BEFORE THE UTAH PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR AUTHORITY TO INCREASE ITS RETAIL ELECTRIC UTILITY SERVICE RATES IN UTAH AND FOR APPROVAL OF ITS PROPOSED ELECTRIC SERVICE SCHEDULES AND ELECTRIC SERVICE REGULATIONS	))))))	DPU EXHIBIT 9.0R-RR DOCKET NO. 10-035-124

Pre-filed Rebuttal Testimony

Of

Joni S. Zenger, PhD

On Behalf of

Utah Division of Public Utilities

June 30, 2011

Revenue Requirement

Joni S. Zenger, PhD

Pre-Filed Rebuttal Testimony

Introduction

Q. Please state your name, business address, and occupation for the record.

A. My name is Joni S. Zenger. My business address is Heber Wells Building, 160 East 300 South, Salt Lake City, Utah, 84114. I am employed by the Utah Division of Public Utilities (Division) of the Utah Department of Commerce as a Technical Consultant.

Q. On whose behalf are you testifying?

A. The Division.

Q. Are you the same Joni S. Zenger who previously filed testimony in this proceeding?

A. Yes, I am. I filed DPU Exhibit 1.0, addressing test year issues, on March 9, 2011 in this proceeding and DPU Exhibit 9.0, addressing revenue requirement issues, on May 26, 2011.

Q. What is the purpose of your rebuttal testimony that you are now filing?

A. The purpose of my testimony is to rebut the direct testimony of Dr. Dennis E. Peseau, filed on behalf of the Utah Industrial Energy Consumers (UIEC), pertaining to cost recovery and cost allocation of the Populus to Terminal transmission line (Line) in this case. However, I do not comment on all of the ideas and statements made by Dr.

Peseau. Silence on a given subject does not imply that the Division necessarily agrees with him on that subject.

Q. Please summarize your rebuttal testimony and recommendations put forth to the Commission.

A. As I will discuss below, the Division believes that the Line is used and useful and all of the prudently incurred Populus to Terminal project investment costs should be included in the Company's rate base in this case in the traditional ratemaking method.

Q. Would you please outline what you believe are the principal points in Dr. Peseau's testimony that you will be rebutting?

A. Yes. As I see it, the principal purpose of Dr. Peseau's testimony is to propose a new cost allocation scheme that should be adopted by the Commission in this case and for all future Energy Gateway transmission projects (that are not even a part of this case).[1] In addition, Dr. Peseau recommends that only 50 percent of the Company's revenue requirements associated with the investment in the Line be allocated to Utah retail ratepayers in this case, thus reducing the Company's Utah revenue requirement by one half of the requested $46.9 million amount, or by $23.45 million.

Q. What specific points do you disagree with?

[1] Direct Revenue Requirement Testimony of Dennis E. Peseau, p. 5, line 17 and pp. 13-24.

A. First, I disagree with Dr. Peseau's position that only 50 percent of the investment costs of the Line should be included in the Company's rate base to be paid by retail customers. Rather, the full costs of the Line should be included in the Company's rate base as is typically done when the Company invests in new capital additions in generation and transmission plant. Second, I disagree with Dr. Peseau's claim that the Line is not fully used and useful at the present time. Third, although I agree that cost allocation between retail and wholesale customers is a salient issue, I disagree with his claim that this Commission in this case must make a change to the traditional cost allocation method that has been in place for years.[2]

The Company first announced its Energy Gateway Project in 2007 and has invested in the first portion of this project (Gateway Central) in good faith under the existing regulatory mechanisms. Changing the allocation scheme three years later and after the Company has constructed and fully energized the first planned phase of this project is patently unfair to the Company. If the Commission is concerned about the allocation of transmission costs, it has various tools to address the problem, including a rulemaking proceeding, a work group, etc. to provide guidance for future decision making.

The Populus to Terminal Transmission Line

Q. Are you aware that Dr. Peseau filed testimony with respect to the Line in the Idaho and Wyoming general rate cases?

[2] Id. at p. 5, line 17.

