Rocky Mountain Power
Docket No. 17-035-39
Witness: Joelle R. Steward

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Supplemental Rebuttal Testimony of Joelle R. Steward

April 2018

Q. Are you the same Joelle R. Steward who previously submitted testimony in this proceeding on behalf of Rocky Mountain Power ("the Company"), a division of PacifiCorp?

A. Yes.

PURPOSE AND SUMMARY OF SUPPLEMENTAL REBUTTAL TESTIMONY

Q. What is the purpose of your supplemental rebuttal testimony?

A. In support of the Company's application asking the Utah Public Service Commission ("Commission") to approve innovative or non-traditional ratemaking treatment for the wind repowering project, I respond to regulatory policy issues raised in the response testimonies of the Utah Division of Public Utilities ("DPU") witness Dr. Joni S. Zenger, DPU witness Mr. Charles E. Peterson, DPU witness David Thomson, Office of Consumer Services ("OCS") witness Cheryl Murray, OCS witness Donna Ramas, and Utah Association of Energy Users ("UAE") witness Mr. Kevin C. Higgins.

Q. Please summarize your testimony.

A. The repowering project provides substantial net benefits for customers and should be approved by the Commission. Over the course of this case, the benefits have been repeatedly tested by changing market conditions, changes to the federal income tax code, and yet, despite these changes, the benefits persist. Because repowering provides benefits to customers, the Company should be allowed the opportunity to recover all its prudently incurred costs. Therefore:

- The Commission should reject proposed cost recovery conditions because they would unreasonably punish the Company for pursing the least-cost, least-risk resource decision.

- The Commission should approve the proposed Resource Tracking Mechanism ("RTM"), which is a straightforward proposal designed to more accurately match the costs and benefits of repowering, while allowing the Company to minimize the need for complex and resource intensive rate cases.

The Company provided the Commission and parties with a thorough and comprehensive filing detailing the proposed repowering project. Over the course of this case, parties have conducted in-depth discovery to test the Company's modeling and the reasonableness of the Company's risk mitigation strategies for the repowering project. The Company reasonably updated its economic analysis February 2, 2018 to reflect changes in the tax code and the most up-to-date market and cost and performance information, as outlined in the November 22, 2017 Unopposed Motion to Amend Procedural Schedule. Compared to June 2017, when the Company made its initial filing, the benefits of repowering are more certain, risks have decreased, and the Company has demonstrated that repowering is most likely to provide the lowest reasonable cost utility service.

REPOWERING COST RECOVERY

Q. Mr. Higgins recommends several conditions that he believes the Commission should apply if it approves the repowering project. (Higgins Resp., lines 58-118.) Are Mr. Higgins' proposed conditions reasonable?

A. No. I will address each of his proposed conditions below, but, conceptually, the premise underlying Mr. Higgins' proposed conditions is that repowering is an "opportunity investment" that requires an entirely different analytic process for review and approval.

On the contrary, repowering is straightforward-the Company has the opportunity to upgrade its existing facilities and reduce costs to customers. The allocation of risk between the Company and customers should be no different for repowering than it would be without repowering.

Q. What is Mr. Higgins' first proposed condition?

A. Mr. Higgins recommends that the Commission condition cost recovery on the Company's "ability to demonstrate that construction costs have come in at or below its estimated costs in this case, 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 Resp., lines 61-66.) Mr. Higgins recommends that, notwithstanding a prudence determination in this case, if this condition is not met "the Commission expressly reserve the right in a future rate case to reduce the Company's recovery of costs." (Higgins Resp., lines 66-71.)

Q. How do you respond to this condition?

A. Mr. Higgins' cost and performance condition is entirely unprecedented and unnecessary in this case. Notably, Mr. Higgins points to no other circumstance where the Commission has conditioned a prudence determination on the future performance of a resource or applied a cost cap to a utility investment. Again, repowering is no different in this respect from any utility investment and does not warrant extraordinary and unprecedented conditions.

Moreover, as described in the testimony of Company witness Mr. Timothy J. Hemstreet, the Company has largely mitigated the risks within its control of construction cost over-runs and schedule delays that would adversely impact

customers, and has also negotiated contracts that mitigate, to the extent feasible, the performance risk associated with the repowered facilities. Thus, the specific risks identified by Mr. Higgins have been reasonably addressed by the Company and do not require the extraordinary conditions Mr. Higgins recommends.

