

Rocky Mountain Power  
Docket No. 17-035-39  
Witness: Jeffrey K. Larsen

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

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Direct Testimony of Jeffrey K. Larsen

June 2017

1 **INTRODUCTION AND SUMMARY**

2 **Q. Please state your name, business address, and current position with PacifiCorp**  
3 **d/b/a Rocky Mountain Power (“Company”).**

4 A. My name is Jeffrey K. Larsen, and my business address is 1407 West North Temple,  
5 Suite 310, Salt Lake City, Utah 84116. I am currently employed as Vice President of  
6 Regulation for Rocky Mountain Power.

7 **Q. Please describe your education and professional background.**

8 A. I received a Master of Business Administration degree from Utah State University in  
9 1994, and a Bachelor of Science degree in Accounting from Brigham Young University  
10 in 1985. I have also participated in the Company’s Business Leadership Program  
11 through the Wharton School, and an Advanced Education Program through the J.L.  
12 Kellogg School of Management at Northwestern University. In addition to formal  
13 education, I have also attended various educational, professional and electric industry-  
14 related seminars and training programs during my career at the Company. I joined the  
15 Company in 1985, and I have held various accounting, compliance, regulatory, and  
16 management-related positions prior to my current position.

17 **Q. Have you provided testimony in previous regulatory proceedings?**

18 A. Yes. I have filed testimony on various matters in the states of Utah, Idaho, Wyoming,  
19 California, Washington, Oregon, and Nevada.

20 **Q. What is the purpose of your testimony?**

21 A. I explain the Company’s requested ratemaking treatment for the wind repowering  
22 project for which the Company is seeking approval in this Application. Specifically, I  
23 describe how the Company proposes to match the costs and benefits of the wind

24 repowering project by deferring the costs and benefits that do not go through the Energy  
25 Balancing Account (“EBA”) and passing back the net benefits through the proposed  
26 Resource Tracking Mechanism (“RTM”). I also explain and support the Company’s  
27 proposed accounting treatment and request for continued cost recovery of the upgraded  
28 and replaced wind equipment.

29 **Q. Please summarize the Company’s proposed ratemaking treatment for the wind**  
30 **repowering project.**

31 A. The Company requests approval of its decision to act on the time-constrained economic  
32 opportunity to upgrade most of its wind facilities and requalify for federal production  
33 tax credits (“PTCs”). The wind repowering project will provide customers additional  
34 cost-effective generation, and tax benefits resulting from renewed PTC eligibility, and  
35 extend the life of the repowered facilities by at least an additional 10 years.

36 The proposed RTM is designed to capture customer benefits resulting from  
37 wind repowering, and match those benefits with the costs of repowering until the costs  
38 and benefits are fully included in base rates through a general rate case. Once the full  
39 costs and benefits are included in base rates, recovery of those elements would cease  
40 through the RTM, with the exception of PTCs. The Company is proposing to cap the  
41 RTM until the next general rate case so that, after taking into account the wind  
42 repowering benefits that will flow through the Company’s EBA, it will not operate to  
43 surcharge customers. After the next general rate case, the Company proposes to use the  
44 RTM to track the actual change in PTCs from the base level included in rates. Because  
45 PTCs are entirely dependent on the variable output of the repowered wind facilities and

46 difficult to precisely forecast, tracking PTCs through the RTM ensures that customers  
 47 receive their full value.

48 Under the RTM, the Company would begin deferring the costs and benefits  
 49 associated with the wind repowering activity for each repowered wind facility in the  
 50 month they go into service.

51 **Q. Please summarize the Company’s proposed accounting treatment for the wind  
 52 equipment replaced by repowering.**

53 A. The Company proposes to record the remaining book balances of replaced wind  
 54 equipment in the accumulated depreciation reserve (“ADR”), and continue to recover  
 55 these costs in rates.

