Docket No. UM ____
Exhibit PAC/100
Witness: Nikki L. Kobliha

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

PACIFICORP

Direct Testimony of Nikki L. Kobliha

September 2018

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Q. Please state your name, business address, and present position with PacifiCorp d/b/a Pacific Power.

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 PacifiCorp 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 PacifiCorp's finance, accounting, income tax, internal audit, Securities and Exchange Commission reporting, treasury, credit risk management, pension, and other investment management activities.

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 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" (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 PAC/202 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 key factors considered during the preparation of the Depreciation Study. These factors were addressed 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.
- Briefly summarizes PacifiCorp's recommendations to the Public Utility Commission of Oregon (Commission).

RESULTS OF THE DEPRECIATION STUDY

Q. Please explain the depreciation rates for which PacifiCorp is seeking Commission approval in this proceeding.

A. PacifiCorp 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 provided in Exhibit PAC/202 on Page 1393 and as summarized in Mr. Spanos's testimony.

Q. Please explain how the depreciation rates were developed.

A. PacifiCorp 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 direct testimony, Exhibit PAC/200. 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. How will the depreciation rates recommended by Mr. Spanos affect annual depreciation expense?

A. 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 as shown in Mr. McDougal's direct testimony, Exhibit PAC/300. 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. In addition, the company has assumed the current excess reserve amortizations that were agreed to as part of the stipulation in the 2013 depreciation study will be eliminated, as further described in Mr. McDougal's testimony. Eliminating this excess reserve amortization results in an increase in Oregon's jurisdictional depreciation expense of $0.8 million. The calculation of the Oregon jurisdictional amount under the 2017 Protocol inter-jurisdictional allocation methodology is described in Mr. McDougal's testimony, which is provided as Exhibit PAC/301.

DEPRECIATION STUDY BACKGROUND

Q. Please explain the concept of depreciation related to electric utility plant.

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 an important and essential factor 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 PacifiCorp to conduct the Depreciation Study?

A. It is prudent 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. PacifiCorp conducts depreciation studies as it deems appropriate or as mandated by the Commission. PacifiCorp's last depreciation study was conducted approximately five years ago. PacifiCorp's current depreciation rates in Oregon were effective on January 1, 2014, based on a 2013 depreciation study.[1] The Commission order approving the stipulation on depreciation rates in docket

[1] *In the Matter of PacifiCorp dba Pacific Power, Application for Authority to Implement Revised Depreciation Rates*, Docket No. UM 1647.

UM 1647 required PacifiCorp to file a new depreciation study by September 25, 2018.[2]

Q. Was the Depreciation Study prepared under your direction?

A. Yes. As Vice President, Chief Financial Officer and Treasurer, I am responsible for PacifiCorp'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 PacifiCorp 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 concur with his methodologies and application of analytical procedures as described in his testimony. With respect to data inputs, Mr. Spanos used the estimated economic lives for thermal generation plant provided by PacifiCorp, as further explained in Mr. Chad A. Teply's testimony.

[2] Order No. 13-347, Appendix A, page 3 of 18 (Sep. 25, 2013).

Mr. Spanos used the estimated economic lives for wind and hydro plant provided by PacifiCorp, as further 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 PacifiCorp. 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 factors the company considered in the Depreciation Study?

A. PacifiCorp considered:

- Recognizing the impact of incremental capital additions;
- Shortening of 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 terminal removal costs for each steam generating facility.

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

A. Additions to property, plant, and equipment balances, more commonly referred to as capital additions, are one of the primary drivers that increase depreciation expense. Because PacifiCorp's steam facilities have set terminal lives, incremental capital additions have to be depreciated over a shorter remaining life. Further explanation of the need for these additions is included in Mr. Teply's testimony, Exhibit PAC/400.

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

A. No. This issue was identified in previous studies where PacifiCorp proposed to include projected capital additions in the development of 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 PacifiCorp 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, PacifiCorp does not recommend extending the depreciation lives of the steam generating facilities. Instead, PacifiCorp recommends retaining the lives 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 PacifiCorp recommending to shorten the terminal life?

