

**BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING** FEB 13 2008

In the matter of the application of Rocky Mountain Power, formerly known as PacifiCorp, for approval to submit a preliminary depreciation study ) ) ) )  
Docket No. 20000-257-EA-06  
Record No. 10794

PRE-FILED DIRECT TESTIMONY OF

Denise Kay Parrish

On Behalf of the Office of Consumer Advocate

Testimony Filed: February 13, 2008

Hearing Begins: February 21, 2008

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Denise Kay Parrish and my business address is 2515 Warren Avenue, Suite  
3 304, Cheyenne, Wyoming 82002.

4

5 **Q. WHAT IS YOUR OCCUPATION?**

6 A. I am currently the Deputy Administrator of the Wyoming Office of Consumer Advocate  
7 (OCA). In this position, I review and provide input into the recommendations made by  
8 the OCA. I review utility applications filed with the Wyoming Public Service  
9 Commission (Commission) and provide advice to the Administrator regarding the  
10 involvement the OCA should have, if any, in the various cases. I review applications,  
11 perform analyses and provide recommendations to the Commission relative to various  
12 utility matters, including revenue requirements, tariff language, competitive issues, rules  
13 and regulations, and other items. I write and issue press releases, perform special studies,  
14 as well as provide information and research to customers, the legislature, the OCA  
15 Administrator, and others. I do other assignments and tasks, as needed and as assigned  
16 by the OCA Administrator.

17

18 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

19 A. In 1976, I graduated from Michigan State University with a Bachelor's degree in  
20 Accounting. I have spent more than thirty years as a regulator of public utilities, having  
21 been on the staff of four state utility regulatory commissions and two consumer advocate  
22 entities. More than sixteen of these years have been spent at the Wyoming Public Service  
23 Commission. I have taken classes related to various aspects of public utility regulation,  
24 including income taxes, regulatory accounting, capital recovery, cost-of-service, rate  
25 design, revenue requirements, separations and allocations, and other specialized topics. I  
26 have taught classes on issues of accounting standards, general ratemaking principles,  
27 affiliate transactions, regulatory accounting, financial reporting, and other specialized  
28 topics to regulatory professionals.

29

30 Since 2002, I have been an instructor at the Michigan State University Institute of Public  
31 Utilities (CAMP NARUC). I have also worked with the Nigerian Communications

1 Commission on regulatory accounting and reporting matters and have done work for the  
2 International Telecommunications Union as a seminar leader. Furthermore, I have  
3 participated as a presenter at several meetings of the Tariff and Pricing Committee of the  
4 Energy Regulators Regional Association (ERRA). Finally, I was a presenter at, and  
5 participant in a workshop sponsored by the Energy Group of the Institute of International  
6 Education (IIE) regarding the development of an Electricity Distribution Indicator  
7 Toolkit.

8  
9 I am a past chair and a current member of the National Association of Regulatory Utility  
10 Commissioners' Staff Subcommittee on Accounting and Finance. I am a member of the  
11 NARUC Staff Subcommittee on International Relations. I am currently a member of the  
12 National Association of State Utility Consumer Advocates' (NASUCA) Tax and  
13 Accounting Committee. Finally, I am a member of the staff of the Federal-State Joint  
14 Board on Universal Service.

15  
16 **Q. DO YOU HAVE EXPERIENCE AS AN EXPERT WITNESS?**

17 A. Yes. I have testified more than one hundred twenty-five times as an expert witness. I  
18 have testified before the Michigan Public Service Commission, the Colorado Public  
19 Utilities Commission, the Colorado District Court, the Arizona Corporations  
20 Commission, the Wyoming Public Service Commission, the Wyoming Legislature Joint  
21 Corporations Committee, the Federal Energy Regulatory Commission, and the Federal-  
22 State Joint Board on Universal Service. I have testified in telecommunications, water,  
23 wastewater, electric, and natural gas cases. The subjects upon which I have testified  
24 include revenue requirements, rate design, cost-of-capital, nuclear decommissioning,  
25 accounting deferrals, adjustment mechanisms, income taxes, capital recovery, universal  
26 service funding, and other specialized topics.

