

Exh. SLC-1Tr  
Docket UE-210532  
Witness: Sherona L. Cheung

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP dba  
PACIFIC POWER & LIGHT COMPANY

Respondent.

Docket UE-21\_\_\_\_\_

**PACIFICORP  
DIRECT TESTIMONY OF SHERONA L. CHEUNG**

**July 2021 REVISED September 21, 2021**

**TABLE OF CONTENTS**

I. QUALIFICATIONS..... 1

II. PURPOSE OF TESTIMONY ..... ~~12~~

III. OVERVIEW OF THE METHDOLOGIES ..... 4

    Allocation Methodology ..... 5

IV. BASE RATE REVENUE REQUIREMENT FOR LIRF..... 5

    Adjustment 1 – Wind and Transmission Capital True-Up ..... 6

    Adjustment 2 – WIJAM Transmission Transition ..... 8

    Adjustment 3 – Interest True-Up ..... 10

    Adjustment 4 – Removal of State Deferred Tax Expenses & Balances ..... 10

V. DESCRIPTION OF REVENUES FOR REFUND CALCULATIONS..... 11

    Additional Revenue Requirement Exhibits ..... 11

**ATTACHED EXHIBITS**

Confidential Exhibit No. SLC-2C—Summary of Revenue Requirement Impacts

Confidential Exhibit No. SLC-3C—Wind and Repowering Projects Revenues Subject to Refund

Exhibit No. SLC-4—WIJAM Transmission Transition Revenues Subject to Refund

1                                   **I.       INTRODUCTION AND QUALIFICATIONS**

2   **Q.     Briefly describe your education and professional experience.**

3   A.     I earned my Bachelor of Commerce with a major in Finance in 2008. In 2011, I  
4         obtained my Certified Management Accounting designation in British Columbia,  
5         Canada. In addition to my formal education, I have attended several utility  
6         accounting, ratemaking, and leadership seminars and courses. I have been employed  
7         by the Company since May of 2013 in various positions within the regulation  
8         organization. In April 2021, I was promoted to Revenue Requirement Manager.

9   **Q.     What are your present duties?**

10  A.     My primary responsibilities include overseeing the calculation of the Company’s  
11         revenue requirement and the preparation of various regulatory filings in Washington,  
12         Oregon, and California. I am also responsible for the calculation and reporting of the  
13         Company’s regulated earnings and the application of the inter-jurisdictional allocation  
14         methodologies.

15  **Q.     Have you testified in previous regulatory proceedings?**

16  A.     Yes. I have previously provided testimony in California.

17                                   **II.       PURPOSE OF TESTIMONY**

18  **Q.     What is the purpose of your testimony in this proceeding?**

19  A.     My testimony addresses the revision of the Company’s Washington-allocated revenue  
20         requirement from the approved settlement in the Company’s last general rate case,  
21         docket UE-191024 (2021 Rate Case), to reflect two updates:

- 22             • True-up of Washington rates to reflect actual in-service costs and  
23             timing of major production and transmission related assets for new  
24             wind and repowering projects placed in-service between May 2020

1 and the time of this filing, as stated in the Order from the 2021  
2 Rate Case.<sup>1</sup>

- 3 • Reallocation of transmission-voltage, radial lines that connect  
4 generating resources to PacifiCorp's interconnected, network  
5 transmission system, in order to properly assign to Washington its  
6 accurate share of transmission costs in accordance with the  
7 Washington Inter-Jurisdictional Allocation Methodology (WIJAM)  
8 Memorandum of Understanding (MOU).<sup>2</sup>

9 Also addressed in my testimony is the calculation of revenues subject to  
10 refund for these two modifications to annual revenue requirement per the Order from  
11 the 2021 Rate Case. Specifically, my testimony provides the following:

