

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PACIFICORP DBA ROCKY MOUNTAIN) CASE NO. PAC-E-13-02
POWER TO CHANGE THE DEPRECIATION)
RATES APPLICABLE TO ITS ELECTRIC) ORDER NO. 32926
PROPERTY)

On January 22, 2013, PacifiCorp dba Rocky Mountain Power (“Rocky Mountain” or “Company”) submitted an Application seeking a Commission Order, pursuant to *Idaho Code* § 61-525 and Rule 52 of the Idaho Public Utilities Commission (“Commission”) Rules of Procedure, for approval of proposed changes to depreciation rates applicable to Rocky Mountain’s depreciable electric plant. The Company proposes an effective date of January 1, 2014 for its proposed changes.

On March 28, 2013, the Commission issued a Notice of Application and Intervention Deadline. *See* Order No. 32772. Subsequently, Monsanto Company (“Monsanto”) and PacifiCorp Idaho Industrial Customers (“PIIC”) were granted permission to intervene as a party. *See* Order Nos. 32773 and 32804.

On April 26, 2013, the Commission issued a Notice of Public Workshop. A public workshop was held on May 9, 2013, allowing interested parties the opportunity to discuss a possible settlement of the issues presented in this case.

On September 10, 2013, Rocky Mountain filed a settlement document (“Stipulation”) with the Commission, including attachments, that proposes to settle the relevant issues in this case. The Stipulation was agreed to by representatives of the Company, Staff, Monsanto, and PIIC (“Parties”).

THE APPLICATION

In its Application, RMP states that as a public utility operating under the Commission’s jurisdiction its depreciation accounts must comply with the rates previously determined by the Commission. The Company’s last depreciation Application, Case No. PAC-E-07-14, was filed on August 31, 2007, *see* Order No. 30499, with rates effective January 1, 2008.

The Company performed an updated depreciation study (“Depreciation Study”) and requests authorization to implement the depreciation rates set forth in the Exhibit No. 3 of its

Application. The Depreciation Study identifies changes that have occurred since the Company's last depreciation study, measured the effect of the changes on the prudent recovery of presently surviving capital, and proposes revisions to the depreciation rates. The results of the Depreciation Study suggest an increase in annual depreciation expense of approximately \$83.9 million (\$160.8 million including the accelerated depreciation associated with early retirement of the Carbon plant) on a total Company basis, based on projected plant balances as of December 31, 2013.

RMP states that its proposed changes would result in an estimated increase to the Idaho jurisdictional depreciation expense of approximately \$4.5 million (\$8.9 million including the early retirement of the Carbon plant) beginning January 1, 2014.

RMP remarked that in order to maintain consistent depreciation rates across its six jurisdictions/service territories, the Company filed the Depreciation Study in Oregon, Utah, Wyoming, and Washington. In support of its Application, the Company attached the direct testimony of Henry E. Lay, Corporate Controller of PacifiCorp, John J. Spanos, Senior Vice President of Gannett Fleming, Inc., and K. Ian Andrews, Manager of Resource Development for PacifiCorp.

THE STIPULATION

The Parties engaged in a collaborative process, including a public workshop and subsequent correspondence, and eventually reached agreement on the aforementioned Stipulation that purports to settle the issues involved in this case. The following is a summary of the main terms of the Parties' Stipulation:

1. The Stipulating Parties agree that the proposed depreciation rates set forth in Attachment 1, Stipulated Rates, attached and incorporated into the Stipulation, represent just and reasonable depreciation rates for Rocky Mountain Power in Idaho commencing January 1, 2014.
2. The depreciation rates, originally proposed by the Company in its January 22, 2013, filing, result in an estimated increase in annual depreciation expense across PacifiCorp's six jurisdictions of approximately \$160.8 million (\$83.9 million excluding the early retirement of the Carbon Plant), based on estimated plant balances as of December 31, 2013, before the additional Oregon depreciation expense for shorter coal plant lives. Table 1 (see document) of the Stipulation shows the estimated impact of the agreed-upon changes to the depreciation rates on the Company's filed depreciation study. In Attachment 2 – Jurisdictional Allocation, detailed jurisdictional allocations are provided by category. As a result of the

settlement discussions, the Stipulating Parties have agreed to the following adjustments to the Company's filed depreciation study and proposed rates, as described in Paragraphs 9-29. These adjustments are summarized in Table 2 of the Stipulation (see document) and indicate the estimated impact on depreciation expense.

