BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

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

Respondent.

DIRECT TESTIMONY OF JAMES R. DITTMER (JRD-1T)

REGARDING TEST YEAR END RATE BASE VALUATION

INCLUDING APPROPRIATE COROLLARY ADJUSTMENTS

AND MISCELLANEOUS INCOME TAX EXPENSE ISSUES

ON BEHALF OF PUBLIC COUNSEL

JUNE 21, 2013

DIRECT TESTIMONY OF JAMES R. DITTMER (JRD-1T)
DOCKET UE-130043

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I. INTRODUCTION AND SUMMARY

Q: Please state your name and address.

A: My name is James R. Dittmer. My business address is Post Office Box 481934, Kansas City, Missouri 64148.

Q: By whom are you employed and in what capacity?

A: I am a Senior Regulatory Consultant with the firm Utilitech, Inc., a consulting firm engaged primarily in utility rate work. The firm's engagements include review of utility rate applications on behalf of various federal, state and municipal governmental agencies as well as industrial groups. In addition to utility intervention work, the firm has been engaged to perform special studies for use in utility contract negotiations.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of the Public Counsel Division of the Office of the Attorney General of the State of Washington (Public Counsel). Public Counsel has retained Utilitech, Inc. to review and respond to specific aspects of PacifiCorp's general rate case application.

Q: Please state your educational background.

A: I graduated from the University of Missouri-- Columbia, with a Bachelor of Science Degree in Business Administration, with an Accounting Major, in 1975. I hold a Certified Public Accountant Certificate in the State of Missouri. I am a member of the American Institute of Certified Public Accountants.

Q: Please summarize your professional experience.

A: My professional experience is summarized in Exhibit No. JRD-2.

Q: Have you previously filed testimony before the Washington Utilities and Transportation Commission?

A: Yes. I have filed testimony with the Washington Utilities and Transportation Commission ("UTC" or "Commission") on several occasions over approximately the past 25 years.

Q: What is the purpose of your testimony?

A: I am responding to PacifiCorp's request for valuing jurisdictional rate base employing test year end data for the most significant rate base components. Additionally, I am sponsoring several adjustments addressing PacifiCorp's calculation of retail jurisdictional income tax expense to be included in the Company's cost of service.

Q: Please summarize your major findings and recommendations.

A: I recommend the Commission accept PacifiCorp's proposed development of rate base employing end-of-test-year values for the most significant of rate base components, including Plant in Service, Accumulated Depreciation and Accumulated Deferred Income Taxes.

As development of rate base utilizing end-of-test year values results in bringing the "cost measurement period" closer to the "rate effective period," I view such methodology as an equitable and reasonable approach to addressing "regulatory lag." I also recommend two corollary adjustments that are consistent with developing rate base by employing test-year-end valuations. Specifically, I am first proposing an adjustment to "annualize" depreciation expense based upon test-year-end values for Plant in Service. Secondly, I am proposing an adjustment to "annualize" revenues associated with the number of Washington jurisdictional customers.

Q: Have you prepared an exhibit summarizing Public Counsel's recommendations in this case?

A: Yes. Exhibit No. JRD-3 provides a summary of adjustments proposed by PacifiCorp and adjustments proposed by Public Counsel that are being sponsored by me, Mr. Sebastian Coppola, or Ms. Lea Daeschel, who are also appearing in this proceeding on behalf of Public Counsel.

Q: Please explain how your schedules within Exhibit No. JRD-3 Summary of Public Counsel Electric Adjustments are organized.

