McDowell
Rackner &
Gibson pc

KATHERINE MCDOWELL
Direct (503) 595-3924
katherine@mcd-law.com

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VIA ELECTRONIC FILING AND FIRST CLASS MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Docket UE 219 – In the Matter of PacifiCorp's Application to Implement Provisions of Senate Bill 76.

Enclosed for filing in the above captioned docket are an original and five copies of PacifiCorp's Brief on Depreciation Rate Issues. A copy of this filing was served on all parties to this proceeding as indicated on the attached Certificate of Service.

Very truly yours,

Katherine McDowell

Enclosure

cc: Service list

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in UE 219 on the following named person(s) on the date indicated below by email and first-class mail addressed to said person(s) at his or her last-known address(es) indicated below.

David B. Hatton
Assistant Attorney General
Department of Justice
1162 Court St. NE
Salem, OR 97301-4096
david.hatton@state.or.us

Melinda Davison
Davison Van Cleve PC
333 SW Taylor – Ste. 400
Portland, OR 97204
mail@dvclaw.com

Glen H. Spain
Pacific Coast Federation of Fishermen's Associations (PCFFA) and
Institute for Fisheries Resources (IFR)
fish1ifr@aol.com

Kelcey Brown
Public Utility Commission Of Oregon
PO Box 2148
Salem Or 97301
kelcey.brown@state.or.us

Steve Kirk
Oregon Dept. of Environmental Quality
steve.kirk@state.or.us

Chris Stine
Oregon Dept. of Environmental Quality
chris.stine@state.or.us

Rick Kepler
Oregon Dept. of Fish and Wildlife
rick.j.kepler@state.or.us

Ken Homolka
Oregon Dept. of Fish and Wildlife
ken.homolka@state.or.us

Mary Grainey
Oregon Water Resources Dept.
mary.s.grainey@wrd.state.or.us

Ron C. Kohanek
Oregon Water Resources Dept.
ron.c.kohanek@wrd.state.or.us

Peter Brucker
Salmon River Restoration Council
ptbp2day@gmail.com

Kurt Burkholder
Oregon Dept. of Justice
kurt.burkholder@doj.state.or.us

Kate Miller
Trout Unlimited
kmiller@tu.org

Charlton H. Bonham
Trout Unlimited
cbonham@tu.org

Richard Lorenz
Cable Huston Benedict Haagensen & Lloyd LLP
1001 SW Fifth Ave., Suite 200
Portland, OR 97204-1136
rlorenz@cablehuston.com

Laurence Cable
Cable Huston Benedict Haagensen & Lloyd LLP
1001 SW Fifth Ave., Suite 200
Portland, OR 97204-1136
lcable@cablehuston.com

Randal Falkenberg
RFI Consulting
PMB 362
8343 Roswell Road
Sandy Springs, GA 30350
consultrfi@aol.com

John Corbett
Yurok Tribe
jcorbett@yuroktribe.nsn.us

G. Catriona McCracken
Citizens' Utility Board of Oregon
catriona@oregoncub.org

Kevin Elliott Parks
Citizens' Utility Board of Oregon
kevin@oregoncub.org

Raymond Myers
Citizens' Utility Board of Oregon
ray@oregoncub.org

Gordon Feighner
Citizens' Utility Board of Oregon
gordon@oregoncub.org

Bob Jenks
Citizens' Utility Board of Oregon
bob@oregoncub.org

S. Craig Tucker
ctucker@karuk.us

Carl Ullman
Klamath Tribes
Klamath Water Project
bullman3@earthlink.net

Mark C Rockwell
NCFFF
summerhillfarmpv@aol.com

Richard Roos-Collins
Natural Heritage Institute
100 Pine Street, Ste. 1550
San Francisco, CA 94111
rrcollins@n-h-i.org

Brett Swift
American Rivers
320 SW Stark St - Ste 418
Portland, OR 97204
bswift@amrivers.org

Lisa Brown
Waterwatch Of Oregon
Lisa@Waterwatch.Org

DATED: July 20, 2010

Katherine McDowell

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UE 219

In the Matter of PacifiCorp's Application to Implement Provisions of Senate Bill 76.	**PACIFICORP'S BRIEF ON DEPRECIATION RATE ISSUES**

PacifiCorp d/b/a Pacific Power (or the Company) submits this Brief on Depreciation Rate Issues to the Public Utility Commission of Oregon (Commission) pursuant to the Prehearing Conference Report issued on April 5, 2010, by Administrative Law Judges Traci A. G. Kirkpatrick and Shani Pines. PacifiCorp requests that the Commission approve the depreciation method proposed by the Company and Staff of the Commission (Staff) for certain dams on the Klamath River (collectively, the Klamath Project).[1] The Company supports approval of the specific depreciation schedules filed by Staff, subject to: (1) an update for 2010 year-end plant balances and remaining plant life; and (2) ongoing adjustments as necessary to ensure full depreciation of the Klamath Project by December 2019.