3. The Stipulating Parties have agreed to extend the terminal life estimate for the Gadsby Plant from December 31, 2022, to December 31, 2032. This adjustment results in new lower depreciation rates, including the impact of adding estimated interim retirements for the extended period. The stipulated depreciation rates also include recognition of the excess reserve adjustment in the calculation. The stipulated depreciation rates have been computed using an estimated terminal removal rate of \$40/kW. (Adjustment A)
4. The Stipulating Parties have agreed to shorten the terminal life on the James River Plant from December 31, 2016, to December 31, 2015, to correct an error in the original Application, and to reduce net salvage estimated in the calculation from -1% to zero. These changes result in higher depreciation rates. (Adjustment B)
5. The Stipulating Parties agree that, for the Chehalis Plant, Currant Creek Plant, Lake Side Plant, Hermiston Plant and Gadsby Peaker Plant (Units 4-6), the interim retirement curve for Account 343 Prime Movers is changed from a 40-R₁ to a 45-R_{2.5}. There is no change in the proposed terminal removal dates for each of these plants from those presented in the study. The Stipulating Parties agree to lower the terminal removal cost for the CCCT gas units from the Company's proposed level of \$20/kW to \$15/kW. (Adjustment C)
6. The Stipulating Parties agree that wind generation units will use a 30-year terminal life. The terminal removal cost has been lowered from the Company's proposed level of \$9/kW to \$7/kW. (Adjustment D)
7. The Stipulating Parties agree that the Carbon Plant terminal net salvage estimate is reduced from the proposed \$330/kW to \$117/kW and the stipulated depreciation rates are calculated based on the April 2015 retirement date. This terminal net salvage estimate of \$117/kW is used for calculating rates in this Stipulation and will not be relied on in developing future removal cost estimates for other generation facilities. Until actual results are available, updated current estimates will be provided as needed in future filings, and to the extent the updated estimates differ from the \$117/kW, this issue can be reexamined in those filings. The amount ultimately deferred for the Carbon Plant will be trued up to actual prudently incurred removal costs in accordance with the procedures set forth in the stipulation in Case No. PAC-E-13-04 (the "GRC Stipulation").

The remaining plant balances for Carbon Plant will be recovered through 2020 consistent with the GRC Stipulation. (Adjustment E)

8. The Stipulating Parties accept the Company's proposed method in the study to use Iowa Curves to determine interim retirements for production facilities with terminal lives. The proposed depreciation rates reflect adjustments to the retirement curves on coal generation facilities in Account 311 Structures and Improvements from 90-R₂ to 120-R_{1.5}, Account 312 Boiler Plant Equipment from 60-L₁ to 68-S₀ and Account 314 Turbo-generator Units from 55-L₁ to 57-S₀. Reliance on the Company's Iowa Curve method for settlement purposes shall not prevent parties from taking a different position on this issue in future depreciation cases. (Adjustment F)
9. The Stipulating Parties agree to extend lives on transmission assets by: (1) extending the curve for Account 353 Station Equipment from the proposed 57-S₀ to a 58-S₀, (2) extending the curve for Account 356 Overhead Conductors and Devices from 60-R₃ to 63-R₃; and (3) merging Account 353.7 Supervisory Equipment with Account 353 Station Equipment resulting in a change to the life-curve combination and related net salvage for those assets from the proposed 20-R₂ with zero net salvage to 58-S₀ with -5% net salvage. All other lives and retirement curves are accepted as proposed by the Company. Any transmission excess reserve balance will be amortized over the remaining life of the assets rather than on an expedited basis. As part of calculating the stipulated depreciation rates, the depreciation reserve has been redistributed within the transmission function resulting in reduced rates on all accounts within the transmission function and an overall reduction in the composite depreciation rates on those facilities. (Adjustment G)
10. The Stipulating Parties agree to extend lives on distribution assets by merging Account 362.7 Supervisory Equipment with Account 362 Substation Equipment, and using the appropriate state-specific lives for Account 362 in Utah, Idaho and Wyoming. (Adjustment H)
11. The Stipulating Parties agree to amortize net salvage on specific mining accounts as follows: (1) stipulated depreciation rates for Utah mining assets have been established using a terminal life as established in the filed study; (2) net salvage percentages have been adjusted for Account 399.41 Surface Processing Equipment – Preparation Plant from -7% to -6% and for Account 399.46 Longwall Equipment from 5% to 7%; and (3) depreciation reserves have been reallocated within the mining accounts. As a result, the stipulated depreciation rates are lower than the Company's proposed rates on most of the mining accounts. (Adjustment I)

