Application No. 18-04-___
Exhibit PAC/1100
Witness: Shelley E. McCoy

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

PACIFICORP

Direct Testimony of Shelley E. McCoy

Revenue Requirement

April 2018

TABLE OF CONTENTS

ATTACHED EXHIBITS

Q. Please state your name, business address and present position with PacifiCorp d/b/a Pacific Power (PacifiCorp).

A. My name is Shelley E. McCoy, and my business address is 825 NE Multnomah Street, Suite 2000, Portland, OR 97232. I am currently employed as the Manager of Revenue Requirement for PacifiCorp.

I. QUALIFICATIONS

Q. Briefly describe your educational and professional background.

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

Q. What are your responsibilities as Manager of Revenue Requirement?

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

Q. Have you testified in previous regulatory proceedings?

A. Yes. I have previously provided testimony in California and Washington.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. My direct testimony addresses the calculation of PacifiCorp's California-allocated revenue requirement, excluding net power costs (NPC), and the revenue increase requested in PacifiCorp's application. Specifically, I provide testimony on the following:

- The calculation of the approximate $1.06 million revenue increase requested in this general rate case (GRC) representing the increase in current rates required for PacifiCorp to recover its California non-NPC revenue requirement. PacifiCorp recovers its NPC through the Energy Cost Adjustment Clause (ECAC).
- The development of the forecast test year in this case which is the 12 months ending December 31, 2019 (Test Period).
- The presentation of the adjusted results of operations for the Test Period demonstrating that under current rates PacifiCorp will earn an overall return on equity (ROE) in California of 10.08 percent, which is below the ROE requested in this case and the current authorized return.

III. REVENUE REQUIREMENT

Q. What is the revenue requirement to achieve the requested ROE in this case?

A. At current rate levels, PacifiCorp will earn an overall ROE in California of 10.08 percent during the Test Period. This return is less than the 10.6 percent ROE approved by the California Public Utilities Commission (Commission) in PacifiCorp's most recent rate case, Application (A.) 09-11-015 (2011 Rate Case) and also the ROE recommended in Mr. Kurt G. Strunk's testimony in this proceeding (Exhibit PAC/200). PacifiCorp applied the 2017 Protocol allocation method to calculate California's results of operations. This allocation method is discussed in detail in the direct testimony of Mr. Scott D. Bolton (Exhibit PAC/100). Exhibit PAC/1101 provides a summary of PacifiCorp's California-allocated results of operations for the Test Period.

Q. Please explain how you have treated NPC in this filing.

A. As described above, PacifiCorp recovers its NPC through the ECAC and will seek to recover 2019 NPC through the company's 2019 ECAC application. To model only the non-NPC revenue requirement for this case, PacifiCorp prepares an adjustment to remove NPC and NPC-related revenues for the 12 months ended June 2017 from Test Period results. Page 1.1 of Exhibit PAC/1101 shows the non-NPC revenue requirement and the resulting non-NPC-related price change requested in this proceeding.

IV. TEST PERIOD

Q. What test period did PacifiCorp use to determine revenue requirement in this case?

A. The forecast test period used by PacifiCorp in this proceeding is the 12 months ending December 31, 2019.

Q. Why did PacifiCorp select the year ending December 31, 2019 as the Test Period?

A. The use of a 2019 Test Period is consistent with the Commission's previous decision.[1]

The Test Period in this case was selected to best reflect the conditions during which time the new rates will be in effect. In this proceeding, PacifiCorp is

[1] *In the Matter of the Application of PacifiCorp for an Order Authorizing a General Rate Increase Effective January 1, 2011*, A.09-11-015, Decision (D.) 16-09-046, (Sept. 29, 2016).

requesting a rate effective date of January 1, 2019, which is the beginning of the Test Period used by the company in the calculation of the revenue requirement.

Q. Please explain how PacifiCorp developed the revenue requirement for the Test Period.

A. Revenue requirement preparation began with historical accounting information; in this case, PacifiCorp used the 12 months ended June 30, 2017 (Base Period). Each of the revenue requirement components in the Base Period was analyzed to determine if a normalizing rate-making adjustment was warranted to reflect normal operating conditions. The historical information was adjusted to recognize known, measurable, and anticipated events and to include previous Commission-ordered adjustments.

Q. What is the significance of PacifiCorp's method of beginning with historical information?

A. PacifiCorp begins with historical accounting information and makes discrete adjustments to arrive at the Test Period revenue requirement. Beginning with historical information provides a solid foundation that is readily available for audit by all who wish to participate in the case. Individual adjustments are also available for review, to show each adjustment's relevance and accuracy.

Q. Please summarize the process used to adjust the historical accounting information to reflect Test Period revenue and costs.

A. Revenues are adjusted for the effect of applying the current Commission-approved tariff rates to the Test Period load projection. NPC is removed from Base Period results. Historical operations and maintenance (O&M) expenses, excluding NPC, were split into labor and non-labor components. Non-labor costs were adjusted for inflation using nationally-recognized inflation indices provided by Global Insight and for other distinct changes, as described in the individual adjustments, required to reflect conditions expected during the Test Period. Historical labor costs were also adjusted for increases through the end of the Test Period. Contractual increases were used where they exist. Where there are no contracted changes, planning target amounts were used, as stated in Exhibit PAC/1102, Confidential Page 4.2.5. Specific adjustments are described in greater detail later in my testimony and exhibits where I explain the development of the California results of operations.

Q. Does PacifiCorp rely solely on its own projections of future cost increases?

A. No. The adjustment made to account for inflation between the historical period and the Test Period relies on inflation indices published by Global Insight which are developed specifically for electric utilities.

