Q. Please state your name, business address, and position with PacifiCorp d/b/a Rocky Mountain Power (the "Company").

A. My name is Henry E. Lay. My business address is 825 NE Multnomah Street, Suite 1900, Portland, Oregon, 97232. I am employed by the Company as corporate controller.

Qualifications

Q. Briefly describe your education and professional experience.

A. I have a Bachelor of Science degree in Accounting from the University of Utah. I have worked for the Company for over 37 years, primarily in corporate accounting management roles. The areas for which I have been responsible include asset\plant accounting, corporate\general accounting, regulatory accounting, and customer accounting. In the past, I have personally prepared depreciation studies for the Company. I have also supervised the independent experts the Company has retained to conduct the current and past depreciation studies.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is as follows:

- I summarize the Company's proposal for new depreciation rates and the effect on annual depreciation expense from applying the proposed depreciation rates to depreciable plant balances. The proposed rates are contained in the Depreciation Study based on projected December 31, 2013 balances performed on behalf of the Company by Mr. John J. Spanos of Gannett

Fleming, Inc. ("Depreciation Study"). The Depreciation Study is provided as Exhibit RMP___(JJS-2).

- I provide background information describing the development of the Depreciation Study and explain why I believe the depreciation rates resulting from the Depreciation Study are accurate and reasonable.
- I explain the impact of the Depreciation Study on Utah as a result of previous regulatory actions.
- I identify and discuss the significant issues considered during the preparation of the Depreciation Study. The disposition of these issues was reflected in the data provided to Mr. Spanos and, in turn, this data formed the basis for the Depreciation Study and the recommended changes in depreciation rates.
- I introduce the other Company witnesses who will testify in this proceeding and provide a brief description of the subject matter on which they are testifying.
- I briefly summarize the Company's recommendations to the Public Service Commission of Utah ("Commission").

Results of the Depreciation Study

Q. Please explain the depreciation rates for which the Company is seeking Commission approval in this proceeding.

A. The Company seeks Commission approval of the depreciation rates contained in the Depreciation Study based on December 31, 2013 projected balances performed by Mr. Spanos. As shown in the Appendix of the Depreciation Study and as summarized in Mr. Spanos' testimony, the Depreciation Study proposes a system-wide increase of 0.37 percent (or 0.70 percent including the accelerated depreciation associated with early retirement of the Carbon plant) to the current composite depreciation rate of 2.54 percent for the Company's electric utility plant, resulting in a new composite depreciation rate of 2.91 percent (or 3.24 percent including the Carbon plant). The specific depreciation rate changes recommended for the components of the composite depreciation rate are set forth in account detail in the Appendix to the Depreciation Study.

Q. Please explain how the depreciation rates were developed.

A. The Company instructed Mr. Spanos to use December 31, 2011, historical data as the basis for his depreciation life study analysis, which was then used to develop depreciation rates based on projected December 31, 2013 balances. This process is further described in Mr. Spanos' testimony.

Q. What is the effect on annual depreciation expense if the depreciation rates recommended by Mr. Spanos are adopted?

A. The effect of applying the recommended depreciation rates to the projected December 31, 2013 depreciable plant balances is an increase in total Company annual depreciation expense of approximately $83.9 million (or $160.8 million including Carbon plant), compared with the level of annual depreciation expense developed by application of the currently authorized depreciation rates to the same plant balances. Annual depreciation expense by functional plant classification is summarized in the Appendix to the Depreciation Study.

Adoption of the depreciation rates proposed in the Depreciation Study results in an increase of approximately $38.1 million (or $70.5 million including the Carbon Plant) in annual Utah jurisdiction depreciation expense, based on projected December 31, 2013 depreciable plant balances. The calculation of the Utah jurisdictional amount under the 2010 protocol methodology is described in Exhibit RMP___(HEL-1).

Q. What does the Company propose as the effective date for implementing the new depreciation rates?

A. The Company's accounting system maintains depreciation rates on a calendar year basis. Therefore, the Company proposes that the new depreciation rates be made effective January 1, 2014, which is the beginning of the next calendar year following the anticipated approval of the study.

