BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM_____

In the Matter of PACIFICORP d/b/a PACIFIC POWER Application for Authority to Implement Revised Depreciation Rates	**APPLICATION FOR AUTHORITY TO IMPLEMENT REVISED DEPRECIATION RATES**

I. INTRODUCTION

In accordance with ORS 757.140(1), PacifiCorp d/b/a Pacific Power files this application (Application) requesting an accounting order from the Public Utility Commission of Oregon (Commission) authorizing a change in depreciation rates applicable to PacifiCorp's depreciable electric plant. PacifiCorp seeks an effective date for authorized depreciation rate changes of January 1, 2021.

II. NOTICE

Communications regarding this Application should be addressed to:

Oregon Dockets
PacifiCorp
825 NE Multnomah St., Suite 2000
Portland, OR 97232
Email: oregondockets@pacificorp.com

Matthew McVee
Chief Regulatory Counsel
PacifiCorp
825 NE Multnomah Street, Suite 1800
Portland, OR 97232
Phone: 503-813-5585
Email: matthew.mcvee@pacificorp.com

In addition, PacifiCorp respectfully requests that all data requests regarding this matter be addressed to:

By email (preferred)	datarequest@pacificorp.com
By regular mail	Data Request Response Center PacifiCorp 825 NE Multnomah, Suite 2000 Portland, OR 97232

Informal inquiries may be directed to Natasha Siores, Manager, Regulatory Affairs, at (503) 813-6583.

III. DISCUSSION

A. Applicable Statutory Provision

PacifiCorp files this Application under ORS 757.140(1), which requires the Commission to "ascertain and determine the proper and adequate rates of depreciation of the several classes of property of each public utility." The depreciation rates "shall be such as will provide the amounts required over and above the expenses of maintenance, to keep such property in a state of efficiency corresponding to the progress of the industry."[1] The Commission "may make changes in such rates of depreciation from time to time as the commission may find to be necessary."[2]

B. Depreciation Study

PacifiCorp last performed a depreciation study approximately five years ago. The study was filed on January 31, 2013, and docketed as UM 1647. On September 25, 2013, the Commission approved a stipulation implementing revised depreciation rates, which became effective on January 1, 2014.[3]

When the Commission approved the revised depreciation rates in docket UM 1647, the company's depreciation rates were also under review in other states. Therefore, PacifiCorp agreed "to defer for future inclusion in rates any reduction to depreciation expense associated with additional adjustment to depreciation rates for system-allocated

---

[1] ORS 757.140(1).
[2] *Id.*
[3] *In the Matter of PacifiCorp, dba Pacific Power, Application for Authority to Implement Revised Depreciation Rates*, Docket No. UM 1647, Order No. 13-347 (Sept. 25, 2013).

assets, except adjustments related to coal generation, adopted in any of those dockets."[4] Consistent with this agreement, the company requested authority to defer a reduction of approximately $859,000 in annual depreciation expense. The Commission has approved the deferral each year since 2014.[5]

With this Application, PacifiCorp performed an updated depreciation study and requests authorization to implement the depreciation rates set forth in this study, submitted as Exhibit PAC/202 (Depreciation Study). The Depreciation Study identifies the changes that have occurred since the company's last depreciation study, measures the effect of the changes on the recovery of presently surviving capital, and revises the capital recovery rate.

The Depreciation Study uses December 31, 2017 historical data as the basis for the analysis and develops depreciation rates based on projected December 31, 2020 plant balances. Projecting balances through December 31, 2020, aligns with the January 1, 2021 proposed rate effective date and ensures consideration of all anticipated plant additions in the new depreciation rates.

PacifiCorp's accounting system maintains depreciation rates on a calendar year basis, and the company recommends January 1, 2021, as the rate effective date to align with the company's anticipated implementation of a new interjurisdictional cost allocation methodology. Aligning the effective date of the depreciation rates proposed in the Depreciation Study with the anticipated implementation of a new interjurisdictional allocation methodology allows for robust evaluation of both proposals, while minimizing rate changes.

The proposed increase in Oregon depreciation rates is driven by several factors. First,

---

[4] Order No. 13-347, App. A. at 3.

[5] *See, e.g., In the Matter of PacifiCorp, dba Pacific Power, Application for Deferred Accounting Related to a Reduction in Depreciation Expense,* Docket No. UM 1682, Order No. 14-039 (Feb. 4, 2014).

steam plant depreciation expense has increased, reflecting the impact of incremental capital additions since the last depreciation study. Because PacifiCorp's steam facilities have set terminal lives, incremental capital additions are depreciated over a shorter remaining life and therefore increase depreciation expense. Given the uncertainty regarding the period in which steam generating facilities will be allowed to continue to operate, the company does not recommend extending any of the depreciable lives of the coal plants. Moreover, the economic analysis supporting the incremental capital additions did not assume a longer depreciable life. The incremental capital additions necessary to maintain compliance with existing regulatory obligations and provide safe, reliable power total over $1.4 billion since 2013, and increases Oregon-allocated depreciation expense by approximately $45.3 million.

Second, PacifiCorp recommends shortening the terminal lives for several of the company's coal-fired units. Specifically, PacifiCorp recommends shortening the terminal lives of Cholla Unit 4 (from 2028 to 2025), the Colstrip Plant (from 2032 to 2027), Craig Plant Unit 1 (from 2026 to 2025), and the Huntington Plant (from 2030 to 2029). Shortening these units' depreciable lives increases Oregon-allocated depreciation expense by approximate $7.1 million.