V. CALIFORNIA RESULTS OF OPERATIONS

Q. Please describe Exhibit PAC/1101.

A. Exhibit PAC/1101, which was prepared under my direction, is PacifiCorp's California results of operations report (Report). The Base Period for the Report is the 12 months ended June 30, 2017, which was normalized and used to calculate the revenue requirement for the Test Period. The Report provides totals for revenue, expenses, depreciation, NPC, taxes, rate base, and loads in the Test Period, and the Report presents operating results for the period in terms of both return on rate base and ROE.

Q. Please describe how Exhibit PAC/1101 is organized.

A. The Report is organized into sections marked with tabs as follows:

- Tab 1 Summary contains a summary of California-allocated results according to the 2017 Protocol allocation methodology. Page 1.0 shows the overall price increase requested in this proceeding of approximately $1.06 million.
- Tab 2 Results of Operations details PacifiCorp's overall revenue requirement, showing unadjusted costs for the Base Period and fully normalized results of operations for the Test Period by Federal Energy Regulatory Commission (FERC) account and 2017 Protocol allocation factor.
- Tabs 3 through 8 provide supporting documentation for the normalizing and pro forma adjustments required to reflect on-going costs of PacifiCorp. The contents of each of these tabs are described in more detail below.
- Tab 9 contains the calculation of the 2017 Protocol allocation factors.
- Tabs B1 through B20 contain the historical results for the Base period and are organized by major FERC function.

Tab 3 – Revenue Adjustments

Q. Please describe the information contained behind Tab 3 Revenue Adjustments.

A. Tab 3 begins with the Revenue Adjustment Index which is an overview of assumptions used to project retail revenue and a list of each normalization adjustment to revenues. The numerical summary (page 3.0.2) identifies each adjustment made to actual revenues and each adjustment's impact on the case. Each column has a numerical reference to a corresponding page in Exhibit PAC/1101, which contains a lead sheet showing the impacted FERC account(s), allocation factor(s), dollar amount, and a description of the adjustment.

Q. Please describe the adjustments made to revenue in Tab 3.

A. **Pro Forma Revenues (page 3.1) –** This adjustment normalizes general business revenues by adjusting to the pro forma revenue level for the Test Period based on forecasted loads. Page 3.1.7 shows a breakout of the test period ECAC and GRC revenues which are carried forward to page 1.1. ECAC revenues are not included as a part of this adjustment.

SO_2 Emission Allowances (page 3.2) – The Environmental Protection Agency (EPA) has established guidelines that govern the volume of sulfur dioxide (SO_2) that can be emitted from power plants and granted the issuance of SO_2 emission allowances to cover each ton emitted. Plants that emit more than the allowance prescribed by the EPA guidelines may purchase emission allowances from other companies that have excess allowances. This adjustment removes the sales that occurred in the Base Period and includes the amortization of actual and forecasted sales based on a 15-year amortization period. This is the same methodology used in the 2011 Rate Case.

Renewable Energy Credits (RECs) Revenues (page 3.3) – PacifiCorp participates in a market for green tags or RECs where the tag or "green" traits of qualifying power production facilities can be detached and sold separately from the power itself. These RECs may be applied to meet renewable portfolio standards in various states. Currently, California, Oregon, and Washington have renewable portfolio standards. As such, PacifiCorp does not sell California, Oregon, or Washington eligible RECs. Instead, PacifiCorp uses the renewable output to comply with current-year or future-year renewable portfolio requirements. This adjustment removes base period REC revenues because they relate to other states without renewable portfolio standards.

Wheeling Revenues (page 3.4) – This adjustment reflects the level of wheeling revenues PacifiCorp expects in the Test Period by adjusting the actual revenues in the Base Period for normalizing, annualizing and pro forma changes.

Ancillary Services and Other Revenues (page 3.5) – This adjustment reflects ancillary revenue contract changes in the Test Period, and removes the final month of revenue related to the Bonneville Power Administration (BPA) South Idaho Exchange agreement. The BPA South Idaho Exchange agreement expired in June 2016, but was booked in PacifiCorp's accounting system in July 2016, and are therefore included in unadjusted Base Period results.

Tab 4 – O&M Adjustments

Q. Please describe the information contained behind Tab 4 O&M Adjustments.

A. Tab 4 includes an O&M Adjustment Index (Tab 4 Index) followed by a numerical summary and the specific adjustments. The Tab 4 Index begins on page 4.0.1 with a brief overview of assumptions used to adjust O&M expenses. The numerical summary (pages 4.0.2) identifies each adjustment made to actual expenses and that adjustment's impact on the case. Each column has a numerical reference to a corresponding page in Exhibit PAC/1101, which contains a lead sheet showing the impacted FERC account(s), allocation factor(s), dollar amount, and a brief description of the adjustment.

Q. Please describe the adjustments made to O&M expense in Tab 4.

A. **Miscellaneous General Expense and Revenue (page 4.1) –** This adjustment removes the amortization of the Catastrophic Event Memorandum Account (CEMA) deferral. It also reallocates gains and losses on property sales to reflect the appropriate allocation and corrects the accounts and allocations of certain expenses.

Wages and Employee Benefits (page 4.2) – PacifiCorp has several labor groups, each with different effective contract-renewal dates. PacifiCorp negotiates wage increases with each of these groups separately generally on a multi-year basis. This adjustment recognizes these increases prospectively and adds the impact to O&M accounts. It also normalizes employee benefits and incentive compensation to levels PacifiCorp projects to incur for the Test Period.

