Docket No. UM ____
Exhibit PAC/300
Witness: Steven R. McDougal

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

**PACIFICORP**

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**Direct Testimony of Steven R. McDougal**

**September 2018**

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## ATTACHED EXHIBITS

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

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 direct testimony?**

A. My testimony:

- Calculates the impact on the annual depreciation expense allocated to Oregon and provides support for the allocation of the new depreciation rates and effective date; and,

- Identifies and discusses state-specific factors considered during the preparation of the "Depreciation Study - Calculated Annual Depreciation Accruals Related to Electric Plants as of December 31, 2017" (Depreciation Study), 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.

## ALLOCATION OF THE DEPRECIATION STUDY

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

A. PacifiCorp is proposing to allocate the annual depreciation expense using the 2017 Protocol interjurisdictional cost allocation methodology that was approved in docket UM 1050. The adoption of the depreciation rates proposed in the Depreciation Study results in an increase of approximately $67.1 million on an Oregon-allocated basis. In addition, the proposed ending of excess reserve amortizations results in an increase of $0.8 million on an Oregon-allocated basis. The calculation of the Oregon-allocated depreciation increase is provided as Exhibit PAC/301.

**Q. What does PacifiCorp propose as the effective date for implementing the new depreciation rates?**

A. The company proposes the new depreciation rates be made effective January 1, 2021, to align implementation of the new depreciation rates to occur after resolution of the ongoing interjurisdictional cost allocation negotiations and to align with an anticipated general rate case filing.

**Q. Does the 2017 Protocol allocation methodology continue through implementation of the new depreciation rates?**

A. No. The 2017 Protocol is currently approved through December 31, 2019. It is not yet clear whether a new cost allocation methodology will replace the 2017 Protocol, whether the 2017 Protocol will be extended, or whether, as specified in the 2017 Protocol, Oregon will revert to the Revised Protocol upon expiration of the 2017 Protocol.

**Q. Why is PacifiCorp 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 PacifiCorp's 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 for PacifiCorp and all parties to resolve and achieve regulatory approval of CLEAR. Aligning the effective date of the depreciation rates proposed in the Depreciation Study with the anticipated approval of CLEAR will help maintain customer rate stability.

## STATE-SPECIFIC ITEMS

**Q. Please summarize the state-specific factors you considered when preparing your testimony.**

A. The primary factors I considered relate to the expedited excess depreciation reserve amortizations and the company's proposal for treatment of certain depreciation related regulatory liabilities.

**Q. In the stipulation to the 2013 depreciation study, PacifiCorp included expedited excess reserve amortizations—can you please summarize why those amortizations were established?** [1]

A. The excess reserves relate to the retirement of assets occurring outside of projected expectations and changes in lives and net salvage rates that have occurred in the current and prior depreciation studies. Based on that information there were excess reserves for the Gadsby Units 1-3, and Blundell steam production units. 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 five-year period between the effective date of the 2013 depreciation study and this filing.

**Q. What is PacifiCorp proposing with regard to excess reserve amortizations?**

A. Consistent with the stipulation to the 2013 depreciation study, the company is proposing to end the excess reserve amortizations for Gadsby and Blundell. The Oregon-allocated impact for the elimination of the steam excess reserve amortizations is a $0.8 million increase to depreciation expense and is set forth in greater detail in Exhibit PAC/301.

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[1] *In the Matter of PacifiCorp dba Pacific Power, Application for Authority to Implement Revised Depreciation Rates,* Docket No. UM 1647, Order No. 13-347, Appendix A (Sep. 25, 2013).

**Q. Please provide a summary on the regulatory liability that was established as part of the 2013 depreciation study.**

A. In the stipulation approved by the Commission for the 2013 depreciation study, the company agreed to implement the revised depreciation rates effective January 1, 2014. The company requested, and the Commission has continually authorized, deferral of $0.9 million annually to a regulatory liability associated with the reduction to depreciation expense starting January 1, 2014, until the next general rate case.[2] The company has not filed a general rate case since the deferral began in January 2014.

**Q. What is the estimated balance of the regulatory liability as of January 1, 2021?**

A. The company estimates that the regulatory liability balances as of December 31, 2020, will be $7.9 million as shown in Exhibit PAC/302.

**Q. Is PacifiCorp proposing to begin amortization of this regulatory liability as part of the Depreciation Study?**

A. Yes. The company proposes to amortize the regulatory liability balance of $7.9 million over a five-year period to fully amortize the regulatory liability between the effective date of this Depreciation Study and the company's next depreciation study filing.

**Q. Please provide a summary on the accumulated depreciation balance for the Carbon plant decommissioning cost.**

A. At the time the Carbon plant was retired, the company had approximately $28.0 million in accumulated depreciation to fund decommissioning of the plant.

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[2] *See In the Matter of PacifiCorp, dba Pacific Power, Application for Authorization/Reauthorization of Deferred Accounting Related to a Reduction in Depreciation Expense,* Docket No. UM 1682.

Due to the difference in depreciation rates used in Oregon, approximately $8.8 million of the $28.0 million was situs allocated to Oregon. This balance has remained in accumulated depreciation. An additional amount in accumulated depreciation for the under-spent decommission cost of approximately $0.6 million, allocated to all states, is also on the company's balance sheet.

**Q. Is PacifiCorp proposing to amortize the Carbon plant decommissioning accumulated depreciation balance as part of this Depreciation Study?**

A. Yes. The company is proposing to amortize both Carbon plant decommissioning accumulated depreciation balances over a five-year period, the anticipated period between this study and the next. The amortization of approximately $1.9 million annually would be used to help offset the proposed increase in the Depreciation Study.

## 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 balances are fair 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.