56 **Q. As the repowered wind facilities come into service, what are the annual, estimated  
 57 deferral balances that would flow through the RTM?**

58 A. As described more fully later in my testimony and exhibits, the Company is projecting  
 59 estimated, annual revenue requirement benefits in Utah of up to \$10.7 million by 2022,  
 60 as summarized in Figure 1. The Company will capture the impacts of wind repowering  
 61 through the RTM until they are included in base rates.

62

**Figure 1**

Repowering Estimated Revenue Requirement Cost (Benefit)				
\$thousands				
	2019	2020	2021	2022
Total Company				
1 Revenue Requirement	-\$5,938	\$6,443	-\$9,380	-\$25,184
2 Utah Allocated	-\$2,531	\$2,735	-\$4,012	-\$10,748
3 Utah EBA	-\$215	-\$4,136	-\$5,869	-\$7,732
4 Utah Deferral	-\$2,316	\$4,136	\$1,857	-\$3,017
5 Net Customer Benefit	-\$2,531	\$0	-\$4,012	-\$10,748

63 **Q. How do the revenue requirement benefits in Figure 1 relate to Company witness**  
64 **Mr. Rick T. Link’s analysis of revenue requirement savings from wind**  
65 **repowering?**

66 A. Mr. Link conducted a revenue requirement differential analysis, while my analysis is a  
67 revenue requirement calculation based on his information.

68 **Q. Is the RTM proposed here the same mechanism the Company proposes in the**  
69 **concurrently filed application for approval of a resource decision for new wind**  
70 **resources and associated transmission?**

71 A. Yes. The Company proposes to use an RTM to track the costs and benefits associated  
72 with both wind repowering and the new wind and transmission resources discussed in  
73 the concurrently filed application. The Company proposes to separately track the costs  
74 and benefits of the two projects through different sections of the new tariff, in this case  
75 Schedule 97, which I provide in Exhibit RMP\_\_\_\_(JKL-5). The Company proposes  
76 slight differences in the treatment of the deferral balances, applying the surcharge cap  
77 to wind repowering only.

78 **REQUEST FOR APPROVAL OF RATEMAKING TREATMENT**

79 **Q. Under what authority is the Company proposing approval of the ratemaking**  
80 **treatment for the wind repowering project?**

81 A. The Company seeks approval to defer the cost and benefits of the wind repowering  
82 project under Utah Code Ann. § 54-4-23, with the net benefits to be passed through the  
83 proposed RTM. Utah Code Ann. § 54-17-402 authorizes the Commission to approve a  
84 utility’s proposed “resource decisions” outside of a general rate case. Utah Code Ann.  
85 § 54-17-403 authorizes cost recovery of the approved resource decision “in a general

86 rate case or other appropriate proceeding.” The Company proposes to use the annual  
87 RTM review, filed concurrently with the annual EBA review, as the proceeding  
88 referenced in Utah Code Ann. § 54-17-403 for cost recovery (or in this case, pass  
89 through of net benefit). This will address the proper ratemaking treatment to match the  
90 annual costs and benefits of the wind repowering project until the incremental costs  
91 and benefits are fully reflected in base rates, primarily including incremental capital  
92 and operating costs, and PTC benefits. Net power cost savings would currently be  
93 captured in the Company’s EBA, however, to the extent the EBA is modified or  
94 eliminated, the Company would use the RTM to pass back any incremental net power  
95 cost savings not captured in the EBA. This mechanism will align the costs and benefits  
96 so that customers receive the full net benefits from the repowering project while  
97 shareholders receive appropriate cost recovery of the prudent investment. Once the full  
98 costs are reflected in base rates in a general rate case, the Company proposes that the  
99 RTM continue to track only year-to-year changes in PTCs to capture the full impact of  
100 the new PTCs.

101 **Q. Why is it appropriate to provide the Commission and interested parties the**  
102 **opportunity to review and approve the ratemaking treatment for a resource**  
103 **decision before construction?**

104 A. The benefit of the RTM being approved now is that it sets the process for consistent  
105 and fair treatment between customers and shareholders with respect to the ratemaking  
106 impacts of the wind repowering project. As a general policy matter, the Company  
107 believes that it is prudent and in the public interest to have regulatory review of large  
108 investments before implementation and construction. Such review avoids the need to

109 address large investments in the context of a rate case along with the potential for  
110 disallowances of very large investments. For instance, in Docket No. 14-035-147, the  
111 Commission and interested parties reviewed and approved a stipulation for closure of  
112 the Deer Creek Mine, that was initially filed under the provisions of Utah Code Ann.  
113 § 54-17-402, in conjunction with the ratemaking treatment.