Q. Please describe how PacifiCorp computed labor costs for the Test Period.

A. As mentioned above, PacifiCorp's adjustment to labor expense is found on page 4.2, the Wages and Employee Benefits Adjustment. Labor-related costs for the Test Period are computed by adjusting salaries, incentives, benefits, and other costs for changes expected beyond the actual costs experienced in the Base Period. Page 4.2.2 is a numerical summary starting with actual labor and related costs in the Base Period and summarizing the adjustments made to project costs forward to reflect the Test Period level of expense. This summary is followed by the detailed worksheets used to adjust the labor costs forward to the Test Period.

The first step to adjust labor is to annualize salary increases that occurred during the Base Period. This was done by identifying actual wages by labor group by month along with the date each labor group received wage increases. Those increases were then applied to wages that were paid prior to the effective date. The next step is to apply wage increases from July 2017 through December 2019 to the annualized June 2017 salaries to project the Test Period wages. PacifiCorp used union contract agreements to escalate union labor group wages, while increases for non-union and exempt employees were based on planned increases. This calculation is detailed on confidential pages 4.2.3 through 4.2.5, as provided in Confidential Exhibit PAC/1102.

Q. Was an adjustment made to the annual incentive plan payout?

A. Yes. An adjustment was made to the total-company incentive compensation to the Test Period level as shown on page 4.2.2. The Test Period level of incentive compensation is calculated as the three-year average payment rate of PacifiCorp's actual incentive expenses in calendar years 2014 through 2016 multiplied by Test Period wages. PacifiCorp utilizes an incentive compensation program as part of its philosophy of delivering market competitive pay structured in a manner that benefits customers with safe, adequate and reliable electric service at a reasonable cost.

Q. Were employee pension and benefit costs adjusted in this section also?

A. Yes. Consistent with the aforementioned costs, pension expenses and other employee benefit costs were itemized starting with Base Period levels and walked forward to the Test Period.

Q. Were any other components of labor costs adjusted?

A. Yes. Payroll taxes were updated to capture the impact of the changes to employee salaries. This was calculated by applying the projected Federal Insurance Contributions Act tax rates to the net change in salaries and also to reflect the projected change in the social security cap for the Test Period.

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

A. **Insurance Expense (page 4.3) –** This adjustment normalizes injuries and damages expense to a five-year average. This is calculated by taking the average injuries and damages expense accrual to the injuries and damages reserve in cases for which PacifiCorp is seeking recovery offset by the average accruals of outside insurance receivable in cases for which PacifiCorp is seeking recovery. It also adjusts property damage expense to a 10-year average. This is calculated by taking the average property damages for the last 10 years after escalating to 2019 dollars. The CPI-U index was used for the escalation. PacifiCorp is also proposing to establish an insurance reserve account, to which monthly accruals will be made to cover property damages going forward. Establishing an insurance reserve account will lead to rate stability because property damage expense will be accrued to the reserve at an amount based on the 10-year average as calculated above, keeping expenses constant. When property damages occur, they will be charged to the reserve with no effect on expense. If truly catastrophic events occur for which the property insurance reserve is inadequate, PacifiCorp can apply for a CEMA order as is presently done.

Q. Please describe PacifiCorp's proposal in this proceeding with respect to property insurance coverage.

A. The company's captive insurance policy with Berkshire Hathaway Energy[2] expired March 21, 2011. Since that time PacifiCorp has been self-insured for non-transmission and distribution (T&D) property and T&D property losses. This self-insurance method covers O&M related damages. Capital related damages will be recovered as projects are added to rate base.

As described above, the annual accrual amount being established in this proceeding is based on a 10-year average of actual property damage expense. The reserve will be accrued in FERC account 228.1, Accumulated Provision for Property Insurance. When PacifiCorp experiences property damage due to an accident, fire, flood, storm, or other hazard, California customers' share of the expense is recorded against this reserve in FERC 228.1. The reserve will cover

[2] Formerly known as MidAmerican Energy Holdings Company.

costs to repair California's distribution system plus California's share of costs for non-distribution equipment, such as generation or transmission.

Q. How will this new property insurance reserve work in conjunction with the CEMA?

A. In the case of a declared emergency, PacifiCorp has utilized the CEMA to recover property damage expenses from its California customers.[3] The property insurance reserve will work like third-party insurance, in that the reserve will be used to cover costs first. The CEMA would still be limited to cases of a declared emergency and would be used when the reserve balance is inadequate to cover the losses incurred.

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

A. **Generation Overhaul Expense (page 4.4) –** This adjustment normalizes generation overhaul expense in the Base Period using a four-year historical average methodology. Annual expense is restated to June 2017 dollars prior to averaging. For new generating units, which in this case includes Lake Side 2, the four-year average is comprised of the overhaul expense planned for the first four full years the plant is operational. The actual overhaul costs included in the Base Period are subtracted from the four-year average which results in this adjustment.

Revenue Sensitive Items and Uncollectible Accounts (page 4.5) - Expense for uncollectible accounts is adjusted to the Test Period level by applying the historical uncollectible rate to the normalized general business revenue in the Test Period. The rate is calculated by dividing the California uncollectible accounts

[3] A catastrophic event is defined as one which results in official declaration of a disaster by a competent state or federal authority. CAL. PUB. UTIL. COMM'N, Resolution No. E-3238 (1991).

expense in FERC account 904 by the California general business revenues. This adjustment also reflects changes to other tax expense based on the normalized level of general business revenues.

