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Exhibit No. SEM-6T
Docket UE-152253
Witness: Shelley E. McCoy

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFIC POWER & LIGHT COMPANY, Respondent.	DOCKET UE-152253

PACIFIC POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF SHELLEY E. MCCOY

April 2016

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ATTACHED EXHIBITS

Exhibit No. SEM-12—Company Response to WUTC Staff Data Request 151

Q. Are you the same Shelley E. McCoy who submitted direct testimony in this case on behalf of Pacific Power & Light Company (Pacific Power or Company), a division of PacifiCorp?

A. Yes.

PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to quantify and explain the corrections, revisions, and updates made to the Company's proposed revenue requirement. I respond to testimony of the Staff of the Washington Utilities and Transportation Commission (Commission) witnesses Mr. Jason L. Ball, Ms. Joanna Huang, Ms. Elizabeth C. O'Connell, and Ms. Tiffany M. Van Meter. I also respond to the Public Counsel Section of the Washington State Attorney General's Office (Public Counsel) witness Ms. Donna M. Ramas, and Boise White Paper, L.L.C. (Boise) witness Mr. Bradley G. Mullins.

Q. Please summarize your testimony.

A. My testimony explains and supports the Company's revised overall revenue requirement increase of $9.0 million in Year 1 and $10.3 million in Year 2 for the proposed two-year rate plan. This is a decrease of $1.0 million in Year 1 and no change in Year 2 from the amounts requested in the Company's initial filing. My testimony discusses the Company's revisions, corrections, and updates to various revenue requirement components for the modified request. My testimony also addresses revenue requirement adjustments proposed by other parties, including adjustments that the Company is accepting.

As stated in my initial testimony, as well as the initial testimony of Mr. R. Bryce Dalley, this rate filing is comprised of restating and limited pro forma adjustments, incorporating discrete and identifiable cost increases over the next two years. The initial filing was prepared with a proposed May 1, 2016 effective date for the Year 1 request and a May 1, 2017 effective date for the Year 2 request. However, based on the procedural schedule, the updated revenue requirement has been prepared assuming a July 1 effective date for both years. The effective date change is reflected in pro forma adjustments, as appropriate, including accelerated depreciation and production tax credits (PTC).

REVENUE REQUIREMENT

Q. Please describe the calculation of the revised overall revenue increase.

A. The Company's revised revenue increases of $9.0 million for Year 1 and $10.3 million for Year 2 are calculated using the West Control Area inter-jurisdictional allocation methodology (WCA). In support of the revised calculations, Exhibit No. SEM-8 and Exhibit No. SEM-10 show the Company's revised Washington revenue requirement. These exhibits incorporate revisions to certain adjustments made in the Company's initial filing, and provide updates to my initial calculations presented in Exhibit No. SEM-3 (Year 1 increase) and Exhibit No. SEM-4 (Year 2 increase).

Q. Is the Company incorporating any of the updates, corrections, or adjustments proposed by other parties in its rebuttal revenue requirement calculations?

A. Yes, the Company has incorporated the following revisions to revenue requirement adjustments proposed in its initial filing, including several adjustments proposed by the Parties. Each revision is described in more detail later in this testimony.

TABLE 1—Year 1 Revenue Requirement Increase

Calculated Revenue Requirement for Year 1		**$10,746,470**
Amount Not Requested		**($746,470)**
Filed Revenue Requirement for Year 1		**$10,000,000**
Adjustments Accepted or Partially Accepted by Company in Rebuttal		Revenue Requirement Impact ($)
4.1	Miscellaneous Expense & Revenue	$101,677
4.9	Membership and Subscriptions	($2,085)
4.11	Full Time Equivalent Reductions	($874,949)
5.2	Colstrip #3 Removal	($829,873)
5.3	EIM Costs Removal	($526,900)
6.5	Retired Asset Depreciation Expense Removal	($136,978)
7.2	Property Tax Expense	$226,458
7.4	PowerTax ADIT Balance	$24,933
7.7	Remove Deferred State Tax Expense & Balance	($98,122)
8.4	Pro Forma Major Plant Additions	($653,709)
Total Impact of Adjustments Accepted		***($2,769,550)***
Revised Revenue Requirement		**$7,976,920**
Adjustments Revised by the Company in Rebuttal		Revenue Requirement Impact ($)
4.2	General Wage Increase	$537,169
6.4	Accelerated Depreciation - Colstrip & Jim Bridger	$273,897
7.3	Production Tax Credits	$251,089
Total Impact of Revisions		***$1,062,155***
Rebuttal Revenue Requirement		**$9,039,075**

