Witness OCS – 1D

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power to Change Its Depreciation Rates Effective January 1, 2014	**)**	**Docket No. 13-035-02 Direct Depreciation Testimony of Daniel E. Gimble For the Office of Consumer Services**

June 21, 2013

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND YOUR BUSINESS ADDRESS.

A. My name is Daniel E. Gimble. I am a special projects manager with the Office of Consumer Services. My business address is 160 E. 300 S. Rm. 201, Salt Lake City, Utah.

Q. PLEASE DISCUSS YOUR EDUCATION AND QUALIFICATIONS.

A. I have a B.A. degree with honors in economics and history from Western Michigan University. I also have an M.A. degree in economics from the same university. I completed course work towards a Ph.D. in economics at the University of Utah. In 1987, I joined the Utah Public Service Commission (Commission) Staff and in 1990 was hired by the Office of Consumer Services (Office). In my time with the Office, I have worked in various capacities and have been a manager since 2003.

Q. HAVE YOU APPEARED AS A WITNESS BEFORE THIS COMMISSION IN PRIOR CASES INVOLVING ROCKY MOUNTAIN POWER OR OTHER UTILITIES?

A. Yes. Since 1991 I have testified numerous times in major cases involving Rocky Mountain Power (the Company or RMP) and other utilities providing service in Utah. These cases include general rate cases, merger and acquisition dockets, power cost proceedings, avoided cost cases, EBA proceedings, major plant addition cases and the sale of Qwest's Dex (Yellow Pages) asset. I also prepared and filed testimony on a number of policy issues related to PacifiCorp's 2007 Depreciation Case.

Q. WHAT WAS THE OUTCOME OF PACIFICORP'S 2007 DEPRECIATION CASE IN UTAH?

A. Utah parties stipulated to a decrease in the composite depreciation rate, which reduced Utah depreciation expense by $22.1 million based on December 31, 2006 depreciable plant balances and relative allocation factors. The extension

of coal station lives to an average of 61 years was the key driver in lowering depreciation rates in that proceeding.[1] In its February 4, 2008 order, the Commission adopted the stipulation in its entirety.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE?

A. My direct testimony provides the Office's overall recommendation on the change in depreciation rates and associated expense that should be authorized by the Commission. I also summarize the Office's recommendations on depreciation issues addressed in both Mr. Pous' and my direct testimony. In my direct testimony, I specifically discuss and set forth the Office's policy position on:

- The depreciation method used by the Company;
- The Company's recommended decommissioning cost estimate of $330/kW for the Carbon Plant, which is scheduled for retirement in 2015;
- Whether the small hydro plant decommissioning reserve currently in place should be retained;
- The implementation of any change in depreciation rates ordered by the Commission;
- The process for determining the rate spread to customer classes of any ordered change to depreciation rates and expense; and
- When the Company should prepare and file its next depreciation case.

Q. ARE THE OFFICE'S RECOMMENDATIONS SUPPORTED BY ANOTHER OFFICE WITNESS?

A. Yes. Mr. Jacob Pous, a principal with Diversified Utility Consultants, Inc., is a depreciation expert retained by the Office to analyze the depreciation study and the rates proposed by the Company.[2] In his direct testimony, Mr. Pous recommends a number of adjustments to the Company's proposed depreciation

[1]The reduction in depreciation rates pertaining to steam production (coal plant) represented about $19 million of the total $22.1 million decrease.

[2]Mr. Pous was also retained by the Office to review and assess the reasonableness of PacifiCorp's three previous depreciation filings (Dockets 98-2035-03, 02-035-12, and 07-035-13).

rates for the production and the mass property (transmission, distribution, general) accounts. He also recommends specific adjustments to the Company's proposed depreciation rate for the Carbon Plant.

II. RECOMMENDATIONS

Q. PLEASE SUMMARIZE THE OFFICE'S OVERALL RECOMMENDATION IN THIS CASE?

A. The Office recommends that the Commission reduce the Company's total requested increase in Utah depreciation expense of $70.5 million by $73.6 million. If the Commission were to adopt all of the adjustments proposed by the Office, the result would be a reduction to Utah depreciation expense of $3.1 million. The Office's total adjustment is explained by Mr. Pous in his direct testimony and included in his Tables 1-3 (page 6). Mr. Pous has also prepared summary Exhibit OCS 2.1 that lists the Office's individual adjustments by account.

