Exhibit No. SEM-1T
Docket UE-15____
Witness: Shelley E. McCoy

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of PACIFIC POWER & LIGHT COMPANY, Petition For a Rate Increase Based on a Modified Commission Basis Report, Two-Year Rate Plan, and Decoupling Mechanism.	Docket UE-15____

PACIFIC POWER & LIGHT COMPANY

DIRECT TESTIMONY OF SHELLEY E. MCCOY

November 2015

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ATTACHED EXHIBITS

Q. Please state your name, business address, and present position with PacifiCorp.

A. My name is Shelley E. McCoy. My business address is 825 NE Multnomah Street, Suite 2000, Portland, Oregon 97232. I am currently employed as the Manager of Revenue Requirement. I am testifying for Pacific Power & Light Company (Pacific Power or Company), a division of PacifiCorp.

QUALIFICATIONS

Q. Briefly describe your education and professional experience.

A. I earned my Bachelor of Science degree in Accounting from Portland State University in 1990. In addition to my formal education, I have attended several utility accounting, ratemaking, and leadership seminars and courses. I have been employed by the Company since November of 1996. My past responsibilities have included general and regulatory accounting, budgeting, forecasting, and reporting.

Q. What are your present duties?

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

PURPOSE OF TESTIMONY

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

A. My direct testimony addresses the calculation of the Company's Washington-allocated revenue requirement and the revenue increase requested in the Company's expedited rate filing (ERF) and two-year rate plan. I also discuss the accounting and earnings test associated with the proposed decoupling mechanism. Specifically, my testimony provides the following:

- An overview of the ERF, including an explanation of the costs included in this filing, a description of the test period used, which is the historical 12 months ended June 30, 2015 (Test Period), with restating and limited pro forma adjustments, and the use of end-of-period (EOP) historical plant balances and reserves.

- A description of certain plant allocations for assets that serve Washington customers under the West Control Area inter-jurisdictional allocation methodology (WCA) as a result of the Idaho Power Asset Exchange that closed on October 30, 2015.

- The calculation of the $10.0 million (2.99 percent of gross annual revenues) revenue increase requested in this ERF representing the increase over current rates required for the Company to recover its Washington-allocated revenue requirement.

- The calculation of the $10.3 million second-year revenue increase (2.99 percent of gross annual revenues inclusive of ERF increase) requested as part of a two-year rate plan, supported by evidence and analysis that a future rate increase is required to address identifiable cost increases and earnings attrition in the year immediately following the rate effective period of the ERF.

- An explanation of how the accounting and earnings test for the proposed decoupling mechanism will be applied.

- The presentation of the normalized results of operations for the Test Period demonstrating that, under current rates, the Company will earn an overall return on equity (ROE) in Washington of 7.88 percent. This is less than the currently authorized 9.50 percent ROE ordered by the Washington Utilities and Transportation Commission (Commission) in the Company's 2014 general rate case, Docket UE-140762 (2014 Rate Case).

- An explanation of the revenue requirement workpapers supporting the proposed revenue increase and normalized results of operations for the Test Period of the ERF. Included as part of my workpapers is a summary revenue requirement model, which is similar in design to the model used by Commission Staff. This summary model is designed to facilitate easier review of the filing and is consistent with the models used in the Company's past rate cases. Also presented are revenue requirement workpapers supporting the second-year increase requested as part of the two-year rate plan in this proceeding.

EXPEDITED RATE FILING

Q. Please describe the basis of Pacific Power's proposed ERF.

A. As discussed in the testimony of Mr. R. Bryce Dalley, Pacific Power's filing is based in part on Staff's testimony proposing an ERF in the Company's 2013 general rate case, Docket UE-130043 (2013 Rate Case).[1] For this reason, the Company closely followed the description of an enhanced Commission Basis Report (CBR) for the ERF outlined in Staff's exhibits in that case. Because a CBR is designed to depict an electric company's actual operations and earnings over the past year under normal conditions, Staff proposed enhancements to the CBR to develop more appropriate results for ratemaking on a forward-looking basis. The enhanced CBR proposed by Staff in the 2013 Rate Case included the following key features, all of which are included in this filing:

a. Normalizing adjustments to reflect actual operations under normal conditions.

b. Adjustments accepted by the Commission in the Company's most recent general rate case, or subsequent orders.

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[1] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-130043, Exhibit No. DJR-3, (June 21, 2013).

c. Removal of any material items distorting factors in revenues, expenses, and rate base, such as out-of-period, non-operating, non-recurring, and extraordinary items.

d. Wage, price, and cost changes during the reporting year to be applied across the year. Examples include:

   i. Wage increases during the year to be expressed for the full year for known and implemented wage changes;

   ii. Price changes to reflect the annualized impact to any Commission-ordered rate changes during or after the report year; and

   iii. Annualizing (through use of EOP) rate base for new additions of the year by allowing a full year of depreciation costs and associated accumulated depreciation for those rate base additions.

e. No updates or changes to the authorized rate of return.

In the 2013 Rate Case, Public Counsel generally agreed with Staff's ERF process and procedures, with some modifications.[2]

Q. Is the Company proposing EOP rate base in this proceeding?

A. Yes, the Company is proposing EOP rate base for historical plant balances. The use of EOP rate base annualizes new rate base additions in the historical period, consistent with Staff's recommendation for the enhanced CBR in the 2013 Rate Case. Correspondingly, the Company has also prepared adjustments to reflect EOP accumulated reserves, and an annualized level of depreciation expense on existing investments.

[2] Cross Answering Testimony of James R. Dittmer Regarding Expedited Rate Filing Conditions, Exh. No. JRD-5T at 2 (Aug. 2, 2013).

Q. Why is the Company proposing EOP rate base?

A. EOP rate base is a practical means of reducing regulatory lag on plant additions that are used and useful in serving customers. The use of EOP rate base furthers the Commission's policy goal of breaking the cycle of continuous general rate cases by enhancing the viability of the Company's proposed two-year rate plan, which is designed to provide rate stability to customers while affording the Company a reasonable opportunity to earn its authorized rate of return. EOP rate base provide a better indication of balances and depreciation expense expected during the two-year rate plan by using the per books balances for the last month of the Test Period. With the two-year rate plan in place, the effective date of the Company's next general rate case will be no earlier than April 1, 2018. In the Company's 2013 Rate Case, the Commission approved the use of EOP rate base as an appropriate response to regulatory lag.[3] Applying the same rationale, the Commission has also approved EOP rate base for Puget Sound Energy.[4] Additional policy considerations regarding the use of EOP rate base and how it can be a tool for the Commission to address earnings attrition are discussed in Mr. Dalley's testimony.

