Exhibit No.___(RBD-4T)
Docket No. UE-100749
Witness: R. Bryce Dalley

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PACIFICORP dba Pacific Power Respondent.	)	Docket No. UE-100749

PACIFICORP

REBUTTAL TESTIMONY OF R. BRYCE DALLEY

November 2010

Q. Are you the same R. Bryce Dalley that previously provided testimony in this docket?

A. Yes.

Purpose and Summary of Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to adjustments proposed by the witnesses for the staff of the Washington Utilities and Transportation Commission (Staff), the Industrial Customers of Northwest Utilities (ICNU), and the Public Counsel Section of the Washington State Attorney General's Office (Public Counsel).

Q. Please summarize your testimony.

A. My testimony explains and supports the Company's revised overall revenue increase of $48.5 million. This is a reduction from the $56.7 million request included in the Company's initial filing. My testimony also provides:

- A detailed calculation of the $48.5 million requested base revenue increase, including a summary of the differences between the $56.7 million initial request and the current amount. The revised request includes the impact of restating and pro forma adjustments proposed by other parties that the Company has accepted; and
- The Company's response to certain revenue requirement adjustments proposed by intervening parties in this case that the Company contests.

Required Revenue Increase

Q. What price increase is required to achieve the requested return on equity in this case?

A. As shown on Page 1 of Exhibit No.___(RBD-5), an overall base price increase of $48.5 million is required to produce the 10.6 percent return on equity requested in this rate case proceeding.

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

A. The Company's revised revenue increase of $48.5 million was calculated using the same West Control Area (WCA) allocation methodology included in the Company's original filing and incorporates certain adjustments proposed by other parties. In support of the revised calculation, Exhibit No.___(RBD-6) shows the revised revenue requirement requested by the Company. This exhibit updates Tabs 1 and 2 of my original Exhibit No.___(RBD-3) and adds a new section, Tab 12, containing backup pages for each new adjustment made to the Company's filing. All adjustments included in Tab 12 are incremental to the revenue requirement in the Company's initial filing made May 4, 2010.

Revenue Requirement Adjustments

Q. Is the Company incorporating any adjustments proposed by the intervening parties into its revenue requirement calculation?

A. Yes. The Company incorporated the following new adjustments, including some proposed by intervening parties, into its Washington revenue requirement calculation. Each is described further in my testimony.

Rebuttal Revenue Requirement Summary *(figures are in '000s)*		
Filed Price Increase		**$ 56,747**
Rebuttal Adjustments		
12.1	SO2 Emission Allowance Revenues	(272)
12.2	SERP Expense	(178)
12.3	Affiliate Management Fee	(15)
12.4	Advertising Expenses	(2)
12.5	Green Tag (REC) Revenues	(5,017)
12.6	Net Power Costs	(2,790)
12.7	Production Factor Adjustment	22
12.8	Cash Working Capital/Interest Sync	3
Total Rebuttal Adjustments		**(8,248)**
Rebuttal Price Increase		**$ 48,499**

SO_2 Emission Allowance Revenues

Q. Please describe INCU and Public Counsel witness Mr. Greg R. Meyer's proposed adjustment related to SO_2 emission allowance sales revenues.

A. Mr. Meyer proposes that current and past revenues from the sales of SO_2 emission allowances be amortized over five years instead of the 15-year amortization schedule used by the Company in the initial filing.

Q. Why did the Company's initial filing include amortization of these revenues over a 15-year period?

A. The Commission ordered the Company to use a 15-year amortization period for revenues associated with the sale of SO_2 emission allowances in its order in Docket UE-940947. The Company has used a 15-year amortization period in all Washington rate case filings since that time.

Q. Over what time period are SO_2 emission allowance revenues amortized in the Company's other jurisdictions?

A. The Company uses a four-year amortization period in Oregon and Utah, a seven-year amortization period in Wyoming, and a 15-year amortization period in California and Idaho.

Q. Does you agree with Mr. Meyer's proposal?

A. Yes. The Company is willing to accept a five-year amortization period to flow back the revenues associated with these transactions to customers in a timely manner. This change also helps to reduce the proposed rate increase in this proceeding.

