Exh. SLC-8T
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 ***(Consolidated)***
In the Matter of ALLIANCE OF WESTERN ENERGY CONSUMERS' Petition for Order Approving Deferral of Increased Fly Ash Revenues	Docket UE-210852 ***(Consolidated)***

PACIFICORP

REBUTTAL TESTIMONY OF SHERONA L. CHEUNG

October 2023

TABLE OF CONTENTS

I. PURPOSE AND SUMMARY OF TESTIMONY 1

II. REVENUE REQUIREMENT 2

III. ADJUSTMENTS ACCEPTED OR PARTIALLY ACCEPTED BY THE COMPANY . 5

- A. Labor and Benefits 5
- B. Jim Bridger Units 1 & 2 Operations and Maintenance Expense 12
- C. Removal of Cancelled Colstrip Capital Projects 16
- D. Other Adjustments 18

IV. OTHER ADJUSTMENTS UPDATED BY THE COMPANY 19

- A. Rate of Return 19
- B. Pro Forma Capital Projects 20
  - 1. True-Up of 2022 Capital Placed In Service 20
  - 2. Capital Projects Not In-Service through 2025 22
  - 3. North Temple Office 23
  - 4. Jim Bridger Units 1 and 2 Conversion Capital Costs Update 24
- C. Liability Insurance Premium 24
- D. Net Power Costs (NPC) and Production Tax Credits (PTC) 25
- E. Bridger Reclamation and Unrecovered Investments 26
- F. Regulatory Assets & Liabilities Amortization 31
- G. Labor Day Wildfire Restoration Removal 33
- H. Production Factor 34
- I. Other Adjustments 34

V. PROVISIONAL CAPITAL REVIEW PROCESS 35

VI. STAFF ADJUSTMENTS NOT ACCEPTED BY THE COMPANY 44

- A. Non-Union Wage Escalation 44
- B. Exclusion of Pro Forma Coal Additions 49
- C. Proration of Jim Bridger Gas Conversion Costs 51
- D. Tracker for Coal Facility Costs 54
- E. Fly Ash Revenue Deferral 55

VII. PUBLIC COUNSEL ADJUSTMENTS NOT ACCEPTED BY THE COMPANY 60

VIII. AWEC ADJUSTMENTS NOT ACCEPTED BY THE COMPANY 62

- A. Wildfire Litigation Expense 62
- B. Injuries and Damages 64
- C. Disallowance of Pro Forma Projects less than $1 Million 65

D. NPC Forecast Period 68
E. Production Factor 71
F. Investors Supplied Working Capital 74
G. COVID Deferral 79
H. Pole Attachment Revenues 84

ATTACHED EXHIBITS

Exhibit No. SLC-9—Summary of Rebuttal Washington Results of Operations for the Rate Year 1
Exhibit No. SLC-10—Summary of Rebuttal Washington Results of Operations for the Rate Year 2
Exhibit No. SLC-11—Rebuttal Results of Operations for Rate Year 1
Exhibit No. SLC-12—Rebuttal Results of Operations for Rate Year 2
Exhibit No. SLC-13C—Confidential Exhibit Supporting Rebuttal Results of Operations for Rate Year 1 and Rate Year 2
Exhibit No. SLC-14C—Confidential Details Supporting Legal Adjustment
Exhibit No. SLC-15—Copies of Data Responses Referenced[1]
Exhibit No. SLC-16—COVID Deferral Quarterly Report (September 2022)

[1] For the sake of brevity, attached excel spreadsheets have been omitted from this exhibit.

1 **Q. Are you the same Sherona L. Cheung that previously provided testimony in this**
2 **case on behalf of Pacific Power & Light Company (Pacific Power or Company),**
3 **a division of PacifiCorp?**
4 A. Yes.

5 ## I. PURPOSE AND SUMMARY OF TESTIMONY

6 **Q. What is the purpose of your rebuttal testimony?**
7 A. The purpose of my testimony is to quantify and explain the corrections, revisions, and
8 updates made to the Company's proposed revenue requirement and to respond to
9 testimony of the Staff of the Washington Utilities and Transportation Commission
10 (Staff) witnesses Alex M. Tellez, Chris R. McGuire, the Public Counsel Section of
11 the Washington State Attorney General's Office (Public Counsel) witness Andrea C.
12 Crane, Robert L. Earle, Alliance of Western Energy Coalition (AWEC) witness
13 Bradley G. Mullins and Lance D. Kaufman (collectively, the Parties).[2]
14 **Q. Please summarize your testimony.**
15 A. My testimony explains and supports the Company's revised overall revenue
16 requirement increase of $18.7 million in Rate Year 1 (RY1) and $22.0 million in Rate
17 Year 2 (RY2) for the proposed multi-year rate plan (MYRP). This is a decrease of
18 approximately $8.0 million in RY1 and approximately $6.0 million in RY2 from the
19 amounts requested in the Company's initial filing. My testimony discusses the
20 Company's revisions, corrections, and updates to various revenue requirement
21 components for the modified request. My testimony also addresses revenue

[2] Unless personal pronouns are specified by a witness in their testimony, in my rebuttal testimony I use "they/them" when using a pronoun to refer to a witness.

1 requirement adjustments proposed by the Parties, including adjustments that the
2 Company is accepting.

3 As stated in my initial testimony, this rate filing is comprised of restating and
4 pro forma adjustments, incorporating discrete and identifiable cost increases over the
5 next two years. The initial filing was prepared with a proposed March 1, 2024
6 effective date for the RY 1 request and a March 1, 2025 effective date for the RY2
7 request. Currently, effective date for the RY1 request is expected to be March 19,
8 2024, and for the RY2 request is March 1, 2025.

9 **II. REVENUE REQUIREMENT**

10 **Q. Please describe the calculation of the revised overall revenue increase.**

11 A. The Company's revised revenue increase of $18.7 million for RY 1 and $22.0 million
12 for RY2 is calculated using the Washington Inter-Jurisdictional Allocation
13 Methodology (WIJAM). In support of the revised price changes, Exhibit No. SLC-9
14 presents a summary of the Company's revised Washington revenue requirement for
15 RY1, while Exhibit No. SLC-10 presents a summary of the revised Washington
16 revenue requirement for RY2. The organization and content in these exhibits mirror
17 my direct Exhibit No. SLC-2 and Exhibit No. SLC-3 for RY1 and RY2 respectively.

18 Further in support of the revised calculations in rebuttal, Exhibit No. SLC-11
19 provides revenue requirement summaries, along with modified adjustment pages, in
20 support of the Company's revised calculation of Washington revenue requirement in
21 RY1. This exhibit incorporates revisions to adjustments included in the Company's
22 initial filing and provides updated pages, updated revenue requirement summaries
23 and account detail portions (tabs 1 and 2) of my original Exhibit No. SLC-4. Exhibit

1 No. SLC-12 is provided in support of the corresponding revised pages and updated
2 summaries supporting revisions to Washington revenue requirement calculations for
3 RY2 in rebuttal, which were based on original pages presented in Exhibit No. SLC-5
4 in my direct testimony.

5 **Q. Is the Company incorporating any of the updates, corrections, or adjustments**
6 **proposed by the Parties in its rebuttal revenue requirement calculation?**

7 A. Yes, the Company has incorporated the following revisions to revenue requirement
8 adjustments proposed in its initial filing, including several adjustments proposed by
9 the Parties. Each revision is described in more detail later in this testimony.

Table 1 – RY1 Revenue Requirement Changes ($million)

Filed Revenue Requirement for Year 1		**$26.8**
	Cost of Debt & ROE Update	(0.3)
Adjustments Accepted or Partially Accepted by Company in Rebuttal		Revenue Requirement Impact
	Labor Union Wages Updates & Corrections	(0.3)
	Update to Latest Actuarial Report	(1.1)
	Jim Bridger Units 1 & 2 – Post Gas-Conversion O&M	(3.3)
Total Impact of Adjustments Accepted		***$(4.7)***
Revised Revenue Requirement		**$21.7**
Adjustments Revised by the Company in Rebuttal		Revenue Requirement Impact
	Net Power Costs, Production Tax Credits & Wyoming Wind Tax Update	(9.9)
	Insurance Liability Premiums Update	6.9
	Capital Project Updates & Removals (excl. Jim Bridger & Colstrip)	(1.2)
	Labor Day Restoration Costs Removal Correction	0.7
	Jim Bridger Gas Conversion Capital Costs Update	0.5
	Regulatory Asset and Liabilities Amortization Update[3]	0.4
	Bridger Mine Reclamation and Unrecovered Investment Costs Update	(0.2)
	Production Factor and State Deferred Tax Synchronization	(0.1)
	Jim Bridger Units 3 & 4, Colstrip Unit 4 Capital Costs Update	(0.0)
Total Impact of Adjustments Updated		***$(3.0)***
Rebuttal Revenue Requirement – Year 1		**$18.7**

[3] Inclusive of Pryor Mountain Renewable Energy Credit (REC) Revenues amortization corrections.

Table 2 – RY2 Revenue Requirement Changes ($million)

Filed Revenue Requirement for Year 2		**$27.9**
	Change from Year 1 Revenue Requirement Updates	(0.1)
Adjustments Revised by the Company in Rebuttal		Revenue Requirement Impact
	Capital Project Updates & Removals (excl. Jim Bridger & Colstrip)	(6.8)
	Jim Bridger Units 1 & 2 – Post Gas-Conversion O&M	0.8
	Regulatory Asset and Liabilities Amortization Update[4]	(0.4)
	Tax Synchronizations	0.3
	Jim Bridger Gas Conversion Capital Costs Update	0.2
	Jim Bridger Units 3 & 4, Colstrip Unit 4 Capital Costs Update	(0.0)
	Labor Union Wages Updates & Corrections	0.1
	Update to Latest Actuarial Report	(0.1)
	Bridger Mine Reclamation and Unrecovered Investment Costs Update	0.0
Total Impact of Revisions		***$(6.0)***
Rebuttal Revenue Requirement – Year 2		**$22.0**

1 **Q. Please describe Exhibit No. SLC-11.**

2 A. Exhibit No. SLC-11 is the Company's Rebuttal Washington Results of Operations
3 Report for RY1 (RY1 Report), revised to incorporate changes and updates outlined in
4 Table 1 above. The RY1 Report is organized in a manner similar to Exhibit No.
5 SLC-4:

6 • Tab 1 (Summary) reflects the Washington-allocated results based on the WIJAM.
7 • Tab 2 (Results of Operations) details the Company's overall rebuttal revenue
8 requirement by Federal Energy Regulatory Commission (FERC) account and
9 WIJAM allocation factor.
10 • Tabs 3 through 10 provide supporting documentation for restating and pro forma
11 adjustments that have been revised or updated in the calculation of the Company's
12 rebuttal revenue requirement for RY1.[5]

[4] As above.

1 Only pages originally presented in Exhibit No. SLC-4 that have been revised
2 in rebuttal is included in Exhibit No. SLC-11.

3 **Q. Please describe Exhibit No. SLC-12.**

4 A. Exhibit No. SLC-12 is the Company's Rebuttal Washington Results of Operations
5 Report for RY2 (RY2 Report), revised to incorporate changes and updates to RY2
6 revenue requirement outlined in Table 2 above. The RY 2 Report presents updated
7 adjustment and support pages from my original Exhibit No. SLC-5 for:

8 - Tab 13—Revenue & Expenses Adjustments (Year 2)
9 - Tab 14—Capital Additions & Depreciation Adjustments (Year 2)
10 - Tab 15—Interest & Taxes Adjustments (Year 2)
11 - Tab 16—Other Adjustments (Year 2)

12 Only pages originally presented in Exhibit No. SLC-5 that have been revised in
13 rebuttal is included in Exhibit No. SLC-12.

14 15 **III. ADJUSTMENTS ACCEPTED OR PARTIALLY ACCEPTED BY THE COMPANY**

16 **A. Labor and Benefits**

17 **Q. Please summarize Staff's position regarding the Company's proposed labor and**
18 **benefit adjustments.**

19 A. With respect to the general wage escalation calculations in this case, Staff witness
20 Tellez points out several corrections to be made in the Company's wage escalation
21 adjustments, as identified in the response to WUTC Data Request 68.[6] Specifically,
22 annual wage escalation effective dates for several International Brotherhood of

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[5] There were no rebuttal changes to Tab 3 of Exhibit No. SLC-4. Accordingly, there are not revised pages to provide under Tab 3.
[6] Tellez, Exh. AMT-7.

1 Electrical Workers (IBEW) 57 labor agreements were mis-entered in the Company's
2 direct filing as becoming effective a month earlier than as stipulated in contract.
3 Additionally, Staff witness Tellez disagrees with the Company's non-union wages
4 escalation percentage of 3.5 percent.[7]
5 Regarding pension and post-retirement related service and non-service expenses,
6 Staff witness McGuire states that "the Company used outdated actuarial reports…"[8]
7 and supports Staff witness Tellez's recommendation to update pension and post-
8 retirement related expense inputs in this case to reflect those from the most current
9 actuarial projections. Of note, Public Counsel witness Crane also makes the same
10 recommendation to reflect updated actuarial figures in the Company's revenue
11 requirement calculations.[9]

12 **Q. What is the Company's position on Staff's recommendation regarding general**
13 **wage escalation?**

14 A. The Company agrees with Staff witness Tellez's recommendation to correct the
15 effective dates of the specific labor groups that were found to be mis-entered. The
16 Company is also supportive of updating pension and post-retirement related expenses
17 to reflect reported figures from the most recently published actuarial reports. Though
18 to clarify, the Company did not intentionally use outdated actuarial reports as the
19 basis to calculate pension and post-retirement related expenses in its direct filing, as
20 characterized by Staff witness McGuire. At the time revenue requirement calculations
21 were made for direct filing, the reports on which the Company based its calculations
22 of pension and post-retirement expense were the most recently available. The updated

[7] Tellez, Exh. AMT-1CT at 6:15-16.
[8] McGuire, Exh. CRM-1T at 10:3-5.
[9] Crane, Exh. ACC-1T at 19:2-10.

1 actuarial report referred to by Staff and Public Counsel was published after the
2 Company made its initial filing in March 2023.
3 Additionally, Staff's proposed reduction to non-union wage escalation is not
4 appropriate, and I will address this issue later in my testimony.

5 **Q. Did parties quantify the impact of the proposed revisions correctly?**

6 A. Both Staff and Public Counsel witnesses provided an estimated adjustment impact
7 associated with the revisions they proposed; however both have minor calculation
8 errors or omissions.
9 In Staff witness Tellez's proposed adjustment to correct the labor group
10 escalation misstatements, Tellez identified IBEW 57 Power Deliver (PD), and Power
11 Supply (PS) as labor groups where the effective date for wage change was
12 misstated.[10] However, there is a third IBEW 57 labor group that also has the same
13 issue; it is the Combustion Turbine (CT) group that should also have the listed
14 effective date revised.
15 Public Counsel witness Crane relied on the Company's estimate of revenue
16 requirement impacts for the pension expense update to reflect the latest actuarial
17 report figures as provided in the Company's response to WUTC Data Request 71.[11]
18 These revenue requirement impacts are only high-level estimates. Additionally, in
19 calculating the estimated impact for RY2, Public Counsel added together the
20 Company's estimate of revenue requirement impacts for RY1 and RY2. This
21 aggregation duplicates the RY1 impacts and overstates the price change impact on
22 RY2.

[10] Tellez, Exh. AMT-1CT at 6:16-18.
[11] Crane, Exh. ACC-1T at 19:2-10; Crane, Exh. ACC-5C.

1 **Q. Have you prepared an example to illustrate the impact of Public Counsel's**
2 **duplication of RY 1 impacts?**

3 A. Yes. In a hypothetical example,[12] we will assume a utility is currently approved to
4 collect $500 thousand in rates. For RY1, the expected total revenue requirement is $1
5 million; therefore, the RY1 price change request, is $500 thousand (difference
6 between $1 million total RY1 revenue requirement, and approved collection of $500
7 thousand). For RY2, the projected total revenue requirement is $1.75 million, and so
8 using the same methodology, RY2 requested price change is $750 thousand.

	Total Rev. Req.	Price Change	Calculation
Approved Rev Req	$500,000		
RY1 Rev Req	$1,000,000	$500,000	($1,000,000-$500,000)
RY2 Rev Req	$1,750,000	$750,000	($1,750,000-$1,000,000)

9 Now assume, an intervening party proposes a change in the proceeding that
10 reduces RY1 revenue requirement by $100 thousand, and RY2 revenue requirement
11 by $50 thousand. Based on this proposal, the revised revenue requirement for each
12 rate year is $900 thousand for RY1 ($1,000,000 initial request less $100 thousand
13 proposed adjustment); and $1.7 million in RY2 ($1,750,000 initial request less $50
14 thousand proposed adjustment). The tabular representation of the hypothetical case
15 request, inclusive of the proposed change, becomes as follows:

	Total Rev. Req.	Price Change	Calculation
Approved Rev Req	$500,000		
RY1 Rev Req	$900,000	$400,000	($900,000-$500,000)
RY2 Rev Req	$1,700,000	$800,000	($1,700,000-$900,000)

16 Comparing the revised RY1 price change to the initial requested RY1 price
17 change, the difference is $100 thousand, which is equivalent to the adjustment

[12] Simplified for demonstrative purposes to not include consideration of tax and other gross-up components necessary in real-world revenue requirement calculations.

1 proposed by the intervenor. In RY2, the difference between the revised price change,
2 and the initial requested price change is only $50 thousand, which again, is exactly
3 the amount of reduction in total revenue requirement as proposed by the intervenor.[13]
4 Because the Company's calculation of RY2 price change uses RY1's price change as
5 a starting point, RY1 modifications naturally flows through RY2 results, and does not
6 need to be duplicated when the impact of the adjustment is made to RY2 results.
7 Witness Crane therefore overestimates the impact of several RY2 adjustments
8 proposed in Public Counsel's revenue requirement calculations, and the pension
9 expense impact imputation is one place where this overestimation exists.