Q. Why has the Company proposed a mid-year CBR as the basis of this ERF?

A. Results for the 12 months ended June 30, 2015, reflect the latest available Washington-allocated 12-month period of data at the time the Company prepared this filing. During the rate plan, the Company commits to filing mid-year CBRs, in addition to the annual CBRs filed in April of each year. These mid-year CBRs will be filed by the end of October each year.

[3] *Id*. at 184.
[4] *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-130137 and UG-130138 (consolidated), Order 07, ¶¶ 46-48 (June 25, 2013).

Q. Please explain the costs that are included in this filing.

A. Using a mid-year CBR report for the historical test period 12 months ended June 2015, the Company has prepared the current ERF and included all costs except net power costs (NPC). The Company excluded NPC because the Commission recently approved a power cost adjustment mechanism (PCAM) that will address variances in these costs.[5] In addition, the baseline NPC set in the 2014 Rate Case used the rate effective period of 12 months ending March 2016. For these reasons, NPC in rates already reflect a ten-month period beyond the historical period of the ERF and are reasonably representative of NPC during the ERF and rate plan time period.

The Company's revenue requirement models calculate a required revenue increase of $10.7 million. Because the scope of this proceeding is an ERF and not a general rate case, the Company is limiting the requested rate increase to less than three percent. Therefore, the Company is requesting only a $10.0 million increase to its revenue requirement. This is a 2.99 percent increase to gross annual revenues.

Q. What is the proposed rate effective date for the ERF?

A. The Company is requesting a rate effective date of May 1, 2016.

Overview of the Test Period of the ERF

Q. Please provide an overview of the development of the Test Period.

A. The Test Period was developed by analyzing the revenue requirement components in the historical period, 12 months ended June 30, 2015, to determine if adjustments were warranted to reflect normal or expected operating conditions, or maintain compliance with adjustments previously ordered by the Commission. Where appropriate, adjustments made to historical results have followed the same test period

[5] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-140762, Order 09 (May 26, 2015).

conventions as the Company's previous annual CBR filings and the 2014 Rate Case. As discussed in greater detail below, net plant balances for the Jim Bridger Unit 3 overhaul project are included in the ERF on an average-of-monthly-averages (AMA) basis for the 12 months beginning on the requested rate effective date of May 1, 2016, to reflect the level of rate base that will be in service and serving customers during the rate effective period.

Q. Please describe the process used to develop Test Period revenues.

A. Retail revenues were developed by applying the current Commission-approved tariff rates to the Washington historical normalized loads for the 12 months ended June 30, 2015. For consistency, allocation factors were developed using normalized loads for the west control area for the same time period. Retail revenues are also adjusted to remove revenues collected for NPC. As explained above, NPC recovery is addressed in the recently approved PCAM.

Q. Please describe the process used to develop Test Period costs.

A. Operations and maintenance (O&M) expenses were developed using historical expense levels for the 12 months ended June 30, 2015, normalized with restating adjustments consistent with those approved in the Company's 2014 Rate Case. NPC are removed from Test Period results in the current filing.

Q. Please describe the process used to develop Test Period plant and associated accumulated depreciation balances.

A. Plant and associated accumulated depreciation balances were developed using historical AMA balances for the 12 months ended June 30, 2015. Through a restating adjustment, the average net electric plant in-service balances are then adjusted to EOP balances as of June 30, 2015. Historical depreciation expenses associated with these balances are also annualized to reflect a full year of depreciation costs.

The Company included only one post-test period capital project addition in the ERF, the Jim Bridger Unit 3 overhaul project, including the Selective Catalytic Reduction (SCR) system. This project will be in service by the end of November 2015, and is discussed in detail in the direct testimonies of Mr. Chad A. Teply and Mr. Rick T. Link. Plant additions through December 2015 are reflected in rate base on an AMA basis for the rate effective period of the ERF. These balances will be in service and serving customers during the rate effective period.

Q. Is the inclusion of post-test period pro forma plant additions consistent with previous Commission orders?

A. Yes. The Commission's long-standing practice is to consider post-test period major plant additions on a case-by-case basis following the used and useful and known and measurable standards.[6] The Jim Bridger Unit 3 overhaul project will be completed and placed in service by the end of November 2015, less than five months after the historical 12 months period and well in advance of the Company's requested rate effective date in this filing. Therefore, the costs incurred in this project meet both used and useful and known and measurable standards, as defined by the Commission. The Jim Bridger Unit 3 overhaul project timing in this case also mirrors the Jim Bridger Unit 2 turbine upgrades approved in Order 05 of the Company's 2013 Rate Case.[7] While the upgrades for the Jim Bridger Unit 2 turbines were placed in service after the historical test period, the Commission determined that it achieved used and

[6] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-130043, Order 05, ¶ 205 (December 4, 2013).
[7] *Id.* ¶ 207.

useful status, and its costs became known and measurable before the relevant procedural dates in that case. This allowed all parties who wished to verify the status and costs of that project ample time to do so throughout the proceedings. As a result, the Jim Bridger Unit 2 turbine upgrades were approved as a pro forma adjustment and were authorized for recovery in rates in that case.

Allocation Methodology

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

A. Washington results of operations in this proceeding are based on the WCA, as approved by the Commission in Order 08, Docket UE-061546.[8]

Q. Are there any relevant changes in the allocation of the unadjusted data used in this ERF?

A. Yes, while the allocation methodology applied in this filing has not changed, Washington results have been updated to reflect assets serving the west control area. On October 30, 2015, PacifiCorp and Idaho Power Company executed an exchange of certain transmission assets (Idaho Power Asset Exchange). Because of the Idaho Power Asset Exchange transaction, certain transmission assets that were previously excluded from the WCA are now contributing to transmitting power into the west control area, and necessitate a change in assets reflected in Washington results to reflect actual operations.

