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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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In the Matter of the Application of ROCKY MOUNTAIN POWER for Authority to Change Its Depreciation Rates Effective January 1, 2014

Docket No. 13-035-02

**STIPULATION ON DEPRECIATION RATE CHANGES**

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Pursuant to Utah Code Ann. § 54-7-1 and Utah Administrative Code R746-100-10.F.5, Rocky Mountain Power, a division of PacifiCorp (“Rocky Mountain Power” or the “Company”), the Utah Division of Public Utilities (“Division”), the Utah Office of Consumer Services (“OCS”), and Utah Association of Energy Users (“UAE”) (for purposes of this Stipulation, the “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, 2014.

**PROCEDURAL BACKGROUND**

1. On January 22, 2013, Rocky Mountain Power filed its Application for an Order authorizing the Company to change depreciation rates effective January 1, 2014.
2. With the Application, Rocky Mountain Power filed direct testimony of Henry E. Lay, K. Ian Andrews, and John J. Spanos. A depreciation study, recommending

depreciation rates for all depreciable plant accounts, was an exhibit to the testimony of Mr. Spanos. Based on historical December 31, 2011, plant balances, depreciable plant balances and relative allocation factors were projected through December 31, 2013, in order to develop Rocky Mountain Power's proposed depreciation rates. The proposed depreciation rates resulted in an increase in depreciation expense of \$38.1 million in Utah (or \$70.5 million including the Carbon Plant).

3. A Scheduling Conference was held on February 7, 2013, resulting in a Scheduling Order dated February 8, 2013 that set a schedule for testimony filings, a technical conference, and hearings in this matter.

4. A technical conference was held on May 30, 2013, to discuss issues relating to the Company's filed depreciation study and direct testimony.

5. On June 21, 2013, the Division filed the direct testimony of David T. Thomson and William Dunkel. Based on December 31, 2013, depreciable plant balances and relative allocation factors, the Division's proposed changes to the Company's proposed depreciation rates resulted in a decrease in depreciation expense of \$49.8 million in Utah from the Company's proposal.

6. On June 21, 2013, the OCS filed the direct testimony of Dan Gimble and Jacob Pous. Based on December 31, 2013, depreciable plant balances and relative allocation factors, the OCS's proposed changes to the Company's proposed depreciation rates resulted in a decrease in depreciation expense of \$73.5 million in Utah from the Company's proposal.

7. On June 21, 2013, UAE filed the direct testimony of Neal Townsend, which recommended extensions of the retirement dates for the Gadsby and Craig Plants and to amortize the Company's surplus steam plant reserves by 2020.

8. On August 2, 2013, Rocky Mountain Power filed rebuttal testimony of Messrs. Lay, Spanos, and Andrews, the OCS filed rebuttal testimony of Mr. Pous, the Division filed rebuttal testimony of Mr. Dunkel, and UAE filed rebuttal testimony of Mr. Townsend.

## **TERMS AND CONDITIONS**

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

9. The Stipulating Parties as well as parties from Wyoming and Idaho due to the system wide impacts of depreciation have jointly engaged in numerous and significant good faith, arms-length negotiations in an effort to resolve this matter. The negotiations have resulted in the agreement of the Stipulating Parties on the terms and conditions as set forth herein.

10. The Stipulating Parties agree that the proposed depreciation rates set forth in Attachment 1- Stipulated Rates attached hereto and incorporated herein, represent just and reasonable depreciation rates for Rocky Mountain Power in Utah commencing January 1, 2014.

11. The depreciation rates originally proposed by the Company in its January 22, 2013, filing, result in an estimated increase in annual depreciation expense across PacifiCorp's six jurisdictions of approximately \$160.8 million (\$83.9 million excluding the early retirement of the Carbon Plant), based on estimated plant balances as of December 31, 2013, before the additional Oregon depreciation expense for shorter coal

plant lives. Table 1 shows the estimated impact of the agreed-upon changes to the depreciation rates on the Company's filed depreciation study.