114 As the other Company witnesses have discussed, the wind repowering project  
115 has positive economic benefits for customers and is in the public interest due to the  
116 benefits of the incremental generation and PTCs. Without the proposed ratemaking  
117 treatment through the RTM, customers may not obtain the full benefits of the project,  
118 or a mismatch would occur between costs and benefits with customers receiving the  
119 immediate benefit of the incremental zero-cost energy production with no recognition  
120 of the capital costs, which would be borne by the shareholders. Currently, 100 percent  
121 of the benefits of incremental zero-cost generation from repowering would  
122 automatically flow through the EBA while the PTCs and costs associated with the  
123 investments would not be captured in rates and would flow to shareholders. Customers  
124 would be receiving benefits while shareholders would absorb a net cost. The deferral  
125 and RTM seeks to align the costs and benefits so that customers receive the full net  
126 benefits from the repowering project while shareholders receive appropriate cost  
127 recovery of the prudent investment. Moreover, the Company is proposing to implement  
128 the RTM concurrently with the EBA to match the timing for all costs and benefits in  
129 rates until reflected in base rates following a general rate case.

130 **RESOURCE TRACKING MECHANISM**

131 **Q. Please describe the mechanics of the RTM.**

132 A. Upon the completion of repowering at each wind resource, the Company will begin  
133 monthly deferrals of the associated costs and benefits in the RTM balancing account,  
134 which will operate on a calendar-year basis. On March 15 each year, the Company will  
135 file the RTM deferral balance from the prior calendar year, to be included in rates  
136 beginning May 1, on an interim basis. This schedule is aligned with the EBA, and the  
137 RTM review will continue on the same schedule as the EBA each year.

138 **Q. Why is it important to link the timing of the RTM with the EBA?**

139 A. Linking the RTM and the EBA helps match the increased production benefits of the  
140 repowered wind resources, which will flow through the EBA, with the costs of wind  
141 repowering. The RTM will minimize rate changes by using an annual filing date, as  
142 opposed to changing rates every time the Company completes repowering of a specific  
143 wind resource. Also, by filing the EBA and RTM concurrently, the Company can more  
144 readily combine the two mechanisms into a single line item on customer bills.

145 **Q. What costs and revenues will be incorporated in the RTM deferral?**

146 A. The deferral for each of the repowered wind resources will include the following  
147 revenue requirement components:

- 148 • Plant revenue requirement, consisting of:
  - 149 • Capital investment
  - 150 • ADR
  - 151 • Accumulated Deferred Income Tax (“ADIT”)
  - 152 • Operations and Maintenance Expense (“O&M”)



- 153 • Depreciation expense
- 154 • Property taxes
- 155 • Wyoming Wind Tax
- 156 • Net Power Cost (“NPC”) savings
- 157 • PTCs

158 These items are summarized in Exhibit RMP\_\_\_\_(JKL-1). The Company will calculate  
159 the RTM deferral as the difference between the value included in base rates for these  
160 items and the new value taking into account the costs and benefits of repowered wind  
161 facilities as they are placed into service.

162 **REVENUE REQUIREMENT COMPONENTS OF RTM**

163 **Q. Please describe how the RTM will track rate base components, which include the**  
164 **capital investment, ADR, and ADIT.**

165 A. After a repowered wind resource is placed into service, the Company will defer the full  
166 amount of the capital investment, ADR, and ADIT related to repowering in the RTM.  
167 Once the Company has included some or all of the repowered wind resources in base  
168 rates through a future general rate case, the amount in rates will become the “wind  
169 base” plant balance that would be subtracted from the capital investment in subsequent  
170 annual RTM filings. The Company will use the net plant balance described above to  
171 calculate a return on investment using the most recent Commission-approved cost of  
172 capital and income tax rate.

