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

INTRODUCTION AND SUMMARY

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

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

Q. Please describe your education and professional background.

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

Q. Have you provided testimony in previous regulatory proceedings?

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

Q. What is the purpose of your testimony?

A. I explain the Company's request for approval of innovative or nontraditional ratemaking related to the Company's request for an order granting Certificates of Public Convenience and Necessity ("CPCNs") to construct or acquire 860 MW of new wind facilities in eastern Wyoming ("Wind Projects") and for the 140-mile, 500 kilovolt ("kV") Aeolus-to-Bridger/Anticline transmission line and accompanying transmission facilities ("Transmission Projects"). Specifically, I describe and support the matching of the costs and benefits of both the Wind Projects and the Transmission Projects ("Combined Projects") through the Resource Tracking Mechanism ("RTM"), using the Wyoming Public Service Commission's ("Commission") authority under Wyoming Statute § 37-2-121 for innovative or nontraditional ratemaking.

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

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

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

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

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

A. As described more fully later in my testimony and exhibits, the Company is projecting the initial annual revenue requirement impact for the years 2020 to 2023 to be in the range of ($2.6) million to $13.4 million in Wyoming, as shown in Table 1 of Exhibit RMP___(JKL-2). The Company will capture the annual impacts of the Combined Projects through the RTM until they are included in base rates.

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

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

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

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

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

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

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

Q. What is the Company's basis for requesting approval and ratemaking treatment for the Combined Projects?

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

> Any public utility may apply to the commission for its consent to use innovative, incentive or nontraditional rate making methods. In conducting any investigation and holding any hearing in response thereto, the commission may consider and approve proposals which include any rate, service regulation, rate setting concept, economic development rate, service concept, nondiscriminatory revenue sharing or profit-sharing form of regulation and policy, including policies for the encouragement of the development of public utility infrastructure, services, facilities, or plant within the state, which can be shown by substantial evidence to support and be consistent with the public interest.

Q. Why is the Company seeking approval and ratemaking treatment for the Combined Projects under this statute?

A. Together the Wind Projects and Transmission Projects are an innovative and nontraditional project intended to take advantage of the time-limited opportunity to obtain 100 percent PTC benefits, as well as additional zero-fuel-cost generation for customers. The Combined Projects are inextricably linked in that the Wind Projects will rely on the new Transmission Projects for interconnection and integration and will allow the Company to realize the benefits of PTCs and zero-fuel-cost energy that support the economics of the Transmission Projects. The Company's request for approval of nontraditional ratemaking provides interested parties and the Commission the opportunity to meaningfully review, before construction, whether the Combined Projects and expenditures are reasonable, prudent, and in the public interest.

Additionally, the Company's proposed RTM is a nontraditional approach that will properly match the timing of the benefits and costs of this unique and time-sensitive opportunity. Because the Combined Projects are in the public interest, nontraditional ratemaking is appropriate and reasonable.

Furthermore, a review by the Commission before the Company obligates itself to a significant capital outlay aligns with the policy stated in W.S. § 37-2-121 to allow nontraditional ratemaking "for the encouragement of the development of public utility infrastructure, services, facilities, or plant within the state, which can be shown by substantial evidence to support and be consistent with the public interest."

Q. Why is it appropriate to provide the Commission and interested parties the opportunity to review and approve the Combined Projects before construction?

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

[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

> One of the challenges faced by regulators and customers of a utility that operates in multiple states is that investments made in other states are typically not reviewed until a future rate case—well after the plant is in service. As a result, the only review of such investments that is available to regulators or customers is after-the-fact and the only remedy available if there is an issue is a disallowance. While such a review can work for normal investments, if the utility is proposing an extraordinary major investment..., an after-the-fact disallowance can have a significant financial impact on the Company and its credit rating. Therefore, for extraordinary investments...it is to the advantage of all stakeholders for the Commission to undertake a review of the merits of those investments <u>before</u> they are made. That way, after hearing from key affected stakeholders such as [the Company's] ratepayers, if the Commission has a concern about the investment it can advise the Company of that concern before the facility is constructed.[3]

Mr. Freeman expressed a similar sentiment, noting:

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

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

The Transmission Projects addressed by this application include the Aeolus-to-Bridger/Anticline line, which is sub-segment D.2 of the Gateway West project the 2010 Stipulation aimed to address. Although the Wind Projects are not among the specific

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Testimony of Bryce J. Freeman On Behalf of the Wyoming Office of Consumer Advocate, at 8-13 (Wyoming P.S.C. June 9, 2011).