10 **Q. Correcting for the issues identified above, what is the impact of the accepted**
11 **adjustments?**

12 A. Correcting for the errors and omissions described above, the impact to rate year
13 expenses of the accepted or partially accepted updates to labor and benefit expenses
14 are as follows:

15 • Correction of effective dates for IBEW 57 PD, PS and CT labor groups reduces
16 the general wage increase (GWI) adjustment[14] in RY1 by approximately $60
17 thousand, and approximately $19 thousand in RY2.

18 • Updating to reflect inputs from the latest available version of the actuarial report
19 results in the RY1 GWI adjustment to increase by approximately $81 thousand,
20 and decrease by approximately $72 thousand in RY2 for pension/post-retirement
21 service expenses. This update also results in a decrease in the pension related non-

[13] Because this simplified example does not consider tax and gross-up calculations necessary as part of real-world revenue requirement calculations, the RY2 impact is exactly as proposed. In reality, because of tax and gross-up calculations, RY2 price change would see a small impact due to these gross-up elements from an overall RY1 total revenue requirement that is different than initially proposed. However, the fact remains that the RY1 price change impact itself does not need to be duplicated in RY2.

[14] Adjustment 4.3 in RY1, and adjustment 13.2 in RY2.

1 service expense adjustment[15] of approximately $1.2 million for changes to
2 pension/post-retirement related non-service expense.

3 **Q. Were any other updates or corrections made to labor and benefit expenses?**

4 A. Yes, in addition to the IBEW 57 effective date mis-entries, the Company had also
5 identified in its response to Public Counsel Data Request 176 that the escalation
6 percentage for 2022 for UMWA 197 was incorrect and had not reflected a 1 percent
7 inflationary increase in addition to the contracted increase of 2.5 percent.[16] The
8 impact of this correction results in an approximate increase to the GWI adjustment of
9 $1.1 thousand in RY1 and an immaterial increase of approximately $16 in RY2.

10 Furthermore, in my direct Exhibit No. SLC-4, Adjustment 4.3, which is
11 intended to reflect pro forma changes to wages and pension and post-retirement
12 related *service* expenses included $4.8 million (total-Company) of expenses on Page
13 4.3.6 in the gross 2024 gross pension expense projection figure, derived from the 10-
14 year projection actuarial report. The same expense was also included in Adjustment
15 4.4, which is designed to reflect pro forma changes to pension and post-retirement
16 related *non-service* expenses. This $4.8 million of pension expense is confirmed to be
17 exclusively non-service expense, and so accordingly should only be reflected within
18 Adjustment 4.4. In rebuttal, the Company removed the $4.8 million of projected
19 pension expenses from Adjustment 4.3, and verified that the amount is only included
20 once, under Adjustment 4.4. This correction reduces Washington's pension and post-
21 retirement expense in RY1 by approximately $204 thousand, and increases the RY2
22 GWI adjustment by approximately $106 thousand.

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[15] Adjustment 4.4.

[16] Cheung, Exh. SLC-15.

1 Next, the Company's direct filing did not correctly parse out the service
2 component of post-retirement costs in Adjustment 4.3. The adjustment, as filed,
3 incorrectly picked up the non-service components of post-retirement expenses. These
4 non-service post-retirement expenses are already reflected in Adjustment 4.4, which
5 as described above, is the appropriate adjustment in which to capture pension and
6 post-retirement related non-service expenses. Accordingly, in rebuttal, post-
7 retirement expenses reflected in Adjustment 4.3 have been revised to only reflect
8 service cost components (*i.e.*, non-service components are removed). The correction
9 reduces the RY1 GWI adjustment by approximately $34 thousand, and increases the
10 RY2 GWI adjustment by approximately $37 thousand.
11 Finally, the Western Coal Carriers (WCC) post-retirement amounts were
12 pulled into Adjustment 4.3, but the Company had neglected to convert the amount
13 into dollars when using that amount in its adjustment. Accordingly, only $385 was
14 included in the rate year post-retirement expenses, when the amount should be $385
15 thousand. This correction increases RY1's GWI adjustment by approximately $16
16 thousand, and decreases RY2's GWI adjustment by approximately $371.
17 **Q. What is the aggregate impact of the described corrections and updates to labor**
18 **and benefits expenses?**
19 A. Please refer to Table 3 for the revenue requirement impact of each correction or
20 update to labor and benefits expenses as described above:

Table 3 – Revenue Requirement Impact of GWI Updates

Update/Correction	Rate Year 1 Impact ($000)	Rate Year 2 Impact ($000)
UMWA 197 Escalation %	$1.2	$0.0
IBEW 57 Effective Date	$(62.6)	$(20.0)
Pension Service Expense Correction	$(214.6)	$111.2
Post-retirement Service Expense Correction	$(35.8)	$38.8
WCC Correction	$16.7	$0.4
Updated Actuarial	$85.5	$(75.3)
Net Impact to Adj. 4.3 ($000)	**($209.6)**	$54.4

1 **B. Jim Bridger Units 1 & 2 Operations and Maintenance Expense**

2 **Q. Please describe the adjustment proposed by Public Counsel regarding the**
3 **Operations and Maintenance (O&M) expense associated with units 1 and 2 of**
4 **the Jim Bridger generating plant (Jim Bridger).**

5 A. Public Counsel witness Earle recommends a disallowance of $2.5 million of Jim
6 Bridger O&M expense in RY1, and a further reduction of O&M expenses of $735
7 thousand in RY2 to reflect O&M changes at Jim Bridger after the conversion of units
8 1 and 2 to gas-fired facilities.[17] This adjustment is intended to remove the entirety of
9 projected Jim Bridger Units 1 and 2 O&M expenses from Washington rates. Witness
10 Earle claims that the Company has not provided adequate documentation in support
11 of the O&M expenses for the Jim Bridger generating plant after its conversion to gas-
12 fired facilities. Based on this, witness Earle is recommending a disallowance of the
13 entirety of Washington's allocated share of Jim Bridger Units 1 and 2 O&M expense
14 for each of the rate years.

[17] Earle, Exh. RLE-1CT at 12:7-8.

1 **Q. How did the Company estimate Jim Bridger O&M costs in the Company's**
2 **initial filing, and do you have an update?**
3 A. The Company prepared this MYRP based on a historical test period of 12 months
4 ended June 2022, and then made restating and pro forma adjustments for known-and-
5 measurable changes based on substantial evidence that supports any increases or
6 decreases in revenue requirement components expected to occur during the pendency
7 of the GRC, or are expected with a reasonable degree of certainty to occur in the rate
8 year. While O&M budgets with projections exist for Jim Bridger Units 1 & 2
9 operating as gas-fired units, the Company does not have actual spend or historical
10 data to indicate how these units will run post conversion.
11 Also, it is my understanding that the budget process for Jim Bridger O&M is
12 not an open-ended process. A financial snapshot is taken at a point-in-time and that
13 information is used by Jim Bridger plant administration to build a budget for the
14 following ten-year cycle. The budget is not usually continuously updated and
15 modified once it has been approved, unless directed by the Company. While approved
16 budgets remain static, forecasts will be updated on an ongoing basis to reflect actuals
17 as they become known, and include a projection for the balance of the budget cycle
18 remaining. Forecasts change monthly based on known variables, cash-flow,
19 generation levels, any special projects, or even unbudgeted events. Ultimately, while
20 these O&M cost changes *may be* likely (*i.e.*, "known"), the magnitude of change to be
21 expected from status quo was not readily quantifiable to be considered "measurable."
22 **Q. Are there any mathematical issues with witness Earle's calculated adjustments?**
23 A. Yes, in part. Witness Earle's proposed adjustment is quantified based on the variable

1 O&M (VOM) and fixed O&M (FOM) as provided in the Company's response to
2 Public Counsel Data Request 84.[18] Witness Earle used the data provided for 2024,
3 2025, and 2026 to calculate the Washington share of O&M expense that should be
4 removed from the case. Witness Earle appropriately only takes PacifiCorp's 2/3 share
5 of the projected expenses, allocating those to Washington using a Control-Area
6 Energy West (CAEW) allocation factor to arrive at the Washington-allocated
7 projected expenses. However, in a last step of the calculation, it appears witness Earle
8 attempted to isolate expenses for 12 months beginning March 2024, and 12 months
9 beginning March 2025 to arrive at the $2.5 million reduction for RY1, and $735
10 thousand reduction for RY2. The method by which witness Earle achieves this is to
11 apply a monthly pro-ration to annual amounts to get the specific dollar for the 12
12 months beginning March period expense. In other words, the 12 months beginning
13 March 2024 expense, should reflect 10/12 of the 2024 Washington-allocated O&M
14 expense plus 2/12 of the 2025 Washington-allocated O&M expense. However, in the
15 calculation of the RY1 disallowance, witness Earle neglected to apply a 10/12 pro-
16 ration factor to the 2024 expenses and instead, used the full annual 2024 expense,
17 plus 2/12 of the 2025 expenses. Supplementing the pro-ration factor to Earle's
18 calculations, Public Counsel's proposed reduction to O&M expense in RY1 for Jim
19 Bridger Units 1 and 2 should only be $2.1 million. The proposed adjustment for RY2
20 appears to properly reflect the pro-ration of 2025 and 2026 O&M amounts.

21 **Q. Are there methodological issues with Witness Earle's calculated adjustments?**

22 A. Yes. Witness Earle has imputed a RY1 reduction to expenses in this case based on
23 projected O&M expenses. The Company developed this case using a historical test

[18] Earle, Exh. RLE-5C.

1 period of 12 months ended June 2022, with no incremental adjustment made to Jim
2 Bridger O&M expense levels. To correctly eliminate Jim Bridger Units 1 and 2
3 expenses from the Company's proposed case, it would be more appropriate to
4 determine the Jim Bridger Units 1 & 2 O&M expense embedded in historical test
5 period data, and subtract that amount out as a reduction to O&M expense
6 accordingly. Overlaying witness Earle's imputed adjustment based on projections
7 over the historical test period expenses reflected in the Company's revenue
8 requirement calculations result in a mismatch, and the amount being removed would
9 not result in zero Jim Bridger Units 1 and 2 O&M expenses in the case, as is the
10 intention of witness Earle's proposed adjustment.

11 **Q. Does the Company agree that an adjustment to Jim Bridger O&M expense in**
12 **the case is warranted?**

13 A. Yes. Upon review, the Company has determined that O&M expense levels at Jim
14 Bridger are likely to be lower in a post-conversion scenario, relative to status quo.
15 Accordingly, the Company has incorporated an adjustment to reduce O&M expenses
16 by $3.1 million on a Washington-allocated basis in RY1 based on consideration of the
17 post-conversion avoided costs as discussed in the rebuttal testimony of Company
18 witness Brad D. Richards.[19] This adjustment was calculated by comparing the
19 forecasted Jim Bridger O&M expense, considering avoided costs, against the actual
20 Jim Bridger O&M expense from the historical test period of 12 months ended June
21 2022. The difference is the resulting adjustment.

22 Based on similar post-conversion avoided costs for 2025, the Company has
23 included an increase to O&M expenses of $0.8 million on a Washington-allocated

[19] Richards, Exh. BDR-2T at 3:5-7.

basis in RY2 to reflect a relative increase in O&M levels when compared to RY1. The net result is an overall reduction to Jim Bridger O&M expense on a Washington-allocated basis of approximately $2.5 million across the two rate years in this MYRP.

C. Removal of Cancelled Colstrip Capital Projects

Q. What was Staff's proposal with regards to pro forma capital additions at Colstrip generating plant?

A. Staff witness McGuire recommends exclusion from rates the costs for capital projects included in the Company's direct filing through Adjustment 10.6 – Pro Forma Jim Bridger Units 3, 4 and Colstrip 4 Additions – Year 1 and Adjustment 14.7 – Pro Forma Jim Bridger Units 3, 4, and Colstrip 4 Additions – Year 2.[20] Within this list of projects to be excluded are several projects that the Company had identified through various discovery responses as projects that were either cancelled or no longer pursued.

Q. Does the Company agree with Staff's recommendation?

A. Specifically with regard to Staff's recommendation on Colstrip pro forma additions, the Company only agrees with the removal of projects that have been identified as cancelled, reduced in scope, changed in timing, or no longer pursued. The Company does not agree with the proposed exclusion from rates for other costs associated with the projects included in Adjustment 10.6 and Adjustment 14.7 otherwise. I will discuss the Company's position on the portion of the exclusion the Company does not agree with later in my testimony.

[20] McGuire, Exh. CRM-1T at 13:5-7.

1 **Q. Which projects does Staff witness McGuire propose to remove to which the**
2 **Company agrees?**
3 A. A handful of Colstrip projects were previously identified in the Company's responses
4 to WUTC Data Request 36, WUTC Data Request 37, and WUTC Data Request 85
5 respectively as cancelled or otherwise not pursued.[21] These include the Colstrip Unit
6 4 Final Superheat Section Replacement CY24, and Colstrip Condenser Tube
7 Replacement CY24. Both are projects greater than $1 million and are addressed in the
8 testimony of Company witness Richards. Additionally, a series of projects less than
9 $1 million were also either partially or entirely cancelled, including:

10 - COLU4 IP Turbine Overhaul CY24
11 - COLU4 Balance of Plant Capital CY24 - Spare Exciters
12 - COLU4 Overhaul Capital CY24 - U4 Stack Silencer Replacement
13 - COLU4 Overhaul Capital CY24 - Capital Project Support
14 - Design/Construct Cap Treatment Sys Solids Disposal Area

15 The total Washington-allocated cost for Colstrip Unit 4 removed from
16 provisional capital projects (i.e. expected in-service 2023 through 2025) in this filing
17 is approximately $1.2 million, before pro-ration. The estimated revenue requirement
18 impact[22] of this change is a reduction of approximately $26 thousand in RY1, and a
19 reduction of $35 thousand in RY2.
20 **Q. Does any other party support the removal of cancelled Colstrip projects?**
21 A. Yes, Public Counsel witness Crane is also recommending removal of Colstrip capital
22 projects that have been cancelled by owners and removed from Colstrip's 2024-2025

[21] Cheung, Exh. SLC-15.
[22] Before deferred tax impacts, interest calculation, and production factor synchronization.

1 maintenance plan.[23] In quantifying the impact of the proposed removal, witness Crane
2 relied on the estimated revenue requirement impact the Company provided in
3 response to WUTC Data Request 86.[24] However, like witness Crane's incorporation
4 of the impact for the pension expense update, the impact of the RY1 adjustment
5 associated with Colstrip cancelled project is also erroneously duplicated in witness
6 Crane's calculation of RY2 changes, which then results in a similar overstatement as
7 was the case with the pension expense update described in previous sections of my
8 testimony.

9 **D. Other Adjustments**

10 **Q. Were there any other recommendations by Parties that the Company agrees**
11 **with?**

12 A. Yes. Staff witness Huang sponsored testimony supporting Staff's proposed Interest
13 True-Up adjustments and the Production Factor adjustment. As witness Huang
14 explained, the difference between the Company's adjustment and Staff's adjustment
15 results from differences in weighted average cost of debt and the level of rate base
16 used in the calculation.[25]

17 Similarly, Staff is proposing an update to the Production Factor adjustment in
18 this case due to numerous generation-related components that were modified by Staff
19 through all witnesses' testimony, and so correspondingly, the Production Factor
20 adjustment needs to be synchronized with the revised generation-related
21 adjustments.[26] Witness Huang notes however, that Staff agrees with the Company's

[23] Crane, Exh. ACC-1T at 30:8-10.
[24] Crane, Exh. ACC-6C.
[25] Huang, Exh. JH-1T at 11:3-5.
[26] *Id.*, at 12:1-9.

1 methodology for calculating the production factor as it is consistent with prior
2 Commission treatment.[27]

3 The Company agrees with witness Huang that the interest true-up and
4 production factor adjustments both need to be modified as underlying changes to the
5 inputs going into these adjustments are updated. Accordingly, the Company's rebuttal
6 revenue requirement will reflect updated interest true-up and production factor
7 adjustments that will be synchronized to the revised adjustments reflected in its
8 rebuttal filing.

9 IV. OTHER ADJUSTMENTS UPDATED BY THE COMPANY

10 A. Rate of Return

11 **Q. Did the Company make any revisions to the requested rate of return in this**
12 **MRYP?**

13 A. Yes. In rebuttal, the Company is updating its cost of debt from 4.77 percent to 5.09
14 percent, and reducing its requested return-on-equity (ROE) from 10.3 percent to 10.0
15 percent. The overall effect of these changes is effectively no change to the overall rate
16 of return in this case. For further discussion on the update to cost of debt and ROE in
17 the Company's rebuttal filing, please refer to the rebuttal testimony of Company
18 witness Nikki L. Kobliha and Company witness Ann E. Bulkley.[28] The revenue
19 requirement impact of updating the rate of return on this MYRP is a decrease of
20 approximately $333 thousand in RY1. While the Company has not proposed an
21 update to RY2, there is a flowthrough impact from RY1 revenue requirement changes

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[27] *Id.*, at 13:17-19.
[28] Kobliha, Exh. NLK-7T at 2:5-3:12; Bulkley, Exh. AEB-15T at 22:1-24:7.

1 made in rebuttal in conjunction with the change in ROR that results in a decrease in
2 RY2 price change request by approximately $78 thousand.

3 **B. Pro Forma Capital Projects**

4 **1. True-Up of 2022 Capital Placed In Service**

5 **Q. Please summarize Staff witness McGuire's position with regard to provisional**
6 **plant that should be subject to review in this case.**

7 A. Among several recommendations around the provisional capital review process
8 proposed, witness McGuire states that the Commission should treat all post-test year
9 plant additions PacifiCorp included in its case (with exception of specific capital
10 additions for Colstrip and Jim Bridger otherwise contested by Staff) as provisional.
11 This includes post-test year plant additions in 2022, 2023, 2024, and 2025. Witness
12 McGuire claims that the Company was unclear on what it is proposing with respect to
13 post-test year plant additions, particularly those that would be placed in service in
14 2022.[29] McGuire then suggests that the Company's direct testimony was inconsistent
15 and contradictory as far as what capital projects would be subject to review. Witness
16 McGuire further notes that PacifiCorp did not provide separate provisional versus
17 traditional pro forma adjustments, as is required in the Commission's Used and
18 Useful Policy Statement (Policy Statement).[30]

---

[29] McGuire, Exh. CRM-1T at 45:1-5.