<b>Table 1</b> <b>Increase in Annual Depreciation Expense</b> <b>Based on Estimated Plant Balances as of December 31, 2013</b> <b>(\$000,000)</b>								
	Total Company		Utah Allocated		Wyoming Allocated		Idaho Allocated	
	Including Carbon	Excluding Carbon	Including Carbon	Excluding Carbon	Including Carbon	Excluding Carbon	Including Carbon	Excluding Carbon
Company's Original Filing 1/22/2013	\$160.8	\$83.9	\$70.5	\$38.1	\$27.3	\$15.0	\$8.9	\$4.5
Total Adjustments Settlement 8/29/2013	(\$72.6)	(\$45.3)	(\$39.3)	(\$27.9)	(\$9.5)	(\$5.2)	(\$4.2)	(\$2.7)
	\$88.3	\$38.6	\$31.1	\$10.3	\$17.8	\$9.9	\$4.6	\$1.8

In Attachment 2 – Jurisdictional Allocation, detailed jurisdictional allocations are provided by category. As a result of the settlement discussions, the Stipulating Parties have agreed to the following adjustments to the Company's filed depreciation study and proposed rates, as described in Paragraphs 9-29. These adjustments are summarized in Table 2 below and indicate the estimated impact on depreciation expense.

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<b>Table 2</b>					
<b>Estimated Impacts of Depreciation Rate Changes</b>					
	<u>Adjustment</u>	<u>Total Company</u>	<u>Utah</u>	<u>Wyoming</u>	<u>Idaho</u>
	RMP Original Filing	\$160,813,194	\$70,463,058	\$27,269,244	\$8,851,849
A	Extend Life on Gadsby to 2032	(379,198)	(159,273)	(60,244)	(21,405)
B	Correct James River life to 2015 and eliminate negative removal cost	626,168	263,008	99,481	35,346
C	Reduce net removal cost for CCCT gas production units from \$20/kW to \$15/kW and change interim retirement curve for Account 343	(2,576,862)	(1,084,204)	(409,382)	(145,878)
D	Lower Wind Production net removal cost from \$9/kW to \$7 /kW	(32,122)	(13,492)	(5,103)	(1,813)
E	Reduce Carbon net removal cost from \$330/kW to \$117/kW	(27,277,358)	(11,457,239)	(4,333,625)	(1,539,774)
F	Change Production interim retirement curves: Account 311 to 120-R <sub>1.5</sub> ; Account 312 to 68-S <sub>0</sub> ; Account 314 to 57-S <sub>0</sub>	(6,393,360)	(2,685,386)	(1,015,730)	(360,898)
G	Change Transmission interim retirement curves: Account 353 to 58-S <sub>0</sub> ; Account 356 to 60-R <sub>3</sub> and merge Account 353.7 with Account 353	(2,546,505)	(1,069,602)	(404,570)	(143,747)
H	Distribution changes including merging Distribution Account 362.7 with Account 362 in Utah, Idaho and Wyoming	(345,207)	(102,669)	(8,654)	(4,621)
I	Change net salvage percentages on Mining Accounts 399.41 and 399.43	(128,830)	(54,203)	(22,821)	(8,083)
J	Expedite Amortization Period for Production Excess Reserves to offset Carbon Shortened Life	(5,790,215)	(2,432,049)	(919,906)	(326,851)
K	Expedite Amortization Period for Additional Production Excess Reserves	(1,861,522)	(781,891)	(295,745)	(105,081)
L	Expedite Amortization Period for Distribution Excess Reserve	(19,599,599)	(17,564,617)	(887,031)	(1,147,951)
M	Calculate depreciation rates and remaining lives using June 30, 2013 actual plant and reserve balances for all plant without a designated terminal life	(1,906,995)	(955,628)	(575,740)	(116,192)
N	Change General Plant lives for Accounts 390, 392.09 and 396.03	(2,121,718)	(1,246,291)	(309,162)	(224,779)
O	Extend Klamath life to 2022 for Wyoming & Idaho <sup>1</sup>	(2,217,094)	-	(352,235)	(125,152)
	SETTLEMENT	\$88,262,777	\$31,119,522	\$17,768,777	\$4,614,970

<sup>1</sup> Utah already treats the Klamath-Associated assets as having a depreciable end life of December 31, 2022.

