

Rocky Mountain Power
Docket No. 18-035-36
Witness: Nikki L. Kobliha

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Direct Testimony of Nikki L. Kobliha

September 11, 2018

1 **Q. Please state your name, business address, and present position with PacifiCorp**
2 **d/b/a Rocky Mountain Power (the “Company”).**

3 A. My name is Nikki L. Kobliha. My business address is 825 NE Multnomah Street, Suite
4 1900, Portland, Oregon, 97232. My present position is Vice President, Chief Financial
5 Officer and Treasurer for PacifiCorp.

6 **QUALIFICATIONS**

7 **Q. Briefly describe your education and professional experience.**

8 A. I received a Bachelor of Business Administration with a concentration in Accounting
9 from the University of Portland in 1994. I became a Certified Public Accountant in
10 1996. I joined the Company in 1997 and have taken on roles of increasing responsibility
11 before being appointed Chief Financial Officer in 2015. I am responsible for all aspects
12 of the Company’s finance, accounting, income tax, internal audit, Securities and
13 Exchange Commission reporting, treasury, credit risk management, pension and other
14 investment management activities.

15 **PURPOSE OF TESTIMONY**

16 **Q. What is the purpose of your testimony?**

17 A. My testimony:

- 18 • Summarizes the Company’s proposal for new depreciation rates and their effect on
19 annual depreciation expense. The proposed depreciation rates are based on
20 projected December 31, 2020 plant balances. The proposed depreciation rates are
21 contained in the “Depreciation Study – Calculated Annual Depreciation Accruals
22 Related to Electric Plant as of December 31, 2017” (the “Depreciation Study”),
23 which was performed on behalf of the Company by Mr. John J. Spanos of Gannett

24 Fleming Valuation and Rate Consultants, LLC. The Depreciation Study is provided
25 as Exhibit RMP___(JJS- 2) to Mr. Spanos’s testimony.

26 • Provides a description of the development of the Depreciation Study and explains
27 why the depreciation rates resulting from the Depreciation Study are accurate and
28 reasonable.

29 • Identifies and discusses the main issues considered during the preparation of the
30 Depreciation Study. These issues were addressed in the data provided to Mr. Spanos
31 and, in turn, this data formed the basis for the Depreciation Study and the
32 recommended changes in depreciation rates.

33 • Introduces the other Company witnesses who will testify in this proceeding and
34 provides a brief description of their respective subject matter.

35 • Briefly summarizes the Company’s recommendations to the Public Service
36 Commission of Utah (“Commission”).

37 **RESULTS OF THE DEPRECIATION STUDY**

38 **Q. Please explain the depreciation rates for which the Company is seeking**
39 **Commission approval in this proceeding.**

40 A. The Company seeks Commission approval of the depreciation rates contained in the
41 Depreciation Study based on December 31, 2020 projected balances as shown in the
42 Appendix of the Depreciation Study provided in Exhibit RMP___(JJS-2) on page 1393
43 and as summarized in Mr. Spanos’s testimony.

44 **Q. Please explain how the depreciation rates were developed.**

45 A. The Company instructed Mr. Spanos to use December 31, 2017 historical data as the
46 basis for his depreciation life study analysis, which was then used to develop

47 depreciation rates based on projected December 31, 2020 balances. This process is
48 further described in Mr. Spanos's testimony. Projecting balances through December 31,
49 2020 aligns with the January 1, 2021 proposed effective date wherein all anticipated
50 plant additions have been considered when developing the depreciation rates. The
51 reasons for using a January 1, 2021 effective date are provided in Mr. Steven R.
52 McDougal's testimony.

53 **Q. How will the depreciation rates recommended by Mr. Spanos affect annual**
54 **depreciation expense?**

55 A. The Depreciation Study proposes to increase the current composite depreciation rate of
56 2.74 percent for the Company's electric utility plant by 0.8 percent system-wide,
57 resulting in a new composite depreciation rate of 3.54 percent as shown in
58 Mr. McDougal's Exhibit RMP___(SRM-1). Applying the recommended depreciation
59 rates to the projected December 31, 2020 depreciable plant balances increases total-
60 Company annual depreciation expense by approximately \$228.1 million, compared
61 with the level of annual depreciation expense developed by application of the currently
62 authorized depreciation rates to the same plant balances.

63 Adoption of the proposed depreciation rates increases annual Utah depreciation
64 expense by approximately \$100.1 million, based on projected December 31, 2020
65 depreciable plant balances. In addition, the Company has assumed the current excess
66 reserve amortizations stipulated in the 2013 depreciation study, Docket No. 13-035-02
67 ("2013 depreciation study") will be eliminated, as further described in Mr. McDougal's
68 testimony. Eliminating this excess reserve amortization increases Utah's jurisdictional
69 depreciation expense by \$28.0 million. The calculation of the Utah jurisdictional

70 amount under the 2017 Protocol allocation methodology is described in Mr.
71 McDougal's testimony.