Q. Has an adjustment associated with the amortization period of SO_2 emission allowance sales revenues been reflected in your revised revenue requirement?

A. Yes. Adjustment 12.1 of Exhibit No.___(RBD-6) reflects the impact of changing the amortization period associated with SO_2 emission allowance revenues from 15 years to five years using the unamortized balances as of December 2009. In addition, this adjustment corrects the Washington allocation as outlined in the Company's response to WUTC Staff Data Request 3. This restating adjustment reduces Washington revenue requirement by approximately $272,000.

Supplement Executive Retirement Plan (SERP)

Q. Please describe Mr. Meyer's proposed adjustment to SERP expenses.

A. Mr. Meyer removes all expenses associated with SERP from the Washington test period.

Q. Does the Company accept Mr. Meyer's adjustment in this proceeding?

A. Yes. Based on recent Commission orders for other Washington utilities, the Company is willing to exclude SERP expenses from customer rates in Washington.

Q. Has an adjustment associated with SERP expenses been reflected in your revised revenue requirement?

A. Yes. Adjustment 12.2 of Exhibit No.___(RBD-6) removes the Washington-allocated SERP expenses from the test period results. This restating adjustment reduces the Washington revenue requirement by approximately $178,000.

Affiliate Management Fee

Q. Please describe Mr. Meyer's proposed adjustment related to the Mid-American Energy Holdings Company (MEHC) affiliate management fee.

A. Mr. Meyer removes SERP, incentive payments, and legislative expenses from the MEHC affiliate management fee on the basis that these costs are inappropriate for inclusion in rates. Mr. Meyer proposes to disallow $2.4 million of these costs on a total company basis.

Q. Do you agree with a part of Mr. Meyer's proposal?

A. Yes. As explained in the rebuttal testimony of Company witness Mr. Douglas K. Stuver, Washington customers directly benefit from the services provided by MEHC and other MEHC subsidiaries. Nonetheless, the Company's rebuttal filing excludes SERP and legislative expenses billed to the Company. In addition, the Company proposes adjustments to exclude capitalized expenses, the cost of air travel in excess of commercial equivalent, and Long Term Incentive Plan (LTIP) expenses from rates in Washington.

Q. Do you agree with Mr. Meyer's proposal to remove all incentive compensation expenses reflected in the management fee?

A. No. Mr. Stuver explains in his testimony that the MEHC management fee includes expenses, including incentive compensation expenses, related to services provided by MEHC and other MEHC subsidiaries that provide direct benefits to Washington customers. As explained in the rebuttal testimony of Company witness Mr. Erich D. Wilson, the incentive compensation expenses are necessary to provide employee compensation at the market average and are consistent with Commission policy. Moreover, Mr. Meyer's proposal to exclude 100 percent of incentive compensation from the MEHC management fee is inconsistent with his proposal to remove 50 percent of overall incentive compensation. For this reason and those discussed in the rebuttal testimony of Mr. Stuver and Mr. Wilson, the Company recommends that the Commission reject this adjustment.

Q. Do you agree with Mr. Meyer's calculation of his adjustment to management fees?

A. No. Mr. Meyer's calculation overstates the impact of his proposals. In its initial filing, the Company reduced the amount of the affiliate management fee included in rates from $11.6 million, the amount reflected in MEHC invoices, to $7.3 million on a total company basis. This reduction was based on MEHC acquisition commitment WA 4(b)(i) established by the Commission in Docket

UE-051090.[1] Mr. Meyer calculated his adjustment based on the already-reduced $7.3 million rather than adjusting the original $11.6 million and then evaluating whether the MEHC acquisition commitment reduction is necessary. His adjustment essentially double counts reductions to the management fee that the Company has already included in the initial filing.

Q. What is the impact of the Company-accepted adjustments to the MEHC management fee that you describe above?

A. The table below reflects the total amount billed to the Company and itemizes the cost categories that are excluded from the test period in this proceeding. As shown in the table, the Company proposes an incremental adjustment in its rebuttal revenue requirement.

