Q. Are you the same Ryan Fuller who previously filed testimony in this case?

A. Yes.

Q. What is the purpose of your supplemental testimony?

A. The purpose of my supplemental testimony is to demonstrate the adjustments to the Company's per books data necessary to reflect income tax on 1) a normalized basis as the Company has proposed in this general rate case or 2) a flow-through basis as proposed in the testimony of Washington Utilities and Transportation Commission (Commission) Staff witness Ms. Kathryn H. Breda. My testimony responds to the discussion of this specific issue at the second prehearing conference on November 17, 2010.

Q. Please explain how this testimony relates to your previously filed testimony.

A. In my direct testimony, I present the Company's proposal to normalize all temporary book-tax differences with the single exception of the temporary book-tax difference associated with the equity allowance for funds used during construction. Additionally, Exhibit No.___(RF-6) to my direct testimony, titled "Revenue Requirement Impact of Normalization vs. Flow-Through," presents a detailed computation of the impact of removing the adjustment for full normalization. My direct testimony thus provides narrative support for the change in methodology and an alternate calculation of income tax expense without the change in methodology. This testimony supplements my previous testimony on one issue only, by showing the alternate calculation of income tax expense without full normalization from a per books basis. This supplemental testimony does not change or revise any aspect of my previously filed testimony.

Q. As background, please explain the difference between how income taxes are reported for ratemaking on a normalized basis as compared to a flow-through basis.

A. When income taxes are reported on a normalized basis, the Company's income taxes include a provision for 1) current income taxes and 2) deferred income taxes. Additionally, the Company's rate base includes an adjustment for accumulated deferred income taxes.

When income taxes are reported on a flow-through basis, the Company's income taxes include a provision for current income taxes only. Additionally, no adjustment is made to the Company's rate base for accumulated deferred income taxes.

The differences between the two methods of accounting for income taxes are illustrated in the following table:

	Method of Accounting	
Ratemaking Component	**Normalization**	**Flow-Through**
Provision for Current Income Tax	X	X
Provision for Deferred Income Tax	X	N/A
Rate Base Adjustment for Accumulated Deferred Income Tax	X	N/A

Q. How does the Company's per books data report income taxes?

A. The answer depends on whether the income taxes are tracked in the Company's tax fixed asset system, PowerTax, which tracks the income taxes associated with the Company's fixed assets.

Q. Please explain how the Company's per books data is reported for income taxes tracked in PowerTax.

A. Because PowerTax is a sophisticated tax accounting system, income taxes can be tracked and reported on a jurisdictional basis in accordance with the required method of accounting by the respective regulatory commission. In Washington, this means that fixed asset related income taxes are reported on a normalized basis to the extent required by the Internal Revenue Code or specifically approved by the Commission and are reported on a flow-through basis otherwise. For this reason, no restating adjustment is necessary to the Washington per books data to report the fixed asset related income taxes on the basis currently approved by the Commission.[1]

With respect to these income taxes, the Company made a restating adjustment to the per books data in this case to reflect its proposal to move to full normalization. This restating adjustment is adjustment 7.9.

Q. Please explain how the Company's per books data is reported for income taxes that are not tracked in PowerTax.

A. All other income taxes are tracked in an Excel spreadsheet based model that is capable of tracking the income tax components of each individual book-tax difference using only one method of accounting. With the exception of Washington, all of the Company's regulatory jurisdictions require the use of normalized accounting for this portion of the Company's income taxes. For this reason, at the book-tax difference level of detail, income taxes not tracked in PowerTax are reported in the Company's per books data on a normalized basis.[2]

[1] A restating adjustment is necessary to report the total company fixed asset accumulated deferred income tax on a jurisdictional basis. This adjustment is necessary whether using normalized or flow-through accounting. This restating adjustment was made by the Company in adjustment 7.11.

[2] The Company's per books data for deferred income tax expense does include a single discrete contra account for Washington flow-through associated with income taxes not tracked in PowerTax to reflect flow-through accounting in the state of Washington. The contra account accounts for the impact of Washington flow-through for the unadjusted test year on a non-normalized basis. A restating adjustment is

Accordingly, a restating adjustment is necessary to reflect these income taxes on the basis currently approved by the Commission. The necessary restating adjustment removes the provision for deferred income tax and accumulated deferred income tax balances.

Q. The Company makes an adjustment for state income taxes in adjustment 7.8. Why is this adjustment necessary?

A. The Company's provision for deferred income tax and the balance for accumulated deferred income tax are computed using the Company's blended federal and state statutory tax rate. State income taxes are a system cost that is not recoverable in Washington. Accordingly, after all adjustments are made to income taxes, a final adjustment is made to remove state income tax from the adjusted test year. This adjustment is necessary whether using normalized or flow-through accounting. The necessary restating adjustment was made by the Company in adjustment 7.8.

