Rocky Mountain Power
Docket No. 17-035-39
Witness: Timothy J. Hemstreet

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Surrebuttal Testimony of Timothy J. Hemstreet

November 2017

Q. Are you the same Timothy J. Hemstreet who previously provided direct and rebuttal testimony in this case on behalf of Rocky Mountain Power ("Company"), a division of PacifiCorp?

A. Yes.

PURPOSE AND SUMMARY OF SURREBUTTAL TESTIMONY

Q. What is the purpose of your surrebuttal testimony?

A. I respond to the rebuttal testimony filed by the Utah Association of Energy Users witness Mr. Kevin C. Higgins.

Q. Please summarize your surrebuttal testimony.

A. I demonstrate that Mr. Higgins' proposed conditions for approving the wind repowering project are unreasonable and may actually work to reduce the customer benefits of repowering by limiting the Company's optionality to implement repowering in the least-cost, least-risk manner.

First, the proposed construction cost cap is unnecessary in light of the Company's prudent fixed-price contracting, which has largely eliminated the risk of construction cost over-runs. Mr. Higgins' proposed cap may potentially limit customer benefits by reducing flexibility to modify the facilities' interconnection agreements. Rather than a hard cap, the Company recommends that under Utah Code Ann. §54-17-402(7)(a), the Utah Public Service Commission ("Commission") approve the updated facility-by-facility cost estimates I sponsor in my testimony. If actual costs exceed the approved estimates, the Company will demonstrate the prudence of those additional costs before the amounts are reflected in rates through the Resource Tracking Mechanism.

Second, the proposed construction schedule condition is likewise unnecessary in light of the contractual guarantees the Company has prudently negotiated. These provisions largely eliminate the risk that a construction delay will reduce each facility's ability to qualify for the full federal wind production tax credits ("PTCs"). Imposing a strict construction schedule also unreasonably limits the Company's flexibility to change implementation schedules to minimize construction costs.

Third, I understand that Mr. Higgins' proposed performance guarantee is contrary to applicable Utah statutes, and is a radical departure from conventional ratemaking. It is also largely unnecessary in light of the fact the Company's generation projections are based on extensive historical data, and performance risk is mitigated through contractual guarantees. Any wind project will have variable generation, but the Company has made all reasonable efforts in the preparation of its energy projection estimates and believes that specific guarantees are unreasonable.

Finally, I clarify that, while the Company believes that customers will benefit from repowering all twelve facilities in the repowering project, the Company will update its economic analysis for each facility individually before implementing repowering.

SURREBUTTAL TESTIMONY

Q. In his rebuttal testimony, Mr. Higgins proposes conditions for the Commission's approval of the wind repowering project. (Higgins Rebuttal, lines 25-41.) Are these proposed conditions reasonable?

A. No. Mr. Higgins recommends that if the Commission approves the wind repowering project, it should be predicated on "the Company's ability to demonstrate that construction costs have come in at or below those estimated, that the projects were completed as scheduled, and that, measured over a reasonable period of time, the megawatt-hours produced by the repowered facilities are equal to or greater than the forecasted production provided in this proceeding." (Higgins Rebuttal, lines 25-33.) Mr. Higgins suggests these conditions are required to better balance project risks between the Company and its customers. (Higgins Rebuttal, lines 42-28.)

None of these conditions are reasonable or appropriate. As Company witness Ms. Cindy A. Crane explains in her rebuttal testimony, the Company is expressly assuming the risk of executing the wind repowering project in a manner that delivers PTC benefits to customers, based on currently known variables within the Company's control. This includes managing total project costs to meet the safe-harbor requirement and 80/20 tests, and completing repowering by the end of 2020. (Crane Rebuttal, lines 97-109.)

The Company has a strong incentive to successfully execute the wind repowering project and deliver PTC and other benefits to customers. Mr. Higgins' conditions are unnecessary to protect customers and may have the opposite effect by unreasonably limiting the Company's ability to implement repowering in the most cost-effective manner.

Q. Please describe your concerns related to the proposed construction cost guarantee.

A. The Company has prudently mitigated the risk of construction cost over-runs by negotiating largely fixed-cost contracts, as I described in my rebuttal testimony. There is a relatively small risk that construction costs will be higher than estimated under such contracts, especially because the Company must monitor costs closely to ensure PTC qualification.

Q. What is the most up-to-date construction cost estimate for the repowering projects?

A. The facility-by-facility costs are set forth in Confidential Exhibit RMP___(TJH-1S). These costs have not changed since the Company filed its rebuttal testimony, and represent the costs for which the Company is seeking approval under Utah Code Ann. §54-17-402(7)(a).