27  
28 **Q. WHO DO YOU REPRESENT IN THIS PROCEEDING?**

29 A. As a member of the Office of Consumer Advocate, I represent the interests of Wyoming  
30 citizens and all classes of utility customers in this public utility matter, as required by

1 W.S. § 37-2-401. It is neither my intent nor my charge to represent the position of any  
2 individual, group, municipality, or corporation.  
3

4 **Q. WHAT COURSE OF ACTION IS AVAILABLE TO INDIVIDUAL CONSUMERS**  
5 **OR OTHER INTERESTED PARTIES IF THEY WISH TO PURSUE ISSUES**  
6 **NOT ADDRESSED BY THE OFFICE OF CONSUMER ADVOCATE, OR TAKE**  
7 **A DIFFERENT POSITION FROM THE OFFICE OF CONSUMER ADVOCATE?**

8 A. Consumers and other parties may intervene in the proceedings and raise additional issues  
9 not addressed by the Office of Consumer Advocate, and may take different positions than  
10 those presented by the OCA. Consumers may also present written or oral comments at  
11 the hearing, which then become part of the record in the case and are available to the  
12 Commission as it makes its decision on any particular proposal or suggested change. The  
13 OCA encourages the participation of the public and all interested parties in cases before  
14 the Commission.  
15

16 **Q. ARE YOU SPONSORING ANY EXHIBITS OR SCHEDULES AS PART OF**  
17 **YOUR DIRECT PREFILED TESTIMONY IN THIS PROCEEDING?**

18 A. No, I am not. My prefiled direct testimony consists only of the information contained  
19 within this document containing both narrative and tables.  
20

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

22 A. The purpose of my testimony is to present the OCA's recommendations regarding  
23 PacifiCorp's and Rocky Mountain Power's request to modify its currently approved  
24 depreciation rates as applied to the portion of its assets used for serving Wyoming  
25 jurisdictional customers.  
26

27 **Q. PLEASE PROVIDE A BRIEF HISTORY OF THIS PROCEEDING.**

28 A. This proceeding really began with the resolution of the prior PacifiCorp depreciation  
29 case. In October 2002, PacifiCorp sought authority to revise the depreciation rates  
30 applicable to its electric plant. That request for revised depreciation rates resulted in a  
31 stipulated agreement which was approved by the Commission in an order issued

1 September 8, 2003 in Docket No. 20000-ER-02-192. Part of the agreement was that  
2 PacifiCorp would file its next depreciation study no later than October 1, 2006. As  
3 commented by the Commission in its order at paragraph 16:

4 By their very nature, depreciation rates must be reevaluated from time to  
5 time to ensure that they remain accurate in their description of the value of  
6 utility assets for regulatory and other analytical purposes. We therefore  
7 commend the written commitment to file another depreciation study in  
8 2006 as described above...

9  
10 Thus, PacifiCorp was directed to file the current case as part of the resolution of the last  
11 depreciation rate determination. Pursuant to the prior direction from the Commission,  
12 Rocky Mountain Power filed its application in this proceeding on September 25, 2006.

13  
14 **Q. WERE THE DEPRECIATION RATES CONTAINED IN THE CURRENT**  
15 **FILING SPECIFICALLY DIRECTED BY THE COMMISSION?**

16 A. No. The rates proposed are the result of a mixture of technical analysis, negotiations with  
17 the parties, and reasoned expectations of future events. Each of these factors is explained  
18 by the testimony of the PacifiCorp/Rocky Mountain Power witnesses. I will also  
19 comment on these factors later in my testimony.

20  
21 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE HISTORY OF**  
22 **THIS PROCEEDING.**

23 A. While the Wyoming Public Service Commission directed that PacifiCorp file an updated  
24 look at its depreciation rates no later than October 1, 2006, the filing requirements for  
25 updated depreciation studies in other PacifiCorp states was much later. In response to  
26 this difference in filing requirements, an unusual procedural proposal was made by  
27 PacifiCorp. It proposed that the September 2006 filing in Wyoming be considered  
28 *preliminary*, in spite of the fact that it contained the results and recommendations derived  
29 from a complete depreciation rate technical analysis. By considering the initial filing to  
30 be preliminary, PacifiCorp was able to technically meet the filing requirements mandated  
31 in Wyoming while still allowing some time for discussion and negotiation with all of the  
32 states – including Wyoming – before filing a more firm position relative to what its  
33 depreciation rates should be for the next several years.

