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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

In the Matter of the Application of ROCKY MOUNTAIN POWER for Authority to Change Its Depreciation Rates Effective January 1, 2008	Docket No. 07-035-13 <b>STIPULATION ON DEPRECIATION RATE CHANGES</b>
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Pursuant to Utah Code Ann. § 54-7-1 (Supp. 2005) and Utah Administrative Code R746-100-10.F.5 (2005), Rocky Mountain Power, a division of PacifiCorp (“Rocky Mountain Power” or the “Company”), the Utah Division of Public Utilities (“Division”), and the Utah Committee of Consumer Services (“Committee”) (for purposes of this Stipulation, Rocky Mountain Power, the Division, and the Committee are referred to as “Stipulating Parties”), submit this Stipulation on Depreciation Rate Changes (“Stipulation”) in resolution of all issues in this docket and request that the Commission approve new depreciation rates for Rocky Mountain Power as stipulated herein to become effective on January 1, 2008. The Utah Association of Energy Users (“UAE”) is

a party in this docket and has represented to the Stipulating Parties that it does not oppose the Stipulation.

### **PROCEDURAL BACKGROUND**

1. On March 14, 2007, Rocky Mountain Power filed its Application for an order authorizing the Company to change depreciation rates effective January 1, 2008, and seeking approval of a procedural schedule under which the Company would file its depreciation study no later than September 1, 2007.

2. On April 6, 2007, the Division recommended that the Commission initiate a Scheduling Conference and enter a scheduling order that would establish a procedural schedule, allowing all Utah interested parties an opportunity to review and comment on the Company's depreciation methodologies and assumptions.

3. A Scheduling Conference was held on April 20, 2007 resulting in a Scheduling Order dated April 27, 2007 that set a schedule for testimony filings and hearings in this matter.

4. On July 10, 2007, the UAE moved to intervene as a party. The Commission granted UAE's motion on July 31, 2007. No other person or entity sought to intervene in this matter.

5. On August 31, 2007, Rocky Mountain Power filed direct testimony of Henry E. Lay, Mark C. Mansfield, and Donald S. Roff. A depreciation study, recommending depreciation rates for all depreciable plant accounts, was an exhibit to the testimony of Mr. Roff. Based on December 31, 2006 depreciable plant balances and relative allocation factors, Rocky Mountain Power's proposed depreciation rates resulted in a decrease in depreciation expense of \$10.0 million in Utah.

6. On October 15, 2007, the Division filed the direct testimony of David T. Thomson and Charles W. King. An exhibit to Mr. King's testimony recommended alternative depreciation rates. Based on December 31, 2006 depreciable plant balances and relative allocation factors, the Division's proposed depreciation rates resulted in a decrease in depreciation expense of \$39.4 million in Utah.

7. On October 15, 2007, the Committee filed the direct testimony of Daniel E. Gimble and Jacob Pous. An exhibit to Mr. Pous's testimony recommended alternative depreciation rates. Based on December 31, 2006 depreciable plant balances and relative allocation factors, the Committee's proposed depreciation rates resulted in a decrease in depreciation expense of \$37.1 million in Utah.

8. On October 16, 2007, the Committee filed an erratum to the direct testimony of Mr. Gimble.

9. Following a Scheduling Conference held on October 25, 2007, the Commission issued a Revised Scheduling Order on October 26, 2007.

10. On November 1, 2007, the Division filed an erratum to the direct testimony of Mr. King.

11. On November 6, 2007, Rocky Mountain Power filed rebuttal testimony of Messrs. Mansfield, Roff, and Bruce N. Williams.

## **TERMS AND CONDITIONS**

### **Substantive Terms of the Stipulation**

12. The Stipulating Parties have engaged in good faith, arms-length negotiations in an effort to resolve this matter. The retained experts of the Stipulating Parties have participated in the negotiations. The negotiations have resulted in the agreement of the Parties on the terms and conditions as set forth herein.

13. The Stipulating Parties agree that the proposed depreciation rates set forth in Schedule 1 attached hereto and incorporated herein, represent just and reasonable depreciation rates for Rocky Mountain Power in Utah commencing January 1, 2008.

14. The depreciation rates proposed in Schedule 1 result in a decrease of approximately \$22.1 million in Rocky Mountain Power's annual depreciation expense in Utah based on December 31, 2006 depreciable plant balances and relative allocation factors.

15. Among significant factors involved in the changes in rates are the following major components:

a. the accrual rate for steam production is reduced as a result of a combination of generally increasing depreciation lives of steam plants to 61 years, except the Gadsby and Carbon plants that are increased to 64 years, increasing negative net salvage value from \$25 to \$40 per Kilowatt and including estimated production plant in service balances through December 31, 2007<sup>1</sup>;

b. the accrual rate for hydroelectric production is increased as a result of recognizing the terminal removal costs based on Federal Energy Regulatory Commission license expiration dates and the probability of removal of some of the minor generating units;

c. the accrual rate for other production plant is reduced by increasing the depreciation lives of combustion turbine and combined cycle combustion turbine plants to 30 and 40 years, respectively;

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<sup>1</sup> 2007 plant balances are based on 10 months of actual additions and 2 months of estimated additions for purposes of updating remaining lives.