Q. What is Mr. Higgins second proposed condition?

A. As in his Direct Testimony, Mr. Higgins again recommends that if the Commission approves the wind repowering project, the approval should be made conditional on a reduction of 200 basis points to the authorized rate of return on the undepreciated balance of the retired plant. (Higgins Resp., line 72 to line 85.)

Q. Is this proposed condition reasonable?

A. No. If the Commission determines that the wind repowering project provides customer benefits, including the amortization of the existing plant, there is no justification to provide different recovery than any other prudent investment. As explained in the Company's October 2017 rebuttal testimony, this condition is contrary to Commission precedent. (*See* Larsen Reb., lines 129-145.)

The Company's economic analysis, including recovery of existing plant, demonstrates that repowering is the lowest cost alternative for supplying energy to customers. Reducing the return on the replaced equipment would penalize the Company for developing and implementing a resource strategy that reduces costs for customers.

Q. Mr. Higgins claims that his condition limiting the return on the retired plant is necessary to better balance, upfront, the potential benefits from this proposition for both customers and the Company. (Higgins Resp., lines 795-797.) How do you respond to this claim?

A. Mr. Higgins' premise is that the Company's recovery of its cost of service, including a regulated return on its capital costs, is a benefit subject to reallocation to customers. This premise is contrary to basic ratemaking. The cost of capital is no different than any other prudent cost recoverable in rates if incurred to provide utility service. Mr. Higgins' position that some of the Company's costs of the repowering project are an allocable benefit to customers is really a proposal to partially disallow cost recovery, notwithstanding a Commission determination the investment is prudent and beneficial to customers.

By focusing only on the Company's cost of capital and comparing it to the customer *net* benefits, Mr. Higgins' presents a distorted view of the benefits of the repowering project. The Company's analysis shows that present-value *gross* customer benefits over the remaining life of the repowered facilities range between $1.14 billion and $1.48 billion, which compares to the present-value costs of $1.02 billion. Because repowering provides *net* benefits, customers will receive more than they pay for and therefore there is no need to better balance the costs and benefits as Mr. Higgins claims.

Q. Mr. Philip Hayet also proposes two conditions. (Hayet Resp., lines 794-802.) Are his conditions reasonable?

A. No. First, Mr. Hayet recommends that the Company's future cost recovery should be limited to the capital expenditures and O&M costs used in the economic analysis in

this case. Mr. Hayet does not provide any explicit basis for this recommendation. As described above, however, because the repowering project is comparable to any other utility investment included in the Company's least-cost, least-risk resource portfolio, there is no reason to apply such an unprecedented condition on approval of the resource decision.

Second, Mr. Hayet recommends that the Company guarantee the PTC and energy benefits at 95 percent of the amount included in the Company's economic analysis. Mr. Hayet claims that if the Company is confident in its projection, then this condition is reasonable. I disagree, however, that such an unprecedented condition is reasonable. To my knowledge, the Commission has never before imputed a performance guarantee of this type for a resource decision of this type, and there is no basis to do so here.

Q. Ms. Ramas requests that if approved, the Commission lock in Utah's allocated share of the repowering investment based on the Company's current interstate allocation methodology. (Ramas Resp., lines 303-337.) Is this a reasonable recommendation?

A. No. This is contrary to the 2017 Protocol currently approved for inter-jurisdictional cost allocation in the state of Utah, which uses dynamic allocation factors. Moreover, any change to inter-jurisdictional cost allocations in the future will be approved by the Commission and should not by restricted by this proceeding. In effect, Ms. Ramas is recommending that the Commission pre-determine the outcome of the current Multi-State Process, which would be detrimental to the continuing negotiations with stakeholders throughout the Company's service area.

In addition, if Utah's allocated costs associated with these projects are fixed, then the benefits, including production tax credits and reduced net power costs, must also be fixed. Any change of this type would require resource subscriptions which are not allowed under the 2017 Protocol.

Q. What is the Company's response to Mr. Peterson's suggestion that the retired assets be amortized over 10 years, instead of 30, to match the availability of PTC's? (Peterson Resp., lines 84-94.)