Q. Based on an effective date of January 1, 2014, are there previously approved orders which would result in any deferrals of the proposed increase resulting from the proposed rates? If so, please describe.

A. Yes. The Commission order dated September 19, 2012 in Docket Nos. 11-035-200, 12-035-79 and 12-35-80 ("2012 GRC Order") approved a stipulation ("2012 GRC Stipulation") that contains an agreement on the treatment of the non-Carbon plant related depreciation study increase effective January 1, 2014 and also includes an agreement on the treatment of the Carbon plant accelerated depreciation. I describe the impact of both of these items below.

Q. Please describe the treatment of the non-Carbon Plant related depreciation expense increases pursuant to the 2012 GRC Stipulation.

A. The 2012 GRC Stipulation approved by the Commission describes the treatment of the depreciation study in paragraphs 43 through 45. These paragraphs state the following:

- The parties agree that the Commission approved depreciation rates should not be reflected in customer rates in Utah until new base rates are implemented on or after September 1, 2014.[1]
- The Company will be allowed to defer and track for future recovery any aggregate net increase in Utah allocated depreciation expense in excess of $2.0 million annually; or any aggregate net decrease, beginning on the latter of January 1, 2014 or the effective date of the Commission order approving the rate change, until the date that the new deprecation rates are reflected in customer rates.[2]
- The Company should be allowed to recover or be required to refund the deferred depreciation expense over a period not to extend beyond June 30, 2031, with no carrying charge. This does not apply to the accounting treatment of the Carbon Plant.[3]

Because of the 2012 GRC Stipulation and Order, the Company is not seeking to recover any changes related to the depreciation study at this time. The Company will defer any depreciation rate changes per the terms of the stipulation with recovery starting in the next general rate case.

[1] 2012 GRC stipulation, paragraph 43.
[2] 2012 GRC stipulation, paragraph 44.
[3] 2012 GRC stipulation, paragraph 45.

Q. Please describe the treatment of the Carbon Plant related depreciation expense in the depreciation study and how the changes will be treated for ratemaking pursuant to the 2012 GRC Stipulation.

A. In the depreciation study, the Carbon Plant depreciation rate is increased to 67 percent to recover the entire remaining plant balance and estimated removal costs prior to the projected plant closure in 2015. To eliminate the rate shock associated with the decommissioning of the Carbon plant the Company filed for deferred accounting associated with the plant closure, and addressed the issue as part of the 2012 GRC Stipulation. The Carbon plant depreciation issues are addressed in paragraphs 46 through 50 of the 2012 GRC Stipulation.

The 2012 GRC stipulation splits the Carbon plant recovery as follows: 1) recovery of the remaining plant balance; and 2) recovery of the removal costs associated with the Carbon plant.

For the Carbon remaining plant balances, the 2012 GRC Stipulation states "the difference between the depreciation rate effective in 2014 and the depreciation rate based on the prior decommissioning date of 2020 will be included in the Remaining Carbon Balances regulatory asset." The Company will continue to include depreciation expense in rates at the currently approved depreciation rate of 4.18 percent as set in the last depreciation study and used for setting rates in the last general rate case. Any difference between the current rate of 4.18 percent and the new rate used by the Company for depreciation expense (currently estimated at 67 percent) will be recorded as a regulatory asset with recovery through 2020 per paragraph 47 and 48 of the 2012 GRC Stipulation.

The Carbon removal costs will also be excluded from the depreciation rate and recorded as a regulatory asset. The removal costs will be included in the next general rate case and the estimate will be updated based on the best available removal cost projections at that time. The Company will request recovery of the removal costs through 2020 in the next general rate case consistent with the depreciation.

Depreciation Study Background

Q. Please explain the concept of depreciation.

A. There are many definitions of depreciation. The following definition was offered by the American Institute of Certified Public Accountants in its Accounting Research Bulletin #43:

> Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation.