[30] *See In the Matter of 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 on Property that becomes Used and Useful after Rate Effective Date (January 31, 2020).

1 **Q. Did the Company's direct testimony offer a detailed, specific description of what**
2 **projects it views as subject to review in the Company's proposed capital review**
3 **process?**

4 A. Yes, my direct testimony provided this description:

> 5 **Q. Will all pro forma capital additions included in this filing be**
> 6 **subject to review and true-up in the Company's proposed**
> 7 **provisional capital review process?**
>
> 8 A. In its direct filing, the Company has included pro forma capital
> 9 investments beyond the Test Period ended June 30, 2022. This means
> 10 pro forma capital projects included in this case spans from July 1,
> 11 2022, through December 31, 2025. The Company proposes to update
> 12 all forecasted pro forma capital projects from July 1, 2022, through
> 13 December 31, 2022, with actual in-service amounts in its rebuttal
> 14 testimony in this case. This update will ensure that 2022 capital rate
> 15 base included in Washington rates reflect actual in-service costs and
> 16 alleviate the need for a true-up review for 2022 capital project costs.
> 17 Provisional capital projects forecasted to be placed in-service in
> 18 calendar years 2023 onwards will be subjected to the provisional
> 19 capital review process.[31]

20 Accordingly, Staff's observation that the Company's direct testimony offered
21 no distinction between traditional and provisional adjustment is accurate – but the
22 apparent lack of this distinction is due to the fact that in its initial filing the Company
23 had included all pro forma capital on a provisional basis, with the stated intention to
24 update forecasted pro forma capital projects from July 1, 2022, through December 31,
25 2022, with actual in-service amounts in its rebuttal testimony. With this rebuttal
26 update, the 2022 pro forma capital projects have become <u>*traditional*</u> pro forma capital
27 projects, to be excluded from the Company's proposed provisional capital review
28 process. Pro forma capital projects from 2023 through 2025 will remain provisional

[31] Cheung, Exh. SLC-1T at 9:14-10:2.

1 pro forma capital projects, and be subject to review and true-up in the Company's
2 proposed provisional capital review process.

3 **Q. Has the Company included an update to July 1, 2022, through December 31,**
4 **2022 pro forma capital projects to reflect actual in-service amounts?**

5 A. Yes. By updating pro forma capital projects to reflect actual placed in-service
6 amounts from July 1, 2022, through December 31, 2022, Washington rate base is
7 reduced by approximately $2.2 million on a Washington-allocated basis, resulting in
8 an approximately $0.1 million decrease in revenue requirement in RY1, and
9 approximately a further $3 thousand in RY2.[32]

10 **2. <u>Capital Projects Not In-Service through 2025</u>**

11 **Q. Did the Company make any other revisions to pro forma capital projects in this**
12 **case?**

13 A. Yes. In preparing rebuttal, the Company reviewed all remaining provisional pro
14 forma projects (*i.e.*, projects included in initial filing expected to be placed in service
15 from 2023 through 2025), and identified all capital projects that are no longer
16 expected to be placed in service by 2025. The Company has removed these projects
17 from it its rebuttal revenue requirement calculations. The estimated revenue
18 requirement impact from the removal of these cancelled or otherwise post-2025
19 projects is approximately $1.1 million in RY1, and $6.8 million in RY2.

[32] Before deferred tax impacts, interest calculations, and production factor synchronization.

3. North Temple Office

Q. AWEC proposes to remove the North Temple Office (NTO) from this proceeding.[33] How do you respond?

A. AWEC argues that it is questionable whether Washington customers should be responsible for any costs incurred for a new Rocky Mountain Power (RMP) headquarters. This is despite consistent Commission precedent that has treated previous costs associated with the NTO as system-allocated costs under the approved WIJAM, and have routinely been included in Washington customer rates. The Company does not split operations between Portland and Salt Lake City based on service territory; a significant portion of business functions operate to support both RMP and Pacific Power in both locations. Management of PacifiCorp's generation operations, renewable development, grid operations centers, significant Information Technology (IT) infrastructure, customer service, numerous corporate functions, and other operations that are crucial to providing service to the Company's customers in Washington occur at NTO.

Q. Notwithstanding your concerns with the basis for AWEC's recommendations, do you have any update you would like to provide the Commission regarding the NTO project?

A. Yes. Given several reasonable project delays, the NTO project is no longer expected to be completed and placed in service until after 2025. Accordingly, the Company has removed its request to include any costs associated with the NTO project for consideration in this current rate case.

[33] Mullins, Exh. BGM-1CT at 25-28.

1 **4. <u>Jim Bridger Units 1 and 2 Conversion Capital Costs Update</u>**

2 **Q. Did the Company make any revisions to Jim Bridger Units 1 and 2 Gas**

3 **Conversion Capital Costs in rebuttal?**

4 A. Yes. In addition to truing up amounts placed in service through December 2022 to

5 reflect actual in-service amounts in Adjustment 10.7, Jim Bridger Units 1 and 2 Pro

6 Forma Capital costs, the Company revised the projected costs of the gas conversion to

7 reflect updated project costs throughout the MYRP.

8 As discussed in the Company's response to WUTC Data Request 45,[34] the

9 $20.9 million (total-Company) costs referenced in the direct testimony of Company

10 witness Richards was based on preliminary estimates. Current projected forecasts

11 estimate a total cost of $48.9 million on a total-Company basis for the gas conversion

12 of Jim Bridger Unit 1 and 2. This update increases revenue requirement in RY1 by

13 approximately $0.5 million, and approximately $0.2 million in RY2.

14 **C. <u>Liability Insurance Premium</u>**

15 **Q. Please explain how liability insurance premiums are incorporated in the MYRP.**

16 A. Premiums for liability insurance are considered a prepaid expense in which the

17 premium paid correspond with insurance coverage for a coverage period. For

18 example, the Company's liability insurance premiums are paid around August of each

19 year for coverage over the next 12 months. When preparing its direct filing, the

20 Company used the best available information at that time, which was the actual

21 liability insurance premiums paid in August 2022 for coverage over the next 12-

22 month period extending into 2023. The August 2022 liability insurance premiums

23 incurred expense was used as the basis for liability premiums reflected in the MYRP.

[34] Cheung, Exh. SLC-15.

1 **Q. Has the Company renewed its liability insurance since filing this application?**

2 A. Yes. Since then, the Company has renewed its liability insurance policies and paid the
3 revised premiums in August 2023 for coverage in 2023/2024. This renewed coverage
4 period more closely matches the rate periods for which rates are requested to be in
5 effect.

6 **Q. Has the liability insurance premium increased?**

7 A. Yes. The Company has experienced an increase in liability insurance premiums. The
8 August 2023 actual liability premiums paid increased from $32.2 million (total-
9 Company) to $125.2 million (total-Company). The Company has included the August
10 2023 liability insurance premiums in the revised revenue requirement which increases
11 the Washington-allocated revenue requirement by approximately $6.9 million.
12 Further details on the cost increases are explained in the rebuttal testimony of
13 Company witness Mariya V. Coleman.[35]

14 **D. Net Power Costs (NPC) and Production Tax Credits (PTC)**

15 **Q. Did the Company make any updates to NPC in its rebuttal filing?**

16 A. Yes, the Company updated NPC in RY1 to reflect an illustrative update as described
17 in the rebuttal testimony of Company witness Ramon J. Mitchell.[36] The illustrative
18 update reduces NPC by approximately $8.8 million on a Washington-allocated basis,
19 which amounts to a revenue requirement reduction of approximately $9.2 million.

20 In conjunction with the update to NPC, the adjustment to PTC was also
21 updated to synchronize to the updated generation levels reflected in rebuttal NPC.
22 Whenever NPC is updated, a PTC adjustment update should also be made to ensure

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[35] Coleman, Exh. MCV-1T at 5:3-9:19.
[36] Mitchell, Exh. RJM-3CT at 15-23.

1 generation assumptions are aligned between the costs and benefits of the generation
2 resources captured. The estimated revenue requirement impact of the PTC update is a
3 reduction of $0.7 million.
4 Similar to PTC, the Wyoming Wind Generation Tax adjustment was also
5 updated to synchronize generation assumptions with the illustrative update to NPC
6 included in rebuttal. In addition to the rebuttal update, the Wyoming Wind Generation
7 Tax adjustment provided in the Company's direct filing did not correctly factor in the
8 turbine-by-turbine installation dates for the TB Flats wind project, which resulted in
9 the Company's estimate being overstated by approximately $532 thousand, on a total-
10 Company basis. The impact of updating the Wyoming Wind Generation Tax
11 adjustment, inclusive of the correction, is a net reduction to revenue requirement of
12 approximately $13 thousand.

13 **E. Bridger Reclamation and Unrecovered Investments**

14 **Q. Did parties raise issues with the Bridger Mine Reclamation and Unrecovered**
15 **Investment recovery in this case?**
16 A. Yes, AWEC witness Mullins recommends the removal of the post-2023 Bridger Coal
17 Company (Bridger) Mine depreciation and reclamation costs from fuel costs as those
18 were resolved in the Company's last general rate case in docket UE-191024 (2020
19 GRC), and are being recovered through a separate regulatory liability.[37] Witness
20 Mullins asserts that, "all depreciation and reclamation costs incurred after 2023 have
21 been accounted for within the ten-year regulatory liability approved…" and that
22 under that stipulation, no further depreciation or reclamation costs beyond 2023 were

[37] Mullins, Exh. BGM-1CT at 31-35.

1 to be recovered from rate payers other than through the regulatory liability.[38] The
2 implication is that the continued recovery of Bridger Mine reclamation and
3 depreciation costs in fuel costs, in addition to annual accruals to the regulatory
4 liability that was established in 2021 would result in duplicative recovery of these
5 costs.

6 **Q. Can you explain how the Bridger Mine Reclamation and Unrecovered**
7 **Investment Depreciation were included based on the settlement agreement in the**
8 **2020 GRC?**

9 A. Yes. Included in the Company's NPC forecast in the 2020 GRC was annual fuel costs
10 that reflect a level of reclamation and depreciation expenses calculated based on
11 Bridger Mine being operational through 2037. In the 2020 GRC, settling parties
12 agreed to accelerate the depreciation of coal-fired resources to 2023, and the same
13 exit date assumption was applied to the Bridger Mine.[39] Accordingly, as part of the
14 settlement agreement, the parties agreed that the Company would establish a
15 balancing account that will be part of rate base to record the recovery of
16 Washington's share of additional, incremental reclamation and depreciation that
17 Washington would not be paying through annual fuel costs embedded in NPC
18 assuming Washington were to stop receiving an allocation of fuel costs after 2023.
19 This balancing account, a regulatory liability, reflects recovery of the estimated
20 incremental Bridger Mine reclamation and depreciation costs, assuming a 2023
21 closure date. Costs were to be recovered over 10 years, from 2021 through 2030.

---

[38] *Id.*, at 32:14-17.
[39] *WUTC v. PacifiCorp, dba Pacific Power & Light Co.*, Docket No. UE-191024 et al., Order 09/07/12 at ¶¶ 110-11 (Dec. 14, 2020).

1 **Q. Is AWEC correct that Bridger Mine reclamation and depreciation should be**
2 **removed in fuel costs because these costs are resolved and collecting through a**
3 **regulatory liability?**
4 A. No. In the current case, the Company is extending utilization of coal-fired resources
5 to serve Washington customers through 2025. Consistent with NPC calculations in
6 previous cases, NPC continues to reflect fuel costs, which include the level of
7 reclamation and depreciation expenses based on the assumed ***system*** operational life
8 of the Bridger Mine, though in this case, the assumed system operational life has been
9 revised to 2028. Accordingly, even with the extension of coal-fired resources
10 utilization through 2025, there will still be a need to capture recovery of incremental
11 reclamation and depreciation costs beyond what is included in fuel costs through
12 NPC. Explained another way, if Washington were to continue reflecting coal-fired
13 resource costs through 2028, then there would be no need for any incremental costs to
14 be accrued through the regulatory liability. However, since coal-fired resource costs
15 will cease to be included in Washington upon Washington's exit date, the incremental
16 reclamation and depreciation costs that should be borne by Washington customers for
17 years post-exit need to be recovered through a mechanism outside of NPC. The only
18 change warranted given the extension of the assumed Washington operational life, is
19 the magnitude of the incremental accrual that is required.
20 In this case, the Company took into consideration the operational life
21 extension assumption for Washington customers and recalculated the annual
22 incremental reclamation and depreciation expenses assuming a 2025 closure date.
23 The Company then took the updated necessary reclamation and depreciation expenses
24 based on the new assumptions, and annualized the amount over seven years. The

1 reason for the seven-year collection period is because costs of this nature were
2 approved to be recovered through 2030 in the previous rate case. Based on this, the
3 Company is targeting to collect the updated amounts through the same 2030 cutoff
4 date. Had the Company not recalculated the amounts to be collected through the
5 approved regulatory liability, then there might be an argument for duplicative
6 recovery. The recalibration of the incremental reclamation and depreciation costs to
7 assume a 2025 closure date re-establishes the alignment of costs collected through
8 fuel costs, and the costs being collected through the regulatory liability.

9 **Q. Is the Company proposing a correction to the calculation of the Bridger Mine**
10 **reclamation and depreciation adjustment in rebuttal?**

11 A. Yes. In analyzing witness Mullins' proposal to remove fuel costs, and further
12 examining the calculations reflected in the Company's Bridger Mine incremental
13 reclamation and depreciation expense adjustment, the Company observed an
14 oversight, where amounts collected since the 2020 GRC were not considered in
15 setting the required level of recovery going forward. In rebuttal, the Company has
16 reduced the incremental reclamation and depreciation expenses by the cumulative
17 amounts already collected since the approval of the original regulatory liability in
18 2021. This correction reduces annual reclamation costs that still need to be collected
19 through 2030 by approximately $250 thousand.

20 **Q. Can you provide an illustrative demonstration to help further the explanation of**
21 **Bridger Mine reclamation and depreciation costs in Washington rates?**

22 A. Yes, I can. Please refer to Illustration A below for a graphical presentation of the
23 reclamation and depreciation costs at Bridger Mine under various scenarios
24 discussed:

Illustration A – Bridger Mine Reclamation and Unrecovered Investment Costs

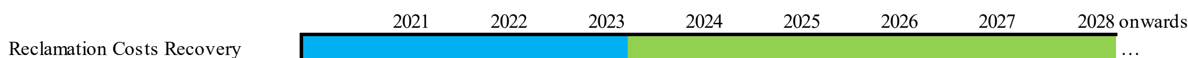
No early exit:

Reclamation Costs Recovery

Without an early exit date, Washington customers would pay the required level of reclamation costs through annual fuel costs through 2028, illustrated in blue.

2020 GRC Assumption - 2023 exit:

Reclamation Costs Recovery

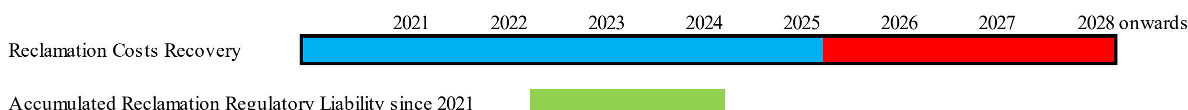


In the 2020 GRC, an exit date of 2023 was assumed for the Bridger Mine. Accordingly, Washington customers are assumed to continue to pay their share of reclamation costs through annual fuel cost recovery (illustrated in blue) through 2023. But the annual amounts that would have been collected through fuel cost assignment for years after 2023 (illustrated in green) was not going to be collected, because after 2023, there would be no fuel costs from Bridger Mine in Washington's rates. Accordingly, settling parties in the 2020 GRC agreed that the reclamation costs that would have been collected through fuel costs after 2023, i.e. Washington's exit from coal, (illustrated in green) would be recovered through 2030 through a regulatory liability.

2023 GRC Assumption - 2025 exit:

Reclamation Costs Recovery

Accumulated Reclamation Regulatory Liability since 2021



In the current GRC, the Company is assuming a 2025 exit date for coal resources. Accordingly, the calculation of reclamation costs that would not be recovered past the exit date have been recalibrated (now illustrated in red). In the Company's rebuttal calculation, the cumulative amount (in red) of reclamation costs not expected to be collected through fuel costs in net power costs, is then reduced by the amounts already collected since the establishment of the 2021 regulatory liability (in green). Accordingly, fuel costs in net power costs continue to reflect an annual allocation of the reclamation costs based on system operational life asumptions (in blue), and the regulatory liablity now is set to collect the amounts in red minus the amount in green, over 7 years starting in 2024 through 2030, consistent with the previously established end date for the collection period for these costs.

Q. Are there other additional considerations with regard to the Bridger Mine reclamation and depreciation adjustments you would like to add?

A. Yes. First and foremost, reclamation costs will be trued-up once final costs are known, and Washington customers will be expected to pay their share of final, known, reclamation costs.[40]

Secondly, should the Commission agree with AWEC, and determine that incremental reclamation and depreciation costs in rates need to be adjusted, the adjustment should be made through the accumulation of these amounts in the

[40] *See* Section 8 of the Washington Inter-Jurisdictional Cost Allocation Methodology (WIJAM) Memorandum of Understanding which states, "Washington will continue to be allocated ongoing and expected decommissioning expenses for a WCA share of Jim Bridger Units 1-4 and Colstrip Unit 4."

1 regulatory liability, and not through fuel costs reflected in NPC, as NPC modelling is
2 complex, and it would be difficult to isolate specific incremental reclamation and
3 depreciation cost components in fuel costs properly to make modifications.
4 Finally, if the Commission desires a more accurate estimate of incremental
5 reclamation and depreciation costs to be reflected in amounts recovered through the
6 regulatory liability, that is properly synchronized with fuel cost projects in NPC, the
7 Company can provide an updated calculation of annual reclamation cost amounts
8 reflected in Adjustment 6.4 – Decommissioning and Other Plant Closure Costs
9 Adjustment when a compliance filing for this MYRP is made. Ultimately though,
10 reclamation costs will be trued-up to actual reclamation costs once known.

