Rocky Mountain Power
Docket No. 17-035-40
Witness: Jeffrey K. Larsen

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Direct Testimony of Jeffrey K. Larsen

June 2017

INTRODUCTION AND SUMMARY

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

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

Q. Please describe your education and professional background.

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

Q. Have you provided testimony in previous regulatory proceedings?

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

Q. What is the purpose of your testimony?

A. I explain the Company's requested ratemaking treatment for 860 MW of new wind facilities in eastern Wyoming ("Wind Projects") and for the 140-mile, 500 kilovolt ("kV") Aeolus-to-Bridger/Anticline transmission line and accompanying transmission facilities (collectively, "Transmission Projects") for which the Company is seeking approval in this Application. Specifically, I describe how the Company proposes to match the costs and benefits of the Wind Projects and Transmission Projects ("Combined Projects") by deferring the costs and benefits that do not go through the Energy Balancing Account ("EBA") and passing back the net benefits through the proposed Resource Tracking Mechanism ("RTM").

Q. Please summarize the Company's proposed ratemaking treatment for the Combined Projects.

A. The Company requests approval of its decision to act on an opportunity to implement cost-effective generation and transmission facilities while minimizing the impact on customer rates. The Combined Projects are time-limited opportunities and inextricably linked—the Transmission Projects relieve existing congestion in eastern Wyoming, and the Wind Projects will rely on the new Transmission Projects for interconnection and allow the Company to realize the benefits of production tax credits ("PTCs") and zero-fuel-cost energy.

The proposed RTM is designed to capture customer benefits resulting from the Combined Projects, and match those benefits with the costs of the Projects until the costs and benefits are fully included in base rates through a general rate case. Once the full costs and benefits are included in base rates, recovery of those elements would cease through the RTM, with the exception of PTCs. After the next general rate case, the Company proposes to use the RTM to track the actual change in PTCs from the base level included in rates. Because PTCs are entirely dependent on the variable output of the Wind Projects and difficult to precisely forecast, tracking PTCs through the RTM ensures that customers receive their full value and shareholders are treated fairly.

Under the RTM, the Company would begin deferring the costs and benefits associated with each new facility in the month it goes into service.

Q. As the Combined Projects come into service, what are the annual, estimated deferral balances that would flow through the RTM?

A. As described more fully later in my testimony and exhibits, the Company is projecting the initial annual revenue requirement impact for the years 2020 to 2023 to be in the range of ($6.8) million to $38.0 million in Utah, as shown in Table 1 of Exhibit RMP___(JKL-2). The Company will capture the impacts of the Combined Projects through the RTM until they are included in base rates.

Q. What are the differences between your calculation of revenue requirement impacts in Table 1 and Company witness Mr. Rick T. Link's analysis of revenue requirement savings from the Combined Projects?

A. Mr. Link conducted a revenue requirement differential analysis, and my analysis is a revenue requirement calculation based on his information. As such, my analysis shows the annual, near-term revenue requirement impacts of the large capital investments, while Mr. Link's economic analysis estimates the *change* in nominal revenue requirement, accounting for system costs that would have otherwise been incurred if the Combined Projects were not pursued. Mr. Link also calculates the present-value change in nominal revenue requirement due to the Combined Projects, which shows net customer benefits over time. In other words, Mr. Link's testimony demonstrates that over time customer rates will be lower with the Combined Projects than without.

Q. What is the potential rate impact to customers of the Combined Projects?

A. In the first full year of operation (2021), the rate impact to customers is less than 1.9 percent. While this percentage change reflects the year-one impact to customers, it does not fully reflect the value of the Combined Projects due to costs avoided over time. Table 3 of Mr. Link's testimony shows the present value savings calculated through 2050 to be $137 million. This demonstrates that although there is an initial increase in cost, the lifetime savings of the Combined Projects are significant.

Q. Is the RTM proposed here the same mechanism the Company proposes in the concurrently filed application for an order approving ratemaking treatment for the wind repowering project?