The actual payment for an electric utility plant asset occurs in the period in which it is acquired through purchase or construction. Depreciation accounting spreads this cost over the useful life of the property. The fundamental reason for recording depreciation is to provide for accurate measurement of a utility's results of operations. Capital investments in the buildings, plant, and equipment necessary to provide electric service are essentially a prepaid expense, and annual depreciation is the part of that expense applicable to each successive accounting period over the service life of the property. Annual depreciation is an important and essential factor in informing investors and others of a company's periodic income. If it is omitted or distorted, a company's periodic income statement is distorted and would not meet required accounting and reporting standards.

Q. Why is depreciation especially important to an electric utility?

A. An electric utility is very capital intensive; that is, it requires a tremendous investment in generation, transmission, and distribution equipment with long lives in order to provide electric service to customers. Thus, the annual depreciation of this equipment is a major item of expense to the utility. Regulated electric prices are expected to allow the utility to fully recover its operating costs, earn a fair return on its investment and equitably distribute the cost of the assets to the customers using these facilities. If depreciation rates are established at an unreasonably low or high level for ratemaking purposes, the utility will not recover its operating costs in the appropriate period, which will shift either costs or benefits from current customers to future customers.

Q. Why was it necessary for the Company to conduct the Depreciation Study?

A. It is sound accounting practice to periodically update depreciation rates to recognize additions to investment in plant assets and to reflect changes in asset characteristics, technology, salvage, removal costs, life span estimates, and other factors that impact depreciation rate calculations. The Company conducts depreciation studies as it deems appropriate or as mandated by the Commission. The Company's last Depreciation Study was conducted approximately five years ago. The Company's current depreciation rates in Utah were effective on January 1, 2008, based on a 2007 Depreciation Study. The Commission order approving the stipulation on depreciation rates in Docket 07-035-13 required the Company to file a new depreciation study by February 4, 2013.[4]

Q. Was the Depreciation Study prepared under your direction?

A. Yes. As corporate controller, I have responsibility for the Company's corporate accounting departments and for ensuring compliance with Company accounting policies and procedures. This includes periodic review and study of depreciation rates.

Q. Do you believe that the estimated plant depreciable lives and depreciation rates developed in the Depreciation Study result in a fair level of depreciation expense for customers to reimburse the Company for its investment in electric utility plant and equipment?

A. Yes, I believe that the Depreciation Study is well supported by the underlying engineering and accounting data and that the resulting depreciation rates produce an annual depreciation expense that is fair and reasonable for both financial reporting and ratemaking purposes.

Q. What is the basis for your conclusions about the Depreciation Study?

A. I believe that a good depreciation study is the product of sound analytical procedures applied to accurate, reliable accounting and engineering data. I have reviewed Mr. Spanos' work in preparing the Depreciation Study and I concur with his choice and application of analytical procedures as described in his testimony. With respect to data inputs, the estimated generation plant economic lives used in the study are those provided by the Company as explained in Company Witness Mr. K. Ian Andrews' testimony. Depreciable life estimates for

[4] Order adopting and approving stipulation on depreciation rate changes, Docket No. 07-035-13, page 7.

other types of plant and equipment are based on Mr. Spanos' actuarial analysis of the data and reviewed for reasonableness by the Company. The accounting data has also been carefully and consistently prepared. I recommend approval of the rates contained in the Depreciation Study.

Significant Issues

Q. Please summarize the significant issues you considered in your supervision of the Depreciation Study.

A. The most significant issue considered in the current study relates to the impact of incremental capital additions on the Company's steam generating facilities. These capital additions are the most significant factor creating the increase in depreciation expense. Further explanation of this issue is included in Company Witness Mr. Andrews' testimony.

Q. Is this a new issue in relationship to the steam generating facilities?

A. No, this issue was identified in the last depreciation study where the Company proposed to include projected capital additions into depreciation rates to help mitigate potential future depreciation step increases. The Commission's adoption of depreciation rates arising out of that study did not allow any recognition of additions occurring after the implementation of those rates.

Q. Did the Company consider extending the depreciation lives of the steam generating facilities to mitigate the increase in depreciation expense?

A. Yes, but recognizing the uncertainty regarding the period in which steam generating facilities will be allowed to continue to operate, the Company is continuing to recommend retaining 61 years, as previously approved by the

Commission, as the depreciable terminal life of steam generating facilities where the Company is not a minority owner.