Q. PLEASE SUMMARIZE THE PRINCIPAL RECOMMENDATIONS CONTAINED IN THE OFFICE'S DIRECT TESTIMONY.

A. The Office's key recommendations are as follows:

- Interim additions should not be allowed for purposes of establishing depreciation rates.
- The Company's $330/kW decommissioning cost estimate for the Carbon Plant is unsubstantiated, lacks credibility and should be rejected by the Commission. Instead, the Commission should adopt the Office's $30/kW decommission cost recommendation for the Carbon Plant.
- The existing small hydro plant decommissioning reserve should be maintained at its current funding level. In its next depreciation case, the Company should recommend whether the hydro reserve should be retained or eliminated and support its recommendation with relevant information (projected retirement dates, decommissioning cost estimates, etc.).

- The application of any change to depreciation rates to the general rates paid by customers should occur when new base rates are established, per the General Rate Case (GRC) Stipulation in Docket 11-035-200.
- The Company should submit a rate spread proposal in its 2014 GRC for allocating the change in depreciation expense resulting from this proceeding to customer classes.
- The Company should file its next depreciation case by early 2018.

III. PACIFICORP'S DEPRECIATION METHOD

Q. WHAT IS THE OFFICE'S CONCERN WITH THE COMPANY'S DEPRECIATION METHOD?

A. The depreciation study prepared by the Company's expert, Mr. Spanos, is based on December 31, 2011 plant balances, reserves and remaining lives. However, for purposes of establishing new depreciation rates, Mr. Spanos uses projected information for "interim additions"[3] to plant through December 31, 2013 to establish plant balances and reserve levels, while keeping the same year-end 2011 average service life and net salvage parameters. The projections of plant balances and reserve levels through year-end 2013 result in a mismatch of information used in setting the depreciation rates versus developing the study. In his direct testimony, Mr. Pous discusses the discrepancy between the study and depreciation rates in greater detail and shows that this issue significantly impacts depreciation expense.

Q. WAS THE ISSUE INVOLVING THE DISCREPANCY OF INFORMATION BETWEEN THE STUDY AND RATES DISCUSSED AT THE MAY 29, 2013 DEPRECIATION TECHNICAL CONFERENCE?

A. Yes. Based on the exchange of perspectives on this issue during the depreciation technical conference, the Office understands that depreciation studies are normally not adjusted for projected "interim additions" to plant in

[3]Interim additions represent estimates of capital expenditures for either replacing or adding new facilities. These additions are referred to as interim because they do not reflect the dollars of investment in service at the end of the test period used for the depreciation study.

setting the depreciation rates. For example, NARUC has taken the position that estimates of interim additions should be excluded from depreciation studies.[4] Because of the speculative nature of interim additions, they have either not been allowed by regulators in the past or limitations have been placed on their use in developing new depreciation rates.

Q. WERE LIMITATIONS PLACED ON PROJECTIONS FOR INTERIM ADDITIONS IN THE STIPULATION RELATED TO PACIFICORP'S 2007 DEPRECIATION CASE?

A. Yes. In its 2007 depreciation case, the Company projected interim additions out five years. While the Office and other parties opposed the recognition of interim additions in the 2007 case, parties agreed to include two months of interim additions for settlement purposes. This resulted in 2007 plant balances being based on ten months of actual interim additions and two months of estimated additions.[5] Thus, projections for interim additions were limited to only two months in the 2007 depreciation case.

Q. DOES THE COMPANY'S EXPERT, MR. SPANOS OF GANNETT-FLEMING, TYPICALLY RECOMMEND THE USE OF INTERIM ADDITIONS TO DEVELOP PROJECTED DEPRECIATION RATES?

A. According to the Company's response to Division data request 7.8, Mr. Spanos has been involved in 14 depreciation cases (13 others plus PacifiCorp) over the past 16 months and has only recommended using estimates of interim additions in the study prepared for PacifiCorp. Thus, it appears that the Company's own expert does not normally use estimates of interim additions in developing depreciation rates.

[4]NARUC's 1968 Publication: Public Utility Depreciation Practices, pgs. 133-134. Also see NARUC's 1996 edition of the depreciation publication, pg 142.
[5]Stipulation on Depreciation Rate Changes, page 12, footnote 1.

Q. WHAT IS THE OFFICE'S RECOMMENDATION ON THIS ISSUE?

A. Interim additions should not be allowed in developing depreciation rates. Consistency of information and data between the depreciation study and the resulting depreciation rates should be maintained. This preserves the integrity of the depreciation study and the calculated rates. As discussed in Mr. Pous' direct testimony, the Office's recommendation comports with the conventional approach in the industry and NARUC's position that interim additions should be excluded from depreciation studies.

