

Phillip J. Russell (0445)  
JAMES DODGE RUSSELL & STEPHENS, P.C.  
10 West Broadway, Suite 400  
Salt Lake City, UT 84101  
Telephone: 801-363-6363  
Email: prussell@jdrslaw.com

*Counsel for the Utah Association of Energy  
Users*

---

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

---

Application of Rocky Mountain Power, a Division of PacifiCorp, for Authority to Change Its Depreciation Rates Effective January 1, 2021	<b>Docket No. 18-035-36</b>
--	-----------------------------

---

**PREFILED PHASE II DIRECT TESTIMONY OF**

**KEVIN C. HIGGINS**

---

The Utah Association of Energy Users (“UAE”) hereby submits the Prefiled Phase II Direct  
Testimony of Kevin C. Higgins in this docket.

DATED this 2<sup>nd</sup> day of September 2020.

JAMES DODGE RUSSELL & STEPHENS



---

Phillip J. Russell  
*Counsel for the Utah Association of Energy Users*

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 2<sup>nd</sup>

day of September 2020 on the following:

### ROCKY MOUNTAIN POWER

Jacob McDermott      jacob.mcdermott@pacificorp.com  
Emily Wegener        emily.wegener@pacificorp.com  
Jana Saba              jana.saba@pacificorp.com  
                              Datarequest@pacificorp.com  
                              Utahdockets@pacificorp.com

### DIVISION OF PUBLIC UTILITIES

Chris Parker          chrisparker@utah.gov  
William Powell        wpowell@utah.gov  
Erica Tedder          etedder@utah.gov  
Patricia Schmid        pschmid@agutah.gov  
Justin Jetter          jjetter@agutah.gov

### OFFICE OF CONSUMER SERVICES

Michele Beck         mbeck@utah.gov  
Cheryl Murray        cmurray@utah.gov  
Steven Snarr          ssnarr@agutah.gov  
Robert Moore         rmoore@agutah.gov

### WESTERN RESOURCE ADVOCATES

Sophie Hayes         sophie.hayes@westernresources.org  
Nancy Kelly          nkelly@westernresources.org  
Steven S. Michel      smichel@westernresources.org  
Penny Anderson       penny.anderson@westernresources.org

### UTAH CLEAN ENERGY

Hunter Holman        hunter@utahcleanenergy.org  
Sarah Wright         sarah@utahcleanenergy.org

### SIERRA CLUB

Julian Aris            julian.aris@sierraclub.org  
Gloria Smith         gloria.smith@sierraclub.org  
Ana Boyd              ana.boyd@sierraclub.org

/s/ Phillip J. Russell

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

Application of Rocky Mountain Power, a )  
Division of PacifiCorp, for Authority to )  
Change Its Depreciation Rates Effective ) **Docket No. 18-035-36**  
January 1, 2021 )

**Phase II Direct Testimony of Kevin C. Higgins**

**On Behalf of the**

**Utah Association of Energy Users**

**September 2, 2020**

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Kevin C. Higgins. My business address is 215 South State Street, Suite 200,  
4 Salt Lake City, Utah, 84111.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private  
7 consulting firm specializing in economic and policy analysis applicable to energy  
8 production, transportation, and consumption.

9 **Q. ARE YOU THE SAME KEVIN C. HIGGINS WHO PREVIOUSLY PROVIDED**  
10 **SURREBUTTAL TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE**  
11 **UTAH ASSOCIATION OF ENERGY USERS (“UAE”)?**

12 A. Yes.

13 **Q. WHAT IS THE PURPOSE OF YOUR PHASE II DIRECT TESTIMONY?**

14 A. My Phase II Direct Testimony addresses the appropriate measurement of the retired asset  
15 value for the 11 repowered wind projects approved by the Commission in Docket No. 17-  
16 035-39, plus the Leaning Juniper repowering project (together “Repowered Wind  
17 Projects”). Paragraph 19 of the Stipulation in this case reserves this issue for  
18 consideration in this Phase II of the proceeding.

19 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING**  
20 **THE APPROPRIATE MEASUREMENT OF THE RETIRED ASSET VALUE**  
21 **FOR THE REPOWERED WIND PROJECTS?**

22 A. Rather than effectively freezing the value of the Repowered Wind Projects' assets when  
23 each asset is retired until January 1, 2021, the *de facto* "value" of the retired assets should  
24 continue to be reduced through that time to reflect the depreciation expense associated  
25 with these assets in current rates. This treatment would ensure that customers get the  
26 proper benefit from continuing to pay off these assets between the retirement date and the  
27 rate effective date in this case.

28

29 **II. MEASUREMENT OF THE RETIRED ASSET VALUE FOR THE**  
30 **REPOWERED WIND PROJECTS**

31 **Q. PLEASE EXPLAIN WHY YOU ARE ADDRESSING THE ISSUE OF RATE**  
32 **BASE ASSOCIATED WITH RETIRED WIND ASSETS.**

33 A. Each of the Repowered Wind Projects had a substantial portion of original equipment  
34 retired when the wind plants were repowered. The question I explore here is: what is the  
35 appropriate measurement of the retired asset value – upon which RMP will earn a return  
36 – in the test period in the ongoing general rate case, Docket No. 20-035-04?

