

Docket No. 20000-__-EA-17
Witness: Jeffrey K. Larsen

BEFORE THE WYOMING PUBLIC SERVICE
COMMISSION

ROCKY MOUNTAIN POWER

Direct Testimony of Jeffrey K. Larsen

June 2017

1 and benefits of wind repowering through the Resource Tracking Mechanism (“RTM”),
2 using the Wyoming Public Service Commission’s (“Commission”) authority under
3 Wyoming Statute § 37-2-121 for innovative or nontraditional ratemaking. I also explain
4 and support the Company’s proposed accounting treatment and request for continued
5 cost recovery of the upgraded and replaced wind equipment.

6 **Q. Please summarize the Company’s proposed ratemaking treatment for wind**
7 **repowering.**

8 A. The Company requests approval of nontraditional ratemaking for wind repowering to
9 allow the Company to act on the time-constrained economic opportunity to upgrade
10 most of its wind facilities and requalify for federal production tax credits (“PTCs”).
11 Wind repowering will provide customers additional cost-effective generation, tax
12 benefits resulting from renewed PTC eligibility, and extend the life of the repowered
13 wind facilities by at least an additional 10 years.

14 The proposed RTM is designed to capture customer benefits resulting from
15 wind repowering, and match those benefits with the costs of repowering until the costs
16 and benefits are fully included in base rates through a general rate case. Once the full
17 costs and benefits are included in base rates, recovery of those elements would cease
18 through the RTM, with the exception of PTCs. The Company is proposing to cap the
19 RTM until the next general rate case so that, after taking into account the wind
20 repowering benefits that will flow through the Company’s Energy Cost Adjustment
21 Mechanism (“ECAM”), it will not operate to surcharge customers. After the next
22 general rate case, the Company proposes to use the RTM to track the actual change in
23 PTCs from the base level included in rates. Because PTCs are entirely dependent on

1 the variable output of the repowered wind facilities and difficult to precisely forecast,
 2 tracking PTCs through the RTM ensures that customers receive their full value.

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

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

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

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

13 A. As described more fully later in my testimony and exhibits, the Company is projecting
 14 estimated, annual revenue requirement benefits in Wyoming of up to \$4.4 million by
 15 2022, as summarized in Figure 1. The Company will capture the impacts of wind
 16 repowering through the RTM until they are included in base rates.

17 **Figure 1**

Repowering Estimated Revenue Requirement Cost (Benefit)				
\$thousands				
	2019	2020	2021	2022
1 Total Company Revenue Requirement	(6,259)	4,516	(11,405)	(27,014)
2 Wyoming Allocated	(999)	623	(1,929)	(4,416)
3 Wyoming ECAM	(56)	(1,084)	(1,538)	(2,026)
4 RTM Deferral	(942)	1,084	(391)	(2,390)
5 Net Customer Benefit	(999)	—	(1,929)	(4,416)

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

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

6 **Q. Is the RTM proposed here the same mechanism the Company proposes in the**
7 **concurrently filed application for a Certificate of Public Convenience and**
8 **Necessity (“CPCN”) for new wind facilities and associated transmission?**

9 A. Yes. The Company proposes to use an RTM to track the costs and benefits associated
10 with both wind repowering and the new wind and transmission facilities subject to the
11 CPCN application. The Company proposes to separately track the costs and benefits of
12 the two projects through different sections of the new tariff, in this case Schedule 97A,
13 which I provide in Exhibit RMP___(JKL-5). The Company also proposes slight
14 differences in the treatment of the deferral balances, applying the surcharge cap to wind
15 repowering only.

16 **W.S. § 37-2-121—INNOVATIVE OR NONTRADITIONAL RATEMAKING**

17 **Q. What is the Company’s basis for requesting approval and ratemaking treatment**
18 **for the wind repowering project?**

19 A. The Company relies on W.S. § 37-2-121, which authorizes the Commission to approve
20 nontraditional or innovative ratemaking methods if they are shown to be in the public
21 interest:

22 Any public utility may apply to the commission for its consent to use
23 innovative, incentive or nontraditional rate making methods. In
24 conducting any investigation and holding any hearing in response
25 thereto, the commission may consider and approve proposals which

1 include any rate, service regulation, rate setting concept, economic
2 development rate, service concept, nondiscriminatory revenue sharing
3 or profit-sharing form of regulation and policy, including policies for
4 the encouragement of the development of public utility infrastructure,
5 services, facilities, or plant within the state, which can be shown by
6 substantial evidence to support and be consistent with the public
7 interest.