IV. CARBON PLANT – DECOMMISSIONING COSTS

Q. PLEASE DESCRIBE THIS ISSUE.

A. The Company's decommissioning cost estimate for the Carbon Plant is $330/kW, which is substantially higher than the $40/kW removal estimate for all other steam plant recommended by its expert, Mr. Spanos. The chief sources for the Company's $330/kW estimate are twofold: 1) a dated, 2004 Carbon Plant removal study prepared by Black and Veatch and 2) a "conceptual" study pertaining to asbestos removal and lead abatement performed by Thermal West.[6] While the Company indicated at the May 29, 2013 technical conference that it may take steps to update Carbon Plant removal studies over the next six-to-nine months, it still seeks an increase in depreciation rates for the Carbon Plant that relies on this extremely high removal cost estimate of $330/kW.

Q. WHAT IS THE OFFICE'S POSITION ON THE COMPANY'S DECOMMISSIONING COST ESTIMATE FOR THE CARBON PLANT?

A. In the process of preparing its depreciation case, the Company had every opportunity to contract with experts to provide an updated decommissioning cost estimate for the Carbon Plant. During the May 29, 2013 technical conference the Company informed parties that updated plant decommissioning studies and

[6]At this point, a complete (detailed) asbestos removal and lead abatement study is not available. Thermal West's "conceptual" estimate is $12.6 million, but no work-papers have been furnished by the Company in support of this estimate. It is unclear to the Office if the Company plans to pay Thermal West to conduct a detailed study relating to asbestos removal and lead abatement and when the results of such a study would be available.

associated cost estimates for the Carbon Plant may not be available for review by the Commission and interested parties until sometime in early 2014. Clearly, the Company has not met its substantial burden of proof to provide evidence in a timely and complete way to support its current $330/kW cost estimate in this proceeding. The Office's position is that the Company's $330/kW removal cost estimate for the Carbon Plant is unsubstantiated, lacks credibility and should be rejected by the Commission.

Q. IS THERE OTHER RELEVANT INFORMATION THE COMMISSION CAN AND SHOULD RELY ON IN DETERMINING WHAT CONSTITUTES A REASONABLE REMOVAL COST ESTIMATE FOR THE CARBON PLANT?

A. Yes. As discussed by Mr. Pous in his direct testimony, there is recent cost information available indicating the costs utilities have actually incurred to decommission thermal plants. Mr. Pous provides several examples of actual removal costs paid by utilities in Nevada, Indiana, and Florida that were significantly lower than the Company's $330/kW estimate for the Carbon Plant. Thus, the costs utilities have actually incurred to have thermal plants decommissioned is an important source of information the Commission should consider when determining removal costs for the Carbon Plant.

Q. WHAT IS THE OFFICE'S DECOMMISSIONING COST RECOMMENDATION FOR THE CARBON PLANT?

A. The Office recommends a decommissioning cost of $30/kW for the Carbon Plant. Our recommendation better reflects actual costs incurred by utilities to decommission thermal plants. In his direct testimony, Mr. Pous explains and provides support for the Office's recommendation.

V. SMALL HYDRO PLANT DECOMMISSIONING RESERVE

Q. PLEASE BRIEFLY EXPLAIN THE PURPOSE OF THE HYDRO PLANT DECOMMISSIONING RESERVE.

A. In its 2007 Depreciation Case, the Company proposed establishing a decommissioning reserve for some of its smaller hydro resources. These hydro facilities faced possible economic, environmental or political challenges that would affect their future operational viability. As part of the stipulation in the 2007 case, parties supported setting up a decommissioning reserve for small hydro facilities (e.g., Powerdale, Condit, etc.) that either had a specific decommissioning agreement or where the Company estimated a probability of decommissioning taking place within the next ten years. However, it is important to note that establishing the reserve did not guarantee the Company favorable rate treatment of hydro decommissioning costs booked under the reserve. Recovery of hydro decommissioning costs was still subject to the prevailing inter-jurisdictional allocation method and a demonstration of prudence by the Company of costs incurred to remove facilities.

Q. DOES THE COMPANY PROPOSE TO MAINTAIN THE HYDRO DECOMMISSIONING RESERVE?

A. Yes. According to Mr. Henry Lay's testimony at page 11, lines 241-244, the Company proposes to retain the small hydro reserve and has updated the Depreciation Study to reflect the current projection for the reserve. When asked by the Office at the May 29, 2013 technical conference where the reserve estimate currently stands, Mr. Lay responded that the annual accrual for the reserve had declined from $3.6 million to $1.8 million to better match the small hydro projects targeted for potential decommissioning.

