

1 **Q. Please state your name, business address and present position with PacifiCorp**
2 **dba Rocky Mountain Power (the “Company”).**

3 A. My name is Steven R. McDougal. My business address is 1407 West North Temple
4 Street, Suite 330, Salt Lake City, Utah 84116. My present position is Director of
5 Revenue Requirement for PacifiCorp.

6 **Q. Please briefly describe your education and business experience.**

7 A. I received a Bachelor of Science degree in Accounting and a Master of Accountancy
8 degree from Brigham Young University with an emphasis in Management Advisory
9 Services. I have also attended various educational, professional, and electric-
10 industry related seminars in connection with my employment.

11 I have been employed with PacifiCorp and its predecessor, Utah Power and
12 Light Company (the “Company”), since 1983. My experience includes various
13 positions within regulation, finance, resource planning and internal audit. My
14 primary responsibilities currently include overseeing the calculation and reporting
15 of the Company’s regulated earnings or revenue requirement, assuring that the
16 inter-jurisdictional cost allocation methodology is correctly applied, and explaining
17 these calculations to regulators in the jurisdictions in which the Company operates.

18 **Q. Have you previously testified before this Commission or other state public**
19 **utility commissions?**

20 A. Yes. I have provided testimony in many dockets before this Commission. I have
21 also provided testimony before the California, Idaho, Oregon, Washington and
22 Wyoming public utility commissions.

23 **Summary of Testimony**

24 **Q. Please summarize your testimony.**

25 A. I explain the Company's overall accounting process related to the proposed
26 implementation of programs authorized by Utah Senate Bill 115 ("SB115"), the
27 Sustainable Transportation and Energy Plan Act ("STEP"), signed into law on
28 March 29, 2016. My testimony describes the following:

- 29 • The current approach of Utah Demand Side Management ("DSM")
30 accounting, and changes proposed to be effective January 1, 2017
- 31 • The accounting related to the new Plant Accelerated Depreciation
32 Fund
- 33 • Requested accounting changes associated with the STEP programs,
34 including how the Company will track and report STEP collections and
35 expenditures

36 **Q. Please summarize the treatment of DSM and STEP collections.**

37 A. DSM and STEP collections will be combined into a single customer surcharge on
38 customer bills. However, the collections for the DSM and STEP will be tracked in
39 two separate balancing accounts.

40 The DSM collection rate will be set by the Commission. The Company will
41 analyze the existing DSM balance and projected DSM expenditures, and with input
42 from the DSM steering committee will make a filing with the Commission for
43 approval of proposed DSM rate changes. The treatment of the DSM balance is
44 addressed later in my testimony.

45 The STEP collection rate will be set to collect \$10 million per year.
46 Although the STEP collections are combined with DSM in the same customer
47 surcharge, they will be tracked in a separate balancing account. The tracking of
48 STEP dollars is addressed later in my testimony, as well as in
49 Exhibit RMP___(SRM-1).

50 **Proposed DSM Accounting**

51 **Q. Please summarize the DSM accounting changes associated with STEP.**

52 A. STEP allows the Company to request a change to the current accounting treatment
53 of expensing DSM program costs and begin capitalizing such costs, with
54 amortization over a ten year period.

55 **Q. What is the current accounting treatment for DSM activities?**

56 A. DSM program costs and customer collections are tracked using a regulatory
57 balancing account, where costs debit the account and collections credit the account.
58 Since collections are based on customer energy usage and expenditures are
59 variable, periodic rate reviews are used to target a zero account balance. The rate
60 review process primarily considers the current account balance, planned DSM
61 costs, and expected retail sales volumes.

62 **Q. If approved, please describe how the proposed accounting for DSM would
63 change starting January 1, 2017.**

64 A. Effective January 1, 2017, PacifiCorp would begin to capitalize monthly DSM
65 expenditures. Each monthly capitalization will carry a ten year amortization period.
66 The difference between the DSM expenditures and the amortization expenses
67 related to the capitalized DSM expenditures will create a regulatory asset.

68 The difference between customer collections from the surcharge
69 attributable to DSM programs and the monthly amortization expense from the
70 capitalized DSM expenditures will create a plant accelerated depreciation fund or
71 regulatory liability that, upon Commission determination, may be used to
72 depreciate thermal generation plant as described later in my testimony.

