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17-06003

**Public Utilities Commission of Nevada
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Submitted: 10/20/2017 1:57:44 PM

Reference: a130004e-b984-454d-9748-ad3bff5c7381

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October 20, 2017

Trisha Osborne
Assistant Commission Secretary
Public Utilities Commission of Nevada
1150 E. William Street
Carson City, NV 89701

Re: Docket Nos. 17-06003 and 17-06004

Dear Ms. Osborne:

Please find enclosed the Prepared Direct Testimony, Exhibits, and Workpapers of Bradley G. Mullins on behalf of Smart Energy Alliance in the above-referenced dockets.

Thank you for your assistance. If you have any questions regarding the enclosed filing, please do not hesitate to contact me.

Sincerely,

/s/ Joshua D. Weber

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Enclosures

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

Application of Nevada Power Company d/b/a)
NV Energy for authority to adjust its annual)
revenue requirement for general rates charged)
to all classes of electric customers and for)
relief properly related thereto.) Docket No. 17-06003

Application of Nevada Power Company d/b/a)
NV Energy for approval of new and revised)
depreciation and amortization rates for its)
electric and common accounts.) Docket No. 17-06004

PREPARED DIRECT TESTIMONY OF BRADLEY G. MULLINS

(REVENUE REQUIREMENT AND DEPRECIATION)

ON BEHALF OF

SMART ENERGY ALLIANCE

OCTOBER 20, 2017

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EXHIBIT LIST

- Exhibit Mullins-Direct-1: Regulatory Appearances of Bradley G. Mullins
- Exhibit Mullins-Direct-2: Revenue Requirement Tables
- Exhibit Mullins-Direct-3: Modified Statement I
- Exhibit Mullins Direct-4: Modified Statement I (ECIC)
- Exhibit Mullins-Direct-5: Reid Gardner Regulatory Asset (I-CERT-30) and Amortization Schedule
- Exhibit Mullins-Direct-6: Navajo Amortization Schedule
- Exhibit Mullins-Direct-7: Summary of Proposed Impact Fee Regulatory Liability Adjustments
- Exhibit Mullins-Direct-8: Wynn Regulatory Liability (I-CERT-36)
- Exhibit Mullins-Direct-9: MGM Regulatory Liability (I-CERT-37)
- Exhibit Mullins-Direct-10: Switch Regulatory Liability (I-EC-46)
- Exhibit Mullins-Direct-11: Excerpts from Puget Sound Energy Depreciation Study
- Exhibit Mullins-Direct-12: Excerpts from Portland General Electric Company Depreciation Study
- Exhibit Mullins-Direct-13: Nevada Power's Response to SEA Data Request

1 **I. INTRODUCTION AND SUMMARY**

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

3 A.1 My name is Bradley G. Mullins, and my business address is 333 SW Taylor Street, Suite
4 400, Portland, Oregon 97204.

5 **Q.2 PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE**
6 **TESTIFYING.**

7 A.2 I am an energy and utilities consultant representing utility customers in the western
8 United States. I am appearing on behalf of the Smart Energy Alliance, an association
9 whose members receive electrical services from electric utilities located throughout the
10 Western interconnection, including from Nevada Power Company (the “Company”).

11 **Q.3 PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.**

12 A.3 I have a Master of Accounting degree from the University of Utah. After my Master’s
13 degree I worked at Deloitte in San Jose, California, where I ultimately specialized in
14 performing research and development of tax credit studies. Subsequently, I worked at
15 PacifiCorp as an analyst involved in power costs forecasting, avoided cost modeling, and
16 power cost deferral mechanisms. I began performing independent energy and utility
17 consulting services in September 2013 and currently provide services to utility customers
18 on an array of matters, such as power costs, revenue requirements, depreciation, and rate
19 spread and rate design. I have sponsored testimony in several regulatory jurisdictions,
20 and a list of the cases where I have submitted testimony can be found in Exhibit Mullins-
21 Direct-1. This is the first testimony I have submitted with the Public Utilities
22 Commission of Nevada (the “Commission”).

1 **Q.4 WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A.4 The purpose of my Prepared Direct Testimony is to discuss my review of Nevada
3 Power's revenue requirement recommendation in this matter and the depreciation study
4 prepared by Gannet Fleming for the period ending December 31, 2016 for Nevada
5 Power. As detailed in Nevada Power's certification filing on August 28, 2017, Nevada
6 Power has calculated a revenue deficiency in the amount of \$28,912,814.^{1/}
7 Notwithstanding, Nevada Power recommends that no change to revenues be implemented
8 at this time.^{2/}

9 **Q.5 WHAT WAS THE SCOPE OF YOUR REVIEW?**

10 A.5 I reviewed the testimony and workpapers provided in Nevada Power's initial filing. I
11 also reviewed the testimony and workpapers provided in Nevada Power's August 28,
12 2017 certification filing, and Nevada Power's responses to data requests.