A. Yes. Dr. Peseau references data requests and information from the Wyoming and Idaho rate cases in his testimony and in UIEC data requests in this case. He makes similar arguments against cost recovery of the Line in those dockets, but in Utah he does not go so far as recommending that Utah opt out of the multi-state process (MSP) as he did in the Idaho general rate case. [3]

Q. Does Dr. Peseau dispute the prudence of the Line in this proceeding?

A. No. Dr. Peseau states the following: "I am not proposing that the Commission determine that any portion of the Populus to Terminal line is imprudent."[4]

Q. In Utah, have there been other opportunities (in addition to this proceeding) for intervenors to object to the need, size, costs, and other issues with respect to the Line?

A. Yes. First, in Docket No. 08-035-42, the Commission determined that the Line was needed, and the Commission granted the Company a Certificate of Public Convenience and Necessity (CPCN) to build the 135-mile, 1,400 MW line. In the CPCN proceeding, evidence was presented showing that many of the 138-kV transmission lines running from the Salt Lake City area northward into southeast Idaho were constructed prior to World War I, i.e., before the 1920s, and the transmission infrastructure was in need of

[3] Direct Testimony of Dennis E. Peseau on behalf of Monsanto Company, October 14, 2010, Docket No. ID PAC-E-10-0, p. 20, lines 7-12.

[4] Direct Revenue Requirement Testimony of Dennis E. Peseau, p. 26, lines 1-2.

upgrades.[5] The Commission concluded that the "public convenience and necessity does or will require the construction" of the 1,400 MW Line, and no evidence has been presented to contradict the testimony of the Company (underline added).[6] I interpret this to suggest that the Line is needed to serve the public for not just the present time (the public convenience and necessity does require the construction), but at some future time (the public convenience and necessity will require the construction). The only way that the Line could fulfill both aspects of the public convenience and necessity requirement for the CPCN is if the Line was designed and sized sufficiently to meet current and future use. Further, the Federal Energy Regulatory Commission (FERC) has indicated that transmission investments must be designed for more than just immediate needs, as evidenced in its statement that follows:

> The electricity industry, above all, is one in which making provision for future expansion is customary and prudent.[7]

Q. Has the Line also gone through other regulatory approval proceedings before this Commission?

A. The short answer is yes. Utah has passed a statute allowing alternative cost recovery for major plant additions. (Neither Wyoming nor Idaho have a similar statute.) The Utah Legislature passed Senate Bill 75,[8] which enacted Utah Code Ann. UCA § 54-7-13.4. This

[5] Docket No. 08-035-42, Company's Response to DPU Data Request 1.14, June 4, 2008.
[6] Docket No. 08-035-42, Report and Order, September 4, 2008, p. 5.
[7] Pacific Power & Light Co., 27 FPC 623 (1962).
[8] http://le.utah.gov/Documents/bills.htm.

statute provides an alternative cost recovery mechanism for major plant additions of a gas or electrical corporation under certain conditions. Therefore, pursuant to Utah Code Ann. § 54-7-13.3, the Company requested alternative cost recovery of the first segment of the Populus to Terminal line on February 1, 2010—the Ben Lomond to Terminal transmission line.[9] In that proceeding, the Division testified that the costs for construction of the project were generally reasonable, and the costs should be allowed in the Company's rate base.[10] The Commission approved a Stipulation for cost recovery of the Ben Lomond to Terminal portion of the Line.[11] This was the first major plant addition (MPA I) case in Utah, as a result of the passage of Senate Bill 75 and the newly enacted Utah Code Ann. § 54-7-13.4.

Next, on August 3, 2010, the Company requested approval, pursuant to Utah Code § 54-7-13.4, for alternative cost recovery (MPA II) of the remaining segment of the Line--the Populus to Ben Lomond segment.[12] This case was resolved through a settlement stipulation that was approved by the Commission, whereby the Company was allowed to recover its costs for the remaining segment of the Line.[13]

[9] Docket No. 10-035-13. (The Company also requested recovery for costs associated with the Dave Johnson Unit 3 emissions controls as part of MPA I.)
[10] Docket No. 10-035-89, Direct Testimony of Charles E. Peterson, April 10, 2010, p. 6, lines 109-112.
[11] Docket No. 10-035-89, Report and Order, June 15, 2010.
[12] Docket No. 10-035-89, Application for Alternative Cost Recovery, August 3, 2010. (The Company also requested cost recovery for the Dunlap 1 wind project as part of MPA II.)
[13] Order Approving Settlement Stipulation, Docket No. 10-035-13, Docket No. 10-035-14, Docket No. 10-035-89, December 21, 2010.