O&M Expense Escalation (page 4.6) – This adjustment increases non-labor O&M expenses for projected inflation through the Test Period. Increases are based on indices produced by Global Insight, which provides a detailed assessment of the electric utility market both historically and into the future. Global Insight indices are based on electric utility costs for materials and services only, which exclude labor expense, according to the Uniform System of Accounts defined by the FERC for major electric utilities and major natural gas pipeline companies. Labor-related expenses were segregated from other non-labor-related expenses to be escalated separately as described earlier in my testimony.

Global Insight indices are prepared at the FERC functional subcategory level and are denoted with their corresponding FERC account number. The individual FERC account level indices are then combined into broader indices representing operation, maintenance, or total operation and maintenance expenses. The Global Insight study is designated as confidential; indices utilized in PacifiCorp's filing are provided in Confidential Exhibit PAC/1103.

Advanced Metering Infrastructure (AMI) O&M Expense Reduction (page 4.7) – This adjustment reduces O&M expenses to reflect net savings anticipated through the implementation of AMI in California. For further discussion on the on-going AMI project in California, please refer to the direct testimony of Mr. David M. Lucas (Exhibit PAC/800).

Safety Regulations Implementation Costs (page 4.8) - This adjustment adds incremental expense and forecasted capital expenditures into results for the test period resulting from amendments to fire safety regulations under Rulemaking 15-05-006 and anticipated amendments to General Order 95 Rule 18 under Rulemaking 16-12-001.

<u>Tab 5 – Net Power Cost Adjustments</u>

Q. Please describe the information contained behind Tab 5 Net Power Cost Adjustments.

A. Tab 5 includes adjustments to items that are generally related to NPC. Specifically, Adjustment 5.1 - Net Power Costs Removal reflects solely NPC and NPC-related revenues that are to be excluded from this case. Recovery of NPC-related costs will be sought through PacifiCorp's ECAC application rather than the GRC. Adjustment 5.2 represents the removal of start-up fuel costs from base rates as PacifiCorp is proposing in this proceeding to include these costs in its ECAC application instead. For details on PacifiCorp's proposal, please refer to the direct testimony of Mr. Michael G. Wilding (Exhibit PAC/900).

The Net Power Cost Adjustment Index on page 5.0.1 is a brief overview of the NPC-related items. The numerical summary (page 5.0.2) identifies the two adjustments made to remove NPC and the adjustments' impact on overall revenue requirement.

<u>Tab 6 – Depreciation and Amortization Expense Adjustments</u>

Q. Please describe the information contained behind Tab 6 Depreciation and Amortization Adjustments.

A. Tab 6 includes the Depreciation and Amortization Adjustment Index (Tab 6 Index) followed by a numerical summary and the specific adjustments. The Tab 6 Index on page 6.0.1 is a brief overview of assumptions used to adjust overall depreciation and amortization expense and reserve. The numerical summary (page 6.0.2) identifies each adjustment made to actual results and that adjustment's impact on the case. Each column has a numerical reference to a corresponding page in Exhibit PAC/1101, which contains a lead sheet showing the impacted FERC account(s), allocation factor(s), dollar amount, and a brief description of the adjustment.

Q. Has there been any changes to the methodology PacifiCorp is using to calculate pro forma depreciation and amortization expense since the last GRC?

A. The methodology utilized to derive pro forma depreciation and amortization expense is consistent with the 2011 Rate Case, but the pro forma depreciation and amortization expense calculations in the 2011 Rate Case were approved based on using depreciation rates from PacifiCorp's 2007 depreciation study.[4] In 2013, PacifiCorp produced a new depreciation study which was approved by all other jurisdictions in the company's service territories, and implemented effective

[4] *In the Matter of the Application of PacifiCorp for an Order Authorizing a General Rate Increase Effective January 1, 2011*, A.09-11-015, All-Party Joint Motion for Commission Approval and Adoption of the Settlement Agreement, Attachment at 3 (June 23, 2010).

January 2014. However, the 2011 Rate Case settlement (Settlement Agreement) stated, that "…adjustments to distribution depreciation rates in use in California will only be made pursuant to a Commission order in a PacifiCorp general rate case."[5] As a result, while other functional depreciation rates from the 2013 study were implemented in California in 2014, the new distribution rates were not implemented at that time. In the current filing, PacifiCorp has applied all depreciation rates from the latest 2013 Depreciation Study in calculating pro forma depreciation and amortization expense (with the exception of the calculation of the company's proposal to accelerate depreciation on coal-fired plants, discussed later in my testimony). The updated distribution deprecation rates are lower than those in PacifiCorp's 2011 Rate Case.

Q. Please describe the Depreciation and Amortization Expense adjustment, and Depreciation and Amortization Reserves adjustment on page 6.1 and 6.2 respectively.

A. The depreciation and amortization expense for the Test Period is calculated by applying functional composite depreciation and amortization rates to projected plant balances by month. Depreciation related to pro forma capital additions is computed from the date the depreciable asset is placed into service. Depreciation rates set in the 2013 Depreciation Study are used to develop Test Period depreciation expense. Depreciation expense also includes the accrual for hydro decommissioning. Details are provided on pages 6.1.2 through 6.1.19.

