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, 2014.

Docket No. 13-035-02

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HEARING AND PROCEDURAL ORDER
BEFORE THE COMMISSION

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TAKEN AT:                                        Heber M. Wells
160 East 300 South
Salt Lake City, UT

DATE:                                                September 11, 2013

TIME:                                                 9:00 a.m.

REPORTED BY:                                   Kellie Peterson, RPR
APPEARANCES

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ALSO APPEARING: Henry Lay
John Stamos
Ken Dickson
William Powell
Dan Gimble
William Dunkel
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COMMISSIONER CLARK: Good morning, ladies and gentlemen. This is a hearing before the Public Service Commission of Utah in Docket No. 13-035-02, in the matter of the application of Rocky Mountain Power for authority to change its depreciation rates effective January 1, 2014.

My name is David Clark. I am one of the three Commissioners. To my left is Chairman Ron Allen, to his left is Commissioner Thad LeVar. Chairman Allen asked that I act as the presiding officer or the hearing officer in our hearing this morning. This hearing has been duly noticed.

And to begin, I would like to review a couple of the recent procedural developments in this docket and then we will have counsel enter their appearances. And I recognize we have at least one participant on the phone, we will have that person identify himself or herself.

But first, on August 19th, the Commission received correspondence from the applicant Rocky Mountain Power indicating that the intervening parties, as well as the Division and the Office of Consumer Services, has reached a stipulation, or an agreement in principal, settling all the outstanding issues in the proceeding, and that a stipulation memorializing that
agreement would shortly be filed with the Commission. The
parties requested through this correspondence that the filing
date for surrebuttal be suspended and that the hearing, which
had previously been scheduled for September 11th, be held on
that day, to examine and receive testimony in support of the
stipulation.

On August 20th, the Commission issued an order
suspending the schedule for the filing of surrebuttal testimony
and providing additional notice of this hearing to be held
September 11th and commencing at 9:00 a.m. Then on August
30th, the stipulation was filed, and from the face of the
document, it appears that the parties to the stipulation are the
applicant, as well as the Division, Public Utilities, the Office of
Consumer Services and the Utah Association of Energy Users.

So we are here today to examine the stipulation, to
receive testimony in its support, and also to receive testimony in
opposition, if there be any. So with that preface, I invite
counsel now to enter their appearances and to indicate whether
they intend to present a witness in support of the stipulation.

And we will begin with Rocky Mountain Power.

MS. HOGLE: Good morning, Commissioners. My
name is Yvonne Hogle and I am here on behalf of Rocky
Mountain Power. With me to present testimony supporting the
stipulation is Mr. Henry Lay, and also with us behind me is Ken
Dickson, also from Rocky Mountain Power. On the phone, as well, is John Stamos and Ned Alice. Thank you.

COMMISSIONER CLARK: Would you restate the name of your witness and spell it for us, please?


THE COURT: Thank you. Ms. Schmid?

MS. SCHMID: Good morning. Patricia E. Schmid from the Attorney General's Office, representing the Division of Public Utilities, and with me as the Division's witness is Dr. William Powell. Also available by phone will be William Dunkel, who has filed testimony on behalf of the Division in this docket.

COMMISSIONER CLARK: Dr. Powell will be your witness?

MS. SCHMID: Yes, he will.

COMMISSIONER CLARK: Thank you.

MR. LOOS: Commissioner, my name is William Loos with the Attorney General's Office. We will have one witness, Mr. Dan Gimble.

COMMISSIONER CLARK: Thank you. Are there any preliminary matters before we hear from the witnesses, beginning with the applicant?

MS. HOGLE: Yes, thank you, Commissioner Clark. The company would like to move for the admission into the record all of the parties, signed parties, prefilled testimony in the
COMMISSIONER CLARK: Is there any objection that that is an efficient way to proceed.

MS. SCHMID: No objection.

MR. LOOS: No objection.

COMMISSIONER CLARK: It will be received.

MS. HOGLE: Thank you.