TABLE 2—Year 2 Revenue Requirement Increase

Calculated Revenue Requirement for Year 2		**$10,550,094**
Amount Not Requested		**($230,094)**
Filed Revenue Requirement for Year 2		**$10,320,000**
Adjustments Revised by the Company in Rebuttal		Revenue Requirement Impact ($)
1	Jim Bridger Unit 4 Overhaul & SCR Installation	($829,625)
2	SCADA EMS Replacement & Upgrade	($53,066)
3	Union Gap Transmission Project	($111,346)
4	Production Tax Credits	$615,295
5	Remove Deferred State Tax Expense & Balance	$171,942
6	Interest True Up	$105,192
7	Retired Asset Depreciation Expense Removal	($64,917)
Total Impact of Revisions		***($166,523)***
Revised Revenue Requirement Before Exclusion		**$10,383,571**
Amount not Requested		***($63,571)***
Rebuttal Revenue Requirement		**$10,320,000**

Q. Please describe Exhibit No. SEM-8.

A. Exhibit No. SEM-8 is the Company's Washington Results of Operations Report (Report), revised to incorporate changes and updates outlined in the table above. The Report is organized in a manner similar to Exhibit No. SEM-3:

- Tab 1 (Summary) reflects the Washington-allocated results based on the WCA.
- Tab 2 (Results of Operations) details the Company's overall rebuttal revenue requirement by Federal Energy Regulatory Commission (FERC) account and WCA allocation factor.
- Tabs 3 through 8 provide supporting documentation for restating and pro forma adjustments that have been revised or updated in the calculation of the Company's rebuttal revenue requirement.

ADJUSTMENTS ACCEPTED OR PARTIALLY ACCEPTED BY THE COMPANY

Colstrip 3 Removal

Q. Please describe the adjustment proposed by Boise regarding the Operations and Maintenance (O&M) expense associated with Unit 3 of the Colstrip generating plant (Colstrip 3).

A. Boise proposes an adjustment that removes the Colstrip 3 O&M costs because Colstrip 3 is not included in Washington rates.[1]

Q. Why weren't the Colstrip 3 O&M costs removed in the Company's initial filing?

A. In the initial filing, the Company prepared the Colstrip 3 removal adjustment consistent with the methodology used in previous cases. Upon further review, however, the Company agrees with Boise that these costs should be removed as it is more consistent with the WCA. The Company's acceptance of this adjustment is

[1] Mullins, Exh. No. BGM-1CT 23:14-26:13.

reflected in revised adjustment 5.2 (Colstrip 3 Removal).

Q. Did Boise's adjustment capture all O&M costs associated with Colstrip 3?

A. No. Boise's proposed adjustment does not include costs recorded in FERC 501.45, 511, 924.3 and 925, totaling $773,000 on a total-company basis. The Company has removed all costs associated with Colstrip 3 O&M using the net plant proration between Colstrip 3 and 4, consistent with Boise's proposed methodology.[2]

Pro Forma Major Plant Additions

Q. Please describe the Company's proposed pro forma adjustment for the Jim Bridger Unit 3 overhaul project.

A. This pro forma adjustment adds to rate base on an average of monthly averages (AMA) basis plant additions associated with the Jim Bridger Unit 3 overhaul project that were placed in service through December 31, 2015.

Q. Is the Company updating its pro forma adjustment for these major plant additions in rebuttal?

A. Yes. Because these plant additions were scheduled to be placed in service around the time of the Company's filing, actual costs were not available for inclusion in the initial revenue requirement calculation. For that reason, estimated capital costs were used for the initial filing. As proposed by Public Counsel and Boise, the Company has updated the adjustment to reflect actual costs for the Jim Bridger Unit 3 overhaul project placed in service through December 31, 2015.[3] Actual removal costs associated with this project are reflected in the accumulated reserve balance.

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[2] Mullins, Exh. No. BGM-1CT 26:9-10.
[3] Ramas, Exh. No. DMR-1T Revised (3/29/16) 30:3-20; Mullins, Exh. No. BGM-1CT 17:7-11.

Q. Did Parties propose any other adjustments related to pro forma plant additions?

A. Yes. Staff, Public Counsel, and Boise recommended an adjustment based on legislation extending bonus depreciation.[4] On December 18, 2015, President Obama signed into law the Protecting Americans from Tax Hikes (PATH) Act of 2015, which extended bonus depreciation on capital additions. The Company agrees that the impact of the PATH Act should be reflected in this filing for pro forma major plant additions. Accordingly, adjustment 8.4 (Pro Forma Major Plant Additions) has been updated to reflect this change.

Q. Are there any other revisions to the pro forma major plant additions?

A. Yes, the Company has updated balances for pro forma plant additions to reflect AMA levels for the rate year, using the anticipated effective date of July 1, 2016, for the first-year rate increase. The Company's initial filing reflected balances on an AMA basis assuming an effective date of May 1, 2016.

Q. What is the total impact of the updates to the Company's pro forma major plant additions adjustment?

A. The Company's revised adjustment for pro forma major plant additions decreases revenue requirement by approximately $654,000 from the Company's initial filing. The prudence of these plant additions is discussed in the rebuttal testimonies of Mr. Chad A. Teply, Mr. Dana Ralston, and Mr. Rick T. Link. These revisions are reflected in Exhibit No. SEM-8, page 8.4.