Third, the revised depreciation rates account for the impact of repowering many of the company's wind generation facilities in 2019 and 2020. The estimated plant balances in the Depreciation Study schedule as of December 31, 2020, reflect both the new investment in plant due to repowering, as well as the costs of the replaced wind turbine equipment in the depreciation reserve. The treatment of the replaced wind turbine equipment in the depreciation reserve is consistent with the composite or group procedure of depreciation PacifiCorp applies to all facilities. PacifiCorp also recommends that repowering extend the terminal lives of the repowered facilities by 10 years from the date they are repowered. In addition, the wind plant depreciation expense accounts for the company's new wind facilities in Wyoming, which are expected to be in service in 2020. Together, repowering and the new wind facilities increase the Oregon-allocated depreciation expense by approximately $7.4 million.

C. Overall Rate Impact of Proposed Depreciation Rate Changes

The Depreciation Study proposes a system-wide increase of 0.9 percent to the current composite depreciation rate of 3.11 percent for PacifiCorp's electric utility plant, resulting in a new composite depreciation rate of 4.02 percent. Applying the recommended depreciation rates to the projected December 31, 2020 depreciable plant balances results in an increase in total-company annual depreciation expense of approximately $258.2 million, compared with the level of annual depreciation expense developed by application of the currently authorized depreciation rates to the same plant balances. Adoption of the proposed depreciation rates results in an increase of approximately $67.1 million in annual Oregon depreciation expense, based on projected December 31, 2020 depreciable plant balances.

The overall rate impact of the revised depreciation rates also includes amortization of the deferral balance resulting from the stipulation approved in docket UM 1647, discussed above.

D. Testimony and Exhibits in Support of Application

In support of this Application, the company is providing the policy testimony of Nikki Kobliha, Vice President, Chief Financial Officer and Treasurer of PacifiCorp. Ms. Kobliha's direct testimony, provided as Exhibit PAC/100, provides a summary of the company's proposal for new depreciation rates and their effect on annual depreciation expense, provides background information supporting and describing the development of the Depreciation Study, and outlines the factors related to steam generating facilities that were considered in the Depreciation Study.

The direct testimony of John J. Spanos, Senior Vice President of Gannett Fleming Valuation and Rate Consultants, LLC, provided as Exhibit PAC/200, presents the Depreciation Study, describes how the Depreciation Study was prepared, provides the depreciation rates for which the company is seeking Commission approval, and discusses the basis for the recommended changes in depreciation rates.

The direct testimony of Steven R. McDougal, Director of Revenue Requirement, provided as Exhibit PAC/300, summarizes the effect on annual depreciation expense from applying the proposed depreciation rates to depreciable plant balances. Mr. McDougal also provides support for the jurisdictional allocation of the new depreciation rates consistent with the 2017 Protocol, and describes the company's recommendations on certain state-specific factors considered during the preparation of the Depreciation Study.

The direct testimony of Chad A. Teply, Senior Vice President of Strategy and Development, provided as Exhibit PAC/400, describes the process used to evaluate the current approved plant depreciable lives for steam and natural gas generating stations and the procedures used to estimate the retirement date for PacifiCorp's natural gas, wind, and hydroelectric generating resources. Mr. Teply also demonstrates that the estimated retirement dates proposed for PacifiCorp's generation plants are reasonable and appropriate for use in the Depreciation Study. Mr. Teply further explains why the rates proposed as terminal net salvage, or "decommissioning costs," in the calculation of depreciation rates for thermal generating plants are reasonable and prudent.

Finally, direct testimony of Timothy J. Hemstreet, Director of Renewable Development, provided as Exhibit PAC/500, describes PacifiCorp's project to repower its wind facilities and the process of determining an appropriate life for the repowered wind facilities. Mr. Hemstreet also describes the methodology used to estimate the retirement date for PacifiCorp wind and hydroelectric generating resources.

E. Importance of System-Wide Consistency

For administrative and economic efficiencies, PacifiCorp strives to maintain uniform utility accounts, including depreciation rates, across its six state service territories. To maintain consistent depreciation rates across all states, PacifiCorp is also filing the Depreciation Study in Idaho, Utah, Washington, and Wyoming. Maintaining consistent depreciation rates across all states avoids multiple sets of depreciation accounts and records that would impose a costly administrative burden on the company and unnecessary expense for PacifiCorp's customers.

IV. REQUEST FOR RELIEF

For the reasons described above and in the testimony and exhibits supporting this Application, PacifiCorp respectfully requests that the Commission issue an accounting order finding:

a. The Depreciation Study recommendations regarding depreciation rates are proper and adequate depreciation rates for PacifiCorp;

b. Adoption of the Depreciation Study's recommendations and inclusion of the recommendations into Oregon electric rates will result in fair and reasonable rates and accurately impose costs on those customers for whom such costs are incurred; and

c. The final ratemaking treatment of the depreciation rates will be addressed in a future general rate case.

Respectfully submitted this 13th day of September, 2018.

Matthew McVee
Chief Regulatory Counsel
PacifiCorp
825 NE Multnomah Street, Suite 1800
Portland, OR 97232
Phone: 503-813-5585
Email: matthew.mcvee@pacificorp.com