Exhibit No.___(SRE-1T)
Docket Nos. UE-061546/UE-060817
Witness: Steven R. Evans

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PACIFICORP dba Pacific Power & Light Company, Respondent.	Docket No. UE-061546
In the Matter of the Petition of PACIFICORP dba Pacific Power & Light Company, For an Accounting Order Approving Deferral Of Certain Costs Related to the MidAmerican Energy Holdings Company Transition.	Docket No. UE-060817

PACIFICORP

REBUTTAL TESTIMONY
OF
STEVEN R. EVANS

March 2007

1 **Introduction and Purpose of Testimony**

2 **Q. Please state your name and business address.**

3 A. My name is Steven R. Evans. My business address is 666 Grand Avenue,

4 Des Moines, Iowa 50309.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by MidAmerican Energy Holdings Company (MEHC). I am Vice

7 President, Taxation of MEHC and hold the same position with PPW Holdings

8 LLC (PPW Holdings). PPW Holdings is a wholly owned corporate subsidiary of

9 MEHC, and is the parent of PacifiCorp, the entity making this filing.

10 **Q. Please summarize your education and business experience?**

11 A. I received a Masters of Accountancy in 1978 from Brigham Young University,

12 having earned a Bachelor of Science in Accounting at the University in 1977.

13 I began my employment in the utility industry in 1978 by joining Utah Power &

14 Light Company, where I served in various accounting and tax functions until

15 1983, when I became Manager of Tax Accounting. Upon Utah Power's merger

16 with PacifiCorp in 1989, I became Manager, Tax Accounting for PacifiCorp. In

17 1992, I joined Iowa-Illinois Gas and Electric Company as Director, Corporate

18 Tax. Following the formation of MidAmerican Energy Company in 1995, I held

19 various tax management positions with the company and in 2003 was named Vice

20 President, Taxation of MEHC, the position I currently hold. I am also a member

21 of various professional and industry associations.

22 **Q. What is the purpose of your rebuttal testimony?**

23 A. The purpose of my rebuttal testimony is to address the consolidated tax

1 adjustment for interest expense proposed by the Industrial Customers of
2 Northwest Utilities ("ICNU") witness Mr. Gorman.

3 **Q. Please outline your rebuttal testimony.**

4 A. My rebuttal testimony first discusses Mr. Gorman's proposed adjustment to the
5 tax liability for ratemaking purposes associated with a selected consolidated
6 income tax computation. Second, Mr. Gorman fails to understand the principles
7 of tax consolidation and omits any discussion of the complete factual setting of
8 the Berkshire Hathaway Inc. (Berkshire) consolidated federal tax return.
9 Accordingly, I address this deficiency in Mr. Gorman's testimony second. Third,
10 I address the position Mr. Gorman has taken by completely ignoring the principle
11 of regulatory cost causation, summarily dismissing the long-standing regulatory
12 principle and practice of matching "benefits and burdens," and the inappropriate
13 precedent Mr. Gorman's position implies for the customer protection of ring
14 fencing around the utility.

15 **Mr. Gorman's Proposed Consolidated Tax Adjustment**

16 **Q. Please summarize the consolidated tax adjustment proposed by Mr. Gorman.**

17 A. ICNU witness Mr. Gorman argues that the Commission should reject the current
18 long-standing stand-alone approach to determining tax expenses for ratemaking
19 purposes and adopt an entirely new approach. His discussion suggests that he
20 proposes to take for PacifiCorp utility customers the tax benefit of interest on
21 existing debt at PacifiCorp's second tier parent company, MidAmerican Energy
22 Holdings Company ("MEHC"). Under Mr. Gorman's proposal, the tax expenses
23 for ratemaking purposes would be determined by selectively reaching to certain

1 tax attributes of the second tier parent within the federal consolidated group,
2 decreasing PacifiCorp's Washington revenue requirement by approximately $3.0
3 million.

4 **Q. How do you respond to this adjustment?**

5 A. Mr. Gorman's proposal is inappropriate. The proposal represents a
6 misunderstanding of consolidated tax principles and violates (1) regulatory cost
7 causation, (2) the requirement endorsed by the Commission that benefits should
8 follow burdens, and (3) the ring-fencing provisions adopted by the Commission
9 for PacifiCorp. I further describe how adoption of the approach suggested by Mr.
10 Gorman's adjustment could increase volatility and risk for customers.