- 12 • A description of the adjustments prepared in this filing to reflect  
13 the two updates described above.
- 14 • The calculation of the approximately \$616,600 base revenue  
15 decrease requested in this Limited-Issue Rate Filing (LIRF)  
16 representing the change required to current rates as established in  
17 the Order from the 2021 Rate Case, for the Company to recover its  
18 Washington-allocated revenue requirement based on updated in-  
19 service capital amounts and revised WIJAM MOU transmission  
20 allocations.
- 21 • The calculation of the \$2.1 million in revenues subject to refund to  
22 Washington customers based on the updates made in this LIRF as  
23 compared to rates established in the Order from the 2021 Rate  
24 Case, which became effective January 1, 2021.
- 25 • An explanation of the workpapers supporting the calculated  
26 revenue requirement impacts reflected in this filing. Included as  
27 part of my workpapers is a summary revenue requirement model,  
28 which is similar in design to the model used by staff of the  
29 Washington Utilities and Transportation Commission  
30 (Commission) in the Company's 2021 Rate Case. This summary  
31 model is designed to facilitate easier review of the filing and is  
32 consistent with the models used in the Company's past rate cases.
- 33 • An explanation of the revenue requirement workpapers supporting  
34 the proposed balance of revenues subject to refund.

---

<sup>1</sup> WA 2021 Rate Case Settlement – Section D

<sup>2</sup> WA 2021 Rate Case Settlement – Section F, 1

1 **Q. Please explain the rate change impacts reflected in this filing.**

2 A. This filing incorporates rate impacts for two specific items. First, the calculations in  
3 this filing reflects the impact to customer rates for the change in timing and amount of  
4 capital expenditure for specific Wind and Transmission projects identified in the  
5 settlement stipulation in the 2021 Rate Case.

6 Secondly, the Company is incorporating the rate impact of excluding from rate  
7 base the transmission-voltage, radial lines connecting resources not otherwise  
8 included in Washington rates to PacifiCorp's interconnected, network transmission  
9 system. As part of this adjustment two transmission-voltage, radial lines connecting  
10 resources that are accepted as part of Washington's rates are also being reallocated to  
11 appropriately reflect compliance with the WIJAM MOU allocation of assets. This  
12 filing seeks to isolate the rate impact of these two changes and incorporate them into  
13 base rates approved in the Company's 2021 Rate Case. The Company is not  
14 proposing any revisions to rates of return, capital structure, or any other inputs or  
15 variables to calculating revenue requirement in comparison to those approved in the  
16 Order from the 2021 Rate Case.

17 In addition, the Company has also calculated the amount of revenues subject  
18 to refund based on differences between updated inputs quantified in this filing and  
19 approved rates from the 2021 Rate Case.

20 **Q. What is the proposed rate effective date for the LIRF?**

21 A. The Company is requesting a rate effective date of January 1, 2022.

1 **III. OVERVIEW OF THE METHDOLOGIES**

2 **Q. How has the Company incorporated the rate impacts of the above discussed**  
3 **items into its proposal to update base rates?**

4 A. The starting point of the calculation for the required rate change in the LIRF is the  
5 normalized results of operations from the Order in the 2021 Rate Case. From there,  
6 two discrete adjustments were prepared to capture the revisions to base rates in  
7 accordance with the Order from the 2021 Rate Case. Adjustment 1, Wind and  
8 Transmission Capital True-Up, isolates the impact to rates of capital costs and in-  
9 service timing variances between the settlement calculations, and actual in-service  
10 amounts through May 2021.<sup>3</sup> Adjustment 2, WIJAM Transmission Transition  
11 Adjustment, reallocates select transmission assets allocated in the settlement  
12 calculations on a System Generation (SG) basis to the appropriate Control Area  
13 Generation – East (CAGE) and Control Area Generation – West (CAGW) factors in  
14 accordance with the Commission’s order approving the WIJAM. In addition to these  
15 adjustments, two additional ones were also included to capture the interest true-up in  
16 rates required as a result of rate base changes, and remove deferred state income tax  
17 expenses and balances of all adjustments made to income taxes in this filing. I will  
18 discuss each adjustment in more detail in sections below.

---

<sup>3</sup> The only exception is TB Flats wind project, which is anticipated to be in-service by Summer of 2021, reflects forecasted in-service amounts for June and July.

1 **Allocation Methodology**

2 **Q. What allocation methodology did you apply in the calculation of the Washington**  
3 **results of operations?**

4 A. This filing reflects the new WIJAM as agreed to in the WIJAM MOU, and  
5 subsequently adopted for use in calculating Washington's result of operations in the  
6 Final Order of the 2021 Rate Case.