Q. What is the Idaho Power Asset Exchange?

A. On December 19, 2014, the Company filed a petition requesting authorization to exchange certain Company-owned transmission assets for transmission assets owned

[8] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-061546, Order 08 at ¶ 43 (June 21, 2007).

by Idaho Power of approximately equal value. The purpose of the transaction was to update or replace a series of legacy transmission agreements through a combination of ownership exchanges and open access transmission tariff service. The Commission approved this transaction in September 2015.[9]

Q. What are the revenue requirement impacts of the Idaho Power Asset Exchange?

A. Because the net value of transmission assets exchanged are approximately the same, the revenue requirement impact of the asset exchange is nominal, approximately $0.4 million on a Washington-allocated basis. The new arrangements will enable the Company to more efficiently operate its transmission system, consistent with current regulatory requirements, and provide the Company with the ability to more effectively manage required system upgrades and serve expected load growth. The direct testimony of Mr. Richard A. Vail also addresses the Idaho Power Asset Exchange.

In addition, as a result of the exchanged assets, both Idaho Power and the Company were able to realign their respective ownership interests and operational responsibilities with respect to various integrated transmission facilities. Under the new operating agreement, the Company acquired capacity and ownership of transmission lines that augment the Company's ability to serve west control area load. Accordingly, certain assets previously excluded from the west control area are now included based on the Company's ability to use these assets to serve customers in the west control area.

[9] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-144136, Order 01 at ¶ 1 (September 24, 2015).

Q. Please explain which assets previously excluded from the west control area have now been included.

A. The table below summarizes the changes to allocation factors made to transmission assets as part of this filing.[10]

Table 1. Asset Reallocation Resulting from Idaho Asset Exchange

Location Description	Previous WCA Factor	Proposed WCA Factor	Net Plant - AMA Jun-15	12 ME Jun-15 Depr /Amort Exp
GOSHEN SUBSTATION AND MAINT SHOP	CAGE	CAGW	$ 2,798	$44
POPULUS-BORAH #2 345 KV ID	CAGE	CAGW	8,279	278
BRIDGER-GOSHEN LOOP-THREEMILE KNOLL 345K	CAGE	JBG	1,127	22
GOSHEN - KINPORT 345 KV LINE	CAGE	CAGW	1,139	55
POPULUS-BORAH #1 ID 345KV	CAGE	CAGW	3,663	146
KINPORT TELEMETERING	CAGE	CAGW	1,288	63
BORAH SUBSTATION TELEMETERING	CAGE	CAGW	15,589	350
HEMINGWAY SUBSTATION(JOINT OWNED)	CAGE	CAGW	11,595	225
Total Balances Reallocated ($ Thousands)			**$ 45,478**	**$ 1,184**

The revenue requirement impact of these changes is approximately $1.4 million on a Washington-allocated basis.

Proposed Pro Forma Changes

Q. What are the pro forma changes the Company has proposed in the ERF?

A. In addition to the use of EOP rate base and the capital addition for the Jim Bridger

[10] It is important to note that as part of the detailed review of the allocation of transmission assets, the Company identified some assets that were previously excluded from the west control area, even though those assets serve west control area loads, before and after the Idaho Power Asset Exchange. These discrepancies have been corrected in this filing and are also shown in the table. The allocations reflect system operations as discussed in the direct testimony of Mr. Vail.

Unit 3 overhaul Project, the Company has proposed accelerated depreciation of coal-fired generation facilities in the west control area.

Q. Please describe the Jim Bridger Unit 3 overhaul and SCR system.

A. Detailed discussion of the Jim Bridger Unit 3 overhaul and SCR system can be found in the direct testimonies of Mr. Teply and Mr. Link. The impact of this change in calculating the revenue requirement can be found in section "Tab 8 – Rate Base Adjustments" in my exhibit, as described under "Pro Forma Major Plant Additions (page 8.4)."

Q. What is the justification and impact of accelerating depreciation of coal-fired facilities?

A. The Company is recommending accelerating depreciation on two steam plants, the Jim Bridger and Colstrip plants, in Washington such that these plants will be fully depreciated by 2025 and 2032, respectively. This is consistent with the depreciable lives for these plants used in Oregon, and consistent with the depreciable lives for these resources previously approved in Washington in the Company's 2002 depreciation study.[11] Accelerating depreciation on these facilities will help mitigate future risk from coal facilities on Washington customers. This proposal is discussed in detail in the direct testimony of Mr. Dalley. The impact of this change in calculating revenue requirement can be found in section "Tab 6 – Depreciation and Amortization Adjustments" in my exhibit, specifically under "Accelerated Depreciation on Jim Bridger & Colstrip Plants (page 6.4)."

[11] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-021271, (July 31, 2003).

REVENUE REQUIREMENT FOR ERF

Q. What is the Company's Washington revenue requirement for the Test Period?

A. The Company's revenue requirement for the Test Period, excluding NPC requirement, is $216.7 million. This level of revenue will allow the Company to earn its authorized 9.50 percent ROE for the Test Period. At current rate levels, the Company will earn an ROE in Washington of 7.88 percent during the Test Period.

Q. Please describe Exhibit No. SEM-2.

A. Exhibit No. SEM-2 is a summary of the Washington results of operations for the Test Period. This summary exhibit reflects the detailed calculations and supporting documents that are presented in Exhibit No. SEM-3. Page 1 is a revenue requirement adjustment summary. This page shows the rate base, net operating income,[12] and the Washington revenue requirement cumulative impact of the Company's restating and pro forma adjustments. Pages 2 and 3 show the Washington-allocated per books results and the cumulative impact of each of the major adjustment sections presented in Exhibit No. SEM-3. The far right column of page 3 shows the Washington-allocated normalized results for the Test Period.

Q. Please describe Exhibit No. SEM-3.

A. Exhibit No. SEM-3 is the Company's Washington Results of Operations Report (Report). The Report provides the per books and normalized totals for revenue, expenses, depreciation, net power costs, taxes, rate base, and loads for the Test Period. Additionally, the Report provides the calculation of the WCA allocation factors, a summary of monthly rate base balances used to develop the historical AMA

[12] Net operating income is also referred to as "Operating Revenue for Return" in the Company's exhibits and workpapers.

balances, and detailed accounting extracts for the historical period.

The Report presents operating results in terms of both return on rate base and ROE. In the Report, unadjusted net power costs are presented for the WCA and as allocated to the Company's Washington jurisdiction. However, for the purposes of this proceeding, net power costs are removed from normalized results through Adjustment 5.1 in Tab 5 of Exhibit No. SEM-3.