12. The Stipulating Parties have agreed to extend the terminal life estimate for the Gadsby Plant from December 31, 2022, to December 31, 2032. This adjustment results in new lower depreciation rates, including the impact of adding estimated interim retirements for the extended period. The stipulated depreciation rates also include recognition of the excess reserve adjustment in the calculation. The stipulated depreciation rates have been computed using an estimated terminal removal rate of \$40/kW. (Adjustment A)

13. The Stipulating Parties have agreed to shorten the terminal life on the James River Plant from December 31, 2016, to December 31, 2015, to correct an error in the original Application, and to reduce net salvage estimated in the calculation from -1% to zero. These changes result in higher depreciation rates. (Adjustment B)

14. The Stipulating Parties agree that, for the Chehalis Plant, Currant Creek Plant, Lake Side Plant, Hermiston Plant and Gadsby Peaker Plant (Units 4-6), the interim retirement curve for Account 343 Prime Movers is changed from a 40-R<sub>1</sub> to a 45-R<sub>2.5</sub>. There is no change in the proposed terminal removal dates for each of these plants from those presented in the study. The Stipulating Parties agree to lower the terminal removal cost for the CCCT gas units from the Company's proposed level of \$20/kW to \$15/kW. (Adjustment C)

15. The Stipulating Parties agree that wind generation units will use a 30-year terminal life. The terminal removal cost has been lowered from the Company's proposed level of \$9/kW to \$7/kW. (Adjustment D)

16. The Stipulating Parties agree that the Carbon Plant terminal net salvage estimate is reduced from the proposed \$330/kW to \$117/kW and the stipulated

depreciation rates are calculated based on the April 2015 retirement date. This terminal net salvage estimate of \$117/kW is used for calculating rates in this Stipulation and will not be relied on in developing future removal cost estimates for other generation facilities. Until actual results are available, updated current estimates will be provided in other appropriate filings, and to the extent the updated estimates differ from the \$117/kW, this issue can be reexamined in those filings. The amount ultimately deferred for the Carbon Plant will be trued up to actual prudently incurred removal costs in accordance with the procedures set forth in the stipulation in Docket No. 11-035-200 (the “GRC Stipulation”). The remaining plant balances for the Carbon Plant will be recovered through 2020 consistent with the GRC Stipulation. (Adjustment E)

17. The Stipulating Parties accept the Company’s proposed method in the study to use Iowa Curves to determine interim retirements for production facilities with terminal lives. The proposed depreciation rates reflect adjustments to the retirement curves on coal generation facilities in Account 311 Structures and Improvements from 90-R<sub>2</sub> to 120-R<sub>1.5</sub>, Account 312 Boiler Plant Equipment from 60-L<sub>1</sub> to 68-S<sub>0</sub> and Account 314 Turbogenerator Units from 55-L<sub>1</sub> to 57-S<sub>0</sub>. Reliance on the Company’s Iowa Curve method for settlement purposes does not prevent parties from taking a different position on this issue in future depreciation cases. (Adjustment F)

18. The Stipulating Parties agree to extend lives on transmission assets by: (1) extending the curve for Account 353 Station Equipment from the proposed 57-S<sub>0</sub> to a 58-S<sub>0</sub>; (2) extending the curve for Account 356 Overhead Conductors and Devices from 60-R<sub>3</sub> to 63-R<sub>3</sub>; and (3) merging Account 353.7 Supervisory Equipment with Account 353 Station Equipment resulting in a change to the life-curve combination and related net

salvage for those assets from the proposed 20-R<sub>2</sub> with zero net salvage to 58-S<sub>0</sub> with -5% net salvage. All other lives and retirement curves are accepted as proposed by the Company. Any transmission excess reserve balance will be amortized over the remaining life of the assets rather than on an expedited basis. As part of calculating the stipulated depreciation rates, the depreciation reserve has been redistributed within the transmission function resulting in reduced rates on all accounts within the transmission function and an overall reduction in the composite depreciation rates on those facilities. (Adjustment G)

19. The Stipulating Parties agree to extend lives on distribution assets by merging Account 362.7 Supervisory Equipment with Account 362 Substation Equipment, and using the appropriate state-specific lives for Account 362 in Utah, Idaho and Wyoming. (Adjustment H)

20. The Stipulating Parties agree to amortize net salvage on specific mining accounts as follows: (1) stipulated depreciation rates for Utah mining assets have been established using a terminal life as established in the filed study; (2) net salvage percentages have been adjusted for Account 399.41 Surface Processing Equipment – Preparation Plant from -7% to -6% and for Account 399.46 Longwall Equipment from 5% to 7%; and (3) depreciation reserves have been reallocated within the mining accounts. As a result, the stipulated depreciation rates are lower than the Company's proposed rates on most of the mining accounts. (Adjustment I)

21. In order to offset the depreciation expense impacts of the shortened remaining life at the Carbon Plant, which is calculated to be \$34.7 million, the Stipulating Parties agree to expedite the amortization of the excess depreciation reserves at the