MS. HOGLE: Thank you. The company would call Mr. Henry Lay.

COMMISSIONER CLARK: And we will allow you to--let me just ask, I believe there is no cross-examination, there is no other party that desire to participate today; is that correct?

Okay, we will have you testify from your seat there next to Counsel, Mr. Lay. Would you please raise your right hand?

HENRY LAY, called as a witness and having been duly sworn, was examined and testified as follows:

COMMISSIONER CLARK: Thank you.

EXAMINATION

BY-MS. HOGLE:

Q. Good morning, Mr. Lay. Can you please state and spell your full name and state your place of employment for the record?

have worked for PacifiCorp for just under 40 years in various accounting and management positions and am currently the corporate controller. And I reside at 825 North East Multnoman, Portland, Oregon.

Q. Are you the same Henry Lay who previously filed direct and rebuttal testimony in the case?
A. Yes.

Q. And do you have any changes to your direct or rebuttal testimony?
A. I do not.

Q. So if I were to ask you the questions in your direct testimony and in your rebuttal testimony again here today, would you answers be the same?
A. Yes.

Q. And what is the purpose of your testimony?
A. I am here to present testimony in support of the stipulation that was reached by all the parties in the case, including Rocky Mountain Power, the Division of Public Utilities, the Office of Consumer Services, and the Utah Association of Energy users.

Q. Can you please provide a brief history of how the parties reached an agreement in this case?
A. The company filed the depreciation study with the Commission on January 22, 2013, including testimony from our consultant, John Jay Spanos, from K. Ian Andrews and from
myself. Direct testimony was filed by intervening parties on June 21, 2013, representing the Division of Public Utilities, the Office of Consumer Services, and Utah Association of Energy Users. Rebuttal testimony was filed on August 2, 2013, representing all parties filing direct testimony including the company.

A settlement conference was held August 12, 2013, including the company and all intervening parties in Utah, as well as intervening parties from consumer filings in the state of Idaho and Wyoming. Subsequent to that, phone calls were held with all of the above parties, from August 16, 2013 to August 26, 2013, to finalize and draft the stipulation. The stipulation agreed to by all parties in this docket was then filed with the Commission on August 30, 2013.

Q. Can you briefly describe the exhibits shown in the stipulation itself and summarize the changes and impacts that were made to the depreciation study?

A. Yes. I assume that Commission has read the stipulation, so I will try and be brief, briefly touch upon the terms. I do not intend to change any of the terms of the stipulation in any way. If I misspeak the language of the stipulation, and not my words, are the binding agreement. I trust the Commission will let me know if it wants more or less details than I am providing.

COMMISSIONER CLARK: Thank you.
THE WITNESS: The stipulation contains two attachment which present the estimated effects of the depreciation rate changes based on projected 2013, December 31, 2013 balances.

Attachment one, stipulated rates provides comparison of the filed depreciation study with the stipulated amounts, including the depreciation rates and other critical factors used in determination of those rates.

Attachment two of the stipulation includes jurisdictional allocations which provides the current approved rates authorized by the Commission, as well as those proposed by the depreciation study and those recommended by the stipulation, and a difference of between those amounts allocated on a Utah jurisdictional basis so that parties and the Commission can see the impact on Utah customers.

The stipulation proposes a reduction of .14 percent to the depreciation study of the approved depreciation rate of 3.24 percent for the company's electric plant, resulting in a composite depreciation rate of 3.10 percent. In addition, the stipulation proposes to make specific annual adjustments of $39 million as the result of amortizing certain excess accumulated depreciation reserves over a period shorter than the normal practice of using remaining life.

Of that, $11.3 million relates to system allocated assets, $23.1 million relates to situs assigned Utah assets and
$4.6 million relate to situs assigned assets in other jurisdictions. This adjustment will occur annually until the next depreciation study is filed or until specific criteria is met as defined in the stipulation. Including this adjustment, the resulting composite rate is 2.93 percent.

