

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1968

In the Matter of

PACIFICORP, dba PACIFIC POWER,

Application for Authority to Implement
Revised Depreciation Rates.

ORDER

DISPOSITION: STIPULATION ADOPTED

I. SUMMARY

In this order, we adopt the parties' stipulated agreement that PacifiCorp, dba Pacific Power, may implement revised depreciation rates to become effective on January 1, 2021. PacifiCorp's Oregon depreciation rates are split between two proceedings. This stipulation addresses depreciation rates for PacifiCorp's capital assets that are not coal-related. Depreciation expense for all coal-related assets will be addressed in PacifiCorp's general rate case in docket UE 374.

The stipulation and its attachments contain the parties' agreement on depreciation rates. For illustrative purposes, PacifiCorp estimates the effect of the depreciation rates as a \$5.34 million increase in annual Oregon depreciation expense, largely due to new wind plant capital additions. The parties also estimated the effect relative to PacifiCorp's initial filing as a \$7 million decrease on an Oregon-allocated basis. The depreciation rates in this proceeding will be incorporated in PacifiCorp's general rate case in docket UE 374.

II. BACKGROUND AND FILINGS

PacifiCorp's application explains that depreciation accounting spreads the unrecovered costs of a capital asset, less any salvage value, over the estimated remaining useful life of the asset. PacifiCorp's last depreciation study was filed in 2013 and we adopted a stipulation with revised rates effective on January 1, 2014.¹ The 2013 stipulation

¹ *In the Matter of PacifiCorp Application for Authority to Implement Revised Depreciation Rates*, Docket No. UM 1647, Order No. 13-347 (Sep 25, 2013).

required PacifiCorp to file a new depreciation study within five years. PacifiCorp performed an updated depreciation study in 2018 and submitted the study with its initial application for revised depreciation rates. This proceeding was held in abeyance throughout 2019 while PacifiCorp held all-state discussions regarding its 2018 depreciation study.

In early 2020, PacifiCorp filed supplemental testimony with additional depreciation expense reflecting earlier end-of-life years for coal plants and a demolition study to estimate decommissioning costs for coal plants. All depreciation expense related to coal-fired resources was segregated from this proceeding and moved into PacifiCorp's general rate case in docket UE 374. PacifiCorp's March 31, 2020 motion in docket UE 374 lists the specific testimony and exhibits that were moved from this proceeding into the rate case.

The Oregon Citizens' Utility Board (CUB) and the Alliance of Western Energy Consumers (AWEC) intervened in this docket. Prior to Staff and intervenor testimony, the parties engaged in settlement discussions and reached an agreement resolving all issues.

PacifiCorp, CUB, AWEC, and Staff (stipulating parties) filed a stipulation and joint testimony in support of the stipulation. The stipulation is attached to this order as Appendix A. The attachments to the stipulation are over 25 pages and can be viewed via the August 18 and November 6, 2020 docket entries for the stipulation and bench request response. The detailed attachments include Attachment 1 showing the agreed-upon depreciation rates, based on the probable retirement date, survivor curve, salvage value, estimated 2020 original cost and book depreciation reserve. A corrected copy of Attachment 2 contains similar inputs for each line item, but shows the difference between PacifiCorp's 2018 depreciation study and the stipulated amounts.² Attachments 3 and 4 both contain summaries of the depreciation study changes, beginning with the 2018 study and showing the reductions with the settlement.

III. DISCUSSION

A. Stipulation

PacifiCorp's revised depreciation rates are based on an updated depreciation study. The stipulating parties explain that the study identifies changes that have occurred since the 2013 depreciation study. The stipulating parties state that they conducted a comprehensive review of the depreciation study. The stipulating parties made

² PacifiCorp Responses to Bench Request (Nov 6, 2020) (contains a corrected copy of Attachment 2).

adjustments to several categories of plant from the company's initial filing. The stipulating parties agreed to modifications to the depreciation rates for natural gas production, projected solar production, projected battery storage, transmission, distribution, and general plant. The stipulation represents a \$20 million decrease, on a total-company basis (\$7 million, Oregon-allocated), "when compared to the company's initially proposed UE 374 revenue requirement."³ The stipulating parties request that we approve the stipulation as presented.