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[4] Ball, Exh. No. JLB-1T 6:3-9; Ramas, Exh. No. DMR-1T Revised (3/29/16) 4:21-5:9; Mullins Exh. No. BGM-1CT 40:14-16.

Energy Imbalance Market Costs Removal

Q. What is Boise's proposal regarding Energy Imbalance Market (EIM) costs?

A. Because EIM benefits will be reflected in net power costs (NPC) and incorporated in the Company's Power Cost Adjustment Mechanism (PCAM) to be filed June 1, 2016, Boise proposes to include EIM costs, including the return on rate base, in the PCAM to match the costs and associated benefits in the same filing.

Q. Does the Company agree with this approach?

A. Yes. To provide a proper matching of costs and benefits associated with EIM, the Company agrees with Boise's proposal with certain modifications.

Q. What modifications did the Company make to Boise's proposal?

A. The Company has revised Boise's proposed adjustment to include removal of depreciation and amortization expense associated with EIM.[5] The Company has prepared adjustment 5.3 (EIM Costs Removal) to reflect the removal of all EIM-related costs.[6] Table 3 below provides a summary of EIM costs removed in this adjustment.

[5] Mullins, Exh. No. BGM-3 1:20-21.
[6] EIM costs recorded to net power cost accounts were not reflected in the Company's initial filing as all net power costs were removed.

TABLE 3—EIM Costs

	Total Company	Washington Allocated
Capital Investment	$16,221,428	$1,898,279
Accumulated Deferred Income Taxes	($3,659,044)	($437,169)
Depreciation Reserve	($1,901,111)	($234,779)
Net Rate Base	$10,661,273	$1,226,330
	9.81%	9.81%
Pre-Tax Return on Rate Base	$1,046,119	$120,332
Operation & Maintenance (Ongoing)	$1,829,872	$150,141
Depreciation	$1,801,185	$228,886
Total Expenses	$3,631,057	$379,027
Total EIM Costs (before revenue sensitive items)	**$4,677,176**	**$499,358**

Labor and Benefits

Q. Please summarize Public Counsel's position regarding the Company's proposed labor and benefit adjustments.

A. Public Counsel recommends several modifications to the Company's proposed labor costs. Specifically, Public Counsel recommends:

- Reducing full-time-equivalent (FTE) employees (and associated costs) to reflect the actual FTE employee level as of December 2015.[7]
- Reducing pension and post-retirement benefits other than pension (PBOP)[8] expenses to reflect information provided by the Company through discovery.[9]

[7] Ramas, Exh. No. DMR-1T Revised (3/29/16) 36:6-22.
[8]Public Counsel and Boise both refer to these amounts as Other Post-Employment Benefits (OPEB), however, the Company believes that they are actually referring to Post Retirement Benefits Other Than Pensions, (PBOP). PBOP relates to benefit costs for retirees while OPEB relates to costs associated with former employees that did not retire from the Company. In response to DR2.1, Public Counsel indicated that OPEB and PBOP were used interchangeably in testimony.
[9] Ramas, Exh. No. DMR-1T Revised (3/29/16) 38:5-10, 40:3-11.

- Normalization of other salary overheads by averaging calendar year 2014 and calendar year 2015 expenses.[10]

Q. What is the Company's position on Public Counsel's recommendation regarding FTE levels?

A. As discussed in the rebuttal testimony of Ms. Kathryn C. Hymas, the Company recommends that the Commission accept Public Counsel's proposed FTE adjustment updated to the most recent period available, as of March 2016, with a corresponding update to wages, by including salary increases up through June 2016. As explained in my direct testimony, the Company's only adjustment to wages and benefits was to annualize wages for the twelve months ended June 2015 by taking into account actual wage increases for each labor group. No pro forma adjustments to wages or benefits were included in the initial filing. Table 4 below reflects the net impact of the changes proposed by the Company in rebuttal, which is a $322,263 reduction in Washington allocated expense.

TABLE 4—Impact of Labor and Wage Adjustments

Description of Change	**WA-Allocated Expense**
December 2015 FTE Update Proposed by Public Counsel	($655,673)
Additional Adjustment to March 2016 FTE Level	($179,082)
Total Reduction in Expense of March 2016 FTE Update	($834,755)
Wage Adjustment to June 2016	$512,492
Net Expense Impact of FTE & Wages Update in Rebuttal	($322,263)

These updates are reflected in adjustment 4.2 (General Wage Increase) and new adjustment 4.11 (FTE Reduction).

[10] Ramas, Exh. No. DMR-1T Revised (3/29/16) 33:12-41:13.

Q. Please describe Public Counsel's and Boise's proposed adjustments related to pension and PBOP expense.

A. Public Counsel and Boise both propose post-test year adjustments to pension and PBOP expenses based on updated actuarial reports.[11]

Q. What is the Company's position on Public Counsel's and Boise's recommendations regarding benefits expense?

A. As discussed in the rebuttal testimony of Ms. Hymas, the Company believes that Public Counsel's and Boise's adjustments are inappropriate and should be rejected because they do not account for offsetting increases in other benefit categories.