11 **F. Regulatory Assets & Liabilities Amortization**

12 **Q. What changes has the Company made to the Regulatory Assets & Liabilities**
13 **Amortization adjustment in rebuttal?**

14 A. Since its direct filing, the Company became aware of several minor corrections in the
15 way regulatory assets and the amortization calculations are reflected.
16 The first of which is the deferral of costs associated with the Clean Energy
17 Transformation Act (CETA). In its direct filing, the Company included this
18 regulatory asset in rate base as a rate base addition. However, upon review of the
19 approval order in docket UE-210414, the deferred CETA associated costs are
20 supposed to be accruing interest at the FERC quarterly interest rate. This error was
21 identified in the Company's response to AWEC Data Request 029.[41] Accordingly, the
22 Company has removed the rate base balance in its rebuttal calculations, and

[41] Cheung, Exh. SLC-15.

1 supplemented interest accumulation on the deferred costs. This correction increases
2 amortization expense by $134 thousand, and reduces rate base by $450 thousand.
3 Second, the Company has corrected the interest accrual calculation on the
4 deferral of costs related to Electric Vehicle Supply Equipment (EVSE) Pilot program.
5 In its original filing, the Company inadvertently duplicated the interest accrual. This
6 correction was also identified in the Company's response to AWEC Data Request
7 029. In rebuttal, the Company has made this correction, reducing amortization
8 expense by $16 thousand.
9 Finally, as identified in the Company's response to Public Counsel Data
10 Request 118,[42] the Company did not include the recovery of the deferral of major
11 maintenance expense at Colstrip Unit 4 through 2020 and 2021. In the settlement
12 agreement approved in Final Order 09/07/12 in the Company's 2020 GRC, parties
13 agreed to deferred accounting treatment for these major maintenance costs at Colstrip
14 Unit 4. Parties also agreed that these deferred costs would be reviewed for prudency
15 in the 2021 Power Cost Only Rate Case in docket UE-210402 (2021 PCORC). In the
16 2021 PCORC settlement agreement approved in that docket, parties agreed "…not to
17 contest the prudence of the deferral of major maintenance expenses at Colstrip Unit 4
18 through 2020 and early 2021."[43] In the Company's rebuttal filing in this proceeding,
19 the Company has included into RY1 results the proposal to amortize these deferred
20 major maintenance expenses for Colstrip Unit 4 over one year. The total deferred
21 expenses subject to amortization is approximately $259 thousand on a Washington-
22 allocated basis, and reduces rate base by approximately $129 thousand.

[42] Cheung, Exh. SLC-15.
[43] *WUTC v. PacifiCorp, dba Pacific Power & Light Co.*, Docket No. UE-210402, Order 06 at ¶ 26 (Mar. 29, 2022).

1 **G. Labor Day Wildfire Restoration Removal**

2 **Q. Please explain the correction made to Adjustment 8.8 – Labor Day Wildfire**
3 **Capital.**

4 A. In its direct filing, the Company included Adjustment 8.8 (Labor Day Wildfire
5 Restoration Capital), which removes the historical capital additions placed in service
6 as part of Labor Day Wildfire restoration efforts.

7 In preparing this adjustment in direct, the Company had misidentified some
8 distribution costs for states outside of Washington as transmission assets. As a result,
9 Adjustment 8.8 in the Company's direct filing removed too much capital from rate
10 base on a Washington-allocated basis. The impact to Washington-allocated rate base
11 of this correction is shown in Table 4 below.

12 Table 4 – Summary of Net Plant Changes to Labor Day Restoration Removal

	Washington Allocated		
FERC	As Filed	Corrected	Change
355	$(17,855,801)	$(11,095,768)	$6,760,033
108	$499,944	$301,559	$(198,385)
Net Plant	$(17,355,857)	$(10,794,209)	$6,561,648

13 The Company corrected this amount in Adjustment 8.8 in its rebuttal filing.
14 Also, corresponding tax impacts for this correction have been reflected in Adjustment
15 7.4 (PowerTax ADIT Adjustment – Year 1). RY2 tax impacts are reflected in
16 Adjustment 15.4 (PowerTax ADIT Adjustment – Year 2). The revenue requirement
17 impact of this correction is approximately $0.7 million in RY1, and a slight reduction
18 of approximately $8 thousand in RY2.

1 **H. Production Factor**

2 **Q. Did the Company make any changes to its adjustment for production factor**
3 **adjustment?**

4 A. Yes. As noted by witness Huang, whenever generation-related inputs in the case are
5 modified, so should the production factor adjustment be revised to stay in-sync with
6 underlying inputs.[44] Accordingly, in rebuttal, the Company has modified the
7 production factor adjustment to reflect all updated generation-related inputs.
8 However, the methodology of the production factor calculation has not changed.

9 **I. Other Adjustments**

10 **Q. Were any other revenue requirement adjustments updated in the Company's**
11 **rebuttal filing?**

12 A. Yes, several minor adjustments have been modified in addition to each of the changes
13 discussed above.

14 The Company updated adjustment 5.3 (Pryor Mountain REC revenues – Year
15 1) to reflect an immaterial correction to the deferred balance through June 2021
16 included for amortization in the Company's direct filing. Also reflected in the rebuttal
17 update of this adjustment is the actual deferred revenues through August 2023.
18 Previously, in direct, the Company was only able to include actual deferred revenues
19 through December 2022, because that was the most recently available information.
20 Amounts past December 2022 reflected forecasted revenues. Finally, the Company
21 also updated the interest rate to reflect the quarterly interest rate through 2023 as
22 published by FERC. Again, due to the limitation of information available, in its
23 original filing, the Company held interest rate constant at the 2022 Quarter 4 interest

[44] Huang, Exh. JT-1T at 12:1-9.

rate through the remainder of the accrual and proposed amortization period. In aggregate, the updates described above increased revenues to be amortized by about $152. Because this amount is proposed to be amortized over one year, the Company has also reflected the impact of the revision in adjustment 13.3, which is the RY2 extension of adjustment 5.3, when the amortization is anticipated to end, and the amortization expense amounts are then removed.

Finally, Adjustment 7.1 (Interest True-Up – Year 1) and Adjustment 7.7 (State Deferred Taxes Removal – Year 1) have both been updated to reflect the flowthrough impact of all the other changes in the Company's rebuttal adjustments to revenue requirement in RY1. Adjustments 15.1 and 15.7, the RY2 corresponding adjustments to Adjustments 7.1 and 7.7, have both also been updated in RY2 results to reflect flowthrough impacts of all the changes that affect RY2 revenue requirement made in rebuttal. If additional adjustments proposed by other parties to this case are accepted by the Commission, adjustments 7.1 and 7.7, as well as their RY2 counterparts, will need to be updated.

V. PROVISIONAL CAPITAL REVIEW PROCESS

Q. What aspects of the Company's response to parties' recommended changes to the Company's proposed provisional capital review process will you be addressing?

A. I will be addressing in my testimony the following issues raised by parties:

- Parties' positions on the use of a portfolio basis in the provisional capital review process, as opposed to a project-by-project basis.
- Staff witness McGuire's criticism that the inclusion and grouping of pro forma capital projects on an annual basis is confusing.

1 • Parties' recommendation to reject the Company's proposal to utilize the MYRP
2 performance review threshold of +/- 50 basis points of rate of return as an
3 indication to determine whether a refund is warranted. Rather, parties support the
4 application of a refund threshold consistent with RCW 80.04.250.
5 • AWEC witness Mullins' proposal to have the provisional capital review process
6 commence on February 1 of the year following the pro forma period.
7 In addition to these specific issues that I address in my testimony below,
8 Company witness Matthew D. McVee responds more wholistically to the myriad of
9 modifications parties proposed to the Company's proposed provisional capital review
10 process.[45]

11 **Q. Please provide an overview of each party's position with regards to the use of a**
12 **portfolio basis in the Company's proposed provisional capital review.**

13 A. Staff is supportive of the Company's proposed approach to compare actual used and
14 useful plant to the level of plant included in provisional rates on a portfolio basis,
15 rather than a project-by-project basis. Public Counsel and AWEC oppose the portfolio
16 basis approach, and favor a project-by-project review.

17 **Q. Why is a portfolio basis review a reasonable approach?**

18 A. The Company's proposal for a portfolio-based review is consistent with how the
19 Commission has recently addressed the review of provisional pro forma capital
20 projects. My understanding is that the portfolio review process was first adopted for
21 NW Natural, and also used for Puget Sound Energy (PSE) and Avista Corporation
22 d/b/a Avista Utilities (Avista). The Commission adopted this process as part of a
23 settlement agreement in NW Natural's rate case, where the Commission determined

[45] McVee, Exh. MDM-2T at 56-60.

1 non-precedentially that it was appropriate to use a portfolio method to review a
2 discrete set of capital projects.[46] The portfolio approach was then taken and used by
3 PSE[47] and Avista[48] in their most recent general rate proceedings and agreed to by
4 settlement in those proceedings.

5 On the other hand, a review of provisional projects on a project-by-project
6 basis is not consistent with the Commission's recent decisions regarding review of
7 provisional capital projects.

8 **Q. What is AWEC's rationale for a project-by-project review?**

9 A. AWEC witness Mullins favored a project-by-project basis to provisional capital
10 review because "[under] the CBR [portfolio] approach, a utility could simply file a
11 rate case with highly exaggerated costs, and lacking a project-by-project review,
12 would be certain to recover whatever costs it might incur, even if it failed to deliver
13 on key elements of its capital budget..."[49]

14 **Q. How do you respond to AWEC's comments?**

15 A. A project-by-project approach to review provisional capital is myopic, imbalanced
16 and does not allow utilities to manage the business with enough flexibility to pivot
17 should unexpected, or new information arise. A project-by-project review does not
18 necessarily safeguard from exaggerated costs. On the contrary, a utility knowing it
19 would be held to a project-by-project standard for project review, where projects not
20 specifically budgeted for in rates would have no chance of being recovered until the

[46] *WUTC v. Northwest Natural Gas dba NW Natural*, Docket No. UG-200994, Order 05 at ¶¶ 22-29 (Oct. 21, 2021).
[47] *WUTC v. Puget Sound Energy,* Docket No. UE-220066, Order 10, Appendix A, Revenue Requirement Settlement at 10 (Dec. 22, 2022) ("The Settling Parties do not object to determination of prudence for all other plant investment through 2021 as proposed in PSE's direct case.")
[48] *WUTC v. Avista Corporation dba Avista Utils.*, Docket No. UE-22053, Order 10, Appendix A, Multi-Party Settlement Agreement at 10 (Dec. 12, 2022).
[49] Mullins, Exh. BGM-1CT at 16:24-17:3.

1 next rate filing, would be encouraged to include costs in a way that would best buffer
2 for contingencies. As Staff witness McGuire explains in testimony, the requirement
3 for a utility to stick rigidly to its forecasted capital plan could lead to bad business
4 decisions, and that the Company should not be penalized for adaptively managing its
5 investment plan and appropriately responding to changing circumstances.
6 Examination of the level of plant in-service on a portfolio basis allows for adaptive
7 management while still ensuring that, in aggregate, customers only pay for the plant
8 that is used and useful during the rate-effective period.[50] Having assurance of fair
9 recovery of prudently incurred investments, regardless of whether it was previously
10 planned for in a rate case, would motivate utilities to always act in the best interest of
11 serving customers.

12 **Q. Please describe Staff's criticism of the presentation of pro forma capital in this**
13 **MYRP.**

14 A. Staff witness McGuire's criticism of the presentation of pro forma capital projects in
15 this MYRP is two-fold, and both are due to confusion regarding which pro forma
16 projects included in the Company's filing should be subject to the provisional capital
17 project review process.[51] The first is a general confusion over the absence of
18 expressly identified traditional pro forma versus provisional pro forma capital. I
19 addressed this in the section of my rebuttal testimony above discussing the true-up of
20 pro forma capital to reflect actual placed in-service amounts between July 2022
21 through December 2022. The other complaint witness McGuire discussed was that
22 the aggregation of pro forma capital investments by calendar years also made it

[50] McGuire, Exh. CRM-1T at 40:5-10.
[51] *Id.*, at 43-45.

1 challenging to identify plant that otherwise could have been considered for traditional
2 pro forma treatment.
3 **Q. How do you respond?**
4 A. As discussed above, witness McGuire appears to have overlooked the discussion
5 explaining the intended capital update process within this proceeding to update
6 capital investments. Once the true-up of July 2022 through December 2022 projects
7 placed in service has been made, the only pro forma projects that remain as still
8 subject to the provisional review are for calendar years 2023, 2024, and 2025
9 respectively. As noted in my direct testimony, the presentation of project costs being
10 organized by calendar year is intended to align with the proposed annual review
11 periods of the proposed provisional capital review process. Since the Company is
12 proposing to leverage off the existing annual Commission Basis Reports (CBR)
13 filings to perform its annual provisional capital review process, aggregating pro forma
14 capital projects on a calendar year basis will better facilitate future review processes
15 and keep administrative burdens to a minimum as compared to any non-calendar year
16 aggregation of pro forma capital information included in the case. The reliance on
17 existing annual CBR filings as the basis to perform the annual review is consistent
18 with longstanding practices, and avoids the creation of new reporting processes in an
19 already complicated MYRP structure.[52]

[52] Policy Statement, ¶ 28, stated that the Commission's intended goals with regards to multi-year rate plans, which include ensuring general consistency with longstanding ratemaking practices, principles and standards, maintaining flexibility, avoiding overly prescriptive guidance, and supporting streamlined processes by requiring additional processes only when necessary.

1 **Q. How have parties responded to the Company's proposed 0.5 percent of**
2 **authorized rate of return threshold for determining refunds during the annual**
3 **retrospective review of plant provisionally included in rates?**

4 A. Staff recommends that the Commission establish a refund threshold that is consistent
5 with the property valuation statute, RCW 80.04.250.[53] Witness McGuire states that
6 the purpose of a provisional capital review process is to ensure that provisional rates
7 do not run afoul of used and useful provisions, as established by the Policy Statement.
8 Accordingly, to the extent provisional rates are shown to include a level of plant
9 above the level of plant that was actually used and useful for service during the rate-
10 effective period, RCW 80.04.250 would necessitate refunding ratepayers the full
11 amount the utility collected through rates for the value of the plants that were not
12 used and useful. While PSE and Avista, the first two MYRPs filed under the statutory
13 requirements for MYRPs, both established the 0.5 percent threshold in their
14 respective MYRP provisional capital review process, witness McGuire argues that
15 those precedents are to be viewed as experimental test beds.[54] Similarly, AWEC also
16 recommends the rejection of what witness Mullins refers to as an "ROE floor" in the
17 capital review process.[55] My understanding is that witness Mullins is essentially
18 making the same proposal as Staff witness McGuire, where should the annual
19 provisional capital review process yield any refundable amounts, that amount is to be
20 refunded in full to customers without deference to any earnings threshold. Public
21 Counsel did not opine on the earnings threshold the Company had proposed to apply
22 in assessing refunds in the provisional capital review process.

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[53] McGuire, Exh. CRM-1T at 40:15-19.
[54] *Id.*, at 42:13-43:5.
[55] Mullins, Exh. BGM-1CT at 17:9-10.

1 **Q. Do you have any concerns with the parties' proposals with respect to the**
2 **earnings threshold in the context of determining refunds under provisional**
3 **capital reviews in the MYRP?**
4 A. Company witness McVee addresses the parties' proposal in greater detail, but I do
5 have one point I would like to raise with regards to calculating refunds, in relation to
6 the MYRP earnings review as required by the MYRP statute, RCW 80.28.425(6). If
7 any independent criteria or earnings test is adopted in the process to determine
8 refunds based on provisional capital review that is different than the earnings
9 threshold allowed under the MYRP statute, then it is compulsory that any refunds
10 found necessary through the provisional capital review process be reflected in the
11 Company's CBR results before the application of the MYRP earnings test – *i.e.*, if a
12 utility's actual earnings during the rate-effective period of a MYRP is more than 0.5
13 percent above authorized rate of return, then the utility is to defer the amount of
14 excess earnings, sufficient to bring actual earnings within 0.5 percent of the
15 authorized rate of return. Not applying separate earnings threshold and refund
16 implementations sequentially, with a clearly established order of operations, would
17 result in the same revenue dollars being required to be returned to customers twice.
18 **Q. Can you summarize the steps implementing the appropriate order of operations**
19 **for the purpose of implementing the provisional capital review process in**
20 **conjunction with the various earnings tests under MYRP, and decoupling?**
21 A. Yes.
22 - Step 1 – File CBR in April following a reporting calendar period.
23 - Step 2 – File provisional capital review report in July of the same year as Step 1
24 - Step 3 – Calculate MYRP earnings test, taking into account any refunds under
25 Step 2

1 • Step 4 – Calculate decoupling earnings test, taking into consideration any refunds
2 in Steps 2 and 3

3 **Q. Did parties have any proposed modifications to the proposed review period?**

4 A. Staff is supportive of the proposed period for review, but with the understanding that
5 more complicated or controversial plant reviews could require the matter be set for
6 hearing and establish a procedural schedule that substantially extends the period for
7 review. In essence, Staff views the proposed 105-day period as an "initial" review
8 period where parties assess whether the review can be completed without formal
9 adjudication.[56]

10 Public Counsel proposes extending the review period by an additional six
11 weeks, moving the review period end date from November 1 to December 15,
12 resulting in a five-month review period.[57]

13 AWEC recommends that the entire review timeline be shifted up by 5.5
14 months, to commence on February 1 of each year following a pro forma period.
15 AWEC proposes a four-month review process, which witness Mullins describes as
16 consistent with the PSE and Avista processes.[58]

17 **Q. Are any of the proposed modifications problematic?**

18 A. As noted, a more comprehensive response to the overall proposed changes of the
19 provisional capital review process can be found in the rebuttal testimony of Company
20 witness McVee. However, specific to AWEC's proposal, the recommendation for the
21 initial capital review filing to be made by February 1 is not possible. There are two
22 primary reasons for this; availability of final accounting data and jurisdictional

[56] McGuire, Exh. CRM-1T at 48:9-14.
[57] Crane, Exh. ACC-1T at 15:9-16.
[58] Mullins, Exh. BGM-1CT at 18:12-20.

