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Application of Rocky Mountain Power for Authority to Change its Depreciation Rates Effective January 1, 2021	<u>DOCKET NO. 18-035-36</u>
	<u>ORDER</u>

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ISSUED: December 21, 2020

SYNOPSIS

The Public Service Commission (PSC) approves Rocky Mountain Power's (RMP) proposed accounting treatment of retired wind plant and finds RMP's wind depreciation studies are reasonable. The PSC makes no adjustment to the rate of return on equity applied to the undepreciated balance of the retired assets associated with RMP's wind repowering projects.

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**I. BACKGROUND AND PROCEDURAL HISTORY**

On April 20, 2020, we issued a Report and Order approving a Stipulation on Depreciation Rate Changes ("Stipulation") in this docket. Consistent with the Stipulation, we established Phase II in this proceeding to facilitate further review of (i) projected incremental decommissioning costs and (ii) retired plant associated with repowered wind facilities that we approved in a prior docket ("Wind Repowering Docket"),<sup>1</sup> including the calculation and amount of the retired plant balance and the method and timing of its recovery.<sup>2</sup>

RMP, the Division of Public Utilities (DPU), and the Utah Association of Energy Users filed written direct and written rebuttal testimony on Phase II issues. RMP and UAE filed written surrebuttal testimony.

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<sup>1</sup> *Voluntary Request of Rocky Mountain Power for Approval of Resource Decision to Repower Wind Facilities*, Docket No. 17-035-39 (Report and Order issued May 25, 2018).

<sup>2</sup> Stipulation ¶ 19.

From November 3 to November 6, 2020, the PSC held a consolidated hearing on Phase II issues in this docket and revenue requirement issues in RMP's 2020 general rate case ("2020 GRC").<sup>3</sup> RMP, DPU, and UAE testified on Phase II depreciation issues during that hearing.<sup>4</sup>

## **II. PHASE II ISSUES**

### **A. RMP's Proposal**

RMP's direct testimony presents its proposed regulatory accounting treatment of the retired wind plant balances resulting from all of its wind repowering projects. RMP asserts its accounting treatment is consistent with Federal Energy Regulatory Commission (FERC) regulations and allowed by Generally Accepted Accounting Principles (GAAP). According to RMP, the new depreciation rates are designed to recover the remaining wind plant balances over the remaining lives of the new repowered wind projects. RMP states the economic analyses presented in the Wind Repowering Docket assumed RMP would fully recover existing plant balances, including a return on rate base.

RMP's testimony discusses the scope of the updated confidential decommissioning studies filed in this proceeding on January 16 and March 17, 2020 ("Decommissioning Studies"). According to RMP, the previous decommissioning estimates were based on a method typically used for concept screening. In contrast, the Depreciation Studies are now based on an AACE

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<sup>3</sup> See *Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket No. 20-035-04.

<sup>4</sup> Some testimony submitted in the 2020 GRC related to Phase II issues in this docket. For regulatory efficiency and consistent with our order in the Wind Repowering Docket, we address all of the depreciation-related issues concerning the retired wind plant in this order. See Wind Repowering Docket, Report and Order issued May 25, 2018 at 26 (explaining "we reserve for consideration in an appropriate future ratemaking proceeding the degree, if any, to which the rate of return on [these] assets should be adjusted").

Class 3 estimate for demolition, salvage, and scrap costs typically used for budget authorization. RMP proposes that the updated decommissioning and remediation costs in these studies are a reasonable estimate to include in depreciation rates finalized in this docket and to incorporate into rates set in the 2020 GRC with the accumulation of a credit balance to a regulatory liability account.<sup>5</sup>

**B. Undisputed Issues – Discussion, Findings of Fact, and Conclusions of Law**

No party opposes RMP's updated estimate of decommission and remediation costs presented in the Depreciation Studies or RMP's proposal to defer the amount collected in rates for these costs in a regulatory liability account. In addition, no party challenges RMP's assertions that AACE Class 3 estimates are typically used for budget authorizations and the Depreciation Studies are an improvement over previous studies. For these reasons and based on our review of RMP's testimony and the Depreciation Studies, and in the absence of any opposition, we find and conclude RMP's proposed decommissioning costs are reasonable and appropriate to include in the depreciation rates we approve in this docket. Absent opposition, we also find and conclude RMP's proposal to defer the amount collected in rates to a regulatory liability account adjusted for actual decommissioning costs, once they are known, is reasonable and appropriate.

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<sup>5</sup> The impact of the Decommissioning Studies was included in RMP's 2020 GRC as adjustment 6.6 in the revenue requirement calculation and discussed in the 2020 GRC Direct Testimony of Steven R. McDougal (at 30-31). This adjustment includes the incremental costs, spread evenly over the remaining life of the last retired unit. RMP proposes that the amount collected would be deferred to a regulatory liability account and adjusted for actual decommissioning costs once they are known.