12. In order to offset the depreciation expense impacts of the shortened remaining life at the Carbon Plant, which is calculated to be \$34.7 million, the Stipulating Parties agree to expedite the amortization of the excess depreciation reserve at the Gadsby Plant and the Hunter Plant. The Stipulating Parties agree that the excess reserve at the Gadsby Plant and the Hunter Plant, calculated as of December 31, 2011, will be returned on a straight line basis. The excess reserve of \$21,073,503 associated with the Gadsby Plant will be amortized based on 9 years and the excess reserve of \$29,635,920 associated with the Hunter Plant will be amortized based on 5 years, resulting in an annual amortization of \$8.2 million. These amounts will be recorded as a separate item by crediting depreciation expense and debiting the depreciation reserve. The new depreciation rates for the Hunter Plant and Gadsby Plant have been recomputed excluding the above identified amounts of excess reserve. This recalculation of rates produced an estimated increase in depreciation expense of \$2.4 million. Coupled with the \$8.2 million excess reserve amount, this results in a net annual decrease in depreciation expense of \$5.8 million. The Stipulating Parties agree the excess reserve amortization will occur annually starting January 1, 2014, and will continue until the full \$34.7 million is returned or ending with the implementation of new rates resulting when new rates from the next depreciation study are implemented. During the next depreciation case, an assessment will be made as to the final disposition of any remaining amount of the \$34.7 million which has not been returned at that time. (Adjustment J)
13. The Stipulating Parties agree to amortize depreciation excess reserve for two other steam generation plants with an excess reserve as of December 31, 2011, the Blundell Plant with an excess reserve of \$7,852,016 and the Colstrip Plant with an excess reserve of \$22,930,383, as follows: (1) the annual amount is determined for each plant with any excess reserve by dividing the excess reserve by 10; (2) the annual amortization will occur beginning January 1, 2014, until new depreciation rates resulting from the next depreciation study are implemented; and (3) the stipulated depreciation rates are determined by excluding the identified excess reserve in the calculation. This adjustment is intended to offset the large steam plant increase in this Stipulation and does not set precedent for any future depreciation study. (Adjustment K)
14. The Stipulating Parties agree to amortize depreciation excess reserve on distribution plant for Utah, Idaho and Wyoming as follows: the annual amortization has been determined for each state by identifying the excess reserve for each state individually in the Company's filed study as of December 31, 2011, and then dividing the excess reserve for Utah by 6.5 years, the excess reserve for Idaho by 13 years, and the excess reserve for Wyoming by 15 years. The stipulated depreciation rates have been determined by excluding the identified excess reserve amounts from the

calculation. The annual amortization will occur beginning January 1, 2014, until new depreciation rates from the next depreciation study are implemented. This adjustment is intended to offset the large steam plant increase in this Stipulation and does not set precedent for any future depreciation study. (Adjustment L)