Gadsby Plant and the Hunter Plant. The Stipulating Parties agree that the excess reserve at the Gadsby Plant and the Hunter Plant, calculated as of December 31, 2011, will be returned on a straight line basis. The excess reserve of \$21,073,503 associated with the Gadsby Plant will be amortized based on 9 years and the excess reserve of \$29,635,920 associated with the Hunter Plant will be amortized based on 5 years, resulting in an annual amortization of \$8.2 million. These amounts will be recorded as a separate item by crediting depreciation expense and debiting the depreciation reserve. The new depreciation rates for the Hunter Plant and Gadsby Plant have been recomputed excluding the above identified amounts of excess reserve. This recalculation of rates produced an estimated increase in depreciation expense of \$2.4 million. Coupled with the \$8.2 million excess reserve amount, this results in a net annual decrease in depreciation expense of \$5.8 million. The Stipulating Parties agree the excess reserve amortization will occur annually starting January 1, 2014, and will continue until the full \$34.7 million is returned or ending with the implementation of new depreciation rates resulting from the next depreciation study. During the next depreciation case, an assessment will be made as to the final disposition of any remaining amount of the \$34.7 million which has not been returned at that time. (Adjustment J)

22. The Stipulating Parties agree to amortize depreciation excess reserve for two other steam generation plants with an excess reserve as of December 31, 2011, the Blundell Plant with an excess reserve of \$7,852,016 and the Colstrip Plant with an excess reserve of \$22,930,383, as follows: (1) the annual amount is determined for each plant by dividing the excess reserve by 10; (2) the annual amortization will occur beginning January 1, 2014, until new depreciation rates resulting from the next depreciation study

are implemented; and (3) the stipulated depreciation rates are determined by excluding the identified excess reserve in the calculation. This adjustment is intended to offset the large steam plant increase in this Stipulation and does not set precedent for any future depreciation study. (Adjustment K)

23. The Stipulating Parties agree to amortize depreciation excess reserves on distribution plant for Utah, Idaho and Wyoming as follows: the annual amortization has been determined for each state by identifying the excess reserve for each state individually in the Company's filed study as of December 31, 2011, and then dividing the excess reserve for Utah by 6.5 years, the excess reserve for Idaho by 13 years, and the excess reserve for Wyoming by 15 years. The stipulated depreciation rates have been determined by excluding the identified excess reserve amounts from the calculation. The annual amortization will occur beginning January 1, 2014, until new depreciation rates from the next depreciation study are implemented. This adjustment is intended to offset the large steam plant increase in this Stipulation and does not set precedent for any future depreciation study. (Adjustment L)

24. The Stipulating Parties agree to stipulated depreciation rates calculated using June 30, 2013, actual account balances within specific functions without terminal lives, including transmission, Utah, Idaho and Wyoming distribution and Utah, Idaho and Wyoming general plant. (Adjustment M)

25. The Stipulating Parties agree to adjust general plant lives to be consistent with the Oregon Settlement. Utah, Idaho and Wyoming depreciation rates have been adjusted using the life-curve combinations agreed to in Oregon. For Utah, Account 390 Structures and Improvements, the life has been changed from 45-S<sub>0</sub> to 58-R<sub>1</sub>, Account

392.09 Transportation Equipment-Trailers from 28-S<sub>1</sub> to 34-L<sub>2</sub> and Account 396.03 Light Power Operated Equipment continues to use 9-L<sub>3</sub>. Each state's estimated salvage remains as provided in the Company's originally filed depreciation study. (Adjustment N)

26. For the depreciation rates for Wyoming and Idaho, the Stipulating Parties agree to adjust Klamath-Accelerated depreciation to an end date of December 31, 2022, consistent with the approved life in Utah. The life may be reassessed in the next depreciation cases in Wyoming and Idaho. If Klamath-Accelerated facilities are retired prior to December 31, 2022, return of and on any remaining balance will continue after retirement of the facilities as though it remained in service through December 31, 2022, and the Stipulating Parties agree not to challenge this recovery based on "used and useful" arguments. (Adjustment O)

27. The Stipulating Parties agree to the Company's proposal to move the balance of communication equipment to mass asset accounting with a consistent 24-year life and a depreciation rate of 4.3%. The depreciation reserves will continue to be maintained on a state basis which ensures no inadvertent jurisdictional transfer of depreciation reserve benefits created from different depreciation rates historically being used by each state.

28. The Stipulating Parties agree that the Company will provide a section in the next depreciation study, for informational purposes only, listing the specific mining assets, reserve balances, and respective lives owned by its Wyoming mining subsidiary.