Property Taxes

Q. Did Staff propose changes to the Company's property tax adjustment?

A. Yes. In its testimony, [12] and as clarified through discovery, Staff is "supportive of the Company updating the adjustment so property tax expenses reflect the latest recorded amounts as of time of rebuttal."[13] Accordingly, the Company has updated its property tax adjustment to reflect expense amounts recorded through February 2016. This update increases the Company's revenue requirement by $226,000.

Retired Asset Depreciation Expense Removal

Q. Did Public Counsel propose an adjustment to depreciation expense for retired assets?

A. Yes. Public Counsel proposed an adjustment to reflect the reduced depreciation expense for retirements associated with pro forma major plant additions.[14]

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[11] Ramas, Exh. No. DMR-1T Revised (3/29/16) 37:1-40:9; Mullins, Exh. No. BGM-1CT 30:8-31:17.
[12] O'Connell, Exh. No. ECO-1T 31:5-7.
[13] Exh. No. SEM-8, page 7.2.3 (Staff's Response to PacifiCorp DR 3).
[14] Ramas, Exh. No. DMR-3 Revised (3/29/16) 1-3.

Q. Does the Company agree with this proposed adjustment?

A. Yes. The Company agrees that this adjustment is appropriate for retirements associated with pro forma major plant additions. Accordingly, the Company prepared adjustment 6.5 (Retired Assets Depreciation Expense Removal) to reflect the removal of depreciation expense associated with the Jim Bridger Unit 3 overhaul retirements.[15] A similar adjustment has been prepared for Year 2 for retirements associated with Jim Bridger Unit 4 overhaul as discussed later in this testimony.

Miscellaneous Expense and Revenue

Q. Please describe the adjustment proposed by Boise regarding Cholla O&M.

A. Boise recommends correcting the allocation of a credit related to O&M expense at the Cholla generating plant, which was incorrectly allocated to Washington in the Company's initial filing.[16] The Cholla plant is not located in the west control area, and is therefore not included in Washington rates.

Q. Does the Company agree with Boise's proposal to remove the Cholla O&M credit from Washington revenue requirement?

A. Yes, the Company accepts Boise's adjustment and has corrected adjustment 4.1 (Miscellaneous Expense and Revenue) for this item, which increases revenue requirement by $102,000.

Memberships and Subscriptions

Q. Did the Company adopt any of Staff's proposed adjustments to memberships and subscriptions?

A. Yes. Staff proposed an adjustment to remove the costs associated with the Utah

[15] This adjustment uses depreciation rates consistent with the Company's proposal for accelerated depreciation.
[16] Mullins, Exh. No. BGM-1CT 33:5-11.

Taxpayers Association and Wyoming Taxpayers Association memberships.[17] Despite the fact that there are west control area assets located in Wyoming, for the purposes of this proceeding, the Company agrees to remove the $29,899 costs on a total company basis, or $1,990 Washington allocated, for these two memberships, as reflected in adjustment 4.9 (Memberships and Subscriptions).

Q. Does Staff propose any adjustments to memberships and subscriptions that the Company does not accept?

A. Yes. Staff also proposed an adjustment to remove costs associated with the Yakima County Development Association, which is $12,000 on a Washington allocated basis.[18] Staff states that its recommendation is based on the Company's response to Staff Data Request No. 151 in which "the Company states that the purpose of these memberships is to strengthen relationships."[19] Staff states that "strengthening relationships is not the core business of providing electric service" and therefore concludes that the expenses should be excluded.[20] Staff's characterization of the Company's data response, however, is incomplete and misleading. In fact, the Company fully explained that the purpose for the membership is to:

> [strengthen] relationships with key community and business leaders and building sustainable communities through enhanced economic development, environmental and educational opportunities. The Company supports state and regional economic development agencies that work directly with expanding and relocating companies throughout its six state service territory. In this manner, the Company indirectly assists prospective customers with their siting decisions; to the extent that customers locate in the

[17] Van Meter, Exh. No. TMV-1T 4:6-15.
[18] *Id.* at 4:16-5:3.
[19] *Id.* at 5:11-12.
[20] *Id.* at 5:12-13.

> Company's service territory, these decisions enhance electrical system asset utilization and reduce overall costs.[21]

These specific costs were made in a Washington community and the Company believes these amounts are appropriately assigned to Washington customers.

Interest True Up

Q. Did the Company make any revisions to adjustment 7.1 (Interest True Up)?

A. Yes. The Company updated adjustment 7.1 to incorporate the impacts of the other adjustments included as part of the Company's rebuttal position. No other changes have been made to this adjustment.

Remove Deferred State Tax Expense and Balance

Q. Please describe the Company's update to adjustments 7.4 (Power Tax ADIT balances) and adjustment 7.7 (Remove Deferred State Tax Expense and Balance).