A. PacifiCorp is recommending shortening the terminal lives of the following steam generation facilities: Cholla Unit 4, Colstrip Plant, Craig Plant Unit 1, and Huntington Plant. The reasons for shortening the terminal lives of these units are discussed in Mr. Teply's testimony.

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

A. As referenced in Exhibit PAC/401 of Mr. Teply's testimony, Naughton Unit 3 is projected to be retired in 2019, which is before the proposed January 1, 2021 implementation date of this Depreciation Study. Consistent with the composite or group procedure of depreciation the company applies to all facilities, the cost of the retired unit is included in Naughton Plant's depreciation reserve.[3]

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

A. In the depreciation study performed in 2013, depreciation for steam facilities were grouped by Federal Energy Regulatory Commission (FERC) account at a plant level, merging all units within one facility into one common group. For this Depreciation Study, steam facilities are grouped by FERC account at a unit level. This shift in methodology allows PacifiCorp 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, PacifiCorp determined the decommissioning costs at each facility by applying $40 per kilowatt. In this Depreciation Study, the company has provided plant-specific estimates of decommissioning costs. Further explanation of this issue is included in Mr. Teply's testimony.

Q. Has PacifiCorp changed any of the significant issues considered for hydroelectric facilities lives in this 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

[3] The group depreciation procedure is discussed in Part V of Exhibit PAC/202 to Mr. Spanos's testimony.

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 factors you considered in this Depreciation Study.

A. The 2013 depreciation study included removal cost for hydroelectric facilities where PacifiCorp 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 has updated this Depreciation Study to reflect the current projection for small plants where PacifiCorp has estimated some probability of them being decommissioned 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 factors in the Depreciation Study.

A. PacifiCorp 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 the 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 PacifiCorp applies to all facilities. With the repowering of the wind generation facilities, the company is recommending the terminal lives of wind generation facilities to be 30 years from the time of repowering. The repowering of the wind generation facilities is discussed further in Mr. Hemstreet's testimony, Exhibit PAC/500.

Q. Is the Rolling Hills wind generation facility reflected in the depreciation rates proposed in this case?

A. No. The Commission required the company to remove the Rolling Hills facility from Oregon rates in Order No. 08-458 in docket UE 200, so this resource was excluded from the calculation of Oregon depreciation rates.[4]

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

A. Since the 2013 depreciation study, PacifiCorp 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 to the projected future interim retirements have contributed to an increase in depreciation expense.

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

A. No. PacifiCorp provided Mr. Spanos with the historical data for transmission, distribution, and general plant 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 to the depreciable

[4] *Re PacifiCorp's 2009 Renewable Adjustment Clause*, Docket No. UE 200, Order No. 08-548 (Nov. 14, 2008).

lives and rates for these assets, outside of those which would normally result from updating the study.

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

A. Yes, the Utah mine has been removed from this Depreciation Study. Since the 2013 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 PacifiCorp's 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 PacifiCorp 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 and provides support for the jurisdictional allocation of the Depreciation Study to Oregon and identifies and discusses state-specific factors considered during the preparation of the Depreciation Study.

Mr. Teply describes the process used by PacifiCorp's engineers to evaluate the current approved plant depreciable lives for steam and natural gas generating facilities and estimates the retirement date for those generating facilities. Mr. Teply demonstrates that the estimated retirement dates proposed by PacifiCorp 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 PacifiCorp's repowering project for its wind facilities and the process of determining an appropriate life for the repowered wind facilities. Mr. Hemstreet also describes the procedure used to estimate the retirement date for the company's hydroelectric generating stations. Mr. Hemstreet demonstrates that the estimated retirement dates proposed by PacifiCorp 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 for PacifiCorp. I further recommend that the Commission approve PacifiCorp's request to implement these depreciation rates in its accounts and records effective January 1, 2021.

Q. Does this conclude your direct testimony?

A. Yes.