Accumulated depreciation and amortization balances for the Test Period

[5] *Id.* at 4.

are calculated by walking the June 2017 actual reserve balances forward using the pro forma depreciation and amortization expense, plant retirements, and removal costs as calculated in the Depreciation and Amortization Expense Adjustment, pages 6.1 through 6.1.1 and the Pro Forma Major Plant Additions and Retirements Adjustment, pages 8.5 through 8.5.1. Accruals and planned spending for hydro decommissioning are also included in the adjusted depreciation reserve balance. The reserve balances are calculated on a monthly basis through the Test Period, as detailed on pages 6.2.2 through 6.2.13. Consistent with electric plant-in-service, the accumulated depreciation and amortization reserve balance included in Test Period rate base is stated on a 13-month average basis.

Q. Please explain how PacifiCorp incorporated the acceleration of depreciation on coal-fired facilities into the calculation of revenue requirement in this case.

A. Adjustment 6.3 reflects the incremental depreciation expense of using accelerated accrual rates on coal-fired plants by imputing the incremental annual depreciation expense between the current depreciation rate on coal-fired facilities, and proposed depreciation rates that would have the depreciable lives of these plants ending by 2029 or earlier. Page 6.3.3 of Exhibit PAC/1101 provides a summary table of the change in end of depreciable life for each plant. Incremental reserves are reflected on a 13-month average basis. Tax impacts are also included accordingly. For details on PacifiCorp's proposal for accelerated depreciation on coal-fired facilities, please refer to the direct testimony of Mr. Bolton.

Q. What is the final adjustment included in Tab 6?

A. The final adjustment in Tab 6 is the Depreciation Allocation Correction adjustment. PacifiCorp established a regulatory asset to track and defer any aggregate net increase in allocated depreciation expense resulting from depreciation rate changes in Wyoming, Utah, and Idaho from the implementation of new depreciation rates effective January 1, 2014. The effect of the depreciation rate change was deferred, to be amortized when new customer rates became effective. These accounting entries are recorded on a System Generation factor, but should be reflected on a situs basis to each state respectively. This adjustment corrects the allocation of these amounts from a system basis back to situs assignment. In addition, an accounting entry to correct a depreciation give-back amount in Oregon was incorrectly booked on a system basis, but should also have been situs assigned. This adjustment also corrects the allocation on this accounting entry.

<u>Tab 7 – Tax Adjustments</u>

Q. Please describe the information contained behind Tab 7 Tax Adjustments.

A. Tab 7 includes the Tax Adjustment Index (Tab 7 Index) followed by a numerical summary and the specific adjustments. The Tab 7 Index (page 7.0.1) contains an overview of the assumptions and methodologies applied in this proceeding. The numerical summary on pages 7.0.2 through 7.0.3 identifies each adjustment made to the various tax components and that adjustment's impact on the case. Each column has a numerical reference to a corresponding page in Exhibit PAC/1101, which contains a lead sheet showing the impacted FERC account(s), allocation factor(s), dollar amount, and a brief description of the adjustment.

Q. Please describe the adjustments included in Tab 7.

A. **Interest True-Up (page 7.1) –** This page details the adjustment to interest expense required to synchronize the Test Period interest expense with rate base. This is done by multiplying normalized net rate base by PacifiCorp's weighted cost of debt in this case.

Property Tax Expense (page 7.2) – Property tax expense for the Test Period is computed by adjusting accruals through June 30, 2017, for known or anticipated changes in the assessed values of PacifiCorp's operating property and the corresponding affect such changes will have on property tax expense through December 31, 2019.

Production Tax Credit (page 7.3) – PacifiCorp recognizes federal income tax credits as a result of placing renewable generating plants in service. The federal tax credit is based on the kilowatt hours generated by the plants, and the credit can be taken for the first 10 years of generation from qualifying property. In this rate case, PacifiCorp is proposing that production tax credits be included as part of the calculations in its ECAC mechanism. Details are discussed in the direct testimony of Mr. Wilding. Accordingly, this adjustment removes Base Period production tax credits from results.

Pro Forma Schedule M (page 7.4) – The Base Period Schedule M items were updated for known and measurable adjustments through December 2019. Non-utility items, separate tariff items, and other non-recurring items were removed from the Base Period before updating. Normalizing adjustments such as SO_2 emission allowances were then added. Depreciation differences on capital additions were generated in order to bring the Schedule M items in line with the Test Period. The Schedule M items were then used to develop deferred income tax expenses and balances for the Test Period.

Allowance for Funds Used During Construction (AFUDC) Equity (page 7.5) – This adjustment aligns the amount of AFUDC equity in regulatory income with related tax Schedule M item included in the Test Period.

Pro Forma Deferred Income Tax Expense (pages 7.6) – The non-property-related Schedule M items were used to develop the non-property-related deferred income tax expense. Property-related deferred income tax expense was generated using the capital additions and resulting book and tax depreciation. Normalizing adjustments were added consistent with the Schedule M items.

Pro Forma Deferred Tax Balance (page 7.7) – The deferred income tax expense was then used to develop the deferred tax balance for the Test Period. This adjustment normalizes the accumulated deferred income tax balances to the estimated pro forma 13-month average rate base balance for the Test Period. The allocation of property related deferred income tax balances are also updated consistent with PacifiCorp's model using the Power Tax fixed asset software system. Effects of all the tax bonus depreciation laws passed since the 2011 Rate Case have been reflected in PacifiCorp's model through the Test Year ending December 31, 2019. The table below lists the percentage amounts by year as passed by Congress:

2013	2014	2015	2016	2017	2018	2019
50%	50%	50%	50%	50%	0%	0%

Repairs Deduction Memorandum Account (page 7.8) – This adjustment normalizes the difference between the revenue requirements of the actual repair deductions taken on PacifiCorp's Federal tax returns for the period 2008–2011 to the estimated amounts taken in the 2011 rate case.[6] The cumulative revenue requirement giveback for this adjustment is $372,404 over tax years 2011–2019. This adjustment is the result of the memorandum account established consistent with the terms of the approved Settlement Agreement in PacifiCorp's 2011 Rate Case.[7] This adjustment addresses the balance in the memorandum account and PacifiCorp proposes to close the memorandum account.

