Docket No. 20000-519-EA-17
Witness: Joelle R. Steward

BEFORE THE WYOMING PUBLIC SERVICE COMMISSION

ROCKY MOUNTAIN POWER

Rebuttal Testimony of Joelle R. Steward

November 2017

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

A. My name is Joelle R. Steward. My business address is 1407 West North Temple, Suite 330, Salt Lake City, Utah 84116. My title is Vice President of Regulation for Rocky Mountain Power.

QUALIFICATIONS

Q. Please describe your education and professional background.

A. I have a Bachelor of Arts degree in Political Science from the University of Oregon and a Masters of Public Affairs from the Hubert Humphrey Institute of Public Policy at the University of Minnesota. Between 1999 and March 2007, I was employed as a Regulatory Analyst with the Washington Utilities and Transportation Commission. I joined the Company in March 2007 as the Regulatory Manager responsible for all regulatory filings and proceedings in Oregon. From February 2012 through May 2016, I directed the work of the cost of service, pricing, and regulatory operations groups for the Company. In 2016, I became the Director of Rates and Regulatory Affairs. In November 2017, I assumed my current position as Vice President of Regulation for Rocky Mountain Power.

Q. Have you testified in previous regulatory proceedings?

A. Yes. I have filed testimony in proceedings before the public utility commissions in Idaho, Oregon, Utah, Wyoming, and Washington.

Q. Are you adopting the direct testimony of Mr. Jeffrey K. Larsen in this case?

A. Yes.

PURPOSE AND SUMMARY OF REBUTTAL TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. In support of the Company's application asking the Wyoming 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 direct testimonies of the Office of Consumer Advocate ("OCA") witness Ms. Denise K. Parrish, and Wyoming Industrial Energy Consumers ("WIEC") witness Mr. Kevin C. Higgins. I also update several revenue requirement exhibits from the Company's direct testimony to reflect the updated economic analysis prepared by Company witness Mr. Rick T. Link.

Q. What are the key issues you address in your rebuttal testimony?

A. I address the following key issues:

- Why full recovery of the Company's costs of repowering, including undepreciated investment in replaced equipment and a return on investment, is reasonable given the benefits of the repowering project;
- The advantages of the Company's proposed Resource Tracking Mechanism ("RTM") for customers, and the reasonableness of its design; and
- An update to the projected revenue requirement benefits from the wind repowering project, showing a net customer benefit in each of the first four years, with net benefits of up to $5.0 million by 2022.

Q. Please summarize your testimony.

A. The Company's application for approval of its non-traditional ratemaking proposal is reasonable and in the public interest. The Company requests that the Commission: (a) determine that the Company's decision to upgrade or "repower" existing wind resources is prudent; (b) approve the Company's continued recovery of the replaced wind plant equipment; and (c) approve the RTM. The Company has carefully developed and refined the wind repowering project. The Company has forecast costs and benefits of the project and addressed the manner in which project risks have been eliminated or mitigated. Additionally, the Company's current financial commitment to the wind repowering project remains limited.

The Company will provide all benefits of the wind repowering project to customers. The only "benefit" to the Company is the opportunity to recover its reasonable and prudent costs, like any other resource investment. Unlike most resource investments, however, repowering will result in rate reductions to customers net of the Company's costs, which include undepreciated investment in replaced equipment and a return on the investment. Based on the Company's updated economic analysis, the Company now estimates a Wyoming customer net benefit in each year between 2019-2022, with net benefits of up to $5.0 million by 2022.[1]

The RTM is carefully designed to deliver repowering benefits to customers in a prompt and straightforward manner. The individual components of the RTM are reasonable, and it is a better tool for tracking the costs and benefits of repowering than traditional ratemaking or an accounting order.

[1] See Exhibit RMP___(JRS-2R), line 25 for Wyoming's allocated share of 2022 Net Customer Benefits of $5.0 million.

CUSTOMER BENEFITS OF REPOWERING JUSTIFY FULL COST RECOVERY

Q. Mr. Higgins recommends several conditions that he believes the Commission should apply if it approves the repowering project. (Higgins Direct, page 5, line 6 to page 6, line 11.) Please describe Mr. Higgins' conditions.

