BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

NEVADAD POWER COMPANY

d/b/a NV Energy

2011 General Rate Case

REBUTTAL TESTIMONY
OF
WILLIAM STEVEN SEELYE

DOCKET NO. 11-06006

1. Q. Please state your name, occupation, and business address.

A. My name is William Steven Seelye and my business address is 6001 Claymont Village Drive, Suite 8, Crestwood KY, 40014.

2. Q. Did you submit direct testimony in this proceeding?

A. Yes. I submitted testimony supporting the lead-lag study used by Nevada Power Company d/b/a NV Energy ("Nevada Power" or "Company") to determine its cash working capital requirements.

3. Q. What is the purpose of your rebuttal testimony?

A. I am rebutting the testimonies of Mr. Mathew D. Rice, witness for Regulatory Operations Staff ("Staff") of the Public Service Commission of Nevada ("Commission"), Mr. James R. Dittmer, witness for the Nevada Bureau of Consumer Protection ("BCP"), and Mr. Mark E. Garrett, witness for the Southern Nevada Hotel Group, concerning Nevada Power's cash working capital requirements.

4. Q. Please summarize your rebuttal testimony.

A. Messrs. Rice, Dittmer and Garret have proposed to zero out Nevada Power cash requirements associated with income taxes. In calculating cash working capital on the basis of current income taxes the Company consistently followed the methodology that has been utilized to determine cash working capital since the early 1980s. The intervenors' proposal simply to zero out income taxes in the cash working capital calculation would significantly understate the Company's cash working capital requirements. Having a net operating loss ("NOL") as a result of electing bonus depreciation does not imply that cash working capital requirements are zero, as claimed by Messrs. Rice, Dittmer and Garret. In fact, having an NOL means that Nevada Power's cash working capital requirements are even greater than what the Company proposed to include in rate base. The fact that bonus depreciation results in an NOL does change the way that cash working capital associated with income taxes is calculated. Electing to take bonus depreciation creates a positive cash flow because it reduces the Company's income tax payments. When the Company's operating income is not large enough to take full advantage of the cash flow benefit, having an NOL simply defers the benefit to later years. Therefore, contrary to the arguments of Messrs. Rice, Dittmer and Garret, having an

NOL doesn't Nevada Power reduce cash working capital requirements but rather increases them.

Furthermore, simply zeroing out the cash working capital component associated with income taxes without performing a lead/lag analysis is arbitrary and inconsistent with the standard practice of calculating cash working capital based on a lead-lag analysis.

5. Q. Messrs. Rice, Dittmer and Garret propose to eliminate the cash working capital component of rate base applicable to income taxes. Do you agree with their proposed adjustment?

A. No. Income tax expenses include two components – (1) current income taxes and (2) deferred income taxes. "Current income taxes" represent current payment obligations, whereas "deferred income taxes" represent future payment obligations. Messrs. Rice, Dittmer and Garret failed to determine cash working capital on the basis of current tax expenses, which is the standard practice in the industry and is also the standard practice in Nevada.

6. Q. How are the cash working capital requirements associated with income taxes determined?

A. The cash working capital requirements associated with income taxes are determined by applying the number of lag days related to income tax payments to ***current income taxes***. Under ordinary circumstances, current income taxes would represent a positive amount, meaning that Nevada Power would normally be required to pay income taxes. Therefore, under usual circumstances, the lead days would be multiplied by the current income tax payment resulting in a *reduction* in cash working capital requirements. The reason that income tax payments normally result in a *reduction* in cash working capital requirements is that the lag between the period when income taxes are incurred and when income taxes are paid effectively *reduces* the amount of cash working capital that the Company must contribute to operate the business.

In general, the lag between the date that an *expense* is incurred and the date that the *expense* is paid results in *reduction* in cash working capital; whereas, the lag between the date that a *revenue* item is accrued (i.e., the average date when electric service is provided to customers) and the date that the *revenue* is paid by a customer results in an *increase* in cash working capital. Another way to say this is that expense leads normally result in decreases in cash working capital requirements, whereas revenue lags normally result in increases in cash working capital requirements.