On a Utah allocated basis, on the Utah depreciation rates and the study were applied to December 31, 2013 balance, it reduced an increase proposed increase and depreciation rates of $70.5 million on a Utah allocated basis. The stipulation represents a decrease from that proposed amount of $39.3 million, resulting in a proposed amount in stipulation of $31.1 million increase in depreciation expense based on the December 31, 2013 balances.

The most significant items in the Utah allocation change are the $39.3 million are an $11.9 million reduction in paragraph 16 of the stipulation, $11.5 million, and reduction in paragraph 16, resulting from the change in estimated terminal removal of carbon plant from $330 kilowatt hour to $117 kilowatt hour.

A $27.9 million reduction in paragraphs 21, 22, and 23, related to the return of estimated excess depreciation reserves over a period shorter than their remaining lives for a certain steam plant accounts, steam generating facilities and Utah distribution facilities, offset by $7.1 million related increase in depreciation rates and expense.
A $3.8 million reduction, as reflected in paragraph 17 and 18, related to changing interim Iowa curves and lives on the steam plant--on the three major steam plant accounts and two transmission accounts.

The remaining reduction of $3.3 million related to seven other minor changes, including in paragraph 12 and 13, changes in the terminal life on the Gadsby Plant by increasing it ten years, on James River Plant by decreasing it one year, and changing the terminal, estimated terminal on James River to zero.

In paragraph 14 and 15, the projected reduction in terminal removal costs on both wind generation and gas generation facilities, paragraph 14 also extends the interim Iowa curve and life on the largest gas generation account of prime movers by five years.

Paragraph 18 and 19 as proposed to combine the minor investment and supervisory equipment and transmission and distribution with its respective substation accounts and transmission and distribution.

Paragraph 20 reflects a change in estimated removal cost rates on longwall equipment and on the surface processing equipment at the preparation plant at the mine.

Paragraph 24 proposes to use June 30, 2013 as the basis for calculating rates for transmission distribution and general plant while continuing to use December 31, 2013.
projected balances for those items with projected terminal lives, including the generation facilities and mining facilities.

Paragraph 25 proposes to change the Iowa curves and lives consistent with the other jurisdictions on the general plant accounts of structures and improvements, minor small power operated equipment and trailers. And finally the stipulation confirms the company's position on communication equipment that to convert that to mass side accounting.

In addition to the changes with monetary impacts, the stipulation contains five other items. Paragraph 28 states the company will provide a section in the next depreciation study for informational purposes only, listing a--reflecting the specific mine assets, reserve balances, and respective lives of its mining subsidiary company.

Paragraph 29 requires a new depreciation study be filed with the Commission 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.

Paragraph 30 proposes to establish a reporting system which will keep the stipulating parties and the Utah Commission 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.

Paragraph 31 requires the company to provide an
updated cost estimate regarding carbon plants, carbon plants
terminal net salvage, including any new third party studies as
part of the company's next general rate case in Utah.

The stipulation also requests, you know, confirms
the request to make the depreciation rates effective January 1,
2014. That completes my summarization of the stipulation.

BY MS. HOGLE:

Q. Does the stipulation, does the stipulation result in
depreciation rates that are in the public interest?

A. Yes, the stipulation results in depreciation rates
that are far reasonable and are in the public interest.

Q. And do you have any final comments or
recommendations for the Commission?

A. Yes. I recommend the Commission approve the
depreciation study as modified by the stipulation. I also
recommend that the Commission order the company to reflect
the depreciation rates proposed in the stipulation nets account
and records reflective January 1, 2014.

Q. Does this conclude your summary?

A. Yes, it does.

MS. HOGLE: The witness is available for
questions.

COMMISSIONER CLARK: Any questions from
Counsel for Mr. Lay?

CHAIRMAN ALLEN: Mr. Lay, just a quick question
for you. There is a lot of moving parts in this spreadsheet as I look through them. Is there any reason that the stipulation is creating any exceptions to generally accepted accounting principals as to any FERC rules that you know of?