73 **Q. What will happen on December 31, 2016, to the existing DSM balance?**

74 A. The DSM balance outstanding at December 31, 2016 will be carried forward as a
75 beginning balance of the 2017 DSM program. On January 1, 2017, any carryover
76 balance will be added to or subtracted from the January DSM collections to
77 calculate the net collections for the month.

78 **Q. Is this accounting consistent with the STEP legislation?**

79 A. Yes. The Utah Code, Section 54-7-12.8(2) states the following:

80 (2) (a) As provided in this section, the commission may approve a
81 tariff under which an electrical corporation includes a line item charge on
82 the electrical corporation's customers' bills to recover costs incurred by the
83 electrical corporation for demand side management.

84 (b) The commission shall authorize a large-scale electric utility that
85 is allowed to charge a customer for demand side management under
86 Subsection (2)(a) to:

87 (i) if requested by the large-scale electric utility, capitalize
88 the annual costs incurred for demand side management provided in
89 Subsection (2)(a);

90 (ii) amortize the annual cost for demand side management
91 over a period of 10 years;

92 (iii) apply a carrying charge to the unamortized balance that
93 is equal to the large-scale electric utility's pretax weighted average
94 cost of capital approved by the commission in the large-scale
95 electric utility's most recent general rate proceeding; and

96 (iv) recover the amortization cost described in Subsection
97 (2)(b)(ii) and the carrying charge described in Subsection
98 (2)(b)(iii) in customer rates.¹

99 **Q. What is the duration of this change?**

100 A. This change in the accounting for DSM will become effective January 1, 2017 with
101 no anticipated end date. Going forward, the Company anticipates capitalizing and
102 amortizing DSM costs over 10 years rather than expensing them in the year they
103 occur to better align the energy savings that occur from DSM programs over their
104 lives with the program costs.

105 **Plant Accelerated Depreciation Fund**

106 **Q. How is the monthly contribution to the plant accelerated depreciation fund**
107 **calculated?**

108 A. On a monthly basis the difference between the amount the Company collects for
109 DSM and the Company's DSM amortization expense plus any carrying charges will
110 be credited to a regulatory liability account to be used to depreciate thermal
111 generation plant.²

112 **Q. How will the funds be utilized?**

113 A. Utah code states that the fund should be used as follows

114 (b) (i) The commission may authorize the large-scale utility to use
115 the regulatory liability described in Subsection (5)(a)(ii) to depreciate
116 thermal generation plant for which the commission determines
117 depreciation is in the public interest for compliance with an environmental
118 regulation or another purpose.³

¹ Utah Code Section 54-7-12.8 (2).

² Utah code Section 54-7-12.8 subsection (5)(a).

³ Utah code Section 54-7-12.8 Subsection (5)(b)(i).

119 Consistent with the legislation, the Commission needs to determine whether the
120 depreciation is in the public interest. Therefore, the Company will make a filing
121 with the Commission requesting the use of the funds in response to environmental
122 regulation or for another purpose the Company believes is in the public interest.
123 The final authorization to use the funds will come from the Commission.

124 **Q. What are the accounting implications of an early plant / unit closure and how**
125 **will carrying charges be applied?**

126 A. When a plant/unit is approved by the commission for early closure, the reduced
127 plant life will require an acceleration in depreciation expense. The Company will
128 work with the Commission to determine the amount of accelerated depreciation to
129 be recovered utilizing the accelerated depreciation funds.

130 The journal entries will debit a regulatory liability contra account by the
131 same amount as the accelerated depreciation expense. Monthly carrying charges
132 will be calculated based on the regulatory liability balancing account without
133 including the reduction from the regulatory liability contra account. This will
134 continue until the reduced rate base associated with the accelerated depreciation is
135 included in a rate proceeding. Once the accelerated depreciation is reflected in
136 revenue requirement, the balance in the regulatory liability contra account will be
137 cleared, the regulatory liability account will be reduced, and the carrying charge
138 will be calculated using the reduced regulatory liability balance.

