Docket No. UE 352
Exhibit PAC/400
Witness: Steven R. McDougal

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

PACIFICORP

Direct Testimony of Steven R. McDougal

December 2018

DIRECT TESTIMONY OF STEVEN R. MCDOUGAL

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Exhibit PAC/404—Capital Structure, Property Tax, Revenue Requirement Gross-up

Q. Please state your name, business address, and present position with PacifiCorp.

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

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.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. I present and explain the calculation of the repowered wind projects' non-transition adjustment mechanism related revenue requirement to be included in the Renewable Adjustment Clause (RAC). Specifically, my testimony:

- Describes the proposed ratemaking for the repowered wind projects;
- Calculates the Oregon allocated incremental operating expenses and capital revenue requirement cost associated with wind repowering;
- Specifies the amounts that the company requests to recover through the RAC attributable to the revenue requirement changes associated with each of the company's proposed RAC rate change effective dates; and
- Explains the proposed accounting treatment of the replaced wind plant investment.

SUMMARY OF TESTIMONY

Q. Please summarize your testimony.

A. In this RAC filing, PacifiCorp seeks recovery of the non-transition adjustment mechanism Oregon-allocated revenue requirement associated with repowering the company's existing fleet of wind resources. PacifiCorp proposes to implement the RAC in two stages: October 1, 2019, and December 1, 2019, to recover costs in a manner that will coincide with the customer benefits from net power cost and production tax credits included in the 2019 transition adjustment mechanism (TAM). The requested RAC recovery amounts are $16.0 million, through rates effective October 1, 2019, and an additional $20.8 million, through rates effective December 1, 2019.

PROPOSED RATEMAKING

Q. Please explain PacifiCorp's proposed ratemaking for inclusion of the repowered wind projects in rates.

A. PacifiCorp seeks recovery of the revenue requirement associated with the costs of the repowered wind projects that are scheduled to be completed in 2019 through this RAC filing. Cost benefits associated with repowering have been approved as part of

PacifiCorp's 2019 TAM.[1] PacifiCorp proposes two rate effective dates of October 1, 2019 and December 1, 2019, for implementing the proposed rate changes. These proposed dates will allow for the natural grouping of the revenue requirement changes for the repowered wind projects that have achieved final completion as of the respective rate effective dates, minimizing potential regulatory lag and maximizing the matching of costs and benefits.

Q. Please identify the wind repowering projects included in each of the proposed RAC rate effective dates of October 1, 2019 and December 1, 2019.

A. The October 1, 2019 rate effective date will include the repowering projects for Leaning Juniper, Seven Mile Hill I, Seven Mile Hill II, and Glenrock I. The December 1, 2019 rate effective date will include the repowering projects for Goodnoe Hills, High Plains, McFadden Ridge, Marengo I and Marengo II.

Q. Do these two rate effective dates include all future repowering projects that PacifiCorp anticipates seeking rate recovery for?

A. No. Glenrock III and Dunlap repowering projects will not be completed until 2020. As such, these projects did not have net power cost benefits, including PTC benefits, reflected in the 2019 TAM. PacifiCorp will seek additional RAC rate recovery for those projects at a later time.

[1] See *In the Matter of PacifiCorp dba Pacific Power 2019 Transition Adjustment Mechanism,* Docket No. UE 339, Order No. 18-421 (Oct. 26, 2018).

Q. Does PacifiCorp have any wind repowering projects that it will not seek recovery of through the RAC?

A. Yes. The Rolling Hills wind resource is not currently included in Oregon rates; therefore, PacifiCorp will not seek recovery of the Rolling Hills repowering project in the RAC.

Q. If wind projects are repowered before the rate effective dates of October 1, 2019 and December 1, 2019, is PacifiCorp proposing to defer the costs associated with these early completions and amortize those changes at a future time?

A. No. PacifiCorp is proposing that only the costs of completed repowering projects as of the rate effective dates be considered in the RAC rate adjustments.

REVENUE REQUIREMENT

Q. Have you prepared exhibits that show the calculation of the proposed RAC rate adjustments for each of the rate effective dates, October 1, 2019, and December 1, 2019?

A. Yes. Please refer to Exhibit PAC/401, which shows the annual revenue requirement of the incremental capital and operating costs associated with the repowering of Leaning Juniper, Seven Mile Hill I, Seven Mile Hill II, and Glenrock I for the one-year period October 1, 2019 through September 30, 2020. These projects are scheduled to achieve final turbine commissioning before October 1, 2019. As calculated in Exhibit PAC/401, PacifiCorp is seeking an annual recovery of $16.0 million through the RAC with a proposed effective date of October 1, 2019.

Exhibit PAC/401 also shows the annual revenue requirement of the incremental capital and operating costs associated with the repowering of Goodnoe

Hills, High Plains, McFadden Ridge, Marengo I and Marengo II for the one-year period December 1, 2019 through November 30, 2020. These projects are scheduled to achieve final turbine commissioning before December 1, 2019. As calculated in Exhibit PAC/401, PacifiCorp is seeking an annual recovery of $20.8 million through the RAC with a proposed effective date of December 1, 2019.