THE WITNESS: Not that I am aware of.

CHAIRMAN ALLEN: Okay, thank you.

COMMISSIONER CLARK: Thank you. You are excused, Mr. Lay. Thank you for your testimony.

MR. LAY: Thank you.

COMMISSIONER CLARK: Ms. Schmid?

MS. SCHMID: Thank you. Before turning to the Division's witness, Dr. William Powell, could we check if the Division's consultant is on the phone? I don't see a light but I am not sure I could see it if it were there.

COMMISSIONER CLARK: Thank you. Let's do that. In fact, I should have at the outset have everyone on the phone identify themselves, just so that we are aware. So let's do that, let's begin with representatives of the company; if you are present on the phone, would you please identify yourselves?

MR. LAY: I have a note here from our consultant that says, "The Division switchboard will not let me in since I am not within five minutes within the call."

So he must have called in late, so, apparently, he is not on the call.

MR. DUNKEL: This is William Dunkel. I am still on
COMMISSIONER CLARK: Thank you, Mr. Dunkel.
Ms. Hogle, do we need to remedy that situation or--
MS. HOGLE: I think he should be on the line.
Would you mind--how can we do that? Is the port open or did they miss their chance.
THE CLERK: Who is on the phone now? Because they will have to call back and we will have to transfer everybody back together.
MS. SCHMID: Mr. Dunkel representing the Division is on the phone.
THE CLERK: The only person on the phone?
COMMISSIONER CLARK: Let me just clarify; is there anyone else besides Mr. Dunkel on the phone? So as I understand it because of our telecommunications limitations, we are going to have to reinitiate the call and transfer it into the room with all of the participants. So if you would like us to do that, Ms. Hogle, we will go off the record for a couple of minutes and accomplish that.
MS. HOGLE: I am wondering, Commissioner Clark, if it would be better if they can just listen in. I believe streaming is I available, unless the Commission will have questions for any of our witnesses, John Spanos in particular.
COMMISSIONER CLARK: I know of no questions. I don't see any party indicating they have questions.
MS. HOGLE: Okay.

COMMISSIONER CLARK: So streaming would be a good option at this point and it is available.

MS. HOGLE: Okay. I will--we will let him know, responding by email, telling him that streaming is available and he can listen in, given that the Commission will not have any questions for him. I think that is a workable situation, if it is for you.

COMMISSIONER CLARK: If your witness will go to our website, the streaming connection will be apparent from the splash page. Thank you.

MS. HOGLE: Thank you, Your Honor.

COMMISSIONER CLARK: Ms. Schmid, we verified that Mr. Dunkel is on the phone. Thank you for mentioning that.

MS. SCHMID: The Division now would request that its witness Dr. William Powell be sworn.

COMMISSIONER CLARK: Please raise your right hand, Dr. Powell.

WILLIAM POWELL, called as a witness and having been duly sworn, was examined and testified as follows:

COMMISSIONER CLARK: Thank you.

EXAMINATION

BY-MS. SCHMID:

Q. Dr. Powell, could you please state your full name, business address, employer, and position for the record?
A. Artie Powell, A-R-T-I-E, P-O-W-E-L-L. I am the manager of the energy section within the Division of Public Utilities here at the Heber Wells building. The address is 160 East 300 South in Salt Lake City.

Q. Dr. Powell, could you please describe your involvement with this docket?

A. Yes. I oversaw and helped coordinate the testimony that was filed in this docket. I also participated with our investigative team in the negotiations and the development of the settlement.

Q. Do you have a summary to provide?

A. Yes, I do.

Q. Please proceed.

A. Thank you for letting me address the Commission this morning in support of the settlement. Before I get started here with just a very brief summary, I will just state that I am not a depreciation expert. If the Commission does have, or other parties have technical questions about aspects of the stipulation, I'll defer those questions to the company's witness or either to our consultant that is on the phone this morning.