A: Schedule No. 1 of Exhibit No. JRD-3 consists of a Summary of Public Counsel Electric Adjustments. Shown on Schedule No. 1 is a listing of every Washington jurisdictional electric adjustment incorporated within PacifiCorp's original direct filing. Adjustments sponsored by Mr. Coppola, Ms. Daeschel and me are also summarized on Schedule No. 1 of Exhibit No. JRD-2. PacifiCorp adjustments that Public Counsel is not supporting, modifying or opposing within this direct testimony have a designation of "PC Neutral in Direct." Public Counsel may adopt another party's position on adjustments that it does not address within its responsive testimony. For Company adjustments where Public Counsel is proposing an alternative calculation to that undertaken by the Company, such adjustments have been designated as "PC Modified." There is also one Company adjustment that Public Counsel is specifically opposing. Company adjustment No. 3.8 has been designated as "PC Oppose." Finally, Public Counsel is proposing several adjustments that were not presented in any manner by PacifiCorp. Those adjustments have been designated as "PC incremental" on Schedule No. 1.

Public Counsel adjustments that either modify an adjustment originally proposed by PacifiCorp, or which are incremental to those proposed by PacifiCorp, are summarized on ensuing schedules contained within Exhibit No. JRD-3. In my narrative testimony supporting these adjustments, I refer to the schedule number within Exhibit No. JRD-3, as well as Public Counsel's adjustment number designation.

II. BACKGROUND ON PACIFICORP'S REVIEW OF ALTERNATIVE RATEMAKING MECHANISMS

Q: What is your understanding of the genesis of PacifiCorp's proposal in this case to move to year-end rate base?

A: As a result of the settlement in the Company's 2011 general rate case, the Company agreed not to file another rate case until January 2013, in order to engage in a collaborative discussion of the WCA and alternative ratemaking mechanisms.[1]

Q: Did you participate in the collaborative on behalf of Public Counsel?

A: Yes, I participated in all meetings which discussed test period conventions and alternative ratemaking mechanisms.

Q: What were the results of these discussions?

A: Parties discussed a number of alternative ratemaking mechanisms and test period conventions designed to address regulatory lag. These included attrition adjustments, rate plans, alternative test periods, as well as test year end rate base valuation. No specific agreement was reached between the parties on a particular approach to

[1] *WUTC v. PacifiCorp d/b/a Pacific Power and Light Company.*, Docket UE-111190, Order 07, Final Order Approving and Adopting Settlement; Denying, Without Prejudice, the Request for Commission Participation in Workshop; and Extending Deadline for WCA Inter-Jurisdictional Review Filing at ¶¶ 19-20 (March 30, 2012).

address regulatory lag; however, I believe PacifiCorp's decision to propose a test-year rate base valuation is a reasonable one.

III. TEST YEAR END VALUATION OF RATE BASE AND APPROPRIATE COROLLARY INCOME STATEMENT ADJUSTMENTS

A. Test Year End Valuation of Rate Base is a Commonly Employed Test Year Rate Setting Methodology that Will Reduce Regulatory Lag.

Q: Please describe your experience with developing rate base using end-of-test year valuations for Plant in Service, Accumulated Depreciation and Accumulated Deferred Income Tax reserves?

A: In my experience, in jurisdictions that employ an historic test year, using end-of-test year valuations for major rate base components is very common.[2] While there have been occasional time periods that represent the exception, in general, utilities' rate base investment tend to go up over the course of the year. Accordingly, measurement of rate base and attendant return requirements *vis-à-vis* historic test year end rate base valuation that is closer to the "rate effective period" reduces regulatory lag. In a period where costs[3] are rising faster than revenues from customer growth and/or energy use, measuring a utility's cost of providing service closer to the rate effective date will reduce regulatory lag.

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[2] The focus of this portion of my testimony is upon valuing the three most significant rate base components of Plant in Service, Accumulated Depreciation and Accumulated Deferred Income Tax Reserves using test-year-end data. There are a number of smaller rate base components such as Materials and Supplies, Prepayments, and other short term assets and liabilities that are frequently reflected on an "average" valuation basis even though the jurisdiction would typically be characterized as employing a "test-year-end" rate base valuation methodology. The noted smaller rate base components are typically reflected utilizing an "average" valuation approach because they tend to have seasonal or operational variability that often causes a point-in-time valuation – such as a test year end valuation – to be unrepresentative of the ongoing or normal investment levels for such components.