139 **Q. How will carrying charges be calculated and applied to regulatory asset and**
140 **liability accounts associated with capitalized DSM?**

141 A. Both the capitalized DSM regulatory asset and the plant accelerated depreciation
142 fund regulatory liability accounts will receive a carrying charge rate equal to
143 PacifiCorp's pretax weighted average cost of capital approved by the Commission
144 in its most recent general rate proceeding. Monthly carrying charges for the
145 regulatory asset and regulatory liability are netted against each other and any
146 remaining amount is applied to the regulatory account which carries the greater
147 balance.

148 **STEP Program Accounting**

149 **Q. What is the accounting treatment of STEP Pilot program expenditures which**
150 **do not result in Company owned assets or are not used for Gadsby**
151 **Curtailment?**

152 A. STEP Pilot program expenditures that do not result in Company owned assets or
153 are not used for Gadsby curtailment will be fully expensed in the period in which
154 they are incurred so long as cumulative expenditures do not exceed cumulative
155 surcharge collections. If cumulative expenditures do exceed cumulative collections,
156 the excess expenditures will reside as a regulatory asset in the balancing account
157 until customer collections are sufficient to clear the expenditures.

158 **Q. What is the accounting treatment of STEP Pilot program expenditures which**
159 **result in Company owned assets?**

160 A. STEP Pilot expenditures that result in Company owned assets will be recorded as
161 Contributions in Aid of Construction ("CIAC"). This will occur through journal

162 entries that debit the STEP Pilot regulatory balancing account and credit capital
163 project expenditures. This will result in capital assets with either a reduced asset
164 basis for projects partially funded by a STEP Pilot program, or a zero asset basis
165 for projects fully funded by the STEP Pilot program.

166 **Q. What is the accounting treatment of the Gadsby Curtailment STEP Pilot**
167 **program expenditures?**

168 A. For STEP Gadsby curtailments, net power costs will be increased by the market
169 purchase required to replace the curtailed generation from Gadsby. Any incremental
170 cost that results from a STEP Gadsby curtailment will be charged to the STEP Pilot
171 regulatory balancing account with an offsetting reduction to net power costs, thus
172 making system power costs neutral in relation to the Gadsby curtailment.

173 **Q. How will the Carrying Charge rate on STEP Pilot programs be determined?**

174 A. As stated in paragraph 10 of the application in this docket (Docket No. 16-035-36),
175 the Company requests the Commission authorize the Company to use the carrying
176 charge amount as determined in Docket No. 15-035-69.

177 **Q. How will STEP pilot program costs be tracked?**

178 A. The Company has prepared Exhibit RMP____(SRM-1) describing the internal
179 accounting associated with the STEP program. This is the same document Exhibits
180 C and D to the Application refer to as the overarching Utah STEP accounting
181 document. This document describes the Company accounting treatment for the
182 STEP program, including the following:

- 183 • The STEP fund categories
- 184 • The accounting treatment for STEP program expenses

- 185 • The accounting treatment for STEP related capital expenditures
- 186 • Charges not eligible for STEP funding
- 187 • The STEP internal project tracking numbers

188 **Q. What will happen on December 31, 2016 to existing balances in the Utah Solar**
189 **Incentive Program (USIP) balancing account?**

190 A. On December 31, 2016, any remaining balance in the USIP balancing account will
191 be carried forward as a beginning balance for the combined USIP and STEP Pilot
192 programs balancing account. This USIP amount will be separately tracked as part
193 of the STEP accounting procedures described in RMP___(SRM-1). Beginning
194 January 1, 2017, the carry forward USIP balance will be subject to the same
195 carrying charge rates that will apply to the STEP Pilot programs.

196 **Q. Can you describe how STEP reporting will occur?**

197 A. The Company will file with the Commission annually, at the same time as the
198 year-end results of operations report, a report on the STEP balances for the prior
199 year. The report will show the annual collections, spend and committed funds in
200 total and by STEP category. If requested by parties, the Company will schedule a
201 technical conference after the report has been filed to discuss the STEP Pilot
202 programs and the report of STEP balances and the expenditures made during the
203 year.

204 **Q. Does that conclude your Supplemental testimony?**

205 A. Yes.