Q. Were any other adjustments in the Company's filing impacted by its proposal to fully normalize income taxes?

A. Yes. As previously mentioned, normalized accounting includes a provision for deferred income taxes and an adjustment to rate base for accumulated deferred income tax. Accordingly, the following adjustments in Tabs 3-8 include adjustments to deferred income tax and accumulated deferred income tax, where under flow-through accounting they would not.

- Adjustment 3.2: Revenue Normalization

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necessary to remove this account whether using normalized or flow-through accounting. This restating adjustment was made by the Company in adjustment 7.5.

> Adjustment 4.4: Pension Curtailment

> Adjustment 4.6: DSM Removal Adjustment

> Adjustment 4.8: Remove MEHC Severance

> Adjustment 5.6: Removal of Colstrip #3[3]

> Adjustment 7.2: Accumulated Deferred Income Tax Factor Correction

> Adjustment 7.10: Medicare Deferred Income Tax Expense

> Adjustment 8.3: Environmental Remediation

> Adjustment 8.5: Miscellaneous Rate Base

> Adjustment 8.7: Powerdale Hydro Removal

> Adjustment 8.8: Trojan Unrecovered Plant Adjustment

> Adjustment 8.10: Chehalis Reg Asset – WA

Q. Please summarize the adjustments made to the per books data by the Company to reflect income tax on a fully normalized basis.

A. The summary is provided in Exhibit No.___(RF-12). The provision for deferred income taxes and rate base reduction for accumulated deferred income tax under the Company's proposal are provided on page 3 of 6 and page 6 of 6, respectively. These schedules demonstrate the adjustments to the per books data reported in Exhibit No.___(RBD-3), Tab B7[4] and Tab B19[5] in the Company's filing. The schedules are subtotaled between those taxes that are 1) tracked in PowerTax, required to be normalized, or previously approved for normalized

[3] As noted in Exhibit No.___(RF-13), page 6 of 19, the portion of the adjustment attributable to depreciation would be the same under flow-through or normalized accounting.

[4] The per books data in Exhibit No.___(RBD-3), Tab B7 is summarized by allocation factor in Exhibit No.___(RBD-3), page 2.20, lines 1339-1357 and page 2.21, lines 1361-1381.

[5] The per books data in Exhibit No.___(RBD-3), Tab B19 is summarized by allocation factor in Exhibit No.__(_RBD-3), page 2.37, lines 2565-2637.

accounting by the Commission, and 2) not tracked in PowerTax and not required to be normalized.

Q. Please summarize the adjustments to per books data required to retain flow-through accounting, as proposed by Commission Staff witness Ms. Breda.

A. The summary is also provided in Exhibit No.___(RF-12). The provision for deferred income taxes and rate base reduction for accumulated deferred income tax under Staff's proposal are provided on page 2 of 6 and page 5 of 6, respectively. A variance analysis between the Company's proposal and Staff's proposal is also provided in Exhibit No.___(RF-12). The variance analysis for the provision for deferred income tax is provided on page 1 of 6 and the variance analysis for the rate base reduction for accumulated deferred income is provided on page 4 of 6.

A copy of the Company's adjustments impacted by Staff's proposal have been provided in Exhibit No.___(RF-13), with the necessary adjustments red-lined or modified as necessary.

In addition to these modifications, a new adjustment would be required to reflect the income taxes not tracked in PowerTax on a flow-through basis. As quantified in Exhibit No.___(RF-12), page 2 of 6, an adjustment would need to be made to increase the provision for deferred income tax expense by $284,920 and as quantified in Exhibit No.___(RF-12), page 5 of 6, and an adjustment would need to be made to increase the rate base reduction for accumulated deferred income tax by $4,573,495.

Q. Does making the adjustments illustrated in Exhibit No.___(RF-12) and Exhibit No.___(RF-13) to reflect the Company's filing on a flow-through basis impact revenue requirement by the amount described in Exhibit No.___(RF-1T), and computed in Exhibit No.___(RF-6)?

A. Yes, as compared to the Company's proposal, in total these adjustments will decrease the provision for deferred income tax by $80,881 and decrease the rate base reduction for accumulated deferred tax by $1,331,928. This will increase the Company's revenue requirement by $25,891, as calculated in the following table:

Revenue Requirement Impact of Staff's Proposal			
	Exhibit No.__(RF-12), Pg. 1	Exhibit No.__(RF-12), Pg. 4	
	Deferred Income Tax	Accum. Deferred Income Tax	
Item	**(Benefit) / Expense**	**Asset / (Liability)**	**Total**
PowerTax/Normalized Income Tax	(484,695)	242,348	
Other Income Tax	403,815	1,089,578	
Total Adjustments	**(80,880)**	**1,331,926**	
Net-to-Gross Bump-Up / Pre-tax Return on Rate Base	1.613218	0.117400	
Increase / (Decrease) to Revenue Requirement	**(130,477)**	**156,368**	**25,891**

Q. Does this conclude your supplemental testimony?

A. Yes.