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, 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 Direct, page 5, lines 8-12.) 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 Direct, page 5, lines 13-15.)

Q. Are Mr. Higgins' proposed conditions reasonable?

A. No. In any forecast of the future, it is unlikely that all assumptions will be completely accurate, especially when looking 30 years into the future. Some assumptions will be low and some will be high. Because of these variances, the Company's modeling includes a range of assumptions that can be used to assess the impact if a particular variable differs from the baseline. The Company's application requests Commission review to verify the reasonableness of the Company's assumptions and determine that customers will benefit as a result of repowering. If approved, the Company should recover its full cost of service related to the project because it delivers substantial benefits to customers.

Moreover, as described in the testimony of Company witness Mr. Timothy J. Hemstreet, the Company has largely mitigated the risks 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. Does Mr. Higgins propose an additional condition?

A. Yes. Mr. Higgins 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 equipment being replaced by repowering. (Higgins Direct, page 5, line 22 to page 6, line 35.)

Q. Is this proposed condition reasonable?

A. No. If the Commission determines that the wind repowering project provides customer benefit including the amortization of the existing plant, there is no justification to provide different recovery than any other prudent investment.

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. Has the Commission previously addressed the replacement of existing assets with lower cost alternatives?

A. Yes. The Commission has allowed cost recovery for the Powerdale facility,[2] the Deer Creek Mine,[3] and the Carbon coal-fired power plant.[4] In all three cases, the Commission determined that early retirement of these facilities was in the best interest of customers, *i.e.*, retirement provided net savings to customers as compared to continued operation.

Q. Did the Commission penalize the Company in any of these transactions by ordering a lower rate of return on the undepreciated investment?

A. No. In each case, the Commission decided the transaction was a net benefit to customers and allowed the Company its full return on the retired plant. Although there were customer risks associated with the resource decision made in each case, the Commission allowed full recovery.

Q. What do you conclude from these cases?

A. Consistent with this precedent, if the Commission determines that repowering provides customer benefits, based on what is known today, then it should allow full recovery of the costs associated with the replaced equipment.

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[2] *In the Matter of the Application of Rocky Mountain Power for Approval of an Accounting Order for Costs Related to the Flooding of the Powerdale Hydro Facility*, Docket No. 20000-268-EA-07, Record No. 11103, Order (Nov. 8, 2007).

[3] *In the Matter of the Application of Rocky Mountain Power for Approval of the Transaction for Closure of Deer Creek Mine and a Deferred Accounting Order*, Docket No. 20000-464-EA-14, Record No. 14041, Order (May 15, 2015).

[4] *In the Matter of Rocky Mountain Power's Application for an Order Authorizing a Change in Depreciation Rates Applicable to Its Depreciable Electric Property*, Docket No. 20000-427-EA-13, Record No. 13436, Order Approving Stipulation ¶ 32, 70 (Dec. 2, 2013); *In the Matter of the Application of Rocky Mountain Power For Approval of a General Rate Increase in Its Retail Electric Utility Service Rates in Wyoming of $36.1 Million Per Year or 5.3 Percent*, Docket No. 20000-446-ER-14, Record No. 13816, Findings of Fact, Conclusions of Law, Decision and Order Nunc Pro Tunc (Issued January 23, 2015).

Q. Mr. Higgins claims that his condition limiting the return on the replaced equipment is necessary to increase customer benefits and decrease Company benefits. (Higgins Direct, page 35, lines 14-16.) 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. A utility is made whole by recovering its prudent costs of providing service, and "a capital-attracting rate of profit is here considered a part of the necessary cost of service."[5] 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.