1 allocation factors for the reporting year, neither of which is available in time to file a
2 capital review with the Commission by February 1.
3 Unlike PSE and Avista, PacifiCorp is a six-state utility. To calculate in-
4 service rate base for Washington, the Company must first have jurisdictional
5 allocation factors calculated for a reporting period. Jurisdictional allocation factors
6 rely on FERC account balances to be finalized through the annual FERC Form No. 1
7 reporting process, as well as preparation and collation of reporting period
8 jurisdictional loads inputs. PacifiCorp's FERC Form No. 1 filings are generally made
9 in mid-to-late April every year, and jurisdictional loads inputs are also generally not
10 available until at least 90 days after the end of a reporting period. Once actual
11 jurisdictional load data becomes available, further calculations to derive normalized
12 loads as prescribed under WIJAM could take another week or so to prepare.
13 Normalized loads are then used to calculate jurisdictional allocation factors as
14 reported in the Company's annual CBR. Therefore, where the annual CBR is filed
15 annually at the end of April for the calendar year reporting period that most recently
16 ended in December, practically speaking, the soonest allocation factors for a given
17 reporting calendar year can be finalized and available for use is upon the filing of the
18 annual CBR. The Company's proposed provisional capital review process was
19 structured with the intention of keeping the process streamlined with existing
20 reporting requirements, so as to not create additional filings unless absolutely
21 necessary. From the point when jurisdictional allocation factors become available, the
22 Company's proposed review process allows for just under 2.5 months for the
23 Company to compile the incremental information that is not routinely part of the
24 annual CBR reporting process.

1 **VI. STAFF ADJUSTMENTS NOT ACCEPTED BY THE COMPANY**

2 **A. Non-Union Wage Escalation**

3 **Q. Please describe Staff's proposed adjustment to non-union wage escalation.**

4 A. Staff witness Tellez claims, based on the Company's response to WUTC Data
5 Request 70,[59] the Company has consistently overestimated wage expenses in the last
6 10 years.[60] Accordingly, witness Tellez is proposing to reduce the non-union wage
7 escalation percentage from 3.50 percent to 3.36 percent. Staff claims that the impact
8 of this reduction in non-union wage escalation rate results in a decrease in revenue
9 requirement of approximately $0.6 million.

10 As further support for Staff's proposed change to non-union wage escalation
11 rate, witness Tellez also claims PacifiCorp does not appear to have included offset for
12 wage increases by accounting for lower salaried employees replacing senior
13 employees as they leave.[61]

14 **Q. Does the Company agree with how Staff quantified the proposed reduction to**
15 **the non-union wage escalation rate?**

16 A. No. Staff's adjustment was calculated based on approved and paid non-union wages
17 for calendar years 2013 through 2023 provided in the Company's response to WUTC
18 Data Request 70. For each year of the data points provided, Staff witness Tellez
19 looked at the non-union wage escalation rate paid, compared it to the non-union wage
20 escalation rate approved, and imputed a relative difference between the two rates.
21 Based on the annual relative differences calculated, witness Tellez extrapolated an
22 average relative difference of 3.89 percent over the past 11 years. Accordingly,

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[59] Tellez, Exh. AMT-3.
[60] Tellez, Exh. AMT-1CT at 7:5.
[61] *Id.*, at 7:9-11.

1 witness Tellez is proposing to revise the Company's proposed non-union wage
2 escalation rate from 3.50 percent as proposed, by 3.89 percent relatively, to 3.36
3 percent.

4 **Q. Do you agree with Staff's proposed adjustment?**

5 A. No. First, Staff witness Tellez stated that the Company had overestimated non-union
6 wages by $1.8 million over the course of 11 years. On an annual basis, that alleged
7 overestimation is much smaller, or approximately $163 thousand. Staff witness
8 McGuire echoes witness Tellez's testimony, states that "the Company has a
9 demonstrated history of consistently overestimating pro forma levels of wage
10 expenses."[62] This characterization is misleading, considering an annualized variance
11 of $163 thousand is likely equivalent to maybe two to three career-level non-union
12 employees. Where there are approximately 2,000 non-union employees across the
13 organization,[63] the variance is more accurately characterized as being immaterial.
14 This point is further clarified by the fact that Staff's proposed reduction to the
15 Company's proposed non-union wage escalation rate is only 0.14 percent on absolute
16 terms.

17 Second, Staff's proposed adjustment was imputed based on a relative variance
18 between the approved non-union wage escalation rate, and paid non-union wage
19 escalation rate. Using the relative variance based on escalation rates is an
20 inappropriate comparison, because the salary base on which the respective escalation
21 rates (*i.e.*, approved versus paid) are calculated is almost always different. Because of
22 this, an escalation rate variance does not necessarily result in a corresponding

[62] McGuire, Exh. CRM-1T at 9:22-10:2.
[63] Cheung, Exh. SLC-15.

1 directional variance in the wage expense dollars for that given year. Please refer to
2 Table 5 for a summary of data relied upon to calculate Staff's proposed non-union
3 wage escalation rate adjustment, supplemented with my calculations to demonstrate
4 what a more appropriate way to impute the variance should be. Specifically, in years
5 2013 and 2015, the data in Column E of the table shows a positive wage dollar
6 differential, but the relative difference between rates approved and rates paid in
7 Column F of the table shows a negative variance.

Table 5 – Wage Expenses for Non-union Employees

	A	B	C	D	E = (D-B)	F = (C-A)/A	G = E/B
Year	**% approved**	**$ approved**	**% paid**	**$ paid**	**$ difference**	**relative difference between % approved and % paid**	**relative difference between $ approved and $ paid**
2013	2.25%	$4,719,475	2.19%	$4,790,332	***$70,857***	***-2.63%***	1.50%
2014	2.50%	$5,493,640	2.41%	$5,264,112	($229,528)	-3.56%	-4.18%
2015	2.50%	$5,271,307	2.42%	$5,329,268	***$57,961***	***-3.31%***	1.10%
2016	2.19%	$4,700,139	2.07%	$4,523,868	($176,271)	-5.62%	-3.75%
2017	2.34%	$4,978,166	2.21%	$4,690,931	($287,235)	-5.67%	-5.77%
2018	2.54%	$5,228,211	2.30%	$4,814,329	($413,882)	-9.33%	-7.92%
2019	2.70%	$5,705,637	2.65%	$5,626,118	($79,519)	-1.96%	-1.39%
2020	2.80%	$6,177,884	2.77%	$6,117,951	($59,933)	-0.98%	-0.97%
2021	1.50%	$3,363,101	1.47%	$3,309,172	($53,929)	-1.88%	-1.60%
2022	3.69%	$7,904,685	3.48%	$7,455,092	($449,593)	-5.62%	-5.69%
2023	3.50%	$7,892,683	3.42%	$7,722,541	($170,141)	-2.23%	-2.16%
	TOTAL	$61,434,927		$59,643,716	($1,791,212)		
					(H) Average Annual Variance	-3.89%	-2.80%
					(I = 3.50% x (1+H)) Revised Annual Escalation Rate	3.36%	3.40%

8 A more accurate way to make the comparison would be to base the variance
9 analysis on wage expense dollars approved relative to wage expense dollars paid, or
10 Column E in Table 5. Column F of Table 5 shows Staff's imputation of the warranted
11 reduction of 3.89%. However, using the more appropriate basis to perform the same
12 analysis as described above, Column G of Table 5 shows the Company's imputation

1 of the same variance Staff has attempted to quantify, and based on the wage expense
2 dollar variance analysis, the relative differential between non-union wages approved
3 and paid is even smaller, at 2.80%. Another way to view this is that over the past 11
4 years, the Company's approved non-union wages was over 98 percent accurate, when
5 compared to actual paid non-union wage expenses.

6 Finally, within the data set that Staff has relied upon to make its proposed
7 reduction to the non-union wage escalation rate in this case, in 2018 the Company
8 revised its compensation policy where a subgroup of employees previously eligible to
9 participate in the Company's annual incentive program (AIP) became ineligible, and
10 instead received an increase to their base salary that year. Because of this, the salary
11 base used to calculate paid non-union wage increases as a percentage at the end of
12 2018 was significantly higher than the base wages used to calculate the approved
13 non-union wage increase rate at the beginning of 2018, which skewed the percentage
14 paid calculation to result in a much smaller percentage relative to the approved
15 percentage that year. This anomaly is not representative of routine course of business
16 activity, and further demonstrates the inappropriateness of basing the variance
17 analysis of non-union wage escalation rate on a relative difference between
18 percentage approved and paid, as Staff has done.

19 **Q. How do you respond to Staff's allegation that the Company failed to take into**
20 **account offsetting factors in calculating rate period wages?**[64]

21 A. Staff criticized the Company's wage calculations for not having considered offsets
22 that reflect lower-salaried employees replacing senior employees as they leave. I do
23 not believe this is a reasonable assumption to expect that senior employees will be

[64] McGuire, Exh. CRM-1T at 9:18-22.

1 replaced by lower-salaried employees on an on-going basis. Employee and talent
2 retention is always a business's best option. Even if senior employees vacate their
3 positions, the vacancies would presumably be filled with an equally qualified
4 candidate, or alternatively, a lower-salaried employee would receive a promotion to
5 fill the more senior position. Furthermore, the flip side to the replacement of senior
6 employees argument is the fact that more junior employees can also be expected to
7 receive raises and promotional increases throughout their tenure with the Company.
8 This sort of promotional increase is also not considered in the Company's wage
9 escalation calculations. Therefore, these increases and referenced possible decreases
10 due to senior employees leaving the Company and getting replaced by newer
11 employees is likely to net out over time.

12 **Q. What is the Company's position in response to Staff's proposed non-union wage**
13 **rate reduction?**

14 A. Staff's proposed adjustment to non-union wage escalation rate should be rejected.
15 The Company has a strong history of accurately forecasting pro forma level of wages,
16 and sufficiently takes into account driving factors that can be expected to impact non-
17 union wage levels into the rate periods.

18 If the Commission is convinced that the observed minimal historical variance
19 over the past 11 years of non-union wage expenses should result in an adjustment, the
20 Company recommends adopting the calculation of the reduction based on wage
21 expense paid, rather than as Staff calculated using the relative variance between
22 percentage approved and percentage paid out. This would mean adopting a pro forma
23 non-union wage escalation rate of 3.40 percent, as opposed to the 3.36 percent put
24 forth in Staff witness Tellez's testimony.

1 **B. Exclusion of Pro Forma Coal Additions**

2 **Q. Please summarize Staff's proposed adjustment regarding pro forma capital**
3 **projects on Colstrip Unit 4, and Jim Bridger Units 3 and 4.**

4 A. In addition to the removal of cancelled projects, as discussed above, Staff witness
5 McGuire also recommends excluding from rates the capital addition investments that
6 Staff believes to be long-lived assets, because these investments "serve no purpose
7 other than to enable the long-term operation of those facilities,"[65] beyond the useful
8 life of these assets in Washington, and so should not be considered used-and-useful to
9 Washington customers. Staff does agree that capital costs necessary to operate
10 through 2025, and capital costs associated with routine maintenance should be
11 included in Washington rates.

12 **Q. How did witness McGuire determine which capital additions were long-lived**
13 **assets?**

14 A. It appears that Staff's criteria in determining which projects were allowable in rates is
15 two-fold. First, witness McGuire appears to delineate between projects designated as
16 "programmatic" versus "specific"[66] in the Company's workpapers where project
17 details were provided. With the exception of one "specific" project at Jim Bridger
18 Units 3 and 4 that Staff is convinced the Company is legally required to install,
19 Staff's proposal is to remove all other "specific" projects from rates as "long-lived
20 assets" not used-and-useful to Washington customers. The rebuttal testimony of
21 Company witness Richards addresses this issue.[67]

[65] *Id.*, at 30:2-4.
[66] *Id.*, at 27:3-8.
[67] *See generally* Richards, Exh. BDR-2T.

1 Witness McGuire also relied on the fact that the Company modelled these
2 investment amounts under FERC Account 312 – Boiler Plant Equipment for the
3 steam plant capital additions in Adjustments 10.6 and 14.7 as an indication that the
4 assets recommended for removal are "long-lived assets." Staff explained that by
5 virtue of these amounts being presented under FERC Account 312, which based on
6 the Company's 2018 depreciation study, captures plants with an average expected life
7 as long as 65 years, that these new investments are therefore "long-lived assets."[68]

8 **Q. Is the recording of capital costs to FERC Account 312 a meaningful indicator**
9 **that the capital projects are "life-extending" assets?**

10 A. No. The range of steam plant accounts in Electric Plant in Service under the Code of
11 Federal Regulation (CFR) range from FERC Accounts 310 to 316. When a steam
12 production capital project is put into service, it is booked to FERC Account 106 –
13 Completed Construction Not Classified. A review of the project costs is then
14 performed, and the costs are then booked to the appropriate FERC account in the
15 range of FERC Accounts 310 to 316 designated for steam production plant. The
16 Company uses FERC Account 312 as a placeholder in rate filings since it is not
17 known what the actual FERC account will be until after projects are placed into
18 service. The Company has taken this approach in the presentation of pro forma steam
19 plant in rate filings in many previous cases over the past decade, including the most
20 recent GRC, docket UE-191024.

21 Also, FERC accounting practices require assets with useful life greater than a
22 year to be recorded accordingly as long-term assets in accounting records. This is a
23 requirement regardless of whether an asset is expected to be operational for 2 years or

[68] McGuire, Exh. CRM-1T at 35:9.

1 20 years. From an accounting perspective, the recording of capital investments in
2 steam production plants to FERC Accounts 310 to 316 is the only appropriate
3 treatment. The usage of an account in this FERC account range is not an indication of
4 any "long-lived" nature, in the context that witness McGuire is deducing, only that
5 from an accounting practice perspective, the assets are not "short-term," or current, in
6 nature (*i.e.*, depleted or used up within one year) in the view of accounting guidance.
7 In other words, the selection of FERC Account 312 under which the Company has
8 presented these capital balances is strictly out of adherence to FERC accounting
9 practices (*i.e.*, recording the correct type of balances under specific accounts as
10 designated in the CFR), and does not consider the depreciable life of the new
11 investment.
12 Please refer to the rebuttal testimony of Company witness Richards for further
13 discussion on why Staff's interpretation that pro forma projects included in this
14 MYRP for Colstrip Unit 4 and Jim Bridger Units 3 and 4 as "life-extending"
15 investments is problematic.[69]

16 **C. <u>Proration of Jim Bridger Gas Conversion Costs</u>**

17 **Q. Please summarize Staff's proposed adjustment regarding the Jim Bridger Units**
18 **1 and 2 Gas Conversion Project.**
19 A. Staff witness McGuire proposes to prorate the capital additions for the Jim Bridger
20 Units 1 and 2 Gas Conversion projects to reflect "PacifiCorp's expectation that the
21 facility will serve Washington for only 5.5 years (2024-2029) of its 13.5 year (2024-
22 2037) expected service life."[70] Staff maintains that the proration treatment of Jim

[69] Richards, Exh. BDR-2CT at 5:15-10:2.
[70] McGuire, Exh. CRM-1T at 35:21-22.

1 Bridger Units 3 and 4 and Colstrip 4 pro forma investments is "fundamentally the
2 same circumstances"[71] as Jim Bridger Units 1 and 2 – *i.e.*, under CETA the Company
3 has concluded that these facilities would provide service in Washington for only a
4 portion of their remaining service lives.

5 **Q. Are the circumstances surrounding Jim Bridger Units 3 and 4, and Colstrip Unit**
6 **4 capital additions fundamentally the same as those surrounding Jim Bridger**
7 **Units 1 and 2 Gas Conversion?**

8 A. No. The circumstances surrounding coal-fired generation assets, and gas-fired
9 generation assets are fundamentally different. Company witness McVee addresses
10 this issue in greater detail.[72]

11 **Q. Would the proration of Jim Bridger Units 1 and 2 gas conversion project costs**
12 **cause a mismatch of cost and benefits in rates?**

13 A. Yes. As referenced in Staff witness McGuire's testimony:

14 The test for including resources in rates is not whether it is 'needed,
15 deliverable and least cost' but rather whether it provides quantifiable
16 direct or indirect benefits to Washington commensurate with its cost.[73]

17 The conversion of the Jim Bridger units is a necessary prerequisite for
18 Washington customers to be able to continue receiving a generation allocation from
19 these resources. Without the gas conversion projects there would be no generation
20 from Jim Bridger Units 1 and 2 that would be available to serve Washington
21 customers under CETA requirements after 2025. Therefore, to receive the many
22 benefits of the CETA-compliant generation resulting from the gas-converted Jim
23 Bridger Unit 1 and 2 resources, Washington customers necessarily need to pay the

[71] *Id.*, at 38:13-14.
[72] *See* McVee, Exh. MDM-2T 60-69.
[73] McGuire, Exh. CRM-1T at 38, n. 54 (citing RCW 80.04.250; *WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket No. UE-050684 et al., Order 04/03 at ¶ 68 (Apr. 17, 2006)).

1 full allocation of the cost associated with the NPC benefits Washington customers
2 would be receiving.
3 To provide an illustrative example, say a homeowner wanted to save on
4 heating and cooling costs by installing a heat pump to replace their furnace. However,
5 the homeowner also knows that they would be selling their house in five years' time,
6 despite the expected operational life of the new heat pump being 15 years. The
7 homeowner would not be able to offer an installer only 1/3 of the cost of the
8 installation because they only expect to utilize the heat pump for 1/3 of its operational
9 life. To benefit from any cost and energy savings of a heat pump, the homeowner
10 would need to pay the installer the full cost. This is the same situation as the gas
11 conversion projects. Without the gas conversion projects, Washington customers
12 would see no benefits.
13 **Q. Do you have a recommendation if the Commission approves proration of the**
14 **capital costs for Jim Bridger Units 1 and 2 gas conversion?**
15 A. The proration of Jim Bridger Units 1 and 2 gas conversion project costs should be
16 rejected. Coal-fired resource costs proration is fundamentally not the same
17 circumstances as argued by Staff witness McGuire. Also, the gas-conversion projects
18 represent a binary decision where without the conversion, Washington customers
19 would not be able to continue taking electricity from Jim Bridger Units 1 and 2 after
20 2025 due to CETA limitations.
21 In the event that the Commission orders a proration be applied to pro forma
22 capital costs at Jim Bridger Units 1 and 2, the NPC benefits of utilizing the gas
23 generation resource should also be prorated to match the proration of costs.