[3] "Costs" would include expenses as well as rate base growth and/or rising capital costs.

Q: How much is regulatory lag shortened by using a test-year-end rate base valuation versus using the average-of-monthly-averages valuation approach?

A: Approximately six months. More specifically, if rate base growth is occurring fairly evenly throughout a given twelve month period, the "average" valuation approach should approximate the valuation at the mid-point of the twelve month measurement period. Thus, valuing rate base using test-year-end data will shorten regulatory lag by approximately six months.

Q: What is your understanding of this Commission's history in employing year-end rate base to address regulatory lag?

A: This Commission has indicated a willingness to use year-end rate base valuation. For example, in the 2011 Puget Sound Energy general rate case Order, the Commission specifically referred to year-end rate base as one possible tool to address regulatory lag.[4]

B. Unique Facts and Circumstances Surrounding PacifiCorp's Reflection and Request for Valuing Rate Base by Employing Test-Year-End Balances for Plant in Service, Accumulated Depreciation, and Accumulated Deferred Income Tax Reserves.

Q: What is the revenue requirement impact of PacifiCorp's valuation of rate base using test-year-end data rather than average-of-the-monthly-average data?

A: Per the Company's response to Staff Data Request No. 208, valuation of rate base using test-year-end data has the impact of slightly *lowering* the Company's revenue

[4] *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049 (consolidated), Order 08, Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing at ¶¶ 97, 491 (May 7, 2012). PSE requested an attrition adjustment in that case.

requirement request by approximately $0.3 million from that which is calculated when valuing rate base employing the average-of-monthly-averages approach.[5]

Q: Is the revenue requirement outcome resulting from reflecting test-year-end rather than the average-of-monthly-averages valuation of rate base expected?

A: No. As previously explained, in most periods a utility's rate base investment will rise year over year. Accordingly, to observe a decline in test-year-end versus average-test-year rate base investment is not generally expected.

Q: Does PacifiCorp offer any explanation as to why Washington jurisdictional rate base declined slightly from the calculated test-year-average investment level to the test-year-end investment level?

A: Yes. In response to Staff Data Request No. 208, PacifiCorp notes that the increase in the Company's revenue requirement from using an average-of-monthly-averages rate base valuation versus the test-year-end rate base valuation was primarily driven by the bonus depreciation impact on Accumulated Deferred Income Taxes that was booked during 2011. Federal tax legislation implemented for the years 2010 through 2013 permitted "bonus depreciation" or the instant deduction of anywhere from 50 percent to 100 percent of most utility capital expenditures during the noted years. The effect of the accelerated tax deductions is that cost-free capital in the form of growth in the Accumulated Deferred Income Tax Reserve resulted in somewhat muted growth in overall rate base for a number of regulated utilities.

[5] The cover page to Staff Data Request No. 208, without the accompanying voluminous attachment, has been submitted along with this testimony as Exhibit No. JRD-4.

Q: Does PacifiCorp's filing address the need for its proposed use of end-of-test-year data rather than this Commission's traditional use of average-of-monthly-averages data?

A: No. Company witness Mr. Steven McDougal very perfunctorily discusses in various portions of his testimony that Plant in Service, Accumulated Depreciation and Accumulated Deferred Income Taxes have been "walked forward" from the average-of-monthly-averages (AMA) test year starting point rate base values to balances existing at June 30, 2012.[6] However, Company testimony is devoid of explanation or reasoning for posting such end-of-test-year adjustments that do not follow this Commission's decades-old precedent for valuing rate base employing AMA valuation.

Q: Please explain in more detail why you are recommending using a test-year-end rate base valuation.

