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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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	**Docket No. 10-035-124**

PREFILED SURREBUTTAL TESTIMONY OF ROGER J. SWENSON

[REVENUE REQUIREMENT]

US Magnesium LLC hereby submits the Prefiled Surrebuttal Testimony of Roger J. Swenson on revenue requirement issues.

DATED this 19th day of July, 2011.

/s/_____________________________
Gary A. Dodge,
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 19th day of July, 2011, on the following:

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BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Sur rebuttal Testimony of Roger J. Swenson

on behalf of

US Magnesium LLC

Docket No. 10-035-124

[Revenue Requirement]

July 19, 2011

Q. Can you please state your name and your current business address and employer, your position and who you represent in this matter?

A. My name is Roger Swenson. My current business address is 1592 East 3350 South, Salt Lake City, Utah 84106. My employer is E-Quant Consulting LLC and I am a principal of that firm.

Q. On whose behalf are you testifying?

A. US Magnesium LLC.

Q. Did you previously file testimony in this matter?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. My testimony responds to the rebuttal testimony of Charles E. Peterson who represents the Division of Public Utilities and the rebuttal testimony of Stefan A. Bird who represents Rocky Mountain Power.

Q. Please summarize your response to the rebuttal testimony of Mr. Peterson and Mr. Bird.

A. My response is as follows:

- In my direct testimony, I proposed a revenue requirement adjustment as an incentive for RMP to maximize the value of its valuable renewable resources. Mr. Peterson mischaracterizes my proposal as an adjustment for “previously imprudent use of renewable energy credits (RECs)” (Peterson pg. 1 lines 20-21); that is not the case. My adjustment is intended as a mechanism to provide an incentive for the utility to strive towards higher value renewable energy sales in the future.

- Mr. Peterson may not appreciate the distinction between a REC sale and a sale of bundled renewable energy. My testimony will attempt to clarify that difference.
- Mr. Peterson may not understand why the EBA must provide motivation for the utility to achieve better than mediocre results from its valuable renewable resources. Without such motivation, ratepayers will see a higher revenue requirement and pay higher rates.
- Mr. Peterson misunderstands my testimony in saying that I am suggesting a “Commission-ordered” sale of RECs (Peterson pg. 3 line 60); I am not. I am suggesting the establishment of a mechanism to incentivize Rocky Mountain Power to obtain the best possible value from renewable assets in rate base and its contracts in order to reduce costs for all ratepayers.
- Mr. Peterson suggests that WREGIS may provide better information than the models used to determine rates in this proceeding. It will not. Moreover, better information or models are not necessary as long as a renewable energy sales tracker or balancing account is employed.
- Mr. Bird’s testimony implies that we should expect only mediocre results from the marketing of RMP’s valuable renewable energy by targeting REC sales. I strongly disagree. Ratepayers deserve better.

- Mr. Bird claims the market for selling renewable resources into California is uncertain. That may be partially true, but that uncertainty provides RMP with a tremendous opportunity.
- RMP should take advantage of the uncertainty because it will make financing difficult for renewable energy project developers. This gives Rocky Mountain Power a distinct advantage in the marketplace.
- I disagree with Mr. Bird's suggestion that Rocky Mountain Power needs to hedge it sales contract performance by holding back 25% of the potential renewable power it could sell. This strategy imposes extraordinary hedging costs on ratepayers, which is neither warranted nor prudent.
- Mr. Bird makes a confusing suggestion that I want RMP to become a "REC broker on behalf of its customers." To the contrary, I want RMP to do more of what it has been doing in order to further reduce costs borne by its ratepayers.

Q. What is the purpose of the adjustment you have suggested in this case?

A. The purpose of my proposed adjustment is to give RMP motivation to continue its important efforts to obtain the most value from renewable resources for which ratepayers are paying. I believe RMP used to have reasonable motivation to pursue high value markets through bundled renewable energy sales. With an energy balancing account in place, however, my fear is that it removes any strong incentive for RMP to direct its valuable internal resources to achieving high value sales of renewable resources.

Q. Why might RMP's valuable internal resources be directed elsewhere?

A. Responding to RFPs is a time consuming and arduous process, and when decisions are made concerning how to allocate limited internal resources, RMP may well take the least demanding path and sell RECs through an RFP rather than by responding to utility RFPs that will provide greater potential value. I want RMP to have a strong incentive to direct its internal resources to maximizing ratepayer value.

Q. Can you elaborate on the distinction between the value of bundled renewable power and the value of separated RECs?

A. A clear demonstration of the value of bundled renewable power vs. unbundled RECs comes from the Company's latest IRP, which calls out projected values for various resources. In the IRP, the value for a wind project with the capital structure and capacity factor implied for a West Side resource is $81.75/MWH. Since RMP should be looking to sell nearly all of its valuable renewable resources into this West Side market, this is the best available proxy for a bundled renewable/REC product. For unbundled RECs, Mr. Bird's latest RFP information provides a stark contrast for the projected value of separable RECs - $7/MWH.

Q. Can you illustrate how much sense it makes to sell bundled renewable energy products rather than lower value RECs?

A. Yes. Exhibit USM RR 1.1 SR lays out the economics of 5 years of forward sales assuming the renewable energy and REC values from above. For simplicity, the exhibit assumes 5,000,000 MWHs per year. For the replacement power price for bundled renewable sales, I used the latest Utah Avoided Cost Quarterly Energy Only update from May 2011.

Q. What does the exhibit show?

A. It demonstrates that, if bundled renewable energy sales can be executed, it could lead to more than $200 million in net additional revenue per year – an increase over REC sales of about 600%. That value is available to significantly reduce rates to RMP's ratepayers, but only if RMP is given a strong incentive to pursue that value.

