

1 **BEFORE THE PUBLIC UTILITY COMMISSION**  
2 **OF OREGON**

3 UE 219

4 In the Matter of

5 PACIFICORP, dba PACIFIC POWER

6  
7 Application to Implement the Provisions of  
Senate Bill 76

STAFF'S BRIEF REGARDING  
DEPRECIATION ISSUES  
(CORRECTED)

8 Oregon Senate Bill 76 ("SB 76") allows PacifiCorp to collect two surcharges from its  
9 customers for the purpose of funding the costs of removal for the four Klamath River  
10 hydroelectric dams.<sup>1</sup> SB 76 also requires that the Commission determine a new depreciation  
11 schedule for each of the dams within six months of the execution of the Klamath Hydroelectric  
12 Settlement Agreement ("KHSA") based upon the assumption that the dams will be removed in  
13 2020.<sup>2</sup> The KHSA was executed on February 18, 2010, so the deadline for determining the  
14 new depreciation schedules is August 18, 2010. The changes in the depreciation schedules  
15 would be effective January 1, 2011, and reflected in rates resulting from the Company's current  
16 general rate case proceeding, UE 217.

17 Staff witness Ming Peng calculated the annual depreciation expense by dividing the  
18 remaining net plant balance as of June 30, 2009, for each of the four dams by the remaining 10.5-  
19 year life (the period between June 30, 2009 and December 31, 2019).<sup>3</sup> The calculation does not  
20 contain any salvage or cost of removal estimates; and does not contain any values for interim  
21 additions or interim retirements. ORS 757.734(2)(b) provides that "[a]mounts recoverable under  
22 this section include, but are not limited to: \* \* \* [c]apital improvements required by the United  
23 States or any state for continued operation of the dam until dam removal." Accordingly, Staff  
24

25 <sup>1</sup> The four dams are the J. C. Boyle Dam, Copco 1 Dam, Copco 2 Dam, and Iron Gate Dam. *See* ORS 757.736(2).

26 <sup>2</sup> *See* ORS 757.734(1).

<sup>3</sup> *See* Staff/200,Peng/2.

1 recommends that as the net book value of the dams fluctuates each month due to capital additions and  
 2 retirement activities, the associated depreciation rates will be adjusted to fully depreciate such capital  
 3 improvements by the end of the expected life. In addition, plant balances and remaining life in the  
 4 schedules (currently calculated from June 2009) should be updated to December 2010 as a part of the  
 5 Company's compliance filing in UE 217 prior to the implementation of these depreciation rates on  
 6 January 1, 2011. The updated plant balance should only include the changes from capital  
 7 improvement, *i.e.* capital additions, retirements, and interim net salvage values, and it will not  
 8 include removal costs related to the terminal dam removal and related facilities. The KHSA  
 9 contains a \$200 million cap on the customer contribution to the costs of dam removal, codified at  
 10 ORS 757.736(2) and (3). *See also* KHSA, 4.1.1.C.

11 The composite straight-line depreciation rate is 6.4 percent. When this rate is applied to  
 12 Oregon's share of the gross plant, valued at \$21.38 million, it produces a collective \$1.37 million  
 13 annual depreciation expense for the four dams.<sup>4</sup> The recommended Oregon depreciation  
 14 schedules are found at Exhibits Staff/202,Peng/1-9. A summary of each schedule is found at  
 15 Staff/200,Peng/5, Table I, and is reproduced below:

OREGON SUMMARY											page 1
Location	FERC		End	Plant Balance	Accum Depreciation	Amount to	Remaining	Annual	Depreciation	Oregon	
Description	Account	Methodology	Life	at 6/30/2009	at 6/30/2009	Recover	Life	Depreciation	Rate%	Allocation %	
JC BOYLE HYDRO PLAN	303-398	LIFE SPAN	12/31/2019	8,824,019	(2,362,303)	6,461,716	10.5	615,401	6.974%	26.177%	
IRON GATE HYDRO PLAN	330-398	LIFE SPAN	12/31/2019	5,693,376	(2,090,834)	3,662,542	10.5	348,813	6.127%	26.177%	
COPCO #1 HYDRO PLAN	330-397	LIFE SPAN	12/31/2019	2,440,787	(1,138,151)	1,302,635	10.5	124,061	5.083%	26.177%	
COPCO #2 HYDRO PLAN	330-398	LIFE SPAN	12/31/2019	4,422,986	(1,484,204)	2,938,782	10.5	279,884	6.328%	26.177%	
TOTAL				21,381,167	(7,015,493)	14,365,674	10.5	1,368,159	6.3989%	26.177%	