Q. Why is Mr. Higgins' proposal unreasonable in this case?

A. The Company has demonstrated it can deliver additional generation to customers at a lower cost than the alternatives, resulting in a net benefit to customers. The customer benefits assume that shareholders recover the full cost of the repowering investment, including capital costs. Moreover, in the near term, the Company will recover its full costs under the proposed RTM to the extent that there are net benefits. After the next rate case, the costs and benefits of repowering will be included in the Company's full revenue requirement. There is no guarantee that the Company will recover its full cost

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[5] James C. Bonbright, Albert L. Danielsen, & David R. Kamerschen, *Principles of Public Utility Rates*, 112 (2d ed. Public Utilities Reports 1988).

of service related to the repowering investment. The Company must prudently manage its costs to achieve the full return allowed by the Commission.

RESOURCE TRACKING MECHANISM

Q. Ms. Parrish recommends that the Commission reject the proposed RTM, in part, because it provides greater assurance of recovery, thereby allowing the Company to avoid risk, without any reflection of that risk avoidance in rates. (Parrish Direct, page 11, lines 17-20.) Do you agree?

A. No. Unlike more conventional rate riders, the RTM appropriately recognizes the risks associated with the repowering project and is therefore designed as a short-term recovery mechanism that passes through all benefits to customers. As shown in my Exhibit RMP___(JRS-2R), if the repowering project results in any net cost increases until the next rate case, the Company will absorb those costs. Thus, the RTM can only benefit customers, while potentially imposing unrecoverable costs on the Company.

Q. Ms. Parrish testifies that "rate riders with 100% recovery mechanisms also tend to diminish incentives that may exist to control costs." (Parish Direct, page 11, lines 20-21.) Does this criticism apply to the RTM?

A. No. The RTM will be capped, which will provide a strong incentive for the Company to control costs because failure to do so risks an effective disallowance. Second, the Company agrees that the full costs of the repowering project should be subject to review before they appear in rates, to verify that the Company prudently managed project implementation.

Q. Why is the RTM necessary?

A. As I stated above, the RTM is designed to match all costs and benefits over a short period of time. It is necessary, in part, because the repowering project will be built in phases over a multi-year period; therefore, a single rate case to capture all project costs is not feasible. The RTM will allow costs to be tracked and benefits provided to customers until the next rate case, while also allowing the Company to include the project in base rates in one rate case filing.

Q. Ms. Parrish insists that the RTM will be "complicated - not in concept but in terms of practical application." (Parrish Direct, page 11 lines 22-23.) Do you agree?

A. No, I do not agree that the RTM is overly complex, especially in light of its customer benefits. While the RTM is not a simple deferral, the Commission has previously approved and managed similar tracking mechanisms without significant challenges.

Q. Ms. Parrish has determined that if the cost of the retired assets are addressed separately through the creation of a regulatory asset, the remaining cost of repowering can be adequately covered through existing rates for a short period until the actual costs are incorporated into rates at the time of the next general rate case. (Parrish Direct, page 11, line 25 to page 15, line 30.) Do you agree?

A. It depends on how costs and benefits are matched in the interim period. For example, it would not be reasonable to allow repowering energy benefits to flow to customers through the Energy Cost Adjustment Mechanism ("ECAM") before the costs of repowering are reflected in rates. I continue to believe that the RTM is the most reasonable method for matching the costs and benefits of repowering, but there may be ways of implementing Ms. Parrish's proposed approach that are reasonable alternatives.

Q. Ms. Parrish also proposes the creation of a regulatory asset as a means for the Company to recover its costs associated with the replaced equipment. (Parrish Direct, page 18, lines 23-24.) Is the creation of a regulatory asset necessary here?

A. No. Under the Company's proposal, the unrecovered depreciation in the replaced equipment would remain in the accumulated depreciation account, subject to further review in the Company's next depreciation study. Mr. Parrish argues that this approach is "unwise" because it will add unnecessary complexity to the next depreciation study. (Parrish Direct, page 18, line 30 through page 19, line 2.) The Company's proposal in this case is standard for assets that have been replaced prior to their book life being fully depreciated, where undepreciated plant is transferred to the depreciation reserve and adjusted into the combined overall rate. For this reason, the Company's approach should not create problems in its next depreciation filing.

Q. Ms. Parrish recommends that the proposed regulatory asset be amortized over the original life of the asset, not the life of the new equipment. (Parrish Direct, page 19 line 30 to page 20, line 1.) Please respond.