A. The Company's proposal to amortize the retired assets over the remaining life of the repowered facilities is consistent with typical ratemaking. The exact amortization period for those assets would be better addressed as part of the new depreciation study the Company will be filing later this year. As part of the depreciation study the DPU or other parties can propose a higher depreciation rate for the wind resources or other depreciation changes that they feel are appropriate.

Q. Mr. Peterson, in DPU Exhibit 4.1 RESP, determines that the present value difference between a 30-year amortization and a 10-year amortization of the Legacy equipment is approximately $200 million. Do you offer any additional observations on Mr. Peterson's exhibit?

A. Yes. While Mr. Peterson's calculations are technically correct, he is only calculating the present value on a portion of the revenue requirement associated with recovery of the legacy equipment-the amortization, or return of, the investment. Mr. Peterson has not included the return on investment in his comparison, which if he had would have mostly eliminated the net present value difference between the two amortization periods he is comparing. Additionally, Mr. Peterson shows that the Company's proposal

to amortize the remaining plant over thirty years produces a net present value that is $200 million less than his proposal. Therefore, I believe Mr. Peterson's exhibit shows that the Company's proposal is reasonable because it results in a lower cost to customers.

RESOURCE TRACKING MECHANISM

Q. Mr. Higgins and Ms. Ramas recommend that the Commission reject the RTM and instead allow the Company to recover the costs of repowering through a general rate case filing. (Higgins Resp. lines 976-979 and Ramas Resp., lines 49-59.) How do you respond?

A. The Company still supports the proposed RTM because it will more accurately match the costs and benefits of the repowering project and prevent the need for multiple general rate cases. Moreover, contrary to Ms. Ramas' claim that the RTM shifts risk to customers, the Company has agreed to a cap so that the RTM will only act as a customer credit, thereby addressing concerns that it is an improper risk-shifting mechanism.

Q. Why does Mr. Higgins recommend that the Commission reject the RTM?

A. Although Mr. Higgins previously testified that the "RTM appears to be logically constructed and reasonably balances the interests of the Company and customers," (Higgins Direct, lines 440-442) he is concerned that the RTM undermines the Company's incentive to control costs because it is what he describes as a "single-issue tracker mechanism." (Higgins Resp., lines 1022-1028.)

Q. Mr. Higgins argues that ratemaking is not a "cost reimbursement" exercise and that regulatory lag is actually a good thing because it encourages efficient operations. (Higgins Resp., lines986-1028.) Do you agree?

A. For the most part, no. I agree that ratemaking is not "cost reimbursement," but I disagree that the RTM is a form of "cost reimbursement" as used by Mr. Higgins. It is well established that utilities are afforded a reasonable opportunity to recover their costs, and the RTM is designed to balance recovery of costs with benefits. The RTM is not an automatic pass through of costs. Rather, the RTM is a mechanism that tracks and matches costs and benefits on a timelier basis and allows parties and the Commission to determine that the costs were prudently incurred before being included in rates. Without the RTM, or a modification to exclude net power cost benefits from the Energy Balancing Account ("EBA"), customers would receive benefits without paying for the costs necessary to achieve those benefits. Moreover, the Company continues to bear the risk of prudent implementation of costs for the repowering project regardless of the recovery method chosen because imprudent implementation or management of resources would be subject to a disallowance. Accordingly, the Company continues to be motivated to manage the costs associated with repowering as well as all other costs.

In addition, the Company's proposed cap for the RTM provides a significant incentive to control costs.

Q. Mr. Higgins also recommends a three-part test that should be considered by the Commission before implementing a tracking mechanism like the RTM. (Higgins Resp., lines 1033-1044.) Do you agree with Mr. Higgins's proposed test?

A. No. Mr. Higgins recommends that the Commission consider whether the recoverable

costs are (1) volatile, (2) beyond the Company's control, and (3) significant. Notably missing from his artificial test is any consideration of matching costs and benefits, which is one of the fundamental reasons that the Company has requested the RTM. His test also doesn't consider if the mechanism would create a process improvement to align cost drivers to minimize the frequency of general rate cases. Moreover, the three considerations outlined by Mr. Higgins may be reasonable for automatic pass-through mechanisms that receive no review. The RTM, however, is not an automatic pass-through mechanism because parties and the Commission will have an opportunity to audit all costs before they are included in rates through the RTM, similar to the Company's EBA. Even if the Commission were to consider Mr. Higgins's test, his considerations support approval of the RTM. First, the Company has recommended that the RTM remain in place after the repowering projects are in base rates to act as a PTC tracker mechanism. The PTCs generated by the repowered projects are potentially volatile and outside the Company's control-meeting the first and second component of Mr. Higgins's test. Third, the revenue requirement associated with the PTCs produced by the repowered facilities is significant enough to warrant automatic pass-through to customers.

