

Exhibit No. SRM-1T  
Docket UE-180778  
Witness: Steven R. McDougal

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PACIFIC POWER & LIGHT COMPANY

For an Order Approving a Change in  
Depreciation Rates Applicable to Electric  
Property.

Docket UE-180778

**PACIFIC POWER & LIGHT COMPANY  
DIRECT TESTIMONY OF STEVEN R. MCDOUGAL**

**September 2018**

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**ATTACHED EXHIBIT**

Exhibit No. SRM-2—Washington-Allocated Depreciation Rates

1 **Q. Please state your name, business address, and present position with Pacific**  
2 **Power & Light Company (Pacific Power), a division of PacifiCorp.**

3 A. My name is Steven R. McDougal, and my business address is 1407 W. North Temple,  
4 Suite 330, Salt Lake City, Utah 84116. My present position is Director of Revenue  
5 Requirements for PacifiCorp.

6 **QUALIFICATIONS**

7 **Q. Please describe your education and professional background.**

8 A. I received a Master of Accountancy from Brigham Young University with an  
9 emphasis in Management Advisory Services and a Bachelor of Science degree in  
10 Accounting from Brigham Young University. In addition to my formal education, I  
11 have also attended various educational, professional, and electric industry-related  
12 seminars. I have been employed with PacifiCorp and its predecessor, Utah Power and  
13 Light Company, since 1983. My experience includes various positions with  
14 regulation, finance, resource planning, and internal audit.

15 **Q. What are your current responsibilities with the company?**

16 A. My primary responsibilities include overseeing the calculation and reporting of the  
17 company's regulated earnings and revenue requirement, ensuring that the  
18 interjurisdictional cost allocation methodology is correctly applied, and explaining  
19 those calculations to regulators in the jurisdictions in which the company operates.

20 **PURPOSE OF TESTIMONY**

21 **Q. What is the purpose of your direct testimony?**

22 A. My testimony:

- 23
  - Calculates the impact on the annual depreciation expense allocated to

1 Washington and provides support for the allocation of the new depreciation  
2 rates and effective date; and

- 3 • Identifies and discusses state-specific factors considered during the  
4 preparation of the “Depreciation Study – Calculated Annual Depreciation  
5 Accruals Related to Electric Plants as of December 31, 2017” (Depreciation  
6 Study), performed by Mr. John J. Spanos of Gannett Fleming Valuation and  
7 Rate Consultants LLC. The Depreciation Study is provided as Exhibit No.  
8 JJS-3 to Mr. Spanos’s testimony.

### 9 **ALLOCATION OF THE DEPRECIATION STUDY**

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

12 A. The company proposes to allocate the annual depreciation expense using the West  
13 Control Area Inter-Jurisdictional Allocation Methodology (WCA). The adoption of  
14 the depreciation rates proposed in the Depreciation Study results in an increase of  
15 approximately \$37.4 million on a Washington-allocated basis. In addition, the  
16 proposed ending of excess reserve amortizations results in an increase of \$0.5 million  
17 on a Washington-allocated basis. The calculation of the Washington-allocated  
18 depreciation increase is provided as Exhibit No. SRM-2.

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

21 A. The company proposes the new depreciation rates be made effective January 1, 2021.

22 **Q. Why is the company proposing an effective date of January 1, 2021?**

23 A. The January 1, 2021 effective date aligns implementation of the new depreciation

1 rates with resolution of the ongoing interjurisdictional cost allocation negotiations and  
2 an anticipated rate case filing. The company is actively working with parties in  
3 PacifiCorp's service territories to develop and adopt a new allocation methodology  
4 commonly referred to as the Coal Life Evaluation and Realignment Plan (CLEAR).  
5 Although the timing of a formal approval is unknown, the company believes an  
6 implementation date of January 1, 2021, would allow adequate time for PacifiCorp  
7 and all parties to achieve approval. Aligning the effective date of the depreciation  
8 rates proposed in the Depreciation Study with the anticipated approval of CLEAR  
9 will help maintain customer rate stability.

