

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

BEFORE THE WYOMING PUBLIC SERVICE
COMMISSION

ROCKY MOUNTAIN POWER

Supplemental Rebuttal Testimony of Joelle R. Steward

March 2018

1 **Q. Are you the same Joelle R. Steward who previously provided testimony in this**
2 **case on behalf of Rocky Mountain Power (“Company”), a division of PacifiCorp?**

3 A. Yes.

4 **PURPOSE AND SUMMARY OF SUPPLEMENTAL REBUTTAL TESTIMONY**

5 **Q. What is the purpose of your supplemental rebuttal testimony?**

6 A. In support of the Company’s application asking the Wyoming Public Service
7 Commission (“Commission”) to approve the request for certificates of public
8 convenience and necessity (“CPCNs”) and non-traditional ratemaking treatment for
9 wind and transmission projects (“Combined Projects”), I respond to regulatory and
10 ratemaking policy issues raised in the supplemental direct testimonies of the Office of
11 Consumer Advocate (“OCA”) witness Mr. Bryce J. Freeman, and Wyoming Industrial
12 Energy Consumers (“WIEC”) witnesses Mr. Kevin C. Higgins and Mr. Nicholas L.
13 Phillips.

14 **Q. Please summarize your testimony.**

15 A. The Company’s application for approval of its non-traditional ratemaking proposal
16 advances the public interest and is the most reasonable approach to match the costs and
17 benefits of the Combined Projects and provide the Company an opportunity to recover
18 its prudently incurred costs. Moreover, the alleged complexities of the Resource
19 Tracking Mechanism (“RTM”) pale in comparison to the alternative approach, which
20 could likely require back-to-back rate cases to capture the full impact on revenue
21 requirement. Finally, the conditions proposed by WIEC witness Mr. Phillips continue
22 to be unprecedented, unwarranted, and unreasonably punitive. As previously noted in
23 the Company’s rebuttal testimony filed in December 2017, the Company has accepted

1 the risks that are within the Company’s control related to qualification for the
2 production tax credits (“PTCs”). Additionally, the Company has agreed to a soft cost
3 cap based on the estimated costs of the Combined Projects for implementing the RTM.
4 The Company would seek a prudence determination for variances from the estimate in
5 the next rate case. The Company requests that the Commission: (a) grant the requested
6 CPCNs; and (b) approve the RTM.

7 **RESOURCE TRACKING MECHANISM REBUTTAL**

8 **Q. Have parties raised any new objections to the Company’s proposed RTM?**

9 A. No. For the most part the positions and arguments raised by WIEC and the OCA in its
10 supplemental testimonies reiterate positions and arguments already presented. Thus,
11 my rebuttal testimony filed on December 18, 2017, largely addresses the issues raised
12 in the March 2, 2018 testimony. I will, however, respond to the further refinements to
13 the arguments in the testimony of Mr. Higgins and Mr. Phillips for WIEC.

14 **Q. Mr. Higgins argues that ratemaking is not a “cost reimbursement” exercise and**
15 **that regulatory lag is actually a good thing because it encourages efficient**
16 **operations (Higgins Supp. Response, page 9, line 12 to page 10, line 25). Do you**
17 **agree?**

18 A. For the most part, no. I agree that ratemaking is not “cost reimbursement,” but I
19 disagree that the RTM is a form of “cost reimbursement” as used by Mr. Higgins. It is
20 well established that utilities are afforded a reasonable opportunity to recover their
21 costs, and the RTM is designed to balance recovery of costs with benefits. The RTM is
22 not an automatic pass through of costs. Rather, the RTM is a mechanism that tracks and
23 matches costs and benefits on a more timely basis and allows parties and the

1 Commission to determine that the costs were prudently incurred before being included
2 in rates. Without the RTM, or a modification to exclude net power cost benefits from
3 the Energy Cost Adjustment Mechanism (“ECAM”), customers would receive benefits
4 without paying for the costs necessary to achieve those benefits. Moreover, the
5 Company continues to bear the risk of prudent implementation of costs for the
6 Combined Projects regardless of the recovery method chosen because imprudent
7 implementation or management of resources would be subject to a disallowance.
8 Accordingly, the Company continues to be motivated to manage the costs associated
9 with the Combined Projects as well as all costs.

10 **Q. Mr. Higgins opposes your recommendation to match the costs and benefits by**
11 **adjusting the ECAM because he claims doing so is “unduly complex.” (Higgins**
12 **Supp. Response, page 11, lines 20–21). Do you agree?**

13 A. No. It is straightforward to remove the benefits of the new Wind Projects from the net
14 power cost calculation until the costs of the projects are included in rates. The energy
15 generated by the new wind resources is easily identifiable and replacing the zero-cost
16 wind generation is simple and is already done for other items in the ECAM. In fact,
17 WIEC has routinely proposed adjustments in the ECAM to impute lower costs or
18 replacement power costs in order to propose disallowances in net power costs. For
19 instance, in the most recent ECAM proceeding, WIEC proposed a cost of lost mine
20 production associated with the abandonment of the Joy Longwall, which was as
21 complex, if not more complex, than replacing the actual zero-cost wind generation with

1 market prices for the new Wind Projects.¹ Accordingly, I find WIEC’s argument that
2 this would be “unduly complex” disingenuous. Further, it would be no less
3 controversial, complex, or litigious than filing multiple rates cases, as Mr. Higgins
4 recommends.