A. The Company updated adjustments 7.4 and 7.7 to reflect the impact of the Company's rebuttal adjustments to revenue requirement. If additional adjustments proposed by other parties to this case are accepted by the Commission, adjustments 7.4 and 7.7 will need to be updated.

[21] Exhibit No. SEM-12 (Staff Data Request No. 151).

OTHER ADJUSTMENTS REVISED BY THE COMPANY

Accelerated Depreciation

Q. Did the Company make any revisions to the adjustment for its accelerated depreciation proposal?

A. Yes. The Company has revised adjustment 6.4 (Accelerated Depreciation – Colstrip & Jim Bridger) to reflect the anticipated rate effective date of July 1, 2016. The Company's initial filing assumed a May 1, 2016 rate effective date, and that accelerated depreciation would be implemented at that time. Adjustment 6.4 has been revised to implement accelerated depreciation on July 1, 2016. In addition, Adjustment 6.4 takes into account actual capital costs associated with Jim Bridger Unit 3 overhaul as discussed above, and tax depreciation impacts in accordance with tax normalization requirements in Washington.

For further discussion of the Company's policy proposal on accelerating depreciation on the Jim Bridger plant and Colstrip Unit 4, please see the rebuttal testimony of Mr. Dalley.

Production Tax Credits

Q. Did the Company make any changes to its adjustment for production tax credits PTCs?

A. Yes, similar to adjustments described above, the Company has updated adjustment 7.3 (Production Tax Credits) to reflect the revised rate effective period beginning July 1, 2016.

STAFF ADJUSTMENTS NOT ACCEPTED BY THE COMPANY

Environmental Remediation Costs

Q. Please describe Staff's proposed adjustment to environmental remediation costs.

A. Staff proposes allocating to Washington only those costs for environmental remediation projects located in the west control area.[22]

Q. How did the Company allocate environmental remediation costs to Washington?

A. The Company has allocated costs associated with environmental remediation using the System Overhead (SO) factor. This treatment is consistent with the allocation of environmental remediation expenses in each of the Company's general rate cases since the adoption of the WCA.

Q. Does the Company agree with Staff's proposed modification?

A. No. The Commission has stated in previous filings that selective allocation modifications are inappropriate and cannot be implemented absent a comprehensive examination of the methodology.[23] Given the Commission's direction in previous cases and the limited issues presented in this proceeding, Staff's proposed modification should be rejected.

Q. Despite the Company's recommendation that Staff's adjustment be rejected, are there calculation errors in Staff's proposal?

A. Yes. Staff's testimony recommends allocating west control area environmental remediation costs to Washington. Staff's calculations, however, include only those environmental remediation costs associated with facilities located within Washington,

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[22] O'Connell, Exh. No. ECO-1T 32:10-11.

[23] In Order 05 of Docket UE-130043 the Commission rejected attempts to modify the WCA, stating that the WCA methodology "…is a comprehensive methodology with multiple factors." *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-130043, Order 05 ¶ 92(Dec. 4, 2013). The Commission went on to state: "We believe that any changes should be considered in the context of an overall review of that methodology." *Id.*

not the entire west control area. In addition, Staff has applied the system overhead allocation factor for those same environmental costs, thus allocating 6.65 percent of these amounts to Washington customers. This treatment results in Washington customers paying a small fraction of environmental remediation costs for projects in Washington and zero costs associated with environmental remediation costs for projects located elsewhere.

Q. If Staff's recommendation was calculated correctly, what would the result be?

A. When the correct WCA factors are applied to west control area environmental remediation costs, the allocation to Washington customers increases by approximately $137,000 compared to the Company's filing.

Table 5 below provides a comparison of the costs allocated to Washington customers depending on whether the costs are allocated on a system or a west control area basis. While the Washington revenue requirement is higher under a west control area allocation, the Company recommends that these costs continue to be treated as system costs and be allocated as such.

Table 5—Environmental Remediation Costs

Company Proposal - Consistent with Prior Cases

Total Co. Enviromental Remediation Projects	Factor	Allocation %	Washington Allocated
$10,159,261	**SO**	**6.655%**	**$676,079**

Staff Proposal - Per Exhibit No. JLB-2

Total Co. Enviromental Remediation Projects	Factor	Allocation %	Washington Allocated
$7,543	**SO**	**6.655%**	**$502**

Staff Proposal - Corrected

Total Co. Enviromental Remediation Projects	Factor*	Allocation %	Washington Allocated
$3,138,348	CAGW	22.565%	$708,170
$5,993,041	CAGE	0.000%	$0
$228,747	JBG	22.437%	$51,324
$799,126	SO	6.655%	$53,180
$10,159,261	**Total**		**$812,674**

*The SO factor allocates total-company costs that for facilities in Wyoming that serve Washington customers such as the Jim Bridger plant.