13 **Q.6 BASED ON YOUR REVIEW, PLEASE SUMMARIZE YOUR**
14 **RECOMMENDATIONS AND CONCLUSIONS.**

15 A.6 Based upon my review, I have determined that Nevada Power's revenues should be
16 reduced by at least \$52,779,505, as detailed in Exhibit Mullins-Direct-2. My primary
17 recommendations and conclusions in deriving this amount are as follows:

- 18 • *Reid Gardner Retirement.* I recommend the net book value portion of the Reid
19 Gardner regulatory asset be subject to no return. I also recommend the amortization
20 on decommissioning and remediation be calculated in a way that accounts for sinking
21 carrying charges over the amortization period.

^{1/} Bethel-RR CERT at 2:15.

^{2/} Id. at 4:18-5:5.

1 • *Navajo Retirement.* I recommend that the unrecovered plant balance identified in
2 the emission reduction capacity replacement (“ERCR”) plan be removed from rate
3 base and amortized over a six-year period.

4 • *Impact Fees.* I have identified several material errors in Nevada Power’s
5 treatment of the impact fees received from departing 704B customers.

6 • *Long-term Incentive Plan.* I recommend against Nevada Power’s proposal to
7 include the costs of the long-term incentive plan in revenue requirement.

8 • *Reid Gardner Fuel Stock.* I recommend that Reid Gardner fuel stock be removed
9 from rate base.

10 • *Las Vegas Generating Station Capital Costs.* I recommend that Nevada Power’s
11 costs of conducting major overhauls to two generating units be disallowed as
12 imprudently incurred.

13 • *Depreciation.* I propose several changes to the depreciation parameters proposed
14 in the depreciation study of Nevada Power, including a recommendation to retain the
15 existing depreciation accrual rates for Navajo.

16 **Q.7 HAVE YOU PREPARED A TABLE SHOWING THE IMPACT OF THESE**
17 **RECOMMENDATIONS?**

18 A.7 Table 1, below, details the approximate impact of each of these recommendations.

19 Further detail underlying these adjustments can be found in Exhibit Mullins-Direct 2. In
20 Exhibit Mullins-Direct 3, I have incorporated these adjustments into Nevada Power
21 Statement I revenue requirement model. In Exhibit Mullins-Direct 4, I have also
22 provided the corresponding Statement I revenue requirement model for the Expected
23 Change in Circumstances (“ECIC”) scenario.

TABLE 1
Revenue Requirement Adjustments
(\$000)

	<u>Rate Base</u>	<u>Net Oper. Income</u>	<u>Rev. Req. Def. / (Suf.)</u>
1 Company Proposed	5,049,572	400,300	28,913
2 Recommended Adjustments:			
3 Cost of Capital	-	-	(22,712)
4 Reid Gardner, Unrecovered Plant	(193,415)	-	(23,632)
5 Reid Gardner, Amortization Schedule	-	1,109	(1,722)
6 Navajo, Depreciation Exp.	-	10,906	(16,942)
7 Navajo, Amortization	(28,900)	(3,751)	2,296
8 Impact Fee, Pre-Rate Period Amortization	(14,327)	-	(1,751)
9 Impact Fee, Accrued Interest	(9,717)	2,130	(4,496)
10 Impact Fee, Amortization Period	-	1,730	(2,688)
11 Impact Fee, Switch BETR	(11,610)	-	(1,419)
12 Long Term Incentive Plan	-	2,609	(4,053)
13 Reid Gardner Fuel Stock	(8,295)	-	(1,014)
14 Las Vegas Cogen	(6,364)	-	(778)
15 Interest Synch., CWC, & Other	2,184	(5,790)	(2,782)
16 Total Adjustments	(270,443)	8,942	(81,692)
17 Adjusted Rev. Req. Def. / (Suf.)	<u>4,779,129</u>	<u>409,243</u>	<u>(52,780)</u>

1 **Q.8 BASED ON YOUR ANALYSIS, DO YOU HAVE ANY PRELIMINARY**
2 **COMMENTS ON NEVADA POWER'S APPLICATION?**

3 A.8 Yes. Nevada Power's quarterly compliance filings in Docket No. 13-07021 demonstrate
4 that Nevada Power has been severely overearning since its last rate case, most recently by
5 nearly 300 basis points. That is the equivalent of collecting approximately \$120,576,722
6 more from customers than Nevada Power needs to operate its system and earn a fair
7 return.

