

Exhibit No. \_\_\_ (KHB-5T)  
Docket UE-100749  
Witness: Kathryn H. Breda

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

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

**Respondent.**

**DOCKET UE-100749**

**SUPPLEMENTAL TESTIMONY OF**

**Kathryn H. Breda**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

*Federal Tax Issues*

**December 6, 2010**

1 **Q. Are you the same Kathryn H. Breda who provided testimony in this proceeding,**  
2 **Exhibit No. \_\_\_ (KHB-1T), on October 5, 2010, on behalf of Commission Staff?**

3 A. Yes.  
4

5 **Q. What is scope of your supplemental testimony?**

6 A. My supplemental testimony responds to the supplemental testimony and exhibits of  
7 PacifiCorp witness Mr. Fuller, which added significant new detail on the flow-  
8 through/normalization tax issues. This new information has enabled Staff to more  
9 accurately portray federal income taxes on a “Commission basis.” That is what Staff  
10 was attempting to reflect in Staff Adjustment 7.9, which I sponsored in my testimony  
11 filed on October 5, 2010. Based on this new information, I provide a revised Staff  
12 Adjustment 7.9, Deferred Income Tax Normalized versus Flow-Through.  
13

14 **Q. What does “Commission basis” mean in this context?**

15 A. In this context, “Commission basis” means the current Commission policy on  
16 treatment of deferred income taxes, which is to use flow-through federal income  
17 taxes in setting rates except: 1) The Commission normalizes all property-related  
18 book-tax timing differences that are protected by the normalization requirements of  
19 the Internal Revenue Code (IRC); and 2) The Commission has approved  
20 normalization in specific situations; an example is reflected in Adjustment 8.10,  
21 Chehalis Regulatory Asset  
22

1 **Q. Do Company and Staff have a different view of Commission basis tax**  
2 **accounting?**

3 A. I believe so. I understand Mr. Fuller's supplemental testimony<sup>1</sup> to suggest that all  
4 deferred tax that is not protected by the normalization requirements of the IRC would  
5 be subject to flow-through treatment in the state of Washington. However, this  
6 approach fails to recognize Commission-ordered normalization for specific items in  
7 specific instances.

8

9 **Q. In his supplemental testimony, does Mr. Fuller provide sufficient additional**  
10 **information to permit Staff to more accurately calculate an adjustment**  
11 **reflecting Commission basis treatment of federal income taxes for the test**  
12 **period?**

13 A. Yes. Mr. Fuller's Exhibit No. \_\_\_ (FR-12) identifies all book-tax timing differences  
14 that are eligible for flow-through treatment. The following table summarizes the  
15 components of deferred income tax expense and accumulated deferred income tax,  
16 including the components for new revised Staff Adjustment 7.9.

---

<sup>1</sup> Exhibit No. \_\_\_ (RF-11T), page 4, line 15 through page 6, line 11; page 6, line 3, through page 7, line 10;  
Exhibit No. \_\_\_ (RF-12), page 2 of 6 and page 5 of 6; and Exhibit No. \_\_\_ (RF-13).

PacifiCorp  
UE-100467

**Deferred Federal Income Tax**

Twelve Months Ending - December 2009

Line No. (a)	Description (b)	Deferred Income Tax Expense (c)	Accum. Deferred Income Tax (d)
1	<b>Washington Unadjusted Results</b>	<b>\$ 22,359,798</b>	<b>\$ (128,569,574)</b>
2	Adjustment 3.2 Revenue Normalization	623,320	2,751,332
3	Adjustment 3.4 SO2 Emission Allowances	192,892	1,600,912
4	Adjustment 4.4 Pension Curtailment	384,714	
5	Adjustment 4.6 DSM Removal	(525,945)	472,406
6	Adjustment 4.8 MEHC Severance	218,152	330,671
7	Adjustment 5.6 Removal of Colstrip 3	136,253	1,810,649
8	Adjustment 8.3 Environmental Remediation	22,534	105,943
9	Adjustment 8.5 Miscellaneous Rate Base	(178,075)	1,697,440
10	Adjustment 8.7 Powerdale	118,650	386,866
11	Adjustment 8.8 Trojan	131,967	(168,275)
12	Adjustment 8.10 Chehalis	(1,138,530)	(6,261,915)
13	Adjustment 7.2 Tax Factor Correction		(5,199,035)
14	Adjustment 7.4 Malin	(291,667)	(510,417)
15	Adjustment 7.5 FAS 109 Adjustment	5,532,834	
16	Adjustment 7.8 State Income Tax	(2,199,228)	1,099,614
17	Adjustment 7.9 Normalization Vs Flow-Through	525,562	(262,781)
18	Adjustment 7.10 Medicare Deferred Tax	170,464	
19	Adjustment 7.11 Average ADIT Balance		(9,873,199)
20	<b>Total Company Test Year Adjustments</b>	<b>\$ 3,723,897</b>	<b>\$ (12,019,788)</b>
21	<b>Washington Adjusted Results - Company</b>	<b>\$ 26,083,695</b>	<b>\$ (140,589,362)</b>
	Staff Adjustments		
22	Reverse Company Adjustment 7.9	(525,562)	262,781
23	New Adjustment 7.9.2 Remove State Tax	40,867	(20,433)
24	New Adjustment 7.9.3 Non-Prop Flow-Through	(364,732)	(5,381,142)
25	<b>Total New Staff Adj. 7.9 Normalization vs. Flow-Through</b>	<b>\$ (323,865)</b>	<b>\$ (5,401,575)</b>
26	Staff Adjustment 8.11 Repair Deduction		(14,463,670)
27	<b>Washington Adjusted Results - Staff (Comm. Basis)</b>	<b>\$ 25,234,268</b>	<b>\$ (160,191,827)</b>
28	<b>Difference Staff versus Company</b>	<b>\$ (849,427)</b>	<b>\$ (19,602,464)</b>
29	<b>Fuller Exhibit No. ___ (RF-12)</b>	<b>26,002,815</b>	<b>(139,257,432)</b>
1 30	<b>Staff Commission Basis vs. Company Commission Basis</b>	<b>\$ (768,547)</b>	<b>\$ (20,934,396)</b>

