Rocky Mountain Power
Docket No. 18-035-36
Witness: Steven R. McDougal

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Direct Testimony of Steven R. McDougal

September 11, 2018

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

A. My name is Steven R. McDougal, and my business address is 1407 W. North Temple, Suite 330, Salt Lake City, Utah 84116.

QUALIFICATIONS

Q. Please describe your education and professional background.

A. I received a Master of Accountancy from Brigham Young University with an emphasis in Management Advisory Services and a Bachelor of Science degree in Accounting from Brigham Young University. In addition to my formal education, I have also attended various educational, professional, and electric industry-related seminars. I have been employed with PacifiCorp and its predecessor, Utah Power and Light Company, since 1983. My experience includes various positions with regulation, finance, resource planning, and internal audit. My current position is the Director of Revenue Requirements.

Q. What are your current responsibilities with the Company?

A. My primary responsibilities include overseeing the calculation and reporting of the Company's regulated earnings and revenue requirement, assuring that the interjurisdictional cost allocation methodology is correctly applied, and explaining those calculations to regulators in the jurisdictions in which the Company operates.

Q. Have you testified in previous proceedings?

A. Yes. I have provided testimony in many dockets before the Public Service Commission of Utah ("Commission"). I have also provided testimony before the California, Idaho, Oregon, Washington, and Wyoming public utility commissions.

PURPOSE OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. My testimony supports the Company's request to implement depreciation rates from the 2018 Depreciation Study presented in this docket ("Depreciation Study"). Specifically, my testimony:

- Discusses the impact of the new depreciation rates and effective date on the annual depreciation expense allocated to Utah and provides support for the allocation of annual depreciation expense to Utah.
- Identifies and discusses state-specific items considered during the preparation of the Depreciation Study.
- Responds to reporting requirements from the Company's depreciation study approved in Docket No. 13-035-02 ("2013 depreciation study").

ALLOCATION OF THE DEPRECIATION STUDY

Q. What is the Utah-allocated effect on annual depreciation expense if the depreciation rates presented by Mr. John J. Spanos are adopted?

A. The Company allocated the annual depreciation expense using the 2017 Protocol allocation methodology that was approved in Docket No. 15-035-86 (the "2017 Protocol"). The adoption of the depreciation rates proposed in the Depreciation Study increase depreciation expense by approximately $100.1 million on a Utah basis. In addition, ending the excess reserve amortizations increase depreciation expense by $28.0 million on a Utah basis. The calculation of the Utah allocated depreciation increase is provided in attached Exhibit RMP___(SRM-1).

Q. What does the Company propose as the effective date for implementing the new depreciation rates?

A. The Company's accounting system maintains depreciation rates on a calendar year basis. Therefore, the Company proposes the new depreciation rates be made effective January 1, 2021.

Q. Does the 2017 Protocol allocation methodology expire before the proposed implementation for the new depreciation rates?

A. Yes. The 2017 Protocol is currently approved through December 31, 2019.

Q. Why is the Company proposing an effective date of January 1, 2021, after the current expiration of the 2017 Protocol allocation methodology?

A. The Company is actively working with parties in its service territories to develop and adopt a new allocation methodology commonly referred to as the Coal Life Evaluation and Realignment Plan ("CLEAR"). Although the timing of a formal approval is unknown, the Company believes an implementation date of January 1, 2021 would allow adequate time to resolve and gain approval of the new allocation methodology. Aligning the Depreciation Study with the anticipated approval of CLEAR would help maintain customer rate stability.

STATE-SPECIFIC ITEMS

Q. Please summarize the state-specific items you considered when preparing Depreciation Study testimony.

A. The primary state-specific issues I address in my Depreciation Study testimony are: (1) the expedited excess depreciation reserve amortizations, (2) the regulatory treatment of hydroelectric facilities on the Klamath River, and (3) the Company's proposed treatment of the Sustainable Transportation and Energy Plan ("STEP") regulatory liability.

Q. The approved stipulation to the 2013 depreciation study included expedited excess reserve amortizations. Please summarize the reasons those amortizations were established.