1 In my review, Nevada Power’s revenue requirement request in this matter is
2 consistent with its historical pattern of overearning. Nevada Power asserts that it can
3 justify a rate increase in this case, even though it is not requesting such an increase.
4 Given Nevada Power’s current earnings position, a rate increase is, on its face, a
5 fundamentally unfair and unreasonable result for Nevadans. Indeed, even maintaining
6 current rates would be an unacceptable result.

7 Moreover, Nevada Power has made proposals in this case that would unfairly
8 harm its customers, including its treatment of impact fees from customers who have left
9 bundled rates under NRS 704B. As I discuss in more detail below, Nevada Power has
10 already amortized a portion of the 704B impact fees it has collected, and unfairly
11 enriching Nevada Energy shareholders. This has the effect of depriving remaining
12 customers of these revenues. Instead, these revenues have simply further enhanced
13 shareholder earnings.

14 **Q.9 DO YOU HAVE ANY SUMMARY COMMENTS ON YOUR TABLE 1, ABOVE?**

15 A.9 Yes. To develop my revenue requirement recommendation, I used Mr. Michael P.
16 Gorman’s recommended cost of debt and Regulatory Operations Staff’s recommended
17 return on equity. As an alternative to imputing Mr. Gorman’s cost of debt for the rate
18 period, the Commission could use Nevada Power’s cost of debt and establish a regulatory
19 liability to capture the impacts of Nevada Power’s re-financings in 2018 and 2019.

20 Additionally, later in my testimony I recommend that Nevada Power be provided
21 with the opportunity to recover the deferred costs of acquiring replacement generation
22 under its ERCR plan over the coming three-year rate period. I also recommend certain

1 changes to depreciation study parameters. These particular recommendations have not
2 been reflected in Table 1 or the accompanying exhibits, although I propose they be
3 incorporated into the final revenue requirement established by the Commission in this
4 matter.

5 II. REID GARDNER RETIREMENT

6 **Q.10 HOW DOES NEVADA POWER ACCOUNT FOR THE REID GARDNER** 7 **RETIREMENT?**

8 A.10 In its October 28, 2014 Order in Docket No. 14-05003, the Commission accepted the
9 emission reduction component of the initial ERCR plan of Nevada Power.^{3/} The ERCR
10 plan provided for the early retirement of the Reid Gardner Units 1 through 3 by
11 December 31, 2014 and the early retirement of Reid Gardner Unit 4 by December 31,
12 2017. The ERCR plan also provided for the elimination of Nevada Power's interest in
13 the Navajo power plant by December 31, 2019. In this matter, Nevada Power proposes
14 to use regulatory accounting to address the end-of-life costs associated with the early
15 retirement of Reid Gardner, as discussed in the ERCR plan. Nevada Power has identified
16 end-of-life costs consisting of \$193,414,577 for unrecovered investment (i.e. net book
17 value) and \$44,478,101 in decommissioning and remediation expenditures.^{4/} In Nevada
18 Power's filing, these amounts were included as a regulatory asset in rate base, and

^{3/} In re Application of Nevada Power Company d/b/a NV Energy for approval of the first amendment to the 2013-2032 Integrated Resource Plan and the Energy Supply Plan Update for 2015 to include an initial emissions reduction and capacity replacement plan, Docket No. 14-05003, Order ¶¶ 27-49 (Oct.28, 2014).

^{4/} I-CERT-30.

1 amortized to expense on a straight-line basis over the six-year period January 1, 2018
2 through December 31, 2023.^{5/}

3 **Q.11 DO YOU AGREE WITH NEVADA POWER’S PROPOSED TREATMENT?**

4 A.11 In part. There are two aspects of Nevada Power’s proposal, however, where I
5 recommend a change. First, I recommend removing the unrecovered investment amounts
6 from rate base on the basis that those amounts are not used and useful in providing utility
7 services. Second, I recommend adopting a mortgage-style amortization schedule, that
8 takes into consideration the impact of declining regulatory account balances over the
9 amortization period.

