Q. Are you the same Henry E. Lay that submitted direct testimony in this proceeding?

A. Yes, I am.

Purpose of Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the following recommendations made by Office of Consumer Services ("OCS") witness Mr. Daniel Gimble and by the Utah Division of Public Utilities Commission's ("DPU") consultant Mr. William Dunkel.

- Whether the small hydro plant decommissioning reserve currently in place should be retained.
- 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 No. 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.
- When the Company should prepare and file its next depreciation case.
- Mr. Dunkel's testimony proposal to remove the terminal life on mining equipment and why that is not appropriate.

- Changes to the depreciation study agreed to or proposed in other states which should be considered in the Utah proceeding and other issues which have been identified as the result of intervener discovery.

Q. What action does Mr. Gimble propose related to the small hydro plant decommissioning reserve?

A. Mr. Gimble proposes retaining the small hydro reserve, at the current funding level, until the Company files its next depreciation study at which time the Company should provide a recommendation on whether the reserve should be eliminated or extended.

Q. Do you agree with Mr. Gimble's proposal?

A. Not entirely. The Company agrees with Mr. Gimble's proposal to retain the reserve, but the Company believes that the accrual level should be reduced to reflect current projections as proposed in the study.

Q. Mr. Gimble summarizes the depreciation section of the stipulation in his testimony in the Company's last GRC (Docket No. 11-035-200). Does Mr. Gimble's summary accurately reflect the provisions of the Stipulation?

A. Not entirely. While Mr. Gimble's summary is generally correct, his statement that "annual recovery of any change to depreciation is capped at $2.0 million" is incorrect. There is nothing in the Stipulation that caps annual recovery of depreciation expense at $2.0 million or any other amount. What was agreed to in the Stipulation was that new depreciation rates have an effective date of January 1, 2014, for purposes of financial reporting (unless a different date was determined by Commission order) and that 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 (see

Stipulation paragraph 43). The Stipulation also states that the Company would only request a deferral for the increase in Utah allocated annual depreciation expense in excess of $2.0 million. In other words the Company agreed to not seek deferral or recovery of the first $2.0 million increase on annual depreciation expenses during the deferral period.

Paragraph 44 of the Stipulation states:

> The Parties request Commission approval for the Company to establish an accounting order that will allow it to monthly defer and track (i) for future recovery, any aggregate net increase in Utah allocated depreciation expense in excess of $2.0 million annually, or (ii) for refund to customers, any aggregate net decrease in Utah allocated depreciation expense, for the period beginning on the latter of January 1, 2014, or the effective date of the Commission Order approving new depreciation rates ("Depreciation Order"), until the date that new depreciation rates are reflected in customer rates on or after September 1, 2014.

Q. Do you agree with Mr. Gimble's representation that, "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"?

A. Yes. As stated in Paragraph 45 of the Stipulation, the Company will propose an allocation of any deferred depreciation expense in the 2014 GRC as part of its cost of service filing.

Q. Mr. Gimble states that OCS would not recommend going longer than five years to review, and possibly update, the Company's depreciation rates. When does the Company plan to file its next depreciation study?

A. The Company plans to file its next depreciation study within the next five years.

Q. Does PacifiCorp agree with Mr. Dunkel's claim that "it is reasonable to expect that PacifiCorp will continue to use coal mining equipment after 2019"?

A. No. Deer Creek mine reserves will be depleted in 2019. The depreciation study plans that assets will have been depreciated to an estimated salvage amount net of transfer costs.

Q. Has PacifiCorp finalized plans to extract coal from the Cottonwood lease tract?

A. No. The timing and entity that will mine the reserve is undetermined at this time.

Q. Does PacifiCorp agree with Mr. Dunkel's assertion that by changing the mine's life to 2019, equipment that may have "normal life" remaining would be depreciated in 2019 and could continue in service wherever PacifiCorp is mining coal after 2019?

A. No. The age and condition of Deer Creek mine's assets are projected to be near the end of their "normal life" and equipment asset classes have been depreciated to an amount net of salvage. Approximately 40 percent of the mining equipment investment at Deer Creek is beyond its normal life. Equipment availability levels are being maintained through an aggressive maintenance program. For example, the existing longwall section equipment was rebuilt in 2010 to support extraction of the remaining Deer Creek mine reserves and has a limited life due to metal fatigue and hydraulic cylinder wear. Due to the wide-expanses of the mine, much of the mining equipment investment consists of the underground infrastructure (haulage conveyors, electrical power supply and de-watering systems) wherein removal cost will offset a portion of the salvage value.

Q. Are there changes agreed to in other states which should be considered in the Utah proceeding?

A. Yes, the Company reached a settlement agreement with the state of Oregon which resulted in changes on system allocated assets that are assigned to Utah. To maintain consistency on system allocated assets I recommend making the same modifications to the filed depreciation rates in Utah.

Q. Would you please summarize the changes being proposed?

A. The Company proposes to modify the Iowa Curves used in developing depreciation rates which resulted in lengthening the remaining lives for gas generation prime movers, transmission station equipment, supervisory equipment and overhead conductors and devices. The Company also proposes to modify the net salvage percentages on gas generation accessory electric equipment and miscellaneous power plant equipment: and mining preparation plant and longwall equipment. The detail of these changes is provided in Exhibit RMP___(HEL-1R).

Q. Are these changes in the best interest of Utah customers?

A. Yes, as shown in the exhibit, these changes produce an overall reduction to depreciation expense while maintaining consistency on system allocated assets for the Company.

Q. Are there any other issues which have been identified as the result of intervenor discovery?

A. Yes. During the discovery process, the Company responded to questions asked regarding the life the Company has assigned to the James River generation facility. In the study the Company assigned a terminal life of December 31, 2016. In response to questions, the Company determined that the lease on that facility expires December 31, 2015. Since the Company does not intend to renew the lease as discussed by Mr. K. Ian Andrews, it hereby requests that the depreciation study be modified to reflect the lease termination date of December 31, 2015.

Q. Are there issues related to the recovery of the removal costs of Carbon Plant beyond those described by Mr. Andrews?

A. Yes, as explained by Mr. Andrews, the estimated removal cost of Carbon Plant is a work in progress. As such, the Company is willing to adjust the amount based on more recent estimates for the purposes of this study, but it is important to understand that as these estimates mature, they will change. The Company intends to continue to update this estimate as new information becomes available with the ultimate intention to seek recovery of actual costs prudently incurred for the final removal of Carbon Plant. The Company feels the order in Docket No. 12-035-79 provides for that capability. As such the Company is reducing its proposed removal cost.

Q. Does this conclude your rebuttal testimony?

A. Yes.