5 **Q. Mr. Higgins recommends that if the RTM is approved it remain in effect only until**
6 **the Company’s next general rate case, even if the full costs of the Combined**
7 **Projects are not yet included in base rates (Higgins Supp. Response, page 13, lines**
8 **2–7). How do you respond to this recommendation?**

9 A. I disagree with Mr. Higgins’s approach. If the purpose of the RTM is to match the costs
10 and benefits of the Combined Projects and provide the Company a reasonable
11 opportunity to recover its costs, then it should continue until all of the costs are reflected
12 in base rates. Artificially cutting off the RTM after the first rate case undermines the
13 fundamental purpose of the RTM.

14 **Q. Mr. Higgins also recommends a three-part test that should be considered by the**
15 **Commission before implementing a tracking mechanism, like the RTM (Higgins**
16 **Supp. Response, page 4, lines 8–19). Do you agree with Mr. Higgins’s proposed**
17 **test?**

18 A. No. Mr. Higgins recommends that the Commission consider whether the recoverable
19 costs are (1) volatile, (2) beyond the Company’s control, and (3) significant. Notably
20 missing from his artificial test is any consideration of matching costs and benefits,
21 which is one of the fundamental reasons that the Company has requested the RTM. His

¹ See Docket 200000-514-EA-17, Direct Testimony of Bradley G. Mullins, pages 33-39.

1 test also doesn't consider if the mechanism would create a process improvement to
2 align cost drivers to minimize the frequency of general rate cases.

3 Moreover, the three considerations outlined by Mr. Higgins may be reasonable
4 for automatic pass-through mechanisms that receive no review. The RTM, however, is
5 not an automatic pass-through mechanism because parties and the Commission will
6 have an opportunity to audit all costs before they are included in rates through the RTM,
7 similar to the Company's ECAM.

8 Even if the Commission were to consider Mr. Higgins's test, his considerations
9 support approval of the RTM. First, the Company has recommended that the RTM
10 remain in place after the Combined Projects are in base rates to act as a PTC tracker
11 mechanism. The PTCs generated by the Wind Projects are potentially volatile and
12 outside the Company's control-meeting the first and second component of Mr.
13 Higgins's test. Second, as Mr. Higgins concedes, the revenue requirement associated
14 with the Combined Projects is significant (Higgins Supp. Response, page 8, lines 11–
15 14).

16 **RESPONSE ON PROPOSED CONDITIONS FOR APPROVAL**

17 **Q. Mr. Phillips continues to recommend that the Commission impose unprecedented**
18 **conditions on approval of the Combined Projects to effectively shield customers**
19 **from all risks associated with the projects. (Phillips Corrected Supp. Response,**
20 **page 3, lines 8–30). Has the Company's position regarding these conditions**
21 **changed?**

22 **A.** No. Mr. Phillips's recommendations remain entirely unreasonable and unjustified given
23 the nature of the resource decision at issue in this case. As I discussed in my rebuttal

1 testimony (Steward Rebuttal, page 11, line 1 to page 15, line 22), Mr. Phillips's
2 conditions, which include an automatic disallowance of 21 percent of the capital costs
3 identified in the Company's second supplemental direct testimony, are contrary to the
4 regulatory compact and would require the Company to assume risks that would create
5 a disincentive to continued pursuit of and investment in cost-effective resource
6 opportunities to serve customers.

7 **Q. Has any other party addressed Mr. Phillips's proposed conditions?**

8 A. Yes. Although not directly referring to Mr. Phillips's conditions, Mr. Freeman agrees
9 that the Company should not be solely responsible for endogenous risks that are beyond
10 its control (Freeman Supp. Direct, page 12, lines 12–14). According to Mr. Freeman,
11 the existing regulatory process, reflected in the Commission's past practice, is sufficient
12 to address risks that are beyond the Company's control. Mr. Freeman also observes that
13 shifting excess risk to the Company, as Mr. Phillips recommends, "would almost
14 certainly mean that RMP would never build anything." (Freeman Supp. Direct, page
15 12, lines 28–29). The Company agrees with OCA on this critical point.

16 **Q. What risks has the Company stated it will assume in this proceeding?**

17 A. As previously stated in testimony, the Company assumes the risk associated with
18 factors within its control that the Wind Projects will qualify for PTC benefits. For
19 example, if the Wind Projects are delayed beyond 2020 because of the Company's
20 actions or inactions, shareholders accept the consequences of that result (Crane
21 Rebuttal, page 6, lines 15–23). Additionally, the Company has agreed to a soft cap on
22 the cost estimate included in the Company's filing. If the actual costs are greater than
23 the estimated costs in this proceeding, then the Company agreed it must demonstrate

1 the prudence of the additional costs in its next general rate case. (Steward Rebuttal,
2 page 14, line 22 to page 15, line 3).

3 **Q. How would the proposed soft cap protect customers?**

4 A. Under the soft cap, the Company agrees that the total project capital costs included in
5 the RTM will not exceed the total estimated project cost in the Company's most recent
6 filing. The Company will still be able to seek recovery of and show the prudence of
7 any increase in the total project capital cost in a future rate case, but will not seek
8 recovery of the amount in excess of the current estimate before a prudence finding by
9 the Commission. Thus, customers are protected from any potential cost over-runs in
10 the interim cost recovery mechanism—the RTM—following this pre-approval, and
11 stakeholders will be able to review and challenge any cost over-runs in a general rate
12 case before those costs are included in rates.

13 **Q. Does this conclude your supplemental rebuttal testimony?**

14 A. Yes.