- 2 **Q. Please explain the table.**
- 3 A. Line 1 of the table reflects the Company's unadjusted federal income tax expense
- 4 and accumulated deferred income taxes on a Washington basis.<sup>2</sup> It is now my
- 5 understanding that the Company reflects in its unadjusted results ("per books")
- 6 column all non-property related tax-book timing differences on a normalized basis.

<sup>2</sup> Lines 1, 20 and 21 agree with the figures in Mr. Dalley's Exhibit No. \_\_\_ (RBD-2), lines 25 and 49.. Lines 2 through 19 agree with Mr. Dalley's individual adjustments included in Exhibit No. \_\_\_ (RBD-3), but do not add down to the total, consistent with the Company's presentation.

1 For property-related items (handled by the Power Tax system), the Company  
2 normalizes book tax timing differences where the IRC protects normalization, and  
3 reflects flow-through accounting where the IRC does not protect normalization.

4 Lines 2 through 19 include the deferred tax effect of rate making adjustments  
5 necessary to reflect the test period on a regulatory basis. They include the removal  
6 of certain items from regulatory results and deferral of certain items per Commission  
7 Order. Many of these Commission-ordered deferrals include deferred tax.

8 Line 21 reflects deferred taxes as presented by the Company. Lines 22  
9 through 26 represent Staff's adjustments to deferred taxes. Line 22 reflects the  
10 Staff's removal of the Company's Adjustment 7.9 (or the absence of the adjustment),  
11 to reflect normalized treatment of all property related tax-timing differences.

12 Line 23 is a revised adjustment to Staff's Adjustment 7.9 to reflect the net of  
13 state income tax effect of this adjustment.<sup>3</sup> Line 24 reflects a new revision to Staff  
14 Adjustment 7.9 to reflect the removal of deferred income taxes from unadjusted  
15 results for all non-property items that are not protected by the normalization  
16 requirements of the IRC or subject to a Commission order requiring normalization.<sup>4</sup>

17 Line 25 equals the total of these two adjustments, or the revised Staff Adjustment  
18 7.9.

---

<sup>3</sup> The Company reflects in unadjusted results state income tax in the federal tax accounts or taxes at a total rate of 37.951% for Washington. Adjustment 7.8 removes state income tax after all adjustments have been made to the test period. This new adjustment reverses the portion related to the Adjustment 7.9 removal by Staff.

<sup>4</sup> Please see the discussion above describing the current Commission basis for federal income taxes. Regulatory assets often represent items for which normalized tax treatment has been authorized by the Commission. The new Staff Adjustment 7.9 equals lines 23 and 24 of the table, as shown in line 25.

1 In his supplemental testimony, Mr. Fuller states all these adjustments are  
2 eligible for flow through treatment by the Commission.<sup>5</sup> Therefore, Staff removed  
3 these non-property book-tax timing differences net of state tax.  
4

5 **Q. How does the information from this table translate to revised Staff Adjustment**  
6 **7.9?**

7 A. Line 25 summarizes the revised Staff Adjustment 7.9 reflecting a decrease in  
8 deferred income tax expense and net operating income of \$323,865 and an increase  
9 to accumulated deferred income tax of \$5,401,575. This change is reflected on Staff  
10 witness Mr. Foisy's revised Exhibit No. \_\_\_ (MDF-2), page 63.  
11

12 **Q. Do you have an additional exhibit to provide the Commission more detail**  
13 **summarizing deferred income tax?**

14 A. Yes. My Exhibit No. \_\_\_ (KHB-6) provides a detailed listing of all components of  
15 deferred tax expense and accumulated deferred income tax, starting from the  
16 unadjusted books, and detailing all adjustments, including Staff Adjustment 7.9, by  
17 account and book-tax timing difference.  
18

19 **Q. Does this conclude your supplemental testimony?**

20 A. Yes.

---

<sup>5</sup> Exhibit No. \_\_\_ (RF-11T), page 3, line 17 through page 4, line 4.