7 **Q. Are there changes or updates to allocation factors in the LIRF?**

8 A. No. This LIRF uses the same allocation factors as those approved in the 2021 Rate  
9 Case.

10 **IV. BASE RATE IMPACT OF ADJUSTMENTS**

11 **Q. What is the net revenue requirement impact to base rates for the updates**  
12 **reflected in this filing?**

13 A. The net revenue requirement impact to base rates necessitated by the updates in this  
14 filing is a decrease of approximately \$616,600.

15 **Q. Please describe Confidential Exhibit No. SLC-2C.**

16 A. Confidential Exhibit No. SLC-2C is a summary of the updated Washington results of  
17 operations, reflecting the rate impact updates calculated in this LIRF. This exhibit is  
18 organized into two tabs. Tab 1 of this exhibit reflects the supporting documents that  
19 demonstrate the calculation of the \$616,600 net revenue decrease presented in this  
20 filing. Page 1.1 of Exhibit No. SLC-2C is a results of operations summary. This page  
21 shows the rate base, net operating income, and the Washington revenue requirement  
22 cumulative impact of the Company's proposed adjustments. Page 1.2 and 1.3 show  
23 the Washington-allocated impact on net operating income (NOI), rate base, and

1 Washington revenue requirement of each proposed adjustment. Page 1.4 of this tab  
2 provides a summary of the variables underlying the revenue requirement calculations  
3 in this filing. Tab 2 of this exhibit summary provides detailed support for each  
4 adjustment made in this LIRF as described in sections above.

5 **Adjustment 1 – Wind and Transmission Capital True-Up**

6 **Q. Please describe the gross plant and associated balances reflected in the revenue  
7 requirement calculations approved in the 2021 Rate Case.**

8 A. In the Order from the 2021 Rate Case, gross plant additions were included up through  
9 December 2020, and included on an End-of-Period (EOP) basis in rates as of  
10 December 2020. Depreciation expenses represented an annualized level of  
11 depreciation expense expected, based on December 2020 EOP gross plant, at the  
12 approved depreciation rates. Depreciation reserves are also included on an EOP basis  
13 as of December 2020, with an additional increment representative of the impact on  
14 December 2020 accumulated reserves from new depreciation rates becoming  
15 effective in 2021.

16 **Q. How are the actual in-service amounts in this LIRF determined?**

17 A. Actual in-service gross plant balances are pulled from the Company's accounting  
18 records for amounts placed in-service through May 2021 and are reflected in the  
19 adjustment on an EOP basis as of December 2021. One exception to this is that the  
20 project total for the TB Flats wind project reflects two months of forecasted capital  
21 amounts through July 2021, which is when the project is currently expected to be  
22 fully placed in-service. The inclusion of gross plant balances on an EOP basis is  
23 consistent with the 2021 Rate Case. Actual depreciation expense is calculated as an



1 annualized level of depreciation based on approved depreciation rates, and actual in-  
2 service gross plant balances. Depreciation reserves reflect EOP balances as of  
3 December 2021.

4 **Q. Please describe how the adjustment is developed to true-up Wind and**  
5 **Transmission Capital.**

6 A. The objective of this LIRF update is to capture base rates impacts of capital costs and  
7 in-service timing variances. To do so, an adjustment was prepared to compare gross  
8 plant and depreciation balances related to the identified assets from the Order from  
9 the 2021 Rate Case, to actual in-service balances through May 2021,<sup>4</sup> to quantify the  
10 rate impact of cost and timing differences.

11 To determine the appropriate rate impact of capital costs and timing variances,  
12 a net rate base comparison of the projects in question must be made using the same  
13 point-in-time balances through a common comparison period. December 2020 EOP  
14 net plant balances cannot be used since several of the capital projects in question were  
15 delayed into 2021. To fully capture the capital placed in-service, and make the  
16 comparison between net plant balances to meet the objective of the calculation  
17 needed, both sets of balances being compared had to be walked forward through 2021  
18 in order to produce an appropriate rate impact determination. The incremental  
19 differences on capital project totals, and depreciation balances are then flowed  
20 through the revenue requirement summary model to derive the rate impact of this  
21 update.