21 PacifiCorp witness R. Bryce Dalley reviewed Ms. Peng's testimony. He concluded that  
 22 her calculations and depreciation schedules are consistent with ORS 757.734(1) and the  
 23 Company's revenue requirement calculations presented in UE 217.<sup>5</sup> No other party filed  
 24 testimony regarding depreciation.

<sup>4</sup> See Staff/200,Peng/3

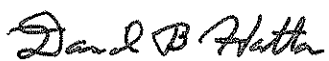
<sup>5</sup> See PPL/400,Dalley/2-3.

1 Staff recommends that the Commission adopt Staff's depreciation schedules for each of  
2 the four dams effective January 1, 2011, and reflected in rates in the current general rate case  
3 proceeding, UE 217.

4 DATED this 20th day of July 2010.

5 Respectfully submitted,

6 JOHN R. KROGER  
7 Attorney General

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9 \_\_\_\_\_  
10 David B. Hatton, #75151  
11 Senior Assistant Attorney General  
12 Of Attorneys for Staff of the Public Utility  
13 Commission of Oregon  
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1 **CERTIFICATE OF SERVICE**

2 I certify that on July 20, 2010, I served the foregoing Corrected Staff Brief upon the  
3 parties in this proceeding by electronic mail and by sending a true, exact and full copy by regular  
4 mail, postage prepaid, or by hand-delivery/shuttle, to the parties accepting paper service.

5 **W**  
6 S. CRAIG TUCKER  
7 PO BOX 282  
8 ORELEANS CA 95556  
9 ctucker@karuk.us

10 **AMERICAN RIVERS**  
11 BRETT SWIFT  
12 320 SW STARK ST - STE 418  
13 PORTLAND OR 97204  
14 bswift@amrivers.org

15 **CABLE HUSTON BENEDICT ET AL**  
16 J LAURENCE CABLE (C)  
17 1001 SW 5TH AVE STE 2000  
18 PORTLAND OR 97204-1136  
19 lcable@cablehuston.com

20 **CABLE HUSTON BENEDICT ET AL**  
21 RICHARD LORENZ (C)  
22 1001 SW FIFTH AVE - STE 2000  
23 PORTLAND OR 97204-1136  
24 rlorenz@cablehuston.com

25 **W**  
26 **CITIZENS' UTILITY BOARD OF OREGON**  
GORDON FEIGNER (C) (HC)  
ENERGY ANALYST  
610 SW BROADWAY, SUITE 308  
PORTLAND OR 97205  
gordon@oregoncub.org

ROBERT JENKS (C) (HC)  
EXECUTIVE DIRECTOR  
610 SW BROADWAY STE 308  
PORTLAND OR 97205  
bob@oregoncub.org

G. CATRIONA MCCrackEN (C) (HC)  
LEGAL COUNSEL/STAFF ATTY  
610 SW BROADWAY - STE 308  
PORTLAND OR 97205  
catriona@oregoncub.org

RAYMOND MYERS (C) (HC)  
ATTORNEY  
610 SW BROADWAY - STE 308  
PORTLAND OR 97205  
ray@oregoncub.org

**W**  
**CITIZENS' UTILITY BOARD OF OREGON**  
KEVIN ELLIOTT PARKS (C) (HC)  
STAFF ATTORNEY  
610 SW BROADWAY STE 308  
PORTLAND OR 97205  
kevin@oregoncub.org