Idaho Power Asset Exchange

Q. Please summarize Staff's proposed adjustment regarding the Idaho Power Asset Exchange.

A. Staff addresses the Company's proposed changes related to the Idaho Power Asset Exchange (Exchange) based on Staff's placement of the assets into one of three different categories.[24] "Exchanged Assets" refers to the assets acquired or sold in the Exchange. "Correction Assets" refers to assets that have always been part of the Company's west control area, but which the Company has inadvertently excluded in previous cost allocations. Finally, "Reassignment Assets" refers to assets that were identified as requiring a change of allocation to the west control area as a result of the Exchange. Staff recommends approval of the reallocation of the "Correction Assets."

[24] Ball, Exh. No. JLB-1T 61:1-16.

However, citing a lack of observable benefits to Washington customers, Staff rejects the reallocation of the "Reassignment Assets" and "Exchanged Assets."[25]

Q. What are the aggregate plant balances of each of the three categories identified by Staff?

A. The following tables summarize the net plant balances in each of the categories identified by Staff.

TABLE 6—Idaho Asset Exchange.

($thousands)

Correction Assets - Staff Recommends Approval

Asset Description	**Net Plant**	**Washington Allocated**
POPULUS-BORAH #1 ID 345KV	$ 3,663	$ 827
POPULUS-BORAH #2 345 KV ID	$ 8,279	$ 1,868
BORAH SUBSTATION TELEMETERING	$ 15,589	$ 3,518
HEMINGWAY SUBSTATION(JOINT OWNED)	$ 11,595	$ 2,616
Total Net Plant	**$ 39,126**	**$ 8,829**

Reallocation Assets - Staff Recommends Rejection

Asset Description	**Net Plant**	**Washington Allocated**
GOSHEN SUBSTATION AND MAINT SHOP	$ 2,798	$ 631
BRIDGER-GOSHEN LOOP-THREEMILE KNOLL	$ 1,127	$ 253
GOSHEN - KINPORT 345 KV LINE	$ 1,139	$ 257
KINPORT TELEMETERING	$ 1,288	$ 291
Total Net Plant	**$ 6,352**	**$ 1,432**

Exchanged Assets - Staff Recommends Rejection

Asset Description	**Net Plant**	**Washington Allocated**
Line & Sub Assets from Idaho Power	$ 43,157	$ 7,954
Line Assets to Idaho Power	$ (42,853)	$ (6,270)
Total Net Plant	**$ 304**	**$ 1,684**

[25] Ball, Exh. No. JLB-1T 63:3-9.

Q. Does the Washington impact of the Exchange differ from what was estimated in the request for approval of the exchange in Docket UE-144136?

A. Yes, the Company originally estimated a slight decrease in Washington-allocated rate base and a slight increase in net power costs as a result of the Exchange. These high-level initial projections, however, were based on preliminary analysis of the transaction. Since the time of this preliminary analysis, the Company conducted the detailed analysis required to include the exchange in the Company's accounting system as a result of the executed transaction. This detailed analysis included verifying plant balances and allocation factors associated with each of the assets involved in the Exchange. The result of the more detailed analysis is an increase Washington-allocated rate base under the WCA.

Q. Did the Company make any changes in rebuttal to account for Staff's recommendation?

A. No. Contrary to Staff's testimony, and as described in the rebuttal testimony of Mr. Richard A. Vail, the Exchange provides significant reliability and flexibility benefits to serve Washington customers. Accordingly, the exchanged assets are used and useful and should be included in Washington rates.

Q. Did Staff challenge the revenue requirement modeling of the Exchange?

A. No. Staff agrees with the manner in which the Company presents the results of the Exchange.[26]

[26] Ball, Exh. No. JLB-1T 62:13 -15.

Q. Despite the Company's disagreement with Staff's recommendation, has Staff's adjustment been calculated correctly?

A. No. Staff's removal of certain assets is incomplete and does not remove all of the components from the revenue requirement model. Specifically, not all of the accumulated depreciation or depreciation expense were removed. Staff also did not appropriately account for the associated impacts of its recommendation as part of end-of-period plant and reserve adjustments (Adjustments 8.11, 6.1, and 6.2). Accordingly, even if Staff's recommendation is accepted, the revenue requirement impact of Staff's adjustment is overstated by approximately $137,000.

PUBLIC COUNSEL ADJUSTMENTS NOT ACCEPTED BY THE COMPANY

Accelerated Depreciation

Q. Does Public Counsel support the Company's proposal for accelerating the depreciation rates on Jim Bridger plant and Colstrip Unit 3?

A. No, Public Counsel does not agree with the Company's proposal.[27]

Q. Does Public Counsel have an alternative recommendation for the accounting should the Company's accelerated proposal be accepted by the Commission?