A: Starting with the 2012 Avista general rate case,[7] I have been advocating that this Commission migrate toward test-year-end rate base valuation to reduce regulatory lag. In this docket, I am continuing to recommend the Commission adopt test-year-end valuation of rate base for Plant in Service and related Accumulated Depreciation and Accumulated Deferred Income Tax Reserves as a means for addressing

[6] At page 18 of direct testimony Mr. McDougal discusses the adjustment found on page 6.2 of Tab 6 of Exhibit No. SRM-3 that walks the depreciation and amortization reserves forward to the June 30, 2012 balances, at page 20 Mr. McDougal briefly discusses the adjustment found on page 7.4 of Tab 7 of Exhibit No. SRM-3 that adjusts accumulated deferred income taxes, and at page 25 Mr. McDougal mentions that Plant in Service balances have been reflected at levels existing at June 30, 2012 within pages 8.12 through 8.12.6 of Tab 8 of Exhibit No.SRM-3.

[7] *WUTC v. Avista Corp. d/b/a Avista Utilities,* Dockets UE-120436 and UG-120437 (consolidated). Avista requested a significant attrition adjustment in that case.

regulatory lag, along with proper test-year-end matching adjustments for revenues and depreciation expense.

The fact that the test-year-end rate base valuation in this docket results in a slightly lower rate base valuation than that calculated using the AMA methodology represents an anomaly. When corollary adjustments reflecting annualized depreciation expense associated with test-year-end Plant in Service values and annualized revenues associated with customer counts being experienced at test-year-end are applied, the result is a higher revenue requirement than what the Company has calculated.

The adjustment to annualize revenues for test-year-end numbers of customers represents a second anomaly in this case. Usually, this adjustment reduces revenue requirement because customer counts are generally higher at the end of a test period than at the beginning as a result of continuous growth in customers within the utility's service territory. Because PacifiCorp's Washington electric operations experienced an overall decline in the number of customers being served throughout the test year, the impact of the annualizing revenue adjustment is to reduce test year weather normalized revenues, and therefore, increases the Washington jurisdictional revenue requirement. I am recommending this adjustment because it is a proper "matching" adjustment to be posted when using the test-year-end approach to valuing rate base.

In summary, I am recommending the Commission adopt the test-year-end approach, commonly used in other jurisdictions and recognized by this Commission as an available tool, because it reduces regulatory lag by reducing the time between the "cost measurement period" and the start of the rate effective period. Adopting the test-year-end approach necessitates certain matching adjustments, and I recommend that the Commission accept the matching adjustments I have described.

C. Adjustment to Annualize Depreciation Expense Associated with Test-Year-End Gross Plant in Service (PC 8.12).

Q: Please describe the calculation you have undertaken to annualize depreciation expense associated with test-year-end gross Plant in Service.

A: As previously described, in jurisdictions that employ end-of-test-year valuation it is appropriate and consistent to calculate the annual or "annualized" level of depreciation associated with end-of-test year Plant in Service. I have undertaken such calculation by increasing the test year actual recorded level of Washington jurisdictional depreciation expense for the percentage growth in gross Plant in Service from the test year average-of-monthly-average value to the test-year-end value. As calculated and reflected as PC Adjustment 8.12 on Schedule 12 of Exhibit No. JRD-3, the test-year-end valuation of gross Plant in Service is 1.286 percent higher than test year AMA valuation of gross Plant in Service. Applying the noted Plant in Service test-year-end over AMA growth factor of 1.286 percent to test year actual recorded depreciation expense (which would have been effectively calculated on the AMA of gross Plant in Service values) results in a proposed before-tax adjustment in the amount of $519,288. Such adjustment amount is carried forward to the Summary of Adjustments Schedule No. 1 of Exhibit No. JRD-3.

Q: PacifiCorp has proposed an adjustment to reflect the depreciation rates that it has proposed to be adopted by this Commission in Docket UE-130052. What is Public Counsel's position regarding PacifiCorp's depreciation rates that have

been proposed in Docket UE-130052 and reflected as a restating adjustment within this docket?