Wyoming Wind Generation Tax (page 7.9) – This adjustment normalizes into the test year results the Wyoming Wind Generation Tax that became effective January 1, 2012. The Wyoming Wind Generation Tax is an excise tax levied on wind resources in the state of Wyoming. The tax is assessed at the rate of one dollar for each megawatt-hour of electricity produced from wind resources for sale or trade and is paid by the entity producing the electricity.

Q. How have current state and federal income tax expenses been calculated?

A. Current state and federal income tax expenses were calculated by applying the

[6] *See In the Matter of the Application of PacifiCorp for an Order Authorizing a General Rate Increase Effective January 1, 2011*, A.09-11-015.
[7] *In the Matter of the Application of PacifiCorp for an Order Authorizing a General Rate Increase Effective January 1, 2011*, A.09-11-015, D.10-09-010 at Ordering Paragraph 5 (September 2, 2010).

applicable tax rates to the taxable income calculated in the Report. State income tax expense was calculated using the overall state effective tax rate of 4.54 percent applied to the pre-tax income. Federal income tax expense is calculated using the 21 percent applied to the pre-tax income after the deduction for state income tax expense. The detail supporting this calculation is contained on pages 2.16 through 2.18.

Q. Please address PacifiCorp's Tax Bonus Depreciation Memorandum Account.

A. After the company filed and settled its 2011 Rate Case, Congress enacted two separate extensions of bonus depreciation. First, through the Small Business Jobs and Credit Act of 2010 (SBJA), which was enacted on September 27, 2010, and again with the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (TRA), which was enacted on December 17, 2010. The SBJA extended 50 percent bonus depreciation on qualifying assets, which was already in place for 2009 under the American Recovery and Reinvestment Act of 2009, through 2010. The TRA was signed on December 17, 2010, and extended 50 percent bonus depreciation through December 2012. Further, the TRA provided bonus depreciation of 100 percent for qualifying investments placed in service after September 8, 2010 through December 31, 2011.

Q. Were these new tax laws reflected in the results of PacifiCorp's 2009 California GRC?

A. No. Both the SBJA and TRA were enacted after the June 2010 settlement[8] of

[8] *In the Matter of the Application of PacifiCorp for an Order Authorizing a General Rate Increase Effective January 1, 2011*, A.09-11-015, All-Party Joint Motion for Commission Approval and Adoption of the Settlement Agreement (June 23, 2010).

PacifiCorp's 2011 Rate Case, which was filed in November 2009 and utilized a 2011 test year. Accordingly, the 2011 Rate Case did not reflect the impacts of the new tax laws for either 2010 or 2011 and thereby revenue requirement was not reduced by way of a larger rate base reduction for accumulated deferred income taxes.

Q. Was the Commission concerned about not addressing these new tax laws in GRC proceedings?

A. Yes. For all cost-of-service rate regulated utilities the Commission adopted Resolution L-411 (revised final Resolution L-411A) that established a one-way memorandum account for those utilities, including PacifiCorp, that did not address the TRA in a 2011 or 2012 test year GRC.

Q. Where does PacifiCorp's memorandum account stand today?

A. The memorandum account established by the Commission tracks on a California-jurisdictional, revenue requirement basis: (a) decreases in each impacted utility's revenue requirement resulting from increases in its deferred tax reserve; and (b) other direct changes in revenue requirement resulting from taking advantage of the TRA. This resolution also authorized impacted utilities to use savings from the TRA to invest in certain necessary, additional utility infrastructure, not otherwise funded in rates, within a time frame shorter than would be practicable through the formal application or advice letter processes. The memorandum account period for PacifiCorp is from the date of the original signed resolution (April 14, 2011) through the end of the Test Period. For the test period ended December 31, 2019, PacifiCorp's bonus depreciation memorandum account includes California revenue requirement credit related to new tax laws reflected in the 2011 Rate Case of ($6.3 million) plus the offset for additional utility infrastructure for California of $10.6 million or a net additional revenue requirement shortfall of $4.3 million. This is shown in exhibit PAC/1104. As this is a one-way memorandum account and the company may not recover the revenue requirement shortfall, PacifiCorp proposes to close the account.

Q. Are all tax bonus depreciation laws current through the Test Period in this case?

A. Yes. As stated and shown in the table above, PacifiCorp has incorporated all effects of the enacted tax bonus depreciation laws included in the filed case.

Q. Are there any other changes in tax reflected in this case?

A. Yes. On December 22, 2017, Congress passed and the President signed H. R 1 (Tax Cuts and Jobs Act)[9] setting a new corporate income tax rate of 21 percent where the previous rate was 35 percent.

Q. When does the Tax Cuts and Jobs Act become effective?

A. The Tax Cuts and Jobs Act generally becomes effective for years beginning after December 31, 2017.

Q. What are the other impacts associated with the Tax Cuts and Jobs Act that affect the current GRC?

A. Two other impacts associated with the reduction in the corporate income tax rate exist. A reduction to the corporate income tax rate reduces the tax gross-up, lowering PacifiCorp's overall rate of return. The lower tax rate also reduces the

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[9] H.R. 1, 115th Cong. (2017) (enacted).

accumulated deferred income tax liability related to the use of Modified Accelerated Cost Recovery System accelerated depreciation for all property, which will increase the net rate base balance. Bonus depreciation rules have also changed. Under prior income tax law, projects placed in service in 2018 and 2019 by PacifiCorp would have received 40 percent and 30 percent bonus depreciation, respectively. Projects placed in service in 2020 would have received no bonus depreciation. The new tax reform legislation generally provides that regulated utilities like PacifiCorp will not be allowed to use bonus depreciation on projects placed in service after September 27, 2017.