1 The next step in the proposal was then to meet with interested Wyoming parties to  
2 determine if changes to the preliminary filing were reasonable and appropriate. The  
3 Office of Consumer Advocate and the Wyoming Industrial Energy Consumers (WIEC)  
4 each reviewed the preliminary proposal, studied it, analyzed it, and discussed it  
5 thoroughly. WIEC even hired an expert consultant to participate in the discussions of the  
6 depreciation proposals. After about six months of discussion, PacifiCorp/Rocky  
7 Mountain Power, WIEC and the OCA reached an agreement on the appropriate  
8 depreciation rates that we recommended for discussion with the other PacifiCorp states.  
9 However, it was made clear to all of the discussion participants that we were open to  
10 further discussion and debate on the Wyoming parties' initial agreement. This was of  
11 particular concern to PacifiCorp/Rocky Mountain Power, as it continued to urge each of  
12 its states to reach a common agreement on the depreciation rate for assets that were  
13 common to multiple states in its system. Common agreement on depreciation rates for  
14 distribution assets was far less important to PacifiCorp/Rocky Mountain Power than for  
15 generating assets and transmission assets as distribution assets are specifically assigned to  
16 each state and are generally not shared assets.

17  
18 **Q. WHAT HAPPENED NEXT?**

19 A. The agreement that the Wyoming parties had tentatively reached became the starting  
20 point for the discussions with the other states. This was the agreement that was reached  
21 between PacifiCorp/Rocky Mountain Power, WIEC, and OCA that resulted in different  
22 depreciation rates than those contained in the preliminary application of September 2006.  
23 However, when the other states looked at the technical analysis and applied their own  
24 judgment, they had additional recommended changes to the proposed depreciation rates.  
25 This resulted in a series of discussions involving the states (including a variety of  
26 interested parties within each state) and PacifiCorp/Rocky Mountain Power. As a result  
27 of these broader discussions, another series of depreciation rates were proposed to be  
28 applied to assets used in Wyoming operations. These were again different from either the  
29 September 2006 preliminary proposal or the Wyoming Parties tentative proposal. This  
30 more broadly negotiated set of depreciation rates is now what the Commission is being  
31 asked to approve in this proceeding.

1 **Q. HAD THESE NEGOTIATIONS OF THE INTERESTED PARTIES IN THE**  
2 **VARIOUS PACIFICORP STATES BEEN FINALIZED AT THE TIME THAT**  
3 **ROCKY MOUNTAIN POWER FILED ITS TESTIMONY AND EXHIBITS ON**  
4 **AUGUST 31, 2007?**

5 A. No. Rocky Mountain Power had been directed to file its final depreciation study results  
6 no later than September 1, 2007 in this docket. In spite of the fact that the parties in the  
7 various states had not yet reached agreement on the depreciation rates for common assets,  
8 PacifiCorp/Rocky Mountain Power met the Commission's mandated timeline and filed  
9 the testimony of Mr. Henry Lay and Mr. Mark Mansfield on August 31, 2007. This  
10 contained the utility's best judgment of what its on-going depreciation rates should be  
11 taking into account the discussions that had been occurring with the various states.  
12 However, a number of outstanding controversies continued to be unresolved at the time  
13 of the August 2007 filing and the negotiations to resolve these differences of opinion  
14 continued into the winter of 2007-8.

15  
16 In January 2008, the interested Wyoming parties – WIEC and the OCA – agreed to the  
17 latest proposal that was made to us by PacifiCorp/Rocky Mountain Power. This proposal  
18 allows for one unified set of depreciation rates across the PacifiCorp states for generation  
19 and transmission assets. The depreciation rates for distribution assets and general assets  
20 in each state area different, based on different in-service dates, different geographic and  
21 growth characteristics, and a host of other state specific factors.