I. INTRODUCTION

Pursuant to Senate Bill (SB) 76,[2] PacifiCorp filed an Application to Implement Provisions of Senate Bill 76 on March 18, 2010. SB 76 establishes procedures for removal of dams in the Klamath Project. Section 3 of SB 76, codified as ORS 757.734, requires that

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[1] The Company has proposed accelerated depreciation schedules for J.C. Boyle, Copco I and II, and the Irongate dams, but not the two smaller facilities in the Project, the East Side and West Side facilities. This is consistent with the Company's proposal in the FERC relicensing proceedings and the agreement in the Klamath Hydroelectric Settlement Agreement that the Company retains the responsibility for decommissioning these facilities. In the Company's last depreciation study, the Company established a small hydro decommissioning reserve. The costs to decommission East Side and West Side will be charged against that reserve, and the reserve balance would be evaluated and the accrual adjusted during the next depreciation study.

[2] SB 76 is codified at 757.732 through 757.744.

by August 18, 2010, the Commission determine a new depreciation schedule for the Klamath Project based upon dam removal in 2020. To allow the Commission to determine the depreciation schedules by August 18th, the Commission adopted a procedural schedule specific to this issue. Pursuant to that schedule, this brief addresses only the depreciation issues arising under SB 76.

PacifiCorp requests that the Commission approve the depreciation method proposed by the Company and Staff, using a straight-line method based on historical balances and a terminal life assumption of December 2019. This approach complies with the requirements of ORS 757.734 and no party opposes it.

PacifiCorp filed its depreciation rates in Tab 6, adjustment 6.2 of PPL/1102 in Docket UE 217. Staff filed similar, but more specific, depreciation rate schedules in Staff/202 in this case. PacifiCorp supports approval of Staff's plant-specific depreciation schedules, with two conditions: (1) that the plant balances and remaining plant life upon which these schedules are based (currently June 2009) be updated to reflect December 2010 plant balances and plant life; and (2) that the Commission allow periodic adjustments to the depreciation schedules as necessary to ensure full depreciation of the Klamath Project by December 2019. PacifiCorp understands that Staff has no objection to these conditions.

II. BACKGROUND

A. Senate Bill 76.

On July 14, 2009, the Oregon legislature passed SB 76 to facilitate removal of the Klamath Project pursuant to an agreement in principle entered into by the states of Oregon and California, the United States Department of the Interior, and PacifiCorp. SB 76 requires the Commission to determine new depreciation schedules for the Klamath Project, based on the assumption that the dams will be removed in 2020. ORS 757.734. This section also describes all of the costs that are recoverable. ORS 757.734(2).

Once the depreciation schedule is determined, the "Commission shall use the depreciation schedules . . . to establish rates and tariffs for the recovery of Oregon's allocated share of undepreciated amounts prudently invested by PacifiCorp in a Klamath River dam." ORS 757.734(2). ORS 757.734(1) requires the Commission to approve the new depreciation schedule for the Project within six months of the execution of the Klamath Hydroelectric Settlement Agreement, or August 18, 2010.

The "Whereas" clauses to SB 76 indicate that the policy underlying these provisions was to "facilitate removal of the Klamath dams" by requiring the Commission to "set rates that allow PacifiCorp to recover Oregon's fair share of PacifiCorp's undepreciated investment in the dams."

B. Procedural History of Docket UE 219.

On March 18, 2010, PacifiCorp filed its Application to implement the provisions of SB 76. PacifiCorp also filed supporting testimony from Dean S. Brockbank, Andrea L. Kelly, and Cory E. Scott. Ms. Kelly's testimony addressed the adoption of new depreciation schedules. *See* PPL/200, Kelly/16, ll. 9-19. As required by ORS 757.734(1), the Company proposed depreciation of the net book value on a straight-line basis over the remaining life of the plant, assuming dam removal in 2020. PPL/200, Kelly/16, ll. 9-13. Any additions, retirements, and any associated net salvage value would be reflected in the net book value. PPL/200, Kelly/16, ll. 14-19.

While the Company proposed a depreciation method in this case, it included its proposed depreciation rates in its pending general rate case, Docket UE 217, at Tab 6, adjustment 6.2, of its general revenue requirement exhibit, PPL/1102. Bryce Dalley sponsored these depreciation rates in his testimony at PPL/1100, Dalley/25.

On June 4, 2010, Staff filed testimony recommending specific proposed depreciation schedules for each of the four dams. Staff's proposed depreciation schedules used a straight-line depreciation method and applied it to Oregon's share of the gross plant values for the four dams. *See* Staff/202. Thus, Staff calculated the annual depreciation expense by determining the remaining net plant balances as of June 30, 2009, and then divided that amount by 10.5, which is the remaining life of the each dam. Staff/200, Peng/4, ll. 7-10. The depreciation rate was then applied to Oregon's share of the gross plant to determine the annual depreciation expense for the four dams. Staff/200, Peng/4, ll. 11-14. Staff's analysis calculated a 6.4 percent depreciation rate, which produced a total $1.37 million annual depreciation expense for the four dams. *Id.* Staff's testimony did not specifically address fluctuations in the net book value due to future capital additions, retirements, or any associated net salvage value.