8 **Q. Why is the Company seeking approval and ratemaking treatment for the wind**
9 **repowering project under this statute?**

10 A. Wind repowering itself is an innovative and nontraditional project intended to take
11 advantage of the time-limited opportunity to obtain 100 percent PTC benefits for
12 customers. Wind repowering will provide additional low-cost energy for customers by
13 improving the efficiency of wind turbine generators and extending their useful lives for
14 at least an additional 10 years, as explained in the testimony of Company witness
15 Mr. Timothy J. Hemstreet. The Company's request for approval of nontraditional
16 ratemaking provides interested parties and the Commission the opportunity to
17 meaningfully review, before construction, whether the wind repowering project and
18 expenditures are reasonable, prudent, and in the public interest.

19 Additionally, the Company's proposed RTM is a nontraditional approach that
20 will properly match the timing of the benefits and costs of this unique and time-
21 sensitive opportunity. Because wind repowering is in the public interest, nontraditional
22 ratemaking is appropriate and reasonable.

23 Furthermore, a review by the Commission before of the Company obligates
24 itself to spend approximately \$1.13 billion aligns with the policy stated in W.S. § 37-
25 2-121 to allow nontraditional ratemaking "for the encouragement of the development
26 of public utility infrastructure, services, facilities, or plant within the state, which can
27 be shown by substantial evidence to support and be consistent with the public interest."

1 **Q. Why is it appropriate to provide the Commission and interested parties the**
2 **opportunity to review and approve the wind repowering project before**
3 **construction?**

4 A. As a general policy matter, stakeholders have previously expressed interest in having
5 the opportunity to review large capital investments before the Company irrevocably
6 commits to them. The Stipulation and Agreement in the Company’s 2010 general rate
7 case, Docket No. 20000-384-ER-10 (“2010 Stipulation”), adopted a process for a
8 meaningful, pre-construction review of proposed investments related to the Energy
9 Gateway Transmission Project and environmental projects associated with coal plants.¹
10 The 2010 Stipulation requires the Company to file an application for a CPCN or
11 nontraditional ratemaking if the project does not require a CPCN. Each application
12 must include specific provisions outlined in the 2010 Stipulation. In testimony in
13 support of the 2010 Stipulation, witnesses for both the Wyoming Industrial Energy
14 Consumers (“WIEC”), Kevin C. Higgins, and the Office of Consumer Advocate
15 (“OCA”), Bryce J. Freeman, specifically testified in support of pre-construction review
16 for investments outside of the norm.² Mr. Higgins explained:

17 One of the challenges faced by regulators and customers of a utility that
18 operates in multiple states is that investments made in other states are
19 typically not reviewed until a future rate case—well after the plant is in
20 service. As a result, the only review of such investments that is available
21 to regulators or customers is after-the-fact and the only remedy available
22 if there is an issue is a disallowance. While such a review can work for
23 normal investments, if the utility is proposing an extraordinary major
24 investment...an after-the-fact disallowance can have a significant
25 financial impact on the Company and its credit rating. Therefore, for

¹ Stipulation and Agreement, Docket No. 20000-384-ER-10, June 6, 2011 at paragraph 13.
² Docket No. 20000-384-ER-10, Stipulation Testimony of Kevin C. Higgins On Behalf of Wyoming Industrial Energy Consumers (WIEC), at 8-11 (Wyoming P.S.C. June 9, 2011); Docket No. 20000-384-ER-10, Stipulation Testimony of Bryce J. Freeman On Behalf of the Wyoming Office of Consumer Advocate, at 8-13 (Wyoming P.S.C. June 9, 2011).