Mr. Lay went over the stipulation, so let me be very brief and give the Division's position as regards to the stipulation. The company, as was explained, filed their case requesting approximately $161 million in increase in depreciation expense. That is about $83 or $84 million if you
exclude the early retirement of the carbon plant. On a Utah basis, that results in about $70 million as an increase, or a $38 million if you exclude the carbon plant. With the adjustment, as Mr. Lay pointed out, the Utah allocated portion is about $31 million including the carbon plant, or about $10 million if the carbon plant is excluded.

In its final testimony, the Division had several adjustments. Let me talk about the two adjustments that I believe are the major adjustments that are covered in the stipulation. The first was the forecasted editions. The company's depreciation study was based on yearend results, or the results as of December, 2011. They projected out additions in their plant going out to the end of 2013. In our initial testimony, we had excluded that.

In paragraph 24 of the stipulation addresses the forecasted editions as Mr. Lay pointed out. Essentially, what we have done is we trued up those forecasts for actuals through June of 2013, with a few plant items going out to the end of the year. I believe this is consistent with what we have done in the past, in particularly, the last settled depreciation study where we used actuals up through a date, then had a couple of months where we had some forecasted plant in there. We are using a few additional months in this particular case. I think in the last case we had two months of forecasted results. Here, I think we have about six.
The other issues dealt around the excess reserve that we found in the transmission distribution and production plant accounts. The stipulation addresses the excess reserve for transmission in paragraph 18. This is adjustment G on the list in Table Two. Basically what we have done there is we have left the excess reserve to be advertised over the remaining life of the plant and it came out, in our negotiations in the transmission--or in the settlement discussions, that this is consistent with FERC decisions and orders that they have done in the past.

Distribution plant is handled--the excess reserve of the distribution plant is handled in paragraph 23. And paragraphs 21 and 16 kind of are combined and represent what we have proposed doing with the excess reserves for production plant, in particular the steam plant accounts. In those two cases where they are advertising the excess reserves back to customers over a shortened period of time and not over the life of the plant.

I believe this is a fair or a reasonable balance of the issues involved in terms of the excess reserves. In some sense, you are saying that the company has over collected in the past, in those accounts, but there is some risk that those excess reserves, the rates would have to be changed in the future. So we didn't take all of the excess reserves from those accounts to advertise back, but like I said, I think it is a fair
balance of the issues involved.

Overall, the Division supports the stipulation as being in the public interest. We believe that it is a reasonable balance of all the issues that the parties brought up, or raised, in their testimony, and we are recommending today that the Commission adopt the stipulation. Thank you.

MS. SCHMID: Dr. Powell is now available for questions.

COMMISSIONER CLARK: Are there questions for Dr. Powell?

Thank you, Dr. Powell, you are excused.

MR. POWELL: Thank you.

COMMISSIONER CLARK: Counsel?

MR. LOOS: Thank you, Mr. Clark. We would have as our first witness Mr. Dan Gimble. Would you swear him in, please?

DAN GIMBLE, called as a witness and having been duly sworn, was examined and testified as follows:

EXAMINATION

BY-MR.LOOS:

Q. Please state your name and work address.

A. My name is Daniel E. Gimble. My work address--I am a utility manager with the Office of Consumer Services. My address is 160 East 300 South here in the Heber Wells building, Salt Lake City, Utah.
Q. Are there any corrections to the Office's direct or rebuttal testimony?

A. No corrections, but in connection with my direct testimony, I filed an errata which is in our exhibit list.

Q. And that has been handed out, has it not?

A. Yes.

Q. And have you prepared a statement in support of the depreciation?

A. I have.

Q. Would you read that, please?

A. Sure. Good morning. In this proceeding, the Office filed the testimony of two witnesses, Mr. Jay Copose (sic) who is an expert in the area of utility depreciation and testimony from myself. In testimony, the Office proposes to reduce the $70.5 million increase in depreciation expense in Utah filed by the Company by $73.6 million. That resulted in a net decrease of $3.1 million.