- d. the accrual rate for system transmission plant is decreased as a result of increasing the average service lives by approximately one year and increasing the average negative net salvage values by approximately 0.7%;
- e. the average accrual rate for Utah distribution plant is unchanged, but the average negative net salvage is reduced by approximately 1.3% and the average service lives are increased by approximately one-half year;
- f. the accrual rate for mining operations is reduced as a result of an increase in average service lives by approximately 5.6 years; and
- g. the accrual rate for Utah general plant is reduced as a result of an increase in positive net salvage value for Account 390 Structures and Improvements.

16. The Stipulating Parties agree that Rocky Mountain Power shall complete a new depreciation study, including a review and analysis of net salvage values, within five years of the date of the Commission's order in this matter or prior to the Company's next request for a change in depreciation rates, whichever comes first.

17. The Stipulating Parties agree that, effective January 1, 2008, when the Company is reimbursed by a third party for a retirement of plant, the amounts the Company is reimbursed shall first be treated as credits against removal costs on the related project; to the extent there are excess reimbursed amounts beyond the amount of removal cost incurred in connection with the project, the excess reimbursement shall then be credited against the cost of replacing the plant and shown as contributions in aid of construction.

18. The Stipulating Parties agree that, if this Stipulation is approved by the Commission, the depreciation rates set forth on Schedule 1 should become effective on January 1, 2008 and should be incorporated into Rocky Mountain Power's calculation of its revenue requirement in its Utah general rate case, Docket No. 07-035-93.

19. The Stipulating Parties agree that this Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.

### **General Terms and Conditions**

20. All negotiations related to this Stipulation are privileged and confidential and no party shall be bound by any position asserted in negotiations. Neither the execution of this Stipulation nor the order adopting this Stipulation shall be deemed to constitute an admission or acknowledgment by any Stipulating Party of any liability, the validity or invalidity of any claim or defense, the validity or invalidity of any principle or practice, or the basis of an estoppel or waiver by any Stipulating Party other than with respect to issues resolved by this Stipulation; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Stipulating Party except a proceeding to enforce the approval or terms of this Stipulation.

21. The Stipulating Parties each agree to present testimony of one or more witnesses to explain and support this Stipulation. The witnesses of the Stipulating Parties will be available for cross examination. So that the record in this docket is complete and in support of this Stipulation, the Stipulating Parties may move for the admission of testimony and exhibits that have been filed; however, notwithstanding the admission of filed testimony, the Stipulating Parties shall support the Commission's approval of the Stipulation.

22. The Stipulating Parties agree that if any person challenges the approval of this Stipulation or requests rehearing or reconsideration of any order of the Commission approving this Stipulation, each Stipulating Party will use its best efforts to support the terms and conditions of the Stipulation. As applied to the Division and Committee, the phrase “use its best efforts” means that they shall do so in a manner consistent with their statutory authority and responsibility. In the event any person or party seeks judicial review of a Commission order approving this Stipulation, no Stipulating Party shall take a position in that judicial review opposed to the Stipulation.

23. Except with regard to the obligations of the parties under the three preceding paragraphs of this Stipulation, this Stipulation shall not be final and binding on the Stipulating Parties until it has been approved without material change or condition by the Commission in an order that is no longer subject to any further reconsideration or appellate review. In the event the Commission rejects any part or all of this Stipulation, or imposes any additional material change or condition on approval of this Stipulation, or in the event the Commission’s approval of this Stipulation is rejected or conditioned in whole or in part by a court, each Stipulating Party reserves the right to withdraw from this Stipulation. If such an order is issued, the Stipulating Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Stipulation. No Stipulating Party shall provide notice of withdrawal prior to complying with the foregoing sentence. In the event that no modified stipulation is reached, any Stipulating Party may withdraw from this Stipulation by giving written notice of withdrawal to the Commission and the other Stipulating Parties. Any such notice shall be

given within five business days after reaching impasse in any discussions regarding modifying the Stipulation. If any Stipulating Party withdraws from this Stipulation pursuant to this paragraph, no Stipulating Party shall be bound or prejudiced by the terms and conditions of this Stipulation, which have been accepted by the parties in consideration of this Stipulation and which may have been contested but for this Stipulation, and each Stipulating Party shall be entitled to undertake any step or to assert any position it deems appropriate without regard to this Stipulation.

BASED ON THE FOREGOING, the Stipulating Parties request that the Commission issue an order approving this Stipulation and adopting the terms and conditions of this Stipulation.

RESPECTFULLY SUBMITTED: January 11, 2008.

/s/ Gregory B. Monson  
Justin Lee Brown  
Rocky Mountain Power

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*Attorneys for Utah Committee of Consumer Services*



**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing **STIPULATION ON DEPRECIATION RATE CHANGES** was served upon the following by electronic mail, on January 11, 2008:

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