

Exhibit No. ____ (KHB-1T)
Docket UE-100749
Witness: Kathryn H. Breda

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFICORP D/B/A PACIFIC POWER
& LIGHT COMPANY,**

Respondent.

DOCKET UE-100749

TESTIMONY OF

Kathryn H. Breda

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Federal Tax Issues

**October 5, 2010
Revised October 8, 2010**

1 adjustment to remove flow-through tax recognition for the current
2 year.

3 b. Staff Adjustment 8.11, Repairs Deduction. This restating adjustment
4 reflects the restatement of the Repairs Deduction, recorded in
5 September 2009, reflecting an entire year effect of the 2008 federal
6 income tax return adjustment.

7
8 **Q. Please identify the revenue requirement impacts of your recommendations.**

9 A. My removal of Company Adjustment 7.9, Current Year Deferred Income Tax
10 removes the current year impact of the Company's proposal to adopt normalization
11 starting January 1, 2011. This adjustment increases net operating income by
12 \$525,562, increases the net rate base by \$262,718~~81~~, and decreases overall revenue
13 requirement by \$816,135. These are Washington figures. My Exhibit No. ____
14 (KHB-2) contains these figures.

15 My Adjustment 8.11, Repairs Deduction, includes the annual effect of the
16 repairs deduction in Accumulated Deferred Income Tax. This restating adjustment
17 decreases Net Rate Base by \$14,463,670 and decreases overall revenue requirement
18 by \$1,745,310. These are Washington figures. My Exhibit No. ____ (KHB-3)
19 contains the calculation of these figures.

20

1 State of Washington

	Revenue
Amount (1)	Requirement (2)

2 **Flow-Through Basis:**

Current Income Tax Expense	<u>\$(18,354,888)</u>	<u>\$ (29,610,389)</u>
Accumulated Deferred Income Tax	<u>(10,572,482)</u>	<u>\$ (1,275,766)</u>
Total		<u>\$ (30,886,155)</u>

4 **Normalization:**

Protected Repairs Deduction	(10,572,482)	
Unprotected Repairs Deduction	<u>(18,354,888)</u>	
Accumulated Deferred Income Tax	<u>\$(28,927,370)</u>	<u>\$ (3,490,623)</u>

7 (1) Exhibit No. RF-5 Page 3 Protected and Unprotected repairs deduction

8 (2) Conversion Factor 0.61988

9 Rate of Return 7.48%

10 The flow-through method of accounting for income taxes recognizes a
11 decrease in current taxes payable for the portion that is not protected by
12 normalization rules, and an increase in accumulated deferred income tax for the
13 protected portion.

14 This table shows the revenue requirement impact of the repairs deduction on
15 a flow-through basis would be a decrease of \$29,610,389¹² related to decrease in
16 current income tax payable, and \$1,275,766 for the increase in accumulated deferred
17 income tax, for a total revenue requirement decrease of \$30,886,155.

18 On a normalized basis, the entire repairs deduction is reflected as an increase
19 to accumulated deferred income tax or a decrease to the net rate base. The ratepayer
20 receives the benefit of the return on the reduction in rate base and the Company
receives the benefit of the reduction in cash expenditures for both the protected and

¹² This is the unprotected portion of \$(18,354,888) divided by the conversion factor of 0.61988 equals \$(29,610,389). The net rate base reduction of \$(10,572,482) multiplied by Staff's recommended 7.48 per cent rate of return, divided by the conversion factor of 0.61988 equals \$(1,275,766).