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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. PAC-E-18-08
OF ROCKY MOUNTAIN POWER FOR)
AUTHORIZATION TO CHANGE) DIRECT TESTIMONY
DERECIATION RATES APPLICABLE TO) OF NIKKI L. KOBLIHA
ELECTRIC PROPERTY)
)
)
)

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-18-08

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

1 Fleming Valuation and Rate Consultants, LLC. The Depreciation Study is provided
2 as Exhibit No. 2 to Mr. Spanos's testimony.

- 3 • Provides a description of the development of the Depreciation Study and explains
4 why the depreciation rates resulting from the Depreciation Study are accurate and
5 reasonable.
- 6 • Identifies and discusses the main issues considered during the preparation of the
7 Depreciation Study. The disposition of these issues was reflected in the data
8 provided to Mr. Spanos and, in turn, this data formed the basis for the Depreciation
9 Study and the recommended changes in depreciation rates.
- 10 • Introduces the other Company witnesses who will testify in this proceeding and
11 provides a brief description of their respective subject matter.
- 12 • Summarizes the Company's recommendations to the Idaho Public Utilities
13 Commission (“Commission”).

14 **RESULTS OF THE DEPRECIATION STUDY**

15 **Q. Please explain the depreciation rates for which the Company is seeking**
16 **Commission approval of in this proceeding.**

17 A. The Company seeks Commission approval of the depreciation rates contained in the
18 Depreciation Study based on December 31, 2020 projected balances as shown in the
19 Appendix of the Depreciation Study provided in Exhibit No. 2 on page 1393 and as
20 summarized in Mr. Spanos's testimony.

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

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

1 depreciation rates based on projected December 31, 2020 balances. This process is
2 further described in Mr. Spanos's testimony. Projecting balances through December 31,
3 2020 aligns with the January 1, 2021 proposed effective date wherein all anticipated
4 plant additions have been considered when developing the depreciation rates. The
5 reasons for using a January 1, 2021 effective date are further described in Mr. Steven
6 R. McDougal's testimony.

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

9 A. The Depreciation Study proposes a system-wide increase of 0.8 percent to the current
10 composite depreciation rate of 2.74 percent for the Company's electric utility plant,
11 resulting in a new composite depreciation rate of 3.54 percent as shown in
12 Mr. McDougal's Exhibit No. 3. Applying the recommended depreciation rates to the
13 projected December 31, 2020 depreciable plant balances increases total-Company
14 annual depreciation expense by approximately \$228.1 million, compared with the level
15 of annual depreciation expense developed by application of the currently authorized
16 depreciation rates to the same plant balances.

17 Adoption of the proposed depreciation rates increases depreciation expense by
18 approximately \$14.1 million annually on an Idaho basis, based on projected December
19 31, 2020 plant balances. In addition, the Company has assumed the current excess
20 reserve amortizations will no longer be necessary, as further described in
21 Mr. McDougal's testimony. Eliminating this excess reserve amortization increases
22 Idaho's jurisdictional depreciation expense by \$3.2 million. The calculation of the

1 Idaho jurisdictional amount under the 2017 Protocol allocation methodology is
2 described in Mr. McDougal's testimony.

3 DEPRECIATION STUDY BACKGROUND

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

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

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

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

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

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

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

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

10 A. It is sound accounting practice to periodically update depreciation rates to recognize
11 additions to investment in plant assets and to reflect changes in asset characteristics,
12 technology, salvage, removal costs, life span estimates, and other factors that impact
13 depreciation rate calculations. The Company conducts depreciation studies as it deems
14 appropriate or as mandated by the Commission. The Company's last depreciation study
15 was conducted approximately five years ago. The Company's current depreciation rates
16 in Idaho were effective on January 1, 2014, based on a 2013 depreciation study. The
17 Commission order approving the stipulation on depreciation rates in Case No. PAC-E-
18 13-02 required the Company to file a new depreciation study by November 18, 2018.

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

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

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

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

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

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

1 **SIGNIFICANT ISSUES**

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

4 A. The Company considered:

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

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

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

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

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

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

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

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

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

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

15 A. As referenced in Exhibit No. 5 of Mr. Teply's testimony, Naughton Unit 3 is projected
16 to be retired in 2019, prior to the proposed January 1, 2021 implementation date of this
17 Depreciation Study. Consistent with the composite or group procedure of depreciation¹
18 the Company applies to all facilities, the cost of the retired unit is included in Naughton
19 Plant's depreciation reserve.

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

22 A. In the depreciation study performed in 2013 (the "2013 depreciation study"),

¹ The group depreciation procedure is discussed in Part V of Exhibit No. 2 to Mr. Spanos's testimony.

1 depreciation for steam facilities were grouped by Federal Energy Regulatory
2 Commission (“FERC”) account at a plant level, merging all units within one facility
3 into one common group. For this Depreciation Study, steam facilities are grouped by
4 FERC account at a unit level. This shift in methodology allows the Company the
5 flexibility to retire different units in different years.

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

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

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

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

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

21 A. The 2013 depreciation study included removal cost for hydroelectric facilities where
22 the Company has entered into negotiations or settlements to remove those facilities, as
23 well as a decommissioning reserve for minor hydroelectric facilities that may be

1 removed in the near future. The Company has updated this Depreciation Study to reflect
2 the current projection for small plants where the Company has estimated some
3 probability of their decommissioning in the near future. This reserve is not intended to
4 cover the decommissioning or removal of any large facility.

5 **Q. Please discuss the wind generation facilities-related issue in the Depreciation**
6 **Study.**

7 A. The Company will repower many of its wind generation facilities in 2019 and 2020.
8 The estimated balances in the Depreciation Study is projected plant balances as of
9 December 31, 2020, including both the new investment in plant due to the repowering,
10 as well as the retirement of wind turbine equipment associated with the repowered
11 assets, with the retirement costs included in the depreciation reserve. The treatment of
12 retired wind turbine equipment included in the depreciation reserve is consistent with
13 the composite or group procedure of depreciation the Company applies to all facilities.
14 With the repowering of the wind generation facilities, the Company is recommending
15 the terminal lives of wind generation facilities be 30 years from the time of repowering,
16 as discussed further in Mr. Hemstreet's testimony.

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

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

1 projected future interim retirements have contributed to an increase to depreciation
2 expense.

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

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

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

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

14 **INTRODUCTION OF WITNESSES**

15 **Q. Who will be testifying on behalf of the Company in support of the Company's**
16 **Application?**

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

22 Mr. Spanos presents the Depreciation Study and the depreciation rates for which
23 the Company is seeking Commission approval. Mr. Spanos describes how the

1 Depreciation Study was prepared and discusses the basis for the recommended changes
2 in depreciation rates.

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

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

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

21 SUMMARY OF RECOMMENDATIONS

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

23 **A.** I recommend that the Commission find that the depreciation rates sponsored by Mr.

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

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

6 A. Yes.