A: I did not review, nor do I address, PacifiCorp's proposed depreciation rate change. However, I have calculated beginning on line 22 of Schedule 12 of Exhibit No. JRD-3 an alternative adjustment to annualize depreciation expense associated with test-year-end gross Plant in Service values that is based upon the Company's proposed depreciation rate. In the event this Commission approves the Company's proposed depreciation rates, the alternative test-year-end depreciation annualization adjustment reflected on lines 22 and 39 should be incorporated in developing the revenue requirement in this case.

D. Adjustment to Annualize Revenues Associated with Test-Year-End Numbers of Washington Jurisdictional Customers Being Served (PC 3.9).

Q: Please describe the adjustment that you calculated to annualize revenues expected to be collected from Washington jurisdictional customers taking service at test year end.

A: As previously discussed, when a test-year-end rate base is employed, rate base valuation includes the full investment cost of serving customers taking service at the end of a given test year. Thus, it is appropriate, equitable and consistent to reflect the annual or "annualized" level of revenues that can be expected to collect from customers being served at test-year-end even though a portion of such customers served will have only taken service for a portion of the test year. The adjustment to annualize revenues at existing rates associated with test-year-end numbers of Washington retail jurisdictional customers being served is calculated as PC

Adjustment 3.9 on Schedule 3 of Exhibit No. JRD-3. The calculation begins by differencing the number of customers being served by rate class at the end of the test year and the actual number of customers served in each month of the test year. To the extent the number of customers served at test year end exceeded the number of customers in any given month of the test year, such increase in number of customers served was then multiplied times the average normalized revenue per customer collected in each month of the test year. Conversely, to the extent the number of customers served at test year end had declined from the number of customers served throughout the test year, the reduced or "lost" customer counts were also multiplied times the average normalized revenue per customer collected in each month of the test year. As shown on Schedule No. 3 of Exhibit No. JRD-3, the total number of Residential customers served declined at test year end relative to the number of customers served throughout the test year. Additionally, the number Schedule 48 Large General Service Time of Use (TOU) customers declined during the test year. The loss of Residential and Schedule 48 Large General Service TOU customers occurring throughout the test year was partially offset by increases in the number of Rate Class 24 – Small General Service customers served and the number of Rate Class 36 – Large General Service – Less Than 1,000 kW customers served. However, as can be observed in Schedule No. 3 of Exhibit No. JRD-3, overall the adjustment calculated to reflect revenues associated with test-year-end numbers of customers *reduces* test year normalized Washington retail revenues calculated utilizing existing rates by $1,698,590.

Q: Have PacifiCorp's Washington jurisdictional sales been falling in recent periods?

A: Yes. According to PacifiCorp witness Ms. Kelcey Brown, normalized sales for the test year ending June 30, 2012, are approximately 0.6 percent *lower* than the test year normalized sales volumes experienced in PacifiCorp's 2011 rate case that used a 2010 test year.[8] Further, I would note that the Company's Washington retail revenue forecast for 2013 predicts a little over a one percent (1.0 percent) drop in revenues from the test year weather normalized revenues calculated by PacifiCorp in this docket.[9] Thus, both recent actual and Company-forecasted sales support a conclusion that a downward adjustment to test year revenues to reflect test-year-end number of customers being served appears reasonable.

Q: Have you calculated associated expense adjustments for Bad Debts and Washington Public Utility Taxes that are appropriate to reflect in conjunction with your proposed test-year-end revenue annualization adjustment?

A: Yes. Specifically, I apply the Uncollectible Accounts Factor of 0.660 percent developed and sponsored by Mr. Coppola to the test-year-end revenue annualization adjustment I have calculated on the first page of Schedule No. 3 of Exhibit No. JRD-3 to derive a related Bad Debt Expense adjustment. Similarly, I apply the Washington Public Utility Tax rate of 3.87340 percent shown on page 7.8 of PacifiCorp Exhibit No. SRM-3 to the test-year-end revenue annualization adjustment calculated on the

[8] Exhibit No. KAB-1T, p. 2.