A. Yes, Public Counsel is recommending that the incremental depreciation related to acceleration be recorded in a regulatory liability (FERC Account 254) as opposed to the accumulated reserve (FERC Account 108).[28]

Q. Does the Company agree with this proposal?

A. No. As discussed in the rebuttal testimony of Mr. Dalley, Public Counsel's alternative recommendation is unnecessary. The Company believes that accumulated

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[27] Ramas, Exh. No. DMR-1T Revised (3/29/16) 20:1.
[28] Ramas, Exh. No. DMR-1T Revised (3/29/16) 25:9-28:23.

depreciation is appropriately recorded in FERC Account 108, Accumulated provision for depreciation of electric utility plant, per the guidelines set forth in FERC's Uniform System of Accounts. FERC Account 108 is explained as follows:

> **108 Accumulated provision for depreciation of electric utility plant (Major only).**
>
> A. This account shall be credited with the following:
>
> (1) Amounts charged to account 403, Depreciation Expense, or to clearing accounts for current depreciation expense for electric plant in service.

Following Public Counsel's proposal would create a difference in the way depreciation is accounted for on the Company's books for Washington compared to its other states and would not be in accordance with FERC guidelines.

BOISE ADJUSTMENTS NOT ACCEPTED BY THE COMPANY

Other Power Supply Expenses

Q. Please describe the adjustment proposed by Boise regarding other power supply expenses.

A. Boise recommends a modification to the WCA to change the way that certain other power supply expenses are allocated to Washington.[29] Specifically, Boise is reallocating expenses in FERC Account 557 from a System Generation (SG) factor to a SO factor—reducing Washington revenue requirement by approximately $557,000.[30]

Q. What is the basis of Boise's adjustment?

A. Based on a detailed accounting extract provided by the Company through discovery,

[29] Mullins, Exh. No. BGM-1CT 32:4-33:4.
[30] Mullins, Exh. No. BGM-3.

Boise identified expenses recorded in FERC Account 557 with a general office location and argues these amounts should be allocated using a SO factor.

Q. Does the Company agree with Boise's adjustment?

A. No. Boise mistakenly relies on a section of the WCA allocation manual to support its conclusion. The section of the manual that Boise refers to, however, is not describing the allocation of costs in FERC Account 557. That section of the manual is describing FERC Account 920 through 935. In fact, the costs Boise proposes to reallocate are generation expenses such as administration and engineering that cannot be assigned to specific resources. Per the WCA allocation manual, "[t]hese costs are allocated using the SG factor."[31] This treatment is consistent with the allocation of costs in this account since the WCA was implemented.

Q. Does the WCA allocation manual provide a list of allocation factors to be used for FERC Account 557?

A. Yes. The WCA allocation manual provides a list of FERC accounts and associated allocation factors, and the SO factor is not listed as a factor used for FERC Account 557.

Q. Has the Commission rejected similar "one-off" allocation methodology proposals in previous cases?

A. Yes. As discussed above, the Commission has clearly articulated that changes in the allocation methodology should be done on a more comprehensive basis.[32] In addition, given the limited issues in this case, the Company recommends Boise's proposal be rejected.

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[31] Manual page 3.

[32] *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-130043, Order 05 ¶ 92(Dec. 4, 2013).

Transmission O&M Expenses

Q. Please describe the adjustment proposed by Boise regarding the allocation of certain transmission O&M expenses.

A. Boise has also proposed a modification to the WCA to change how transmission O&M expenses are allocated.[33] Boise believes that transmission O&M expense should be allocated in a manner more consistent with transmission revenues, which is based on the Wheeling Revenue Generation (WRG) factor.

Q. How does the Company allocate transmission O&M expenses?

A. In compliance with the Commission-approved WCA, the Company allocates transmission O&M using the Control Area Generation West factor for transmission O&M expense related to west control area assets and Control Area Generation East factor for east control area assets (consistent with the allocation of the underlying plant balances, accumulated depreciation balances, and depreciation expense). Costs not assignable to a specific control area, such as the Company's transmission grid operations, are allocated on a SG factor.[34]

Q. Does the Company agree with Boise's argument that transmission O&M expense should be allocated using the Wheeling Revenue Generation factor?

A. No. Boise's proposal is not consistent with the WCA. There is no foundational basis to allocate these transmission costs on a factor used to allocate wheeling revenues. As stated above, the Commission has repeatedly indicated that it will not make selective modifications to the WCA such as those proposed by Boise.

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[33] Mullins, Exh. No. BGM-1CT 27:1-30:6.
[34] Manual page 3.

Hydro Deferral Balance

Q. Did Boise include any proposals related to the Company's deferral balances?

A. Yes. Boise proposes including the approximately $132,000 credit balance in the hydro deferral account in the Company's revenue requirement for this proceeding.[35]

Q. Does the Company agree with the proposed treatment for this deferral balance?

A. No. The Company agrees that this credit should be provided to customers. Building this credit into base rates, however, is improper, particularly in light of the Company's proposed rate plan and stay-out period. The deferral balance represents a small, residual over-collection from the deferral approved in Docket UE-080220 and is not an on-going credit. If this amount is included in base rates for the duration of the rate plan, as Boise recommends, then it would result in a credit to customers of nearly two times the existing balance.