1 extraordinary investments...it is to the advantage of all stakeholders for
2 the Commission to undertake a review of the merits of those
3 investments before they are made. That way, after hearing from key
4 affected stakeholders such as [the Company's] ratepayers, if the
5 Commission has a concern about the investment it can advise the
6 Company of that concern before the facility is constructed.³

7 Mr. Freeman expressed a similar sentiment, noting:

8 I believe it is in the public interest to assess these investments before
9 they are made. In doing so we avoid the possibility that the Company
10 will embark on an investment plan that ultimately leads to the
11 disallowance of some potentially very large capital investments.⁴

12 When approving the pre-construction review process included in the 2010
13 Stipulation, the Commission stated that it found “merit in this innovative approach,”
14 and “recognize[d] that for several parties, this element of the Stipulation was more
15 important than any other consideration.”⁵

16 Although wind repowering is not one of the specific types of projects subject to
17 the 2010 Stipulation, the policy underlying the 2010 Stipulation applies here. The
18 Commission and stakeholders should have an opportunity to meaningfully review the
19 supporting analysis and proposed ratemaking treatment of wind repowering because of
20 the magnitude and uniqueness of the project.

21 **Q. Is the Company's request in this case consistent with the 2010 Stipulation?**

22 A. Yes. Consistent with the requirements of the 2010 Stipulation, the Company filed an
23 application for nontraditional ratemaking because a CPCN is not required for the wind

³ Docket No. 20000-384-ER-10, Stipulation Testimony of Kevin C. Higgins On Behalf of Wyoming Industrial Energy Consumers (WIEC), at 8, lines 4-17 (Wyoming P.S.C. June 9, 2011).

⁴ Docket No. 20000-384-ER-10, Stipulation Testimony of Bryce J. Freeman On Behalf of the Wyoming Office of Consumer Advocate, at 8, lines 1-4 (Wyoming P.S.C. June 9, 2011).

⁵ Docket No. 20000-384-ER-10, Stipulation and Agreement, at paragraph 128 (Wyoming P.S.C. June 6, 2011).

1 repowering project.⁶ The Company requests that the Commission find that the proposed
2 wind repowering investment is reasonable and in the public interest before
3 construction.

4 **RESOURCE TRACKING MECHANISM**

5 **Q. Why are you requesting approval of the RTM?**

6 A. The RTM is a nontraditional mechanism that advances the public interest by fairly
7 balancing the interests of customers and shareholders regarding the ratemaking impacts
8 of wind repowering. As the other Company witnesses discuss, wind repowering
9 provides a net benefit to customers through incremental, zero-fuel-cost wind generation
10 and additional PTCs, both of which offset the near-term costs. Without the RTM, a
11 portion (70 percent) of the incremental generation from wind repowering would
12 automatically flow through the ECAM, while the benefits of the PTCs and costs
13 associated with the investments would not be captured in rates and would flow to
14 shareholders. The RTM seeks to align the costs and benefits so that customers receive
15 the full net benefits from the wind repowering project while shareholders receive
16 appropriate cost recovery of the prudent investment. On an annual basis until the next
17 general rate case, if the RTM results in a deferral of costs to customers, the deferral will
18 not be greater than the ECAM benefits customers receive from the wind repowering.

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

20 A. Upon the completion of repowering at each wind resource, the Company will begin
21 monthly deferrals of the associated costs and benefits in the RTM balancing account,

⁶ The Company filed a Notice on May 31, 2107, requesting that the Commission determine whether a CPCN is required for the wind repowering project. At its June 6, 2017 open meeting, the Commission concluded that the repowering project does not require a CPCN. This decision was memorialized in a letter dated June 8, 2017, from Christopher Petrie to Yvonne Hogle and Paul Hickey.

1 which will operate on a calendar-year basis. On April 15 each year, the Company will
2 file the RTM deferral balance from the prior calendar year, to be included in rates
3 beginning June 15, on an interim basis. This schedule is aligned with the ECAM, and
4 the RTM review will continue on the same schedule as the ECAM each year.

5 **Q. Why is it important to link the timing of the RTM with the ECAM?**

6 A. Linking the RTM and the ECAM helps match the increased production benefits of the
7 repowered wind facilities, which will flow, in part, through the ECAM, with the costs
8 of wind repowering. Also, by filing the ECAM and RTM concurrently, the Company
9 can more readily combine the two mechanisms into a single line item on customer bills.