**C. Disputed Issues – Discussion, Findings of Fact, and Conclusions of Law**

**i. Accounting Treatment**

UAE disagrees with RMP’s proposed accounting treatment of the wind plant retired during the wind repowering projects. UAE recommends RMP adjust the depreciation reserve for these facilities to reflect the depreciation expense customers have continued to pay in rates between the time each wind asset was retired and January 1, 2021, the rate effective date of the 2020 GRC (“Rate Effective Date”).<sup>6</sup> UAE asserts RMP’s method will result in an overstatement of the rate base associated with the retired assets on the Rate Effective Date while UAE’s method will ensure customers receive the proper benefit from continuing to pay off these assets between their retirement dates and the Rate Effective Date. UAE claims a different accounting treatment is necessary because “it is not normal practice to retire \$785 million in net plant some 20 years before the end of its useful life . . . .”<sup>7</sup> UAE further argues that given the forced retirement of the wind facilities and customers’ cost responsibility, it is a matter of equity that customers should be given proper credit for paying down the cost of these assets via the depreciation expense currently in rates.

DPU supports UAE’s proposal. DPU testified the proposed adjustment would ensure customers receive the benefit from the continued depreciation included in current rates between the retirement date of these repowered wind projects and the rate effective date of the 2020 GRC.

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<sup>6</sup> UAE advocates for this adjustment in the 2020 GRC Direct Testimony of Kevin C. Higgins (at 3), testifying: “The accumulated depreciation reserve associated with the 11 repowered wind projects approved by the [PSC], plus Leaning Juniper, should be adjusted to reflect the depreciation expense associated with the retired assets that customers have continued to pay in rates between the time each of the wind assets was retired and January 1, 2021. This adjustment reduces the Utah revenue requirement deficiency by \$1,943,228.”

<sup>7</sup> Phase II Surrebuttal Testimony of Kevin C. Higgins at 3, lines 44 – 56.

RMP asserts UAE's "adjustment is inconsistent with normal practice [and] is inconsistent with the remaining accounting entries related to repowering."<sup>8</sup> RMP further claims that Utah customers are benefitting through an accumulated depreciation reserve on the new wind repowering capital additions and that "[i]ncluding a benefit of accumulated depreciation on both the retired wind asset and repowered wind assets is a double count."<sup>9</sup>

No party challenges RMP's claims that its accounting treatment is consistent with FERC regulations, is allowed by GAAP, and represents its normal practice. We will not require a deviation from this standard practice under the facts presented, and we do not find UAE's argument that the depreciation reserve should be adjusted persuasive. Effectively, UAE asks us to reach into the past and make a one-sided adjustment to account for depreciation expense customers paid on the retired assets prior to the Rate Effective Date. Not only does this raise concerns about retroactive and single-issue ratemaking, it also fails to account for any depreciation expense customers avoided on the new plant over the same period. For these reasons, we find and conclude RMP's accounting treatment of the repowered wind assets is reasonable and appropriate.

**ii. Length of Time to Recover Remaining Assets**

DPU disagrees with RMP's proposal to recover the remaining wind plant balances over the remaining lives of the new repowered wind projects. DPU proposes two alternative recovery methods for the retired wind assets: (1) accelerate depreciation to match the 10-year production tax credit (PTC) eligibility period of the repowered assets; or (2) defer PTCs to a regulatory asset

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<sup>8</sup> Phase II Rebuttal Testimony of Steven R. McDougal at 4.

<sup>9</sup> *Id.*

and amortize them back over the depreciable life of the asset. DPU asserts that under RMP's proposal ratepayers will continue to pay for the cost of the retired equipment while receiving no benefit from the PTCs, creating intergenerational inequity resulting from a mismatch of the depreciation of the replaced equipment's costs (30 years) to the PTC's benefits (10 years).

UAE disagrees with DPU's proposal. UAE asserts that because the early retirement of the replaced assets was inextricably linked to the decision to repower the wind facilities, it is reasonable to recover the remaining balances of the retired plant over this same time period as proposed by RMP. UAE disagrees with DPU's assertion that RMP's proposal would result in intergenerational inequity. UAE states the PSC approved the repowering proposal on the grounds that the early retirement of existing wind plant and the installation of new wind plant would benefit customers through near zero marginal cost energy production for the entire 30-year life of the repowered assets. UAE testified that most of the retired assets were replaced with approximately twenty years of remaining depreciable life and, absent the repowering project, future customers 11 to 20 years from now still would have been responsible for paying the depreciation expense on these now-retired assets. UAE claims DPU's proposal frees this cohort from any going-forward responsibility to pay for this depreciation expense and instead transfers the full burden of this depreciation expense to the customers in the first ten years.

