ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

1407 West North Temple
Salt Lake City, Utah 84116

October 5, 2020

VIA ELECTRONIC FILING

Public Service Commission of Utah
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Gary Widerburg
Commission Administrator

Re: Docket 18-035-36
Application of Rocky Mountain Power for Authority to Change its Depreciation Rates Effective January 1, 2021
Rebuttal testimony on issues related to the second phase of the Depreciation Docket

Pursuant to the June 9, 2020 Scheduling Order, Notice of Technical Conference, Notice of Hearings, and Notice of Public Witness Hearing of the Public Service Commission of Utah ("Commission"), Rocky Mountain Power ("Company") hereby submits its rebuttal testimony on issues related to the second phase in the above referenced matter.

Rocky Mountain Power respectfully requests that all formal correspondence and requests for additional information regarding these filings be addressed to the following:

By E-mail (preferred)	datarequest@pacificorp.com jana.saba@pacificorp.com emily.wegener@pacificorp.com
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Informal inquiries may be directed to Jana Saba at (801) 220-2823.

Sincerely,

Joelle Steward

Vice President, Regulation

cc: Service List Docket No. 18-035-36

Rocky Mountain Power
Docket No. 18-035-36
Witness: Steven R. McDougal

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Phase II Rebuttal Testimony of Steven R. McDougal

October 2020

Q. Are you the same Steven R. McDougal who submitted direct testimony and second supplemental testimony in Phase I, and Phase II direct testimony in this proceeding on behalf of PacifiCorp, d/b/a Rocky Mountain Power ("RMP" or the "Company")?

A. Yes.

PURPOSE OF TESTIMONY

Q. What is the purpose of your phase II rebuttal testimony?

A. The purpose of my rebuttal testimony to respond to and rebut certain issues raised by Utah Association of Energy ("UAE") witness Mr. Kevin C. Higgins.

My testimony explains and supports why the proposal by Mr. Higgins to adjust accumulated depreciation is wrong, is contrary to his positions in the repowering Docket No. 17-035-39 ("Repowering Docket"), is poor ratemaking policy, and would result in customers double recovering the benefits associated with accumulated depreciation on the repowered wind facilities.

DEPRECIATION ON RETIRED WIND ASSETS

Q. Please describe how depreciation expense is calculated for the repowered wind assets.

A. In order to calculate depreciation expense, the gross plant in-service ("PIS") balance is multiplied by the applicable depreciation rates. To better illustrate the calculation of depreciation expense with regards to repowered wind assets, I would like to break this into two individual components: the existing equipment that is replaced and the new repowered assets that are added.

Prior to repowering, the existing equipment is included in the gross PIS balance.

Accumulated depreciation offsets gross PIS balance and results in net PIS. Depreciation expense is calculated by multiplying the Commission-approved depreciation rate by only the gross PIS balance. Net PIS, or the offset as a result of the accumulated depreciation reserve, does not impact depreciation expense. When retirements occur as a result of repowering, the Company transfers the retired assets from gross PIS to the accumulated depreciation reserve. This can impact depreciation expense as shown in Table 1 below:

TABLE 1

	Existing Equipment Balance	Retirement	Balance After Retirement	Capital Addition	Final Balance
Gross Plant in Service	$1,000	($1,000)	$0	$1,050	$1,050
Accumulated Depreciation	($250)	$1,000	$750	$0	$750
Net Plant in Service	$750	$0	$750	$1,050	$1,800
Depreciation Rate	5%		5%	5%	5%
Depreciation Expense	$50		$0	$53	$53

Specifically, the example shows that depreciation expense on the existing equipment halts once the retirement occurs. This is because the balance is retired to accumulated depreciation and the new gross PIS balance is zero.

In the event the asset is then repowered, the repowered asset becomes used and useful and is placed in-service. This increases gross PIS. The cumulative balance of each transaction appears in the Final Balance column and illustrates both the retirement and repowering capital addition. Depreciation expense is calculated on the new gross plant balance multiplied by the depreciation rate. It should be noted the example above assumed a five percent depreciation rate, for simplicity.

Q. How is the depreciation rate determined?

A. As described in this proceeding to determine the depreciation rates for all assets, the Company prepares a depreciation study. The general basis of each depreciation study is to determine a rate at which the net PIS balance reaches zero (absent consideration of any decommissioning and removal costs) at the end of the depreciable life of the asset. When setting a depreciation rate, the net PIS is considered. Once the depreciation rate is established, the depreciation expense is multiplied only on the gross PIS balance.

Q. Does this mean the calculated depreciation rate accounts for the accumulated depreciation reserve?

A. Yes. One of the assumptions is to fully depreciate the net PIS balance to zero at the end of its depreciable life. In the example above, since the accumulated depreciation reserve increases the net PIS balance, this results in a higher depreciation rate upon adoption of the revised depreciation rates as approved through a depreciation study proceeding.

Q. Please explain the proposal to the accumulated depreciation reserve proposed by UAE witness Mr. Higgins.

A. Mr. Higgins erroneous suggests that the Company should adjust the accumulated depreciation reserve balance on the retired wind assets to account for the depreciation expense currently paid on those assets by Utah customers.[1] Specifically, Mr. Higgins infers that the depreciation expense that was included on these assets as part of the last general rate case should be credited (through accumulated depreciation) to customers until the rate effective date of the general rate case in Docket No. 20-035-04.