37 Since customers continue to pay the depreciation expense associated with the  
38 Repowered Wind Projects' retired assets in rates, even after the assets are retired, one  
39 might expect that the rate base associated with the retired assets would continue to  
40 decline at the rate at which depreciation expense is currently recovered in rates for those  
41 same assets. However, that is not the case if RMP's proposed treatment in this

42 depreciation case is approved. As RMP treats the issue, RMP effectively “freezes” the  
43 value of the retired assets on the date each set of wind assets is retired – even though  
44 customers continue to pay for the depreciation expense associated with these assets in  
45 rates. The *de facto* asset values remain frozen until the rate effective date of the general  
46 rate case in Docket No. 20-035-04, at which time those asset values begin to depreciate  
47 again upon adoption of the new depreciation rates approved in this docket.

48 The problem with RMP’s treatment is that it deprives customers of the benefit  
49 that would otherwise come from reducing the rate base associated with the retired assets  
50 between the time of retirement and the effective date of new rates in the general rate case  
51 (presumed to be January 1, 2021). By effectively freezing the value of the retired assets  
52 at their respective retirement dates, RMP is able to temporarily collect the depreciation  
53 expense on these assets that customers currently pay in rates without crediting the dollars  
54 collected against the value of the retired assets. In my view, this treatment unreasonably  
55 overstates the rate base associated with the retired assets on the rate effective date.

56 **Q. WHAT IS YOUR RECOMMENDED TREATMENT OF THE VALUE OF THE**  
57 **RETIRED WIND ASSETS?**

58 A. Rather than effectively freezing the value of these Repowered Wind Projects’ assets  
59 when each asset is retired until January 1, 2021, the *de facto* “value” of the retired assets  
60 should continue to be reduced through that time to reflect the depreciation expense  
61 associated with these assets in current rates.<sup>1</sup> This treatment would ensure that customers

---

<sup>1</sup> I am not making a similar recommendation for the Foote Creek I project because the existing assets for that project are scheduled for retirement in December 2020, making a similar adjustment unnecessary.

62 get the proper benefit from continuing to pay off these assets between the retirement date  
63 and the rate effective date in this case.

64 **Q. HOW WOULD YOUR RECOMMENDATION BE IMPLEMENTED?**

65 A. My recommendation would be implemented by adjusting the accumulated depreciation  
66 reserve reflected in RMP's filing by the amount of depreciation expense associated with  
67 the retired assets that customers have continued to pay in rates between the time each of  
68 the Repowered Wind Projects' assets was retired and January 1, 2021, the presumed rate  
69 effective date in this case.

70 **Q. WHY WOULD YOUR ADJUSTMENT BE MADE TO THE ACCUMULATED  
71 DEPRECIATION RESERVE?**

72 A. When each of the Repowered Wind Projects' assets was retired, RMP made simultaneous  
73 and offsetting adjustments to plant-in-service and the accumulated depreciation reserve.  
74 Specifically, plant-in-service was reduced by the gross amount of the retired asset,  
75 whereas the depreciation reserve was debited by the same amount (*i.e.*, it was made  
76 smaller, providing less of a credit against rate base). This simultaneous accounting  
77 adjustment has the effect of keeping rate base unchanged from what it was just prior to  
78 the adjustment. However, since the retired assets are no longer in plant in service, RMP's  
79 continued recovery of, and on, these costs will be effectuated through the depreciation  
80 reserve, which now includes the previously undepreciated net book value of the retired  
81 wind assets. Since the depreciation reserve is the vehicle through which RMP will  
82 recover the remaining cost of the retired assets, my recommendation can be implemented  
83 by adjusting the depreciation reserve. In the alternative, the retired plant could be moved

84 to a regulatory asset and amortized over the same time period RMP proposes for  
85 depreciating the remaining balance.

86 **Q. OVER WHAT TIME PERIOD DOES RMP PROPOSE TO RECOVER THE**  
87 **REMAINING BALANCES ASSOCIATED WITH THE RETIRED WIND**  
88 **PLANTS?**

89 A. As stated by RMP witness Steven R. McDougal, RMP proposes to recover the remaining  
90 balances of the retired assets over the approved remaining lives of each of the associated  
91 Repowered Wind Projects.<sup>2</sup>

92 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED RECOVERY PERIOD?**

93 A. Yes, I do. The early retirement of the replaced assets was inextricably linked to the  
94 decision to repower the wind facilities – and thereby extend the production lives of these  
95 units. It is reasonable to recover the remaining balances of the retired plant over this  
96 same time period.

97 **Q. DOES THIS CONCLUDE YOUR PHASE II DIRECT TESTIMONY?**

98 A. Yes, it does.

---

<sup>2</sup> Direct Testimony of Steven R. McDougal, lines 97-99.