173 **Q. Please describe how the RTM will track depreciation expense.**

174 A. The Company will include depreciation expense in the RTM deferral as the actual  
175 monthly plant-in-service balances associated with wind repowering, less the repowered

176 wind base plant-in-service balance, multiplied by the current depreciation rates. Until  
177 a general rate case is filed, no depreciation expense associated with the repowered wind  
178 resources is reflected in base rates, so the full amount would be included in the RTM.

179 **Q. Please describe how actual depreciation expense will be calculated.**

180 A. The current depreciation rates will be applied to the gross electric plant-in-service  
181 (“EPIS”) balance, associated with wind repowering, to calculate the depreciation  
182 expense. As existing equipment is replaced by repowering, the Company will transfer  
183 the replaced assets from gross EPIS to the ADR, thereby reducing depreciation expense  
184 on the existing investment until the next depreciation study. At that time, the Company  
185 will review the net plant balance for wind resources and propose new depreciation rates  
186 to recover both the repowering investment and the remaining investment in the replaced  
187 equipment. Because the repowering investment is projected to be less than the  
188 remaining investment, the initial depreciation expense after wind repowering will  
189 temporarily decrease until the Company implements new depreciation rates from its  
190 next depreciation study. The RTM deferral will reflect this decrease in depreciation  
191 expense. I provide more details on the proposed ratemaking treatment for replaced  
192 equipment later in my testimony.

193 **Q. Please estimate the amount of the temporary decrease in depreciation expense.**

194 A. As of December 31, 2016, the Company had approximately \$2.0 billion gross  
195 investment in wind with approximately \$67 million of annual depreciation expense.  
196 Approximately \$1.2 billion of gross electric plant-in-service will be replaced as part of  
197 the wind repowering project and transferred to the ADR. Wind repowering will cost  
198 approximately \$1.1 billion, so gross plant will decrease from \$2.0 billion to \$1.9

199 billion, thereby reducing annual depreciation expense from approximately \$67 million  
200 to approximately \$64 million based on the current depreciation rates.

201 **Q. What happens to depreciation expense after the initial implementation of the wind**  
202 **repowering project?**

203 A. The reduced depreciation expense will continue until the rates from the next  
204 depreciation study are approved by the Commission and included in base rates. The  
205 depreciable lives and depreciation rates of all assets, including the Company's wind  
206 assets scheduled for repowering, will be reviewed as part of the next depreciation study  
207 to be filed with this Commission in the fall of 2018. As part of the depreciation study,  
208 the depreciation rates will be revised to recover the remaining wind plant balances,  
209 including the impacts of the debit balance in the ADR, over the life of the assets.

210 **Q. How will the RTM reflect incremental O&M expense?**

211 A. As repowered wind resources are placed into service, the Company will compare the  
212 actual O&M expense for each wind resource to the 2014-2017 historical four-year  
213 average of O&M expense by wind resource. The difference will be included in the RTM  
214 deferral.

215 **Q. Why did the Company select a four-year average of calendar years 2014-2017?**

216 A. A pre-repowering four-year historical average helps to smooth variations in O&M  
217 expense that can occur year to year. Also, because repowering may impact wind  
218 resources during 2018 and 2019, those years should be excluded for an accurate  
219 reflection of the average wind O&M before wind repowering.

220 **Q. How will the RTM reflect property taxes?**

221 A. The Company will calculate property taxes associated with the repowered wind

222 resources by taking the monthly average of the capital investment less ADR included  
223 in the RTM deferral multiplied by the average property tax rate from the Company's  
224 last general rate case.

225 **Q. How will the RTM reflect Wyoming wind taxes?**

226 A. The Company will calculate the Wyoming wind tax by taking the incremental  
227 generation associated with wind repowering multiplied by the Wyoming wind tax rate.