10 **a. Return on Unrecovered Investment**

11 **Q.12 PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING THE**
12 **UNRECOVERED INVESTMENT IN REID GARDNER.**

13 A.12 Based on the circumstances surrounding the retirement of Reid Gardner, Nevada Power
14 has a reasonable expectation of being provided with a return *of* the unrecovered plant
15 balances in the facility. The facility is being retired pursuant legislation enacted in
16 Senate Bill (“SB”) 123, and for that reason, Nevada Power is appropriately provided with
17 the opportunity to recover the full amount of unrecovered plant balances through the
18 regulatory assets discussed in the ERCR. Notwithstanding, I believe it is not
19 appropriately entitled to earn a return *on* the unrecovered plant balances over the period
20 that the balances are being collected. Reid Gardner has been removed from service and
21 is no longer used and useful in providing electrical services to customers. Ratepayers are

^{5/} Id.

1 not being supplied with any electricity in connection with those balances, and
2 accordingly, is not appropriate to view the regulatory asset balances as requiring Nevada
3 Power a earn profit while the residual, stranded plant balances are repaid.

4 **Q.13 IS THERE A REQUIREMENT THAT NEVADA POWER BE PROVIDED WITH**
5 **ITS FULL RETURN ON REID GARDNER'S UNDEPRECIATED PLANT**
6 **BALANCE?**

7 A.13 No. In fact, I conclude quite the opposite. Reid Gardner was retired in compliance with
8 SB 123. The SB 123 legislation required Nevada Power to retire, or eliminate its interest
9 in, a certain amount of coal-fired generation by specified dates.^{6/} My understanding,
10 however, is that SB 123 did not include any provision authorizing Nevada Power to earn
11 a return *on* any unrecovered net book value that remained following retirement. This is
12 in contrast to other provisions of SB 123, which explicitly allow Nevada Power to record
13 in a regulatory asset with carrying charges its investment in replacement generation.^{7/}
14 The fact that the legislature saw fit to specifically authorize a return for this element of
15 Nevada Power's ERCR plan, but did not authorize a return on the undepreciated balance
16 of retired coal facilities suggests to me that the legislature did not intend for Nevada
17 Power to earn a return on such balances, although I would defer to counsel with respect
18 to the appropriate interpretation of those statutes.

19 **Q.14 DID THE ERCR PLAN ADDRESS THE RETURN ON NEVADA POWER'S**
20 **UNRECOVERED INVESTMENT?**

21 A.14 No. It is true that the ERCR plan the Commission approved in Docket Nos. 14-05003
22 and 14-06022 included Nevada Power's proposal to transfer Reid Gardner's net book

^{6/} SB 123 § 7(2)(a).
^{7/} Id. § 9.

1 value into a regulatory asset. However, the Commission never specifically authorized
2 Nevada Power to earn a return on this regulatory asset. Exclusion of any provision for a
3 return on the stranded plant balances is also consistent with the Commission’s rules
4 governing Nevada Power’s ERCR plan. For example, NAC 704.9453(6) requires
5 Nevada Power to transfer the net book value of its interest in coal-fired facilities
6 scheduled for elimination or retirement to a regulatory asset account and also track
7 decommissioning and remediation costs in a regulatory asset account, but apply “a
8 carrying charge equal to the currently approved AFUDC rate *only* on the
9 decommissioning and remediation costs in the regulatory asset or liability account.”
10 (Emphasis added). Thus, without such specific authorization from the Commission to
11 incur a carrying charge, there is no basis for Nevada Power to assume that it may earn a
12 return on the unrecovered net book value associated with the Reid Gardner facility.

13 **Q.15 ARE THERE OTHER REASONS WHY THE COMMISSION SHOULD NOT**
14 **AUTHORIZE A RETURN ON THE REMAINING NET BOOK VALUE OF REID**
15 **GARDNER?**

16 A.15 Yes. Typically, utilities are only allowed to earn a return on capital investment in rate
17 base that is used and useful to their customers. NRS 704.440, for instance, authorizes the
18 Commission to “ascertain the value of all property of every public utility *actually used*
19 *and useful* for the convenience of the public.” (Emphasis added.) The implication is that
20 the value of utility property that is not used and useful is not relevant to the rates charged
21 to customers. Stated differently, the regulatory asset balances no longer have value—
22 upon which Nevada Power is appropriately entitled to a return—to ratepayers because the
23 generating assets are no longer productive in providing electrical services.