A. Yes. The Company proposes to use an RTM to track the costs and benefits associated with both the Combined Projects and the wind repowering project addressed in the Company's concurrent filing. The Company proposes to separately track the costs and benefits of the two projects through different sections of the new tariff, in this case Schedule 97B, which I provide in Exhibit RMP___(JKL-5). The Company proposes slight differences in the treatment of the deferral balances, applying the surcharge cap to the wind repowering project only.

REQUEST FOR APPROVAL OF RATEMAKING TREATMENT

Q. Under what authority is the Company proposing approval of the ratemaking treatment for the Combined Projects?

A. The Company seeks approval to defer the cost and benefits of the Combined Projects under Utah Code Ann. § 54-4-23, with the net deferral to be passed through the proposed RTM. Utah Code Ann. § 54-17-402 authorizes the Commission to approve a utility's proposed "resource decisions" outside of a general rate case. Utah Code Ann. § 54-17-403 authorizes cost recovery of the approved resource decision "in a general rate case or other appropriate proceeding." The Company proposes to use the annual RTM review, filed concurrently with the annual EBA review, as the proceeding referenced in Utah Code Ann. § 54-17-403 for cost recovery. This will address the proper ratemaking treatment to match the annual costs and benefits of the Combined Projects until the costs and benefits are fully reflected in base rates, primarily including capital and operating costs, net power costs ("NPC") and PTC benefits. NPC savings would be captured in the Company's EBA under its current structure, however, as I describe later in my testimony, to the extent the EBA is modified or eliminated the Company would use the RTM to pass back any net power cost savings not captured in the EBA. Once the full costs are reflected in base rates in a general rate case, the Company proposes that the RTM continue to track only year-to-year changes in PTCs to capture the full impact of the new PTCs.

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

A. The benefit of the RTM being approved now is that it sets the process for consistent and fair treatment between customers and shareholders with respect to the rate-making impacts of the Combined Projects. As a general policy matter, the Company believes that it is prudent and in the public interest to have regulatory review of large investments prior to implementation and construction. Such review avoids the need to address large investments in the context of a rate case along with the potential for disallowances of very large investments. For instance, in Docket No. 14-035-147, the Commission and interested parties reviewed and approved a stipulation for closure of the Deer Creek Mine, that was initially filed under the provisions of Utah Code Ann. § 54-17-402, in conjunction with the ratemaking treatment.

As the other Company witnesses have discussed, the Combined Projects have positive economic benefits for customers and are in the public interest due to the benefits of the zero-fuel-cost energy and PTCs. Absent the proposed ratemaking treatment through the RTM, customers may not obtain the full benefits of the project, or a mismatch would occur between costs and benefits with customers receiving the immediate benefit of the zero-fuel-cost energy production and additional wheeling revenue through the EBA with no recognition of the capital and operations costs, which would be borne by the shareholders. Customers would be receiving benefits while shareholders would absorb a net cost. Moreover, the Company is proposing to implement the RTM concurrently with the EBA in order to match the timing for all costs and benefits in rates until they can be reflected in base rates through a general rate case.

RESOURCE TRACKING MECHANISM

Q. Please describe the mechanics of the RTM.

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

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

A. Linking the RTM and the EBA helps match the production benefits of the Wind Projects and wheeling revenues associated with the Transmission Projects, which will flow through the EBA, with the costs of the Combined Projects. Also, by filing the EBA and RTM concurrently, the Company can more readily combine the two mechanisms into a single line item on customer bills.

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

A. The deferral for the Combined Projects will include the following revenue requirement components:

- Plant revenue requirement, consisting of:
    - Capital investment
    - Accumulation Depreciation Reserve ("ADR")
    - Accumulated Deferred Income Tax ("ADIT")
    - Operations and Maintenance Expense ("O&M")
    - Depreciation expense
    - Property taxes
    - Wyoming Wind Tax
- NPC savings
- Wheeling revenues
- PTCs.