22  
23 **Q. HOW CAN SO MANY DIFFERENT PROPOSALS BE DEVELOPED IN ONE**  
24 **PROCEEDING AND STILL BE CONSIDERED REASONABLE?**

25 A. The determination of depreciation rates is a mixture of art and science in a manner  
26 similar to the art of ratemaking. There is a broad range of reasonableness and sound  
27 minds can differ within that broad range. That is exactly the case here. There are  
28 numerous inputs to calculating depreciation rates (lives, salvage, retirement rates, etc.)  
29 with no one right number for each input. Add to that the fact that different regulators will  
30 have a focused emphasis on different inputs, and the opportunity for a wide range of  
31 reasonable results is created.

1 **Q. ARE YOU COMFORTABLE WITH THE NEGOTIATED RESULTS FOR**  
2 **WHICH ROCKY MOUNTAIN POWER NOW SEEKS COMMISSION**  
3 **APPROVAL?**

4 A. Yes. As I will explain in more detail below, the results are reasonable and continue to  
5 move in the right direction. While the recommendations would likely have been different  
6 if PacifiCorp were only operating in Wyoming and consensus with more states was not a  
7 desired outcome, the results being offered in this proceeding are within an appropriate  
8 range of reasonableness. The OCA recommends approval of the proposed depreciation  
9 rates as contained within the Supplemental Direct Testimony of Henry Lay, filed January  
10 25, 2008.

11  
12 **Q. PLEASE PROVIDE A SUMMARY OF THE DEPRECIATION RATES BEING**  
13 **REQUESTED AT THIS TIME IN THIS PROCEEDING.**

14 A. The full series of depreciation rates – rates for each production plant by account and  
15 rates for each transmission, distribution, and general plant account – are found in Rocky  
16 Mountain Power witness Henry Lay’s Exhibit HEL-2, filed with his January 25, 2008  
17 supplemental testimony.

18  
19 Below I summarize these requested depreciation rates, by major asset category:

20	Steam Production Plant	2.13%
21	Hydraulic Production Plant	2.82%
22	Other Production Plant	3.19%
23	Transmission Plant	2.03%
24	Wyoming Distribution Plant	2.86%
25	Wyoming General Plant	5.46%
26	Mining Operations	3.56%

27  
28 **Q. GIVEN THE LENGTHY HISTORY AND MULTIPLE FILINGS IN THIS CASE,**  
29 **PLEASE SUMMARIZE THE HISTORY OF THE PROPOSED RATES AS THEY**  
30 **HAVE BEEN PROVIDED IN THE DOCKET’S NUMEROUS FILINGS.**

1 A. The chart below shows the history of the existing and proposed rates in this case, as  
 2 summarized by major asset category:  
 3

	<b>CURRENT*</b>	<b>SEPTEMBER 2006</b>	<b>AUGUST 2007</b>	<b>JANUARY 2008</b>
Steam Production Plant	3.14%	2.93%	2.01%	2.13%
Hydraulic Production Plant	2.42%	4.17%	2.82%	2.82%
Other Production Plant	3.42%	3.37%	3.56%	3.19%
Transmission Plant	2.12%	2.26%	2.15%	2.03%
Distribution Plant (Wyoming)	2.80%	2.98%	3.08%	2.86%
General Plant (Wyoming)	4.49%	5.29%	5.46%	5.46%
Mining Operations	5.87%	3.90%	3.52%	3.56%
<b>Total Company Composite Rate</b>	<b>2.91%</b>	<b>3.04%</b>	<b>2.69%</b>	<b>2.60%</b>

4 \*Current rates are taken from the August 2007 filing which are slightly different than the numbers from the  
 5 September 2006 filing, given the plant balance update from March 2006 to December 2006. The plant  
 6 balance update has an impact on the account composite computed from individual detailed accounts.  
 7

