Rocky Mountain Power
Docket No. 16-035-36
Witness: Steven R. McDougal

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Supplemental Testimony of Steven R. McDougal

October 2016

Q. Please state your name, business address and present position with PacifiCorp dba Rocky Mountain Power (the "Company").

A. My name is Steven R. McDougal. My business address is 1407 West North Temple Street, Suite 330, Salt Lake City, Utah 84116. My present position is Director of Revenue Requirement for PacifiCorp.

Q. Please briefly describe your education and business experience.

A. I received a Bachelor of Science degree in Accounting and a Master of Accountancy degree from Brigham Young University with an emphasis in Management Advisory Services. I have also attended various educational, professional, and electric-industry related seminars in connection with my employment.

I have been employed with PacifiCorp and its predecessor, Utah Power and Light Company (the "Company"), since 1983. My experience includes various positions within regulation, finance, resource planning and internal audit. My primary responsibilities currently include overseeing the calculation and reporting of the Company's regulated earnings or revenue requirement, assuring that the inter-jurisdictional cost allocation methodology is correctly applied, and explaining these calculations to regulators in the jurisdictions in which the Company operates.

Q. Have you previously testified before this Commission or other state public utility commissions?

A. Yes. I have provided testimony in many dockets before this Commission. I have also provided testimony before the California, Idaho, Oregon, Washington and Wyoming public utility commissions.

Summary of Testimony

Q. Please summarize your testimony.

A. I explain the Company's overall accounting process related to the proposed implementation of programs authorized by Utah Senate Bill 115 ("SB115"), the Sustainable Transportation and Energy Plan Act ("STEP"), signed into law on March 29, 2016. My testimony describes the following:

- The current approach of Utah Demand Side Management ("DSM") accounting, and changes proposed to be effective January 1, 2017
- The accounting related to the new Plant Accelerated Depreciation Fund
- Requested accounting changes associated with the STEP programs, including how the Company will track and report STEP collections and expenditures

Q. Please summarize the treatment of DSM and STEP collections.

A. DSM and STEP collections will be combined into a single customer surcharge on customer bills. However, the collections for the DSM and STEP will be tracked in two separate balancing accounts.

The DSM collection rate will be set by the Commission. The Company will analyze the existing DSM balance and projected DSM expenditures, and with input from the DSM steering committee will make a filing with the Commission for approval of proposed DSM rate changes. The treatment of the DSM balance is addressed later in my testimony.

The STEP collection rate will be set to collect $10 million per year. Although the STEP collections are combined with DSM in the same customer surcharge, they will be tracked in a separate balancing account. The tracking of STEP dollars is addressed later in my testimony, as well as in Exhibit RMP___(SRM-1).

Proposed DSM Accounting

Q. Please summarize the DSM accounting changes associated with STEP.

A. STEP allows the Company to request a change to the current accounting treatment of expensing DSM program costs and begin capitalizing such costs, with amortization over a ten year period.

Q. What is the current accounting treatment for DSM activities?

A. DSM program costs and customer collections are tracked using a regulatory balancing account, where costs debit the account and collections credit the account. Since collections are based on customer energy usage and expenditures are variable, periodic rate reviews are used to target a zero account balance. The rate review process primarily considers the current account balance, planned DSM costs, and expected retail sales volumes.

Q. If approved, please describe how the proposed accounting for DSM would change starting January 1, 2017.

A. Effective January 1, 2017, PacifiCorp would begin to capitalize monthly DSM expenditures. Each monthly capitalization will carry a ten year amortization period. The difference between the DSM expenditures and the amortization expenses related to the capitalized DSM expenditures will create a regulatory asset.

The difference between customer collections from the surcharge attributable to DSM programs and the monthly amortization expense from the capitalized DSM expenditures will create a plant accelerated depreciation fund or regulatory liability that, upon Commission determination, may be used to depreciate thermal generation plant as described later in my testimony.

Q. What will happen on December 31, 2016, to the existing DSM balance?

A. The DSM balance outstanding at December 31, 2016 will be carried forward as a beginning balance of the 2017 DSM program. On January 1, 2017, any carryover balance will be added to or subtracted from the January DSM collections to calculate the net collections for the month.

Q. Is this accounting consistent with the STEP legislation?

A. Yes. The Utah Code, Section 54-7-12.8(2) states the following:

> (2) (a) As provided in this section, the commission may approve a tariff under which an electrical corporation includes a line item charge on the electrical corporation's customers' bills to recover costs incurred by the electrical corporation for demand side management.
>
> (b) The commission shall authorize a large-scale electric utility that is allowed to charge a customer for demand side management under Subsection (2)(a) to:
>
> (i) if requested by the large-scale electric utility, capitalize the annual costs incurred for demand side management provided in Subsection (2)(a);
>
> (ii) amortize the annual cost for demand side management over a period of 10 years;
>
> (iii) apply a carrying charge to the unamortized balance that is equal to the large-scale electric utility's pretax weighted average cost of capital approved by the commission in the large-scale electric utility's most recent general rate proceeding; and

(iv) recover the amortization cost described in Subsection (2)(b)(ii) and the carrying charge described in Subsection (2)(b)(iii) in customer rates.[1]

Q. What is the duration of this change?

A. This change in the accounting for DSM will become effective January 1, 2017 with no anticipated end date. Going forward, the Company anticipates capitalizing and amortizing DSM costs over 10 years rather than expensing them in the year they occur to better align the energy savings that occur from DSM programs over their lives with the program costs.