11 **Principle of Consolidated Taxes and Background on PacifiCorp within the**
12 **Berkshire Consolidated Group.**

13 **Q. Did Mr. Gorman provide in his testimony the proper consolidated tax**
14 **setting in which PacifiCorp is required to function as a subsidiary of**
15 **Berkshire?**

16 A. No. Mr. Gorman acknowledges that PacifiCorp "consolidates its taxable income
17 with Berkshire Hathaway and all its affiliates, not just MEHC" and then proceeds
18 to address only one tax attribute of MEHC. He correctly notes that "[m]oving up
19 the affiliate corporate structure significantly complicates the issue and I did not
20 perform that adjustment."

1 **Q. Is it crucial for all parties to this proceeding to have at least a general**
2 **understanding of the consolidated tax structure and overall tax environment**
3 **in which PacifiCorp now operates?**
4 A. Yes. To set the stage for later discussions of issues within my testimony, it is
5 important to understand how PacifiCorp and its parent corporations (PPW
6 Holdings and MEHC) each fit within the consolidated corporate family of
7 Berkshire. Mr. Gorman has selectively addressed just one specific tax attribute
8 (interest expense) within the context of just one of Berkshire's 500-plus
9 consolidated corporate subsidiaries (MEHC), and then proposes to extract and
10 allocate the tax benefit of that item to the customers of yet another corporate
11 subsidiary (PacifiCorp).
12 **Q. Could you please describe that structure and its related tax environment?**
13 A. To provide proper context, I will highlight the Berkshire consolidated corporate
14 structure which includes PacifiCorp. Berkshire is a publicly owned company
15 based in Omaha, Nebraska. Berkshire, in turn, has partial or full ownership of
16 over 1,100 entities. Berkshire owns greater than 80 percent of the stock of over
17 500 of the corporate entities within its investment portfolio and, pursuant to
18 federal tax law and its own election, therefore includes those 500-plus corporate
19 entities in its consolidated federal income tax return. Among the many
20 corporations within the Berkshire consolidated federal income tax return filing are
21 MEHC (owned 88 percent by Berkshire), PPW Holdings (owned 100 percent by
22 MEHC), and PacifiCorp (owned 100 percent by PPW Holdings). Further,
23 PacifiCorp has several small subsidiaries of its own. As described more fully

1 later in my testimony, all federal tax attributes of each subsidiary are separately
2 listed within Berkshire's consolidated federal return schedules filed with the
3 Internal Revenue Service (IRS). Also, as noted later, the numerous Berkshire
4 subsidiaries are each subject to tax filing requirements for the various states in
5 which the companies have operations, and file on combined or separate bases
6 each tax year, as dictated by respective state tax rules.

7 **Q. Please briefly describe the financial strength of Berkshire, the ultimate**
8 **parent of PacifiCorp.**

9 A. In its Form 10-K for year ended December 31, 2005, Berkshire listed assets of
10 $214.4 billion. Consolidated cash and cash equivalents at December 31, 2005,
11 amounted to $45 billion, while consolidated payables and borrowings amounted
12 to $37.3 billion.

13 **Q. What is the significance of the large amount of consolidated cash and cash**
14 **equivalents?**

15 A. This fact could be very significant in light of Mr. Gorman's assertion that
16 PacifiCorp's "parent" for consolidated tax and proposed allocation of interest tax
17 benefit purposes – which he represents to be MEHC, but is really Berkshire –
18 truly had no net debt just prior to the acquisition of PacifiCorp. Combining for
19 illustrative purposes Berkshire's consolidated cash and cash equivalents of $45
20 billion, and its consolidated liabilities of $37.3 billion, it appears that, as of
21 December 31, 2005, Berkshire, (which at the time was soon to be the ultimate tax
22 parent of PacifiCorp), had zero net debt. If there was zero net debt at the real
23 consolidated tax parent level Mr. Gorman was attempting to employ (he used

1 MEHC instead of Berkshire) in order to assert allocable interest tax benefits, then
2 there is economically no consolidated parent interest to be allocated all the way
3 down to PacifiCorp.