It is important to keep in mind that in terms of the cash working capital calculation, a negative expense, such as negative current income taxes, is no different than a revenue. In terms of the Company's cash flow, a negative expense is no different than a positive revenue. Therefore, the effect on cash working capital as a result of a *negative* expense is the same as the effect on cash working capital as a result of a *positive* revenue.

7. **Q.** **Why are cash working capital requirements for income taxes determined by applying lag days to current income taxes rather than total income taxes?**

A. Deferred income taxes represent the difference between the total income taxes that the Company accrues for ratemaking purposes and the amount of income taxes that are to be paid in a given period of time. Deferred income taxes are generally created as a result of using accelerated depreciation in income tax filings. As explained in greater detail by Ms. Deborah J. Florence, because deferred income taxes are normalized for ratemaking purposes, the total amount of income taxes reflected in revenue requirements are calculated assuming regular straight-line depreciation expenses ("book depreciation). But because the amount of income taxes paid are based on accelerated depreciation, the difference between the amount of income taxes paid and the total amount recorded as expenses for regulatory purposes is recorded as deferred income tax expenses. Consistent with the principles of normalization, accumulated deferred income taxes ("ADIT") are then included in the Company's rate base.

In calculating cash working capital requirements, lag days are not applied to deferred income taxes because ADIT balances are included as a component of rate base. Because ADIT balances are included as a component of rate base (normally as a deduction to rate base), the carrying costs associated with the timing difference between the inclusion of deferred income tax expenses in revenue requirements and the actual payment of the expenses are properly reflected in revenue requirements.

8. Q. Has the Commission ever issued an order directing the Company to determine cash working capital on the basis of current income taxes rather than deferred income taxes?

Yes. In its Order in Docket Nos. 83-1141 and 83-1142, the Commission determined that it is inappropriate to include cash working capital amounts for either depreciation or deferred income taxes. See Order dated October 22, 1984, in Docket Nos. 83-1141 and 83-1142. The portion of the Commission's Order that deals with cash working capital is included as Exhibit Seelye-Rebuttal-1.

9. Q. Has the Company consistently determined cash working capital on the basis of current income taxes rather than deferred income taxes in each rate case filed by Sierra Pacific and Nevada Power subsequent to the Commission's Order in Docket Nos. 83-1141 and 83-1142?

Yes.

10. Q. In this proceeding, why do income taxes result in an addition to cash working capital rather than a reduction to cash working capital, as would normally occur?

A. Due to the Company's election of bonus depreciation allowed by The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, the Company's current income tax expenses are negative. The expense is negative because it represents a benefit to the Company. As explained earlier, the cash flow benefit to the Company of a negative expense is exactly the same as the cash flow benefit of a positive revenue. Therefore, when the lag days are applied in the normal fashion to Nevada Power's current income tax expenses, the Company's cash working capital requirements for income taxes represent an *addition* to rate base. This is no different than applying lag days to revenues. Just as the lag days associated with revenues result in an addition to cash working capital, the lag days associated with these negative income tax expenses also result in an addition to cash working capital. This is because the actual *cash flow* received from either a negative expense or a positive revenue is realized subsequent to the occurrence of the expense or, in the case of revenue, subsequent to the period in which service was provided to the customer. This delay in receiving the cash flow from either a negative expense or positive revenue creates a cash working capital requirement.

In terms of the effect on cash working capital a negative expense is therefore no different than a revenue. Both revenues and the negative income tax expenses resulting from bonus depreciation have the same effect on the Company's cash flows – they are both positive. Therefore, it is appropriate to include the effect of negative current income taxes as an addition to cash working capital just as if these expenses were revenues. Furthermore, it is also consistent with the Commission's long-standing practice of calculating cash working capital on the basis of current income taxes.

11. Q. Does the fact that Nevada Power's election of bonus depreciation results in an NOL justify eliminating cash working capital requirements associated with negative income taxes?

A. No. On the contrary, having an NOL means that the Company will not be able to realize the cash flow benefits of electing bonus depreciation until subsequent years. In other words, because of the NOL the cash flow benefits from Nevada Power's negative income taxes will be pushed out later into the future, which means that Nevada Power will need additional cash working capital to compensate for the delay in being able to receive the cash flow benefits from the bonus depreciation.