The stipulation explains that during this proceeding, PacifiCorp updated plant balances. Staff supports the use of 2020 plant balances for system-allocated accounts for purposes of settlement, but considers it non-precedential. For the Oregon-assigned accounts, the stipulation uses Staff's preferred method of calculating depreciation rates using the historical 2017 plant data that served as the basis for the company's study.

B. Bench Request Response

In the stipulation and supporting testimony, the parties could not provide the revenue requirement impact of their agreement because capital additions remained a litigated issue in the general rate case. For illustrative purposes, the stipulating parties provided a table that shows on a total-company basis, a \$33 million increase in annual depreciation expense compared to current depreciation expense.⁴

We issued a bench request seeking an Oregon-allocated estimate of the total-company \$33 million increase. PacifiCorp responded that the estimated effect of the stipulation on an Oregon-allocated basis is an increase of \$5.34 million in annual depreciation expense.⁵ When broken down by category, the table shows almost the entire increase is due to the "Other Production Plant" category that includes the new wind projects: TB Flats, Ekola Flats, and Cedar Springs 2.⁶

C. Commission Resolution

We have reviewed the terms of the stipulation, supporting joint testimony of the parties, and PacifiCorp's response to the bench request. We find that the stipulation is reasonable with its updated depreciation rates. The updated depreciation rates will result in an estimated increase in Oregon-allocated depreciation expense of approximately

³ Stipulating Parties/100, Kobliha, Peng, Gehrke, Kaufman/5.

⁴ *Id.* at 5, Table 1.

⁵ PacifiCorp Responses to Bench Request at Attachment ALJ Bench Request 2.

⁶ *Id.* at Attachment ALJ Bench Request 2.

\$5.34 million. The exact increase in depreciation expense will be calculated in docket UE 374 pending Commission decision on litigated capital additions. The estimated increase in depreciation expense appears to be due in large part to capital additions for PacifiCorp's new Energy Vision 2020 wind projects. Beyond the new wind, PacifiCorp explains that the remaining life depreciation rates that lead to the increase in depreciation expense are the result of many intertwined factors, including "survivor curves, life spans of generating units, net salvage percentages, depreciation procedures and methods, the relationship of the plant in service to the surviving plant, capital additions, retirements and the surviving age of plant as of the test year."⁷

PacifiCorp states that the stipulation includes consistent treatment of system-allocated assets, and we recognize the efforts to align the company's depreciation expense for system allocated assets across all jurisdictions.⁸ To ensure that the stipulation appropriately incorporates Oregon-specific adjustments, we asked about the repowered wind facilities that were addressed in dockets UE 352 and UE 369. PacifiCorp explained that the Renewable Adjustment Clause (RAC) Schedule 202 stipulation allowed a buy-down credit for the retired wind assets that amortizes over the remaining depreciable lives of the repowered wind facilities and partially offsets Oregon's portion of the total company depreciation expense on the repowered wind facilities.⁹

With the above review, we conclude that the revised depreciation rates attached to the stipulation will result in fair, just, and reasonable rates and further the public interest. As agreed to by the stipulating parties, PacifiCorp is to implement the revised depreciation rates from this proceeding, effective January 1, 2021, as part of its compliance filing in docket UE 374.¹⁰

⁷ *Id.* at Response to ALJ Bench Request 1.

⁸ Stipulating Parties/100, Kobliha, Peng, Gehrke, Kaufman/9.

⁹ PacifiCorp Responses to Bench Request at Response to ALJ Bench Request 3.

¹⁰ Stipulating Parties/100, Kobliha, Peng, Gehrke, Kaufman/6.

IV. ORDER

IT IS ORDERED that:

1. The Stipulation between PacifiCorp, dba Pacific Power, Staff of the Public Utility Commission of Oregon, Oregon Citizens' Utility Board, and the Alliance of Western Energy Consumers, regarding revised depreciation rates in attached Appendix A, is adopted.
2. PacifiCorp, dba Pacific Power, shall make a compliance filing showing Oregon's final depreciation expense after resolution of the general rate case.

Made, entered, and effective Dec 16 2020.