228 **NPC AND PTC BENEFITS IN THE RTM**

229 **Q. Please explain the calculation of the incremental NPC benefits in the RTM.**

230 A. Wind repowering will result in additional zero-fuel-cost energy, reducing total NPC.  
231 Under the current EBA, 100 percent of the incremental NPC benefits of the wind  
232 repowering project will be credited to customers, with zero percent assigned to the  
233 Company. Based on the Commission order in Docket No. 09-035-15, the current EBA  
234 pilot structure extends through December 31, 2019. If at the conclusion of the EBA  
235 pilot period, the EBA structure is modified such that less than 100 percent of the  
236 incremental NPC benefits is credited to customers through the EBA, the Company  
237 proposes to capture any of the incremental NPC benefits in the RTM that are not  
238 credited to customers through the EBA, so that customers continue to receive 100  
239 percent of the net benefits of the wind repowering project until the costs and benefits  
240 of the wind repowering project are fully reflected in rates.

241 In order to credit customers with 100 percent of incremental NPC benefits the  
242 Company would calculate the incremental NPC benefit in the RTM as the increased  
243 generation achieved by repowering, applied to the total wind generation to derive the

244 incremental energy on a per-plant basis. The calculation is described in Exhibit  
245 RMP\_\_\_(JKL-4).

246 The Company would then value the incremental energy using a monthly market  
247 price less wind integration costs, and the RTM will pass the appropriate percentage of  
248 that value through to customers.

249 **Q. What market price would the Company use to value the incremental energy?**

250 A. The market price used in the calculation would be dependent on the physical location  
251 of the wind resource and the time of the generation. If the wind resource is located on  
252 the west side of the Company's system, the monthly Mid-Columbia heavy load hour  
253 ("HLH") and light load hour ("LLH") market price would be used. If the wind resource  
254 is located on the east side of the Company's system, the monthly Four Corners HLH  
255 and LLH market price would be used. Additionally, the market price would be reduced  
256 by the wind integration costs from the most recent integration study, which currently is  
257 from the Company's 2017 Integrated Resource Plan.

258 **Q. Please explain the calculation of the PTCs that will be included in the RTM.**

259 A. Currently, the IRS rate for PTCs is \$24 per megawatt-hour, and PTCs are generally  
260 applicable for a period of 10 years after a wind resource is operational. The PTC rate  
261 is applied to the actual megawatt-hours of generation from the eligible wind turbine  
262 resources. This produces a tax credit that can be used to offset a company's income tax  
263 expense under IRS guidelines. To derive the revenue requirement value of the tax  
264 credit, the PTC value must be grossed-up by the Company's tax gross-up rate. The  
265 Company will use the tax gross-up rate from its most recent general rate case to

266 calculate the value of the PTCs from wind repowering. The RTM will reflect the value  
267 for the grossed-up PTCs.

268 **Q. Why should the RTM track the benefits of the PTCs on an ongoing basis?**

269 A. The amount of PTCs received is entirely dependent on the amount of the generation at  
270 eligible facilities. The generation is highly dependent on weather, varying from year-  
271 to-year as weather patterns fluctuate. Accordingly, because the PTCs are significant  
272 and actual output is beyond the control of the Company, the Company proposes to use  
273 the RTM to track and true-up PTCs on an ongoing basis.

274 **Q. Do the base rates that are currently in place include PTCs for the existing  
275 resources?**

276 A. Yes. These resources qualified for PTCs when they initially began commercial  
277 operation. A value based on the generation from these projects during the test period is  
278 currently included in base rates. The Company is not proposing to remove this value  
279 from base rates through this mechanism. The RTM is intended to track the PTCs  
280 associated with repowered wind resources only.

281 **Q. How will the Company treat wind repowering costs incurred before the in-service  
282 dates of the repowered resources?**

283 A. As described in the testimony and exhibits of Mr. Hemstreet and Mr. Link, the  
284 Company will incur minor repowering costs before the in-service dates of the  
285 repowered wind resources. These costs were included in the Company's economic  
286 analysis. Most of the costs are due to reduced generation from the facilities before and  
287 during repowering, and the associated loss of PTCs. These costs will be included in the  
288 EBA. Because these costs are part of the overall project, which will benefit customers,

289 it is appropriate that customers pay for them. The impact from the current PTCs ending  
290 will be borne entirely by the Company because the benefits are currently built into  
291 rates.