1 **D. Tracker for Coal Facility Costs**

2 **Q. Please describe Staff's proposal for a coal facility cost tracker.**

3 A. Staff recommends that the Company establish a tracker for the recovery of costs
4 related to its coal fired facilities, consistent with Colstrip trackers established for PSE
5 and Avista. Staff believes that including all plant-related costs (and cost offsets) for
6 coal facilities in an annually updated tracker would allow for greater transparency
7 into costs the Company incurs annually at the facilities, greater ability for parties to
8 review those costs, and a greater degree of ratemaking flexibility if circumstances
9 change at the facilities.[74] Furthermore, Staff cites statutory language within CETA
10 which states that all decommissioning and remediation costs prudently incurred for a
11 coal-fired resource shall be allowed in rates, and notes that more likely than not, a
12 tracker would need to be implemented to track and true-up the recovery of
13 decommissioning and remediation costs anyway, so it would be efficient to create a
14 "catch-all" tracker for coal facilities now.

15 **Q. Does the Company support the creation of a coal cost tracker?**

16 A. While the Company is not opposed to establishing a coal facility tracker, the
17 Company also feels that its proposed processes in the MYRP sufficiently addresses
18 the coal cost removal from rates at the CETA deadline, without the creation of yet an
19 additional tracker. The Company's proposal completely removes these costs, but with
20 less administrative burden than Staff's proposal. Under the Company's current
21 MYRP proposal, the Company has proposed to revise base rates towards the end of
22 2025 to comply with CETA requirements to remove coal costs from rates.
23 Accordingly, non-NPC coal facility costs included in the Company's direct filing in

[74] McGuire, Exh. CRM-1T at 62:3-65:13.

1 2025 were already identified, estimated, and provided in a workpaper supporting my
2 direct testimony, and described in detail in that testimony.[75] These calculations can be
3 finalized and provided to parties for review upon receipt of a final order in this case in
4 the Company's compliance filing. The removal of these costs can then be
5 accomplished through a simple tariff filing to adjust base rates at the end of 2025 to
6 be effective on January 1, 2026. The Company's proposed process eases the
7 administrative burden on the Commission, Commission Staff, and the Company by
8 eliminating a tracker and a series of filings between 2024 and 2026. A subsequent
9 decommissioning and remediation tracker can be created in a future filing for rates
10 effective January 1, 2026.

11 **E. <u>Fly Ash Revenue Deferral</u>**

12 **Q. Does Staff offer a position on AWEC's petition for a deferral of increased fly ash**
13 **revenues under docket UE-210852?**

14 A. Yes, Staff recommends that AWEC's petition be granted, and a tracker be established
15 to return to customers the cumulative deferral balance associated with excess
16 revenues from the sale of fly ash at the Jim Bridger generation plant over a two-year
17 amortization period.[76] Staff concluded that actual fly ash revenues exceeding amounts
18 established through the Company's 2020 GRC is material and consider the
19 circumstances leading to those excess revenues to be extraordinary.[77]

[75] Cheung, Exh. SLC-1T at 16:1-19:3.
[76] Tellez, Exh. AMT-1CT at 24:6-11.
[77] McGuire, Exh. CRM-1T at 25:14-18.

1 **Q. Did any other parties make recommendations with regards to the fly ash**
2 **revenues deferral application?**
3 A. Yes, AWEC witness Mullins is also in support of the deferral of fly ash sales
4 revenues differential that resulted from a new fly ash sales contract that commenced
5 in October 2020. AWEC proposes a one-year amortization period.[78]
6 Witness Mullins claims that there is information imbalance at play, where the
7 Company should have been aware of the potential for higher revenues at the time it
8 submitted testimony and testified in the 2020 GRC and proposed an adjustment to
9 reflect that anticipated change accordingly.
10 **Q. Was it possible for PacifiCorp to have incorporated the renewed fly ash revenues**
11 **contract terms in the 2020 GRC?**
12 A. No. As described by Staff witness Tellez, and noted by AWEC witness Mullins, the
13 renewed contract for fly ash revenues commenced in October of 2020, four or five
14 months after the parties agreed to a settlement to resolve the 2020 GRC. The contract
15 indicates an execution date of September 16, 2020, which is well after the date the
16 settlement agreement was filed with the Commission for the 2020 GRC, in July
17 2020.[79]
18 **Q. Staff witness Tellez references May 2020 signature dates on the referenced**
19 **contract.[80] What are those?**
20 A. The May 2020 signature dates are found in various exhibits supporting the main
21 contract but pre-date execution of the final contract. These exhibits are commonplace
22 templates and are a requirement for contractors to sign to allow on-site access to

[78] Mullins, Exh. BGM-1CT at 29:13-30:5.
[79] Tellez, Exh. AMT-23C at 18.
[80] Tellez, Exh. AMT-1CT at 25:15.

1 evaluate and assess site and operational conditions in advance of contract negotiation
2 processes, often in advance of or as part of a request for proposals (RFP). These
3 agreements relate to site safety and are not specific to the fly ash contract. While
4 these dates can indicate that consideration of an RFP is planned or may have
5 commenced by the signature dates, the on-going dynamic nature of the bidding
6 process and contract negotiations would not provide sufficient or reliable information
7 for the Company to have incorporated a pro forma adjustment in the 2020 GRC that
8 would have met the "known and measurable" requirement on pro forma changes in a
9 rate case at that point in time. Ultimately, the contract and pricing could only be
10 relied on after it was finalized through execution on September 16, 2020, almost two
11 months after the settlement stipulation was filed in the 2020 GRC.

12 **Q. Does the Company agree with AWEC's petition on the fly ash revenues**
13 **deferral?**

14 A. No. The Company does not agree with the recommendation to return excess fly ash
15 revenues as per AWEC's petition in docket UE-210852. In its petition, AWEC asserts
16 that since the conclusion of PacifiCorp's last general rate case, docket UE-191024,
17 the Company had entered into a new contract to sell fly ash that results in higher fly
18 ash revenues than amounts built into rates.[81] AWEC's request for the Company to
19 return this revenue differential is predicated on this single-item variance, and lacks
20 consideration for an overall picture that properly reflects PacifiCorp's earnings as a
21 whole. For the period ended December 31, 2021, the Company reported in its annual
22 CBR that earnings were substantially lower than its approved ROE. On a normalized

[81] *In the Matter of Alliance of Western Energy Consumers, Petition for Order Approving Deferral of Increased Fly Ash Revenue*, Docket No. UE-210852, Petition for Accounting Order of the Alliance of Western Energy Consumers at ¶ 5 (Nov. 8, 2021).

1 basis, the Company reported 6.93 percent ROE in its December 2021 CBR.
2 Subsequently in its December 2022 CBR, the Company reported only 0.81 ROE on a
3 normalized basis. This outcome reflects that the Company has been substantially and
4 severely under earning, even with new rates from docket UE-191024 becoming
5 effective January 1, 2021. This means that, while fly ash sales revenues, just one
6 component to the Company's revenue requirement, have shown an increase relative
7 to amounts approved in rates, many other expenses have also risen drastically beyond
8 approved levels, and more than fully offset the higher level of fly ash sales recorded
9 under the new sales contract. Given the Company's already dismal earnings
10 performance, to return this excess revenue, without any offsetting true-up of
11 increased expenses would be one-sided and further erode the already low ROE in the
12 2021 and 2022 reporting period.

13 **Q. If the Commission approves the fly ash revenues deferral, should AWEC's or**
14 **Staff's calculated deferral amount be adopted?**

15 A. No. AWEC witness Mullins' calculation reflected a few mathematical issues.[82] One
16 of which is that in imputing interest accrual, there were multiple months where
17 interest rates were either mis-keyed, or shifted by one month around quarter-ends
18 where the FERC quarterly interest rate changes. Correcting for the interest rate
19 references reduces AWEC's proposed annual amortization by approximately $4
20 thousand.

21 Next, witness Mullins applied a proration calculation where for the first month
22 of the deferral, in November 2021, the monthly fly ash revenue was prorated to
23 reflect a reduction for the deferral application having submitted on November 8,

[82] *See* Mullins, Exh. BGM-6.

1 2021. That proration formula is unfortunately copied down through the rest of witness
2 Mullins' calculation of the deferral. Correcting for that formula error would increase
3 the proposed amortization amount by approximately $1.8 million.
4 Finally, witness Mullins relied on actual fly ash revenues provided in the
5 Company's response to WUTC 134 as the basis to calculate the proposed deferral
6 amortization. Since the data request was completed in mid-August 2023, only actual
7 fly ash revenues through July 2023 had been calculated. In AWEC's calculations,
8 witness Mullins pulled in August 2022 through February 2023 figures as a proxy for
9 the estimated deferral balance for August 2023 through February 2024. Should the
10 Commission adopt the proposed deferral and amortization of fly ash revenues,
11 balances for those imputed months should be trued-up to reflect actual revenues
12 recorded by the Company over that period.
13 Staff witness Tellez recommended that the excess revenues from the sale of
14 fly ash at Jim Bridger be passed back to customers over a two-year period, but did not
15 provide an amortization schedule.[83] Witness Tellez does provide an estimate of
16 excess revenues to be approximately $7.0 million. However, this amount is
17 overstated, as it represents excess fly ash revenues deferred from the inception of the
18 new fly ash contract in October 2020. AWEC's petition, docket UE-210852,
19 specifically asks for "an order requiring PacifiCorp…to defer from the date of [its]
20 petition the revenue generated by the Company's increased Jim Bridger fly ash
21 sales."[84] The Washington-allocated deferred excess revenues should only be
22 approximately $5.8 million. Correcting AWEC's mathematical errors described

[83] Tellez, Exh. AMT-1CT at 26:21-27:2.
[84] Docket No. UE-210852, Petition at ¶ 1.

1 above, AWEC's calculation would support the $5.8 million of excess revenues
2 (before interest accrual). With interest accrual, the total deferred amount subject to
3 amortization would be approximately $6.3 million, as opposed to the $4.6 million as
4 stated in AWEC witness Mullins' testimony.[85] Continuing interest accumulation
5 through the proposed amortization period, AWEC's proposed one-year amortization
6 would result in approximately $6.6 million being amortized back to customers.
7 Staff's amortization proposal over two years, in a tracker, would result in
8 approximately $3.4 million to be amortized back to customers on an annual basis.

9 VII. PUBLIC COUNSEL ADJUSTMENTS NOT ACCEPTED BY THE COMPANY

10 **Q. Has Public Counsel proposed any adjustments to revenue requirement in this**
11 **case?**
12 A. Yes, Public Counsel's proposed revenue requirement adjustments all overlap with at
13 least one other intervenor's testimony. Accordingly, the Company's response to
14 Public Counsel's proposed revenue requirement adjustments are discussed either in
15 other sections of my testimony (pension expense update and cancelled Colstrip
16 projects), or alternatively, in the rebuttal testimony of Company witness McVee
17 (regulatory assets amortization),[86] and Company witness Allen L. Berreth
18 (incremental wildfire and vegetation management expenses).[87]

[85] Mullins, Exh. BGM-1CT at 30:9.
[86] McVee, Exh. MDM-2T at 71-74.
[87] Berreth, Exh. ALB-3T.

1 **Q. In addition to the two instances where Public Counsel erroneously duplicated**
2 **RY1 change impacts into RY2 calculations, are there other instances where this**
3 **issue exists?**
4 A. Yes, Public Counsel witness Crane also replicated RY1's price change impact in RY2
5 in Public Counsel's calculation of the revenue requirement impact from the proposed
6 disallowances in incremental wildfire and vegetation management expenses.[88] Public
7 Counsel's proposal reduces RY1 price change by approximately $633 thousand, but
8 there should be no incremental impact on price change in RY2. As explained in
9 earlier sections of my testimony, because RY2 price change is calculated based on
10 RY1's determined price change, any underlying changes to revenue requirement in
11 RY1 would naturally flow through RY2, and would not need to be duplicated in
12 RY2's price change request.
13 **Q. Are there other computational issues with Public Counsel's calculations?**
14 A. Yes, with regards to Public Counsel's proposal to remove all regulatory asset
15 amortizations from the Company's filing, witness Crane removed the RY1
16 amortization expense from the case.[89] However, because the Company has proposed
17 one-year amortization periods on all requested regulatory assets recovery, in RY2 the
18 Company has included an adjustment to reverse the amortization expenses to
19 recognize that the amortization would be finished by the beginning of RY2. Where
20 Public Counsel is proposing to remove the amortization expense in RY1 by reversing
21 the amounts included in adjustment 8.2 of my direct Exhibit No. SLC-4, there should

[88] Crane, Exh. ACC-3.
[89] *Id.*

1 be a corresponding reversal of amounts reflected in adjustment 16.1 of my direct

2 Exhibit No. SLC-5 as well.

3 **VII. AWEC ADJUSTMENTS NOT ACCEPTED BY THE COMPANY**

4 **A. Wildfire Litigation Expense**

5 **Q. Please describe the adjustment proposed by AWEC regarding wildfire litigation**

6 **expense.**

7 A. AWEC witness Kaufman surmises that while the Company has proposed not seeking

8 recovery of specific wildfire events through removal of certain restoration costs and

9 adjusting injuries and damages to reflect a three-year average, there is no

10 corresponding proposal to adjust litigation expenses.[90] Accordingly, witness Kaufman

11 recommends excluding from rates $4.8 million, on a total-Company basis, of

12 litigation expense recorded in 2022.

13 **Q. How did witness Kaufman determine the amounts to be included in AWEC's**

14 **proposal?**

15 A. It appears witness Kaufman utilized legal expense data provided in the Company's

16 response to AWEC Data Request 102,[91] and filtered Order Names by anything that

17 has the text "fire" in it. Witness Kaufman isolated the dollar amounts under any order

18 with the word "fire" in its name for both 2021 and 2022. The $4.8 million

19 recommended exclusion is the total dollars for calendar year 2022.

20 **Q. Are there issues with how AWEC quantified their proposed removal amounts?**

21 A. Yes. The historical test period in this case is the 12 months ended June 2022.

22 Accordingly, a proposal to remove historically recorded expenses should be

[90] Kaufman, Exh. LDK-1CT at 47:16-49:1.
[91] Kaufman, Exh. LDK-3C at 4-8. [pages 6-8 are confidential].

1 calculated based on amounts recorded between July 2021 and June 2022. A proposal
2 to remove the calendar year 2022 amounts creates a mismatch between the
3 adjustment amount, and the actual expenses recorded in the historical test period.
4 Secondly, because witness Kaufman filtered Order Names by using the text
5 "fire," the list of events witness Kaufman presented in the workpaper supporting this
6 proposed adjustment included more than the specific wildfire events AWEC intended
7 to address, but also a couple of house fire events, and one fire incident from 2018.
8 Finally, and most importantly, almost all the expenses identified by witness
9 Kaufman to be removed have in fact already been removed from the MYRP through
10 Adjustment 4.9 – Legal Expenses.

11 **Q. Can you describe Adjustment 4.9 – Legal Expenses?**

12 A. Yes. Consistent with past rate case treatment, Adjustment 4.9 – Legal Expenses,
13 reallocates the Company's per books legal expenses in the historical test period.
14 Legal expenses are situs assigned to the extent they can be attributed to a specific
15 jurisdiction in accordance with the stipulation on docket UE-111190 filed in February
16 2012, where an adjustment to legal expense was agreed to by all parties (including
17 WUTC Staff, Public Counsel, and Industrial Consumers of Northwest Utilities
18 (ICNU), now AWEC) to situs assign legal expenses where possible.[92] Therefore,
19 where the specific wildfire events witness Kaufman took issue with did not originate
20 in Washington, all the associated legal expense had been reallocated back to the
21 appropriate situs jurisdiction under Adjustment 4.9. Please refer to confidential
22 Exhibit SLC-14C for a listing of legal matters for which litigation expense was

[92] *See WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket No. UE-111190, Settlement Stipulation at ¶ 14 (Mar. 30, 2012).

1 reallocated through Adjustment 4.9.

2 **B. Injuries and Damages**

3 **Q. Please describe AWEC's proposed change to injuries and damages expense.**

4 A. In this case, the Company has included a three-year average level of actual cash paid
5 expense for injuries and damages. AWEC witness Kaufman proposes to use a two-
6 year average instead of the three-year average, because "Pacific Power's three-year
7 average includes an abnormal level of injuries in 2019."[93]

8 **Q. Did witness Kaufman explain why 2019 historical expense is considered**
9 **abnormal?**

10 A. No.

11 **Q. Did witness Kaufman explain why a two-year average is a better approach to**
12 **normalizing expenses, as compared to a three-year average?**

13 A. No.

14 **Q. Do you agree that a two-year average yields a more representative level of**
15 **normalized expenses?**

16 A. No. The purpose of averaging expenses in a rate proceeding, is to normalize spikes
17 and dips in historical data, recognizing that those spikes and dips are a given in the
18 normal course of business. The idea is that by pooling more data points, and taking an
19 average, the erratic movements that cannot fully be anticipated or expected to
20 perpetuate year-over-year can be smoothed out. In that sense, a reduction in the
21 number of data points used is counter to the underlying intent of an averaging
22 calculation. To improve the normalization effect of an average calculation, more
23 years of data points should be used, not less. Moreover, in analyzing statistics, it is

[93] Kaufman, Exh. LDK-1CT at 48:10.

1 often difficult to establish trends or meaningful conclusion with two or less data
2 points.

3 **Q. Did the Company evaluate an average injuries and damages level that captured**
4 **more years' expenses?**

5 A. Yes. As noted in the Company's response to Public Counsel Data Request 244,[94]
6 using a six-year historical average of cash paid on claims net of insurance receivables
7 instead of a three-year historical average of cash paid on claims net of insurance
8 receivables as proposed in its direct filing, injuries and damages (I&D) liability
9 expense in this proceeding would be approximately $147 thousand higher than
10 amounts filed.

11 **Q. What is your recommendation on AWEC's recommendation on injuries and**
12 **damages expense?**

13 A. I recommend AWEC's recommendation be rejected, and the three-year average
14 methodology as filed in the Company's direct testimony be adopted.

