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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-18-08

SEPTEMBER 11, 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 Steven R. McDougal. My business address is 1407 W. North Temple, Suite 330, Salt Lake City, Utah 84116. My current position is the Director of Revenue Requirements.

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.

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 cases before the Idaho Public Utilities Commission ("Commission"). I have also provided testimony before the California, Wyoming, Oregon, Washington, and Utah public utility commissions.

PURPOSE OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. My testimony:

- Discusses the impact on the annual depreciation expense allocated to Idaho and provides support for the allocation of the new depreciation rates and effective date;
- Identifies and discusses state-specific items considered during the preparation of the Depreciation Study;
- Provides information related to certain reporting requirements from the Commission-approved stipulation from the 2013 depreciation study.

ALLOCATION OF THE DEPRECIATION STUDY

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

A. The Company allocated the annual depreciation expense using the inter-jurisdictional allocation methodology that was approved in Case No PAC-E-15-16 (the "2017 Protocol"). The adoption of the depreciation rates proposed in the Depreciation Study would increase customers' rates by approximately $14.1 million on an Idaho-allocated basis. In addition, the Company proposes to end the excess reserve amortizations implemented as part of the 2013 depreciation study, which increases customers' rates by $3.2 million on an Idaho-allocated basis. The Company also proposes to include in base rates the incremental impact of the 2013 depreciation study which increases customers' rates approximately $2.0 million. The calculation of the Idaho-allocated depreciation expense increase associated with adoption of the depreciation rates proposed in the Depreciation Study, the rate impact of ending the excess reserve amortization, and the 2013 depreciation study incremental rate impact is provided as Exhibit No. 3.

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 lapse prior to 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 2017 Protocol allocation methodology has lapsed?

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 your Depreciation Study testimony.

A. In preparing my testimony, I considered the implementation of the 2013 depreciation study rates; the expedited excess depreciation reserve amortizations; and the regulatory treatment of hydroelectric facilities on the Klamath River.

Q. Have the rates from the 2013 depreciation study been included in Idaho customers' base rates?

A. No. As part of the resolution to Case No. PAC-E-13-04, in Order 32910, the Commission approved parties' request for the Company to create a regulatory asset to defer, on a monthly basis, any aggregate net increase or decrease in Idaho's allocated depreciation expense for the period beginning on the later to occur of January 1, 2014, or the effective date in the Commission order approving new depreciation rates, until the date that new depreciation rates are reflected in customer rates.

Q. What is Idaho's incremental rate impact from the 2013 depreciation study?

A. Idaho's incremental annual rate impact from the 2013 depreciation study is approximately $2.0 million. This amount fluctuates based on depreciable plant balances. The depreciation rates from the 2013 depreciation study were effective January 1, 2014, with the monthly incremental depreciation expense deferred into a regulatory asset until the date that the depreciation rates are reflected in customer rates consistent with Order No. 32910.

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

A. They were established because of the retirement of assets occurring outside of projected expectations and the changes in lives and net salvage rates that had occurred. Due to this, there were excess reserves for the Colstrip, Hunter, Gadsby Units 1-3, and Blundell steam production units. There were additional excess reserves for Idaho, Utah, 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 on 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 Idaho, Utah, and Wyoming for distribution plant. The $0.7 million allocated impact from the elimination of the steam excess reserve amortizations and the $2.5 million impact from the elimination of the Idaho distribution excess reserve amortizations is provided in Exhibit No. 3.

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 December 31, 2019, before the proposed effective date of this Depreciation Study.

Q. Does Idaho assume different regulatory treatment from the calculation in the 2013 depreciation study?

A. Yes, in the Company's 2013 depreciation study stipulating parties agreed that the Company would depreciate the Klamath River hydro facilities through December 31, 2022. The Company makes a regulatory adjustment to correct the remaining depreciable life of the hydro plant from December 31, 2019 to December 31, 2022 in Idaho results of operations and other appropriate filings. A similar adjustment is made on the relicensing process costs assuming the same December 31, 2022 asset life.

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

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

2013 DEPRECIATION STUDY REPORTING REQUIREMENTS

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

A. Yes, the 2013 depreciation study stipulation 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 has been provided as Exhibit No. 4.

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, just 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.