The stipulation resolves all our contested issue in this case and I would like to offer a couple brief comments regarding the stipulation. First, the change in depreciation rates results in an estimated increase in Utah depreciation expense of approximately $31.1 million. That compares to the $70.5 million that was originally requested by the Company on a Utah basis.

Turning to non carbon depreciation expense, that increase is only $10.3 million, compare to, approximately, $38
million that was requested by the Company. This outcome reflects an acceleration of return of production and distribution excess reserve discussed by Mr. Powell a few minutes ago to customers. Expediting the return of excess reserve, especially in the area of distribution was a key provision for the Office in reaching settlement.

Third, a reduction to the carbon related increase in the depreciation expense was also an important consideration for the Office in reaching settlement. This reduction has two primary components; first, a reduction in the carbon net removal cost estimate from the Company’s original estimate of $330 of KW, down to $117 KW. This estimate will be updated in future cases to actual removal costs once the plant is decommissioned and activities commence to demolish the plant.

Secondly, expediting the return of production excess reserves from the gas in Hunter plants to offset the shortened lifespan at the carbon plant. Those are the two aspects related to carbon.

The fourth thing I want to talk about is the spread of the resulting increase and depreciation expense among customer classes. That will be addressed in the Company’s 2014 general rate case. The stipulation provides that the Company will set forth a proposal for that spread and other parties will respond.

Lastly, the Company in the stipulation, the
Company is directed to file its next depreciation study within five years, or as otherwise ordered by the Commission.

In terms of whether—in terms of public interest, the Office believe that the stipulation results in just and reasonable depreciation rates and we recommend that the Commission approve the stipulation as filed. That concludes my statement.

MR. LOOS: Any questions from the Commission?

COMMISSIONER CLARK: No questions for Mr. Gimble? You are excused, Mr. Gimble. Thank you very much for your testimony.

MR. LOOS: I might add that Mr. Gimble submitted to you the following exhibits, OCS 1B Gimble, composed of 12 pages; OCS 1D Gimble, one page; OCS 2D post; and then OCS TR--2R post, and we would ask that those be placed on the record.

COMMISSIONER CLARK: Thank you, and those have been received under the blanket motion and admission that we dealt with at the outset, and thank you for mentioning that.

Is there anything else to come before the Commission at this time in this matter?

MS. HOGLE: Just one question, recommendation; the Company respectfully requests or asks that the Commission consider issuing a bench order in the case.

COMMISSIONER CLARK: Is there a specific purpose to be accomplished in that, Ms. Hogle?
MS. HOGLE: Not that I know of, but we like bench orders.

COMMISSIONER CLARK: Thank you. We will be off the record for five minutes to consider that request.

(A discussion was held off the record.)

COMMISSIONER CLARK: We will be on the record. Based on the testimony presented today and the prefilled testimony and our deliberations, the Commission is prepared to announce its order in this matter today, and it is that the stipulation on depreciation rate changes that has been presented today is approved. We will memorialize that order in a subsequent written ruling, and in order to provide certainty to the parties on not only on the approval of the stipulation but the date for commencement of the measuring of the five-year period within which a new study is to be completed, we will use today’s date as the commencement date for that period, as well, so you can expect to see that in the written order.

Are there any questions or additional matters that we need to address today? Our hearing is adjourned. Thank you all very much.

(The hearing was concluded at 9:45 a.m.)
REPORTER'S CERTIFICATE

State of Utah  

County of Salt Lake  

I hereby certify that the witness in the foregoing deposition was duly sworn to testify to the truth, the whole truth, and nothing but the truth in the within-entitled cause;

That said deposition was taken at the time and place herein named;

That the testimony of said witness was reported by me in stenotype and thereafter transcribed into typewritten form.

I further certify that I am not of kin or otherwise associated with any of the parties of said cause of action and that I am not interested in the even thereof.

IN WITNESS WHEREOF, I set my hand this 22nd day of September, 2013.

___________________________
Kellie Peterson, RPR