1 In the past, the Commission has recognized this principle when it refused to
2 provide Sierra Pacific Power Company with rate base treatment for regulatory assets
3 associated with development costs for the Ely Energy Center and decommissioning costs
4 associated with certain remote diesel sites.^{8/} The Commission stated that:

5 Assets included in rate base are commonly required to be used and useful.
6 There is no disagreement among the parties that the costs deferred in this
7 regulatory asset represent stranded assets which are no longer used and
8 useful for purposes of providing electric service Excluding the
9 amortized balance from rate base results in a just and reasonable sharing
10 of the costs between shareholders and ratepayers. Shareholders are
11 permitted to recover the costs from ratepayers in a short period of time,
12 and ratepayers are not required to pay a return on the unrecovered balance
13 in the regulatory asset during the recovery/amortization period.^{9/}

14 **Q.16 HAVE OTHER JURISDICTIONS REFUSED TO PROVIDE A FULL RETURN**
15 **ON UTILITY PLANT THAT IS NO LONGER USED AND USEFUL IN THE**
16 **PROVISION OF ELECTRIC SERVICE?**

17 A.16 Yes. Two examples are Portland General Electric Company's Trojan Nuclear Facility
18 and Pacific Gas and Electric Company's Humboldt Bay Nuclear Facility.

19 **Q.17 PLEASE PROVIDE AN OVERVIEW OF THE END OF LIFE TREATMENT**
20 **APPROVED FOR TROJAN AND HUMBOLDT BAY.**

21 A.17 When Portland General Electric put Trojan into commercial operation in 1975, the plant
22 was expected to remain in service until 2011. After discovering significant design and
23 operational deficiencies in the plant, however, Portland General Electric ultimately
24 elected to retire it about 19 years earlier than expected.^{10/} In the proceeding that decided

^{8/} Docket Nos. 13-06002, 13-06003, 13-06004, Modified Final Order ¶¶ 199, 203 (Feb. 3, 2014).

^{9/} Id. at ¶ 203.

^{10/} In the Matter of Revised Tariff Schedules for Electric Service in Oregon filed by Portland General Electric Company, Or. P.U.C. Docket No. UE 88, Order 95-322 at 1-4, 25-47 (Mar. 29, 1995); In re the Application of Portland General Electric Company for an Investigation into Least Cost Plan Plant Retirement, Or. P.U.C. Docket Nos. DR 10/UM 535 (Cons.), Order 93-1117 at 1-3 (Aug. 9, 1993).

1 the facility's regulatory treatment, including recovery of the net book value, the Oregon
2 Commission implemented a balancing account, which spread the end-of-life cost of the
3 investment over the expected life of Trojan, prior to the early retirement, initially 17
4 years.^{11/} This amortization period was later reduced to about 10 years based on the way
5 that the Oregon Commission applied a net benefits principle.^{12/} The return on the
6 balancing account was ultimately set at a long-term treasury bond rate to compensate
7 only for the time value of money.^{13/}

8 The California Public Utilities Commission also addressed the issue of retirement
9 before the full recovery of the undepreciated balance of the Humboldt Bay Nuclear Plant.
10 There, the California Commission allowed Pacific Gas and Electric to recover the plant's
11 direct cost from ratepayers but disallowed *any* return on its investment:

12 We agree with staff that [Humboldt Bay] Unit 3 is no longer "used and useful"
13 and should be excluded from rate base. While Unit 3 did operate for 13 years, it
14 will never operate again and can no longer be considered "useful" utility plant.
15 Unit 3 was entered into rate base under the assumption that it would serve
16 customers for 30 years. Shareholders were entitled to a return and ratepayers were
17 liable for the full ownership cost as long as Unit 3 operated as expected. Once the
18 plant was closed in 1976, Unit 3 no longer qualified for inclusion in rate base and
19 was eventually and properly removed from rate base in 1979... PG&E should
20 therefore recover the remaining net plant cost of \$17,185,000 over a four-year
21 amortization period as recommended by staff. No return on the unamortized
22 balance should be allowed.^{14/}

^{11/} In the Matter of The Application of Portland General Electric Company for an Investigation into Least Cost Plan Plant Retirement, DR 10 et al., Order 08-487 at 11 (Sept. 30, 2008).

^{12/} Id. at 67-68, 72.

^{13/} Id. at 71.

^{14/} Re Pac. Gas & Elec. Co. 18 CPUC 2d 592, 1985 WL 1205472 (Cal.P.U.C.), 69 P.U.R.4th 1 at *8-9 (Aug. 21, 1985).