Q. What is the significant issue related to hydroelectric facilities you considered in the Depreciation Study?

A. The prior Depreciation Study based hydroelectric plant terminal lives primarily on Federal Energy Regulatory Commission ("FERC") hydroelectric plant license termination dates. For this study, the Company has continued to use the FERC hydroelectric plant license termination dates and has updated those lives where new licenses have been issued.

Q. What are the other issues related to hydroelectric facilities you considered in this study?

A. The prior 2007 Depreciation Study included removal cost for hydroelectric facilities where the Company has entered into negotiations or settlements to remove those facilities, as well as a decommissioning reserve for minor hydroelectric facilities that may be removed within the next ten years. The Company has updated the Depreciation Study to reflect the current projection for small plants where the Company has estimated some probability of them being decommissioned in the next ten-year period. This reserve is not intended to cover the decommissioning or removal of any large facility.

Q. What is the significant issue related to wind generation facilities in the Depreciation Study?

A. The Company has continued to add renewable resources to its generation portfolio, in compliance with renewable portfolio standards in Utah and other states. With the expansion of the Company's wind generation fleet, the Company has gained more experience related to the operation and maintenance of wind generation facilities. As part of the Depreciation Study, the Company is recommending extending the terminal lives of wind generation facilities by five years. This issue is discussed further in Mr. Andrews' testimony.

Q. What is the significant issue related to gas generation facilities in the Depreciation Study?

A. Since the last Depreciation Study, the Company has experienced a number of required overhauls on its gas generation facilities. This information has been provided to Mr. Spanos and has been included in the Depreciation Study. This experience has resulted in a significant increase in interim retirements, which produced an increase in depreciation rates.

Q. Were there any significant changes in the Depreciation Study related to transmission and distribution plant assets?

A. No. Mr. Spanos was provided the historical data for both transmission and distribution assets including removal costs, salvage, and third party accommodation payments related to removal cost to use in determining the proposed depreciation lives and rates. There were no significant changes outside of those which would normally result from updating the study.

Q. What is the significant issue related to general plant facilities in this study?

A. The Company has opted to apply FERC accounting release 15 to the remainder of communication equipment not previously included. In accordance with this accounting standard, the Company will apply a 24-year life, which is the composite of the lives approved in the last study.

Q. What is the significant issue related to mining facilities in this study?

A. Since the last study, significant changes in underground mining safety requirements coupled with additional geologic analysis have resulted in reduced levels of economically recoverable reserves at the Company's Deer Creek mine. The Company has updated the life of the mine based on its most current information.

Introduction of Witnesses

Q. Who will be testifying on behalf of the Company in support of the Company's Application?

A. Two other witnesses will testify on behalf of the Company: Mr. Spanos, Senior Vice President of Gannett Fleming, Inc. and Mr. Andrews, manager engineering and environmental for PacifiCorp Energy.

Mr. Spanos presents the Depreciation Study and the depreciation rates for which the Company is seeking Commission approval. He describes how the Depreciation Study was prepared and discusses the basis for the recommended changes in depreciation rates.

Mr. Andrews describes the process used by Company engineers to evaluate the current approved plant depreciable lives for steam generating stations. He describes the procedure used to estimate the retirement date for the Company's gas, wind and hydroelectric generating stations. He demonstrates that the estimated retirement dates proposed by the Company for generation plants are reasonable and prudent and are appropriate inputs for Mr. Spanos' depreciation analysis. Mr. Andrews also explains why the rates the Company proposes to include as terminal net salvage, or "decommissioning costs," in the calculation of depreciation rates for generating plants are reasonable and prudent.

Summary of Recommendations

Q. Please summarize your recommendations to the Commission.

A. I recommend that the Commission find that the depreciation rates sponsored by Mr. Spanos in the Depreciation Study based on projected December 31, 2013 balances are fair and reasonable depreciation rates for the Company. I further recommend that the Commission order the Company to implement these depreciation rates in its accounts and records effective January 1, 2014.

Q. Does this conclude your direct testimony?

A. Yes.