Q. What point does the Division wish to make regarding these proceedings?

A. The Division points out that this general rate case proceeding represents the fourth time that the Populus to Terminal transmission line has been brought before this Commission in one form or another in formal regulatory proceedings. Contrary to Dr. Peseau's position that half of the Line's costs should be disallowed (regardless of the reasoning), the need for the 1,400 MW Line has been previously demonstrated and the construction costs for both segments of the Line have been scrutinized and approved by this Commission. The Line was fully energized and placed into service on November 19, 2010, and the associated revenue requirement is already being collected from ratepayers as of January 1, 2011 through a surcharge in Schedule 40. Now it is time, in this proceeding, for this Commission to place those prudently incurred costs of the Line into base rates and eliminate Schedule 40.

Q. Is this congruent with Dr. Peseau's recommendation?

A. No. As I previously mentioned, Dr. Peseau recommends that only 50 percent of the revenue requirement associated with the investment in the Line be allocated to retail customers at this time, rather than the full 100 percent of the costs that have been found to be prudent (as described above). Dr. Peseau claims that "RMP has made an investment in a transmission line that will be able to operate for the benefit of retail customers at only 50% of ultimate capacity and that the portion of the investment that is not for the benefit of retail customers during the test period should not be included in the Company's rate base."[14]

Q. Please explain why Dr. Peseau's logic is faulty.

A. First, Dr. Peseau is concerned that the full capacity rating of the Line will reach 1,400 MW only when Gateway South and Gateway West are completed. As I previously mentioned, the Line was fully energized and placed into service on November 19, 2010, and on that date was fully used and useful. In other words, the Line was open and ready for use. On that date capacity from the Line was being used to serve customers, and energy flowed into the interconnected transmission network. Since the elements of the existing transmission network are integrated and mutually dependent upon each other, the new line carries its full share of the energy being transmitted by the system at any given instant in time. Dr. Peseau's logic is faulty in that there is not a one-to-one correlation between capacity and costs. As I describe later in my testimony, building the line at one-half the capacity (700 MW) does not result in a 50 percent decrease in costs.

Under the Western Electric Coordinating Council (WECC) path rating process, the line rating of 1,400 MW is determined by the incremental value that it adds to the system as it exists at the time of the rating.[15] The 1,400 MW path rating refers to the system transfer capacity rating, not a self-rating of the line itself. In other words, when the Line

[14] Direct Revenue Requirement Testimony of Dennis E. Peseau, p. 11, lines 12-16.
[15] UIEC Attachment 7.1.

was interconnected to the WECC system, according to WECC's current path rating process, the New Path C (NPC) including Path C and new Populus-to-Terminal upgrade allowed the path to be scheduled up to 1,250 MW in the northbound direction during light Utah load conditions and 1,600 MW southbound during heavy Utah load. These ratings allow an increase of 780 MW for southbound flows and 350 MW for northbound flows beyond the original Path C rating.[16] Inasmuch as the Company prudently planned and designed the Line by obtaining a future rating of 1,400 MW, the Company captured the total planned capacity for the future use of its customers.

The path limits currently assigned to the Line will increase when other segments of the Gateway project are completed or other non-Gateway additions are made to the western interconnected system, either increasing or decreasing depending on the transmission additions that other transmission providers make. In the next Energy Gateway phase—the Mona to Oquirrh line—the Company is currently in the process of obtaining permits and rights-of-ways. The Company has been holding public meetings with stakeholders and landowners who might be impacted and concerned with the siting of the line. The Commission has already issued a CPCN to construct the line. The Company's 2011 Integrated Resource Plan (IRP) states that "proceeding with the full Gateway expansion scenario is the most prudent strategy given regulatory uncertainty,

[16] Populus to Terminal Project, Phase 2 Study Report. October 6, 2008.

benefits from resource diversity, and the long lead time for adding new transmission facilities."[17]