Q. Mr. Higgins, Mr. Thomson, and Ms. Ramas question the validity of the Company's proposed cap on the RTM now that the Company has proposed to defer excess costs resulting from recent changes in the federal tax code. (Higgins Resp., lines 1098-1113; Thomson Resp., lines 28-52; and Ramas Resp., lines 139-150.) How do you respond to this testimony?

A. The Company proposed to cap repowering costs based on the economics of the

repowering project when the federal corporate tax rate was 35 percent. In other words, the Company committed that the repowering RTM would not impose a surcharge on customers. The Company stands by that commitment. But the proposed cap on the RTM should not double-count the revenue requirement impact of tax reform, which is what would occur if the repowering cap does not take into account the impact of tax reform. If tax reform creates costs in excess of the RTM cap and those costs are not recoverable, then those unrecovered costs should not be refunded again when the overall impact of tax reform is accounted for in customer rates. To return only the tax savings associated with tax reform to customers while absorbing the tax increases was not intended by, and should not be the result of implementing the RTM. Furthermore, the Company is not seeking a Commission approval of the proposed deferred in this proceeding. The Company will make a filing when the costs are incurred.

Q. Ms. Murray claims that the RTM is problematic because it is difficult to know what amounts are included in base rates for purposes of determining the incremental costs and benefits of repowering that will be included in the RTM. (Murray Resp., lines 55-58.) How to you respond to this concern?

A. The incremental costs included in the RTM will be largely determined based on the known historical data that can be measured and verified by the parties before inclusion in customer rates. (S*ee, e.g.*, Larsen Rebuttal, lines 264-290.)

Q. Ms. Ramas states that the Company has not provided evidence that it would be unable to earn its allowed rate of return if the RTM is rejected. (Ramas Resp., lines 86-91.) Is an earnings test an appropriate measure to determine whether to establish a mechanism for cost recovery?

A. No. The fact that the Company's most recent historical earnings may have been sufficient to allow it to make the repowering investment without an RTM does not mean that the Company's future earnings will be sufficient. The RTM is designed to allow the Company to match the costs and benefits of the repowering project without needing to file multiple general rate cases.

Q. If the RTM is approved, does Mr. Higgins propose any modifications?

A. Yes. Mr. Higgins' proposes three modifications. (Higgins Resp., lines 106-118.)

First, Mr. Higgins recommends that the RTM should not be used as a PTC tracking mechanism once the full costs and benefits of repowering are included in base rates following the next general rate case. But tracking PTCs as an ongoing component of the RTM after all other components are included in rates ensures that customers receive the full benefits of the PTCs and therefore better matches the costs and benefits of repowering.

Second, Mr. Higgins would disallow the impact of tax reform to the extent it exceeded the proposed cap on the RTM. As explained above, such an approach improperly double-counts the benefits of tax reform.

Third, Mr. Higgins recommends that if the RTM includes incremental property tax expenses associated with the new plant, it also accounts for the reduction of property tax expenses related to the replaced equipment. This view is also held by Ms.

Murray. (Murray Resp., lines 61-62.) As described in the Company's October 2017 rebuttal testimony, even though a portion of the plant is being replaced, this will not directly reduce the Company's property tax expense. (*See* Larsen Rebuttal, lines 326-332.) The method the Company is proposing is a reasonable method for estimating the property tax impact using the average rate from the last general rate case.

SUFFICIENCY OF APPLICATION

Q. The DPU criticizes the Company's initial filing, claiming that the Company "filed very little in its Application" and therefore required parties to use discovery to analyze the Company's case. (Zenger Resp., lines 280-284.) Is this a fair representation of the Company's filing?