1 **Q.18 HAVE SIMILAR PROPOSALS FOR RECOVERY OF THE NET BOOK VALUE**
2 **OF AN EARLY RETIRED GENERATION FACILITY BEEN MADE MORE**
3 **RECENTLY?**

4 A.18 Yes. In Washington State, Puget Sound Energy (“Puget”) recently proposed to accelerate
5 depreciation of its interest in units 1 and 2 of the Colstrip Generating Station in order to
6 fully recover its investment by 2022, when it committed to close these units.^{15/} At that
7 time, Puget planned to fully recover its investment in these units by 2035. The
8 Washington Commission Staff, however, proposed that Puget only slightly increase its
9 existing depreciation expense for these units and transfer the remaining net plant balance
10 to a regulatory asset, to be amortized over an 18-year period without a carrying charge.^{16/}
11 The Washington Commission Staff testified that this treatment was fair to the utility
12 because its shareholders had been provided a return to compensate them for the risk of
13 ownership. The Staff quoted the Washington Commission:

14 One of the inherent risks of the company’s business which is borne by
15 investors in utility securities and which enters into the risk element
16 allowed for in the rate of return, is the risk of obsolescence of utility plant
17 in advance of full recovery through depreciation.^{17/}

18 Ultimately, parties resolved the issues related to Puget’s recovery of the undepreciated
19 balance of Colstrip units 1 and 2 through a settlement that took advantage of factors that
20 were unique to Puget. The utility had large regulatory liabilities holding deferred
21 production tax credits and treasury grants. Parties agreed to increase depreciation

^{15/} Washington Utilities & Transp. Comm’n v. Puget Sound Energy, Docket Nos. UE-170033/UG-170034.

^{16/} Id., Exh. CRM-IT at 29-33.

^{17/} Id. at 33.

1 expense through 2022 and use these regulatory liabilities to offset the remaining net plant
2 balance.^{18/}

3 **Q.19 DO THE POLICY CONSIDERATIONS ARTICULATED ABOVE APPLY TO**
4 **REID GARDNER?**

5 A.19 Yes. As noted above, the plant is no longer used and useful to customers, which the
6 Nevada Commission has previously found sufficient to deny a return on the investment.
7 Furthermore, shareholders received a return on their investment in Reid Gardner while it
8 was operational, which was designed at least in part to compensate them for the risks of
9 ownership, including the possibility that the plant would be retired early.

10 **Q.20 IF A CARRYING CHARGE IS APPROVED, SHOULD A LOWER RATE BE**
11 **USED?**

12 A.20 Yes. Nevada Power will be essentially guaranteed recovery of any amounts accrued to
13 the end of life account. Accordingly, the risk associated with the return of the
14 unrecovered investment balance is not the same as the risk associated with other
15 investments reflected in the operations of Nevada Power. Thus, rate-basing the
16 unrecovered investment balance would also overcompensate Nevada Power, relative to
17 the risk associated with the regulatory account. If a carrying charge is to be approved at
18 all, then, it should be no higher than an amount necessary to compensate for the time
19 value of money, similar to the long-standing treatment in Oregon.^{19/} In other words, the

^{18/} Docket Nos. UE-170033/UG-170034, Multiparty Stipulation ¶ 25 (Sept. 15, 2017). As of the drafting of this testimony, the Washington Commission has not approved this stipulation.

^{19/} In the Matter of The Application of Portland General Electric Company for an Investigation into Least Cost Plan Plant Retirement, OPUC Docket No. DR 10 et al., Order 08-487 at 71; In re PacifiCorp. dba Pacific Power. Application for Approval of Deer Creek Mine Transaction, Or. P.U.C. Docket No. UM 1712, Order 15-161 at 8 (May 27, 2015).

1 carrying charge on the unrecovered plant balances should not be remunerative to Nevada
2 Power, in that Nevada Power should not be provided with the ability to profit from the
3 stranded plant balances.

4 **Q.21 IF A CARRYING CHARGE WERE ESTABLISHED TO COMPENSATE ONLY**
5 **FOR THE TIME VALUE OF MONEY, WHAT RATE SHOULD BE USED?**

6 A.21 If a carrying charge is approved, I recommend that it be set at a rate equal to the 5-year
7 Treasury rate plus 100 basis points, which the Oregon Commission uses.^{20/} This rate
8 corresponds to an overall carrying charge of approximately 2.89%. This is based on the
9 5-year Treasury bond yields of 1.98% as of the drafting of this Prepared Direct
10 Testimony.^{21/}

11 **b. Amortization**

12 **Q.22 HOW HAS NEVADA POWER CALCULATED AMORTIZATION EXPENSE**
13 **ASSOCIATED WITH THE REID GARDNER REGULATORY ASSETS?**

14 A.22 Nevada Power used a straight-line method for developing the amortization expense
15 associated with the Reid Gardner regulatory assets for both the unrecovered plant balance
16 and decommissioning and remediation expense. This means that the amortization
17 schedule assumes an equal amount of principal amortization in each period. It is
18 calculated by simply dividing the \$237,892,679 regulatory liability balances by six.

