Docket No. 20000-___-EA-18
Witness: Nikki L. Kobliha

BEFORE THE WYOMING PUBLIC SERVICE COMMISSION

ROCKY MOUNTAIN POWER

Direct Testimony of Nikki L. Kobliha

September 2018

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

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

QUALIFICATIONS

Q. Briefly describe your education and professional experience.

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

Q. Have you testified in previous proceedings?

A. Yes. I have recently provided testimony in the Company's repowering and new wind and transmission cases in Docket Nos. 20000-519-EA-17 and 20000-520-EA-17. I have also provided testimony before the Utah, Idaho and California public utility commissions.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. My testimony:

- Summarizes the Company's proposal for new depreciation rates and their effect on annual depreciation expense. The proposed depreciation rates are based on projected December 31, 2020 depreciable plant balances. The proposed depreciation rates are contained in the "Depreciation Study - Calculated Annual Depreciation Accruals Related to Electric Plant as of December 31, 2017" (the "Depreciation Study"), which was performed on behalf of the Company by Mr. John J. Spanos of Gannett Fleming Valuation and Rate Consultants, LLC. The Depreciation Study is provided as Exhibit RMP__(JJS-2) to Mr. Spanos's testimony.

- Provides a description of the development of the Depreciation Study and explains why the depreciation rates resulting from the Depreciation Study are accurate and reasonable.
- Identifies and discusses the main issues considered during the preparation of the Depreciation Study. The disposition of these issues was reflected in the data provided to Mr. Spanos and, in turn, this data formed the basis for the Depreciation Study and the recommended changes in depreciation rates.
- Introduces the other Company witnesses who will testify in this proceeding and provides a brief description of their respective subject matter.
- Summarizes the Company's recommendations to the Wyoming Public Service Commission ("Commission").

RESULTS OF THE DEPRECIATION STUDY

Q. Please explain what the Company is seeking Commission approval of in this proceeding.

A. The Company seeks Commission approval of the depreciation rates contained in the

Depreciation Study based on December 31, 2020 projected balances as shown in the Appendix of the Depreciation Study and as summarized in Mr. Spanos's testimony.

Q. Please explain how the depreciation rates were developed.

A. The Company instructed Mr. Spanos to use December 31, 2017 historical data as the basis for his depreciation life study analysis, which was then used to develop depreciation rates based on projected December 31, 2020 balances. This process is further described in Mr. Spanos's testimony. Projecting balances through December 31, 2020 aligns with the January 1, 2021 proposed effective date wherein all anticipated plant additions have been considered when developing the depreciation rates. The reasons for using a January 1, 2021 effective date are further described in Mr. Steven R. McDougal's testimony.

Q. What is the effect on annual depreciation expense if the depreciation rates recommended by Mr. Spanos are adopted?

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

Adoption of the proposed depreciation rates increases annual Wyoming depreciation expense by approximately $33.3 million, based on projected December 31, 2020 depreciable plant balances. In addition, the Company has assumed the current excess reserve amortizations will no longer be necessary, as further described in Mr. McDougal's testimony. Eliminating this excess reserve amortization further increases Wyoming's jurisdictional depreciation expense by $3.8 million. The calculation of the Wyoming jurisdictional amount under the 2017 Protocol allocation methodology is described in Mr. McDougal's testimony.

DEPRECIATION STUDY BACKGROUND

Q. Please explain the concept of depreciation.

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

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

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

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

A. An electric utility's business is capital intensive; that is, it requires a continuous investment in generation, transmission, and distribution equipment with long lives to provide electric service to customers. The annual depreciation of this equipment is a major component of expense to the utility. Regulated electric rates are set to allow the utility the opportunity to fully recover its operating costs, earn a fair return on its investment, and equitably distribute the cost of the assets to customers using the facilities. If depreciation rates are established at an unreasonably low or high level for ratemaking purposes, the utility will not recover its operating costs in the appropriate period, which will shift either costs or benefits from current customers to future customers.

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

A. It is sound accounting practice to periodically update depreciation rates to recognize additions to investment in plant assets and to reflect changes in asset characteristics, technology, salvage, removal costs, life span estimates, and other factors that impact depreciation rate calculations. The Company conducts depreciation studies as it deems appropriate or as mandated by the Commission. The Company's last depreciation study was conducted approximately five years ago. The Company's current depreciation rates in Wyoming became effective January 1, 2014, based on a 2013 depreciation study. The Commission order approving the stipulation on depreciation rates in Docket No. 20000-427-EA-13 required the Company to file a new depreciation study by December 2, 2018.