Q. WHAT SMALL HYDRO PROJECTS ARE PRESENTLY TARGETED FOR POSSIBLE DECOMMISSIONING?

A. There are number of small hydro projects being considered by the Company for future removal, including Fountain Green, Kline Falls and the small East/West Side hydro facilities associated with the Klamath project.[7]

Q. WHAT IS THE OFFICE'S RECOMMENDATON ON WHETHER OR NOT TO RETAIN THE SMALL HYDRO DECOMMISSIONING RESERVE?

A. The Office recommends retaining the small hydro reserve, at the current funding level, until the Company files its next depreciation study. At that time, the Company should provide a recommendation on whether the reserve should be eliminated or extended and, if the latter, the reasons for retaining the reserve. In support of its recommendation, the Company should provide all projections of small hydro plant retirements, related decommissioning costs and any proposed changes to the annual accrual rate. Further, the Commission should clearly state in its order in this case that recovery of hydro decommissioning costs is still subject to the prevailing inter-jurisdictional allocation method and a demonstration of prudence by the Company in an appropriate rate proceeding.

VI. IMPLEMENTATION AND RATE SPREAD

Q. WHAT RATE EFFECTIVE DATE HAS THE COMPANY PROPOSED FOR REFLECTING ANY CHANGE IN DEPRECIATION RATES AUTHORIZED BY THE COMMISSION?

A. The Company proposed a January 1, 2014 effective date for recognizing any ordered change in depreciation rates.[8] This proposed date is consistent with Paragraphs 43-45 (pages 10-11) in the Stipulation in the Company's last GRC (Docket 11-035-200). The GRC Stipulation contains a number of provisions that address the implementation date and other important matters pertaining to any changes to depreciation rates authorized by the Commission in this proceeding. A summary of those provisions is as follows:

[7]Information provided during a June 14, 2013 conference call with Mr. Lay and Mr. Taylor representing the Company.
[8]Lay Direct, page 4, lines 77-78.

- The Company will request a January 1, 2014 implementation date but the effective date for purposes of financial reporting will ultimately be determined by Commission order;
- Any Commission-approved depreciation rates should not be reflected in Utah customer rates until new base rates are established on or after September 1, 2014;
- Annual recovery of any change to depreciation is capped at $2.0 million. The Company will request an accounting order to defer, track and record Utah allocated depreciation expense in excess of $2.0 million annually.
- Recovery or refund of deferred depreciation expense will begin on the rate effective date of the next GRC, as modified by future cost of service studies in future rate cases, and shall be amortized over a period not to extend beyond June 30, 2031, with no carrying charge.
- Any recovery or refund of the depreciation accrual shall be allocated to customers as determined by the Commission in the 2014 GRC.
- Depreciation relating to the Carbon Plant and Klamath Dam facilities shall not be included in the base (non-Carbon) depreciation deferral account.
- Regarding the Carbon Plant, separate deferred accounting treatment is identified in the GRC Stipulation. Specifically, two regulatory assets were established for 1) the remaining, un-depreciated plant balance and 2) estimated decommissioning costs to remove the Carbon Plant from service. The Company carries the burden of proof to demonstrate prudence of costs for each regulatory asset.

Q. PLEASE DISCUSS THE OFFICE'S UNDERSTANDING OF THE PROCESS SET FORTH IN THE STIPULATION FOR SPREADING ANY CHANGE IN DEPRECIATION RATES AMONG CUSTOMER CLASSES.

A. In the 2014 GRC, the Company is required to file and support a proposal for spreading the change in depreciation costs resulting from any change in

depreciation rates to customer classes. Parties would then have an opportunity to analyze whether the Company's recommendation(s) adhere to key cost-of-service principles (cost causation, fairness, gradualism, etc.) and submit their own rate spread proposals for consideration. After the rate effective period associated with the 2014 GRC, any recovery or refund of deferred depreciation expense would be subject to cost-of-service studies and spread proposals submitted by parties for consideration in future GRCs.

Q. PLEASE EXPLAIN WHY THE OFFICE VIEWS THE ISSUE OF RATE SPREAD AS IMPORTANT.

A. The vast majority of the Company's proposed increase in depreciation rates pertains to FERC accounts in the production category.[9] Since certain rate schedules have more cost-of-service responsibility for cost increases in the production accounts, it is important that the Commission determine a fair and cost-based allocation of any changes in depreciation rates and associated expense.

VII. FUTURE DEPRECIATION CASES

Q. WHEN SHOULD THE COMPANY PREPARE AND FILE ITS NEXT DEPRECIATION CASE IN UTAH?

A. Since 1998, the Company has filed depreciation cases in Utah and its other states about every five years. Unless there is major event such as climate change legislation that affects the economic operation of the Company's coal units, the Office is comfortable with the recent pattern of filing a depreciation case every five years. Given the frequency with which the Company has filed GRCs in Utah and the fact that depreciation represents a major expense item, the Office would not recommend going longer than five years to review and possibly update the Company's depreciation rates.

[9]The Company actually proposes small net decreases for the FERC accounts related to transmission, distribution and general plant.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.