[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, Memorandum Opinion, Findings and Order Approving Stipulation, at paragraph 128 (Wyoming P.S.C. Sept. 22, 2011).

types of projects subject to the 2010 Stipulation, the intent underlying the 2010 Stipulation applies here. The Commission and stakeholders should have an opportunity to meaningfully review the supporting analysis and proposed ratemaking treatment of the Combined Projects because of the magnitude and uniqueness of the investment.

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

A. Yes. Consistent with the requirements of the 2010 Stipulation, the Company has filed a CPCN application and an application for nontraditional ratemaking to afford the Commission and interested parties the opportunity to meaningfully review the significant investment contemplated in the Combined Projects. The Company requests that the Commission find that investment in the Combined Projects are reasonable and in the public interest before construction.

RESOURCE TRACKING MECHANISM

Q. Why are you requesting approval of the RTM?

A. The RTM is a nontraditional mechanism that advances the public interest by fairly balancing the interests of customers and shareholders regarding the ratemaking impacts of the Combined Projects. As the other Company witnesses discuss, the Combined Projects provide significant benefits to customers over time through production of zero-fuel-cost wind generation and additional PTCs, both of which help to mitigate near-term costs. Without the RTM, a portion (70 percent) of the zero-fuel-cost energy from the Wind Projects would automatically flow through the Energy Cost Adjustment Mechanism ("ECAM"), while the benefits of the PTCs and costs associated with the investments and their operation would not be captured in rates and would flow to shareholders. The RTM seeks to align the costs and benefits so that customers and shareholders are treated fairly.

Q. Please describe the mechanics of the RTM.

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

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

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

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

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

- Plant revenue requirement, consisting of:
    - Capital investment
    - Accumulated Depreciation Reserve (“ADR”)
    - Accumulated Deferred Income Tax (“ADIT”)
    - Operations and Maintenance Expense (“O&M”)

        - Depreciation expense
        - Property taxes
        - Wyoming wind tax
    - NPC savings
    - Wheeling revenues
    - PTCs.

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

REVENUE REQUIREMENT COMPONENTS OF RTM

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

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

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

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

Q. How will the depreciation expense be calculated?

A. The current depreciation rates will be applied to the gross electric plant in service ("EPIS") balance, associated with the Combined Projects, to calculate the depreciation expense.

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

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

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

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

Q. How will the RTM reflect property taxes?

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

Q. How will the RTM reflect Wyoming wind taxes?

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

NET POWER COST AND PTC BENEFITS IN THE RTM

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

A. The Combined Projects will add significant zero-fuel-cost energy to the system, reducing total NPC. Under the sharing bands of the ECAM, 70 percent of the NPC benefits of the Wind Projects will be credited to customers, with 30 percent assigned to the Company. Under the RTM, the Company is proposing to pass through 100 percent of the NPC benefits of the Wind Projects to customers through a credit equal to the amount of the NPC benefits that would otherwise be absorbed by the sharing band, or 30 percent.

The Company will calculate the NPC benefit in the RTM based on the generation from the Wind Projects. The Company will value the energy using a monthly market price less wind integration costs, and the RTM will pass 30 percent of that value through to customers. The calculation is described in Exhibit RMP__(JKL-4). The RTM will continue to credit the full incremental NPC benefits associated with the Wind Projects until the Wind Projects are included in base rates.

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

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

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

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

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

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

RTM CALCULATION AND STRUCTURE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. No. The Company is seeking approval in this filing that the decision to construct the Combined Projects is reasonable, prudent, and in the public interest. If the Commission makes this finding in this proceeding, parties will not be able to challenge the Company's prudence or recovery of actual costs associated with the Combined Projects in any future Wyoming rate case, unless the actual costs of construction exceed the estimated costs presented in this Application, or if there is evidence of mismanagement. If such circumstances ever exist, any challenge to the Combined Projects would be limited to the prudence of the actual costs in excess of the estimated costs or the impact of mismanagement.

INTER-JURISDICTIONAL COST ALLOCATION

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

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

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

CONCLUSION

Q. Please summarize your testimony.

A. To match investment and operational costs with the benefits of the Combined Projects until the costs and benefits are fully included in base rates through a general rate case, the Company proposes to implement the RTM. Matching the costs and benefits through the RTM is fair to customers and shareholders, and is consistent with Wyoming's innovative and nontraditional ratemaking statute.

Q. What is your recommendation to the Commission?

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

Q. Does this conclude your direct testimony?

A. Yes.

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-___-EA-17 (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
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(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:

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