Q. Couldn't the Company have built Gateway Central, Gateway West, and Gateway South at the same time?

A. No. Even if it were physically possible, the build-out would create a gigantic rate shock, rather than the desired outcome of gradualism in rates. Even though Dr. Peseau advocates that Gateway West and Gateway South both need to be built in order for the Line to fully benefit ratepayers, it would be difficult to imagine building the entire Energy Gateway project at once in order that the full design capacity of the project could be turned on with a flip of the switch. In reality it would be practically impossible to build the entire $6 billion Gateway project instantaneously. As evidenced by the difficulty and public backlash from landowners when the Company was attempting to obtain permitting, rights-of-way, and the siting just to build this first segment of the Gateway Project, it would be impracticable to obtain all of the corridors and permits at once. There would also be major reliability concerns, as the Company would still be required to serve loads while construction takes place. This was in fact an issue in the construction of the Line, as certain portions of the line had to be re-rerouted and energized in segments in order to still reliably serve customers and without incurring

[17] PacifiCorp's 2011 IRP, March 31, 2011, p. 82.

North American Electric Reliability Corporation (NERC) compliance fines.[18] It would be difficult to achieve the maximum design rating of all segments at once and imprudent to build the other segments before they are needed for load and reliability purposes. The Company's design strategy in building the project in segments is a prudent strategy.

Q. Dr. Peseau also claims that the Line is overbuilt or has excess capacity. Do you agree?

A. No. In reality transmission is lumpy. It takes on the order of five to seven years to design, permit, and build transmission facilities. Since transmission has a long-life, it is designed by definition to meet future load. If the Line was built to meet only current load, then the Company would be acting imprudently. A capacity expansion project for any given transmission path may take place only once in 20 or 30 years. There has not been a major transmission line built in Utah since the 1980s.[19] Therefore, the Path C upgrade was planned and designed to have the ability to meet a range of future conditions, making the best use of scarce transmission corridors. The Company agreed to the Path C upgrade, primarily to meet load and enhance reliability, as well as to facilitate the receipt of renewable resources, increase transfer capability between the east and west control areas, and enable further system optimization.[20]

Q. What if the Company had just built a 700 MW line just for now?

[18] Docket No. 10-035-89, Direct Testimony of Kenneth J. Slater, October 26, 2010.
[19] PacifiCorp's 2011 Integrated Resource Plan, March 31, 2011, p. 57.
[20] Docket No. 08-035-42, RMP Application for CPCN for the Line, paragraphs 5-6. (Also see Docket No. 05-035-43 Merger Commitment #34.)

A. First of all, as I just described, transmission has a long life and is designed and planned for the long term. Therefore, it would have been imprudent planning on the Company's part to have built a single circuit 345 kV line. Second, building a 700 MW would not only be cost ineffective, but would end up costing ratepayers more than the 1,400 MW Line itself. The Company states that it would cost almost 50 percent more than the currently designed Line costs ($819 million) to build the single circuit 345 kV line and then remove and replace it with double circuit 345 kV lines later ($1.24 billion).[21] The single circuit line would not have adequate transfer capacity to integrate the Company's generating resources—especially renewable wind resources coming from Wyoming.[22] When future load growth requires more transmission, the Company would not be able to build it instantaneously, but would have to purchase it on the wholesale market, most likely at a higher price.

In fact, the Division asked the Company to provide the incremental costs for poles, substations, wire, tower configurations, etc. for the project designed as follows: with double circuit towers, footings, etc., but with only a single circuit conductor and fewer substation line terminals. The Company's response shows that the costs of the first phase (phase I) of the project would be reduced by $72 million dollars if designed and constructed in this manner.[23] However, under this hypothetical scenario, to come back and convert the conductors to a double circuit line in the future (phase 2) would cost

[21] Company Response to DPU 47.13 and Attachment 47.13, June 27, 2011.
[22] http://www.gatewaywestproject.com/documents/GeneralProject_fs.pdf.
[23] Id.

ratepayers more than the actual installed project cost of the full currently designed and constructed Line.[24] Additionally, the Division notes that the Company has an obligation to make sure that any blackouts and outages are minimized during any construction. The Company's analysis of any reconstruction of the line did not even take into account the costs of continuing to meet the Company's network load obligation and reliability needs while the re-construction was taking place. Therefore, the Division considers the estimated reconstruction costs to be conservative.

Q. Will you please describe the benefits that Utah retail ratepayers are receiving as a result of the construction of the Line?

