Docket No. 20000-520-EA-17
Witness: Joelle R. Steward

BEFORE THE WYOMING PUBLIC SERVICE COMMISSION

ROCKY MOUNTAIN POWER

Rebuttal Testimony of Joelle R. Steward

December 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 was a Director in charge of the work for the cost of service, pricing, and regulatory operations groups for the Company. In 2016, I became the Director of Rates and Regulatory Affairs and added responsibilities for regulatory affairs for Rocky Mountain Power. 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 to the Wyoming Public Service Commission ("Commission") requesting Certificates of Public Convenience and Necessity ("CPCNs") and nontraditional ratemaking treatment for wind and transmission projects ("Combined Projects"), I respond to regulatory policy issues raised in the direct testimonies of the Wyoming Office of Consumer Advocate ("OCA") witness Mr. Bryce J. Freeman, and Wyoming Industrial Energy Consumers ("WIEC") witnesses Messrs. Nicholas L. Phillips and Kevin C. Higgins.

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

A. I address the following key issues:

- The reasonableness of allowing full recovery of the prudent costs of the Combined Projects, including a return on investment.
- How the Company's proposed Resource Tracking Mechanism ("RTM") fairly and efficiently allows costs and benefits to be tracked through rates on a temporary basis until the next general rate case.
- The reasons why the approval conditions proposed by the parties are inappropriate and unreasonable.

Q. Please summarize your testimony.

A. The Company's application for CPCNs and nontraditional ratemaking is reasonable and in the public interest. The Combined Projects are the least-cost alternative to meet customers' needs today and into the future. As such, the higher standard for approval of the Combined Projects proposed by parties is inappropriate and unwarranted. The

Company has issued a request for proposals for the new wind resources ("2017R RFP"), and is obtaining engineering, procurement and construction ("EPC") bids to ensure competitive costs for the Combined Projects. The Company has also actively managed and mitigated project risks within the Company's control.

The RTM is an interim mechanism to provide all benefits of the Combined Projects to customers until the resources are incorporated into rates in a general rate case. The only "benefit" to the Company is the opportunity to recover its reasonable and prudent costs, like any other resource investment.

RESOURCE TRACKING MECHANISM

Q. What should the Commission consider when determining whether to grant the requested CPCNs and approve the proposed RTM?

A. For both the CPCNs and the RTM, the Commission must determine that the Combined Projects and the RTM are in the public interest. This determination is supported by the results of the Company's 2017 Integrated Resource Plan, and Mr. Rick T. Link's direct and rebuttal testimony explaining why the Company selected the Combined Projects as the least-cost, least-risk option to provide safe and reliable electric service to customers. The Combined Projects provide substantial benefits to customers, and these benefits should be matched in rates with project costs. The proposed RTM combined with a future rate case is the best way to achieve that goal.

Q. Why is the RTM necessary?

A. The RTM is designed to match all costs and benefits over a short period of time. The RTM will allow the Company to track costs and deliver benefits provided to customers until the next rate case, while also allowing the Company to include the Combined

Projects in base rates in a single general rate case filing. The RTM enables the Company to align near-term cost drivers into one general rate case, rather than rate cases over a multiple-year period. Without the RTM, a portion (70 percent) of the zero-fuel-cost energy would flow to customers through the Energy Cost Adjustment Mechanism ("ECAM") without recovery of the costs that enable those benefits. The message to the Company during the 2015 rate case (Docket No. 20000-469-ER-15) was one of "rate case fatigue," and all parties were concerned with the historical cycle of annual rate cases. The Company has taken this message seriously and has proposed the RTM to help the Company align near-term cost drivers into one general rate case, rather than several rates cases over a multiple-year period.

Q. Mr. Freeman recommends that the Commission reject the proposed RTM, in part, because he claims that it provides an unlimited opportunity for the Company to recover its costs, thereby reducing risk to shareholders, without any reflection of that risk avoidance in rates. (Freeman Direct, page 31, lines 8–25.) Do you agree?

A. No. The RTM is a short-term tracking mechanism that matches all benefits and costs until they are included in base rates in the next general rate case. The RTM is not intended to be a permanent mechanism in place for the life of the Combined Projects. The only component of the RTM that would continue beyond the next rate case is the PTC component, but even that would terminate once the Wind Projects no longer generate PTCs.

Q. Mr. Freeman questions why the Company agreed to a cap in the RTM for the wind repowering case (Docket No. 20000-519-EA-17), while no similar cap was proposed in this proceeding. (Freeman Direct, page 32, lines 23–29.) How do you respond?