These items are summarized in Exhibit RMP___(JKL-1). The Company will calculate the RTM deferral as the difference between the value included in base rates for these items and the new value taking into account the costs and benefits of the Combined Projects as they are placed into service.

REVENUE REQUIREMENT COMPONENTS OF RTM

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

A. After each wind and transmission facility under construction is placed into service, the Company will defer the full amount of the capital investment, ADR, and ADIT related to that facility in the RTM. Once the Company has included some or all of the Combined Projects in base rates through a future general rate case, the amount in rates will become the base plant balances that will be subtracted from the capital investment in subsequent annual RTM filings. The Company will use the net plant balance described above to calculate a return on investment using the most recent Commission-approved cost of capital and income tax rate.

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

A. The Company will include depreciation expense in the RTM deferral as the actual monthly plant-in-service balances associated with the Combined Projects, less the wind and transmission base plant-in-service balance, multiplied by the current depreciation rates. Until a general rate case is filed, no depreciation expense associated with the Combined Projects is reflected in base rates, so the full amount would be included in the RTM.

Q. How will the depreciation expense be calculated?

A. The current depreciation rates will be applied to the gross electric plant-in-service

("EPIS") balance, associated with the Combined Projects, to calculate the depreciation expense.

Q. How will the RTM reflect revenues from third-party transmission customers?

A. Since the Transmission Projects will be included in the Company's Open Access Transmission Tariff ("OATT"), part of the costs will be recovered from third-party transmission customers, which is treated as a revenue credit to retail customers. Exhibit RMP___(JKL-2) and Exhibit RMP___(JKL-3) assume that 12 percent of the transmission revenue requirement will be paid by third-party transmission customers and is included as an offset in the RTM. This percentage will be updated using the most current information at the time of each RTM filing. In Utah, wheeling revenues are trued-up through the EBA, so the impact would be zero in the RTM under the current structure of the EBA.

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

A. As facilities that are part of the Combined Projects are placed into service, the Company will include the actual O&M expense associated with the facilities in the RTM deferral.

Q. How will the RTM reflect property taxes?

A. The Company will calculate property taxes associated with the Combined Projects by taking the monthly average of the capital investment less ADR included in the RTM deferral, multiplied by the average property tax rate from the Company's last general rate case.

Q. How will the RTM reflect Wyoming wind taxes?

A. The Company will calculate the Wyoming wind tax be taking generation associated with the Wind Projects that are subject to the Wyoming wind tax multiplied by the

Wyoming wind tax rate.

NET POWER COST AND PTC BENEFITS IN THE RTM

Q. Please explain the calculation of the NPC benefits in the RTM.

A. The Combined Projects will add significant zero-fuel-cost energy to the system, reducing total NPC. Under the current EBA, 100 percent of the NPC benefits of the Wind Projects will be credited to customers, with zero percent assigned to the Company. Based on the Commission order in Docket No. 09-035-15, the current EBA pilot structure extends through December 31, 2019. If at the conclusion of the EBA pilot period, the EBA structure is modified such that less than 100 percent of the incremental NPC benefits is credited to customers through the EBA, the Company proposes to capture any of the incremental NPC benefits in the RTM that are not credited to customers through the EBA, allowing customers to continue to receive 100 percent of the net benefits of the Wind Projects until the costs and benefits of the Wind Projects are fully reflected in rates.

If it is necessary in that situation, the Company will calculate the NPC benefit in the RTM based on the increased generation achieved from the Wind Project. The Company will value the incremental energy using a monthly market price less wind integration costs. The calculation is described in Exhibit RMP__(JKL-4).

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

A. The monthly Four Corners heavy load hour ("HLH") and light load hour ("LLH") market price would be used, depending on the time of generation. Additionally, the market price would be reduced by the wind integration costs from the most recent integration study, which currently is from the Company's 2017 Integrated Resource

Plan.