Megan W. Decker
Chair



Letha Tawney
Commissioner



Mark R. Thompson
Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

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STIPULATION

INTRODUCTION

1
2 1. PacifiCorp d/b/a Pacific Power (PacifiCorp or Company), Staff of the Public
3 Utility Commission of Oregon (Staff), Oregon Citizens' Utility Board (CUB), and the
4 Alliance of Western Energy Consumers (AWEC) (collectively the Stipulating Parties) enter
5 into this Stipulation to resolve all remaining issues in docket UM 1968, PacifiCorp's
6 application requesting authority to implement depreciation rates (Application). No other
7 party intervened in this docket.

BACKGROUND

8
9 2. PacifiCorp filed its Application on September 13, 2018. On September 19,
10 2018, CUB filed a notice of intervention. AWEC filed its petition to intervene on October 9,
11 2018. A prehearing conference was held on October 29, 2018. On November 6, 2018,
12 Administrative Law Judge Sarah Rowe issued a Prehearing Conference Memorandum
13 granting interventions and establishing the procedural schedule.

14 3. On February 8, 2019, PacifiCorp filed a Motion to Hold Proceeding in
15 Abeyance. On February 15, 2019, PacifiCorp's motion was granted. PacifiCorp held all-
16 state discussions regarding its 2018 Depreciation Study through 2019.

1 4. On January 16, 2020, in compliance with the 2020 PacifiCorp Inter-
2 jurisdictional Allocation Protocol, approved by the Commission in docket UM 1050,¹
3 PacifiCorp filed the results of the contractor-assisted engineering study of decommissioning
4 costs for the Jim Bridger, Dave Johnston, Hunter, Huntington, Naughton, Wyodak, and
5 Hayden coal plants. On February 14, 2020, PacifiCorp filed supplemental testimony in the
6 proceeding to update for steam production probable retirement dates and updated
7 decommissioning costs.

8 5. On March 3, 2020, the Commission held a prehearing conference in the
9 proceeding. On March 4, 2020, Judge Rowe issued a prehearing conference memorandum
10 establishing a revised procedural schedule.

11 6. On March 31, 2020, PacifiCorp filed an unopposed motion to segregate issues
12 related to coal-fired resources in the 2018 Depreciation Study proceeding and move those
13 issues to its general rate case proceeding in docket UE 374. On April 10, 2020, following
14 settlement discussions, Staff filed a stipulated motion to suspend the procedural schedule in
15 the proceeding. On April 13, 2020, PacifiCorp and Staff's motions were granted, requiring
16 the Stipulating Parties to file the stipulation and supporting testimony or brief by June 9,
17 2020, or, alternatively, a joint status update.

18 7. The Stipulating Parties held settlement conferences on April 7 and 9, 2020,
19 resolving the majority of the issues remaining in the proceeding.

¹ *In the Matter of PacifiCorp, dba Pacific Power, Request to Initiate an Investigation of Multi-Jurisdictional Issues and Approve an Inter-Jurisdictional Cost Allocation Protocol*, Order No. 20-024, Docket No. UM 1050 (Jan. 23, 2020).

8. On June 9, 2020, PacifiCorp filed a joint status update requesting a four week extension to file a stipulation and supporting testimony or brief. The extension was requested to address the last remaining issue in the settlement discussions.

9. On July 8, 2020, Administrative Law Judge Sarah Rowe issued a ruling requesting a status update on settlement discussions.

10. The Stipulating Parties reached final agreement on July 20, 2020, and filed a status update requesting additional time to file the stipulation and supporting testimony by August 10, 2020.

AGREEMENT

11. The Stipulating Parties agree that the proposed depreciation rates set forth in Attachment 1 to this Stipulation, which include just and reasonable changes to the initial 2018 Depreciation Study filed by the Company on September 13, 2018, to become effective on January 1, 2021. Attachment 2 provides summary of estimated survivor curves, net salvage, original cost, book depreciation reserve and calculated annual depreciation rates. Attachment 3 shows the effect of these changes on a total-Company and Oregon-allocated basis, for illustrative purposes only, relative to the Company's proposed UE 374 revenue requirement. Attachment 4 contains the consolidated depreciation rates agreed to by the Stipulating Parties and shows the changes from the initial filing.

12. The depreciation rates originally proposed in the Company’s Application resulted in an estimated increase in annual depreciation expense, across PacifiCorp’s six jurisdictions, of approximately \$258.2 million (\$67.1 million on an Oregon-allocated basis, or \$67.9 million after including the change in excess reserve amortization as shown on Exhibit PAC/301 in the Company’s filing) compared with the level of annual depreciation

expense developed by application of the currently authorized depreciation rates to the same plant balances.

