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Memorandum

TO: Utah Public Service Commission

FROM: Division of Public Utilities
Constance B. White, Director
William Powell, Manager
David Thomson, Technical Consultant
Brenda Salter, Utility Analyst II

DATE: April 5, 2007

RE: Docket 07-035-13 – Application of Rocky Mountain Power, a Division of PacifiCorp, for Authority to Change its Depreciation Rates Effective January 1, 2008.

I. RECOMMENDATION:

The Division agrees with the first application request (application page 4), where the Company asks the Commission to initiate a scheduling conference and subsequent 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. The Division recommends that such conference be set up as soon as possible.

As to the second, third, and fourth requests under the application (application page 4), the Division believes it is too early in the depreciation study overview process, that will proceed to a final outcome on implementing a change in depreciation rates, for the Division to make recommendations as to those requests at this time. Additional Division comments about this are included at the end of the issues section below.

II. INTRODUCTION:

On March 13, 2007, Rocky Mountain Power (RMP) filed an application for an order authorizing a change in depreciation rates effective January 1, 2008. The purpose of this memo is, not only to inform the Commission of issues involved, but to provide some background information to the Commission and to present the Division's recommendation relating to a need for a scheduling conference as outlined in the application.

III. BACKGROUND:

Prior to RMP's Utah filing of the above application, the Division became aware of a docket filed with the State of Wyoming on September 25, 2006 by RMP concerning a preliminary Company wide depreciation study (Wyoming Docket No. 20000-257-EA-06 – In the matter of the application of Rocky Mountain Power, formerly known as PacifiCorp, for approval to submit a preliminary depreciation study). Among other things, Pacific Corp stated in the Wyoming filing that the preliminary depreciation study would be incorporated into a final depreciation study after comments by Wyoming parties, to the preliminary study, were obtained, discussed, analyzed, accepted or rejected by RMP as it moved to a final depreciation study for submission to the Wyoming Commission. RMP also stated in the application that in order to maintain uniform utility accounts, the final depreciation study rates put forth by the Company would need to have agreement among all six state commissions. The Wyoming application put forth timelines by the Company on how it intended to proceed in the six state jurisdictions in order to have a final depreciation study completed and approved by January 1, 2008.

The Division contacted Pacific Corp to inquire concerning the Wyoming filing. Specifically the Division inquired as to the timelines put forth under the Wyoming application as they related to the Utah Jurisdiction. It was determined at that time that the Company would meet informally with the Division and update the Division about the depreciation study matter. The Division wanted to discuss with RMP the new preliminary depreciation study, how and when the preliminary study would move to a final study and when RMP proposed the final study be approved by the Utah Commission.

As a result of the meeting, the Division suggested that RMP, through an application filing, open a Docket with the Commission on this matter. This was done by RMP on March 13, 2007. On March 14, 2007 the Commission issued an action request for the Division to outline and explain the issues to be addressed relating to the above application.

IV. ISSUES

The primary issues related to depreciation rates for a public utility are average service life, retirement dispersion and net salvage value. These issues are called mortality characteristics. The purpose of the depreciation study is to measure those mortality characteristics, to use the characteristics to determine appropriate rates for accrual of depreciation and to test the adequacy of the accumulated provision for depreciation. Based on the mortality characteristics and the Company's **Preliminary Depreciation Study**, the following **preliminary adjustments** have been recommended by the Company.

Steam Production Plant: Rate decreased from 3.12% to 2.93%. The major reasons for the changes are updated retirement dates, updated demolition costs and past interim additions.

Hydraulic Production: Rate increase from 2.48% to 4.17%. The influencing factors are additional investment and dismantlement costs for Condit, Cove, Powerdale and American Fork.

Other Production Plant: Rate increase from 3.25% to 3.37%. Net salvage for the Hermiston Plant is a driver of the increase.

Transmission Plant: Rate increase from 2.12% to 2.26%. There is a slight decrease in average service lives and slightly more negative net salvage.

Distribution Plant: Rate increase from 2.75% to 3.18%. The average service lives are increasing, as well as the experience and recognition of more negative net salvage.

General Plant: Rate decrease from 4.70% to 4.53%.

Mining Operations: Rate decrease from 5.86% to 3.90%. Underground Equipment, where a longer average service life was recognized and the reserve position caused the rate to decrease.

The Division believes these adjustments and the issues surrounding those adjustments are complex issues subject to various forms of interpretation and subjectivity. Mortality characteristics, as they relate to RMP's preliminary or final depreciation study, are by no means an area where there will be immediate consensus among parties involved with this application or RMP applications in other jurisdictions.

Therefore, until all information, discussion and supported recommendations by all parties are presented before the commission and until it has a body of requisite information available to make its decision, the Division believes that it would be premature, based on what is filed in the application at this time, to have the Commission comply with the Company's second, third and fourth request in its application (see page 4 or the application). The Division has no immediate objections to the third and fourth requests at this time but the Division reserves the right to make further comments about or input to those requests as the Docket moves forward to its conclusion.

cc: Rocky Mountain Power
Committee of Consumer Services
Michael Ginsberg