

- 91           • The application of any change to depreciation rates to the general rates  
92           paid by customers should occur when new base rates are established, per  
93           the General Rate Case (GRC) Stipulation in Docket 11-035-200.
- 94           • The Company should submit a rate spread proposal in its 2014 GRC for  
95           allocating the change in depreciation expense resulting from this  
96           proceeding to customer classes.
- 97           • The Company should file its next depreciation case by early 2018.

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99   III.   PACIFICORP'S DEPRECIATION METHOD

100   Q.    WHAT IS THE OFFICE'S CONCERN WITH THE COMPANY'S DEPRECIATION  
101       METHOD?

102   A.    The depreciation study prepared by the Company's expert, Mr. Spanos, is based  
103       on December 31, 2011 plant balances, reserves and remaining lives. However,  
104       for purposes of establishing new depreciation rates, Mr. Spanos uses projected  
105       information for "interim additions"<sup>3</sup> to plant through December 31, 2013 to  
106       establish plant balances and reserve levels, while keeping the same year-end  
107       2011 average service life and net salvage parameters. The projections of plant  
108       balances and reserve levels through year-end 2013 result in a mismatch of  
109       information used in setting the depreciation rates versus developing the study. In  
110       his direct testimony, Mr. Pous discusses the discrepancy between the study and  
111       depreciation rates in greater detail and shows that this issue significantly impacts  
112       depreciation expense.

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114   Q.    WAS THE ISSUE INVOLVING THE DISCREPANCY OF INFORMATION  
115       BETWEEN THE STUDY AND RATES DISCUSSED AT THE MAY 29, 2013  
116       DEPRECIATION TECHNICAL CONFERENCE?

117   A.    Yes. Based on the exchange of perspectives on this issue during the  
118       depreciation technical conference, the Office understands that depreciation  
119       studies are normally not adjusted for projected "interim additions" to plant in

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<sup>3</sup>Interim additions are capital expenditures for additions to plant made subsequent to the year a unit is placed in service. Interim additions are not considered in the depreciation computation until they occur. (Source: NARUC publication, "Public Utility Depreciation Practices," 1996, pg. 321.)