---

<sup>4</sup> With exception of TB Flats, which reflects forecasted project amounts through July 2021, which is the anticipated in-service date for this project.

1 **Q. Is there any change to Accumulated Deferred Income Tax (ADIT)?**

2 A. Yes. The actual liability for ADIT is lower as compared to the 2021 walk-forward of  
3 the rate case projections primarily due to lower accumulated tax depreciation. The  
4 lower tax depreciation primarily results from one less year of tax depreciation taken  
5 on 2021 capital additions that were originally projected to be placed in service during  
6 2020, but also impacted by the company's required use of the mid-quarter convention  
7 to depreciate 2020 capital additions as compared to the half-year convention  
8 projected in the 2021 Rate Case.

9 **Q. Please describe the difference between the half-year and mid-quarter**  
10 **conventions.**

11 A. The half-year convention treats all property placed in service during any tax year as  
12 placed in service on the mid-point of the tax year. The mid-quarter convention treats  
13 all property placed in service during any quarter as placed in service on the mid-point  
14 of the quarter. Consequently, as compared to the half-year convention, the mid-  
15 quarter convention produces higher tax depreciation for capital additions placed in  
16 service during the first and second quarters of a tax year and lower tax depreciation  
17 for assets placed in service during the third and fourth quarters of a tax year. The 2020  
18 capital additions covered by this filing were predominantly placed in service during  
19 the third and fourth quarters.

20 **Q. Please explain why the Company is required to use the mid-quarter convention**  
21 **for 2020 capital additions.**

22 A. The Internal Revenue Code requires taxpayers to use the mid-quarter convention if  
23 the aggregate bases of the capital additions placed in service during the last three

1 months of the tax year exceed 40 percent of the aggregate bases of the capital  
2 additions placed in service during the tax year, which was the case for PacifiCorp  
3 during 2020.<sup>5</sup>

4 **Q. Please explain why the Company did not use the mid-quarter convention in the**  
5 **2021 GRC filing.**

6 A. Based on the projected placed-in-service dates of PacifiCorp's 2020 capital additions  
7 at the time of the 2021 Rate Case filing, the company would not have met the mid-  
8 quarter test and used the half-year convention accordingly.

9 **Q. Considering all the above, what is the net impact of the Wind and Transmission**  
10 **Capital True-up?**

11 A. The net impact of the Wind and Transmission Capital True-Up adjustment is a slight  
12 increase of approximately \$91,900.

### 13 **Adjustment 2 – WIJAM Transmission Transition**

14 **Q. Please describe the adjustment.**

15 A. This adjustment takes the identified list of transmission-voltage, radial lines  
16 connecting resources excluded from Washington rates<sup>6</sup> and reallocate the asset  
17 balances, and corresponding depreciation reserves from the Company's accounting  
18 records as of December 2020 from a system-allocation based on SG factor to be  
19 allocated on a CAGE factor, which effectively removes these assets from  
20 Washington's rate base. An annualized depreciation expense associated with these  
21 assets was also reallocated to match the corrected allocation of the underlying assets.

22 In addition, similar radial lines connecting to Chehalis and Hermiston generation

---

<sup>5</sup> I.R.C. §168(d)(3).

<sup>6</sup> Mr. Rick Vail describes how PacifiCorp identified this list in his testimony in this proceeding.

1 resources that are included in Washington rates are taken from an SG allocation to be  
2 reallocated into rate base on a CAGW factor. Associated tax impacts of this  
3 reallocation is also reflected in this adjustment.

4 **Q. What is the rate impact of the WIJAM Transmission Transition adjustment?**

5 A. This adjustment results in a net reduction of approximately \$769,900 in Washington  
6 rates.

7 **Adjustment 3 – Interest True-Up**

8 **Q. Please describe the adjustment.**

9 A. This pro forma adjustment details the update to interest expense required to  
10 synchronize the interest expense with rate base. This is done by multiplying  
11 Washington net rate base by the Company's weighted cost of debt.