MEHC Original Invoices (000's)	**$**	**11,568**
Remove the following items:		
Amount capitalized		(206)
Legislative		(331)
Aircraft in excess of commercial equivalent		(709)
LTIP		(2,889)
SERP		(322)
Total Expenses for Inclusion in Rates	**$**	**7,111**
Amount Included in Company's Initial Filing	$	7,300
Rebuttal Adjustment	**$**	**(189)**

Q. Is an additional adjustment to reflect MEHC acquisition commitment WA 4(b)(i) necessary?

A. No. The Commitment requires the Company to demonstrate that allocations from MEHC to PacifiCorp included in rates are less than $7.3 million. Because the

[1] *Re Application of MidAmerican Energy Holdings Co. and PacifiCorp for an Order Authorizing Proposed Transaction*, Docket UE-051090, Order 8, Appendix A at 13 (Mar. 10, 2006).

Company's adjustments reduce the management fee to $7.1 million, this commitment is fulfilled without a further adjustment.

Q. Is an incremental affiliate management fee adjustment reflected in your revised revenue requirement?

A. Yes. Adjustment 12.3 of Exhibit No.___(RBD-6) removes approximately $189,000 of total company administrative and general expenses from the test period. This restating adjustment reduces the Washington revenue requirement by approximately $15,000.

Advertising Expenses

Q. What adjustment is the Company proposing in its rebuttal filing associated with advertising expenses?

A. In response to Public Counsel Data Requests 12 and 44, the Company discovered certain image and institutional advertising expenses that were inadvertently included in unadjusted Washington results. Adjustment 12.4 of Exhibit No.___(RBD-6) removes these expenses from the test period. The Washington revenue requirement impact of this restating adjustment is approximately $2,000.

Renewable Energy Credit (REC) Revenues

Q. Please explain the Company's rebuttal adjustment for REC revenues.

A. As explained in the rebuttal testimony of Company witness Mr. Gregory N. Duvall, the Company proposes to include approximately $4.8 million of Washington-allocated REC revenues in the test period. Confidential Exhibit No.___(RBD-7C) shows the Company's development of the $4.8 million of Washington-allocated REC revenues, which is based on the Company's response to WUTC Staff Data Request 93. Adjustment 12.5 of Exhibit No.___(RBD-6) adds these revenues to the test period. The Washington revenue requirement impact of this pro forma adjustment is a reduction of approximately $5.0 million.

Net Power Costs

Q. Please describe the Company's rebuttal adjustment associated with net power costs.

A. As outlined in the rebuttal testimony of Mr. Duvall, the Company has made several adjustments and updates to its net power costs. The impact of these changes is reflected in Adjustment 12.6 of Exhibit No.___(RBD-6). This adjustment reduces Washington-allocated net power costs by approximately $2.7 million. The Washington revenue requirement impact of this pro forma adjustment is a reduction of approximately $2.8 million.

Production Factor Adjustment

Q. Please describe the Company's production factor rebuttal adjustment.

A. Adjustment 12.7 of Exhibit No.___(RBD-6) reflects the impact on the production factor adjustment associated with the changes in the Company's SO_2 emission allowance revenues (Adjustment 12.1), REC revenues (Adjustment 12.5), and net power costs (Adjustment 12.6). The impact of this pro forma adjustment is an increase to the Washington revenue requirement of approximately $22,000.

Updated Cash Working Capital (CWC) and Interest Expense

Q. Have CWC and interest expense been updated to reflect the changes in test period expenses and balances?

A. Yes. Adjustment 12.8 of Exhibit No.___(RBD-6) shows the incremental change in CWC and interest expense from the Company's initial filing associated with the Company's rebuttal adjustments. The Washington revenue requirement impact of this restating and pro forma adjustment is an increase of approximately $3,000. This CWC update is unrelated to the CWC adjustments proposed by Staff, Public Counsel, and ICNU that I discuss below.