10 **STATE-SPECIFIC ITEMS**

11 **Q. Please summarize the Washington-specific factors you considered when**  
12 **preparing your testimony.**

13 A. The primary factors I considered relate to the expedited excess depreciation reserve  
14 amortizations and Pacific Power's proposal for treatment of certain depreciation-  
15 related regulatory liabilities.

16 **Q. In the stipulation to the 2013 depreciation study, the company included**  
17 **expedited excess reserve amortizations. Can you please summarize why those**  
18 **amortizations were established?**

19 A. The excess reserves relates to the retirement of assets occurring outside of projected  
20 expectations and changes in lives and net salvage rates that have occurred in the  
21 current and prior depreciation studies. Based on that information there was an excess  
22 reserve for the Colstrip steam production unit. Historically, any excess reserves have  
23 been returned over the remaining life of the assets, however, as part of the 2013

1 depreciation study stipulation, parties agreed to expedite the return of these excess  
2 reserves over a shorter period.

3 **Q. Over what period were the excess reserves to be returned to customers?**

4 A. The excess reserve amortizations were to occur over the period between the effective  
5 date of the 2013 depreciation study and this filing.

6 **Q. What is Pacific Power proposing with regard to excess reserve amortizations?**

7 A. Pacific Power is proposing to end the excess reserve amortizations for the Colstrip  
8 steam production unit. The Washington-allocated impact for the elimination of the  
9 excess reserve amortizations is a \$0.5 million increase and provided in Exhibit No.  
10 SRM-2.

11 **Q. Please provide a summary on the regulatory liability that was established for the  
12 accelerated depreciation as part of the 2015 Limited-Issue Rate Case.<sup>1</sup>**

13 A. The Washington commission authorized Pacific Power to accelerate depreciation for  
14 the coal-fueled generating units in Washington rates—the Jim Bridger plant and  
15 Colstrip Unit 4—and defer the amount collected over and above the current  
16 depreciation rates for these plants in the regulatory liability account for review in this  
17 Depreciation Study filing.

18 **Q. What is the estimated balance of the regulatory liability as of December 31,  
19 2020?**

20 A. The company estimates that the regulatory liability balances as of December 31,  
21 2020, will be \$52.2 million and is provided in the table below.

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<sup>1</sup> *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-152253.

**Table 1**

<b>Accelerated Depreciation – Amounts collected per Order 12 in Docket UE-152253</b>			
<b>\$ - Millions</b>	<b>Bridger</b>	<b>Colstrip</b>	<b>Total</b>
2016	\$2.7	\$0.1	\$2.8
2017	\$11.3	\$0.3	\$11.6
2018	\$12.3	\$0.3	\$12.6
2019	\$12.3	\$0.3	\$12.6
2020	\$12.3	\$0.3	\$12.6
<b>Projected Balance at 12/31/20</b>	<b>\$50.9</b>	<b>\$1.3</b>	<b>\$52.2</b>

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

3 A. Yes. Pacific Power proposes to amortize the accelerated depreciation regulatory  
4 liability balance of \$50.9 million for the Jim Bridger plant and \$1.3 million for the  
5 Colstrip Unit 4 generating unit as a credit to the calculated depreciation expense for  
6 the respective units as part of this Depreciation Study. The amortization will be  
7 applied over the remaining life of the respective assets, which assumes retirement for  
8 the Jim Bridger plant of December 31, 2025, and Colstrip Unit 4 of December 31,  
9 2027. Given these lives, the amortization is assumed to be \$10.2 million per year for  
10 the Jim Bridger plant and \$0.2 million per year for Colstrip Unit 4.

11 **SUMMARY OF RECOMMENDATIONS**

12 **Q. Please summarize your recommendations to the Commission.**

13 A. I recommend that the Commission find that the depreciation rates sponsored by  
14 Mr. Spanos in the Depreciation Study based on projected December 31, 2020  
15 balances are fair and reasonable for the company. I further recommend that the  
16 Commission order the company to implement these depreciation rates in its accounts  
17 and records effective January 1, 2021.

1 **Q. Does this conclude your direct testimony?**

2 **A. Yes**