Q. Please describe how the Report is organized.

A. The Report is organized into the following sections or tabs:

- Tab 1—Summary reflects the Washington-allocated results based on the WCA. Column 1 (Unadjusted Results) on Page 1.0 reflects the per-books Washington results and shows Washington ROE of 8.62 percent for the 12 months ended June 30, 2015. Column 2 (Restating Adjustments) shows the cumulative impact of the Washington-allocated restating adjustments included in the filing. Column 3 (Total Adjusted Actual Results) shows the Washington results including the restating adjustments. Column 4 (Pro Forma Adjustments) shows the cumulative impact of the Washington-allocated pro forma adjustments included in the filing. Column 5 (Total Normalized Results) shows the Washington-allocated normalized results for the Test Period, including all restating and pro forma adjustments, with an ROE of 7.88 percent. Column 6 (Price Change) reflects the necessary revenue increase of $10.7 million to achieve a 9.50 percent ROE. Column 7 (Results with Price Change) reflects the Washington normalized results including a $10.7 million calculated revenue increase.

- Page 1.1 of the Report shows total adjusted results of operations and the calculated price change. Pages 1.2 and 1.3 support the calculation of the requested revenue increase and provide further details on the development of the net-to-gross conversion factor[13] which incorporates income taxes, uncollectible expenses, Washington Public Utility Tax, and the Commission regulatory fee. Pages 1.4 through 1.6 summarize the impact of each of the adjustment sections, which follow in tabs 3 through 9. Pages 1.7 through 1.30 show each revenue requirement adjustment as presented in the Company's summary revenue requirement model.

- Tab 2—Results of Operations details the Company's overall revenue requirement, showing per books revenues, expenses, and rate base balances,

[13] The net-to-gross conversion factor is also referred to as the net-to-gross bump up factor in the Report.

on total-company and Washington-allocated basis, for the 12 months ended June 30, 2015, and fully normalized Washington-allocated results of operations for the Test Period by Federal Energy Regulatory Commission (FERC) account. The name of each FERC account provides a brief description of the revenues, expenses, or balances included in the account. For a more detailed description of each account please refer to the FERC Uniform System of Accounts (Code of Federal Regulations, Title 18, part 101).

- Tabs 3 through 9 provide supporting documentation for the restating and pro forma adjustments required to reflect normal or expected operating conditions of the Company. Each of these sections begins with a numerical summary in columnar format that identifies each adjustment made to per books data and the adjustment's impact on Test Period results. Each column has a numerical reference to a corresponding page in the Report, which contains a "lead sheet" showing the type of adjustment (restating or pro forma), the FERC account(s), the WCA allocation factor(s), dollar amount(s), and a brief description of the adjustment. The specific adjustments included in each of these tabs are described in more detail below.

- Tab 10 contains the calculation of the WCA allocation factors.

- Tab 11 contains a summary of the Washington-allocated per books rate base balances by month for the 12 months ended June 30, 2015. These balances are shown by FERC account and WCA allocation factor.

- Tabs B1 through B20 contain the per books historical accounting system extracts for the 12-month period ended June 30, 2015, and are organized by major FERC function.

Tab 3—Revenue Adjustments

Q. Please describe the adjustments made in Tab 3.

A. **Temperature Normalization (page 3.1)—**This restating adjustment normalizes residential, commercial, and irrigation revenues in the Test Period by comparing actual sales to temperature normalized sales. Temperature normalization reflects temperature patterns that can be measurably different than normal, defined as the average temperature over a 20-year rolling time period (currently 1994 to 2013). Pages 3.1.3 through 3.1.4 provide the detailed support of the revenue adjustments from the per books data.

Revenue Normalization (page 3.2)—This restating adjustment removes revenue items that should not be included in regulatory results and normalizes base year revenue by removing items that should not be included in determining retail rates, such as Schedule 191 (System Benefits Charge), Schedule 92 (Depreciation Deferral Amortization), Chehalis Regulatory Asset Deferral, and out of period items. The associated tax impacts are also removed from the Test Period in this adjustment.

Effective Price Change (page 3.3)—This pro forma adjustment annualizes retail revenues for the $9.6 million rate increase approved by the Commission in the 2014 Rate Case, effective March 31, 2015.

SO_2 Emission Allowances (page 3.4)— This restating adjustment removes the sales revenue booked during the 12 months ended June 30, 2015, and includes amortization of sales revenues over a five-year period. This method was approved in Order 06 in the Company's 2010 general rate case, Docket UE-100749 (2010 Rate Case), and used by the Company in general rate cases filed since. Washington's allocation of these revenues is determined by the allowances provided by the Chehalis, Hermiston, Jim Bridger, and Colstrip Unit 4 generating resources.

Renewable Energy Credit (REC) Revenue (page 3.5)—In compliance with Commission Order 06 in the 2010 Rate Case, REC revenues are passed back to Washington customers through a separate tracking mechanism effective April 3, 2011. Consistent with this ordered treatment, this restating adjustment removes all REC revenues from the Test Period.

Wheeling Revenue (page 3.6)— This restating adjustment reflects the normalized level of wheeling revenues for the 12 months ended June 30, 2015, by adjusting the actual revenues for normalizing differences. Imbalance penalty revenue and expense is removed to avoid any impact on regulated results.

Tab 4—O&M Adjustments

Q. Please describe the adjustments included in Tab 4.

A. **Miscellaneous General Expense Adjustment (page 4.1)**—This restating adjustment removes certain miscellaneous expenses that should have been charged below-the-line to non-regulated expenses. It also reallocates certain items such as gains and losses on property sales and regulatory commission expense to reflect the appropriate allocation among the Company's jurisdictions.

General Wage Increase Adjustment (pages 4.2)—This restating adjustment is used to compute general wage-related costs for the Test Period. The Company has several labor groups, each with different effective contract renewal dates. The purpose of adjustment 4.2 is to restate per books wage expenses by annualizing wage increases that occurred during the 12 months ended June 30, 2015. This is done by identifying actual wages by labor group by month along with the date each labor group received wage increases. This treatment of wages reflected in the Test Period is consistent with the method approved by the Commission in the Company's past rate cases, and falls in line with the enhancement to a standard CBR as recommended by Staff in the 2013 Rate Case in order to establish Test Period results that are better suited for rate making.

Payroll taxes were updated to capture the impact of the changes to employee wages. As part of this adjustment, supplemental executive retirement plan expenses booked during the historical period have been removed from the Test Period.

Q. Please continue with your description of O&M adjustments in Tab 4.

A. **Legal Expense (page 4.3)—**Consistent with past rate case treatment, this restating adjustment reallocates the Company's per books legal expenses. Legal expenses are situs assigned to the extent they can be attributed to a specific jurisdiction.