Q. Was the Depreciation Study prepared under your direction?

A. Yes. As Vice President, Chief Financial Officer and Treasurer, I am responsible for the Company's corporate accounting departments and for ensuring compliance with Company accounting policies and procedures. This includes periodic review and study of depreciation rates.

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

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

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

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

SIGNIFICANT ISSUES

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

A. The Company considered:

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

Q. Explain the impact of capital additions to the Company's steam generating facilities.

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

Q. Is this a new issue in relation to the steam generating facilities?

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

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

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

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

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

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

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

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

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

A. In the depreciation study performed in 2013 (the "2013 depreciation study"), depreciation for steam facilities was grouped by Federal Energy Regulatory Commission ("FERC") account at a plant level, merging all units within one facility into one common group. For the Depreciation Study, steam facilities are grouped by FERC account at a unit level. This shift in methodology allows the Company the flexibility to retire different units in different years.

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

A. In the 2013 depreciation study, the Company determined the decommissioning costs at each facility by applying $40 per kilowatt. In this Depreciation Study, the Company provided plant-specific estimates of decommissioning costs, as further explained in Mr. Teply's testimony.

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

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

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

A. The 2013 depreciation study included removal cost for hydroelectric facilities where the Company has entered into negotiations or settlements to remove those facilities, as well as a decommissioning reserve for minor hydroelectric facilities that may be removed in the near future. The Company updated the Depreciation Study to reflect the current projection for small plants where the Company estimated some probability of their decommissioning in the near future. This reserve is not intended to cover the decommissioning or removal of any large facility.

Q. Please discuss the wind generation facilities-related issues in the Depreciation Study.

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

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

A. Since the 2013 depreciation study, the Company has continued to experience interim retirements related to scheduled overhauls on its natural gas facilities. This interim retirement experience has allowed the Company to provide Mr. Spanos with additional historical retirement data to aid in his analysis and determination of interim retirement patterns used in the calculation of the composite remaining lives. Changes have been made in the projected future interim retirements contributing towards an increase in depreciation.

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

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

Q. Are there any significant changes related to mining facilities in this Depreciation Study?

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

INTRODUCTION OF WITNESSES

Q. Who will be testifying on behalf of the Company in support of the Application?

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

Mr. Spanos presents the Depreciation Study and the depreciation rates for which the Company is seeking Commission approval. He describes how the Depreciation Study was prepared and discusses the basis for the recommended changes in depreciation rates.

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

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

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

SUMMARY OF RECOMMENDATIONS

Q. Please summarize your recommendations to the Commission.

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

Q. Does this conclude your direct testimony?

A. Yes.

BEFORE THE WYOMING PUBLIC SERVICE COMMISSION

IN THE MATTER OF ROCKY MOUNTAIN POWER'S APPLICATION FOR AN ORDER AUTHORIZING A CHANGE IN DEPRECIATION RATES APPLICABLE TO ELECTRIC PROPERTY	DOCKET NO. 20000-___-EA-18 (RECORD NO. ______)

AFFIDAVIT, OATH AND VERIFICATION

Nikki L. Kobliha (Affiant) being of lawful age and being first duly sworn, hereby deposes and says that:

Affiant is the Vice President, Chief Financial Officer and Treasurer for PacifiCorp, which is a party in this matter.

Affiant prepared and caused to be filed the foregoing testimony. Affiant has, by all necessary action, been duly authorized to file this testimony and make this Oath and Verification.

Affiant hereby verifies that, based on Affiant's knowledge, all statements and information contained within the testimony and all of its associated attachments are true and complete and constitute the recommendations of the Affiant in her official capacity as Vice President, Chief Financial Officer and Treasurer.

Further Affiant Sayeth Not.

Dated this 4 day of September, 2018

Nikki L. Kobliha
Vice President, Chief Financial Officer and Treasurer
825 NE Multnomah St
503-813-5645

OFFICIAL STAMP
TIFFANY LEE BROWN
NOTARY PUBLIC-OREGON
COMMISSION NO. 938864
MY COMMISSION EXPIRES MAY 10, 2019

STATE OF Oregon)
) SS:
COUNTY OF Multnomah)

The foregoing was acknowledged before me by Nikki L. Kobliha on this 4 day of September, 2018. Witness my hand and official seal.

EXP May 10, 2019

Notary Public