4 **Q. By way of background, please describe a consolidated tax return.**

5 A. Section 11(a) of the Internal Revenue Code ("Code") imposes a tax "on the
6 taxable income of every corporation." (emphasis added) Other provisions within
7 the Code and related Treasury Regulations address various relationships among
8 affiliated corporations – but never depart from the basic tenet that there is to be a
9 tax on the taxable income of every corporation. Code Section 1501 allows
10 affiliated groups of corporations to file consolidated income tax returns on a
11 combined basis rather than requiring each business to file a separate return. In the
12 case of PacifiCorp, as one of the affiliated corporations within Berkshire's
13 consolidated group, it normally contributes its taxable income to the consolidated
14 group; Berkshire then pays PacifiCorp's appropriate share of taxes, along with
15 other taxes payable by other Berkshire affiliates, to the federal government. On
16 the other hand, an affiliate can also contribute a taxable loss to its consolidated
17 group. (For example, the latter occurred in fiscal year ended March 31, 2002,
18 when PacifiCorp, on a stand-alone basis, incurred a taxable loss and contributed
19 that loss, rather than income, to the consolidated group to which it then belonged.)
20 The consolidated entity then adds together the taxable income of each company
21 participating in the return and makes limited adjustments at the consolidated level
22 to calculate the taxes owed the federal government.

1 **Q. Is it common for companies that are eligible to file a consolidated return to**
2 **elect to do so?**
3 A. Yes. Although filing a consolidated federal tax return is "elected" under the
4 Code, if corporations meet certain ownership thresholds (generally, where the
5 filing parent owns at least 80 percent of the vote and value of a subsidiary's
6 stock), the IRS will impose certain limitations on the group irrespective of
7 whether the corporation elects to join in a consolidated tax return. In other words,
8 while the election is voluntary, if the group of corporations chooses not to file a
9 consolidated return, the IRS will nevertheless impose some limitations as if they
10 did. Furthermore, each state prescribes its own rules for filing consolidated or
11 separate corporate tax returns, so a corporation filing with affiliate corporations in
12 a consolidated federal tax return, may or may not be filing with those same
13 affiliates on the tax return filed with a given state.
14 **Q. What are other reasons that companies participate in consolidated returns?**
15 A. A key reason entities choose to participate in the filing of consolidated tax returns
16 is the ability to pool tax attributes associated with timing differences. It is critical
17 to understand this concept of timing differences and that Mr. Gorman's proposed
18 adjustment to total tax expense is made up of two components, current taxes (the
19 tax return and tax liability accrual) and deferred taxes (such as those arising from
20 net operating losses, for example) which will become payable at some later date.
21 Filing a consolidated tax return affects the current taxes payable rather than the
22 total income tax expense. In other words, the benefit, if any, of filing
23 consolidated returns is the effect upon the ***timing*** of the income tax payment, not

1 the total tax liability. While current taxes owed may be temporarily reduced (if
2 there are losses to offset gains), deferred taxes are temporarily increased and will
3 ultimately become due as current taxes in a future period. For example, charitable
4 contributions disallowed in prior years due to consolidated taxable income
5 limitations are carried over to reduce the current taxes payable in later years when
6 mathematical limitations no longer apply. As another example, excess net
7 operating losses from a prior year may be carried forward to reduce current taxes
8 payable in a subsequent year. If the filing of a consolidated tax return decreases
9 current taxes, it will increase deferred taxes by an equal amount. In other words,
10 filing a consolidated tax return does not create a permanent benefit, but affects
11 only the ***timing*** of realizing the benefits. Filing a consolidated return also
12 provides administrative economies of scale in the filing of the tax return.

13 **Q. How are losses treated in the filing of a consolidated return?**

14 A. In a very simple example, when one company with positive income files in a
15 consolidated return with another business that has incurred a net loss, the total
16 current tax paid by the two businesses is reduced, because the net loss of the
17 affiliate business could not otherwise be recognized until later years (note the
18 timing element involved here) in which that separate business achieves a profit.

19 **Q. Does this mean that PacifiCorp and the other businesses in the consolidated**
20 **group subsidize one another?**

21 A. No. As noted above, the Code requires that tax be eventually imposed on the
22 taxable income of every corporation. In fact, the ownership structure of
23 PacifiCorp, appropriate consolidated tax filings and related tax accounting, and