13. Stipulating Parties agree that the negotiated survival curves and net salvage rates will be applied to 2020 plant balances in determining the depreciation rates for system-allocated accounts. Stipulating Parties agree that the negotiated survival curves and net salvage rates for Oregon accounts will be applied to 2017 plant balances in determining the depreciation rates, with the following exception discussed in paragraph 14.

14. General Plant accounts are generally situs allocated to each state. However, certain costs in Oregon General Plant are system allocated (e.g. PacifiCorp's headquarter building, Grid Operations Center, and equipment used across multiple PacifiCorp states). Accordingly, to conform to other system-allocated costs, the Stipulating Parties agree that Oregon General Plant will use the 2020 plant balances for the following accounts:

General Plant - Oregon	
390 - Structures & Improv.	
392.01 - Light Trucks & Vans	
392.05 - Medium Trucks	
392.09 - Trailers	
396.03 - Light Power Operated Equipment	
396.07 - Heavy Power Operated Equipment	

15. As a result of the settlement discussions, the Stipulating Parties have agreed to modify the Company's initial filing regarding the following accounts as further detailed in Attachment 1:

- Hydraulic Production account 331;
- Other Production – Simple Cycle Gas account 343;
- Transmission accounts 350.2, 352, 353, 354, 355, 356, 357, 358 and 359;

- Oregon Distribution accounts 360.2, 361, 362, 364, 365, 366, 367, 368, 369.1, 369.2, 370, 371, and 373;
- Oregon General Plant accounts 390, 392.01, 392.05, 392.09, 396.03 and 396.07;
- Washington General Plant accounts 390, 392.01, 392.05, 392.09, 396.03 and 396.07; and
- Wyoming General Plant account 390

16. The Stipulating Parties agree to submit this Stipulation to the Commission and request that the Commission approve the Stipulation as presented. The Stipulating Parties agree that this Stipulation will result in rates that meet the standard in ORS 756.040.

17. This Stipulation will be offered in to the record as evidence under OAR 860-001-0350(7). The Stipulating Parties agree to support this Stipulation throughout this proceeding and any appeal, provide witnesses to sponsor the Stipulation at hearing, if required, and recommend that the Commission issue an order adopting the Stipulation.

18. The Stipulating Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any of the Stipulating Parties are entitled to withdraw from the Stipulation or exercise any other rights provided in OAR 860-001-0325(9). To withdraw from the Stipulation, a Stipulating Party must provide written notice to the Commission and the other Stipulating Parties within five days of service of the final order rejecting, modifying, or conditioning this Stipulation.

1 19. By entering into this Stipulation, no Stipulating Party approves, admits, or
2 consents to the facts, principles, methods, or theories employed by any other Stipulating
3 Party.

4 20. This Stipulation is not enforceable by any Stipulating Party unless and until
5 adopted by the Commission in a final order. Each signatory to this Stipulation avers that
6 they are signing this Stipulation in good faith and that they intend to abide by the terms of
7 this Stipulation unless and until the Stipulation is rejected or adopted only in part by the
8 Commission. The Stipulating Parties agree that the Commission has exclusive jurisdiction to
9 enforce or modify the Stipulation. If the Commission rejects or modifies this Stipulation, the
10 Stipulating Parties reserve the right to seek reconsideration or rehearing of the Commission
11 order under ORS 756.561 and OAR 860-001-0720 or to appeal the Commission order under
12 ORS 756.610.

13 21. This Stipulation may be executed in counterparts and each signed counterpart
14 constitutes an original document.

15 This Stipulation is entered into by each Party on the date entered below such
16 Stipulating Party's signature.

PACIFICORP

STAFF of the PUBLIC UTILITY
COMMISSION OF OREGON

By: 

By: /s/ Sommer Moser

Date: August 18, 2020

Date: August 18, 2020

OREGON CITIZENS' UTILITY BOARD

ALLIANCE OF WESTERN ENERGY
CONSUMERS

By:



By:

Date:

8/18/20

Date:

OREGON CITIZENS' UTILITY BOARD

ALLIANCE OF WESTERN ENERGY
CONSUMERS

By:

By:



Date: _____

Date: August 18, 2020