A. No. The Company's initial filing was 163 pages, including an Application and detailed supporting testimony from four witnesses. It is unclear what additional information Dr. Zenger believes should have been included but was not. Given the size and complexity of the repowering project, the Company could not reasonably be expected to anticipate all of the various questions that intervening parties may pursue discovery on prior to the application being filed. The Company has put forth its best efforts to be responsive to the various requests for information associated with a very large and complex project. Additionally, in order to expedite discovery for the Company's February 2, 2018 supplemental filing, the Company met with the Division, Office, and UAE in December 2017 and requested a list of what additional information or supplemental discovery responses the parties were like provided with the filing. The Company then provided the requested information with the February 2, 2018 supplemental filing.

The fact that the parties conducted thorough discovery does not indicate that the initial filing was lacking; rather, it indicates that this case has been thoroughly analyzed by the parties. The fact this case has been pending for nearly a year, allowing the parties to conduct thorough discovery and file multiple rounds of testimony, indicates that there is no basis to claim an insufficient opportunity to analyze the case.

Q. The DPU also claims that the Company filed its case "before much due diligence and preparatory work was completed." (Zenger Resp., lines 290-291.) Is this a fair statement?

A. No. The DPU's criticism rings hollow considering that Dr. Zenger's previous testimony faulted the Company for performing too much due diligence before filing this case. (*See* Zenger Direct, lines 88-108.) To be clear, the Company performed extensive due diligence prior to filing this case, and continued throughout the pendency of this case, as described in Mr. Hemstreet's testimony. The continued due diligence and project implementation has now made the benefits of repowering more certain and reduced customer risk. The Company has not, however, unequivocally committed itself to the repowering project and has prudently negotiated off-ramps in the event of changing circumstances or adverse regulatory outcomes.

Q. The DPU also claims that the Company's case "has evolved with material changes in the project or the Company's analysis three times now." (Zenger Resp., lines 112-113.) Do you agree with this characterization?

A. No. The Company reasonably updated its economic analysis in its October 2017 rebuttal testimony to account for updated loads, market prices, and cost and performance assumptions for the repowered facilities based on events occurring

subsequent to the initial filing. The Company then updated its analysis again in February 2018 to account for updated market prices, cost and performance assumptions, and the impact of tax reform, consistent with the November 22, 2017 Unopposed Motion to Amend Procedural Schedule. The DPU's implication that the Company should not have updated its analysis based on changing market circumstances and tax policy is entirely unreasonable as the elements for the filing included in the motion were agreed upon by parties prior to filing the motion. If the Company had not provided the updates, we would have been criticized for using inaccurate and dated information. The Commission should review the economics of the repowering project based on the most accurate and up-to-date information.

The DPU's criticism is also undermined by the fact that some of the additional analysis provided by the Company in its responsive testimony was directly responsive to DPU's own requests. Mr. Daniel Peaco's direct testimony specifically requested that he "Company provide[] a new analysis" and address customer risks associated with repowering. (Peaco Direct, lines 72-75.) It is unfair and frustrating that Dr. Zenger now criticizes the Company for doing precisely what DPU requested.

Q. The DPU further criticizes the Company for proposing additional rounds of testimony to account for changes in the federal corporate income tax rate that were expected to occur in late 2017. (Zenger Resp., lines 113-122.) Is this a fair criticism?

A. No. First, all of the parties—including DPU—agreed to the additional testimony specifically because the parties—including DPU—stressed in their testimony that tax

reform could have a substantial impact on the economics of the repowering project. (*See, e.g.,* Peaco Surrebuttal, lines 504-530.)

Second, the parties—including DPU—agreed to the specific additional analysis that they wanted the Company to provide in its supplemental filing. So Dr. Zenger cannot now criticize the Company for providing the analysis that DPU requested and that the Company agreed to perform.

Third, there is no basis for Dr. Zenger to claim that "certain updates and analysis" that were included in the supplemental testimony filed in February 2018 "should have been filed in the Company's initial Application." (Zenger Resp., lines 120-122.) The parties agreed that the Company's supplemental testimony would provide updated analysis that accounted for tax reform (which could not have been included in the June 2017 filing), official forward price curves effective as of January 1, 2018, or the most recent official price curve available (which could not have been included in the June 2017 filing), and updates for known changes in wind repowering costs and performance, and projected changes in CO_2 costs (which could not have been included in the June 2017 filing). Additionally, the Company agreed to the timeline that parties requested to review the supplemental analysis—two months—and delayed several project milestones in order to accommodate parties' review.

Q. Does this conclude your second supplemental rebuttal testimony?

A. Yes.