15. The Stipulating Parties agree to stipulated depreciation rates calculated using June 30, 2013, actual account balances within specific functions without terminal lives, including transmission, Utah, Idaho and Wyoming distribution and Utah, Idaho and Wyoming general plant. (Adjustment M)
16. The Stipulating Parties agree to adjust general plant lives to be consistent with the Oregon Settlement. Utah, Idaho and Wyoming depreciation rates have been adjusted using the life-curve combinations agreed to in Oregon. For Idaho, Account 390 Structures and Improvements, the life has been changed from 55R₃ to 58-R₁, Account 392.09 Transportation Equipment-Trailers from 33-L₂ to 34-L₂ and Account 396.03 Light Power Operated Equipment from 8-R₂ to 9-L₃. Each state's estimated salvage remains as provided in the Company's originally filed depreciation study. (Adjustment N)
17. For the depreciation rates for Wyoming and Idaho, the Stipulating Parties agree to adjust Klamath-Accelerated depreciation to an end date of December 31, 2022, consistent with the approved life in Utah. The life may be reassessed in the next depreciation cases in Wyoming and Idaho. If Klamath-Accelerated facilities are retired prior to December 31, 2022, return of and on any remaining balance will continue after retirement of the facilities as though it remained in service through December 31, 2022, and the Stipulating Parties agree not to challenge this recovery based on "used and useful" arguments. (Adjustment O)
18. The Stipulating Parties agree to the Company's proposal to move the balance of communication equipment to mass asset accounting with a consistent 24-year life and a depreciation rate of 4.3%. The depreciation reserves will continue to be maintained on a state basis which ensures no inadvertent jurisdictional transfer of depreciation reserve benefits created from different depreciation rates historically being used by each state.
19. The Stipulating Parties agree that the Company will provide a section in the next depreciation study, for informational purposes only, listing the specific mining assets, reserve balances, and respective lives owned by its Wyoming mining subsidiary.
20. A new depreciation study will be filed with the Idaho Public Utilities Commission no later than five years from the date of the written order resolving the issues in this Docket, or as otherwise ordered by the

Commission. The Stipulating Parties agree the Company will maintain the right to file a new depreciation study sooner than five years.

21. The Stipulating Parties agree the Company will implement a reporting system to keep the Stipulating Parties and the Utah, Idaho and Wyoming Commissions informed regarding any matters likely to have implications regarding potential stranded costs of generating assets. The Company will propose a reporting method by no later than December 31, 2013.
22. The Stipulating Parties agree the Company will provide updated cost estimates regarding Carbon Plant's terminal net salvage, including any new third-party studies as part of the Company's next general rate cases in Idaho, Utah and Wyoming.
23. The Stipulating Parties agree to adhere to the depreciation study treatment established according to paragraphs 10-14 of the Stipulation in Case PAC-E-13-04 (the "GRC Stipulation") if approved by the Idaho Public Utilities Commission. The parties are requesting that the stipulated depreciation rates from this study be effective on January 1, 2014 for purposes of financial reporting. Per the GRC Stipulation, the Company will establish a regulatory asset that will track for further recovery or refund, the aggregate net difference between the depreciation expense that would have been booked beginning in 2014 under the depreciation rates in effect as of the date of the GRC Stipulation and the depreciation expense actually booked beginning in 2014 under the depreciation rates approved by the Commission in this Case until the new depreciation rates are reflected in customer rates. Recovery of the deferral shall be allocated to customers on a proportionate basis, based on the cost of service relationships established in the next Idaho general rate case with rates proposed to be effective on or after January 1, 2016, as modified by future cost of service studies in future rate cases.

STAFF COMMENTS

Staff participated in the discussions, reviewed and analyzed the adjustments as presented and agreed upon in the Stipulation. A complete table of the proposed adjustments is included in Table 2, page 5, of the Stipulation. However, Staff singled-out the following items for further explanation:

Adjustments J and K relate to excess reserves in the steam production plants. The issue evaluates whether the steam production plant should be considered as one category (function) rather than as individual plants for depreciation purposes. When reviewed on an individual basis, some plants appear to have depreciation reserve deficits and some appear to have depreciation surpluses. This is caused by timing differences due to changes in depreciation

factors during the life of the assets. However, if you combine all plants into one function group, offsetting the surpluses and deficits, it reduces the depreciation expense currently required. PacifiCorp assured Staff that it had discussed this practice with the Company's Generally Accepted Accounting Principles (GAAP) advisors and were advised that it did not violate GAAP.