Q. Does the Company have an alternate proposal to credit this balance to customers?

A. Yes. The Company proposes including this balance in Schedule 96—Renewable Energy Revenue tariff schedule, thereby reducing the balance currently collected from customers. Addressing the credit in this manner is more appropriate for a one-time item.

USE OF END-OF-PERIOD RATE BASE

Q. Do parties support the Company's proposal to use of end-of-period balances to determine rate base?

A. Staff supports the Company's use of end-of-period balances as a way to reduce the impacts of regulatory lag,[36] and more closely align rate base balances with the rate

[35] Mullins, Exh. No. BGM-1CT 36:6-18.

effective periods.[37] Both Boise and Public Counsel, however, object to the use of end-of-period rate base.[38] While Mr. Dalley responds generally to Boise's and Public Counsel's objections in his testimony, I will address the more technical aspects of their arguments.

Q. Boise criticizes the Company for recommending end-of-period balances for the historical period, while relying on AMA rate base for the pro forma changes.[39] Why does the Company believe it is appropriate to use end-of-period for historical balances, but AMA for pro forma adjustments?

A. The use of end-of-period for the June 30, 2015 historical balances is a better indicator of rate base during the rate-effective periods by bringing the AMA rate base balances forward six months. Pro forma rate base adjustments are then incorporated on an AMA basis to reflect the average rate base impact of these changes. The combination of these approaches provides a closer representation of the average rate base that will be in place during the rate-effective period. Thus, the Company's approach appropriately matches expected rate base with the revenues for the rate-effective period.

SECOND-YEAR RATE INCREASE

Q. Does the Company have any updates to the second year of its proposed two-year rate plan?

A. Yes, as previously stated, the Company agrees to implement the PATH Act, which impacts the revenue requirement in both years. The Company also incorporated

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[36] Huang, Exh. No. JH-1T 4:12-13.
[37] Huang, Exh. No. JH-1T 4:7-9.
[38] Ramas, Exh. No. DMR-1T Revised (3/29/16) 9:9-17; Mullins, Exh. No. BGM-1CT 22:8-20.
[39] Mullins, Exh. No. BGM-1CT 21:5-7.

additional updates to pro forma plant additions in the second year based on updated information since the Company's initial filing and the removal of depreciation expense on asset retirements associated with these pro forma additions. The Company has updated balances for pro forma plant additions to reflect AMA levels for the second year, using the anticipated effective date of July 1, 2017, for the second-year rate increase. The Company's initial filing reflected balances on an AMA basis assuming an effective date of May 1, 2017. The net impact of these changes does not result in a change to the Company's requested second-year rate increase of $10.3 million.

Q. Does Boise propose changes regarding the second-year rate increase?

A. Yes, Boise proposes adjusting the coal plant reserves on an AMA basis in the second year if accelerated depreciation is approved.[40]

Q. Does the Company agree with this proposal?

A. No. The first-year rate increase was developed using a full Commission Basis Report model with restating and limited pro forma adjustments. Accelerated depreciation is reflected as one of those pro forma adjustments, including the accumulated depreciation impact on rate base balances. The Company has not prepared a full Commission Basis Report model for the second year of the rate plan. As discussed in direct testimony, this proposal was designed to identify discrete changes in the second year of the rate plan that would allow the Company the opportunity to earn its authorized rate of return and provide rate stability to customers. Notably, the Company has not reflected routine investments to rate base or other cost categories other than the four discrete adjustments identified as part of this filing. Accordingly,

[40] Mullins, Exh. No. BGM-1CT 39:4-8.

adjusting all of the accumulated depreciation associated with the Company's coal-fueled generation assets for the second year would be one-sided and inappropriate.

Q. Despite disagreeing with Boise's proposal, is Boise's adjustment calculated correctly?

A. No. Boise uses incorrect tax balances in its calculation of the related accumulated deferred income tax adjustment. This error results in an overstatement of the adjustment by approximately $700,000 on a Washington revenue requirement basis.

Q. Does Boise have any other proposed adjustments to the second year request?

A. Yes. Boise proposes a blanket reduction of 8.08 percent for all major plant additions added in the second year.[41] Boise calculates this adjustment based on the difference between the estimates included for first-year major plant additions at the time of the filing and the final in-service amounts provided in the Company's response to Boise Data Request 20.

Q. What is Boise's reasoning for this adjustment?

A. Boise alleges that the Company unreasonably overestimates the amount of its pro forma plant additions and this adjustment is intended to account for this "forecast error."[42]

Q. Does the Company agree with Boise's adjustment?

A. No. The Company's rebuttal filing reflects actual costs for projects in service for the first-year rate increase and the latest available information for projects that will be placed in service for the second-year increase. The Company has stated that it will file attestations for each of the three major plant additions reflected in the Company's

[41] Mullins, Exh. No. BGM-1CT 41:3-14.
[42] Mullins, Exh. No. BGM-1CT 41:16-22.

second-year rate increase verifying that these assets are used and useful and known and measureable.

Q. Does this conclude your rebuttal testimony?

A. Yes