Irrigation Load Control Program (page 4.4)—Payments are made to Idaho irrigators as part of the Idaho Irrigation Load Control Program, and a portion of the program's administrative costs are system allocated in the Company's per books data. This restating adjustment reallocates these costs to the Company's Idaho customers.

Remove Non-Recurring Entries (page 4.5)—An accounting entry was made during the 12 months ended June 30, 2015, that was related to a prior period adjustment. This restating adjustment removes this item from the Test Period to reflect normalized results. Details on the specific items in the adjustment can be found on page 4.5.1.

Demand-Side Management Removal Adjustment (page 4.6)—This restating adjustment removes per books demand-side management expenses from regulated results since they are recovered through a separate tariff rider (Schedule 191—System Benefits Charge Adjustment). Corresponding demand-side management revenues are removed in revenue adjustment 3.2. The associated tax balances are removed through the Washington Flow-Through Adjustment in tab 7.

Insurance Expense Adjustment (page 4.7)—Consistent with previous Washington rate cases, the Company has replaced the base period liability and property damage expense with a rolling six-year average of damage expenses. Per Order 08 of the 2014 Rate Case, this restating adjustment also excludes expense accruals for three relevant events.[14]

Advertising Adjustment (page 4.8) and Memberships and Subscriptions Adjustment (page 4.9)— Consistent with recent cases, the Company includes these restating adjustments to situs assign advertising and membership costs that were booked on a system-allocated basis to the extent they can be attributed to a specific jurisdiction.

Revenue-Sensitive/Uncollectible Expense (page 4.10)—This restating adjustment normalizes the Company's per books June 2015 uncollectible expense to a four-year average by applying the four-year average uncollectible rate to the normalized level of Washington general business revenues. The use of the four-year average uncollectible rate was agreed to by the Company in its rebuttal testimony in the 2013 Rate Case and included in the final revenue requirement calculations approved by the Commission in both the 2013 Rate Case and 2014 Rate Case.

Tab 5—Net Power Cost Adjustments

Q. Please describe the adjustments included in Tab 5.

A. **Net Power Costs Removal (page 5.1)—** The net power cost adjustment removes power costs expenses from base period results by removing sales for resale, purchase power, wheeling, and fuel expenses, for the WCA (see page 5.1.2). Details of Washington-allocated NPC can be found on page 5.1.1. Correspondingly, retail revenues collected for NPC have also been removed from results. Support pages 5.1.3 and 5.1.4 details the calculation of NPC recovery in rates for the base period.

[14] See *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-140762, Order 08 at ¶ 54 (March 25, 2015).

Colstrip Unit 3 Removal (page 5.2)—As directed by the Commission in Cause U-83-57[15], this restating adjustment removes the revenue requirement components of the Colstrip Unit 3 resource from the Test Period.

Tab 6—Depreciation and Amortization Adjustments

Q. Please describe the adjustments included in Tab 6.

A. **End-of-Period Plant Reserves (page 6.1-6.1.3)**—As discussed above, this restating adjustment walks the depreciation and amortization reserve from the June 2015 AMA balance to the June 30, 2015 EOP balance.

Annualization of Base Period Depreciation & Amortization Expense (page 6.2-6.2.3)—This adjustment annualizes depreciation expense associated with the EOP plant balances in adjustment 8.11 and reflects the corresponding tax impacts.

Hydro Decommissioning (page 6.3)—Based on the Company's depreciation study approved by the Commission in Docket UE-071795, an additional $19.4 million is required for the decommissioning of various hydro facilities.[16] This restating adjustment walks forward the accruals for decommissioning expenditures to balances as of June 30, 2015. The reserve does not include funds for Powerdale, which was reclassified to unrecovered plant.

Q. Please describe the Accelerated Depreciation on Jim Bridger & Colstrip adjustment on page 6.4.

A. Consistent with the proposal to accelerate the depreciation schedule on coal-fired generation facilities serving Washington within the west control area explained in

[15] *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Company*, Cause No. U-83-57, Second Supplemental Order (June 12, 1984).
[16] See *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-071795, Order 01 (April 10, 2008).

the direct testimony of Mr. Dalley, this pro forma adjustment reflects the incremental depreciation expense of using accelerated accrual rates for the Jim Bridger and Colstrip plants. The revised end of life for depreciation purposes in this filing is 2025 for the Jim Bridger plant and 2032 for Colstrip Unit 4. This change aligns depreciable lives of these assets in Washington with those in Oregon. Colstrip Unit 3 has been excluded from the calculation of incremental expenses and reserves because this resource is not included in Washington rates. Incremental reserves are reflected on an average basis. Tax impacts are also included accordingly.

Tab 7—Tax Adjustments

Q. Please describe how state income tax expense is treated in this filing.

A. No state income tax expense is included in the calculation of Washington's revenue requirement. Under the WCA, state income taxes are situs assigned based on each state's statutory tax rate. Because Washington has no state income tax, no state income tax expense is included in this filing.

Q. How has federal income tax expense been calculated?

A. Federal income tax expense for ratemaking is calculated using the same methodology that the Company uses in preparing its filed income tax returns. The detail supporting this calculation is summarized on page 2.22 of the Report.

Q. Please describe the adjustments included in Tab 7.

A. **Interest True-Up (page 7.1)—**This restating and pro forma adjustment details the adjustment to interest expense required to synchronize the Test Period interest expense with rate base. This is done by multiplying Washington net rate base by the

Commission-approved weighted cost of debt. This adjustment is calculated in two parts. First, the interest expense is calculated for all of the restating adjustments included in this filing. Second, the interest expense is calculated for all of the adjustments included in the filing, including those that are pro forma in nature.

Property Tax Expense (page 7.2)—This restating adjustment normalizes the difference between per books accrued property tax expense for the base period 12 months ended June 2015 and the property tax expense for the 12 months ending October 31, 2015, per the accounting records of the Company.

Production Tax Credit (PTC) (page 7.3)—The Company is entitled to recognize a federal income tax credit as a result of placing renewable generating plants in service. The tax credit is based on the kilowatt-hours generated by a qualified facility during the facility's first ten years of service. The credits are used in the year of production to the extent current federal income taxes are due, or, should the credits not be fully used in the year they are generated, they are carried back one year and forward 20 years to offset taxes in those years. This restating and pro forma adjustment reflects this credit based on the qualifying production.

