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

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

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 for PacifiCorp.

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 the company?

A. My primary responsibilities include overseeing the calculation and reporting of the company's regulated earnings and revenue requirement, ensuring 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

Washington 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 by Mr. John J. Spanos of Gannett Fleming Valuation and Rate Consultants LLC. The Depreciation Study is provided as Exhibit No. JJS-3 to Mr. Spanos’s testimony.

ALLOCATION OF THE DEPRECIATION STUDY

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

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

Q. What does the company 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.

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

A. The January 1, 2021 effective date aligns implementation of the new depreciation rates with resolution of the ongoing interjurisdictional cost allocation negotiations and an anticipated rate case filing. 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 achieve approval. 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 Washington-specific factors you considered when preparing your testimony.

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

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

A. The excess reserves relates 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 was an excess reserve for the Colstrip steam production unit. Historically, any excess reserves have been 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 period between the effective date of the 2013 depreciation study and this filing.

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

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

Q. Please provide a summary on the regulatory liability that was established for the accelerated depreciation as part of the 2015 Limited-Issue Rate Case.[1]

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

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

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

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[1] *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-152253.

Table 1

Accelerated Depreciation – Amounts collected per Order 12 in Docket UE-152253			
$ - Millions	**Bridger**	**Colstrip**	**Total**
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
Projected Balance at 12/31/20	**$50.9**	**$1.3**	**$52.2**

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

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

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 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