A. The primary reason excess reserves were established was to address the retirement of assets occurring outside of projected expectations and changes in lives and net salvage rates that had occurred. There were excess reserves for the Colstrip, Hunter, Gadsby Units 1-3, and Blundell steam production units. There were additional excess reserves for Utah, Idaho, and Wyoming distribution plant. Historically, any excess reserves are returned over the remaining life of the assets; however, as part of the 2013 depreciation study stipulation, parties agreed to expedite the return of these excess reserves over a shorter period.

Q. Over what period were the excess reserves to be returned to customers?

A. The excess reserve amortizations were to occur over the period between the effective date of the 2013 depreciation study and this filing.

Q. What is the Company proposing for excess reserve amortizations?

A. The Company proposes to end the excess reserve amortizations for Colstrip, Hunter, Gadsby Units 1-3, and Blundell steam production units. The Company also proposes to end the excess reserve amortizations in Utah, Idaho, and Wyoming for distribution plant. This results in a $4.9 million allocated impact for the elimination of the steam excess reserve amortizations and a $23.1 million impact for the elimination of the Utah distribution excess reserve amortizations. These excess reserve amortizations are provided in Exhibit RMP___(SRM-1).

Q. Please explain why hydroelectric plants on the Klamath River are not included in the Depreciation Study.

A. In the 2013 depreciation study, the Klamath River hydro facilities were calculated to be fully depreciated by December 31, 2019, before the proposed effective date of this Depreciation Study; thus, they were not included in the Depreciation Study.

Q. Does Utah assume different regulatory treatment of the Klamath facilities from what was calculated as part of the 2013 depreciation study?

A. Yes. In the Company's 2012 General Rate Case, Docket No. 11-035-200, stipulating parties agreed that the Company would depreciate the Klamath River hydro facilities through December 31, 2022. To effectuate this agreement, the Company makes a regulatory adjustment to remove the incremental depreciation associated with the 2019 Klamath facilities' depreciable life in Utah results of operations and other appropriate filings. The regulatory adjustment also removes Klamath relicensing costs and the associated amortization expense and reserve. Utah's allocated share of Klamath relicensing costs is included in a regulatory asset and amortized through December 31, 2022.

Q. Will the Company continue to make this adjustment for regulatory filings made in Utah?

A. Yes, the Company will continue to recognize the stipulated life of Klamath through a regulatory adjustment in the relevant filings in Utah.

Q. Does the STEP pilot program include any deferral that could be used to help offset the Utah-allocated share of depreciation expense as a result of the Depreciation Study?

A. Yes. The Company is currently deferring, on a monthly basis, to a regulatory liability the difference between the amount the Company collects for demand-side management programs ("DSM") and the 10-year amortization expense of DSM, plus carrying charges.

Q. What is the estimated regulatory liability balance associated with STEP funds on the proposed effective date of the Depreciation Study?

A. The Company estimates, based on projected load, the STEP regulatory liability balance will be approximately $188.9 million as of January 1, 2021. A projection of the STEP regulatory liability is provided as Exhibit RMP___(SRM-2).

Q. Would the Company support using the STEP regulatory liability to offset accelerated plant depreciation as part of this Depreciation Study?

A. Yes, the Company supports working with parties to develop a strategy for using the STEP regulatory liability to help offset any accelerated depreciation proposed as part of the Depreciation Study. Possible options include Cholla Unit 4, Colstrip, Craig, and Jim Bridger Units 1-2.

2013 DEPRECIATION STUDY REPORTING REQUIREMENTS

Q. Are there any additional exhibits you will be sponsoring as part of your direct testimony?

A. Yes, Paragraph 28 of the Commission-approved stipulation from the 2013 depreciation study stated:

> *"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."*

This information is provided as Exhibit RMP___(SRM-3).

SUMMARY OF RECOMMENDATIONS

Q. Please summarize your recommendations to the Commission.

A. I recommend that the Commission find that the depreciation rates presented by Mr. Spanos in the Depreciation Study based on projected December 31, 2020 balances are fair, just and reasonable depreciation rates. I further recommend that the Commission approve the Company's request to implement these depreciation rates in its accounts and records effective January 1, 2021.

Q. Does this conclude your direct testimony?

A. Yes.