8 As this chart shows, the overall composite depreciation rate is proposed to be reduced by  
 9 more than ten percent when compared to the existing composite rate. The most  
 10 significant factor impacting this reduction in the composite depreciation rate is the  
 11 proposed change to the average and remaining life of the steam production plant. The  
 12 proposed rates recognize expected longer lives of those plants than has been recognized  
 13 in the past. This is consistent with actual practice that is starting to appear relative to  
 14 fossil fuel plants: that is, plant lives are being extended due to the difficulty of obtaining  
 15 approval for and the increased expense of building new resources. There are many other  
 16 factors that also impact the proposed changes in the composite rate, but none having the  
 17 same level of impact as the change in the lives of the production plants.  
 18

1 **Q. THE EXPECTED LIFE OF THE ASSET IS ONE OF THE TWO MOST**  
2 **SIGNIFICANT INPUTS THAT DRIVE THE OVERALL DEPRECIATION**  
3 **RATE. PLEASE SUMMARIZE THE CURRENT AND PROPOSED EXPECTED**  
4 **AVERAGE SERVICE LIFE FOR EACH MAJOR ASSET CATEGORY.**

5 A. The chart below summarizes the current and proposed average service life for each major  
6 asset category. This chart reiterates my comment above that one of the most significant  
7 inputs driving the proposed change in the overall depreciation rate is the life of the steam  
8 production plant. This chart shows an overall lengthening of the average plant life for  
9 steam production plant from 39 years to 48 years, a change of more than 20%. And, it  
10 must be remembered that this category has significant dollars in it relative to the overall  
11 investment of the company.  
12

	<b>CURRENT</b>	<b>SEPTEMBER 2006</b>	<b>AUGUST 2007</b>	<b>JANUARY 2008</b>
Steam Production Plant	39 years	41 years	50 years	48 years
Hydraulic Production Plant	62 years	63 years	62 years	62 years
Other Production Plant	33 years	32 years	30 years	34 years
Transmission Plant	57 years	58 years	58 years	58 years
Distribution Plant (Wyoming)	45 years	47 years	47 years	47 years
General Plant (Wyoming)	20 years	19 years	19 years	19 years
Mining Operations	16 years	21 years	22 years	22 years

13  
14 **Q. HOW ARE THE AVERAGE SERVICE LIVES DERIVED?**

15 A. The average service life is the average expected life of a particular type of asset,  
16 considering that some assets within a particular category will last longer and some will be  
17 retired earlier. This is shown by a quick look at the steam production plant accounts. In  
18 looking at Mr. Lay's HEL-2, which is part of his supplemental testimony, the average  
19 service life for the Hunter power plant is expected to be about 54 years, while the average  
20 expected life for Jim Bridger is 50 years. These two average plant lives, along with the

1 expected lives for all of the other plants, results in an average life of 48 years for the  
2 entire category of steam production assets.

3  
4 The average lives for the individual assets are derived either through a combination of  
5 analysis and reasoned judgment or through an actuarial analysis of the group of assets. In  
6 the first instance, the actual experience of the asset is combined with the expected  
7 remaining life. For instance, one could look at the actual life to-date of the power plant  
8 and combine it with the expected remaining life based on expected retirement dates. The  
9 expected retirement date is based on judgment that incorporates potential governmental  
10 mandates, manufacturer warranties, technological changes, upgrade and maintenance  
11 costs, and more. In the second instance, there may be enough history of adding and  
12 removing poles from the system for one to perform an expected life analysis based on the  
13 current life of the pole.

14  
15 **Q. UPON WHAT BASIS DID YOU DETERMINE THAT THE PROPOSED LIVES**  
16 **ARE REASONABLE?**

17 A. First, I reviewed the technical life analysis performed by PacifiCorp relative to in-service  
18 dates, average service lives, and the remaining life relative to the assets current age.  
19 Second, I participated in a number of discussions with the Company wherein their logic  
20 was explained. Finally, I stepped back and looked at the issue from a 15,000 foot view. I  
21 looked at what was happening in the industry relative to investment such as shortages of  
22 certain types of plant and how that might lengthen (or shorten) the life of similar types of  
23 existing assets. More specifically, I recognized that many utilities are extending existing  
24 plant lives given the difficulty of siting and permitting new investment and given the  
25 regulatory uncertainties of building new assets. Further, I recognized that many utilities  
26 are finding it less expensive to extend the lives of existing assets than to replace the  
27 existing assets with new ones. I also looked back at my experiences with other companies  
28 and the lives they predicted for certain types of plant. Overall, each approach supported  
29 the conclusion that the lives being proposed are within the range of reasonableness.  
30