72 **DEPRECIATION STUDY BACKGROUND**

73 **Q. Please explain the concept of depreciation.**

74 A. There are many definitions of depreciation. The following definition was offered by
75 the American Institute of Certified Public Accountants in its Accounting Research
76 Bulletin #43:

77 Depreciation accounting is a system of accounting which aims to
78 distribute the cost or other basic value of tangible capital assets, less
79 salvage (if any), over the estimated useful life of the unit (which may
80 be a group of assets) in a systematic and rational manner. It is a process
81 of allocation, not of valuation.

82 The actual payment for an electric utility plant asset occurs in the period in
83 which it is acquired through purchase or construction. Depreciation accounting spreads
84 this cost over the useful life of the asset. The fundamental reason for recording
85 depreciation is to accurately measure a utility's operating costs. Capital investments in
86 the buildings, plant, and equipment necessary to provide electric service are essentially
87 a prepaid expense, and annual depreciation allocates that prepaid expense applicable to
88 each successive accounting period over the service life of the asset. Annual depreciation
89 is important and essential in informing investors and others of a company's periodic
90 income. If it is omitted or distorted, a company's periodic income statement is distorted
91 and would not meet required accounting and reporting standards.

92 **Q. Why is depreciation especially important to an electric utility?**

93 A. An electric utility's business is capital intensive; that is, it requires a continuous
94 investment in generation, transmission, and distribution equipment with long lives to

95 provide electric service to customers. The annual depreciation of this equipment is a
96 major component of expense to the utility. Regulated electric rates are set to allow the
97 utility the opportunity to fully recover its operating costs, earn a fair return on its
98 investment, and equitably distribute the cost of the assets to customers using the
99 facilities. If depreciation rates are established at an unreasonably low or high level for
100 ratemaking purposes, the utility will not recover its operating costs in the appropriate
101 period, which will shift either costs or benefits from current customers to future
102 customers.

103 **Q. Why was it necessary for the Company to conduct the Depreciation Study?**

104 A. It is prudent accounting practice to periodically update depreciation rates to recognize
105 additions to investment in plant assets and to reflect changes in asset characteristics,
106 technology, salvage, removal costs, life span estimates, and other factors that impact
107 depreciation rate calculations. The Company conducts depreciation studies as it deems
108 appropriate or as mandated by the Commission. The Company's last depreciation study
109 was conducted approximately five years ago. The Commission authorized the
110 Company's current depreciation rates in its Order Confirming Bench Ruling Approving
111 Stipulation on Depreciation Rate Changes, issued November 7, 2013, with rates
112 effective January 1, 2014. The Order required the Company to file a new depreciation
113 study by September 11, 2018.

114 **Q. Was the Depreciation Study prepared under your direction?**

115 A. Yes. As Vice President, Chief Financial Officer and Treasurer, I am responsible for the
116 Company's corporate accounting departments and for ensuring compliance with

117 Company accounting policies and procedures. This includes periodic review and study
118 of depreciation rates.

119 **Q. Do you believe that the estimated plant depreciable lives and depreciation rates**
120 **developed in the Depreciation Study result in a fair level of depreciation expense**
121 **for customers to reimburse the Company for its investment in electric utility plant**
122 **and equipment?**

123 A. Yes, I believe that the Depreciation Study is well supported by the underlying
124 engineering and accounting data, and that the resulting depreciation rates produce an
125 annual depreciation expense that is fair and reasonable for both financial reporting and
126 ratemaking purposes.

127 **Q. What is the basis for your conclusions about the Depreciation Study?**

128 A. A good depreciation study is the product of sound analytical procedures applied to
129 accurate, reliable accounting and engineering data. I have reviewed Mr. Spanos's work
130 in preparing the Depreciation Study, and I concur with his methodologies and
131 application of analytical procedures as described in his testimony. With respect to data
132 inputs, Mr. Spanos used the estimated economic lives for thermal generation plants
133 provided by the Company, as further explained in Mr. Chad A. Teply's testimony.
134 Mr. Spanos used the estimated economic lives for wind and hydro plant provided by
135 the Company, as further explained in Mr. Timothy J. Hemstreet's testimony.
136 Depreciable life estimates for other types of plant and equipment are based on
137 Mr. Spanos's actuarial analysis of the data and were reviewed for reasonableness by
138 the Company. The accounting data has also been carefully and consistently prepared.
139 I recommend approval of the rates contained in the Depreciation Study.