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

11 A. The deferral for each of the repowered wind facilities will include the following
12 revenue requirement components:

- 13 • Plant revenue requirement, consisting of:
 - 14 • Capital investment
 - 15 • ADR
 - 16 • Accumulated Deferred Income Tax (“ADIT”)
 - 17 • Operations and Maintenance Expense (“O&M”)
 - 18 • Depreciation expense
 - 19 • Property taxes
 - 20 • Wyoming wind tax
- 21 • Net Power Cost (“NPC”) savings
- 22 • PTCs

23 These items are summarized in Exhibit RMP___(JKL-1). The Company will calculate

1 the RTM deferral as the difference between the value included in base rates for these
2 items and the new value taking into account the costs and benefits of repowered wind
3 facilities as they are placed into service.

4 **REVENUE REQUIREMENT COMPONENTS OF RTM**

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

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

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

16 A. The Company will include depreciation expense in the RTM deferral as the actual
17 monthly plant-in-service balances associated with wind repowering, less the repowered
18 wind base plant-in-service balance, multiplied by the current depreciation rates. Until
19 a general rate case is filed, no depreciation expense associated with the repowered wind
20 facilities is reflected in base rates, so the full amount would be included in the RTM.

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

22 A. The current depreciation rates will be applied to the gross electric plant-in-service
23 (“EPIS”) balance, associated with wind repowering, to calculate the depreciation

1 expense. As existing equipment is replaced by repowering, the Company will transfer
2 the replaced assets from gross EPIS to the ADR, thereby reducing depreciation expense
3 on the existing investment until the next depreciation study. At that time, the Company
4 will review the net plant balance for wind facilities and propose new depreciation rates
5 to recover both the repowering investment and the remaining investment in the replaced
6 equipment. Because the repowering investment is projected to be less than the
7 remaining investment, the initial depreciation expense after wind repowering will
8 temporarily decrease until the Company implements new depreciation rates from its
9 next depreciation study. The RTM deferral will reflect this decrease in depreciation
10 expense. I provide more details on the proposed ratemaking treatment for replaced
11 equipment later in my testimony.

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

13 A. As of December 31, 2016, the Company had approximately \$2.0 billion gross
14 investment in wind with approximately \$67 million of annual depreciation expense.
15 Approximately \$1.2 billion of gross electric plant-in-service will be replaced as part of
16 the wind repowering project and transferred to the ADR. Wind repowering will cost
17 approximately \$1.1 billion, so gross plant will decrease from \$2.0 billion to
18 \$1.9 billion, thereby reducing annual depreciation expense from approximately \$67
19 million to approximately \$64 million based on the current depreciation rates.

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

22 A. The reduced depreciation expense will continue until the rates from the next
23 depreciation study are approved by the Commission and included in base rates. The

1 depreciable lives and depreciation rates of all assets, including the Company's wind
2 assets scheduled for repowering, will be reviewed as part of the next depreciation study
3 to be filed with this Commission in the fall of 2018. As part of the depreciation study,
4 the depreciation rates will be revised to recover the remaining wind plant balances,
5 including the impacts of the debit balance in the ADR, over the life of the assets.

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

7 A. As repowered wind facilities are placed into service, the Company will compare the
8 actual O&M expense for each wind resource to the 2014-2017 historical four-year
9 average of O&M expense by wind resource. The difference will be included in the RTM
10 deferral.

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

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

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

17 A. The Company will calculate property taxes associated with the repowered wind
18 facilities by taking the monthly average of the capital investment less ADR included in
19 the RTM deferral multiplied by the average property tax rate from the Company's last
20 general rate case.

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

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

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

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

3 A. Wind repowering will result in additional zero-fuel-cost energy, reducing total NPC.
4 Under the sharing bands of the ECAM, 70 percent of the incremental NPC benefits of
5 wind repowering will be credited to customers, with 30 percent assigned to the
6 Company. Under the RTM, the Company is proposing to pass through 100 percent of
7 the NPC benefits of repowering to customers through a credit equal to the amount of
8 the NPC benefits that would otherwise be absorbed by the sharing band, or 30 percent.

9 The Company will calculate the incremental NPC benefit in the RTM as the
10 increased generation⁷ achieved by repowering, applied to the total wind generation to
11 derive the incremental energy on a per-plant basis. The Company will then value the
12 incremental energy using a monthly market price less wind integration costs, and the
13 RTM will pass 30 percent of that value through to customers. The calculation is
14 described in Exhibit RMP__(JKL-4).