Q. Are you asking the Commission to order RMP to make those sales?

A. No, I am asking for a mechanism that will provide a strong incentive for RMP to target extraordinary results, rather than leaving RMP with no meaningful incentive to do anything but follow the easiest course. Absent such an incentive, RMP will likely achieve only the mediocre results predicted by Mr. Bird. The absence of a strong incentive, in light of strong competing demands on already-stretched company resources, will likely lead to the mediocre results reflected by the Exhibit for annual expected REC sales.

Q. What would provide this kind of incentive to make renewable energy sales rather than REC sales?

A. First, the projected revenue requirement in the rate case should be adjusted to assume the higher available values of bundled renewable resource sales into western markets. REC revenues could be funneled through the EBA or another tracking mechanism so that RMP is not wholly at risk for recovery of these dollars, but still has an incentive. RMP should be given an incentive payment if it achieves better than mediocre results. I suggest that the incentive be set above $10/MWH for REC sales, or based on the difference between bundled renewable energy sales and the cost of replacement energy. I think a 5% incentive at those levels should be sufficient to give the Company enough incentive to put real resources behind this effort.

Q. Are the WREGIS historic numbers suggested by Mr. Peterson useful as a check on renewable production quantities?

A. No. The renewable production MWHs I want to encourage RMP to sell into the highest value market are intermittent resources. I have no basis to know whether the WREGIS numbers for some specific prior period were for low production years or high production years. Second, it makes no sense to use numbers outside of the values used in this rate case, which are based on long term expected production. If those numbers are not good numbers for this purpose, we should certainly figure out why the long term expected renewable production is not being used and to whose advantage or disadvantage that difference accrues in this case.

Q. Mr. Bird spends much time talking about the REC market and the values that can be achieved by selling separable REC certificates. Does that discussion give you any comfort?

A. No, to the contrary, it makes me very nervous that we are being prepared to expect mediocre results as a result of the utility pursuing REC sales only. His discussions about the uncertainty of the new California Renewable code, the other parties that need to weigh in and the approval process seem like excuses offered before the fact to condition us to accept poor results.

Q. What do you see in this uncertainty?

A. I see tremendous opportunities for RMP. The uncertainty creates a remarkable opportunity for RMP because renewable projects vying to be built will struggle to get financing given the cloud of uncertainty. RMP does not face that development risk and should have a distinct advantage in the market. It must act now and decisively to take advantage of the situation.

Q. Have you seen any indication that California utilities are moving forward based on SB X1 2?

A. Yes. For example, here is a quote from a representative of SDG&E concerning a couple of contracts it has just entered into;

"This contract is an example of the efforts SDG&E is making to comply with the near-term requirements as spelled out in new renewable legislation (SBX1 2)," said Avery. "This contract would add 1 percent to our RPS portfolio in both 2011 and 2012." (SAN DIEGO, July 8, 2011 /PRNewswire)

Q. Does this show that utilities are moving forward under the expectation that SBX1 2 is going to be put in place?

A. Yes. Contrary to Mr. Bird's suggestion, utilities are continuing renewable energy acquisitions as though the legislation will not be affected by other required approvals or uncertainties.

Q. What about the idea that the utilities issuing RFPs are just doing so as a price discovery exercise?

A. I have no knowledge of this kind of behavior, but I find the idea of such an effort appalling. Responding to RFPs can take hundreds of thousands of dollars for full blown efforts. If that is the case, the offending utility should be ashamed to waste responders' time. I really don't expect that is the case, and if a solid respectable offer came from an entity as strong as PacifiCorp I believe the offer would be well received.

Q. What do you say to Mr. Bird's suggestion that 25% of resources should be withheld from sales since these resources are intermittent and variable in nature?

A. I would tell Mr. Bird that none of the contracts that I have negotiated with PacifiCorp for purchase of renewable energy from intermittent sources has had output minimums, and that to put such a provision into a contract for intermittent sales is not prudent. You cannot determine to a precise degree exactly how much power any project will produce in any given year. You can imply from history what you expect, but that is simply a matter of probability. I would also say that such a practice imposes a very high level of opportunity cost on ratepayers to guarantee this sort of performance. Again, using the numbers from Exhibit USM RR 1.1 SR, 25% of the value could be as much as $60 million to ratepayers each year. It makes more sense to have a mitigation clause in a contract for renewable energy sales such as replacement value. Before any such strategy is pursued, I would expect to see a meaningful calculation of the probability of a contract shortfall so we can calculate the expected cost of such a shortfall relative to the lost opportunity cost imposed on ratepayers by withholding resources.

Q. What do you suggest as a more appropriate approach?

A. I suggest that the 5% incentive should be paid to the utility for values above $10 per MWH, and that any shortfall contract penalties come out of that RMP incentive first, and then from the value from the renewable sales. I expect that RMP would find language to relieve itself of that risk burden in short order.

Q. Mr. Bird suggests that you are asking the utility to become a "REC broker" on behalf of its customers. Is that the case?

A. No, although I do expect a utility to minimize costs and maximize value on behalf of its ratepayers. I am requesting a mechanism that will give the company an incentive to minimize ratepayer costs given the resource mix built into rate base. It does not matter what labels Mr. Bird or Mr. Peterson may choose to apply. I label it as a prudent ratepayer cost reduction strategy. I care about the potential lost value of not taking advantage of available opportunities to maximize value from the renewable resources being paid for by ratepayers. I and my client care a lot about doing everything reasonably possible to mitigate annual double-digit rate increases being proposed by the utility during the most trying economic times our country has faced in 80 years.

Q. Does this conclude your testimony?

A. Yes.