12 **Adjustment 4 – Removal of State Deferred Tax Expenses & Balances**

13 **Q. Please describe the adjustment.**

14 A. The Company's per books provision for deferred income tax and the balance for  
15 accumulated deferred income tax are computed using the Company's blended federal  
16 and state statutory tax rate. State income taxes are a system cost for the Company  
17 that is not recoverable in Washington. Accordingly, after all adjustments are made to  
18 income taxes, this final adjustment is made to remove deferred state income tax  
19 expenses and balances from the rate impact calculation.

1           **V.       DESCRIPTION OF REVENUES FOR REFUND CALCULATIONS**

2   **Additional Revenue Requirement Exhibits**

3   **Q.     Please describe Confidential Exhibit No. SLC-3C.**

4   A.     Confidential Exhibit No. SLC-3C provides the calculations supporting the  
5           accumulation of revenues subject to refund due to wind and transmission capital costs  
6           and in-service timing variances throughout calendar year 2021.

7   **Q.     How was the amount due to be refunded calculated?**

8   A.     Confidential Exhibit No. SLC-3C evaluates the actual monthly in-service capital and  
9           depreciation amounts and compares it to the monthly capital and depreciation levels  
10          built into approved rates in the Order from the 2021 Rate Case. Each month, a net  
11          revenue requirement differential is imputed and added to an accumulating balance  
12          through calendar year 2021 to come up with the total Washington-allocated revenues  
13          due to be refunded to customers. This calculation is performed on a project-by-  
14          project basis.

15   **Q.     In addition to capital and depreciation costs, were any other components of**  
16          **revenue requirement taken into consideration in the calculation of 2021 revenues**  
17          **for refund?**

18   A.     For wind projects that did not go into service by the end of 2020, a net power cost  
19          component was imputed as an offset to capital cost differentials when calculating the  
20          total revenues for refund. The reason for this offset is because the 2021~~0~~ net power  
21          costs included in the Order from the 2021 Rate Case assumes all wind projects are in  
22          service by the end of 2020. As such, net power cost benefits of those wind plants are  
23          reflected in the 2021~~0~~ net power cost calculations. Where a wind plant did not get

1 placed in-to service by 2020, the net power cost benefit associated with the late  
2 resource would not have materialized.

3 **Q. Were Production Tax Credits (PTC) included in the calculation?**

4 A. No. PTC variances are tracked in the Company's PTC tracker and trued-up in rates  
5 through the Company's PTC tracking mechanism.

6 **Q. What are the calculated total revenues due to be refunded to Washington  
7 customers for this capital true-up?**

8 A. The total refund due to customers for this capital true-up is approximately  
9 \$1.4 million.

10 **Q. Please describe Exhibit No. SLC-4.**

11 A. Exhibit No. SLC-4 provides the accumulation of revenues subject to refund due to  
12 WIJAM transmission asset reallocation for calendar year 2021.

13 **Q. Please describe the calculations in Exhibit No. SLC-4.**

14 A. Exhibit No. SLC-4 calculates the revenue requirement impact of the rate base and  
15 depreciation reallocations due to WIJAM transmission reallocations by applying the  
16 appropriate rates of return and gross-up percentages to the adjustment amounts. The  
17 total revenues due to be refunded to customers for this reallocation is approximately  
18 \$769,900.

#### 19 **Revenue Requirement Workpapers**

20 **Q. Please describe the workpapers supporting the revenue requirement  
21 calculations.**

22 A. The Company has filed workpapers to expedite review of this filing, including several  
23 revenue requirement workpapers. An Excel file titled "Revenue Requirement

1 Summary Model” supports the calculations presented in Confidential Exhibit No.  
2 SLC-2C. A separate Excel file detailing each adjustment presented is also provided.  
3 An Excel file is provided to support each calculation for revenues due to be refunded  
4 presented in Confidential Exhibit No. SLC-3C and Exhibit No. SLC-4 respectively.  
5 Finally, confidential Excel files supporting net power costs calculations used to  
6 impute the implied benefits of each applicable wind project has also been provided  
7 for reference.

8 **Q. Does this conclude your direct testimony?**

9 A. Yes.