Q. How are the revenue requirement costs allocated to Oregon?

A. All costs excluding property tax are allocated using the 2019 forecast System Generation factor used in the 2019 TAM filing. Property tax is allocated using the Gross Plant System factor from PacifiCorp's December 2017 Results of Operations filing, consistent with the calculation of the average Oregon property tax rate also from the December 2017 Results of Operations filing, addressed later in my testimony.

Q. Please describe the revenue requirement components included in Exhibit PAC/401.

A. The plant revenue requirement consists of the incremental pre-tax rate of return on average net rate base, operation and maintenance expense, depreciation, property taxes, and wind tax. Net power cost and production tax credits are excluded from the RAC and were instead included in the 2019 TAM filing. Through the combination of the TAM and the RAC, the benefits and costs of repowering will be incorporated into customer rates.

Net rate base is calculated using a 13-month average of gross plant less accumulated depreciation and accumulated deferred income tax balances. The 13-month average balances are derived from the period October 1, 2019 through

October 1, 2020, and December 1, 2019 through December 1, 2020, for the rate effective dates of October 1, 2019 and December 1, 2019, respectively. Exhibits PAC/402 and PAC/403 provide the monthly detail used to derive the 13-month averages.

Q. Please describe the capital structure and pre-tax cost of capital proposed in the RAC.

A. Please refer to Exhibit PAC/404. The capital structure and capital costs are taken from the company's December 2017 Results of Operations filing, reflecting the currently authorized capital structure and capital costs approved as part of PacifiCorp's last Oregon general rate case.[2] The cost of capital is grossed up to a pre-tax rate of return using the consolidated tax rate consistent with current tax law.

Q. Does the operation and maintenance expense (O&M) shown in Exhibit PAC/401 represent the incremental O&M associated with repowering the various wind resources?

A. Yes. The O&M is incremental to repowering and is explained in the testimony of Mr. Timothy Hemstreet, Exhibit PAC/200.

Q. Please explain the depreciation expense in Exhibit PAC/401.

A. The depreciation expense shown in Exhibit PAC/401 is the increased depreciation expense associated with the incremental capital investment placed in service due to repowering.

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[2] *See In the Matter of PacifiCorp dba Pacific Power Request for a General Rate Revision*, Docket No. UE 263, Order No. 13-474 (Dec. 18, 2013).

Q. Does this incremental depreciation expense include the impact of the change in depreciation expense associated with the equipment replaced during the repowering construction activities?

A. No. The asset value of the replaced wind plant is addressed in the 2018 Depreciation Study filed in docket UM 1968.[3] The depreciation expense included in the RAC has been calculated using currently approved depreciation rates.

Q. Please describe the property tax calculation included in the proposed RAC.

A. Please refer to Exhibit PAC/404, which shows the calculation of the average Oregon property tax rate from PacifiCorp's December 2017 Results of Operations filing. The average property tax rate is calculated by dividing the Oregon allocated property taxes by the Oregon allocated net electric plant in service (EPIS). The property taxes attributable to repowering are calculated by multiplying this average property tax rate by the preceding year's December ending net EPIS of the repowering project.

Q. Please describe the Wyoming Wind Tax included in the proposed RAC.

A. The current Wyoming State tax collection of $1/MWh wind tax has been applied to the incremental change in Wyoming wind generation as a result of repowering. The amount of incremental wind generation due to repowering is addressed in the testimony of Mr. Hemstreet, Exhibit PAC/200.

Q. Are there any other cost considerations that should be addressed as part of the wind repowering RAC?

A. Yes. The RAC revenue requirement adjustment includes a gross-up for the incremental rate burden associated with incremental franchise taxes, bad debt

[3] *See In the Matter of PacifiCorp dba Pacific Power Application for Authority to Implement Revised Depreciation Rates*, Docket No. UM 1968, (Sep. 13, 2018).

expense, resource suppliers tax, and public utility commission fees. These costs have been included in Exhibit PAC/401.

REQUEST FOR RECOVERY OF REPOWERING COSTS

Q. What is the amount of rate adjustment that PacifiCorp is requesting through the RAC?

A. PacifiCorp is requesting an annualized amount of $16.0 million through the RAC rates proposed to be effective October 1, 2019, to recover the repowering capital and operating revenue requirement concurrent with the rate reductions provided through the TAM for the repowering net power cost and production tax credit benefits.

Additionally, PacifiCorp is requesting an annualized amount of $20.8 million, in addition to the October 1, 2019 adjustment, through the RAC rates proposed to be effective December 1, 2019, to recover the second tranche of revenue requirement associated with the next block of repowered wind turbines. PacifiCorp will update these costs consistent with the requirements of Order No. 07-572.[4]

Q. Does this conclude your direct testimony?

A. Yes.

[4] *In the Matter of Public Utility Commission of Oregon Investigation of Automatic Adjustment Clause Pursuant to SB 838*, Docket No. UM 1330, Order No. 07-572 at 4 (Dec. 19, 2007).