Contested Adjustments

Q. Do you address any specific adjustments proposed by the intervening parties to which the Company is opposed?

A. Yes. I address several adjustments proposed by intervening parties to which the Company is opposed.

Cash Working Capital

Q. Please describe Mr. Meyer's proposed adjustment to CWC balances.

A. Mr. Meyer removes the Company's entire rate base associated with CWC on the basis that if the Company had used the lead-lag study method to calculate CWC, the outcome may have resulted in negative CWC. He also recommends that the Company perform a lead-lag study before the Company's next rate case filing.

Q. Did Mr. Meyer perform a lead-lag study specific to the Company?

A. No. Mr. Meyer's recommendation relies on his "experience that electric utilities generally have a negative CWC allowance when a properly calculated lead-lag study is performed." In his testimony he references several orders issued by the Missouri Public Service Commission and the Illinois Commerce Commission that resulted in negative CWC for various other utilities.

Q. Are these examples relevant to the Company's current rate case filing?

A. No. Mr. Meyer's analysis seems to suggest that because the lead-lag study methods used by other utilities produced a negative CWC allowance, the same result would apply to the Company in this proceeding.

Q. Does the evidence that Mr. Meyer relies upon in proposing his adjustment meet the Commission's standard for a disallowance of CWC?

A. No. The Commission has found that parties proposing changes to the Company's CWC methodology must "provide full evidentiary support of any proposals and methods they may submit to substantiate adjustments to a company's figures."[2] Mr. Meyer has not done so.

Q. Has the Company performed lead-lag studies to determine CWC in prior rate cases?

A. Yes. The Company's preferred approach to calculating CWC is the lead-lag study method. The Company uses this method for ratemaking in all of the Company's other jurisdictions. The Company has also proposed using the lead-lag study method in determining CWC in previous Washington rate case filings, most recently in Docket UE-061546.

Q. What was the Commission's determination for CWC in Docket UE-061546?

A. The Commission rejected the Company's lead-lag study method and Staff's Investor-Supplied Working Capital (ISWC) method on the basis that the

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[2] *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE-050684, Order 3 at 68 (Apr. 17, 2006).

calculations were inconsistent with the Commission-approved WCA allocation methodology.[3]

Q. Does the method used by the Company in determining CWC address the Commission concerns expressed in Docket UE-061546?

A. Yes. As explained in my direct testimony, the Company views the 45-day or 1/8th of O&M method as an acceptable alternative to the methods previously rejected by the Commission. This method is calculated using the Commission-approved WCA allocation method, relies on detailed Washington-allocated test period data, and is a regionally accepted method used by the Bonneville Power Administration (BPA) in its calculation of average system costs for investor-owned utilities.

Q. Has the Company performed a lead-lag study using the WCA allocation methodology?

A. No. Because of the unique allocation method approved by the Commission for Washington results, the Company has not undertaken a lead-lag study using the WCA allocation methodology. However, the Company is considering preparing such a study in calendar year 2011 concurrent with the lead-lag study updates for the Company's other jurisdictions.

Q. Should the Commission reject Mr. Meyer's CWC adjustment?

A. Yes. Mr. Meyer provides no valid basis for removal of CWC other than suggesting that a lead-lag study might produce a negative CWC balance.

[3] *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE-061546, Order 8 at 42-43 (June 21, 2007).

Q. Please describe Staff witness Mr. Thomas E. Schooley's proposed adjustment to CWC balances.

A. Mr. Schooley removes all of CWC, fuel stock, and materials and supplies balances from the test period on the basis of the ISWC method.

Q. You previously mentioned the Commission rejected Staff's ISWC method of determining CWC in Docket UE-061546. Please explain the basis for the Commissions rejection of Staff's methodology in that proceeding.

A. In Docket UE-061546, the Commission rejected Staff's proposal on the basis that it was done on a total company basis and then allocated to Washington. In the Commission's order in that docket it states,

> The problem here is that neither the Company nor Staff calculated working capital in a manner consistent with the WCA allocation methodology. Mr. Schooley, for Staff, testified that he performed his ISCW analysis on a total company basis, not a WCA basis, and then applied an allocation factor based on Washington plant relative to total system plant. This, he believes, "captures it to a certain degree."[4]

Q. Has Mr. Schooley modified his methodology to address the concerns expressed by the Commission in Docket UE-061546?

A. No. Although Mr. Schooley asserts in his testimony that the allocation method he applied in this proceeding has been somewhat refined from his previous approach, his method is still entirely based on an overall Washington allocation of his analysis of PacifiCorp's total company balance sheet. In Mr. Schooley's testimony he states:

> "Staff's working capital analysis is based on the PacifiCorp's balance sheet. PacifiCorp does not maintain a balance sheet for the West Control Area alone, or Washington alone. Therefore, I developed an allocated

[4] *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket No. 061546, Order 8 at 42 (June 21, 2007).