1 **Q. WHAT IS THE SECOND MAJOR INPUT TO THE DEPRECIATION**  
 2 **CALCULATION?**

3 A. The second major input is the net salvage factor which is comprised of the gross salvage  
 4 expected to be obtained at the time of the asset retirement less the cost of removal  
 5 associated with removing the asset from service. Over time, the cost of removal has  
 6 started to grow at a substantially larger pace than has the gross salvage. In the past, there  
 7 was a market for many of the retired assets. For instance, retired poles could be sold to  
 8 farmers for fences and other rural land use. But, the value of the sales of retired poles has  
 9 declined as they are more likely to be treated with chemicals to preserve the wood and  
 10 keep them in service for longer periods. Additionally, the market for some of these assets  
 11 has dried up, given the environmental concerns related to the chemicals with the assets.  
 12 The cost of removal, however, has not been declining as labor costs increase, fuel costs  
 13 for construction vehicles increase and the like. Thus, it is common to see decreasing net  
 14 salvage rates, as is shown in the chart below. The negative number represents a situation  
 15 where the cost of removal exceeds the expected gross salvage, and thus, the overall net  
 16 salvage rate is less than zero.

	<b>CURRENT</b>	<b>SEPTEMBER 2006</b>	<b>AUGUST 2007</b>	<b>JANUARY 2008</b>
Steam Production Plant	(4%)	(8%)	(8%)	(6%)
Hydraulic Production Plant	(7%)	(8%)	(8%)	(8%)
Other Production Plant	(1%)	(3%)	(2%)	(2%)
Transmission Plant	(20%)	(29%)	(25%)	(20%)
Distribution Plant (Wyoming)	(32%)	(43%)	(47%)	(39%)
General Plant (Wyoming)	13%	8%	8%	8%
Mining Operations	1%	2%	2%	2%

18  
 19 **Q. IS THE PROCESS USED TO DERIVE THE NET SALVAGE RATES SIMILAR**  
 20 **TO THAT USE FOR ARRIVING AT THE AVERAGE SERVICE LIFE?**

1 A. Yes, in that both analytics and judgment are part of the process. Analytics are used  
2 where there is some history of the costs of removal and the benefits of gross salvage.  
3 This historical data is used to develop ratios that are applied to the cost of the plant in  
4 order to derive an expected future cost or benefit from retiring an asset or group of assets.  
5 But, the historical data should be, and is, tempered with additional information that may  
6 not be fully reflected in the historical data. This could include changes in inflation,  
7 changes in government regulations, changes in resale markets, or a myriad of other  
8 factors.

9  
10 **Q. WAS YOUR REVIEW ALSO SIMILAR TO THAT FOR THE AVERAGE**  
11 **SERVICE LIVES?**

12 A. Yes. I began with a review of the process used by PacifiCorp in doing its analysis and  
13 calculation and then took an intuitive look at the numbers based on general information  
14 about the utility industry. I concluded that the suggested net salvage values are  
15 reasonable.

16  
17 **Q. PLEASE PROVIDE AN ADDITIONAL EXAMPLE OF THE 15,000 FOOT VIEW**  
18 **THAT ENTERED INTO YOUR CONCLUSIONS OF REASONABLENESS**  
19 **RELATIVE TO THE OVERALL PROPOSED DEPRECIATION RATES.**

20 A. One of the asset categories that utilizes a mix of historical data and judgment for deriving  
21 the overall deprecation rate is distribution plant. For this category, I first garnered a basic  
22 understanding of the company's analysis and its logic. I next examined some of the  
23 concerns expressed by other states, to see if I agreed or disagreed with their positions.  
24 But, after doing all that, I wanted a last check of the numbers, to see how Wyoming's  
25 distribution rates compared to those of the other PacifiCorp states. Thus, I did a simple  
26 comparison that is shown below:

27  
28  
29  
30  
31

	<b>AVERAGE LIFE</b>	<b>NET SALVAGE</b>	<b>CURRENT DEPRECIATION RATE</b>	<b>PROPOSED DEPRECIATION RATE</b>
Oregon Distribution	47 years	(57%)	2.89%	3.45 %
Washington Distribution	49 years	(56%)	2.97%	3.24%
Wyoming Distribution	47 years	(39%)	2.80%	2.86%
California Distribution	52 years	(85%)	2.99%	3.80%
Utah Distribution	46 years	(21%)	2.55%	2.55%
Idaho Distribution	47 years	(41%)	2.73%	2.99%

1  
2 Several conclusions can be drawn from this simple comparison. First, the average  
3 composite service life is proposed to be about the same in Wyoming as in other states.  
4 Second, the expected net salvage is in the middle of the range when compared to the net  
5 salvage for the other states. Finally, there is little change from the existing approved rate  
6 to the proposed approved rate.

7  
8 **Q. IN ADDITION TO ASSET LIVES AND SALVAGE VALUES, WHAT OTHER**  
9 **ITEMS WERE SIGNIFICANT TOPICS DURING YOUR DISCUSSIONS WITH**  
10 **OTHER INTERESTED PARTIES IN THIS CASE.**

11 A. As further discussed by the Rocky Mountain Power witnesses, interim additions and  
12 retirements and their appropriate treatment were widely debated. Several parties were  
13 concerned that the cost of expected plant additions should not be incorporated into the  
14 calculation as it would be a major change in policy from the past, and would break with  
15 the *known and measurable* rule-of-thumb of ratemaking. The matter was resolved by  
16 allowing interim additions for only 2007 rather than for the upcoming 5 year period for  
17 replacement of estimated retirements originally proposed in the application.

18  
19 Another issue discussed was whether the inflation factor applied to the anticipated cost of  
20 removal was overstated based on the use of past data. After some further study, it was

1 determined for purposes of this case only that the use of the historical ratio for  
2 determining the retirement costs for mass property is appropriate.

3  
4 There was also a suggestion made, that was ultimately incorporated into the current  
5 proposal, that a reserve for costs associated with decommissioning some of the hydraulic  
6 production plant be established. This was different from the past, since the small, initial  
7 reserve was established based on the generic concept that some hydro plant retirement  
8 would be occurring in the not so distant future, even though it is currently impossible to  
9 know precisely which of the hydro plants might be retired rather than relicensed.

10  
11 Finally, there was a lot of discussion between PacifiCorp and the states – particularly  
12 Utah -- about the appropriate cost of decommissioning the coal fired power plants. Since  
13 there is limited history with PacifiCorp – or even in the United States -- with the concept  
14 of decommissioning coal plants, the estimates were being made based on limited data.  
15 PacifiCorp/Rocky Mountain Power had originally proposed a cost estimate of \$50 per  
16 KW. The negotiations settled on an estimated cost of \$40 per KW.

17  
18 Several of these matters and others not mentioned above are summarized on Mr. Lay's  
19 exhibit HEL-4, filed with his supplemental testimony.

20  
21 **Q. EARLIER IN YOUR TESTIMONY, YOU MADE A COMMENT THAT THE**  
22 **DEPRECIATION RESULTS WERE MOVING IN THE RIGHT DIRECTION.**  
23 **PLEASE EXPLAIN WHAT YOU MEANT BY THAT COMMENT.**

24 **A.** As discussed more fully above, the expected service lives for production plant is either  
25 relatively stable or is becoming longer and in only rare cases is expected to be shorter  
26 than in the past. Based on my experience and general events in the industry, it is logical  
27 that depreciation rates would then become smaller rather than larger. Additionally, there  
28 was some debate among the states about the precise lives for production plant but we all  
29 agreed that they generally should be stable or longer lives, rather than shorter lives. This  
30 is the context in which I made the comment about the overall direction in which lives and  
31 rates are moving being correct.