A. Certainly. The need for the line and resultant benefits of the line have been previously demonstrated in the CPCN proceeding (Docket No. 08-035-42).[25] However, the Line also provides ancillary benefits such as increased transfer capability, congestion relief, and assisting the Company to meet its current and future network load obligation. The Line improves system reliability and reduces the Path C constraints that have been problematic for many years.[26]

The benefits of the Line also spread much further than the immediate load that it serves. Inasmuch as PacifiCorp is a multi-jurisdictional company that provides retail

[24] Company's response to DPU #47.14, June 17. 2011.

[25] Docket No. 08-035-42, Company's Response to DPU #1.14, June 4, 2008 and DPI 1st Supplemental 1.14, June 25, 2008.

[26] Docket No. 08-035-42, Company's Confidential Attachment 5.1 (1). WECC Abbreviated System Disturbance Report.

customer service in six states, the Company can transport energy from its generation resources and those of others across its system. PacifiCorp operates its bulk electric generation and transmission as if all of the generation and transmission facilities that exist on the six-state system are capable of serving load anywhere on the system. Hence, the Company can transport energy from its generation resources and those of others across its system. The diversity of resources that exist on the system and the interconnected transmission system ensures that power is delivered reliably anywhere on the system, when it is needed, and the <u>least cost</u> resources are dispatched first, optimizing the economic dispatch of its system—an economic benefit to ratepayers. A robust transmission system also provides more flexibility for the Company to acquire the least cost/least risk generating resources to serve its loads. These types of benefits that retail ratepayers receive would be difficult to quantify. However, what we do know is that Utah has some of the lowest electricity prices in the country. According to the Energy Information Administration, Utah's retail electric prices, ranked from low to high, come in as the fourth lowest among the fifty states.[27]

In addition, because PacifiCorp's system is interconnected to other utilities and independent generation owners, particularly at trading hubs, such as Palo Verde, Four Corners, and others, the Company can take advantage of liquid markets when it has excess power to sell or when it needs to purchase power to serve retail loads. The

[27] Source: U.S. Energy Information Administration, Form EIA-826, "Monthly Electric Sales and Revenue Report with State Distributions Report."

diversity of interconnections on the system also benefits ratepayers as it helps ensure the lowest available market price for purchases and the highest available market price for wholesale sales. (The revenues from wholesale sales are credited back to retail customers.)

Q. Will you please discuss the reliability benefits that accrue to retail, as well as wholesale customers in Utah?

A. Ratepayers benefit from having a robust transmission system that allows the Company to minimize costs that it must incur for operating reserves under requirements set out by the WECC and the NERC. The Line will assist in balancing loads and operating resources, which are required to be balanced at all times throughout the western interconnect in order to avoid having an N-1 contingency (the failure of a single, large generating resource). The Company must insure that all mandatory NERC reliability standards and WECC criteria are met. Otherwise, hefty fines will (and have been) imposed.[28] The Company's investment in the Line, its transmission and distribution infrastructure, and the Energy Gateway project help to ensure that the Company's transmission infrastructure can meet the mandatory requirements and does not pay fines that consumers would have to bear.[29] PacifiCorp has already had to make penalty payments and to date is in negotiations with the NERC in attempts to settle the reliability violations. Many of the violations can be assessed at $1 million per day per

[28] For example, Florida Power and Light was assessed a civil penalty of $25 million for not being in compliance. (See Docket No. IN-08-5-000, http://www.nerc.com/files/Order_FPL_Settlement_10082009.pdf.)
[29] Company's Response to 37.9 Attachment, as an example.

violation.[30] Thus, avoiding the penalty payments by having a reliable transmission network is another retail ratepayer benefit.

Q. What are the consequences of denying the Company full cost recovery of the Line?

A. Denying recovery under these circumstances could provide a disincentive to the Company to make needed investments transmission infrastructure in the future.[31] If the Company does not invest in its transmission infrastructure as planned, it might have to build new generating resources closer to load, (even though those resources may be more expensive than other renewable resources,) that could have been brought into the system at a lower cost (such as Wyoming wind) to ratepayers. In the Company's 2011 IRP, resource diversity is one of the performance characteristics used in the Company's IRP modeling used to arrive at the preferred portfolio.[32] Investment in state and regional transmission infrastructure is necessary In order to obtain the benefits of resource diversity—a goal of state and national policies that seek energy independence.[33] Disallowing recovery of prudent transmission investment is

[30] http://www.nerc.com/docs/standards/sar/FERC_Order_on_VSLs_2008June19.pdf.