A. The costs and benefits of the Combined Projects accrue differently from the costs and benefits resulting from repowering existing wind facilities. The Company proposed a cap in the wind repowering case because its economic modeling indicated that the repowering projects would not produce a net cost to customers in the near term. Thus, the proposed cap was consistent with the timing of the Company's modeled benefits.

In this case, on the other hand, the Combined Projects are expected to result in a small increase in the Company's revenue requirement in the near term, and a net decrease over the next 30 years. Given the timing of the benefits and the front-end rate impacts associated with the Combined Projects, a cap on the RTM would act as an automatic disallowance.

Q. Mr. Freeman testifies that "rate riders with 100% recovery mechanisms also tend to diminish incentives that may exist to control costs." (Freeman Direct, page 31, lines 22–24.) Does this criticism apply to the RTM?

A. No. The Company agrees that the full costs of the Combined Projects should be subject to review before they are included in rates to verify that the Company prudently managed project implementation. The RTM does this by providing separate, annual filings that will follow the Commission process that allows for extensive review by all interested and affected stakeholders.

Q. Mr. Higgins suggests that the Company's most recent Results of Operations report (for the period ending June 2017) indicates that an RTM is not necessary to recover the costs of the Combined Projects between rate cases. (Higgins Direct, page 10, lines 4–13.) How do you respond?

A. Mr. Higgins combines two separate issues into one point. First, the earning reports are a way to track the need for a rate case by determining if the Company's earnings are at or in close proximity to the Commission-authorized return. The reports referenced by Mr. Higgins indicate that the Company's Wyoming earnings are reasonably close to the level authorized by the Commission. Thus, the Company has no plans to file a rate case until 2020 (for rates effective in 2021) and will absorb costs increases and an increasing rate base under normal operating conditions.

Second, the investment in the Combined Projects is significant and will provide overall net benefits. It has some increased costs in the early years that the Company may not be able to absorb in current rates. Therefore, the proposal to track benefits and costs until the next rate case is the best alternative to assure a match until the investment is included in base rates.

Q. Mr. Freeman insists that the RTM will be overly complex in terms of matching costs and benefits. (Freeman Direct, page 32 lines 12–14.) 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. Mr. Freeman is concerned that if the RTM is adopted, it could create confusion and conflict if the Company fails to have the Combined Projects in place by year-end 2020. (Freeman Direct, page 33, lines 1–3.) What is your response to this concern?

A. If the Commission approves the RTM and issues a conditional CPCN for the Combined Projects, the Company has every intention of meeting the project timeline to ensure customers receive the full benefits related to PTCs, as described in the testimony of Mr. Chad A. Teply and Mr. Rick A. Vail. Further, as described by Ms. Cindy A. Crane, the Company accepts the risk that the projects will not be in-service by 2020, if the delay is for reasons within the Company's control. If unforeseen conditions arise that cause delays or significant changes to the Combined Projects, the Company will return to the Commission and parties to determine whether the Company should continue with project implementation, or develop a plan to mitigate the conditions. Lastly, by the time the Company makes its first RTM filing on April 15, 2021, the Company will know if the Wind Projects were in service and qualified for the PTCs, so there should be no confusion about this issue at the time of filing.

Q. Mr. Freeman and Mr. Higgins also recommend that the Commission reject the RTM and instead allow the Company to recover the costs of Combined Projects through a general rate case filing. (Higgins Direct, page 12, lines 17–21 and page 13, 1-2, and Freeman Direct, page 33, lines 21–26.) Do you agree with this approach?

A. No. Mr. Freeman's recommendation relies on his support for the use of a future test year in the next general rate case so that the full costs of the Combined Projects could be included. Although the Company appreciates Mr. Freeman's support for a future test year through the period December 31, 2020, this is only the OCA's position; other parties, like WIEC and Mr. Higgins himself, have strongly opposed future test years. The Commission could also have its own view at the time of the rate case filing. Thus, it is highly uncertain whether the Company could implement the proposal to use a future test year to capture the costs and benefits of the Combined Projects in a general rate case, making cost recovery of this investment uncertain. If all costs are deemed prudent, the results under either the RTM or a fully forecasted rate period would be the same. Therefore, the Company recommends the use of the RTM, which includes the opportunity for a prudence review of the Company's expenditures when the assets are placed in base rates.

Q. Does Mr. Freeman recognize that there would be a mismatch between costs and benefits without the RTM?

A. Yes. Mr. Freeman notes that without the RTM, there may be a short period in which costs and benefits "would not be strictly in alignment." He states: "It is preferable from my perspective to let the current regulatory mechanisms work for this short period of time rather than implementing the RTM proposed by the Company." (Freeman Direct, page 34, lines 1–13.) The basis for Mr. Freeman's "short period of time" is the assumption that the Company would file a general rate case in 2019 with rates effective in early 2020.