**DAVISON VAN CLEVE PC**  
MELINDA J DAVISON  
333 SW TAYLOR - STE 400  
PORTLAND OR 97204  
mail@dvclaw.com

**W**  
**KLAMATH TRIBES AND KLAMATH WATER**  
CARL ULLMAN  
PO BOX 957  
CHILOQUIN OR 97624  
bullman3@earthlink.net

**MCDOWELL RACKNER & GIBSON PC**  
KATHERINE A MCDOWELL (C) (HC)  
ATTORNEY  
520 SW SIXTH AVE - SUITE 830  
PORTLAND OR 97204  
katherine@mcd-law.com

**NATURAL HERITAGE INSTITUTE**  
RICHARD ROOS-COLLINS  
100 PINE ST., STE 1550  
SAN FRANCISCO CA 94111  
rrcollins@n-h-i.org

**W**  
**NCCFFF**  
MARK C ROCKWELL  
19737 WILDWOOD WEST DR  
PENN VALLEY CA 95946  
summerhillfarmpv@aol.com

**W**  
**OREGON DEPT. OF ENVIRONMENTAL QUALITY**  
CHRIS STINE (C)  
165 E 7TH AVE., STE 100  
EUGENE OR 97401  
chris.stine@state.or.us

1 **W**  
2 **OREGON DEPT. OF ENVIRONMENTAL QUALITY**  
3 STEVE KIRK (C)  
4 475 NE BELLEVUE DR  
5 BEND OR 97701  
6 steve.kirk@state.or.us

7 **W**  
8 **OREGON DEPT. OF FISH AND WILDLIFE**  
9 KEN HOMOLKA (C)  
10 3406 CHERRY AVE NE  
11 SALEM OR 97303  
12 ken.homolka@state.or.us

13 RICK KEPLER (C)  
14 3406 CHERRY AVE NE  
15 SALEM OR 97303  
16 rick.j.kepler@state.or.us

17 **W**  
18 **OREGON DEPARTMENT OF JUSTICE**  
19 KURT BURKHOLDER (C)  
20 1515 SW 5TH AVE, STE 410  
21 PORTLAND OR 97201  
22 kurt.burkholder@doj.state.or.us

23 **W**  
24 **OREGON WATER RESOURCES DEPARTMENT**  
25 MARY GRAINEY (C)  
26 725 SUMMER ST NE, STE A  
SALEM OR 97301  
mary.s.grainey@wrdd.state.or.us

RON C KOHANEK (C)  
725 SUMMER ST NE, STE A  
SALEM OR 97301  
ron.c.kohaneck@wrdd.state.or.us

**W**  
**PACIFIC COAST FEDERATION OF FISHERMEN'S ASSOC**  
GLEN H SPAIN (C)  
W REGIONAL DIRECTOR  
PO BOX 11170  
EUGENE OR 97440-3370  
fish1ifr@aol.com

**PACIFICORP, DBA PACIFIC POWER**  
OREGON DOCKETS  
825 NE MULTNOMAH ST, STE 2000  
PORTLAND OR 97232  
oregondockets@pacificorp.com

**PUBLIC UTILITY COMMISSION OF OREGON**  
KELCEY BROWN (C) (HC)  
PO BOX 2148  
SALEM OR 97301  
kelcey.brown@state.or.us

**RFI CONSULTING INC**  
RANDALL J FALKENBERG  
PMB 362  
8343 ROSWELL RD  
SANDY SPRINGS GA 30350  
consultrfi@aol.com

**W**  
**SALMON RIVER RESTORATION COUNCIL**  
PETER BRUCKER  
HCR 4  
BOX 1089  
SAWYERS BAR CA 96027  
ptb92day@gmail.com

**W**  
**TROUT UNLIMITED**  
CHARLTON H BONHAM (C)  
1808B 5TH STREET  
BERKELEY CA 94710  
cbonham@tu.org

KATE MILLER (C)  
227 SW PINE STREET, SUITE 200  
PORTLAND OR 97204  
kmiller@tu.org

**W**  
**WATERWATCH OF OREGON**  
LISA BROWN  
213 SW ASH ST - STE 208  
PORTLAND OR 97204  
lisa@waterwatch.org

**W**  
**YUROK TRIBE**  
JOHN CORBETT  
PO BOX 1027  
KLAMATH CA 95548  
jcorbett@yuroktribe.nsn.us



Neoma Lane  
Legal Secretary / Department of Justice  
Regulated Utility & Business Section