Q. Do you have any other concerns related to Mr. Higgins' proposed construction cost guarantee?

A. Yes. The Company anticipates that incremental customer benefits could accrue to the repowering project if the Company can operate the wind facilities under modified large generator interconnection agreements, as described in the rebuttal testimony of Company witness Mr. Rick T. Link. The incremental benefits come with additional construction costs, some of which are now identifiable, and some of which are not (i.e., potential transmission system upgrade costs). Mr. Higgins' construction cost guarantee could prevent the Company from modifying the interconnection agreements even if doing so produces higher customer benefits.

If the Company does incur additional expenses above the approved cost estimates, we will be prepared to demonstrate the prudence of these additional expenses. Rather than imposing a hard cap, which may ultimately backfire and harm customers, the Company's approach provides flexibility to maximize customer benefits while ensuring that the parties and the Commission have a full opportunity to review all repowering costs in excess of the estimates included here. I understand that Mr. Higgins' proposed hard cap is also contrary to the cost recovery provision of Utah

Code Ann. §54-17-403(1)(b), which allows the Company, in a subsequent rate proceeding, to demonstrate the prudence of any costs in excess of the costs approved here.[1]

Q. What are your concerns related to Mr. Higgins' proposed condition requiring that the repowering project be completed as currently scheduled?

A. Like his construction cost condition, Mr. Higgins' construction schedule condition is unnecessary and unreasonably limits options in implementing repowering, which could reduce customer benefits. The primary customer harm from construction delays would occur if some of the repowering facilities are not in service by the end of 2020 and therefore do not qualify for PTC benefits. Again, the Company has already agreed to assume all risks within its control to ensure in-service dates that qualify for the PTC. In addition, the Company has already mitigated a significant portion of this risk by negotiating the GE contract, which requires timely completion of the projects, or provides sufficient liquidated damages to effectively make customers whole. The planned completion of the Vestas repowering projects in 2019 also significantly mitigates schedule risks.

It may be prudent for the Company to alter its current construction schedule for individual facilities to manage costs and risks. For instance, to accommodate the availability of the installation contractor that provides the most cost-effective installation pricing, the Company may decide to adjust the construction schedules for the Vestas projects to stagger their in-service dates. The Company needs discretion to

[1] Utah Code Ann. §54-17-403(1)(b) (". . . any increase from the projected costs specified in the commission's order issued under Section 54-17-402 shall be subject to review by the commission as part of a rate hearing under Section 54-7-12.").

adjust the construction schedule to deliver the wind repowering project with maximum net benefits to customers.

Q. What are your concerns regarding Mr. Higgins' condition related to performance?

A. First, the Company's generation projections are based on extensive historical data. Second, the Company has also prudently managed performance risk through contract guarantees with GE. Third, while the Company is confident in its repowering energy production estimates—and believes they may be conservative—wind production is dependent upon variable wind conditions. Mr. Higgins' proposal that the megawatt-hours produced by the repowered facilities should equal or exceed the forecasted production over a reasonable range of time asks the Company to guarantee conditions outside the Company's control. Thus, it will be difficult to assess a "reasonable amount of time" in which the impact of variable wind conditions is sufficiently averaged to provide a fair assessment of pre-versus post-repowering energy production under a megawatt-hour metric.

Q. Are there broader implications to Mr. Higgins' proposal?

A. Yes. Mr. Higgins' recommendation would allow the Commission to revisit its approval of repowering in the future and impute a penalty on the Company if the actual performance of the asset is different than expected when the decision was taken (based on information the Company knew at the time). I understand that this conflicts with the cost recovery provisions in Utah Code Ann. §54-17-403 and with the prudence standard in Utah Code Ann. §54-4-4(4). It is also contrary to traditional ratemaking. Aside from the fact that his suggestion lacks symmetry (*i.e.*, the Company is not rewarded for better-than-expected performance), Mr. Higgins' suggested policy fundamentally alters the premise that the Company's decisions are judged on the basis of what the Company knew at the time. Mr. Higgins' recommendation could open the door for other past decisions to be re-assessed on an after-the-fact basis and, as Mr. Higgins suggests, subject the Company to one-sided disallowances.

Q. Mr. Higgins also suggests that the Company's approach to repowering is unreasonable because the Company did not analyze individual facilities to determine if they are economic to repower. (Higgins Rebuttal, lines 104-108.) Please respond.

A. The Company has never viewed repowering as an all-or-nothing project. In the 2017 Integrated Resource Plan ("IRP"), the Company performed the System Optimizer and Planning and Risk studies that included all the facilities that appeared economic to repower based upon available information. Before filing this case, the Company added facilities not included in the IRP based on additional, facility-specific analysis. The Company's rebuttal filing then included an extensive economic analysis on a facility-by-facility basis.

Before the Company moves forward with repowering any facility, it will perform updated facility-specific analysis to ensure that repowering each individual facility remains least-cost, least-risk. This updated analysis will consider market changes, updated contract costs and terms, and any potential changes to the tax code.

Q. Does this conclude your surrebuttal testimony?

A. Yes.