On June 21, 2010, the Company filed reply testimony addressing Staff's proposed depreciation schedule and concluded that Staff's proposal is "consistent with the Company's revenue requirement calculation" presented in Docket UE 217. PPL/400, Dalley/3, ll. 3-8. The Company also agreed with the straight-line methodology used by Staff. *Id.* The Company's rebuttal testimony requested that the Commission allow for changes to the depreciation rates to reflect fluctuations in the net book value of the dams due to capital additions and retirement activities. PPL/400, Dalley/2, l. 19 - /3, l. 2. This ensures that the dams will be fully depreciated by the end of their useful lives. *Id.*

Based upon conversations with Staff, the Company understands that Staff agrees that, as the net book value of the dams fluctuate each month due to capital additions and retirement activities, the associated depreciation rates should be adjusted to fully depreciate such capital improvements by the end of the expected life. In addition, Staff agrees that plant balances and remaining life in the schedules (currently calculated from June 2009) should be updated to December 2010 as a part of the Company's compliance filing in UE 217 prior to the implementation of these depreciation rates on January 1, 2011. Staff and the Company agree that the updated plant balances should only include the changes from capital improvement—*i.e.* capital additions, retirements, and interim net salvage values—and will not include removal costs related to the terminal dam removal and related facilities.

C. Implementation of New Depreciation Rates.

In its Application, PacifiCorp requested that the new depreciation rates for the dams take effect on January 1, 2011—the rate effective date for the Company's 2010 general rate case. PPL/400, Dalley/2, ll. 10-16. In that rate case, Docket UE 217, an uncontested Stipulation was filed on July 12, 2010. That Stipulation agrees to implement the new depreciation schedules determined in this docket. *See Re PacifiCorp Request for General Rate Revision*, Docket UE 217, Stipulation at 3 (July 12, 2010).

III. DISCUSSION

A. The Proposed Depreciation Rates Conform to the Requirements of ORS 757.734.

ORS 757.734 requires the Commission to determine a depreciation schedule for the Klamath Project based on the assumption that the dams will be removed in 2020. ORS 757.734(1). The depreciation method proposed by the Company and Staff depreciate the net book value of the Company's remaining investment in the Klamath Project on a straight-line basis through December 31, 2019. *See* Staff/202. No party to this docket has challenged this method. This method conforms to the requirements of ORS 757.734; therefore, the Commission should approve it.

Staff's depreciation rates schedules illustrate the operation of this depreciation method on a plant-specific basis. While the calculations in these schedules vary in some respects from the calculations contained in adjustment 6.2 of PPL/1102 in UE 217, the end result is the same, both from a depreciation rate and revenue requirement perspective. For this reason, the Company supports adoption of these schedules.

As discussed above, the schedules will require updates to ensure full recovery of the Company's undepreciated investment in the Klamath Project by 2020. First, because the schedules were based upon June 2009 plant balances, these schedules need to be updated for 2010 year-end plant balances and plant life. This change to the depreciation rate schedules will not impact the stipulated revenue requirement in UE 217.

Second, the Commission should also authorize periodic modification of the schedules as required to account for changes in the net book value of the dams. ORS 757.734(2) authorizes, *inter alia*, recovery of capital improvements necessary for the continued operation of the dams until removal and amounts spent for decommissioning the dams. ORS 757.734(2)(a) and (e). Thus, the statute contemplates recovery of future costs not currently reflected in the net book value of the dams. Periodic modification of the depreciation rates to account for capital additions and retirement activity is the most reasonable method to ensure that when the dams' useful lives end, they will be fully depreciated, as required by ORS 757.734. These periodic changes in the depreciation schedules for the Klamath Project would be for accounting purposes only; the Company would not implement modified depreciation schedules for the Klamath Project in base rates outside of a general rate case.

As noted above, the Company understands that Staff agrees with the Company's position on these issues.

B. Implementation of Depreciation Schedules.

ORS 757.734 also requires that the Commission use the depreciation schedules to establish rates and tariffs for the recovery of Oregon's share of the Company's undepreciated amounts prudently invested in a dam. ORS 757.734(2). In its Application the Company requested adoption of the accelerated depreciation rates in its pending rate case, Docket UE 217. The Stipulation filed in that case on July 12, 2010 reflects that the parties to that agreement approve the inclusion of the depreciation schedules from this docket in rates effective January 1, 2011. Thus, the Commission should approve the implementation of the new depreciation rates in UE 217.

IV. CONCLUSION

The Commission should approve the depreciation method proposed by Staff and the Company. The Company also supports adoption of the depreciation schedules proposed by Staff, subject to updates designed to ensure that these schedules allow full depreciation of the Klamath Project by December 2019. These schedules satisfy the requirements of ORS 757.734 and no party has objected to them.

DATED: July 20, 2010.

Respectfully submitted,

McDowell Rackner & Gibson PC

Katherine McDowell
Amie Jamieson
Attorneys for PacifiCorp

PACIFICORP

Jordan A. White
Senior Counsel
Pacific Power
1407 W. North Temple, Suite 320
Salt Lake City, Utah 84116
Phone: 801.220.2279
Facsimile: (801) 220-4615