PowerTax Accumulated Deferred Income Tax Balance Adjustment (page 7.4)— This restating adjustment reflects the Company's property-related accumulated deferred income tax balances on a jurisdictional basis using results from the Company's tax fixed asset system, PowerTax.

Washington Low Income Tax Credit (page 7.5)— This pro forma adjustment reflects the change to Public Utility Tax Credit for the Low Income Home Energy

Assistance Program, per a July 29, 2015 letter from the Washington Department of Revenue.

Washington Flow-Through Adjustment (page 7.6-7.6.1)—The Company's per books data for income taxes is reported on a tax-normalized basis. This restating adjustment converts the per books data for income taxes from a normalized basis to a partial flow-through basis, consistent with Order 06 and Order 07[17] in the 2010 Rate Case. This is accomplished by removing the deferred income tax benefits/expense and accumulated deferred income tax assets/liabilities for temporary book-tax differences that are not 1) required to be normalized by law, or 2) required to be normalized by Commission order.

Remove Deferred State Tax Expense and Balance (page 7.7)—The Company's per books 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 for the Company that is not recoverable in Washington under the WCA. Accordingly, after all adjustments are made to income taxes, this final adjustment is made to remove deferred state income tax expenses and balances from the Test Period.

It is important to note that if additional adjustments by any party are proposed in this proceeding, the impact of such adjustment will need to include an adjustment to remove the deferred state tax expense and balance as described on page 7.7.

Washington Public Utility Tax Adjustment (page 7.8)—This pro forma adjustment recalculates the Washington Public Utility Tax expense based on the normalizing and pro forma adjustments made to Test Period revenues, as discussed in adjustment

[17] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 07 (May 12, 2011).

pages 3.1 through 3.3 above.

Allowance for Funds Used During Construction (AFUDC) Equity Adjustment (page 7.9)—This restating adjustment brings the appropriate level of AFUDC – Equity into results to align the tax Schedule M with regulatory income.

Tab 8—Rate Base Adjustments

Q. Please describe the adjustments included in Tab 8.

A. **Jim Bridger Mine (page 8.1)—**The Company owns a two-thirds interest in the Bridger Coal Company (BCC), which supplies coal to the Jim Bridger generating plant. The Company's investment in BCC is recorded on the books of Pacific Minerals, Inc., a wholly-owned subsidiary. Because of this ownership arrangement, the coal mine investment is not included in Account 101, Electric Plant in Service. This restating adjustment is necessary to properly reflect the June 2015 balance associated with the BCC plant investment in the Test Period. The Bridger Mine adjustment was stipulated to and approved in the Company's 2003 general rate case, Docket UE-032065[18], and has been included in all rate case filings since. Consistent with Order 06 in the 2010 Rate Case, materials and supplies and pit inventory balances associated with the BCC have been excluded from the Test Period.

Environmental Settlement (page 8.2)—The Commission authorized the Company to record and defer costs prudently incurred in connection with its environmental remediation program in Docket UE-031658.[19] Costs of projects in excess of $3 million on a total-company basis, incurred from October 2003 through March 2005, were authorized to be deferred and amortized over a ten-year period. This restating

[18] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-032065, Order 06 (October 27, 2004).
[19] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-031658, Order 01 (April 27, 2005).

adjustment removes the per books balance and amortization expense from FERC accounts 182.391 and 925, except for the Third West Substation Cleanup, the only project that can be deferred as of the Company's most recent general rate case, and adds back the actual base period expenditure amounts for remediation projects that cannot be deferred per the Commission's 2005 order. However, as of May 2014, Third West Substation Cleanup deferred amounts have been fully amortized. As a result, there will no longer be adjustments for Third West project remediation expenses going forward.

Customer Advances for Construction (page 8.3)—Customer advances were recorded in the historical period using a corporate cost center location rather than state-specific locations. This restating adjustment corrects the WCA allocation of customer advances reflected in the Test Period.

Major Plant Additions (page 8.4)—This pro forma adjustment adds to rate base Jim Bridger Unit 3 overhaul and SCR system that will be placed in service in November 2015. Additional detail on the components of the Jim Bridger Unit 3 overhaul and SCR system are provided in Confidential Exhibit No. SEM-5C. As mentioned above, this major pro forma capital addition is discussed in further detail in the direct testimonies of Mr. Teply and Mr. Link. This adjustment also incorporates the associated depreciation expense and accumulated reserve impacts.

Miscellaneous Rate Base Adjustment (page 8.5-8.5.1)—This restating adjustment removes working capital, fuel stock, materials and supplies, prepayments, and other miscellaneous rate base balances from the Test Period in compliance with prior rate case treatment.

Removal of Colstrip Unit 4 AFUDC (page 8.6)—This restating adjustment removes AFUDC from electric plant in-service for the period that Colstrip construction work in progress was allowed in rate base. This treatment was authorized in Cause U-81-17[20] and has been included in all the Company's Washington rate case filings since that time.

Trojan Removal Adjustment (page 8.7)—This restating adjustment removes the Washington portion of Trojan rate base balances and tax impacts from the Test Period as ordered by the Commission in Docket UE-991832.[21]

Customer Service Deposits (page 8.8)—This restating adjustment includes customer service deposits as a reduction to rate base. It also reflects the interest paid on the customer service deposits. This adjustment was accepted by the Commission in the 2006 Rate Case[22] and is consistent with all of the Company's rate cases filings since that time.

Miscellaneous Asset Sales and Removals Adjustment (page 8.9)—This adjustment removes the electric plant in-service balances, accumulated depreciation balances, depreciation expenses and O&M expenses from the per books data for the 12 months ended June 30, 2015, for the assets sold or removed before the end of the current base period. In the current filing, the only item requiring removal is the remaining accumulated deferred income taxes balance associated with the Powerdale Hydro

[20] *See Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Company*, Cause No. U-81-17, Second Supplemental Order (December 16, 1981).
[21] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-991832, Third Supplemental Order at ¶ 42 (August 9, 2000).
[22] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-061546, Order 08 (June 21, 2007).

unrecovered plant balance that was transferred in 2007 to a regulatory asset and amortized over three years as per authorization in Docket UE-070624.[23]

Investor Supplied Working Capital (page 8.10)— This adjustment reflects a restatement of working capital using the Investor Supplied Working Capital method with the approved modifications to the classification of derivatives, pension and other post-retirement costs and frozen derivative values from as approved in the 2013 Rate Case.