Q. Do you agree that it would be reasonable to let the current mechanisms work without an RTM?

A. It depends on how the costs and benefits are matched in the interim period. For example, it would not be reasonable to allow the Wind Project energy benefits to flow to customers through the ECAM before the costs of the Combined Projects are reflected in rates. I continue to believe that the RTM is the most reasonable method for matching costs and benefits of the Combined Projects, but there may be ways of implementing Mr. Freeman's proposed approach that are reasonable. Nonetheless, the RTM would provide a bridge mechanism to allow the Company to balance the timing of and test period for its next general rate case.

Q. Mr. Higgins states the Company's approach in this proceeding is single issue ratemaking. (Higgins Direct, page 4, lines 6–11.) How do you respond?

A. The Company's proposal here is consistent with the statute allowing innovative or nontraditional ratemaking, particularly when that nontraditional ratemaking encourages the development of much-needed transmission infrastructure in Wyoming. *See* W.S. § 37-2-121. The approach here is also consistent with the intent underlying the stipulation in the Company's 2010 rate case, which created a process for the Commission and stakeholders to have a meaningful opportunity to review the proposed ratemaking treatment for large capital investments before they are made.

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

A. Like Mr. Freeman, Mr. Higgins is concerned that the RTM undermines the incentive to control costs. (Higgins Direct, page 8, lines 15–17.) As discussed above, however, the costs of the Combined Projects in the RTM will be examined for prudence at the time of the future RTM proceedings, and at the time of the next rate case when costs are placed into base rates.

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. (Higgins Direct, page 4, lines 15–21.) Tracking PTCs as an ongoing component of the RTM after all other components are captured in rates, however, ensures that customers receive the full benefits of the PTCs and therefore better matches the costs and benefits of new wind projects. It is also important to ensure a tracking mechanism for PTCs remains in place because PTCs are variable in nature and largely beyond the Company's control, which is typically why mechanisms like the RTM are implemented in the first place.

Second, Mr. Higgins recommends that if the RTM is adopted, it should be terminated after base rates reflect the Combined Projects costs and benefits (Higgins Direct, page 5, lines 1–6.) Other than continuing to track PTCs, however, the Company's proposal would terminate the RTM once the full costs and benefits of the Combined Projects are included in base rates.

Q. Mr. Freeman made a general statement about his concern in dealing with the "rate whiplash" of PTC expiration in the future. Can you please respond to Mr. Freeman's concern? (Freeman Direct, page 35, lines 2–16 and page 36, lines 1–2.)

A. The issue of PTC expiration is a concern regardless of how the costs of the Combined Projects are being recovered from customers. The Company is aware of the timing of this benefit loss and will do everything possible to try to mitigate and smooth the impact of this item.

PROPOSED CONDITIONS FOR APPROVING THE COMBINED PROJECTS

Q. Is it appropriate to cap cost recovery of capital investment estimated in the initial filing as proposed by WIEC witness Mr. Phillips? (Phillips Direct, page 4, lines 12–15 and page 26, lines 16–19.)

A. No. Mr. Phillips proposes to cap (reduce) cost recovery of the Combined Projects to match customer benefits and shareholder returns under the low gas and no Carbon Dioxide (“CO_2”) scenario in the initial filing. This cap automatically disallows approximately 20 percent of the project costs—even if those costs are prudently incurred. The recommendation is unjustified and punitive, especially given the significant customer benefits the Combined Projects provide.

Q. Mr. Phillips claims that shareholders are receiving a benefit associated with this investment that should be equally shared with customers. Please respond.

A. The recovery of capital costs is not a “benefit,” it is an integral component of the regulatory compact. Indeed, a basic premise of ratemaking, is that “a capital-attracting rate of profit is here considered a part of the necessary cost of service.”[1] The cost of capital is no different than any other prudent cost recoverable in rates if incurred to provide utility service. It is inaccurate to say that shareholders are receiving a greater benefit than customers based on the fact that shareholders recover the costs incurred to provide utility service.

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

Q. Mr. Phillips also claims that the Combined Projects are discretionary or unneeded investments and therefore warrant different ratemaking treatment. Please respond.

A. The proposed resources are a least-cost opportunity to fill both a near-term and long-term need, so they should not be dismissed as discretionary. The Company's economic analysis also shows customer benefits substantially outweigh the costs and that forgoing the time-sensitive opportunity to acquire the Combined Projects will result in higher customer costs in the long term. In addition, the investment in the Combined Projects does not impose a greater risk on customers than typical utility investments. Setting a different or higher standard for what benefits must be achieved, as effectively proposed by WIEC witnesses, is unwarranted and inappropriate.