Q. How is the reduction of accumulated deferred income tax liability achieved?

A. On December 28, 2017, PacifiCorp filed A.17-12-019 requesting authorization to establish a Tax Reform Memorandum Account to track the savings from January 1, 2018 through December 31, 2018. The company included the tax reform savings for 2019 on a going-forward basis in the current GRC.

<u>Tab 8 – Rate Base Adjustments</u>

Q. Please describe the information contained behind Tab 8 Rate Base Adjustments.

A. Tab 8 includes the Rate Base Adjustment Index (Tab 8 Index) followed by a numerical summary and the specific adjustments. The Tab 8 Index on page 8.0.1 begins with a brief overview of assumptions used to adjust rate base components. The numerical summary (pages 8.0.2 through 8.0.3) identifies each adjustment made to actual rate base and that adjustment's impact on the case. Each column has a numerical reference to a corresponding page in Exhibit PAC/1101, which contains a lead sheet showing the impacted FERC account(s), allocation factor(s), dollar amount, and a brief description of the adjustment.

Q. Please describe each of the adjustments to the historical rate base balances.

A. **Cash Working Capital (page 8.1) –** This adjustment supports the calculation of cash working capital included in rate base based on the normalized results of operations for the Test Period. Total cash working capital is calculated by multiplying jurisdictional net revenue lag days by the average daily cost of service. Net lag days in this case are based on a lead lag study recently prepared by PacifiCorp using calendar year 2015 information. Based on the results of the 2015 lead lag study, PacifiCorp experiences 0.92 net revenue lag days in California, requiring a cash working capital balance of approximately $91,000 to be included in rate base.

Trapper Mine Rate Base (page 8.2) – PacifiCorp owns a 21.4 percent share of the Trapper Mine, which provides coal to the Craig generating plant. This investment is accounted for on PacifiCorp's books in account 123.1 (Investment in Subsidiary Company) which is not included as a rate base account. The normalized coal cost from Trapper Mine in NPC includes O&M costs but does not include a return on investment. This adjustment adds PacifiCorp's portion of the Trapper Mine net plant investment to rate base in order for PacifiCorp to earn a return on its investment.

Jim Bridger Mine Rate Base (page 8.3) – PacifiCorp owns a two-thirds interest in the Bridger Coal Company, which supplies coal to the Jim Bridger generating plant. PacifiCorp's investment in Bridger Coal Company is recorded on the books of Pacific Minerals, Inc. Because of this ownership arrangement, the coal mine investment is not included in electric plant in service. This adjustment is necessary to properly reflect the Bridger Coal Company investment in rate base in order for PacifiCorp to earn a return on its investment. The normalized coal costs for Bridger Coal Company in NPC include the O&M costs of the mine but provide no return on investment.

Customer Advances for Construction (page 8.4) – Customer advances were recorded in the Base Period to a corporate cost center location rather than state-specific locations. This adjustment corrects the allocation factors of customer advances.

Pro Forma Plant Additions and Retirements (page 8.5) – To reasonably represent the cost of system infrastructure required to serve our customers, PacifiCorp has identified capital projects that will be used and useful by the end of the Test Period.

Capital additions by functional category are summarized on separate sheets, indicating the in-service date and amount by project. This adjustment reflects 13-month average balances for the Test Period. Projects over $10 million (total-Company basis) are described on pages 8.5.34 through 8.5.38 of Exhibit PAC/1101. In addition, more details on specific capital projects can be found in the direct testimony of other PacifiCorp witnesses, including Mr. Chad A. Teply (Exhibit PAC/400), Mr. Richard A. Vail (Exhibit PAC/700), and Mr. Lucas (Exhibit PAC/800).

Plant retirements were applied to pro forma plant balances to reflect ongoing asset retirements through the Test Period. Retirement levels were calculated using a normalized five-year average methodology. This adjustment incorporates these retirements into Test Period electric plant-in-service balances. A corresponding entry to accumulated depreciation and amortization is included in the calculation of Test Period reserve balances in the Depreciation and Amortization Reserve Adjustment (page 6.2).

Miscellaneous Rate Base (page 8.6) – This adjustment removes fuel stock balances from rate base as a carrying charge on these balances included in PacifiCorp's ECAC. Working capital deposits have been adjusted to projected levels. In addition, prepaid overhaul balances in FERC Account 186 for Lake Side units 1 and 2, Chehalis, and Currant Creek gas plants are walked forward to reflect the continued payments and the transfer of these costs into plant-in-service through the end of the Test Period.

Regulatory Asset Amortization (page 8.7) – This adjustment incorporates known and measurable changes to regulatory assets not addressed elsewhere in the revenue requirement calculation reflected in Exhibit PAC/1101. Two regulatory assets are impacted in this adjustment: electric plant acquisition adjustment, and Cholla transaction costs. Amortization expense is reflected at the level expected in the Test Period and assets are walked forward to Test Period levels on a 13-month average basis.