End-of-Period Plant Balances (page 8.11-8.11.5)—This adjustment modifies the gross plant balances from June 2015 AMA levels to the actual June 30, 2015 EOP balances. This adjustment to gross plant balances is intended to alleviate attrition and minimize regulatory lag by annualizing new rate base additions of the year, similar to the method proposed by Staff in the 2013 Rate Case.[24] This method was approved in that case. The associated accumulated reserve impacts are accounted for on adjustment page 6.2.

Regulatory Asset Amortization Adjustment (page 8.12)—The Chehalis Regulatory Asset was recorded in December 2009 in accordance with Docket UE-090205 and amortizes through December 2015.[25] General business revenues charged as the regulatory asset was amortized during the 12 months ended June 30, 2015, were removed from per books results in the revenue normalization adjustment page 3.2. This adjustment recognizes the expiration of the regulatory asset by the end of 2015,

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[23] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-070624, Order 01 (October 24, 2007).
[24] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-130043, Exhibit No.__(DJR-3), (June 21, 2013).
[25] *See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-090205, Order 09 at ¶ 15 (December 16, 2009).

and removes the remaining asset balance and associated accumulated deferred tax balances accordingly.

Idaho Power Asset Exchange Adjustment (page 8.13)—This pro forma adjustment reflects the rate base impacts of the Asset Exchange agreement between the Company and Idaho Power as approved in Order 01 of Docket UE-144136. Corresponding tax impacts are also reflected in this adjustment.

Tab 9—Production Factor

Q. Please describe the adjustments included in Tab 9.

A. A Production Factor adjustment was not prepared for this ERF because Production Factors are not routinely prepared for CBRs. This tab has been left blank intentionally.

Tab 10—Allocation Factors

Q. Please describe the data included in Tab 10.

A. In Tab 10, the derivation of the jurisdictional allocation factors using the WCA is summarized. These factors are based on the normalized historical loads and the plant balances for the 12 months ended June 30, 2015.

Page 10.2 shows each of the WCA allocation factors applied in this filing, as well as a page reference to the corresponding backup page within the Report that shows the calculation of that factor.

Q. Please describe the remaining portions of the Report.

A. **Tab 11—Historical Rate Base:** This section shows the Washington-allocated monthly balances used in the calculation of the AMA balance for the historical period by FERC account and WCA allocation factor.

Tabs B1 through B20: These tabs contain extracts of the historical results from the Company's accounting system for the Test Period and are organized by major FERC function. The data contained in this section of the exhibit ties to the per books data found under Tab 2—Results of Operations.

TWO-YEAR RATE PLAN

Q. Why is the Company presenting a two-year rate plan in this proceeding?

A. The Company has carefully considered the Commission's policy guidance directed at stopping the cycle of continuous general rate cases. The Company's proposal for a two-year rate plan is designed to align with this policy guidance, balancing the need to provide rate stability and predictability to customers with the Company's ability to earn its authorized return. The testimony of Mr. Dalley provides a more detailed discussion of the two-year rate plan from a policy perspective.

Q. Please describe the second-step rate increase request.

A. The Company's requested rate effective date for the second-step rate increase is May 1, 2017. As a part of the rate plan, the Company agrees to a general rate case stay-out provision, with the next general rate change effective date no earlier than April 1, 2018. Mr. Dalley's testimony describes the details of the general rate case stay-out.

Q. What are the specific cost drivers for this second-step rate increase?

A. The Company is facing known factors in the upcoming years that will worsen revenue deficiency, even with the approval of the rate increase requested in the ERF. Primarily, the drivers underlying the Company's challenge to achieve authorized earning levels are as follows:

- Major Plant Investments at Jim Bridger Unit 4, Supervisory Control and Data Acquisition Emergency Management System (SCADA EMS) upgrade project, and the Union Gap Substation Upgrade.
- Significant cost increases associated with the expiration of certain Production Tax Credits (PTCs) for renewable resources beginning in September 2016.

Each of the major plant investment projects is discussed in detail by other witnesses in this filing. Mr. Teply and Mr. Link address the additions and overhauls at Jim Bridger Unit 4. Mr. Stuart J. Kelly discusses details of SCADA EMS in his direct testimony. Finally, Mr. Vail sponsors testimony in support of the Union Gap Substation Upgrade, the second phase addition to the Union Gap facilities where phase one, the distribution phase, was approved by the Commission in the Company's 2014 Rate Case.[26]

Q. Please describe Exhibit No. SEM-4.

A. Exhibit No. SEM-4 details the calculation of incremental revenue requirement for the second year of the Company's proposed two-year rate plan. The model provides analytical evidence in support of a required revenue increase of $10.6 million in year two of the rate plan. However, as with the year-one request, the Company is limiting the requested rate increase to less than three percent. Therefore, the Company is requesting only a $10.3 million increase to its revenue requirement. This is a 2.99 percent increase to gross annual revenues, inclusive of the year-one rate increase.

Q. Please describe how Exhibit No. SEM-4 is organized.

A. The Exhibit is organized into the following sections or tabs:

- Tab 1—This tab summarizes the incremental revenue requirement in year two of the proposed rate plan, and presents a summary of the variables used in developing year-two revenue requirement calculations, such as capital

[26]*See Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-140762, Order 08 at ¶ 172 (March 25, 2015).

structure and costs, relevant WCA allocation factors, and references normalized rate base and net operating income from the ERF as calculated in Exhibit No. SEM-3.

- Tab 2—Summary by Adjustment tab breaks down the total incremental revenue requirement for year two by demonstrating the revenue requirement impact of each discrete adjustment included in the development of year-two revenue requirement.

- Tabs 3 through 8—provide supporting documentation for the pro forma adjustments made to normalize results in order to determine year-two revenue requirement. Each adjustment will be discussed in further detail below.

Q. Please describe the adjustments reflected in Exhibit No. SEM-4.

A. **Adj. 1: Jim Bridger Unit 4 overhaul and SCR system (Tab 3)—**This pro forma adjustment adds into rate base major plant additions to be placed in service upon completion of the Jim Bridger Unit 4 Overhaul and SCR system. Additional detail on the components of the Jim Bridger Unit 4 overhaul and SCR system are provided in Confidential Exhibit No. SEM-5C. This project is scheduled to be placed in service in the latter part of 2016, well in advance of the requested rate effective date of the year-two increase of the proposed rate plan. Consistent with pro forma rate base additions reflected in year one, net plant amounts for all year-two pro forma capital additions are also included on an AMA basis for the rate effective period May 1, 2017, through April 30, 2018. This investment is discussed in detail in the direct testimonies of Mr. Teply and Mr. Link. The Company is also committing to file attestations to affirm that each project is used and useful, with costs known and measurable upon the completion of each project detailed in Exhibit No. SEM-4. This adjustment also incorporates the associated depreciation expense, accumulated reserve impacts, and corresponding tax effects.