1 **Q. DO YOU HAVE ANY INFORMATION FROM THE DEPRECIATION CASES IN**  
2 **THE OTHER PACIFICORP STATES THAT YOU CAN SHARE WITH THE**  
3 **COMMISSION?**

4 A. Yes. On February 6, 2008, the Idaho Public Utilities Commission issued its order  
5 approving the stipulation with PacifiCorp/Rocky Mountain Power that approved the same  
6 common deprecation rates that are reflected in the Wyoming proposal.

7  
8 On February 4, 2008, the Utah Public Service Commission issued its order approving a  
9 stipulation on depreciation rate changes. My understanding is that these rate changes are  
10 the same as those proposed in this Wyoming depreciation rate proceeding for common  
11 plant such as production plant and transmission plant. The Utah agreement also included  
12 a provision that requires a new depreciation study to be filed within five years of the date  
13 of the Commission order approving the stipulation.

14  
15 As to Washington, it is my understanding that there is an agreement for the same  
16 common depreciation rates as found in the other states, but that the matter has not yet  
17 been brought to the Commission for approval. As to Oregon, the latest information I  
18 have is that there is an agreement in concept between PacifiCorp and the Oregon staff to  
19 recommend the common depreciation rates but the matter has not yet been approved by  
20 the Commission.

21  
22 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO BEGIN BOOKING**  
23 **DEPRECIATION EXPENSE BASED ON THE NEW DEPRECIATION RATES**  
24 **EFFECTIVE JANUARY 1, 2008?**

25 A. Yes. There is no reason not to apply the new depreciation rates to the full calendar year.  
26 The purpose of the depreciation analysis is to determine the appropriate time period over  
27 which capital costs should be allocated and expensed as depreciation, and over which  
28 time period customers should pay for the use of the assets. Once new life and salvage  
29 estimates are determined to be reasonable, they should be applied immediately. This will  
30 help to assure that the proper generation of customer pays the proper cost and to assure

1 that the proper expense is recorded in the financial statements upon which shareholders  
2 rely.

3  
4 **Q. HOW HAVE THE PROPOSED RATES THAT YOU RECOMMEND BE**  
5 **APPROVED IN THIS CASE BEEN REFLECTED IN THE PENDING ROCKY**  
6 **MOUNTAIN POWER RATE CASE?**

7 A. The Wyoming parties had reached a general agreement on the proposed depreciation  
8 rates by the time the negotiations began on the resolution of the rate case. Thus, the  
9 settlement of the depreciation case as described by both Mr. Lay and myself is fully  
10 reflected in the rate case settlement that is scheduled to be heard by the Commission next  
11 month.

12  
13 As described by Mr. Lay, at page 5 of his supplemental testimony, the overall difference  
14 between the currently approved depreciation rates and the proposed depreciation rates is a  
15 decrease of about \$7.2 million annually for the Wyoming jurisdiction, based on  
16 December 31, 2006 plant balances.

17  
18 **Q. HAS THERE BEEN ANY DISCUSSION AS TO WHEN PACIFICORP/ROCKY**  
19 **MOUNTAIN POWER WILL FILE ITS NEXT UPDATED DEPRECIATION**  
20 **STUDY IN WYOMING?**

21 A. No. However, as indicated above, PacifiCorp has agreed in Utah to file its next study  
22 within five years. While the same discussions have not occurred in Wyoming as part of  
23 this proceeding, with the exception of this case, recent history shows that PacifiCorp's  
24 common practice is to file similar depreciation studies in each state at approximately the  
25 same time. This is necessary to work toward the goal of maintaining common  
26 depreciation rates for common plant. Thus, it is my expectation that Wyoming will be  
27 seeing an updated depreciation study filed by PacifiCorp within the next five years.

28  
29 **Q. DOES THAT COMPLETE YOUR WRITTEN PREFILED DIRECT TESTIMONY**  
30 **IN THIS PROCEEDING?**

31 A. Yes, it does.

## CERTIFICATE OF SERVICE

I hereby certify that on February 13, 2008, I served the foregoing PRE-FILED DIRECT TESTIMONY OF DENISE KAY PARRISH by delivering copies thereof to the individuals/entities below, by the method(s) indicated.

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