> process based on the Commission-approved WCA allocation method to determine Washington's share of PacifiCorp's total working capital."[5]

In other words, Mr. Schooley uses a total company balance sheet to determine whether PacifiCorp as a whole should be entitled to a CWC allowance. Only if that calculation results in positive working capital would an allocation to Washington be necessary. In this proceeding, Mr. Schooley's analysis produces a negative CWC balance for PacifiCorp as a whole, and as a result, an allocation to Washington was not necessary.

Q. Do you agree that Staff's allocation method is consistent with the Commission-approved WCA methodology?

A. No.

Q. Please explain.

A. Since Mr. Schooley uses a total company approach, all of the Company's investments in the east side of the system, including the Company's significant investment in generation and transmission facilities, are reflected in his calculation. Mr. Schooley's approach therefore includes items in his analysis that are not included in the WCA, which is in direct conflict with the WCA methodology.

Q. Should east side facilities be included in the calculation of Washington CWC?

A. No. The Commission was very clear in its order in Docket UE-061546 that the method of determining CWC must be done on a WCA basis. Mr. Schooley's

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[5] Schooley responsive testimony, Exhibit No.__(TES-1T), page 8 lines 22 and 23, and page 9 lines 1 through 3.

approach in this case is as flawed as his approach in Docket UE-061546 because it relies entirely on a total company balance sheet.

Q. Is the method used by the Company in determining CWC specific to Washington operations?

A. Yes. The 45-day or 1/8th of O&M method used by the Company in this proceeding uses Washington-specific normalized results of operations. As a result, it clearly complies with the Commission approved WCA allocation methodology.

Q. Do you agree with Mr. Schooley that the Commission in Docket UE-061546 was only concerned with the application of PacifiCorp's system overhead factor to allocate working capital to Washington?

A. No. The Commission specifically noted that Mr. Schooley "performed his ISWC analysis on a total company basis, *not a WCA basis*, and then applied an allocation factor based on Washington plant relative to total system plant."[6] I interpret this statement as criticizing Mr. Schooley's method both for beginning with a total company analysis and for applying an allocation factor based on the revised protocol. While Mr. Schooley applied a different allocation factor in this case, he still began his calculation on a total company basis, as the Commission rejected in Docket UE-061546.

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[6] *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE-061546, Order 8 at 42 (June 21, 2007) (emphasis added).

Q. Is the 1/8th approach a generally accepted method of determining CWC for regulated utilities?

A. Yes. This method is one of only three methods discussed in Accounting for Public Utilities by Hahne and Aliff. The other two methods presented in that text are the lead-lag study method and the balance sheet approach, both of which were rejected by the Commission in Docket UE-061546. In addition, as discussed in my direct testimony and above, the 45-day or 1/8th of O&M method is consistent with the method used by the BPA in its calculation of average system costs.

Q. Has the Commission indicated whether it believes the 45-day or 1/8th of O&M method is appropriate for calculating CWC?

A. While the Commission has not explicitly endorsed this method to my knowledge, in Docket UE-061546 the Commission included the method in a list of methods used by regulators to determine CWC in the Commission's explanation that the lead-lag approach and ISWC approach are not the only "right" ways to calculate CWC.[7]

Q. Is Staff's proposal to remove fuel stock and materials and supplies from rate base reasonable?

A. No. Fuel stock and materials and supplies are materials necessary to maintain the generation, transmission, and distribution functions of the Company and provide service to customers. Ongoing balances of these items are necessary to provide reliable service.

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[7] *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE-061546, Order 8 at 42 (June 21, 2007).