A. Under the Company's approach, the amortization period for the legacy equipment would be addressed in the next depreciation study. Thus, there is no need to address this issue now.

Q. If the Commission approves Ms. Parrish's proposal for a regulatory asset, how should the Commission address the amortization period for the replaced equipment?

A. The Company recommends that the replaced equipment be amortized over the same period as the new equipment. This approach recognizes the fact that throughout the lives of the repowered facilities, the replacement of the legacy equipment will create value through PTC benefits, incremental generation, or both.

Q. Ms. Parrish argues that it is inequitable for future customers to pay for replaced equipment beyond the original useful life of that equipment. (Parrish Direct, page 20, lines 6-17.) Please respond.

A. Ms. Parrish focuses on the fact that the Company's proposal will provide it with the opportunity to earn a return on the replaced equipment for a period of 40 years, which is ten years longer than originally contemplated. But the key factor here is that the energy benefits provided by repowering will accrue to customers over the extended life of the assets, and that the greatest proportion of these benefits will occur during the last ten years of the extended life. This incremental generation is now anticipated to be approximately 743 gigawatt-hour ("GWh") in each of the first 20 years and approximately 3,612 GWh in each of the final 10 years. Because the costs of equipment replacement contribute to the realization of these benefits, it is fair to amortize the costs of this equipment over the life of the repowered facilities.

Q. Mr. Higgins also recommends that the Commission reject the RTM and instead allow the Company to recover the costs of repowering through a general rate case filing. (Higgins Direct, page 41, lines 10-20.) Despite his recommendation, does Mr. Higgins acknowledge that the RTM is well designed?

A. Yes. Mr. Higgins testifies that the "RTM is logically constructed and appears designed to place customers in a 'hold harmless' position relative to the net costs and benefits of the repowering project until the next general rate case[.]" (Higgins Direct, page 41, lines 12-15.)

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

A. First, like Ms. Parrish, Mr. Higgins is concerned that the RTM undermines the incentive to control costs. As discussed above, however, the RTM's cap addresses this concern. Second, Mr. Higgins is concerned that it will be difficult to establish the baseline that will be used to identify the incremental costs tracked through the RTM. (Higgins Direct, page 43, line 9.) As an example, Mr. Higgins points to the proposed treatment of O&M expenses in the RTM. The Company has proposed using a four-year historical average of O&M expense to establish the baseline. Mr. Higgins is concerned, however, that this average may not accurately reflect the level of O&M expenses actually included in Wyoming rates. Mr. Higgins has not presented any evidence that the proposed four-year average differs materially from the amount included in rates, however, or that use of a four-year historical average is unreasonable.

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

A. Yes. 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 captured 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 recommends that the RTM be adopted as an interim measure to be terminated after base rates reflect the repowering costs and benefits. Other than continuing to track PTCs, however, the Company's proposal would terminate the RTM once the full costs and benefits of repowering are included in base rates.

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. The Company's operating property is valued on a centralized basis in each of its states. Assessed values are a function of the Company's investment in operating property and the amount of earnings derived from the operation of such property. Even though a portion of the plant is being replaced, this will not directly reduce the Company's property tax expense. 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.

UPDATED RESULTS AND EXHIBITS

Q. As a result of the updates completed by Mr. Link and presented in his rebuttal testimony, have you updated your exhibits from your direct testimony?

A. Yes.

Q. Please provide a summary of the updated results in the revised exhibits.

A. The revised exhibits incorporate modeling changes found in Mr. Link's updated analysis and rebuttal testimony. The revisions include Wyoming's allocated share of the updated wind construction costs, return, depreciation, PTCs, taxes, and operating costs and benefits. The updated net power cost changes associated with an updated load forecast, system dispatch and revised wind generation projections have been included in the ECAM pass-through calculation. Figure 1 is a summary of the estimated repowering revenue requirement benefits found in the revised exhibits and shows a projected net customer benefit in each of the first four years, with net benefits of up to $5.0 million by 2022.