15 **C. Disallowance of Pro Forma Projects less than $1 Million**

16 **Q. Please describe AWEC's adjustment to disallow all capital projects less than $1**
17 **million from the Company's request.**

18 A. AWEC witness Mullins recommends exclusion of all capital additions projects less
19 than $1 million because the Company had not provided discrete descriptions of these
20 projects in its filing.[95] Witness Mullins claims that it would be impossible to evaluate
21 the projects without knowing what the projects were. Witness Mullins claims that
22 there is approximately $158.8 million in total-Company capital additions that are

[94] Cheung, Exh. SLC-15.
[95] Mullins, Exh. BGM-1CT at 24:9-15.

1 projects less than $1 million and that equates approximately to $9.9 million allocated
2 to Washington.

3 **Q. Did witness Mullins correctly cite references in the Company's direct testimony**
4 **supporting the proposed adjustment to remove capital projects less than**
5 **$1 million?**

6 A. No. The citation referenced in testimony is "Exh. SLC-4 at 8.4.33-8.4.4."[96] However,
7 this is not the correct reference. The correct reference should be Exhibit No. SLC-4 at
8 8.4.33-8.4.46.

9 **Q. Did the Company provide a listing identifying each individual project less than**
10 **$1 million?**

11 A. Yes. A listing of projects less than $1 million was included in the Company's
12 workpapers supporting its direct filing. Specifically, the workpaper file named
13 "230172-PAC-SLC-8-4ProFormaMajorPlantAdditionsYear1.xlsx" submitted in
14 support of my direct testimony and exhibits. This workpaper has a listing of every
15 project less than $1 million shown on each of the spreadsheet tabs from tab "8.4.33"
16 through "8.4.46".

17 **Q. Did the Company receive a discovery request asking for a listing of the projects**
18 **less than $1 million?**

19 A. No, it did not.

20 **Q. Do you have any concerns with the way witness Mullins calculated the revenue**
21 **requirement impact for the adjustment to disallow projects less than $1 million?**

22 A. Yes. Witness Mullins used a simplistic, high-level approach to calculate the revenue
23 requirement impact that does not utilize a proper Average-of-Monthly-Averages

[96] Mullins, Exh. BGM-1CT at 23, n. 22.

1 (AMA) calculation for rate base. It also appears witness Mullins extrapolated an all-
2 function, average depreciation rate of 3.13 percent applied to calculate depreciation
3 expense proposed for removal, in contrast with the function-specific depreciation rate
4 the Company applies in its calculation of pro forma depreciation expense.
5 Furthermore, witness Mullins' depreciation calculation simply applies the imputed
6 all-function average depreciation rate to the total balance of projects removed and
7 does not take into account the in-service timing of each project, which is again,
8 something the Company's calculation does consider in its pro forma depreciation
9 expense calculations. Finally, witness Mullins' calculation for the associated change
10 in Accumulated Deferred Income Tax (ADIT) for the removal of projects less than $1
11 million does not follow the AMA convention and the ADIT balances were also not
12 pro-rated per IRS regulations. Witness Mullins' quantification of the impact of the
13 proposed adjustment is at best a high-level "guess-timate". Should the Commission
14 find in favor of witness Mullins' proposal to remove all capital projects less than $1
15 million from this case, the Company should provide more accurate quantifications of
16 the removal impact taking into account the different functional depreciation expenses,
17 and the specific in-service timing of the projects to be removed.

18 **Q. Has the Company historically included projects less than $1 million in its rate**
19 **filings?**

20 A. Yes, the Company has routinely included projects less than $1 million in its rate
21 filings in the past.

22 **Q. What is your recommendation with regards to witness Mullins' proposal to**
23 **remove all capital projects less than $1 million?**

24 A. I recommend that witness Mullins' proposal be rejected, as the rationale in support of

1 the removal of projects less than $1 million is moot. The Company did in fact provide
2 a complete listing of specific projects that constitute the totals for projects less than
3 $1 million. It is also not a new occurrence for the Company to include projects less
4 than $1 million in its rate filing. AWEC also had ample time between the Company's
5 filing and submission of testimony to issue discovery requests for any details they felt
6 were lacking but have not done so.

7 **D. NPC Forecast Period**

8 **Q. Please describe AWEC's proposal regarding the NPC forecast period.**

9 A. AWEC recommends that the Company be required to perform an update to NPC
10 corresponding to the rate effective periods at issue in this case.[97] Specifically, AWEC
11 recommends the update encompass the 12-months ending February 2025 for RY1 and
12 12-months ended February 2026 for RY2.

13 **Q. Why is the Company's proposed NPC forecast modelled on a calendar year**
14 **basis?**

15 A. NPC forecasts necessarily rely on underlying capital investments assumptions as part
16 of the forecast process because capital investments inform and influences the
17 availability of resources over a forecast period. Accordingly, a NPC forecast period
18 should be appropriately matched with the underlying capital placed in-service timing
19 included in the case. In this case, capital placed in service, as well as all other aspects
20 of revenue requirement are modelled based on calendar periods 2024 and 2025 for
21 RY1 and RY2 respectively.

[97] Mullins, Exh. BGM-1CT at 20:22-21:2.

1 **Q. Why is revenue requirement being modelled on a calendar year basis?**

2 A. The primary reason why the Company has modelled revenue requirement on a
3 calendar year basis is to better facilitate subsequent filing requirements after the
4 MYRP proceeding concludes. Specifically, with regards to the provisional capital
5 review process, as described above, the Company's proposal is to use its annual CBR
6 as the basis on which to report actual plant in service. Since the Company prepares its
7 CBR on a calendar year basis, having rates assumptions in this filing be synchronized
8 to a calendar year basis will better support the subsequent reporting processes and
9 limits anymore unnecessary administrative burdens.

10 **Q. Has the forecast period always been required to match rate effective periods in a**
11 **case?**

12 A. Not that I am aware. With forecasts in RY1 being based on calendar year 2024, but
13 rates not becoming effective until March, the Company is essentially volunteering to
14 accept a three-month lag on collecting costs through rates. While it would be ideal if
15 utility rates reflected simultaneous cost recovery, that is never the case in regulatory
16 ratemaking. In that sense, it is less important that the forecasts period match the rate
17 effective period, but more important that within the forecast period, costs and benefits
18 are properly matched. It is also my understanding that the Commission addressed this
19 issue in PacifiCorp's most recent PCORC filing, where there was a mismatch
20 between the NPC baseline year and the rate year. The Commission determined that
21 this mismatch did not cause any issues and rejected AWEC's arguments that this
22 would be a departure from Commission practice.[98]

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[98] Docket No. UE-210402, Order 06 at ¶¶ 137-138 (March 29, 2022).

1 **Q. Hypothetically, could the rest of revenue requirement assumptions be rolled-**
2 **forward as well to match AWEC's recommended NPC forecast periods?**
3 A. Yes, but to do so would require recalculation of the Company's filing in its entirety,
4 which would take multiple months to complete. For reference, the Company began
5 working on this MYRP filing in October 2022, which was then filed in March 2023.
6 In particular, moving the forecast period forward in this case, would require the
7 historical test period to also be rolled forward, as 12 months ended June 2022 data is
8 stale at this point. This would result in changing the starting point on which all of the
9 Company's ratemaking adjustments were calculated, further complicating the
10 process.
11 **Q. What possible rate impacts might result if the forecast period for the entire filing**
12 **was rolled-forward to match the anticipated rate effective periods?**
13 A. Many things could happen if the Company had to revisit forecast information
14 reflected in this case. But one issue that immediately comes to mind are the large
15 wind and transmission capital projects that are currently anticipated to be placed in
16 service towards the end of 2024. The availability of these wind and transmission
17 resources could possibly allow Washington customers to see a benefit in lower NPC,
18 but because of the AMA rate base methodology in this filing, in RY1 Washington
19 customers are only paying a fraction of the costs associated with those projects being
20 placed in service based on AMA rate base for 12 months ending December 2024.
21 Rolling forward the forecast period to 12 months ending February 2025 would result
22 in more months of full asset in-service amounts be included in the AMA rate base
23 calculation in RY1, thus increasing the revenue requirement in RY1 from a capital
24 investments costs perspective. A similar effect would also happen for RY2, for major

1 capital projects anticipated to be placed in service towards the end of 2025. Table 6
2 shows a comparison of AMA rate base for the specific wind and transmission rate
3 base additions for projects expected to be placed in service at the end of 2024.

Table 6 – AMA Rate Base for Major Capital Projects in RY1 and RY2

	December 2024 AMA Gross Plant	**February 2025 AMA Gross Plant**	**Variance**
Wind – RY1	$2.3 million	$8.9 million	$6.6 million
Transmission – RY1	$37.8 million	$71.1 million	$33.4 million
		Total Variance – RY1	**$40.0 million**
Wind – RY2	$59.0 million	$70.1 million	$11.2 million
Transmission – RY2	$201.1 million	$201.2 million	$0.1 million
		Total Variance – RY2	**$11.2 million**

4 In addition to the higher rate base balance for both rate years, if the NPC
5 forecast period for RY2 were to be advanced to 12 months ending February 2026,
6 then RY2's NPC forecast would reflect 2 months of forecasts in 2026 that cannot
7 include any coal-fired resources. This change would also conceivably result in higher
8 costs for Washington customers in RY2.

9 **Q. Do you support AWEC's proposal to modify NPC forecast periods?**

10 A. No. Maintaining calendar year forecast periods in NPC appropriately aligns costs and
11 benefits reflected in rates for any given rate period. It also better facilitates after-the-
12 fact review processes as part of the MYRP. Finally, advancing the NPC forecast
13 periods to reflect 12-month periods ending February could possibly increase
14 Washington customer rates for both rate years in the current MYRP.

15 **E. <u>Production Factor</u>**

16 **Q. How are production factors adjustment used in this proceeding?**

17 A. The production factor adjustment is applied to the generation-related pro forma

1 capital additions and associated revenue requirement components to adjust the pro
2 forma cost levels back to the historical test period levels.[99] The production factor
3 adjustment is calculated by dividing Washington's normalized historical retail sales
4 of 4,194,177 MWh (12-months ending June 2022) by Washington's normalized
5 forecasted retail sales of 4,171,557 (12-months ending December 2024).

6 **Q. AWEC witness Mullins recommends removing the production factor adjustment**
7 **when calculating revenue requirement.[100] What is the basis for witness Mullins**
8 **claim?**

9 A. Witness Mullins conducted an analysis of the Company's production factor
10 adjustment based on historical load for the test period relative to the forecast rate
11 period loads, both of which were at input level in witness Mullins' analysis.[101] Based
12 on the analysis, witness Mullins asserts that the Company's production factor
13 adjustment for the rate year is overstated.

14 **Q. How does the Company calculate the production factor adjustment for the test**
15 **year?**

16 A. The Company calculates the production factor adjustment as the ratio of historical
17 year retail sales to forecast year retail sales. Historical retail sales are known and the
18 forecasted retail sales are developed from historical retail sales creating a reliable
19 basis for comparison. This methodology of calculating the production factor
20 adjustment was adopted after the 2008 GRC settlement,[102] and officially included as

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[99] Cheung, Exh. SLC-1T at 8:2-5.
[100] Mullins, Exh. BGM-1CT at 57:3-5.
[101] Mullins, Exh. BGM-1CT at 55:15-18.
[102] *See WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket No. UE-080220, Order 05, Settlement Stipulation (Oct. 8, 2008).

1 part of revenue requirement calculations in the 2009 GRC.[103] The same methodology
2 has been consistently applied in ratemaking dockets including GRCs and PCORCs
3 for over a decade.

4 **Q. Witness Mullins claims that "the accuracy of PacifiCorp's sales forecast relative**
5 **to its load forecast cannot be confirmed in any way."[104] How does the Company**
6 **calculate the forecasted load at input?**

7 A. The Company first calculates the retail sales forecast and then multiplies those sales
8 by a line loss factor to calculate load at system input. The Company uses the average
9 of the previous five-years of annual line losses to produce a normalized expectation
10 of line losses in a forecast year.

11 **Q. Is this the same line loss factor as in the historical year?**

12 A. No, the historical year only contains one year of line losses, which is different from
13 the five-year average line losses reflected in a forecast. As witness Mullins pointed
14 out, the historical year line losses are 9.0 percent, while the forecasted five-year
15 average line losses are 9.7 percent.

16 **Q. Is witness Mullins production factor adjustment analysis appropriate?**

17 A. No. Witness Mullins' analysis relies on input level data rather than retail level data.
18 The use of this input level data introduces line loss variability and creates an
19 inappropriate comparison. For example, witness Mullins calculates the production
20 factor adjustment using the historical test year value of 4,572,362 MWh, which is at
21 the input level and relies on the 9.0 percent line losses experienced over the 12-
22 months ending June 2022, whereas their forecast value of 4,577,439 MWh over the

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[103] *WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket No. UE-090205, Dalley, Exh. RDB-1T at 5:7-17 (Feb. 2, 2009).
[104] Mullins, Exh. BGM-1CT at 56:10-12.

1 12-months ending December 2024, while also at input, relies on the 9.7 percent
2 average line losses experienced in Washington over the five-year period of 2017 to
3 2021. By using retail sales, the Company's production factor adjustment avoids the
4 line loss variability in witness Mullins' analysis and allows for the consistent
5 calculation of a production factor adjustment.

6 **Q. Does witness Mullins make a recommendation based on their flawed analysis?**

7 A. Yes. Witness Mullins recommends the removal of the production factor adjustment
8 when calculating revenue requirement based on their analysis using inconsistent
9 figures at the system input level, and then erroneously concluding that the production
10 factor is immaterial.[105] As discussed above, the Company's methodology of the
11 production factor calculation is superior in that it avoids the line loss variability as
12 compared to AWEC's proposed methodology based on loads at input level. It is also
13 consistent with Commission precedent and has been utilized since 2009. Witness
14 Mullins' recommendation is based on a flawed methodology and should be rejected.

15 **F. Investors Supplied Working Capital**

16 **Q. Please describe AWEC's issue with FERC account 143 and FERC account 232**
17 **balances in the Company's filing.**

18 A. Witness Mullins alleges that the Company has double counted the FERC account 143
19 (Other Accounts Receivable) of $3,475,500 and FERC account 232 (Accounts
20 Payable) balance of ($728,541) in its request by including the balances both in its
21 investors supplied working capital (ISWC) calculations and also otherwise in rate
22 base.[106] AWEC witness Mullins came to this conclusion because the balances were

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[105] Mullins, Exh. BGM-1CT at 57:3-5.
[106] Mullins, Exh. BGM-1CT at 61:10-13.

1 spotted in the Company's B-Tabs (specifically, workpapers titled
2 "B14WorkingCapital") as well as an inclusion in the ISWC model.

3 **Q. What are B-tabs?**

4 A. B-tabs are granular level reports that present the Company's historical test period
5 balances that serve as the starting point of the Company's process to build a rate
6 filing. However, just because balances are shown in B-Tabs does not mean that those
7 balances are included in the Company's rate request. From that starting point, the
8 Company then develops restating and pro forma adjustments as needed to reflect
9 normal or expected operating conditions, or to maintain compliance with adjustments
10 previously ordered by the Commission.

11 **Q. Are the referenced FERC account 143 and FERC account 232 balances left in**
12 **rate base in the Company's revenue requirement calculation?**

13 A. No. The Company prepares Adjustment 8.5 – Miscellaneous Rate Base adjustment to
14 remove all working capital balances that are included in Washington rates through its
15 ISWC model. The below illustration is the top-most section of Page 8.5 in Exhibit
16 No. SLC-4, in support of my direct testimony. Please note that the first four lines of
17 adjustments are removing the exact FERC account balances AWEC witness Mullins
18 has identified as needing to be removed.

Illustration B – Miscellaneous Rate Base Adjustment

PacifiCorp							PAGE	8.5
Washington 2023 General Rate Case								
Miscellaneous Rate Base								
			TOTAL			WASHINGTON		
	ACCOUNT	Type	COMPANY	FACTOR	FACTOR %	ALLOCATED	REF#	
Adjustment to Rate Base:								
Current Assets:								
Other A/R	OWC143	RES	(49,060,066)	SO	7.085%	(3,475,700)		
Accounts Payable	OWC232	RES	6,561,112	SO	7.085%	464,827		
Accounts Payable	OWC232	RES	3,305,186	SG	7.979%	263,713		
Accounts Payable	OWC232	RES	3,252,214	CAEE	0.000%	-		
Other Deferred Credit	OWC2533	RES	8,411,097	CAGE	0.000%	-		
ARO Reg Liability	OWC254105	RES	(19,803)	CAEE	0.000%	-		
ARO Reg Liability	OWC254105	RES	19,803	CAGE	0.000%	-		
			(27,530,457)			(2,747,159)	8.5.2	

1 **Q. Is Adjustment 8.5 – Miscellaneous Rate Base a new adjustment?**

2 A. No. The Company has made this adjustment for many rate cases previously, in all rate
3 filings in the past decade including, docket UE-191024 (2020 GRC), and docket
4 UE-152253 (2015 Limited-Issue Rate Filing), docket UE-140762 (2014 GRC), and
5 docket UE-130043 (2013 GRC). Many of these cases witness Mullins has also
6 participated in.

7 **Q. Did AWEC raise any other issues with balances included in the calculation of**
8 **ISWC?**

9 A. Yes. Witness Mullins takes issue with the Company's classification of prepaid
10 pension assets as a current asset and proposes to exclude it from its calculation of
11 ISWC.[107] Witness Mullins states that a pension asset is typically considered a non-
12 current asset, and that by including pension asset balances as a current asset, the
13 Company has basically included pension settlement amounts in rate base through the
14 ISWC calculation, even though ratepayer responsibility for the settlement has not
15 been established.

[107] Mullins, Exh. BGM-1CT at 62:2-20.