Adj. 2: SCADA EMS Upgrade Project (Tab 4)—This pro forma adjustment adds into rate base major plant additions to be placed in service March 2016, associated with the completion of the SCADA EMS upgrade project. Details of this project are discussed in the direct testimony of Mr. Kelly.

Adj. 3: Union Gap Substation Upgrade (Tab 5)—This pro forma adjustment adds into rate base major plant additions from the Union Gap Substation Upgrade. Detailed discussion on this project can be found in the direct testimony of Mr. Vail.

Adj. 4: Production Tax Credits (Tab 6)—This pro forma adjustment reflects a reduction to PTCs in the rate effective period due to the expiration of certain PTCs for renewable resources beginning in September 2016, which is discussed in detail later on in my testimony.

Adj. 5: Remove Deferred State Tax Expense and Balance (Tab 7)—Consistent with page 7.7, this pro forma adjustment is made to remove deferred state income tax expenses and balances from the Test Period. State income taxes are a system cost for the Company that is not recoverable in Washington under the WCA.

Adj. 6: Interest True-Up (Tab 8)—This pro forma adjustment details the adjustment to interest expense required to synchronize the Test Period interest expense with rate base. This calculation is done consistent with page 7.1 in Exhibit No. SEM-3.

Q. What are PTCs?

A. The generation of electricity at certain Company-owned facilities is eligible for what is known as the Renewable Electricity Production Tax Credits under Internal Revenue Code section 45, and is included as an offset to the Company's income taxes. For each kilowatt-hour of electricity generated at eligible wind-powered generating facilities, the Company receives a 2.3 cent credit on its tax return each year, for the duration of ten years beginning on the date the facility became commercially operable. The value of these credits is reflected as a reduction to current income tax expense on the financial statements and for rate making purposes.

Q. How are PTCs changing, and how does this result in increased costs?

A. The amount of PTCs for which the Company is eligible is dependent on the number of kilowatt-hours generated at eligible facilities. These facilities include hydro facilities, as well as the Company's owned wind-powered generating facilities – Goodnoe Hills, Marengo, Marengo II, and Leaning Juniper. As a matter of fact, the effects of the loss in PTC eligibility are already observable in the step-one increase request in the ERF. For example, the eligible portion of JC Boyle's hydro generating facility began commercial operation November 18, 2005. Therefore, upon its 10-year operational anniversary on November 17, 2015, the Company will no longer receive the PTCs related to renewable energy generated at JC Boyle. The expiration of PTCs from JC Boyle is only the first of multiple renewable facilities that will also be expiring in months to follow. Leaning Juniper began commercial operation on September 14, 2006, with PTCs available for the first 10 years of operation expiring on September 13, 2016. At that point, the Company will no longer receive PTCs for energy generated by this facility.

Q. What is the magnitude of the impacts of losing PTC eligibility in the rate effective period beginning May 1, 2017?

A. The rate effective period beginning May 1, 2017, is the first full rate year where the Company will receive zero PTCs from Leaning Juniper (in the ERF, the Company will still receive partial credit due to the expiration date of Leaning Juniper credits being September of 2016). In addition to Leaning Juniper, Marengo I wind facility also loses eligibility for PTCs in August 2017, and Goodnoe Hills in December 2017. As a result of the close succession of PTC eligibility expirations, the Company will lose $11.6 million in west control area PTCs in the 12-month period between May 1, 2017, and April 30, 2018. Detailed calculations of PTCs in this period can be found in workpapers supporting Exhibit No. SEM-4, under Adjustment No.4, Tab 6.

DECOUPLING MECHANISM

Q. Please describe the accounting for the decoupling mechanism proposed in the testimony of Ms. Joelle R. Steward.

A. If the decoupling mechanism is approved, the Company would record the deferral in FERC account 182.3 (Regulatory Asset) or FERC account 254 (Regulatory Liability) for amortizations. In the income statement, the Company would record both deferred revenue and the amortization of deferred revenue through FERC account 407 (Regulatory Debits and Credit), in separate sub-accounts.

Q. Is the Company proposing an earnings test as a part of the decoupling mechanism?

A. Yes, the Company proposes an earnings test based on the Company's CBR operating results for the 12 months ending June 30, which will be filed with the Commission by October 31 each year. This report is prepared using actual results of electric operations and rate base, adjusted for any material out-of-period, non-recurring, and extraordinary items or any other item that materially distorts reporting period earnings and rate base. For purposes of the decoupling mechanism, the earnings test will be based on ROE before temperature normalizing adjustments. In this way, the earnings test will reflect the same conditions (i.e., actual weather) as the calculation of the decoupling deferral.

Q. Please explain how the earnings test will operate.

A. If the return on equity exceeds the most recently authorized return on equity:

- any proposed decoupling surcharge will be reduced or eliminated by up to 50 percent of the excess earnings;
- any proposed decoupling surcredit will be returned to customers as well as 50 percent of the excess earnings.

If the return on equity is less than the most recently authorized return on equity, no adjustment is made to any decoupling surcharge or surcredit.

Additionally, any annual rate increase from decoupling will not exceed three percent in any year, with any excessive amounts carrying over to a future year. The three percent cap is important because the Company's proposal is designed to avoid the threshold for a general rate case and provide protection for customers.

REVENUE REQUIREMENT WORKPAPERS

Q. Please describe the workpapers supporting the revenue requirement calculations.

A. While this filing is not a general rate case, the Company has filed workpapers required by WAC 480-07-510(3) to expedite review of this filing, including several revenue requirement workpapers. Two summary files have been prepared outlining the organization of these files and serve as a guide to the other workpapers. The document named "Revenue Requirement Workpaper Summary" contains a written description of the workpapers, as well as a brief discussion of the Company’s revenue requirement models. The file named “Revenue Requirement Workpaper Flow Chart” provides an illustrative example of the interconnection of the workpapers and how the individual files are included in the exhibits described above.

Q. Does this conclude your direct testimony?

A. Yes.