292 **RTM CALCULATION AND STRUCTURE**

293 **Q. Have you prepared an exhibit that illustrates the calculation and structure of the**  
294 **RTM on a year-by-year basis?**

295 A. Yes. Exhibit RMP\_\_\_\_(JKL-2) provides an illustrative example of the calculation of the  
296 RTM on an annual basis. The annual amounts will be the sum of the monthly amounts  
297 shown in Exhibit RMP\_\_\_\_(JKL-3), and the individual lines are described as part of that  
298 exhibit.

299 **Q. Please explain Exhibit RMP\_\_\_\_(JKL-3).**

300 A. Exhibit RMP\_\_\_\_(JKL-3) is an example of the RTM's monthly calculation. The RTM  
301 deferral will be adjusted after a general rate case to exclude amounts that are recovered  
302 as part of base rates in the rate case to assure against double-recovery. For items  
303 partially recovered in base rates, such as capital investments included for part of the  
304 test period, the portion included in the test period will be removed as of the effective  
305 date of the general rate case. Page 5 of Exhibit RMP\_\_\_\_(JKL-3) includes an overview  
306 of the total plant revenue requirement, net power cost, and PTC sections.

307 Once per year on a calendar-year basis, the Company will sum the monthly  
308 RTM revenue requirement entries to prepare the annual RTM application for filing with  
309 the Commission on March 15, with an interim rate effective date that corresponds with  
310 the EBA application (May 1). The Company is proposing to cap the RTM until the next

311 general rate case so that, after taking into account the wind repowering benefits that  
312 will flow through the Company's EBA, it will not operate to surcharge customers.

313 **Q. How will the costs and benefits associated with the wind repowering project be**  
314 **allocated to Utah customers?**

315 A. The Company will use Utah's applicable inter-jurisdictional allocation factors to  
316 allocate total-company revenue requirement to Utah based on the current Commission-  
317 approved allocation methodology. Because the allocation factors are dynamic and  
318 change with variations in jurisdictional loads, the Company is proposing that the  
319 allocation factors used in the RTM match the allocation factors used in the calculation  
320 of the EBA.

321 **Q. How will the Company calculate rates to credit or recover RTM balances?**

322 A. The Company will file a separate rate to credit or recover the net amount in the RTM  
323 deferral. The Company proposes to use the same class allocation and rate design as  
324 used for the annual EBA filing. For billing purposes, the EBA and RTM rates could be  
325 consolidated on the customer bill.

326 **Q. Has the Company prepared a tariff for the RTM?**

327 A. Yes. The Company has prepared a tariff for implementation of the RTM. The tariff is  
328 identified as Schedule 97A, Resource Tracking Mechanism - Wind Repowering, and is  
329 included in my testimony as Exhibit RMP\_\_\_(JKL-5).

330 **Q. What procedures do you envision for an application to adjust the RTM?**

331 A. The Company expects that the Commission will docket and notice an RTM application  
332 similar to other tariff filings. The Commission staff and intervening parties will have  
333 an opportunity to examine the application and submit data requests. The Company will



334 work with the parties, which could result in a consensus recommendation that will be  
335 presented to the Commission, or the matter could be scheduled for hearing if there are  
336 contested issues. The important aspect of the proposed RTM schedule is that it be  
337 processed concurrently with the EBA to preserve the matching principle for costs and  
338 benefits.

339 **Q. Would stakeholders be able to challenge the general prudence of wind repowering**  
340 **when the Company files to change rates under the RTM?**

341 A. No. The Company is seeking approval in this filing that the decision to repower most  
342 of the Company's wind facilities is reasonable, prudent, and in the public interest. If  
343 the Commission makes this finding in this proceeding, review of the specific costs  
344 included in the RTM would be subject to Utah Code Ann. § 54-17-403, which provides  
345 that retail rates may include the state's share of the costs of the approved resource  
346 decision up to the projected costs in this Application. Any increase from the projected  
347 costs would be subject to review by the Commission under Utah Code Ann. § 54-7-12.  
348 The Commission may only disallow some or all costs if the Commission finds the  
349 Company's actions in implementing the approved resource decision were not prudent  
350 because of new information or changed circumstances, or if the Company was  
351 responsible for material misrepresentation or concealment in connection with the  
352 resource approval process.