^{20/} Re Portland General Electric Co. Application to Defer Revenues and Costs Related to the Environmental Remediation Costs Recovery Adjustment, Schedule 149, OPUC Docket No. UM 1789, Order No. 17-071 at 8 (Mar. 2, 2017).

^{21/} See <https://www.bloomberg.com/markets/rates-bonds/government-bonds/us> (Accessed Oct. 18, 2017, 8:00 A.M. PDT).

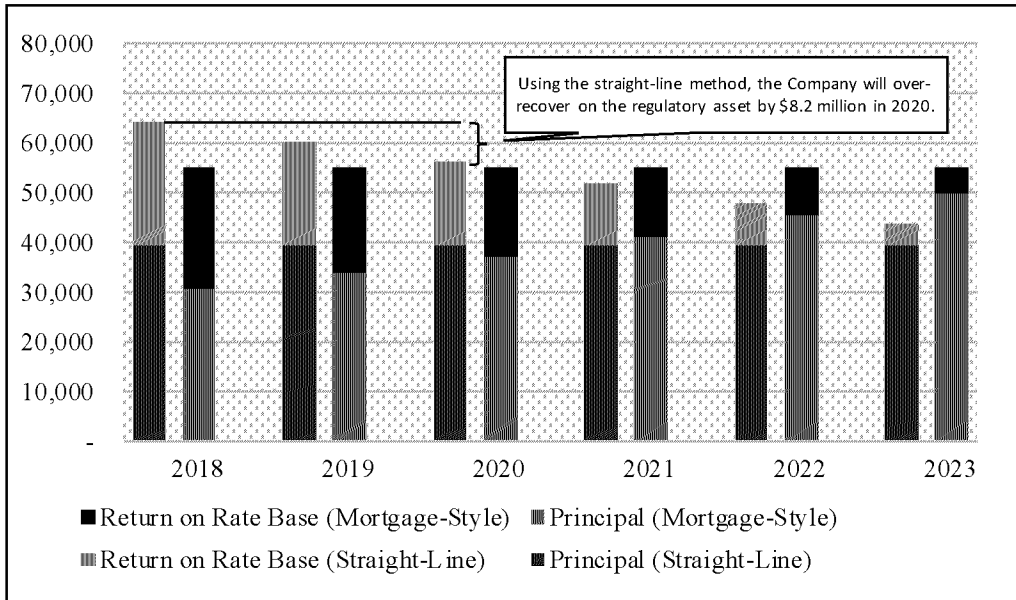
1 **Q.23 IS THAT METHOD APPROPRIATE?**

2 A.23 Not in these circumstances. Since Nevada Power proposes to include the regulatory
3 assets in rate base, a straight-line amortization schedule will result in Nevada Power over-
4 collecting carrying charges over the rate-effective period.

5 **Q.24 WHY WILL STRAIGHT-LINE AMORTIZATION CAUSE NEVADA POWER**
6 **TO OVER-COLLECT ON CARRYING CHARGES?**

7 A.24 The regulatory asset account balance will decline rapidly in the rate-effective period.
8 Accordingly, in the subsequent years of the rate-effective period, the return on rate base
9 required by Nevada Power will have also declined rapidly, due to the declining account
10 balances. Notwithstanding, ratepayers will not get the benefit of the declining balance
11 under Nevada Power's method because the total payment, the principal plus return on
12 rate base, from ratepayers is based on the first year of the declining payment schedule.
13 The declining payment schedule can be noted in the illustration in Figure 1, below.

FIGURE 1
Illustration of Total Payment, Straight-Line vs. Mortgage-Style Amortization
 (\$000)



1 **Q.25 PLEASE PROVIDE AN OVERVIEW OF FIGURE 1.**

2 A.25 Figure 1 is based on Nevada Power’s proposal to include the full amount of unrecovered
 3 investment in rate base, and shows that setting revenue requirement using the straight-
 4 line method will result in overstating revenue requirement in subsequent years, after
 5 taking into consideration the declining return on rate base requirement. Based on Figure
 6 1, I estimated that Nevada Power will over-collect with respect to the regulatory asset by
 7 approximately \$8,247,556 in 2020, if a straight-line approach is used. This amount
 8 assumes Nevada Power is allowed to earn a return on both decommissioning and
 9 remediation costs as well as its undepreciated investment in the plant. If the Commission
 10 accepts my proposal not to allow carrying charges on the net book value, this over-
 11 collection in 2020 would be reduced to about \$1,541,280. The adjustments summarized

1 in Table 1, above, assume no return on the net plant balance to avoid double-counting
2 this adjustment.