29. A new depreciation study will be filed with the Public Service Commission of Utah no later than five years from the date of the written order resolving

the issues in this Docket, or as otherwise ordered by the Commission. The Stipulating Parties agree the Company will maintain the right to file a new depreciation study sooner than five years.

30. The Stipulating Parties agree the Company will implement a reporting system to keep the Stipulating Parties and the Utah, Idaho and Wyoming Commissions informed regarding any matters likely to have implications regarding potential stranded costs of generating assets. The Company will propose a reporting method by no later than December 31, 2013.

31. The Stipulating Parties agree the Company will provide updated cost estimates regarding Carbon Plant's terminal net salvage, including any new third-party studies as part of the Company's next general rate cases in Utah, Idaho, and Wyoming.

32. The Stipulating Parties agree to adhere to the depreciation study treatment established in paragraphs 43 - 45 of the GRC Stipulation. Recovery of the deferral shall be allocated to customers as determined by the Commission in the Company's 2014 Utah General Rate Case. The Company agrees to propose an allocation of any deferred amount in the 2014 Utah General Rate Case and all other Stipulating Parties reserve their right to respond.

### **General Terms and Conditions**

33. To the extent this Stipulation calls out specific rates, or includes any discussion of rates for states other than Utah, those discussions are for illustrative purposes only, and the Stipulating Parties do not intend to bind other state commissions or create precedent in other states.

34. Not all Stipulating Parties agree that each aspect of this Stipulation is warranted or supportable in isolation. Utah Code Ann. § 54-7-1 authorizes the

Commission to approve a settlement so long as the settlement is just and reasonable in result. While the Stipulating Parties are not able to agree that each specific component of this Stipulation is just and reasonable in isolation, all of the Stipulating Parties agree that this Stipulation as a whole is just and reasonable in result and in the public interest.

35. All negotiations related to this Stipulation are confidential, and no Stipulating Party shall be bound by any position asserted in negotiations. Except as expressly provided in this Stipulation, and in accordance with Utah Admin. Code R746-100-10.F.5, neither the execution of this Stipulation nor the order adopting it shall be deemed to constitute an admission or acknowledgment by any Stipulating Party of the validity or invalidity of any principle or practice of regulatory accounting or ratemaking; nor shall they be construed to constitute the basis of an estoppel or waiver by any Stipulating Party; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Stipulating Party except in a proceeding to enforce this Stipulation.

36. The Stipulating Parties agree that no part of this Stipulation or the formulae and methodologies used in developing the same or a Commission order approving the same shall in any manner be argued or considered as precedential in any future case except with regard to issues expressly called-out and resolved by this Stipulation. This Stipulation does not resolve and does not provide any inferences regarding, and the Stipulating Parties are free to take any position with respect to any issues not specifically called-out and settled herein.

37. The Stipulating Parties request that the Commission hold a hearing on this Stipulation. Rocky Mountain Power, the DPU, and the OCS each will, and other parties may, make one or more witnesses available to explain and offer further support for this Stipulation. The Stipulating Parties shall support the Commission's approval of this Stipulation. As applied to the Division and the Office, the explanation and support shall be consistent with their statutory authority and responsibility.

38. 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 this Stipulation. As applied to the DPU and the OCS, 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 seeks judicial review of a Commission order approving this Stipulation, no Stipulating Party shall take a position in that judicial review proceeding in opposition to the Stipulation.

39. Except with regard to the obligations of the Stipulating Parties under the four immediately 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.

40. This Stipulation is an integrated whole, and any Stipulating Party may withdraw from it if it is not approved without material change or condition by the Commission or if the Commission's approval is rejected or materially conditioned by a reviewing court. If the Commission rejects any part of this Stipulation or imposes any

material change or condition on approval of this Stipulation or if the Commission's approval of this Stipulation is rejected or materially conditioned by a reviewing court, the 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 consistent with the order. No Stipulating Party shall withdraw from the Stipulation prior to complying with the foregoing sentence. If any Party withdraws from the Stipulation, any Stipulating Party retains the right to seek additional procedures before the Commission, including presentation of testimony and cross-examination of witnesses, with respect to issues resolved by the Stipulation, and no party shall be bound or prejudiced by the terms and conditions of the Stipulation.

41. This Stipulation may be executed by individual Stipulating Parties through two or more separate, conformed copies, the aggregate of which will be considered as an integrated instrument.

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: August 30, 2013.

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