140 **SIGNIFICANT ISSUES**

141 **Q. What are the steam generating facilities-related issues the Company considered in**
142 **the Depreciation Study?**

143 A. The Company considered:

- 144 • Recognizing the impact of incremental capital additions;
- 145 • Shortening of the terminal lives for several of the Company’s coal-fired units;
- 146 • Shifting group depreciation from a plant level to a unit level; and,
- 147 • Changing the method used to determine decommissioning costs for each steam
148 generating facility.

149 **Q. Explain the impact of capital additions to the Company’s steam generating**
150 **facilities.**

151 A. Additions to property, plant and equipment balances, more commonly referred to as
152 capital additions, are one of the primary drivers that increase depreciation expense.
153 Because the Company’s steam facilities have set terminal lives, incremental capital
154 additions have to be depreciated over a shorter remaining life. Further explanation of
155 the need for these additions is included in Mr. Teply’s testimony.

156 **Q. Is this a new issue for steam generating facilities?**

157 A. No. This issue was identified in previous studies where the Company proposed to
158 include projected capital additions in the development of depreciation rates to help
159 mitigate potential future depreciation increases. The Commission’s adoption of
160 depreciation rates arising out of those studies did not allow recognition of any capital
161 additions occurring after the implementation of those rates.

162 **Q. Did the Company consider extending the depreciation lives of the steam**
163 **generating facilities to mitigate the increase in depreciation expense?**

164 A. No. There is uncertainty regarding the period in which steam generating facilities will
165 be allowed to continue to operate due to existing, evolving or emerging environmental
166 regulations. Given this, the Company does not recommend extending the depreciation
167 lives of the steam generating facilities. Instead, the Company recommends retaining
168 61 years, as previously approved by the Commission, and in certain cases shortening
169 the depreciable terminal life of steam generating facilities.

170 **Q. For which steam generating facilities is the Company recommending to shorten**
171 **the terminal life?**

172 A. The Company is recommending shortening the terminal lives of the following steam
173 generation facilities: Cholla Unit 4, Colstrip Plant, Craig Plant and Jim Bridger Plant
174 Unit 1 and Unit 2, as further explained and discussed in Mr. Teply's testimony.

175 **Q. Describe the accounting treatment for the retirement of Naughton Unit 3.**

176 A. As referenced in Exhibit RMP___(CAT-1) of Mr. Teply's testimony, Naughton Unit 3
177 is projected to be retired in 2019, prior to the proposed January 1, 2021 implementation
178 date of this Depreciation Study. Consistent with the composite or group procedure of
179 depreciation¹ the Company applies to all facilities, the cost of the retired unit is included
180 in Naughton Plant's depreciation reserve.

181 **Q. Explain the change made to the Company's group method of depreciation for**
182 **steam generating facilities.**

183 A. In the 2013 depreciation study, depreciation for steam facilities were grouped by

¹ The group depreciation procedure is discussed in Part V of Exhibit RMP___(JJS-2) to Mr. Spanos' testimony.

184 Federal Energy Regulatory Commission (“FERC”) account at a plant level, merging
185 all units within one facility into one common group. For this Depreciation Study, steam
186 facilities are grouped by FERC account at a unit level. This shift in methodology allows
187 the Company the flexibility to retire different units in different years.

188 **Q. Please explain the adjustment made to decommissioning costs for steam**
189 **generating facilities.**

190 A. In the 2013 depreciation study, the Company determined the decommissioning cost at
191 each facility by applying \$40 per kW. In this Depreciation Study, the Company has
192 provided plant-specific estimates of decommissioning costs, as further explained in Mr.
193 Teply’s testimony.

194 **Q. Has the Company changed any of the significant issues considered for**
195 **hydroelectric facilities lives in this Depreciation Study?**

196 A. No. The 2013 depreciation study based hydroelectric plant terminal lives primarily on
197 FERC hydroelectric plant license termination dates. For this Depreciation Study, the
198 Company continued to use the FERC hydroelectric plant license termination dates and
199 has updated those lives where new licenses have been issued or are estimated to be
200 reissued within the next five years.

201 **Q. Please discuss the other hydroelectric facilities-related issues you considered in**
202 **this Depreciation Study.**

203 A. The 2013 depreciation study included removal costs for hydroelectric facilities where
204 the Company has entered into negotiations or settlements to remove those facilities, as
205 well as a decommissioning reserve for minor hydroelectric facilities that may be
206 removed in the near future. The Company has updated the Depreciation Study to reflect

207 the current projection for small plants where the Company has estimated some
208 probability of their decommissioning in the near future. This reserve is not intended to
209 cover the decommissioning or removal of any large facility.