1 important "ring-fence" regulatory protections combine to ensure that cross-
2 subsidization of non-regulated entities does *not* occur.
3 It is important to understand that PacifiCorp's taxable income is computed and
4 reported to the IRS within Berkshire's consolidated filings on a separate company
5 basis. The IRS also focuses much of its audit efforts on an affiliate-by-affiliate
6 basis. This separate company computation on the federal return is not based upon
7 hypothetical taxable income, but rather is based upon PacifiCorp's actual stand-
8 alone taxable income.
9 **Q. Is the federal income tax expense incurred by PacifiCorp reduced by its**
10 **participation in the consolidated return?**
11 A. No. Even when a consolidated income tax return is used, each entity's stand-
12 alone tax income is separately calculated. Accordingly, the Company contributes
13 to the consolidated group its separately calculated respective share of current
14 income taxes due.
15 **Q. Mr. Gorman asserts that recovery of PacifiCorp taxes should be limited only**
16 **to the amount of tax that will ultimately be paid to government taxing**
17 **authorities. Please comment on this point with respect to PacifiCorp and its**
18 **role as part of the consolidated federal income tax returns filed by Berkshire.**
19 A. As noted earlier in my testimony, the federal tax code subjects to taxation the
20 taxable income of every corporation – including the 500-plus corporations such as
21 PacifiCorp which are within the Berkshire consolidated group. PacifiCorp's
22 stand-alone federal tax expense each year rolls into, and becomes part of the
23 significantly greater consolidated federal tax expense accrued and paid to taxing

1 authorities each year at the Berkshire consolidated level.

2 **Q. Is the stand-alone calculation of PacifiCorp's tax liability contained within**
3 **the Company's filing consistent with the calculation and regulatory**
4 **treatment of income taxes in past Washington rate cases?**

5 A. Yes. PacifiCorp has calculated and reported its income taxes on a stand-alone
6 basis for many years – commencing well before the transactions with MEHC or
7 with ScottishPower.

8 **Violations of Regulatory Principles**

9 **Q. Please explain what you mean by regulatory cost-causation principles.**

10 A. Long-standing regulatory principles establish that a Company's rates are "just and
11 reasonable" when they are cost-justified. In determining whether rates are cost-
12 justified, a commission looks for a causal link between the service the company
13 provides ratepayers and the expenses the company incurs to provide that service.

14 **Q. Please explain how Mr. Gorman's proposed adjustment violates cost-**
15 **causation principles.**

16 A. Mr. Gorman's proposal seeks to take the tax benefit of interest imputed from the
17 debt portion of the capital structure of its second-tier parent, MEHC. Ignoring the
18 separate business functions, risks, expenses and revenues, Mr. Gorman simply
19 reaches up and out to capture the tax benefit interest deductions originating from
20 one of its parents. In this way, the proposed adjustment disregards well-known
21 cost-causation principles that the Commission has embraced. The proposed
22 adjustment seeks to allocate to customers the tax value of the imputed interest on
23 debt at MEHC even though the MEHC interest costs which produced them are not

1 included in rates. This is further emphasized in Dr. Hadaway's rebuttal testimony
2 where he explains the Commission's ruling in the Company's most recent rate
3 Order, Dockets UE-050684 and UE-050412 (2005 Rate Case).

4 **Q. Can the Commission adopt Mr. Gorman's proposal without violating or**
5 **compromising the stand-alone tax computation?**

6 A. No, by virtue of his adjustment, the proposed computation is no longer a stand-
7 alone computation. The tax benefit of the interest deduction is an asset, but it is
8 an asset belonging to the entity incurring the interest expense. Adopting Mr.
9 Gorman's proposal would mean PacifiCorp would take the asset of its non-
10 regulated second-tier parent affiliate without compensation. There is no
11 symmetry, as Mr. Gorman has not proposed an adjustment in subsequent years for
12 PacifiCorp to "pay back" the tax benefit it uses to MEHC when MEHC (or its
13 other affiliates) could use that benefit. Conversely, if Mr. Gorman does not really
14 intend that the tax benefit be permanently assigned from year to year, then
15 mechanisms would need to be put into place for "gain" companies in the
16 consolidated group to "pay back" losses to loss companies when they can be used
17 in subsequent years. This deposit and withdrawal banking of tax benefits and
18 detriments over the years would result in volatile rates and sure mis-matches
19 among generations of customers.

20 **Q. Please describe the "benefits-burdens" test.**

21 A. The concept of the "benefits-burdens" test is similar to cost-causation. Under this
22 ratemaking concept, before the Commission can allocate the *benefits* of a
23 consolidated tax adjustment to ratepayers it must first determine that ratepayers

1 bear the *burden* that created the consolidated tax adjustment—*i.e.,* are the
2 expenses or losses that created the tax credits or deductions included in the
3 relevant cost of service? By aligning benefits and burdens, the requirement is
4 consistent with the principle of cost-causation or cost responsibility. Mr.
5 Gorman's proposed adjustment totally disregards this regulatory principle by
6 seeking to assign to customers the tax benefits of interest incurred by the parent
7 company when the shareholders or parent affiliates, not the customers, have paid
8 the expenses creating those losses.