Moreover, in light of the off-ramps built into the Company's development schedule, approval of the resource decision in this proceeding does not lock-in the decision to proceed if circumstances change before the final notices to proceed, as discussed by Mr. Teply. Accordingly, a higher approval standard or punitive conditions are not appropriate.

The Company's proposal fairly matches the benefits with the costs of the Combined Projects. Mr. Phillips' proposal, on the other hand, "flips the regulatory compact" to justify taking all the benefits of the Combined Projects, while capping and disallowing the costs the Company would be allowed to recover.

Q. Does Mr. Phillips propose additional conditions to "flip the regulatory compact"? (Phillips Direct, page 3, lines 16–18.)

A. Yes. Mr. Phillips also recommends that the Company guarantee PTC levels at the current 35 percent tax rate based on a fixed net capacity factor ***for the life of the wind projects*** (Phillips Direct, page 4, lines 19–22.) This is unreasonable for various reasons, including the fact that PTCs are only available for the first 10 years of the Wind Projects' much longer life. Also, both the tax rate and level of energy produced are items beyond the Company's control.

Q. What risk is the Company assuming with respect to the PTCs?

A. As discussed by Company witness Ms. Crane, the Company accepts the risks that are within the Company's control related to PTC qualification.

Q. Mr. Phillips argues that the Combined Projects are inequitable because the Company's shareholders will receive substantially more benefits than customers. (Phillips Direct, page 10, lines 5–12.) Do you agree with this characterization?

A. No. The purported shareholder "benefit" is the capital cost incurred to fund the Combined Projects, which is no more of a shareholder "benefit" than the recovery of any other cost associated with providing service.

The Company has shown 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 Combined Projects' investment, including capital costs.

After the next rate case, the prudent costs and benefits of the Combined Projects will be included in the Company's full revenue requirement. However, there is no guarantee that the Company will recover its full cost of service related to the investment. The Company must prudently manage its costs to achieve the full return allowed by the Commission.

Furthermore, Mr. Phillips' calculation assumes the wind resources will be the Company's wind benchmarks. However, the final resources are being selected through the competitive solicitation that is open to a number of structures, *e.g.*, benchmark EPC, market build transfer, or market power purchase.

Q. Does Mr. Phillips propose additional conditions?

A. Yes. Mr. Phillips proposes that the Commission cap the future level of operation and maintenance ("O&M") costs and capital expenditures to maintain the levels assumed in the Company's economic analysis. (Phillips Direct, page 36, lines 11–17.)

Q. Is Mr. Phillips' proposed cost cap reasonable?

A. No. In any forecast of the future, it is unlikely that all assumptions will be completely accurate. 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 the Combined Projects. If approved, the Company should recover its full cost of service related to the Combined Projects.

Moreover, as described in the testimony of Company witnesses Mr. Teply and Mr. Vail, the Company has strategies in place, based on experience, to mitigate the risks of construction cost over-runs and schedule delays and those items that are within the Company's control.

The Company also agrees to a soft cap based on the cost estimate included in the Company's January 2018 supplemental filing. The RTM would be consistent with that soft cap and reflect actual costs (and benefits), up to a maximum of the final estimated costs from this proceeding. The Company would apply for prudence determination of any variances from the estimates in the next rate case.

Q. Has the Commission previously approved resource acquisitions based on their economic benefits to customers?

A. Yes. The Commission has allowed cost recovery for the Cholla, Craig and Hayden, and Chehalis power plants. In all three cases, the Commission determined that these facilities were in the best interest of customers, *i.e.*, acquiring these resources provided net savings to customers. Although there were customer risks associated with the resource decision in each case, the Commission allowed full recovery. Consistent with this precedent, if the Commission determines that the Combined Projects provide customer benefits, based on what is known today, then it should allow full recovery of the costs associated with the Combined Projects.

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

A. The Company has demonstrated it can deliver additional generation and transmission resources 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 Combined Projects investment, including O&M and capital costs. After the next rate case, the costs and benefits of the Combined Projects will be included in the Company's rate base but there is no guarantee that the Company will recover its full cost of service related to this investment. The Company must prudently manage all its costs to achieve the full return allowed by the Commission.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY AND NONTRADITIONAL RATEMAKING FOR WIND AND TRANSMISSION FACILITIES	)	DOCKET NO. 20000-520-EA-17 (RECORD NO. 14781)

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 15th day of December, 2017

Joelle Steward

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

The foregoing was acknowledged before me by Joelle Steward on this 15th day of December, 2017. Witness my hand and official seal.

Melanie R. Allen
Notary Public

My Commission Expires: 9/11/18

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