RMP similarly urges the PSC to reject DPU's proposal. RMP estimates DPU's proposal to accelerate cost recovery would result in a \$23 million increase in Utah-allocated depreciation expense and increased rate pressure for Utah customers. RMP explains that historically PTCs are included in base rates under the anticipated amount for the Test Year. RMP represents that including a total 10-year period of PTCs and amortizing back over 30 years when the PTCs are

not yet received, as proposed by DPU, causes significant concerns and challenges to standard accounting practices.<sup>10</sup>

We find that DPU's proposal would require customers over the next decade to bear the full costs of plant that will be used to provide service to customers for many additional years. We find that would create intergenerational inequity. We conclude that wind repowering is a fact scenario that justifies depreciating retired components on the same schedule as the operating plant and replacement components.

We find and conclude that depreciation of the facilities over the remaining lives of the wind plant, as RMP proposes, is just, reasonable, and in the public interest.

**iii. Rate of Return on Undepreciated Balance<sup>11</sup>**

Consistent with its position in the Wind Repowering Docket, UAE recommends a reduction of 200 basis points to the authorized rate of return on common equity ("ROE") applied to the undepreciated balance of the retired wind assets that is no longer used and useful. UAE asserts this adjustment better balances the risks and benefits of the repowering projects, ensuring that RMP and its customers reasonably share them. According to UAE, a significant disparity exists between the benefits to RMP from its expected earnings on its investment in the repowered wind projects and the projected benefits to customers.<sup>12</sup>

UAE asserts the repowered wind projects are not a typical utility generation investment driven by RMP's need to meet reliability requirements, load growth, or to replace retired plant

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<sup>10</sup> Rebuttal Testimony of Steven R. McDougal filed in 2020 GRC at 47, lines 948-955.

<sup>11</sup> The UAE's and RMP's testimony associated with this issue was filed in the 2020 GRC.

<sup>12</sup> UAE calculates the benefit of these projects to RMP as the present value of the after-tax return on the equity component of the capital structure that RMP's analysis assumed in the Wind Repowering Docket.

that has come to the end of its useful life. Rather, UAE asserts the repowered wind projects are best characterized as “opportunity” investments that seek to take advantage of the availability of PTCs before federal tax credits begin to phase out.

RMP disagrees with UAE’s adjustment. RMP asserts the adjustment is inappropriate because customers are receiving the benefits of repowering based on RMP’s prudent decisions. RMP claims that these benefits will entirely flow to customers while RMP is only recovering its costs. RMP further asserts UAE’s adjustment is inconsistent with the total Company approach used to determine RMP’s authorized ROE and capital structure in the 2020 GRC.

In the Wind Repowering Docket, having considered the factors enumerated in Utah Code Ann. § 54-17-402(3)(b), we found these projects were in the public interest and approved them.<sup>13</sup> RMP presumably pursued these projects in reliance on that finding. Additionally, in our order, we identified several potential benefits associated with the wind powering projects, including the value of renewable energy certificates, increased capacity, salvage values, and enhanced reliability of the transmission system. In addition, our order holds RMP accountable for meeting PTC eligibility requirements and for prudently managing risks that are within its control consistent with Utah Code Ann. § 54-17-403(2)(a).

We find that UAE’s recommendation does not account for the benefits we identified in our prior order. We find no basis upon which to require an adjustment to RMP’s ROE on the undepreciated balance of the retired wind assets.

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<sup>13</sup> We did not approve Leaning Juniper, but no party in this proceeding has recommended unique treatment for that project.

**III. ORDER**

Pursuant to our discussion, findings, and conclusions:

1. We approve the inclusion of the Depreciation Studies' costs in RMP's 2020 GRC as reflected in Adjustment 6.6 and RMP's proposal to defer the amount collected to a regulatory liability account, adjusted for actual decommissioning costs once they are known.
2. We approve RMP's proposed accounting treatment of retired wind plant, including the recovery of the remaining wind plant balances over the remaining lives of the new repowered wind projects.
3. We decline to adjust the rate of return on the retired wind assets.

DATED at Salt Lake City, Utah, December 21, 2020.

/s/ Thad LeVar, Chair

/s/ David R. Clark, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Gary L. Widerburg  
PSC Secretary  
DW#316792

Notice of Opportunity for Agency Review or Rehearing

Pursuant to §§ 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the PSC within 30 days after the issuance of this Order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the PSC does not grant a request for review or rehearing within 30 days after the filing of the request, it is deemed denied. Judicial review of the PSC's final agency action may be obtained by filing a petition for review with the Utah Supreme Court within 30 days after final agency action. Any petition for review must comply with the requirements of §§ 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on December 21, 2020, a true and correct copy of the foregoing was delivered upon the following as indicated below:

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DOCKET NO. 18-035-36

- 12 -

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