9 **Q. Has the Commission previously adopted a "benefits and burdens" concept in**
10 **previous decisions?**

11 A. Yes. In the consolidated cases regarding the sale of the Centralia generating
12 station (Dockets Nos. UE-001255 et. al.), the Commission apportioned profits
13 between investors and customers on the basis that benefits should follow burdens.
14 According to the Commission's decision:

15 *In general, the Commission relies on the broad principle that reward*
16 *should follow risk and benefit should follow burden.* In this particular
17 transaction, both ratepayers and shareholders have and will incur risks and
18 burdens. In addition to the financial risks and burdens borne by
19 ratepayers, shareholders bear legislative and market risks, and additionally
20 bear the regulatory burden of prudently managing their resources, which
21 multiple ownership can make difficult. As both shareholders and
22 ratepayers have incurred risks and burdens, both should also share in the
23 benefits of the sale. The remaining gain is thus one of the benefits, which,
24 when considered with other benefits and burdens, must be fairly allocated.
25 *(Second Supplemental Order, ¶ 53 (1999), emphasis added)*

1 **Q. Mr. Gorman's proposal seems to suggest that tax benefits of deductions or**
2 **credits associated with any member of the consolidated group (in this case,**
3 **MEHC) are not earmarked and somehow belong to the entire consolidated**
4 **group. Do you agree?**
5 A. Absolutely not. As previously mentioned, the tax benefits of losses represent an
6 asset to the company that generated the losses. FAS 109 dictates the U.S. GAAP
7 treatment of such tax benefits for financial reporting purposes, and states in
8 paragraph 18b., "A deferred tax liability *or asset* is recognized for the estimated
9 future tax effects attributable to temporary differences and carryforwards."
10 (Emphasis added.) FAS 109 further states in paragraph 17, "...Deferred taxes
11 shall be determined separately.... Measure the total deferred *tax asset* for
12 deductible temporary differences and operating loss carryforwards using the
13 applicable tax rate..." Such assets have value to a company; for example, such
14 assets can continue with the loss company if it is acquired by another company.
15 This fact underlies the benefits-burdens requirement described above.
16 **Q. Could the Commission adopt Mr. Gorman's proposal without violating the**
17 **benefits-burdens test?**
18 A. No. Contrary to Mr. Gorman's assertion that the benefits-burdens test is met, the
19 substance of his proposal, if adopted, would violate that key concept.
20 Mr. Gorman proposes to allocate the tax benefits of one tax attribute – interest
21 expense – from PacifiCorp's second-tier parent within the Berkshire consolidated
22 group without any regard to whether customers bore the underlying interest
23 expense that created the tax deduction. In other words, if the proposal were

1 adopted, MEHC (and therefore shareholders above MEHC) would absorb all of
2 the costs for which the customers would be receiving the corresponding related
3 tax benefits.

4 **Q. Why is it important to separate PacifiCorp from its non-regulated affiliates?**

5 A. The six state utility commissions that regulate PacifiCorp have gone to great
6 lengths to ensure adequate separation between PacifiCorp and its non-regulated
7 affiliates in order to protect customers. PacifiCorp has also taken steps,
8 encouraged and approved by its commissions, to maintain separation of its utility
9 operations for the benefit of customers. This is apparent from Commitment No.
10 11 adopted by the Commission in approving MEHC's acquisition of PacifiCorp
11 (Docket UE-051090), which states that:

12 a) Any diversified holdings and investments (*e.g.*, non-utility business or
13 foreign utilities) of MEHC following approval of the transaction will not
14 be held by PacifiCorp or a subsidiary of PacifiCorp. This condition will
15 not prohibit MEHC or its affiliates other than PacifiCorp from holding
16 diversified businesses.
17 b) Ring-fencing provisions for PPW Holdings LLC will include the
18 provisions in Appendix 1. These provisions have been derived from those
19 in effect for NNGC Acquisition, LLC as of December 1, 2005.
20
21 As noted by in Dr. Hadaway's rebuttal testimony, the Commission's ruling in the
22 2005 Rate Case cites the "state of the art" ring fencing, which insulates utility
23 customers from the operations at the MEHC level.