210 **Q. Please discuss the wind generation facilities-related issue in the Depreciation**
211 **Study.**

212 A. The Company will repower many of its wind generation facilities in 2019 and 2020.
213 The estimated balances in the Depreciation Study schedule for projected plant balances
214 as of December 31, 2020, reflect both the new investment in plant due to the
215 repowering, as well as the retirement of wind turbine equipment associated with the
216 repowered assets, with the retirement costs included in the depreciation reserve. The
217 treatment of retired wind turbine equipment included in the depreciation reserve is
218 consistent with the composite or group procedure of depreciation the Company applies
219 to all facilities. With the repowering of the wind generation facilities, the Company is
220 recommending extending the terminal lives of wind generation facilities to be 30 years
221 from the time of repowering, as discussed further in Mr. Hemstreet's testimony.

222 **Q. Please discuss the natural gas generation facilities-related issue in the**
223 **Depreciation Study.**

224 A. Since the 2013 depreciation study, the Company has continued to experience interim
225 retirements related to scheduled overhauls on its natural gas facilities. This interim
226 retirement experience has allowed the Company to provide Mr. Spanos with additional
227 historical retirement data to aid in his analysis and determination of interim retirement
228 patterns used in the calculation of the composite remaining lives. Changes to the

229 projected future interim retirements have contributed to an increase in depreciation
230 expense.

231 **Q. Were there any significant changes in the Depreciation Study related to**
232 **transmission, distribution, and general plant assets?**

233 A. No. The Company provided Mr. Spanos with the historical data for transmission,
234 distribution, and general plants assets including removal costs, salvage, and third-party
235 accommodation payments related to removal costs, to use in determining the proposed
236 depreciation lives and rates. There were no significant changes to the depreciation lives
237 and rates for these assets, outside of those which would normally result from updating
238 the study.

239 **Q. Are there any significant changes related to mining facilities in this study?**

240 A. Yes, the Utah mine has been removed from this Depreciation Study. Since the 2013
241 study, the Company's Deer Creek mine was closed and mine reclamation is underway.

242 **INTRODUCTION OF WITNESSES**

243 **Q. Who is testifying on behalf of the Company in support of the Company's**
244 **Application?**

245 A. Four other witnesses testify on behalf of the Company: Mr. John J. Spanos, Senior
246 Vice President of Gannett Fleming Valuation and rate Consultants, LLC.; Mr. Steven
247 R. McDougal, Director of Revenue Requirements; Mr. Chad A. Teply, Senior Vice
248 President of Strategy and Development; and Mr. Timothy J. Hemstreet, Director of
249 Renewable Energy Development.

250 Mr. Spanos presents the Depreciation Study and the depreciation rates for which
251 the Company is seeking Commission approval. He describes how the Depreciation

252 Study was prepared and discusses the basis for the recommended changes in
253 depreciation rates.

254 Mr. McDougal describes the jurisdictional allocation of the Depreciation Study
255 to Utah and how the new study complies with and responds to reporting requirements
256 from the 2013 depreciation study.

257 Mr. Teply describes the process used by Company's engineers to evaluate the
258 current approved plant depreciable lives for steam and natural gas generating facilities
259 and to estimate the retirement date for those generating facilities. Mr. Teply
260 demonstrates that the estimated retirement dates proposed by the Company for
261 generation plants are reasonable, prudent, and are appropriate inputs for Mr. Spanos's
262 depreciation analysis. Mr. Teply also explains why the amounts the Company proposes
263 to include as terminal net salvage, or "decommissioning costs," in the calculation of
264 depreciation rates for generating plants, are reasonable and prudent.

265 Mr. Hemstreet describes the Company's repowering project for its wind
266 facilities and the process of determining an appropriate life for the repowered wind
267 facilities. He also describes the procedure used to estimate the retirement date for the
268 Company's hydroelectric generating stations. He demonstrates that the estimated
269 retirement dates proposed by the Company for wind and hydroelectric generation plants
270 are reasonable, prudent, and are appropriate inputs for Mr. Spanos's depreciation
271 analysis.

272 SUMMARY OF RECOMMENDATIONS

273 **Q. Please summarize your recommendations to the Commission.**

274 A. I recommend that the Commission find that the depreciation rates sponsored by

275 Mr. Spanos in the Depreciation Study based on projected December 31, 2020 plant
276 balances are fair and reasonable depreciation rates for the Company. I further
277 recommend that the Commission approve the Company's request to implement these
278 depreciation rates in its accounts and records effective January 1, 2021.

279 **Q. Does this conclude your direct testimony?**

280 **A. Yes.**