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

Second Supplemental Testimony of Steven R. McDougal

December 2018

Q. Are you the same Steven R. McDougal who submitted direct testimony in this proceeding on behalf of PacifiCorp dba Rocky Mountain Power ("the Company")?

A. Yes.

PURPOSE OF TESTIMONY

Q. What is the purpose of your second supplemental testimony?

A. On November 9, 2018, the Public Service Commission of Utah ("PSC") approved a settlement stipulation in Docket No. 17-035-69, Investigation of Revenue Requirement Impacts of the New Federal Tax Legislation Titled: "An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution of the budget for fiscal year 2018" ("Tax Docket") and Docket No. 16-035-36, In the Matter of the Application of Rocky Mountain Power to Implement Programs Authorized by the Sustainable Transportation and Energy Plan Act ("Stipulation"). As part of the Stipulation, the Company agreed to make a filing in this proceeding within 30 days of the Commission's written order approving the Stipulation in order to reflect the certain provisions that, most notably, include reducing the net book balance of specific thermal generation units, or a depreciation "buy down" of thermal units, using the regulatory liability established by the dockets referenced above. My second supplemental testimony provides the required information.

Q. Please summarize which thermal units will be bought down and the regulatory treatment as a result of the Stipulation.

A. The stipulated "buy down" regulatory treatment is as follows:

1. The amount of current tax reduction not reflected in rates, along with the non-

protected excess deferred income taxes ("EDIT") balances will be used to reduce Utah's share of the Dave Johnston plant's current net book value by offsetting depreciation expense.

2. The STEP Depreciation Funds will be used to offset depreciation expense and reduce Utah's share of the plant's current net book value of the Qualified Thermal Plant units listed in Table 1 below, to the extent possible, in the order listed.

TABLE 1

	Currently Effective Utah Depreciable Life	Proposed Utah Depreciable Life
Cholla Unit 4	2042	April 2025
Craig Unit 1	2034	2025
Craig Unit 2	2034	2026
Colstrip Unit 3	2046	2027
Colstrip Unit 4	2046	2027
Jim Bridger Unit 1	2037	2028
Jim Bridger Unit 2	2037	2035

Q. What is the impact to Utah allocated annual depreciation expense as a result of the buy down of the Qualified Thermal Plants?

A. Buying down the listed Qualified Thermal Plants results in a reduction to the Utah allocated depreciation expense associated with Utah Depreciable Plant from $100.1 million to $31.8 million. Exhibit RMP___(SRM-1SS) has been revised to reflect this update.

Q. Please describe how Exhibit RMP___(SRM-1SS) has been calculated and how the Company plans on accounting for the plant buy downs?

A. To buy down the Qualifying Thermal Plants, the Company reflected an offset as a STEP Adjustment or Tax Settlement Adjustment to the estimated December 31, 2020 net book value and calculated annual depreciation amount of the revised work paper supporting Exhibit RMP___(SRM-1). Next, the Utah-allocated share was calculated by multiplying each of these amounts by 43.5042 percent, which is the December 2017 Results of Operations Utah System Generation ("SG") allocation factor. This factor is consistent with the allocation factor used to support my calculations in Exhibit RMP___(SRM-1), filed as part of my direct testimony in this proceeding. Since the Company cannot separate and buy down the Utah allocated share of each Qualifying Thermal Plant's net book value, the Company will make an accounting entry to offset Utah's estimated share of the annual depreciation expense. The adjustment amount is reflected as the Utah Accrual Adjustment and provided in the work papers.

Q. Does Exhibit RMP___(SRM-1SS) reflect the buy down of all Qualified Thermal Plants listed in Table 1?

A. No. The projected STEP regulatory liability as of December 31, 2020 is $192 million and is assumed depleted after offsetting accelerated depreciation for Cholla Unit 4, Craig Units 1 and 2, and a portion of Colstrip. As stipulated, all incremental amounts in the STEP Depreciation Fund that are related to collections after December 31, 2020, will be used to offset the projected Utah depreciation expense of the Qualifying Thermal Plants until the results of the next depreciation study are incorporated into rates. Jim Bridger Units 1 and 2 and a portion of Colstrip will be the remaining Qualifying Thermal Plants after December 31, 2020 and will be offset by future STEP Depreciation Fund collections. Exhibit RMP___(SRM-1) does not reflect the future treatment agreed to as part of the Stipulation.

Q. Will the Company update the Utah Accrual Adjustment to account for differences of Utah allocated depreciation expense resulting from a dynamic Utah SG allocation factor?

A. No. The Company is proposing to hold the Utah Accrual Adjustment constant and will true-up any differences in the Company's next depreciation study or at time of plant closure, whichever is sooner. The differences will be shown in the Company's results of operations report filed with the PSC.

Q. How does the Company plan to account for any plant additions to Qualifying Thermal Plants that are required for continued operation of the units before retirement?

A. For any plant additions to the thermal units bought down by the regulatory liabilities from the Stipulation, the Company proposes using the revised deprecation rates approved in the Depreciation Study. Although certain Qualifying Thermal Plants are assumed to have been bought down, this will occur as an offset to annual depreciation expense as previously explained. Since plants are operated and accounted for on a total-Company basis, the approved depreciation rate will still be applied to each plant balance in each period. If a capital addition is required, the respective depreciation rate would be applied and expensed. The stipulated buy down of depreciation expense is fixed and calculated to result in an estimated December 31, 2020 net plant balance of zero.

Q. Are there any additional items you would like to address?

A. Yes. The amounts shown in the Total Utah Balance reflected in Table B of the Stipulation did not include the net salvage associated with interim retirements. When preparing the Depreciation Study, the net salvage associated with interim retirements is included. When calculating the actual buy down amount to result in a net book value of zero beginning January 1, 2021, the net salvage associated with interim retirements should be included. The revised work paper reflects the appropriate buy down needed for each respective qualifying thermal plant; however, this amount is slightly different from Table B of the Stipulation.

Q. Does this conclude your second supplemental testimony?

A. Yes.