[9] Normalized base revenues for the test year ending June 30, 2012, per Attachment (e) to Public Counsel Data Request No. 103, are $303,519,419. Per the Attachment to WUTC Data Request 148, Washington jurisdictional revenues for calendar year 2013 are forecasted to be $299,985,619 – or slightly more than one percent lower than test year normalized base revenue level.

first page of Schedule No. 3 of Exhibit No. JRD-3 to derive a related Washington Public Utility Tax Expense adjustment.

IV. INCOME TAX ADJUSTMENTS

A. Corrections to PacifiCorp Adjustment to Recorded Test Year Income Tax Expense to Reflect Flow-through Treatment Ordered in Docket UE-100749 (PC 7.6).

Q: Did your review of PacifiCorp's calculation of total current and deferred income tax expense included in developing the Company's total Washington jurisdictional cost of service reveal any needed corrections or adjustments?

A: Yes. My review of PacifiCorp's calculation of income taxes for inclusion in the cost of service revealed several needed corrections.

Q: Please discuss your first proposed revision to PacifiCorp's development of adjusted test year income tax expense for inclusion in PacifiCorp's Washington retail jurisdictional cost of service.

A: Within pages 7.6 through 7.6.4 of Exhibit No. SRM-3, PacifiCorp develops an adjustment to reflect this Commission's intentions, as set forth within Order 07 issued in Docket No. UE-100749, to employ the flow-through methodology for certain book/tax timing difference in developing income tax expense for ratemaking purposes. My review of the noted Company adjustment indicates the need for two corrections to items afforded "flow-through" treatment and/or the value to be assigned a timing difference afforded flow-through treatment.

Q. Please describe what is meant by the term "book and tax timing difference?"

A. Accounting guidelines dictate the methods and timing for reporting revenues and expenses for public financial statement reporting purposes. The Internal Revenue

Code, along with Treasury Regulations, dictate the methods and timing for recognizing revenues and expenses for purposes of calculating corporate taxable income. There is a lot of similarity between accounting guidelines for recognizing revenues and expenses for financial statement reporting purposes *and* Internal Revenue Code/Treasury Regulation rules for recognizing revenues and expense for purposes of calculating corporate taxable income – but there are nonetheless differences. When there is a difference of reporting revenues and expense for financial statement reporting purposes (accounting guideline driven) and corporate federal taxable income development (IRC/Treasury Regulation driven), and the difference is *temporary*, a book and tax *timing* difference results.

Q. Please describe what occurs when a book and tax *timing* difference is afforded "flow-through accounting and ratemaking treatment."

A. There are two accounting and ratemaking methods employed to consider book and tax timing differences. Under the "flow-through" method, the current income taxes actually paid, after considering book and tax timing differences that are added to, or subtracted from (as applicable), income for financial statement reporting purposes is used in developing income tax expense for the cost of service underlying rates and also used for financial statement reporting purposes. The "flow-through" method contrasts with the "normalization" method that essentially calculates income taxes for cost of service development and financial statement reporting purposes on the basis of book income before taxes used for financial statement reporting purposes. The actual mechanics of deferral accounting used in conjunction with "normalization" tax accounting can be somewhat complex. "Current income tax" expense is calculated in the same manner under both "flow-through" and "normalization" accounting. However, under "normalization" accounting, a "deferred income tax expense" amount is calculated based upon the amount of the book and tax timing difference occurring in any given reporting period. In effect, under normalization accounting, the "adds" and "deducts" of timing differences are essentially ignored for purposes of financial statement reporting of total income tax expense as well as for reflecting the total amount of income tax expense to be included in cost of service rate development. As previously noted, this Commission in Docket UE-100749 determined it appropriate that a number of PacifiCorp book/tax timing differences be afforded flow-through ratemaking treatment.

Q: Please discuss the corrections you are recommending to the Company's development of income tax expense for certain book/tax timing differences afforded flow-through treatment.