Q. How do you respond to Staff's point that Staff's analysis shows that PacifiCorp investors do not contribute funds to create working capital and therefore these items should not be included in rate base?

A. As I discussed above, Staff's ISWC study is flawed and inconsistent with Commission precedent. Therefore, it is inappropriate to rely on Staff's study to find that fuel stock and materials and supplies, which provide direct benefits to Washington customers should be excluded from rate base. Moreover, Staff presents only seven lines of testimony in support of removing more than $11 million of Washington-allocated fuel stock and materials and supplies that are used to provide reliable service to customers. As I mentioned above, the Commission has stated previously in reference to CWC studies that parties must "provide full evidentiary support of any proposals and methods they may submit to substantiate adjustments to a company's figures."[8] Staff's evidence on the adjustment to fuel stock and materials and supplies does not meet this standard.

Q. Does the Company earn a return on investment for these items in the other states in which it operates?

A. Yes. The Company earns a return on investment for fuel stock and materials and supplies in addition to CWC allowances in all the other states in which it operates. In the Company's California jurisdiction, a return on investment for fuel stock is captured in its energy cost adjustment mechanism. In all of the Company's other jurisdictions, fuel stock and materials and supplies are included in rate base in addition to CWC allowances. Staff has presented no basis for ordering otherwise in this case.

[8] *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE-050684, Order 3 at 68 (Apr. 17, 2006).

Q. Does Staff object to the manner in which the Company calculated its 45-day or 1/8th of O&M method?

A. No. While Staff objects to the method on a conceptual basis, Staff does not present specific objections to the Company's calculations. Therefore, if the Commission accepts the Company's 45-day or 1/8th of O&M method in concept, there is no basis for an adjustment to CWC.

Q. Should the Commission reject Mr. Schooley's adjustment to CWC?

A. Yes. Mr. Schooley continues to propose a methodology that relies exclusively on total company balance sheet data, that is inconsistent with the WCA allocation method. Because of the Company's unique allocation method approved by the Commission in Washington, the 45-day or 1/8th of O&M method is a more acceptable approach in determining CWC balances.

Allocation of Administrative and General Expenses

Q. Mr. Meyer and Staff witness Mr. Michael D. Foisy raise issues with the Company's allocation of various administrative and general expenses in the test period. Please describe their respective positions and proposals associated with this issue.

A. Mr. Meyer removes approximately $49,000 of Washington-allocated legal fees from the test period on the basis that legal expenses should be directly assigned to the Company's jurisdictions rather than system allocated.

Similarly, Mr. Foisy identifies several cost categories included in the Company's administrative and general expense accounts that are being allocated to Washington customers on a system basis rather than being directly assigned to specific states. Mr. Foisy does not propose a reduction to the Company's revenue requirement, largely due to the immateriality of the variances discovered in his analysis, but instead recommends the Commission order the Company to perform a review of its allocation assignment of all revenue and expense items.

Q. What is the Company's policy with respect to allocation of various administrative and general expenses?

A. Consistent with the Company's WCA allocation handbook, where possible and cost effective, the Company's policy is to assign costs directly to the state in which the cost is incurred. When costs cannot be directly attributable to a state a system allocation factor is used.

Q. Do you agree with Mr. Foisy's proposal?

A. Yes. I agree that the Company should work with Staff and other interested parties in good faith to discuss ways to further refine the allocation assignment of revenue and expense accounts in accordance with the WCA allocation methodology. In instances where a direct assignment of costs or revenues to the states is considered more appropriate than a system allocation, the Company will make the appropriate modifications to its accounting systems to implement those changes.

Q. Do you agree with Mr. Meyer's adjustment?

A. No. As Mr. Foisy points out in his analysis, changing the allocation assignment of some cost categories would result in an increase to the Washington revenue requirement. Since Mr. Meyer has not presented an exhaustive analysis of all cost and revenue categories, it is inappropriate to look at one specific subset of costs and draw any definitive determination of the revenue requirement impact such an allocation refinement would have on the test period. As a result, the Commission should reject his isolated adjustment.

Q. Does this conclude your rebuttal testimony?

A. Yes.