Carbon Decommissioning Costs Amortization (page 8.8) – Per Advice Letter 496-E, dated January 23, 2015, the Commission approved PacifiCorp's request to establish a Cost Memorandum Account for costs associated with decommissioning the Carbon Power Plant. At the time, PacifiCorp sought no rate making changes, but rather requested for rate making impacts to be addressed in a subsequent rate case. This adjustment adds into rate base the decommissioning costs and accelerated depreciation amounts deferred in this memorandum account. PacifiCorp is assuming a three-year amortization period to coincide with California's three-year rate cycles. The treatment of these decommissioning costs is similar to the treatment of Powerdale decommissioning costs in the last California GRC. This adjustment addresses the balance in the memorandum account and PacifiCorp proposes to close the memorandum account.

Deer Creek Mine Closure (page 8.9) – PacifiCorp ended operations at the Deer Creek Mine as of the end of 2014. Accordingly, assets were retired or sold in May of 2015. This adjustment removes regulatory assets and amortization expenses, as well as any corresponding tax balances from Base Period results.

Q. What is the status of the Joy Longwall Memorandum Account?

A. The Joy Longwall Memorandum Account was established in 2015 with Advice Letter No. 527-E. This memorandum account was used to record the proceeds and costs for the sale of the Joy Longwall to Bridger Coal Company. The current balance of the memorandum account is zero as the longwall was sold at cost. Since the current balance is zero, PacifiCorp is proposing to close this memorandum account.

Prepaid Pension Net Asset (page 8.10) – This adjustment walks forward PacifiCorp's net prepaid asset associated with its pension and other postretirement welfare plans, net of associated accumulated deferred income taxes through the end of the Test Period. Including this balance in rate base compensates PacifiCorp for costs incurred to finance contributions to its pension and other postretirement welfare plans, which on a net basis, have exceeded net periodic benefit cost recognized under Generally Accepted Accounting Principles (GAAP) Accounting Standards Codification 715 (formerly FAS 87 and 106). This GAAP expense is the basis for recovery and does not capture the costs to finance contributions that may be required in excess of GAAP expense based on the pension plan's funding requirements. Funding requirements differ from GAAP expense as such requirements are set forth by the Employee Retirement Income Security Act, including the provisions of the Pension Protection Act of 2006.

Wind Repowering Project Capital Additions (page 8.11) – As part of PacifiCorp's long-term plan to serve customers that continues to build an energy future that is reliable, clean, and affordable, the company is investing significantly to expand the amount of wind power serving customers by 2020. This adjustment adds into rate base the pro forma Wind Repowering project capital additions, net of retirements that are scheduled to be put in-service before the end of the Test Period, on a 13-month average basis. Also included in this adjustment is the incremental operations and maintenance expense of the Wind Repowering project. The direct testimony of Mr. Tim J. Hemstreet (Exhibit PAC/600) and Mr. Rick T. Link (Exhibit PAC/500) discusses Wind Repowering in further detail.

Wind Repowering Capital Additions Annualization (page 8.12) – The previous adjustment adds into results the impact of PacifiCorp's Wind Repowering project, but because pro forma results are prepared on a 13-month average basis, and a significant proportion of the Wind Repowering projects are not scheduled to be placed in-service until October 2019, only a small fraction of the Wind Repowering rate base and expenses are being included as a result of the adjustments made on page 8.11. Therefore, in order to reflect the full impact of the Wind Repowering projects in base rates, this adjustment annualizes amounts added in adjustment 8.11.

Q. Please explain the asset exchange that occurred with Idaho Power Company?

A. In 2014, PacifiCorp filed for an application with the Commission to transfer certain transmission assets between PacifiCorp and Idaho Power Company. This asset exchange was approved by the Commission in D.15-08-037.[10]

Q. Please address how the assets included in the exchange were accounted for in the revenue requirement calculation.

A. Asset ownership that resulted from the Idaho Power Asset Exchange has been fully incorporated in the rate base of the unadjusted data in the Base Period. In accordance with the decision approving the transaction, copies of a listing of the assets exchanged and the final journal entries documenting the transaction have been provided under my Exhibit PAC/1105.

<u>Tab 9 – Allocation Factors</u>

Q. Please describe the information contained behind Tab 9 Allocation Factors.

A. Tab 9 Allocation Factors summarizes the derivation of the jurisdictional allocation factors using the 2017 Protocol allocation methodology. These factors

[10] *In the Matter of the Application of PacifiCorp (U901E) for Approval Under California Public Utilities Code §851 of Asset Exchange with Idaho Power Company,* A.14-12-022, D.15-08-037 (September 3, 2015).

were developed using forecast loads consistent with the loads used in the development of Test Period revenues.

Tabs B1 – B20

Q. Please describe the information contained behind Tabs B1 – B20.

A. Tabs B1 through B20 contain the historical results for the 12-month period ended June 30, 2017, and are organized by major FERC function. The data contained in this section of the exhibit match the unadjusted data found under Tab 2 – Results of Operations.

Q. Please describe Confidential Exhibit PAC/1106.

A. Confidential Exhibit PAC/1106 contains a summary of the latest five years of total-Company data by FERC account and is split into two parts. Part A contains non-escalated actual dollar figures for each FERC account. Part B contains revenue and expense data that has been escalated by Global Insight inflation indices to June 2017 dollar levels. Part B also contains graphs for each FERC account and summary graphs for each FERC function. Since Part B uses Global Insight indices which are considered confidential, this section of the exhibit is provided on a confidential basis. Page 1 of Part A and page 1 of Part B provide more detail regarding this exhibit.

Q. Does this conclude your direct testimony?

A. Yes.