A: In my review of the tax calculation underlying the rate order from Docket UE-100749, as well as the tax calculation underlying PacifiCorp's current docket tax calculation, I noted one book/tax timing difference that was afforded "normalization" treatment in Docket UE-100749 for which the Company is employing the flow-through methodology within this docket. Specifically, in Docket UE-100749 the book/tax timing difference entitled "Reg Liability – WA Low Energy Program" was afforded normalization rate making treatment. However, in this docket, PacifiCorp has calculated income tax expense resulting from this book/tax timing difference employing the flow-through methodology. In this proceeding, the noted book/tax timing difference consists of an "addition" to book income to arrive at taxable income. Accordingly, by affording this book/tax timing "addition to book income" flow-through treatment, PacifiCorp has overstated net current and deferred income tax expense related to this book tax timing difference.

Second, my review of the Docket UE-100749 cost of service income tax calculation, as well as the current docket cost of service income tax calculation, revealed that PacifiCorp failed to allocate a book/tax timing difference "subtraction to book income" in this docket that had previously been afforded flow-through ratemaking treatment. Specifically, PacifiCorp's current-docket tax calculation failed to allocate a portion of the book/tax timing difference "subtraction to book income" entitled "Bridger Coal Company Gain Loss on Assets Disposed" when developing the adjusted test year current income tax expense level to be included in the Washington retail jurisdictional cost of service. The omission of allocating a portion of the noted book/tax timing difference to Washington jurisdictional operations caused an overstatement of current income tax expense when developing PacifiCorp's adjusted Washington jurisdictional cost of service.

Q: Have you prepared an exhibit that shows the development of needed revisions to the Company's calculation of current and deferred income tax expense described above?

A: Yes. On Schedule No. 10 of Exhibit No. JRD-3 I show the revisions required to correct the adjustment presented by PacifiCorp on pages 7.6 through 7.6.4 of Exhibit No. SRM-3 discussed above.

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B. Revisions to Certain Tax Effects Initially Calculated by PacifiCorp Related to the Injuries and Damages Restating Adjustment (PC 4.8).

Q: Please discuss your final correction or revision to PacifiCorp's development of income tax expense included within the Company's adjusted test year cost of service.

A: When developing the restating adjustment calculated on pages 4.8 through 4.8.6 of Exhibit No. SRM-3 to reflect a six-year average of liability and property damages expense, PacifiCorp appears to have also attempted to calculate a six-year average of the book/tax timing difference amount associated with this above-the-line operating expense. Inasmuch as the calculated six-year average book/tax timing difference resulted in a significant "addition to book income," and the fact that this book/tax timing difference had been afforded flow-through treatment in Docket UE-100749, the result of the noted tax component of the Company's injuries and damages restating adjustment was approximately a $200,000 addition to PacifiCorp's otherwise-calculated revenue requirement. Both the need for, and potential amount of, the corollary tax adjustment included as a component of the injuries and damages restating adjustment appeared suspect. Through interviews and ultimately a supplemental response to Public Counsel Data Request No. 165, PacifiCorp has acknowledged that certain tax elements of the injuries and damages restating adjustment were in error. On Schedule No. 4 of Exhibit JRD-3, a revised restating injuries and damages expense adjustment is presented that incorporates needed tax corrections that PacifiCorp has acknowledged to be appropriate as well as the impacts of certain insurance premium reductions that are being sponsored by Mr. Coppola.

Q: Please summarize your testimony.

A: I am supporting PacifiCorp's reflection of Plant in Service, Accumulated Depreciation and Accumulated Deferred Income Tax Reserves included in rate base development employing end-of-test year values. Furthermore, I am recommending corollary "matching" adjustments that annualize depreciation expense and retail revenues based upon end-of-test-year Plant in Service and customer counts, respectively. Considered together, test-year-end valuation of rate base along with the noted corollary adjustments properly match cost of service components to an identical point in time and reduce the regulatory lag between the "cost measurement period" and the "rate effective period."

Additionally, I recommend adoption of a number of tax adjustments that I discuss above – several of which the Company has acknowledged to be appropriate - that correct and/or revise Company calculations undertaken.

Q: Does this conclude your testimony?

A. Yes, it does.