The NOL created by the election of bonus depreciation would therefore *increase* the Company's cash working capital requirements by an amount even greater than the cash working capital calculated by simply applying the lag days to current income taxes in a manner consistent with the Commission's longstanding practice. Because bonus depreciation will result in an NOL, the Company will not immediately be able to realize the full benefits of the bonus depreciation but will be required to carry forward the NOL to tax years 2012 - 2014. What this means is that the reduction in income taxes from the election of bonus depreciation will be spread out and delayed over a period of three years. As a result of the NOL, there is an even greater lag between the period when bonus depreciation is recognized and when the Company will actually receive the benefits from the bonus depreciation. The additional lag created by the NOL would thus increase cash working capital requirements by an amount greater than was estimated by the Company in this proceeding.

It is also important to keep in mind that the revenue requirement impact associated with the cash working capital attributable to negative income taxes will be temporary, but customers will receive the benefits of electing bonus depreciation for the entire life of the asset. Customers will receive the benefits of bonus depreciation through the ADIT deduction to rate base over the life of the assets.

12. Q. But aren't these NOLs included in deferred income taxes?

A. No. As of the end of the certification period, the full effect of these NOLs have not been included in ADIT. As further explained by Ms. Florence, while the effect of NOLs will eventually be included in ADIT, they have not been reflected at this point in time. Specifically, the NOLs have not been fully reflected in ADIT as of the end of the certification period. Because the NOLs have not been fully reflected in ADIT, the cash working capital associated with income taxes proposed by the Nevada Power is actually understated and not overstated as claimed by Messrs. Rice, Dittmer and Garret. While Mr. Rice claims that the NOLs have been included in ADIT as a rate base offset (Rice Testimony at pp. 5-6, beginning on line 26 at p. 5), Mr. Dittmer acknowledges correctly that the NOLs have not been included in ADIT as a rate base offset (Dittmer Testimony at p. 33, lines 27-28). Although Mr. Rice and Mr. Dittmer give contradictory statements of fact, they oddly come to the same conclusion about arbitrarily zeroing out income taxes.

13. Q. Is the Company now proposing to increase cash working capital above the amount included in the certification filing?

A. No. While Nevada Power's proposed cash working capital requirements for income taxes are understated, the Company is not proposing to deviate from the Commission's long-standing practice of calculating cash working capital on the basis of current income taxes. It is appropriate to adhere to the methodology has been used to calculate cash working capital for income taxes in each and every rate case since the early 1980s.

14. Q. Is Messrs. Rice, Dittmer and Garret's proposal to eliminate cash working capital associated with current income taxes consistent with the long-standing practice used in Nevada to calculate cash working capital?

A No. The practice in Nevada has been to calculate cash working capital on the basis of current income taxes. Messrs. Rice, Dittmer and Garret's proposal simply to eliminate cash working capital associated with income taxes has the effect of including cash working capital on a portion of deferred income taxes, in clear violation of the Commission's Order in Docket Nos. 83-1141 and 83-1142. Specifically, by arbitrarily zeroing out cash working for income taxes, Messrs. Rice, Dittmer and Garret are proposing to determine cash working capital associated with $169 million of deferred income taxes, in violation of the Commission's practice. The $169 million is the difference between the negative $169 million of current income taxes in the test year and the $0 in income taxes proposed by Messrs. Rice, Dittmer and Garret. The difference between the negative $169 million in current income taxes and the $0 proposed by the intervenor witnesses corresponds to deferred income taxes. The $169 million amount is shown on Schedule G-5 of the Certification Filing.

15. Q. Did Messrs. Rice, Dittmer and Garret perform a lead/lag analysis to determine that the cash working capital associated with income taxes should be set at zero?

A. No. Messrs. Rice, Dittmer and Garret's recommendation to zero out the cash working capital component related to income taxes was not based on a lead/lag analysis. They arbitrarily set the cash working capital amount at zero. The Commission requires that cash working capital be determined on the basis of a lead/lag analysis. None of these witnesses performed any type of lead/lag analysis to determine that the Company's cash working capital requirements associated with income taxes. Messrs. Rice, Dittmer and Garret's proposal is therefore nonstandard, arbitrary and without merit.

16. Q. What is you recommendation concerning cash working capital?

A. I recommend that the Commission approve Nevada Power's proposed cash working capital requirement.

17. Q. Does this conclude your testimony?

A. Yes, it does.