[31] On August 22, 2003, the Rocky Mountain Area Transmission Study (RMATS) was commissioned because the electric power industry has been reluctant to invest in new transmission infrastructure due to protracted regulatory uncertainties. The RMATS states that: "Investment in new transmission infrastructure in the West has lagged the growth in both demand and new generation. There has been very few new bulk power transmission infrastructure additions in the western interconnection in over a decade." RMATS Report, September 2004, Chapter 4, pp. 1-2.

[32] PacifiCorp's 2011 IRP, March 31, 2011, pp. 219-220.

[33] Title 63M of Utah Code Ann. states, "Utah will promote the development of resources and infrastructure sufficient to meet the state's growing demand, while contributing to the regional and national energy supply, thus reducing dependence on international energy sources."

inconsistent with Governor Herbert's 10-Year Strategic Energy Plan that seeks fuel diversification in order to broaden Utah's supply of base load electricity.[34]

The Division is aware that overbuilding transmission capacity could be a concern for ratepayers in the future, but believes that regulatory tools exist to evaluate future transmission projects, especially prior to construction, to ensure abuses do not occur. The Division notes that putting a large amount of capital in transmission projects could present a danger in the future, and the Commission may want to take a role in forming future policies in this regard.

Q. Does the Division have other concerns regarding the consequences of denying the Company recovery of the fully approved prudent costs of the Line?

A. Yes. In the long run the Division has concerns that ratepayers will be harmed by disallowance in this case. If the plant that is disallowed becomes nonutility property, and in the future when we need more transmission capacity, the Company might have to resort to purchasing it on the market at a higher cost—definitely hurting ratepayers in the pocketbook. Again, transmission is lumpy and it would likely take another five to seven years for the Company to construct additional capacity. The Company cannot just build new transmission instantaneously on an as needed basis. The opportunity cost of

[34] Energy Initiatives & Imperatives, Utah's 10-Year Strategic Energy Plan, March 2, 2011, pp. 8-9.

not building the transmission infrastructure would be to build another generating resource located near load.

Q. Do you have any further rebuttal to Dr. Peseau's testimony?

A. One last point. Dr. Peseau states that retail/wholesale cost allocation for not just the Line, but the entire Energy Gateway Project must be decided in this case.[35] The Division believes that the allocation of costs between wholesale and retail customers is a complex and salient issue. However, there are a number of other ways or processes to address Dr. Peseau's concerns that do not require immediate decisions in this case. For instance, regional and/or sub regional planning groups are working on transmission planning and cost allocation issues that may alleviate his concerns. In addition, some of the proposals in response to the FERC rulemaking concerning Transmission Planning and Cost Allocation may emerge as state solutions. In other words, resolution of cost allocation issues for the entire Energy Gateway Project in this proceeding is not necessarily imperative, as Dr. Peseau implies.

Conclusion and Recommendations

Q. What does the Division conclude with respect to the Company's request for recovery of the fully approved costs of the Line?

[35] Direct Revenue Requirement Testimony of Dennis E. Peseau, p. 5, lines 12-17.

A. The Division concludes that this Commission has previously found that the Line is needed to serve the present and future public convenience and necessity, and the costs for construction of the Line have been scrutinized and also approved. The Division disagrees with Dr. Peseau and maintains that the Line is fully used and useful at the time it was energized, and the Line is currently benefitting Utah retail ratepayers.

Further, the Division asserts that, after three prior regulatory proceedings for this Line, (this proceeding being the fourth), it seems unfair to the Company to, in hindsight, change the traditional regulatory treatment of the Line (as Dr. Peseau proposes) especially after the Company has financed and constructed the Line in good faith and in hope of recouping its capital investments in rates (which costs have been deemed prudent). The consequences of disallowing cost recovery would result in disincentives to invest in future transmission, which would not be in the public interest and could cost retail ratepayers more in the long-run.

Q. What does the Division recommend with respect to the Company's request for cost recovery of the Line?

A. The Division recommends that the Commission grant recovery of the prudently incurred costs of the Line, and Schedule 40 should then be eliminated.

Q. Does that conclude your rebuttal testimony?

A. Yes, it does.