15 The RTM will continue to credit the full incremental NPC benefits associated
16 with wind repowering until the repowered facilities are included in base rates.

17 **Q. What market price will the Company use to value the incremental energy?**

18 A. The market price used in the calculation will be dependent on the physical location of
19 the wind facility and the time of the generation. If the wind facility is located on the
20 west side of the Company’s system, the monthly Mid-Columbia heavy load hour
21 (“HLH”) and light load hour (“LLH”) market price will be used. If the wind facility is
22 located on the east side of the Company’s system, the monthly Four Corners HLH and

⁷ See Confidential Exhibit RMP__(TJH-3)

1 LLH market price will be used. Additionally, the market price will be reduced by the
2 wind integration costs from the most recent integration study, which currently is from
3 the Company's 2017 Integrated Resource Plan.

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

5 A. Currently, the IRS rate for PTCs is \$24 per megawatt-hour, and PTCs are generally
6 applicable for a period of 10 years after a wind facility is operational. The PTC rate is
7 applied to the actual megawatt-hours of generation from the eligible wind facility. This
8 produces a tax credit that can be used to offset a company's income tax expense under
9 IRS guidelines. To derive the revenue requirement value of the tax credit, the PTC value
10 must be grossed-up by the Company's tax gross-up rate. The Company will use the tax
11 gross-up rate from its most recent general rate case to calculate the value of the PTCs
12 from wind repowering. The RTM will reflect the value for the grossed-up PTCs.

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

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

19 **Q. Do the base rates that are currently in place include PTCs for the existing wind
20 facilities?**

21 A. Yes. These facilities qualified for PTCs when they initially began commercial
22 operation. A value based on the generation from these facilities during the test period
23 is currently included in base rates. The Company is not proposing to remove this value

1 from base rates through this mechanism. The RTM is intended to track the PTCs
2 associated with repowered wind facilities only.

3 **Q. How will the Company treat wind repowering costs incurred before the in-service**
4 **dates of the repowered facilities?**

5 A. As described in the testimony and exhibits of Mr. Hemstreet and Mr. Link, the
6 Company will incur minor repowering costs before the in-service dates of the
7 repowered wind facilities. These costs were included in the Company's economic
8 analysis. Most of the costs are due to reduced generation from the facilities before and
9 during repowering, and the associated loss of PTCs. These costs will be included in the
10 ECAM, and will be shared between the Company and customers using the existing
11 70/30 sharing bands. Because these costs are part of the overall project, which will
12 benefit customers, it is appropriate that customers pay a portion of them. The PTC
13 impact will be borne entirely by the Company because the benefits are currently built
14 into rates.

15 **RTM CALCULATION AND STRUCTURE**

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

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

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

23 A. Exhibit RMP__(JKL-3) is an example of the RTM's monthly calculation. The RTM

1 will be adjusted after a general rate case to exclude amounts that are recovered as part
2 of base rates in the rate case to assure against double-recovery. For items partially
3 recovered in base rates, such as capital investments included for part of the test period,
4 the portion included in the test period will be removed as of the effective date of the
5 general rate case. Page 5 of Exhibit RMP____(JKL-3) includes an overview of the total
6 plant revenue requirement, net power cost, and PTC sections.

7 Once per year on a calendar-year basis, the Company will sum the monthly
8 RTM revenue requirement entries to prepare the annual RTM application for filing with
9 the Commission on April 15, with an interim rate effective date that corresponds with
10 the ECAM application (June 15).

11 **Q. How will the costs and benefits associated with the wind repowering project be**
12 **allocated to Wyoming customers?**

13 A. The Company will use Wyoming's applicable inter-jurisdictional allocation factors to
14 allocate total-company revenue requirement to Wyoming based on the current
15 Commission-approved allocation methodology. Because the allocation factors are
16 dynamic and change with variations in jurisdictional loads, the Company is proposing
17 that the allocation factors used in the RTM match the allocation factors used in the
18 calculation of the ECAM.