[1] Phase II Direct Testimony of Kevin C. Higgins on at lines 58-61.

Q. Does the Company accept Mr. Higgins' proposed adjustment?

A. No. Mr. Higgins' adjustment is inconsistent with normal practice, is inconsistent with the remaining accounting entries related to repowering, and is inconsistent with his position in the Repowering Docket. Mr. Higgins has selected only one component of the repowering accounting and adjusts solely for the changed depreciation expense associated with the retired wind assets, ignoring the offsetting adjustment for increased depreciation expense associated with new repowering capital. This is fundamentally incorrect. As illustrated previously, the Company records depreciation expense on the gross PIS balance. The repowered asset retirements are recorded against the accumulated depreciation reserve, and while he is correct in his assertion that the depreciation expense on these assets would stop, he is not considering the new capital placed in-service due to the retirement. In fact, the Company assumed retirements of $1.3 billion and placed in-service $1.1 billion of capital investments. Because depreciation expense is charged on the gross PIS balance, the depreciation expense following the retirement would be similar to the amount allocated to Utah before the retirement. This was fully explained in the Repowering Docket, and the Company proposed a resource tracking mechanism that would have captured both impacts. Furthermore, since customers are not paying depreciation expense on the repowered capital additions that were placed in-service since the last rate case, yet depreciation expense is booked for regulatory and accounting purposes, Utah customers benefit through an accumulated depreciation reserve on those new assets. Including a benefit of accumulated depreciation on both the retired wind asset and repowered wind assets is a double count.

Q. Does Mr. Higgins consider regulatory lag in his proposed adjustment?

A. Only selectively. Mr. Higgins does not consider the regulatory lag the Company has experienced since the last general rate case, including the regulatory lag associated with repowering. He does, however, consider the portion of the regulatory lag of individual project retirements, specifically those associated with repowering that is beneficial to customers. To properly balance the depreciation expense paid by customers and the assets in which they are receiving benefits, the Company would need a balancing mechanism for the revenue requirement of all capital projects. This is not usually required in the normal course of business as the Company often invests at a rate equal to depreciation expense. In other words, the gross rate base would increase but be offset by accumulated depreciation maintaining a fair return and recovery of costs. This is one tool that has allowed the Company to stay out of a general rate case proceeding since 2014. However, when the Company invests in major capital projects such as Energy Vision 2020 or the wind repowering projects, this no longer holds true.

Q. What other concerns do you have with Mr. Higgins' proposal?

A. Recently, Mr. Higgins provided testimony in the Repowering Docket that discusses his view of the risk of specific rate treatment in isolation of all other factors, inferring a general concern about single-issue ratemaking[2]. His proposed adjustment in this case is in conflict with his single-issue ratemaking concerns, in that he only takes into account the single retirement transaction. His proposal fails to consider all the other factors such as the asset that is placed in-service due to repowering, or even the impact

[2] *In the Matter of the Voluntary Request of Rocky Mountain Power for Approval of Resource Decision to Repower Wind Facilities*, Docket No. 17-035-39, Prefiled Response Testimony of Kevin C. Higgins at lines 1022-1024.

of assets put into service since the last general rate case.

Q. Did the Company propose an alternative that would have credited customers with this benefit?

A. Yes. In the Repowering Docket, Company witness Mr. Jeffrey K. Larsen explained the accounting for the replaced equipment and the impacts on depreciation expense associated with both new equipment and replaced equipment.[3] The Company proposed to include both components in a resource tracking mechanism ("RTM") to fairly match both benefits and costs. In that proceeding, Mr. Higgins stated concerns with the RTM because it was single issue ratemaking, and that it "brings with it attendant concerns about the efficacy of identifying costs and setting rates in isolation."[4] Yet in this proceeding, Mr. Higgins carves out a small portion of what the Company had proposed for the RTM. He attempts to isolate this small component related to capital that provides benefits, ignoring the bigger picture of the project economics. Here, Mr. Higgins' proposal would have larger impacts than would the RTM, because it asymmetrically gives customers the benefits of the decrease in depreciation expense associated with replaced equipment without a corresponding payment from customers for the additional costs associated with the new assets.

Q. Does this conclude your rebuttal testimony?

A. Yes.

[3] *In the Matter of the Voluntary Request of Rocky Mountain Power for Approval of Resource Decision to Repower Wind Facilities*, Docket No. 17-35-39, Direct Testimony of Jeffrey K. Larsen at 9-10 (June 30, 2017).
[4] *In the Matter of the Voluntary Request of Rocky Mountain Power for Approval of Resource Decision to Repower Wind Facilities*, Docket No. 17-035-39, Response Testimony of Kevin C. Higgins at 101-102 (April 2, 2018).

CERTIFICATE OF SERVICE

Docket No. 18-035-36

I hereby certify that on October 5, 2020, a true and correct copy of the foregoing was served by electronic mail to the following:

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