1 **Q. Are pension asset balances appropriately included as current assets in the**
2 **Company's ISWC model?**
3 A. Yes. The classification of pension and post-retirement regulatory assets and liabilities
4 was established in docket UE-130043. The direct testimony of Company witness
5 Douglas K. Stuver describes the rationale supporting the classification of pension and
6 other post-retirement benefits associated regulatory balances as current assets or
7 liabilities, stating that,

8 Pension and other post-retirement benefits liabilities (FERC account
9 228.3) and the associated regulatory assets (included in FERC account
10 182.3) represent the difference between the amount the Company has
11 contributed to its pension and post-retirement benefit plans and the
12 amount the Company has recorded to expense for those same plans.
13 For ratemaking purposes, the Company recovers pension and post-
14 retirement costs based on the amount recorded to expense. Investor
15 capital is impacted for any difference between the amounts contributed
16 and the amounts included in rates as expense.

17 For example, if the Company records $10.0 million of pension and
18 post-retirement benefits expense but contributes $15.0 million to the
19 pension and post-retirement benefit plans, customer rates reflect the
20 $10.0 million in expense, and investor capital is used to finance the
21 $5.0 million of contributions in excess of the amount expensed.
22 Accordingly, it is appropriate to include this $5.0 million in investor-
23 supplied working capital to compensate investors for their cost of
24 capital. Likewise, if the Company records $15.0 million of pension
25 and post-retirement benefits expense but contributes $10.0 million to
26 the pension and post-retirement benefit plans, customer rates reflect
27 $5.0 million more than the Company has contributed. Accordingly, it
28 is appropriate to include a net liability of $5.0 million in investor-
29 supplied working capital for these customer-provided funds.[108]

30 In the same docket, in response to Company witness Stuver's testimony, Staff
31 agreed with the Company's rationale to include regulatory assets and liabilities for
32 pension and post-retirement benefits in the current assets and current liabilities

[108] *WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket No. UE-130043, Exh. DKS-1T at 7:21-8:17 (Jan. 11, 2013).

1 columns of the ISWC calculation, rather than in the investment columns because it
2 achieves a proper balance of ratepayer interests and allows investors to earn a return
3 on the net unamortized funds they contributed to employee post-retirement
4 benefits.[109] The Commission determined that PacifiCorp's proposed adjustments to
5 working capital (including specifically the inclusion of pension and post-retirement
6 regulatory assets and liabilities as current assets in the ISWC model) was supported
7 by the record and should be allowed.[110]

8 **Q. Is it true, as witness Mullins implies, that customer responsibility for pension**
9 **settlement has not been established?**

10 A. No. In docket UE-181042, the Commission approved deferred accounting treatment
11 related to non-contributory defined benefits pension plans, specifically as it relates to
12 the occurrence of pension events. Whereas generally accepted accounting practice
13 would require accelerated recognition of the effect of pension events, the deferral and
14 amortization of the impact of pension events over the same period used to amortize
15 the underlying regulatory assets or liabilities is consistent with sound regulatory
16 accounting practices and theory.[111]

17 **Q. Would the recording of a pension settlement asset result in an overall increase in**
18 **rate base?**

19 A. No. Under the approved deferral and amortization treatment, when a pension event
20 occurs, the pension settlement amount is credited out of underlying pension benefits
21 regulatory assets and is moved into a pension settlement regulatory asset to be

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[109] Docket No. UE-130043, Order 05 at ¶ 236 (Dec. 4, 2013).
[110] *Id.*, ¶ 240.
[111] *In the matter of the Petition of Pacific Power & Light Company, Petitioner, For An Order Approving Deferred Accounting Related to Non-Contributory Defined Benefit Pension Plans*, Docket No. UE-181042, Order 01 at ¶ 12 (Apr. 11, 2019).

1 amortized over the same period previously used to amortize the underlying regulatory
2 asset from which the amount was credited out. Therefore, the recording of a pension
3 settlement regulatory asset does not represent an increase in the overall asset balance,
4 only a reclassification. If not for the deferred accounting and amortization approved
5 by the Commission, the pension settlement amount would have needed to be
6 immediately expensed. The deferral and subsequent amortization continue the
7 regulatory treatment of these costs as if the triggering event had not occurred,
8 maintaining a stable level of expense for setting rates. Therefore, where underlying
9 pension and post-retirement regulatory assets are appropriately classified as current
10 assets in the ISWC model, so should any pension settlement regulatory assets.

11 **G. COVID Deferral**

12 **Q. What has AWEC proposed with regards to the Company's COVID deferral**
13 **balances?**

14 A. AWEC recommends rejection of the Company's proposal to recover deferred COVID
15 costs over a one-year amortization period.[112] AWEC states that other than a general
16 description, no information was provided about what costs were included in the case
17 to justify the inclusion of those costs for recovery. There is also no presentation of
18 any tracked savings that was used to offset some of those costs.

19 **Q. Was there any mischaracterization in AWEC's proposal?**

20 A. Yes. First of all, AWEC witness Mullins stated that "[b]ased on the value included in
21 this docket and a comparison to AWEC Data Request 029, PacifiCorp has included a
22 balance with costs through November 2022."[113] This is inaccurate. In its direct filing,

[112] Mullins, Exh. BGM-1CT at 57:7-61:2.
[113] Mullins, Exh. BGM-1CT at 58:14-15.

1 the Company reflected deferred COVID costs through September 2022, as reported in
2 the Quarter 3 report on the COVID deferral in docket UE-200234.[114] AWEC Data
3 Request 029[115] sought information for all deferrals that had outstanding balances,
4 from 2020 to present. Accordingly, not all of the balances provided in the Company's
5 response to AWEC Data Request were captured in the Company's recovery request in
6 its direct filing.

7 Secondly, AWEC witness Mullins characterizes the costs recorded to the
8 COVID deferral as "[l]ost revenues" and alleges that the deferred balance has not
9 been properly reduced for savings.[116] This is a mischaracterization. The balances
10 accumulated in the Company's COVID deferral are included as consistent with Order
11 01 in docket UE-200234, and reflect incremental costs net of benefits or savings.
12 Costs, and offsets, included in the COVID deferral include:

13 - Higher bad debt expenses,
14 - Costs to fund bill payment assistance program,
15 - Waived late fees,
16 - Increased labor and additional facilities to enable social distancing,
17 - Personal protective equipment, cleaning supplies and contact tracing,
18 - Technology costs to allow employees to work remotely,
19 - Cost reduction from lower employee expenses such as travel and training,
20 and
21 - CARES Act savings.

[114] *See In the Matter of the Petition of PacifiCorp, dba Pacific Power & Light Co., For an Order Approving Deferral of Costs Associated with the COVID-19 Public Health Emergency,* Docket No. UE-200234, PacifiCorp's Quarterly Report for Q3 2022 (Oct. 26, 2022).
[115] Cheung, Exh. SLC-15.
[116] Mullins, BGM-1CT at 58:18-19.

1 Most of the items captured in the COVID deferral are in fact real costs that the
2 Company incurred expenses for. The higher bad debt expenses, funding for bill
3 payment assistance programs, increased costs to facilitate social distancing and safety
4 measures, and incremental technology costs are all expenses that the Company paid
5 in response to the COVID pandemic. These cost categories make up approximately
6 86 percent of the total net COVID deferral balance that the Company is seeking
7 recovery for in this filing.[117]
8 Finally, in further discussion supporting why AWEC believes the amortization
9 of deferred COVID costs should be disallowed, AWEC witness Mullins cites to the
10 Company's 2021 earned ROE of 11.58 percent on a non-normalized basis.[118] ROE
11 calculated on a non-normalized basis is not an accurate representation of the
12 Company's performance for a reporting year. Non-normalized results only reflect a
13 system allocation of accounting data, and does not reflect any regulatory adjustments,
14 or treatments of balances, that is prescribed in Washington to accurately demonstrate
15 the Company's earning outcomes, in addition to any normalization or averaging
16 treatment of costs that have historically been ordered by the Commission for the
17 purpose of reporting results of operations for ratemaking purposes. A much more
18 indicative earnings measure is the normalized ROE. In calendar year 2021, the
19 Company's reported normalized ROE was only 6.93 percent, which is well below
20 authorized levels. Subsequently in 2022, the Company's reported normalized ROE
21 was a dismal 0.81 percent.

[117] Before taking into account savings and cost offsets.
[118] Mullins, BGM-1CT at 59:4-5.

1 **Q. Was the 2022 results of operations filing available to AWEC witness Mullins at**
2 **the time response testimony was developed?**
3 A. Yes. The Company's 2022 results of operations was filed at the end of April 2023,
4 more than four months before AWEC submitted testimony in this proceeding. Copies
5 of results of operation reports filed between 2018 through 2022 were also provided as
6 an attachment to the Company's response to Public Counsel Data Request 5.[119]
7 **Q. Did the Company provide details underlying the deferred COVID costs for**
8 **which it seeks recovery in this proceeding?**
9 A. No it did not, and that was an oversight. The Company has been filing quarterly
10 updates in the COVID deferral docket as required. The details of amounts deferred
11 and the accumulation of quarter-over-quarter amounts is outlined in the workpapers
12 supporting those filings. I have included a copy of the Quarter 3 report on the COVID
13 deferral filed under docket UE-200234 as Exhibit No. SLC-16, which supports the
14 total amount included in the Company's initial filing. A corresponding workpaper
15 supporting my rebuttal testimony and exhibits has also been provided, named
16 "230171-PAC-SLC-COVIDDeferralReportQ32022-ExhSLC8T.xlsx", which
17 provides additional support for the amounts outlined in Exhibit No. SLC-16. Also, as
18 per Order 01 in docket UE-200234, the Company has not applied any return-on
19 imputation on the COVID deferral balances included in this case. The balance for
20 which the Company is seeking recovery of comprises dollars spent in response to the
21 COVID pandemic, net of savings, and nothing more.
22 In the late stages of finalizing the Company's rebuttal filing, however, the
23 Company observed that it inadvertently omitted to include a small balance of $36

[119] Cheung, Exh. SLC-15.

1 thousand in technology costs to allow employees to work from home on a
2 Washington-allocated basis in its recovery request in this filing. The total-company
3 amount of approximately $504 thousand was reported in the Company's Quarter 3
4 report filed under docket UE-200234. The Washington-allocated portion of this cost
5 was mistakenly left out of the Company's request and this oversight was caught after
6 revenue requirement modelling had been finalized.

7 **Q. What is the Company's position on AWEC's proposal to disallow recovery of**
8 **COVID deferred costs?**

9 A. AWEC's proposal to disallow recovery of COVID deferral costs is not reasonable.
10 The Company has incurred an outlay of expenses in response to the COVID
11 pandemic, which as authorized by Order 01 of docket UE-200234 is tracked and
12 reported on a quarterly basis through quarterly reports filed with the Commission.
13 This information is publicly available and can be requested through discovery
14 throughout the current proceeding. Furthermore, AWEC's claim that the Company
15 had over-earned during the deferral period is based on a non-normalized ROE
16 reported in 2021, which feels like a disingenuous reference to make, given that
17 normalized ROE is the more appropriate benchmark for evaluating earnings in a
18 ratemaking context, and the 2021 ROE is also an outdated measure. A more recent
19 2022 normalized ROE was published and publicized in April 2023, which shows that
20 the Company's normalized ROE is reported at 0.81 percent. Accordingly, the
21 recovery of COVID deferred expenses is justifiable.

1 **H. Pole Attachment Revenues**

2 **Q. Please describe AWEC's proposed adjustment to pole attachment revenues.[120]**

3 A. Based on historical data for FERC account 454.1 provided as part of the Company's
4 response to AWEC Data Request 084,[121] witness Mullins is proposing an adjustment
5 to increase pole attachment revenues in the current MYRP, based on the observation
6 that the annual amounts provided in the response to AWEC Data Request 084 appear
7 to have increased by 15.9 percent each year, on average since the 12-month period
8 ended June 2019 through the 12-month period ended June 2023.

9 **Q. Does witness Mullins make any errors in the calculation of AWEC's proposed**
10 **adjustment?**

11 A. Yes. First of all, witness Mullins describes their proposed adjustment as a reduction
12 to RY1 *revenue requirement* of $654 thousand, and a RY2 reduction *revenue*
13 *requirement* of $248 thousand. However, examining the supporting workpapers, it
14 appears that the figures referenced are actually the proposed adjustment to RY1 and
15 RY2 revenues, to which a gross-up factor would need to be applied to properly
16 calculate the corresponding revenue requirement impact of the proposed change to
17 pole attachment revenues.

18 Secondly, the proposed RY1 revenue adjustment is calculated as an increase
19 based off the 12 months ended June 2023 balances, and not the historical test period
20 balance from the 12 months ended June 2022. The reported FERC account 454.1
21 balance for the 12-months ended June 2023 in AWEC Data Request 084 was $1.3
22 million, whereas the same balance for the historical test year 12-months ended June

[120] Mullins, Exh. BGM-1CT at 63:2-64:3.
[121] Cheung, Exh. SLC-15.

1 2022 in this case is only $905 thousand. Therefore, by applying the calculated
2 average historical increase to the 12-months ended June 2023 balance, witness
3 Mullins has artificially inflated their proposed adjustment. Correcting for this
4 referencing error would reduce witness Mullins' proposed adjustment to revenues
5 from $654 thousand in RY1 to $216 thousand, and the proposed adjustment to
6 revenues in RY2 from $248 thousand to $178 thousand.

7 **Q. Was the data provided in the Company's response to AWEC Data Request 084**
8 **the appropriate basis on which to impute the pole attachment revenue**
9 **adjustment AWEC proposes?**

10 A. No. The data in the response to AWEC Data Request 084 was collated using all
11 general ledger (GL) accounts associated with pole attachments which includes:

12 1) Contract rent revenues of pole attachments (GL 301864 – Revenue-Joint
13 Use of Poles).
14 2) Two GL accounts representing individual one-time fines and sanctions
15 that fluctuate over time, and
16 3) Two additional GL accounts which represent the processing of
17 applications fees and are offset with other types of expenses such as, but
18 not limited, to labor and office supplies.

19 While all the above GL accounts are included in FERC account 454.1, which
20 was the FERC account criteria for which AWEC Data Request 084 sought data,
21 several of these GL accounts should not be considered part of the pole attachment
22 revenue stream to which AWEC has proposed an adjustment to, as the nature of those
23 revenues are more one-off, or offset by expenses otherwise. Revising the data set

1 upon which witness Mullins extrapolated the projected pole attachment revenues to
2 reflect only contract rent revenues GL balances would further reduce AWEC's
3 proposed adjustment to revenues in RY1 to $44 thousand, and the adjustment to RY2
4 revenues to $31 thousand. Table 7 below summarizes the revisions to AWEC's
5 proposed adjustment to pole attachment revenues.

Table 7 – Pole Attachment Revenues

	FERC 454.1 (AWEC Data Request 084)	**% Change**	**AWEC Proposal Corrected**	**% Change**	**GL 301864 (Pole Attachment Contract Revenues)**	**% Change**
12 ME June 2019	717,736		717,736		664,053	
12 ME June 2020	800,873	11.6%	800,873	11.6%	698,147	5.1%
12 ME June 2021	893,273	11.5%	893,273	11.5%	690,816	-1.1%
12 ME June 2022	905,333	1.4%	905,333	1.4%	703,988	1.9%
12 ME June 2023	1,259,340	39.1%	1,259,340	39.1%	778,715	10.6%
	Average	**15.9%**		**15.9%**		**4.2%**
Rate Year 1		$1,559,566		$1,121,165		$747,826
Adjustment		**$(654,233)**		**$(215,831)**		**$(43,838)**
Rate Year 2		$1,807,433		$1,299,355		$778,872
Adjustment		**$(247,867)**		**$(178,190)**		**$(31,045)**

6 **Q. It appears that between 2022 and 2023, there is an observed year-on-year change**
7 **that is substantially higher than all other years presented. Is it reasonable to**
8 **expect that increase in pole attachment revenues from 2022 to 2023 to continue**
9 **through calendar year 2024 and 2025?**
10 A. The Company has no indication to support that the increase will be sustained into
11 years to come. From 2022 to 2023, in Washington there was an increase of 11,587
12 pole attachments with rates ranging from $5.83-11.66 per attachment. On the other
13 end, the Federal Communication Commission, which regulates pole attachment
14 revenue rates, approved a decrease in rates by 5 percent in 2023. The Company does

1 not request rate changes, and rates fluctuate every year. Therefore, there are various
2 variables determining the amount of pole attachment revenue the Company records
3 for any given accounting period that the Company cannot forecast.

4 **Q. Does the Company recommend a pole attachment revenue adjustment in this**
5 **rate case?**

6 A. No. The Company does not recommend an adjustment for various reasons. First, the
7 amount of increase is immaterial in nature, once correction to the underlying data set
8 and to witness Mullins' calculations are made. Secondly, the nature of these revenues
9 is such that they fluctuate over time both as an increase or a decrease with no
10 sustained trend that can be observed in the years of data examined as presented in
11 Table 7 above. Not to mention that historically, for ratemaking purposes in
12 Washington rate cases, the Company has not relied on adjustments that extrapolate
13 out historical trends. The reason for this is because of Washington's preference for
14 pro forma adjustments to be "known and measurable," and in most instances, an
15 extrapolated projection does not seem like it would meet this standard. Therefore, the
16 Company recommends AWEC's proposed adjustment be rejected.

17 **Q. Please summarize the conclusion of your testimony.**

18 A. The Company accepts corrections to specific labor and benefits expenses proposed by
19 Staff and supported by Public Counsel. The Company agrees in part with Public
20 Counsel witness Earle that an adjustment is necessary to properly reflect Jim Bridger
21 Units 1 and 2 O&M expenses in RY1 and RY2. The Company is also in agreement
22 that Colstrip Unit 4 capital projects identified through discovery to have been
23 cancelled or otherwise not pursued should be removed from this filing. All other

1 recommendations from Parties should be rejected for reasons discussed in my
2 testimony above.
3 Furthermore, the Company made revisions in its rebuttal revenue requirement
4 calculations:
5 - To reflect updates to cost of debt and ROE,
6 - To true-up pro forma capital to actual placed in-service amounts through
7 December 2022,
8 - To remove all provisional capital projects no longer expected to be placed in
9 service through 2025 (including the NTO project), and
10 - To reflect the latest projected costs for Jim Bridger Units 1 and 2 conversion
11 projects.
12 The Company respectfully requests the Commission to approve a $18.7
13 million rate change for RY1, and $22.0 million in RY2 in this MYRP.
14 **Q. Does this conclude your rebuttal testimony?**
15 A. Yes.