Staff looked at the Uniform System of Accounts (USOA) 108c, other states' reserve practices, and accounting publications to determine if combining reserves for depreciation purposes was an acceptable practice. Based on Staff findings and the fact that it is a timing difference which will correct itself in the near future, Staff accepted the Adjustments J and K as being a fair compromise of the Parties. These two adjustments account for a reduction in Idaho depreciation expense of approximately \$432,000.

Adjustment E adjusts for a reduction in estimated Carbon Plant costs. Originally, the Company estimated a Carbon Plant removal cost of \$330/kW. Existing depreciation rates include \$40/kW for removal costs. Based on Staff's calculations, the \$117/kW removal cost appears to be a fair compromise of the Parties. This amount will be re-examined as estimates are updated and will be trued up to actual prudently incurred removal costs in accordance with the procedures set forth in the Stipulation in Case No. PAC-E-13-04 (the "GRC Stipulation"). Staff agrees with this adjustment as a fair and reasonable compromise by the Parties. This adjustment reduces Idaho depreciation expense by approximately \$1.5 million.

Adjustment L deals again with the issue of surplus and deficit reserves, as discussed earlier regarding Adjustments J and K, only Adjustment L relates to Distribution Plant for Idaho. Staff accepts this adjustment as being a fair compromise of the Parties. This adjustment reduces Idaho depreciation expense by approximately \$1.1 million.

The Company's initial Application requested \$8,851,848 as Idaho's allocated share of depreciation expense. *See* Staff Comments, Table 1, page 3. In the Stipulation, the Parties agree that Idaho's allocated share would be \$4,614,970, a difference of -\$4,236,878. *Id.*

Staff believes that the Stipulation is a fair, just and reasonable compromise of the issues. Staff issued a caution regarding the limitation of depreciation expense for current customers. Staff warns that the Commission must take care so as not to unfairly defer depreciation expense to future customers. Staff recommended the Commission approve the Stipulation and all of its terms and conditions.

COMMISSION FINDINGS

The Commission reviewed the record in this case, including RMP's Application, the Stipulation, and Staff comments.¹ The Commission is satisfied that the major stakeholders in this case reached an amicable settlement regarding proposed changes to depreciation rates applicable to RMP's depreciable electric plant. Accordingly, the Commission accepts the Parties' Stipulation as filed.

The Commission affirms the Parties' negotiated agreement to include slightly more than half of the depreciation expense originally proposed in RMP's Application. Specifically, the agreed-upon adjustment of reserve amounts and carbon removal costs moving forward directly impacts Idaho customers. The Commission finds that the Parties' decision to adjust excess or surplus plant reserves and increase the \$/kW cost of carbon removal above the existing cost are reasonable and appropriate.

The Commission believes that Idaho's allocated share of RMP's depreciation expense included in the Stipulation strikes a fair and reasonable balance between the inclusion of existing depreciation expense in rates beginning on January 1, 2014, and the deferral of a portion of depreciation expense to future customers. The stipulated rates, attached and incorporated into the Stipulation, are fair, just and reasonable depreciation rates for RMP customers in Idaho beginning January 1, 2014.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over PacifiCorp dba Rocky Mountain Power, an electric utility, and the Application in Case No. PAC-E-13-02 pursuant to Title 61, Idaho Code, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

IT IS HEREBY ORDERED that the Parties' Stipulation pertaining to PacifiCorp dba Rocky Mountain Power's Application for approval of proposed changes to depreciation rates applicable to the Company's depreciable electric plant is approved. The depreciation rates set forth in Attachment 1 to the Stipulation shall be effective as of January 1, 2014.

¹ The Commission notes that the Company's last request for approval of changes to its depreciation rates was filed in 2007, with a January 1, 2008 effective date, PAC-E-07-14 (Order No. 30499).

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code § 61-626.*

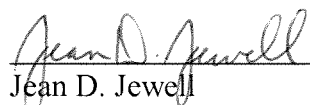
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 18th day of November 2013.


PAUL KJELLANDER, PRESIDENT


MACK A. REDFORD, COMMISSIONER


MARSHA H. SMITH, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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