

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

FROM: SCOTT WOODBURY

DATE: JUNE 3, 2003

**RE: CASE NO. PAC-E-02-5 (PacifiCorp)
CHANGE IN DEPRECIATION RATES—ELECTRIC PROPERTY**

On October 1, 2002, PacifiCorp dba Utah Power & Light Company (PacifiCorp; Company) filed an Application for a change in its current depreciation rates applicable to PacifiCorp's depreciable electric property. This change, the Company states, is for accounting purposes only. PacifiCorp intends to seek approval of the requested changes for ratemaking purposes in a future rate case. The accounting changes proposed by the Company are supported by a Depreciation Study prepared by Deloitte & Touche, LLP and the pre-filed testimony of three PacifiCorp witnesses. Pursuant to *Idaho Code* § 61-525, the Commission is empowered to determine the property depreciation rates of property used to provide retail electric service. The net effect of the Company's Application was to increase depreciation expense allocated to Idaho by \$0.6 million annually.

On May 7, 2003, Commission Staff and PacifiCorp filed a Stipulation, a Joint Motion for Approval of Stipulation and separate letters in support of the Stipulation. The Stipulation is offered as a compromise settlement of the issues raised in Case No. PAC-E-02-5. Reference IDAPA 31.01.01.274. Should the Commission accept the proposed Settlement, the depreciation expense currently booked by the Company will decrease approximately \$0.9 million annually. This is a \$1.5 million difference in annual depreciation expense from the Company's original request for an increase of \$0.6 million.

On May 16, 2003, the Commission issued a Notice of Stipulation and Proposed Settlement and Notice of Modified Procedure in Case No. PAC-E-02-05. The deadline for filing

written comments or protests was May 30, 2003. The Commission Staff was the only party to file comments. Staff, by way of comment, adopted its previous May 6, 2003 Letter of Support of Stipulation and Proposed Settlement. Staff in its Letter of Support notes that it conducted an analysis of the Company's filing and performed an audit of the physical plant located in Idaho. Staff believes that the Settlement is a just and reasonable resolution of the depreciation issues raised in the Company's filing and is fair to both the Company and its customers.

The consensus reached between the Staff and the Company imposes changes to the Company's original proposal. A general description is set forth below:

1. The terminal net salvage value for steam production plant demolition will be computed at the rate of \$25.00/KW instead of the requested \$50.00/KW. This rate reflects the possibility of a sale of a steam production plant at a book-value gain. While the sale is not likely, the Company did acknowledge that it is possible.
2. Depreciation of water rights will cease as of April 1, 2003.
3. Cost recovery for the Condit hydro plant shall be extended from 3.5 years to a 7-year recovery period. This reduces the annual depreciation expense and allows for more certainty to be achieved before accelerating the depreciation.
4. Proposed depreciation expense for the Naches hydro plant will be removed because the plant is subject to a pending sale.
5. Net salvage levels for various transmission and distribution plant accounts will be changed.
6. It appears that all states are considering approval of the depreciation rates for system assets as proposed by this settlement. By using the same rate in all jurisdictions, the depreciation expense will be easier to calculate and track.

In addition to the above changes, the Company agreed to immediately begin a process to resolve the discrepancies identified by Staff between the continuing property records and the on-site property records. The development and implementation of this accounting process will be open to Staff for evaluation and input. It is vital that PacifiCorp improve its property records, Staff contends, before the Company seeks a rate increase including earning a return on those assets. Staff recommends that the Commission require the Company to prepare a revised

accounting process and plan for implementation within 90 days. Finally, the Company agreed to perform another depreciation study within the next five years.

Commission Decision

PacifiCorp in its Application requested a change in its depreciation rates. Tendered for Commission consideration is a Stipulation and Proposed Settlement of issues raised in Case No. PAC-E-02-5. Pursuant to Rule 276 of the Commission's Rules of Procedure, the Commission is not bound by settlements. The Rules indicate that the Commission will independently review any settlement proposed to determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.

- Does the Commission continue to find it reasonable to process this case pursuant to Modified Procedure?
- Does the Commission find the proposed Settlement to be reasonable and in the public interest?
- Does the Commission find it reasonable to accept the Stipulation and Proposed Settlement? If not, how does the Commission wish to proceed?
- Staff recommends that the Company be directed to prepare a revised accounting process reconciling its property records and present a plan for implementation of same within 90 days. The Company believes that it can comply with the proposed timeline. Does the Commission find Staff's request to be reasonable?

Scott Woodbury

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