Q. How will incremental wheeling revenues associated with the Transmission Projects be treated?

A. Wheeling revenues are included in the EBA and the true-up of wheeling revenues will generally occur through that mechanism. If there are any incremental third-party wheeling revenue benefits from the Transmission Projects not included in base rates or the EBA in the future, they will be added to the RTM.

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

A. Currently, the Internal Revenue Service ("IRS") rate for PTCs is $24 per megawatt-hour and PTCs are generally applicable for a period of 10 years after a wind resource is operational. The PTC rate is applied to the actual megawatt-hours of generation from the eligible wind turbine resources. This produces a tax credit that can be used to offset a company's income tax expense under IRS guidelines. To derive the revenue requirement value of the tax credit, the PTC value must be grossed-up by the Company's tax gross-up rate. The Company will use the tax gross-up rate from its most recent general rate case to calculate the value of the PTCs from the Wind Projects. The RTM will reflect the value for the grossed-up PTCs.

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

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

RTM CALCULATION AND STRUCTURE

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

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

Q. Please explain Exhibit RMP__(JKL-3).

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

Once per year on a calendar-year basis, the Company will sum the monthly RTM revenue requirement entries to prepare the annual RTM application for filing with the Commission on March 15, with an interim rate effective date that corresponds with the EBA interim rate effective date of May 1.

Q. How will the costs and benefits associated with the Combined Projects be allocated to Utah customers?

A. The Company will use Utah's applicable inter-jurisdictional allocation factors to allocate total-company revenue requirements to Utah based on the current

Commission-approved allocation methodology. Because the allocation factors are dynamic and change with variations in jurisdictional loads, the Company is proposing that the allocation factors used in the RTM match the allocation factors used in the calculation of the EBA.

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

A. The Company will file a separate rate to credit or recover the net amount in the RTM deferral. The Company is proposing that the allocation factors used in the RTM match the allocation factors used in the calculation of the EBA. Also, the Company proposes to use the same class allocation and rate design as used for the annual EBA filing. For billing purposes, the EBA and RTM rates could be consolidated on the customer bill.

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

A. Yes. The Company has prepared a tariff for implementation of the RTM. The tariff is identified as Schedule 97B, and is included in my testimony as Exhibit RMP__(JKL-5).

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

A. The Company expects that the Commission will docket and notice an RTM application similar to other tariff filings. The Commission staff and intervening parties will have an opportunity to examine the application and submit data requests. The Company will work with the parties, which could result in a consensus recommendation that will be presented to the Commission, or the matter could be scheduled for hearing if there are contested issues. The important aspect of the proposed RTM schedule is that it be processed concurrently with the EBA to preserve the matching principle for costs and benefits.

Q. Would stakeholders be able to challenge the general prudence of the Combined Projects when the Company files to change rates under the RTM?

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

INTER-JURISDICTIONAL COST ALLOCATION

Q. How will the Company allocate the investment in the Combined Projects to the state jurisdictions PacifiCorp serves?

A. Currently, the Company's investments in wind generation and transmissions facilities are treated as system resources under the approved 2017 Protocol Allocation Agreement. That approved methodology will continue for ratemaking purposes through 2019. The same treatment will apply to new investments that occur in that period. After that time period, the then-applicable allocation methodology approved by the Commission would govern.

The Company's analysis demonstrates that the Combined Projects deliver net system benefits, and the Company believes that the Combined Projects should continue to be allocated across the six-state service territory on a system basis unless there is an agreement through the Multi-State Process to do otherwise.

CONCLUSION

Q. Please summarize your testimony.

A. To match the investments and operational costs with the benefits of the Combined Projects until the costs and benefits are fully included in base rates through a general rate case, the Company proposes to defer all costs and benefits and to implement the RTM. Matching the costs and benefits through the RTM is fair to customers and shareholders.

Q. What is your recommendation to the Commission?

A. I recommend that the Commission approve the Combined Projects and the Company's proposals for ratemaking treatment for the Combined Projects. Approval will provide certainty to the Company and enable it to move forward with the Combined Projects.

Q. Does this conclude your direct testimony?

A. Yes.