger Selective Catalytic Reduction (SCR) systems (page 8.9)—This restating and pro forma adjustment removes the Jim Bridger Unit 3 and Unit 4 SCR systems from rate base as ordered in the 2015 Rate Case. This adjustment also removes pro forma capital additions and associated depreciation reserve for Jim Bridger Unit 3 and Unit 4 SCR systems that are included in Adjustment 8.4 above**.**

End-of-Period Plant Balances (page 8.10-8.10.5)—This adjustment modifies the gross plant balances from June 2019 AMA levels to the actual June 30, 2019 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. The associated accumulated reserve impacts are accounted for on adjustment page 6.3.

Idaho Power Asset Exchange Adjustment (page 8.11)—The Idaho Power Asset Exchange was approved in Order 01 of docket UE-144136. However, in the Company's 2015 Rate Case, the Commission determined, that the costs of exchanged assets should not be reflected in rate base until the benefits of the exchange can also

---

[11] *WUTC v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket No. UE-061546, Order 08 (June 21, 2007).

be reflected for ratemaking purposes.[12] The Company's rate case filing at present includes an update to base NPC that would reflect benefits resulting from this asset exchange. This adjustment brings into rate base the gross plant and accumulated depreciation reserve balances as of June 30, 2019, on an end-of-period basis. Annual depreciation expense related to the assets received in the asset exchange is reflected in Adjustment 6.5, Depreciation Study Adjustment.

Repowering Project Capital Additions (page 8.12)—This pro forma adjustment adds the capital additions, gross plant retirements, and depreciation amounts for the wind repowering projects set to occur before December 2020. In accordance with accepted utility accounting practices, the retired equipment will be transferred to FERC 108, Accumulated provision for depreciation of electric utility plant. Per the WIJAM, this adjustment has been prepared using the System Generation (SG) allocation factor for Washington. For additional details on the repowering of the Company's wind generation resources, please refer to Mr. Hemstreet's testimony.

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

New Wind Generation and Associated Transmission (page 8.13)—This pro forma adjustment adds the capital additions and depreciation amounts for the new wind generation projects and associated transmission set to occur before December 2020. Per the WIJAM MOU, this adjustment has been prepared using the SG allocation

---

[12] *See* Order 12 at ¶¶ 13 & 216.

factor for Washington. For additional details on the new wind and transmission, please refer to Mr. Link's, Mr. Teply's, and Mr. Vail's testimony, respectively.

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

Tab 9—Other Adjustments

Q. Please describe the adjustments included in Tab 9.

A. **Production Factor (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 load by the Washington pro forma load for the 12 months ending December 31, 2021. This factor is then applied to the pro forma NPC, pro forma ancillary services revenue, pro forma plant additions, pro forma repowering projects and pro forma new wind generation revenue requirement components.

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

System Non-Emitting Resources (page 9.2-9.2.1)—Parties agreed in the WIJAM MOU to a system allocation of non-emitting resources using the SG factor. This pro forma adjustment moves the non-emitting resources (wind, hydro, and geothermal) from a WCA allocation to a WIJAM allocation. As stated above in 8.12 and 8.13, the wind repowering and new wind adjustments were prepared utilizing the SG factor and are not included in this adjustment.

System Transmission - New (page 9.3)—This pro forma adjustment transitions the 2020 transmission capital projects that will be placed into service during 2020 and will be allocated per the transmission cost allocation methodology contained in the WIJAM MOU with Washington. This adjustment includes the 2020 transmission capital additions in Adjustment 8.4, but does not include the transmission capital additions associated with new wind resources in Adjustment 8.13 as those additions are already allocated on the SG factor.

System Transmission - Existing (page 9.4)—This adjustment transitions one-third of the existing transmission related revenues and costs from WCA to WIJAM. Existing transmission is defined as balances as of December 31, 2019, per the WIJAM.

Tab 10—Allocation Factors

Q. Please describe the data included in Tab 10.

A. In Tab 10, 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 10.2 shows each of the WIJAM allocation factors applied in this filing, as well as a page reference to the corresponding backup page within the Report that shows the calculation of that factor.

Q. Please describe the remaining portions of the Report.

A. **Tab 11—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.

Tabs B1 through B20: These tabs 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 the per books data found under Tab 2—Results of Operations.

V. DESCRIPTION OF ADDITIONAL EXHIBITS AND WORKPAPERS

Additional Revenue Requirement Exhibits

Q. Please describe Confidential Exhibit No. SEM-4C.

A. As mentioned above in the description of Adjustment 7.2 Property Tax Expense, Confidential Exhibit No. SEM-4C provides a description of the methodology and calculation of pro forma property tax expense.

Q. Please describe Exhibit No. SEM-5.

A. As mentioned above in the description of Adjustment 7.11 Removal of TCJA Deferred Balances Adjustment, Exhibit No. SEM-5 provides the amortization schedules for the deferred TCJA balances.

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 Word document named "McCoy Workpaper Index (WA GRC 2021)" contains an overview of how the workpapers have been organized. An Excel file named "Revenue Requirement Workpaper Flow Chart" 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.