Figure 1

Repowering Estimated Revenue Requirement Cost (Benefit)
$thousands

		2019	2020	2021	2022
1	Total Company Revenue Requirement	(3,035)	(3,562)	(19,341)	(30,942)
2	Wyoming Allocated	(484)	(662)	(3,191)	(5,039)
3	Wyoming ECAM	103	(1,222)	(1,391)	(1,449)
4	Wyoming Deferral	(587)	559	(1,800)	(3,590)
5	Net Customer Benefit	(484)	(662)	(3,191)	(5,039)

My original exhibits have been updated and are presented as RMP___(JRS-1R), RMP___(JRS-2R), Exhibit RMP___(JRS-3R) and Exhibit RMP___(JRS-4R). These exhibits are revised with Mr. Link's updated economic analysis. They are in the same format to calculate the monthly and annual revenue requirements and RTM results as the exhibits presented in my direct testimony.

Q. In addition to the updated economic analysis, are there any additional changes to the original exhibits?

A. Yes. Exhibit RMP___(JRS-1R), which provides a revenue requirement overview of the RTM, is changed to reference Mr. Hemstreet's revised exhibit, Confidential Exhibit RMP___(TJH-1R) in the NPC Savings "Base" calculation. Additionally, descriptions in the "New" column for Capital Investment, Accumulated Depreciation Reserve, Accumulated Deferred Income Tax, and Depreciation Expense have been corrected to accurately define how the RTM deferral was being calculated in the original Exhibit

RMP___(JKL-2) and Exhibit RMP___(JKL-3) and continues to be calculated in Exhibit RMP___(JRS-2R) and Exhibit RMP___(JRS-3R).

Q. What do the updated exhibits indicate regarding customer benefits and the RTM?

A. Exhibit RMP___(JRS-2R) shows that the wind repowering project provides estimated benefits each year. It also shows that the RTM passes these benefits on to customers each year, while allowing the Company to recover repowering project costs. Although the Company is proposing to cap[6] the RTM through the next general rate case, these updated results show a sufficient level of estimated repowering benefit that use of the RTM cap may not be necessary.

Exhibit RMP___(JRS-3R) shows the monthly calculations that roll-up to the annual results in Exhibit RMP___(JRS-2R). Exhibit RMP___(JRS-4R)[7] values have not changed from the Company's direct testimony, but is included here to facilitate the referencing to key financial and allocation data used in the other exhibits.

Q. Does this conclude your rebuttal testimony?

A. Yes.

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[6] The Company is proposing to cap the RTM until the next general rate case so that, after taking into account the wind repowering benefits that will flow through the Company's ECAM, it will not operate to surcharge customers.

[7] The reference to Confidential Exhibit RMP___(TJH-3), page 2 of 2 has been updated to reflect that it has been replaced by Mr. Hemstreet's Confidential Exhibit RMP___(TJH-1R).

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR AN ORDER APPROVING NONTRADITIONAL RATEMAKING RELATED TO WIND REPOWERING))))))	DOCKET NO. 20000-519-EA-17 (RECORD NO. 14780)

AFFIDAVIT, OATH AND VERIFICATION

Joelle Steward (Affiant) being of lawful age and being first duly sworn, hereby deposes and says that:

Affiant is the Vice President, Regulation for PacifiCorp, which is a party in this matter.

Affiant prepared and caused to be filed the foregoing testimony. Affiant has, by all necessary action, been duly authorized to file this testimony and make this Oath and Verification.

Affiant hereby verifies that, based on Affiant's knowledge, all statements and information contained within the testimony and all of its associated attachments are true and complete and constitute the recommendations of the Affiant in her official capacity as Vice President, Regulation.

Further Affiant Sayeth Not.

Dated this 17th day of November, 2017

Joelle Steward

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(801)220-4705

STATE OF Utah)
) SS:
COUNTY OF Salt Lake)

The foregoing was acknowledged before me by Joelle Steward on this 17th day of November, 2017. Witness my hand and official seal.

Notary Public

My Commission Expires: 9/11/18

MELANIE R ALLEN
NOTARY PUBLIC - STATE OF UTAH
My Comm. Exp. 09/11/2018
Commission # 679269