Plant Accelerated Depreciation Fund

Q. How is the monthly contribution to the plant accelerated depreciation fund calculated?

A. On a monthly basis the difference between the amount the Company collects for DSM and the Company's DSM amortization expense plus any carrying charges will be credited to a regulatory liability account to be used to depreciate thermal generation plant.[2]

Q. How will the funds be utilized?

A. Utah code states that the fund should be used as follows

(b) (i) The commission may authorize the large-scale utility to use the regulatory liability described in Subsection (5)(a(ii) to depreciate thermal generation plant for which the commission determines depreciation is in the public interest for compliance with an environmental regulation or another purpose.[3]

[1] Utah Code Section 54-7-12.8 (2).
[2] Utah code Section 54-7-12.8 subsection (5)(a).
[3] Utah code Section 54-7-12.8 Subsection (5)(b)(i).

Consistent with the legislation, the Commission needs to determine whether the depreciation is in the public interest. Therefore, the Company will make a filing with the Commission requesting the use of the funds in response to environmental regulation or for another purpose the Company believes is in the public interest. The final authorization to use the funds will come from the Commission.

Q. What are the accounting implications of an early plant / unit closure and how will carrying charges be applied?

A. When a plant/unit is approved by the commission for early closure, the reduced plant life will require an acceleration in depreciation expense. The Company will work with the Commission to determine the amount of accelerated depreciation to be recovered utilizing the accelerated depreciation funds.

The journal entries will debit a regulatory liability contra account by the same amount as the accelerated depreciation expense. Monthly carrying charges will be calculated based on the regulatory liability balancing account without including the reduction from the regulatory liability contra account. This will continue until the reduced rate base associated with the accelerated depreciation is included in a rate proceeding. Once the accelerated depreciation is reflected in revenue requirement, the balance in the regulatory liability contra account will be cleared, the regulatory liability account will be reduced, and the carrying charge will be calculated using the reduced regulatory liability balance.

Q. How will carrying charges be calculated and applied to regulatory asset and liability accounts associated with capitalized DSM?

A. Both the capitalized DSM regulatory asset and the plant accelerated depreciation fund regulatory liability accounts will receive a carrying charge rate equal to PacifiCorp's pretax weighted average cost of capital approved by the Commission in its most recent general rate proceeding. Monthly carrying charges for the regulatory asset and regulatory liability are netted against each other and any remaining amount is applied to the regulatory account which carries the greater balance.

STEP Program Accounting

Q. What is the accounting treatment of STEP Pilot program expenditures which do not result in Company owned assets or are not used for Gadsby Curtailment?

A. STEP Pilot program expenditures that do not result in Company owned assets or are not used for Gadsby curtailment will be fully expensed in the period in which they are incurred so long as cumulative expenditures do not exceed cumulative surcharge collections. If cumulative expenditures do exceed cumulative collections, the excess expenditures will reside as a regulatory asset in the balancing account until customer collections are sufficient to clear the expenditures.

Q. What is the accounting treatment of STEP Pilot program expenditures which result in Company owned assets?

A. STEP Pilot expenditures that result in Company owned assets will be recorded as Contributions in Aid of Construction ("CIAC"). This will occur through journal entries that debit the STEP Pilot regulatory balancing account and credit capital project expenditures. This will result in capital assets with either a reduced asset basis for projects partially funded by a STEP Pilot program, or a zero asset basis for projects fully funded by the STEP Pilot program.

Q. What is the accounting treatment of the Gadsby Curtailment STEP Pilot program expenditures?

A. For STEP Gadsby curtailments, net power costs will be increased by the market purchase required to replace the curtailed generation from Gadsby. Any incremental cost that results from a STEP Gadsby curtailment will be charged to the STEP Pilot regulatory balancing account with an offsetting reduction to net power costs, thus making system power costs neutral in relation to the Gadsby curtailment.

Q. How will the Carrying Charge rate on STEP Pilot programs be determined?

A. As stated in paragraph 10 of the application in this docket (Docket No. 16-035-36), the Company requests the Commission authorize the Company to use the carrying charge amount as determined in Docket No. 15-035-69.

Q. How will STEP pilot program costs be tracked?

A. The Company has prepared Exhibit RMP___(SRM-1) describing the internal accounting associated with the STEP program. This is the same document Exhibits C and D to the Application refer to as the overarching Utah STEP accounting document. This document describes the Company accounting treatment for the STEP program, including the following:

- The STEP fund categories
- The accounting treatment for STEP program expenses

- The accounting treatment for STEP related capital expenditures
- Charges not eligible for STEP funding
- The STEP internal project tracking numbers

Q. What will happen on December 31, 2016 to existing balances in the Utah Solar Incentive Program (USIP) balancing account?

A. On December 31, 2016, any remaining balance in the USIP balancing account will be carried forward as a beginning balance for the combined USIP and STEP Pilot programs balancing account. This USIP amount will be separately tracked as part of the STEP accounting procedures described in RMP___(SRM-1). Beginning January 1, 2017, the carry forward USIP balance will be subject to the same carrying charge rates that will apply to the STEP Pilot programs.

Q. Can you describe how STEP reporting will occur?

A. The Company will file with the Commission annually, at the same time as the year-end results of operations report, a report on the STEP balances for the prior year. The report will show the annual collections, spend and committed funds in total and by STEP category. If requested by parties, the Company will schedule a technical conference after the report has been filed to discuss the STEP Pilot programs and the report of STEP balances and the expenditures made during the year.

Q. Does that conclude your Supplemental testimony?

A. Yes.