24 **Q. Are there any risks associated with adopting Mr. Gorman's proposed**
25 **adjustment?**

26 A. Yes. Mr. Gorman's proposed consolidated tax adjustment for interest entails
27 unnecessary risk for customers, PacifiCorp, and PacifiCorp's parent companies
28 and affiliates.

1 The proposal increases the risk of rate volatility arising from the year-to-
2 year allocations of consolidated interest tax benefits and detriments, as described
3 earlier. For example, assuming the proposed adjustment is in place, in the event
4 MEHC separately and independently reduces its own debt (thereby lowering
5 interest expense, all other things remaining equal), PacifiCorp would have reason
6 to come back to this Commission and file for an increase in rates. In this
7 circumstance, because the debt reduction would have decreased the interest
8 deduction and increased PacifiCorp's tax expense. This is true even though
9 PacifiCorp had nothing to do with MEHC deciding to change its capital structure
10 and nothing had changed within PacifiCorp operations regarding how services
11 were provided to customers or the expenses of actual services provided to
12 customers.

13 By breaching the carefully established and maintained ring-fences
14 separating regulated and non-regulated operations, the proposed consolidated tax
15 adjustment for interest would increase the risk to PacifiCorp, and ultimately to
16 customers, of future liabilities to PacifiCorp's affiliates and their own creditors.
17 By failing to observe and honor corporate formalities, the proposal could increase
18 the risk that a bankruptcy court would disregard the corporate distinctions among
19 PacifiCorp and its affiliates and potentially make PacifiCorp liable for its
20 affiliates' debts. By reaching through the ring fence, the proposals could also
21 subject PacifiCorp to claims against PacifiCorp by loss entities such as a parent
22 (should there be a bankruptcy) for the value to the parent entity of the
23 consolidated tax benefits that the Commission allocated from that entity to

1 PacifiCorp. Finally, by breaching the ring-fence, Mr. Gorman's proposal would
2 subject customers to rate volatility unrelated to the costs of providing service.

3 Q. **Does allocation of the tax benefit associated with the interest expense at**
4 **MEHC have no impact on deferred income taxes, as Mr. Gorman asserts?**

5 A. No. The interest deductions at MEHC currently help create a net operating loss at
6 that entity which, as cited above from FAS 109, results in a deferred tax item.
7 Not surprisingly, Mr. Gorman's proposed adjustment makes no provision for
8 compensating MEHC for the loss of this future benefit. If his adjustment were
9 adopted, PacifiCorp's current taxes would be artificially reduced, but its deferred
10 taxes would be increased by an equal amount and its rate base reduced
11 accordingly. Later, the current cash flow benefit would become an increased tax
12 payment when the net operating loss reverses at MEHC or at the ultimate
13 consolidated level. Also not surprisingly, Mr. Gorman's proposed adjustments
14 make no provision for this future increased expense. Therefore, his adjustment
15 would result in a double benefit to customers.

16 Interest expenses, like other expenses, are deductions contributing to net
17 operating losses, which themselves are generally carried forward into future
18 periods. As such, interest expenses so included in the loss, by definition, help
19 create timing issues.

20 Q. **Please summarize your testimony on Mr. Gorman's proposed consolidated**
21 **tax adjustment.**

22 A. The Commission has historically taken great care to separate PacifiCorp from its
23 non-regulated affiliates in order to protect ratepayers from potentially significant

1 subsequent liabilities, from risk of non-regulated operations' losses, and from risk
2 of rate volatility. Mr. Gorman's proposed adjustment for consolidated tax savings
3 ignores this careful separation and imposes additional risks on ratepayers.
4 Moreover, the proposal is inequitable and inconsistent with long-standing
5 regulatory ratemaking principles and practice, and violates the benefits-burdens
6 requirement. His analysis and discussion fail to recognize the proper consolidated
7 tax setting of PacifiCorp, with Berkshire, not MEHC, as the ultimate taxpayer
8 filing a consolidated return with the federal government. In his reach for
9 allocation of unrelated interest expense, he also fails to acknowledge the absence
10 of debt (on a net basis) at the consolidated Berkshire level.

11 A stand-alone tax calculation is the most solid and sound means to
12 mitigate risk and rate volatility for customers. For this reason, and the other
13 reasons discussed above, the Commission should reject Mr. Gorman's proposed
14 consolidated tax adjustment for MEHC interest expense.

15 **Q. Does this conclude your testimony?**

16 A. Yes.