3 **Q.26 HOW DOES FIGURE 1 DEMONSTRATE THAT NEVADA POWER WILL**
4 **OVER-RECOVER ON THE REGULATORY ASSET BALANCE?**

5 A.26 As can be seen in the figure, under Nevada Power's approach, the amortization of the
6 principal amount remains the same every year. Notwithstanding, the required return on
7 rate base under the straight-line method declines each year. Since revenue requirement is
8 based on the first year of the amortization schedule, ratepayers do not recognize the
9 benefit of the rapidly declining account balances, resulting in a windfall to Nevada Power
10 in subsequent years of the rate period.

11 **Q.27 SHOULD A DIFFERENT APPROACH BE USED IN THESE**
12 **CIRCUMSTANCES?**

13 A.27 Yes. Unlike other asset balances, there are no ongoing capital additions with respect to
14 the Reid Gardner regulatory assets to offset the impact of the declining asset balances, so
15 for that reason, the straight-line method is not the best approach when setting rates for a
16 three-year rate effective period.

17 **Q.28 WHAT DO YOU RECOMMEND?**

18 A.28 There are many different ways to address the issue of the declining asset balance that will
19 occur over the rate effective period. In these circumstances, however, I recommend
20 establishing a predefined mortgage-style amortization schedule based on a levelized
21 amount of total repayment in each period. Thus, like a mortgage on a house, the amount
22 of principal amortized is relatively low in the first year, increasing in each year. As a
23 result, the total amount of revenues required by Nevada Power with respect to the

1 account—considering both the amortization and return on rate base—remains consistent
2 in each year, so that that Company does not over- or under-collect in subsequent years,
3 relative to the recovery approved for the first year of the rate-effective period. This can
4 be noted in Figure 1 in the bars corresponding to mortgage-style amortization.

5 Another potentially viable way to address this issue would be to establish the
6 account balance included in rate base equal to the average over the three-year rate period,
7 rather than using the balance in the first year, although I did not study that method.

8 **Q.29 HOW WOULD YOUR RECOMMENDED APPROACH BE IMPLEMENTED?**

9 A.29 Under my recommended approach, the amortization charged by Nevada Power would
10 increase each year. The revenue requirement will be established based upon the first-year
11 principal amortization amount. In subsequent years, the increased amortization would be
12 recognized on Nevada Power's books, but will be offset entirely by the impact of the
13 declining return on rate base resulting from the rapidly declining account balances. As a
14 result, this method will lead to a consistent level of revenue requirement associated with
15 the account balance for each period.

16 **Q.30 HOW DID YOU CALCULATE THE AMORTIZATION TO APPLY TO THE**
17 **RATE PERIOD?**

18 A.30 The amortization schedule I propose can be found in Exhibit Mullins-Direct 5 at 2. I
19 have calculated the payment on the decommissioning and remediation using the pre-tax
20 cost of capital to approximate the revenue requirement impact of the return on rate base
21 component. I then calculated a separate payment for the unrecovered plant balances,
22 assuming no carrying charge—although absent a carrying charge, a mortgage-style

1 amortization schedule will produce the same results as a straight-line amortization
2 schedule. I also prepared a separate amortization schedule for the unrecovered plant
3 balances, if the Commission were to allow Nevada Power to earn a full return on those
4 balances. If a different carrying charge is approved, the amortization schedule would
5 need to be updated.

6 **Q.31 WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

7 A.31 As identified in Exhibit Mullins-Direct-5 at 2, use of a levelized amortization schedule
8 reduces the amortization by \$1,705,629, assuming no return is approved for the
9 unrecovered investment component. If a return is approved on the unrecovered
10 investment component, the impact of adopting a levelized schedule of amortization,
11 reduces amortization expense by approximately \$9,122,616.

12 **III. NAVAJO RETIREMENT**

13 **Q.32 WHAT IS YOUR RECOMMENDATION REGARDING THE UNRECOVERED**
14 **PLANT ASSOCIATED WITH NAVAJO?**

15 A.32 As discussed below with respect to depreciation, I recommend that the depreciation rate
16 for Navajo not be increased in connection with its early retirement. This will leave
17 approximately \$28,900,000 of plant balances unrecovered through depreciation expense
18 when the plant is retired in December of 2019, or sooner. To account for these
19 unrecovered plant balances, I propose that a regulatory asset be created, as contemplated
20 in the ERCR plan and in a manner similar to the treatment of Reid Gardner, and that the
21 regulatory asset be amortized over a six-year period.