### 353 **ACCOUNTING TREATMENT FOR REPLACED EQUIPMENT**

354 **Q. Please explain the Company's proposed accounting treatment for equipment**  
355 **replaced by wind repowering.**

356 A. As existing wind generation equipment is replaced during the repowering process, the

357 Company will follow accounting treatment consistent with FERC regulations and  
358 allowed by generally accepted accounting principles. The original investment will be  
359 transferred from FERC account 101, EPIS, to Account 108, ADR, by crediting EPIS  
360 and debiting the ADR. This entry will not change the Company's net plant balance, but  
361 it will shift the ADR from a negative to a positive balance. The remaining original  
362 investment plus new capital additions will be depreciated using current depreciation  
363 rates until the Company's next depreciation study.

364 **Q. Is the Company requesting continued cost recovery of plant balances associated**  
365 **with equipment replaced in the wind repowering project?**

366 A. Yes. The existing net plant is currently in rates and should remain in rates. The  
367 Company's decision to pursue the wind repowering project is dependent on the  
368 Company continuing to recover its current investment in its wind facilities. The  
369 equipment replacement does not change the net book balance of the existing assets  
370 pre-repowering, and the incremental investment to repower these wind resources will  
371 be recovered through the RTM until the costs are captured through the general rate case  
372 process.

373 **Q. How would the Company treat any salvage value of the replaced equipment?**

374 A. The Company would treat the salvage value of the equipment under the same  
375 accounting guidelines. To the extent that any salvage value is obtained from the  
376 equipment, then the value would be credited to the ADR, reducing the net plant balance.

377 **INTER-JURISDICTIONAL COST ALLOCATION**

378 **Q. How will the Company allocate the investment in the wind repowering project to**  
379 **the state jurisdictions PacifiCorp serves?**

380 A. Currently, the Company’s investment in wind generation facilities is treated as a system  
381 resource under the approved 2017 Protocol Allocation Agreement. That approved  
382 methodology will continue for ratemaking purposes through 2019. The same treatment  
383 will apply to new investments that occur in that period. After that time period, the then-  
384 applicable allocation methodology approved by the Commission would govern.

385 The Company’s analysis demonstrates that the wind repowering project  
386 delivers net system benefits, and the Company believes that the repowered wind  
387 facilities should continue to be allocated across the six-state service territory on a  
388 system basis unless there is an agreement through the Multi-State Process to do  
389 otherwise.

390 **CONCLUSION**

391 **Q. Please summarize your testimony.**

392 A. The wind repowering project presents an excellent opportunity to provide customers  
393 with additional zero-fuel-cost wind energy for an extended period of time. To match  
394 investment and operational costs with the benefits of the repowered wind resources  
395 until the costs and benefits are fully included in base rates through a general rate case,  
396 the Company proposes to defer all costs and benefits and to implement the RTM. The  
397 matching of the costs and benefits through the RTM is fair to customers and  
398 shareholders.

399                    Additionally, allowing the Company to assign replaced equipment to the ADR  
400                    from plant-in-service and continue rate recovery of the plant balances over the useful  
401                    life of the repowered wind investment life is just and reasonable and allows the  
402                    Company to pursue the wind repowering project.

403    **Q.    What is your recommendation to the Commission?**

404    A.    I recommend that the Commission approve the wind repowering project and the  
405           Company's proposals for ratemaking treatment, and for the continued recovery of the  
406           replaced equipment. Approval will provide certainty to the Company and enable it to  
407           move forward with the wind repowering project.

408    **Q.    Does this conclude your direct testimony?**

409    A.    Yes.