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

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

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

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

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

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

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

15 A. No. The Company is seeking approval in this filing that the decision to repower most
16 of the Company's wind facilities is reasonable, prudent, and in the public interest.
17 Consistent with the treatment of costs approved through the process agreed upon in the
18 2010 Stipulation, if the Commission makes this finding in this proceeding, parties will
19 not be able to challenge the Company's prudence or recovery of actual costs associated
20 with wind repowering project in any future Wyoming rate case, unless the actual costs
21 of construction exceed the estimated costs presented in this Application, or if there is
22 evidence of mismanagement. If such circumstances ever exist, any challenge to the
23 wind repowering project would be limited to the prudence of the actual costs in excess

1 of the estimated costs or the impact of mismanagement.

2 **ACCOUNTING TREATMENT FOR REPLACED EQUIPMENT**

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

5 A. As existing wind generation equipment is replaced during the repowering process, the
6 Company will follow accounting treatment consistent with FERC regulations and
7 allowed by generally accepted accounting principles. The original investment will be
8 transferred from FERC account 101, EPIS, to Account 108, ADR, by crediting EPIS
9 and debiting the ADR. This entry will not change the Company's net plant balance, but
10 it will shift the ADR from a negative to a positive balance. The remaining original
11 investment plus new capital additions will be depreciated using current depreciation
12 rates until the Company's next depreciation study.

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

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

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

23 A. The Company would treat the salvage value of the equipment under the same

1 accounting guidelines. To the extent that any salvage value is obtained from the
2 equipment, then the value would be credited to the ADR, reducing the net plant balance.

3 **INTER-JURISDICTIONAL COST ALLOCATION**

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

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

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

16 **CONCLUSION**

17 **Q. Please summarize your testimony.**

18 A. The wind repowering project presents an excellent opportunity to provide customers
19 with additional zero-fuel-cost wind energy for an extended period of time. To match
20 investment and operational costs with the benefits of the repowered wind facilities until
21 the costs and benefits are fully included in base rates through a general rate case, the
22 Company proposes to implement the RTM. The matching of the costs and benefits
23 through the RTM is fair to customers and shareholders, and is consistent with

1 Wyoming's innovative and nontraditional ratemaking statute.

2 Additionally, allowing the Company to assign replaced equipment to the ADR
3 from plant in service and continue rate recovery of the plant balances over the useful
4 life of the repowered wind investment life is just and reasonable and allows the
5 Company to pursue the wind repowering project.

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

7 A. I recommend that the Commission approve the wind repowering project and the
8 Company's proposals for innovative, nontraditional ratemaking, and for the continued
9 recovery of the replaced equipment. Approval will provide certainty to the Company
10 and enable it to move forward with the wind repowering project.

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

12 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE)	
APPLICATION OF ROCKY)	
MOUNTAIN POWER FOR AN ORDER)	DOCKET NO. 20000-__-EA-17
APPROVING WIND REPOWERING)	(RECORD NO. _____)
)	
)	

AFFIDAVIT, OATH AND VERIFICATION

Jeffrey K. Larsen (Affiant) being of lawful age and being first duly sworn, hereby deposes and says that:

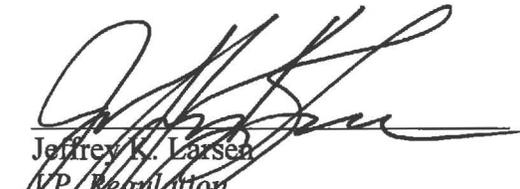
Affiant is the Vice President of Regulation for Rocky Mountain Power, a division of PacifiCorp, which is a party in this matter.

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 his official capacity as Vice President of Regulation.

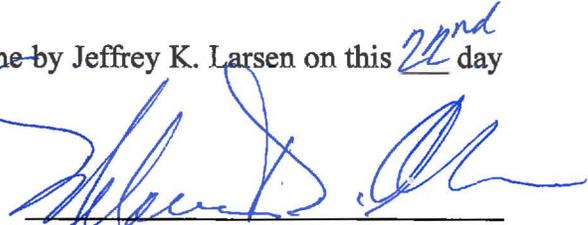
Further Affiant Sayeth Not.

Dated this 22 day of June, 2017


Jeffrey K. Larsen
VP, Regulation
1467 W. North Temple, Ste. 310
Salt Lake City, UT 84116
(801) 220-4940

STATE OF UTAH)
) SS:
COUNTY OF SALT LAKE)

The foregoing was acknowledged before me by Jeffrey K. Larsen on this 22nd day of June, 2017. Witness my hand and official seal.



Notary Public

My Commission Expires:

9/11/18

