

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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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
	)	
	)	Surrebuttal Testimony of
	)	Michele Beck
	)	On behalf of the
	)	Office of Consumer Services
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July 19, 2011

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 A. My name is Michele Beck. I am the Director of the Office of Consumer  
3 Services, located at 160 East 300 South in Salt Lake City, Utah.

4

5 **Q. DID YOU FILE DIRECT AND REBUTTAL TESTIMONY IN THIS**  
6 **PROCEEDING?**

7 A. Yes.

8

9 **Q. PLEASE DESCRIBE YOUR TESTIMONY.**

10 A. I will provide an updated statement of the Office's policy recommendations  
11 with respect to the inclusion in rates of costs associated with the removal  
12 of the Klamath Dam and environmental upgrades necessary to comply  
13 with air quality regulations. In doing so, I will respond to some of the  
14 rebuttal testimony put forth by Rocky Mountain Power on those topics.

15

16 **Q. PLEASE DESCRIBE THE OFFICE'S POSITION REGARDING THE**  
17 **INCLUSION IN UTAH RATES OF COSTS ASSOCIATED WITH THE**  
18 **REMOVAL OF THE KLAMATH DAM.**

19 A. The Office's recommendation is that the rate base impacts and operating  
20 expenses associated with the Klamath facility for which the Company  
21 seeks recovery should be removed from the rate case and not passed on  
22 to Utah ratepayers.

23

24 **Q. RMP WITNESS DEAN BROCKBANK DISPUTES YOUR ASSERTION**  
25 **THAT THE PROCESS COSTS IT SEEKS TO ADD TO RATE BASE**  
26 **EMPHASIZED REMOVAL RATHER THAN RELICENSING. (Brockbank**  
27 **rebuttal, lines 38 – 71) WHAT IS YOUR RESPONSE?**

28 A. My response is that regardless of the emphasis of the process costs, the  
29 majority of these costs should not be assigned to Utah customers. Utah  
30 customers have not benefited from this resource during the majority of its  
31 operating life. The Klamath agreements were developed during a time  
32 when the resource was expressly allocated away from Utah customers, so  
33 regardless of approach it was unlikely to be done with the interests of Utah  
34 ratepayers in mind as Utah ratepayers were presumed (at that time) not to  
35 have any interest in the Klamath facility. Further, it is my understanding  
36 that one of the reasons that the benefits to Utah from the Revised Protocol  
37 forecast for the later years of the agreement did not materialize was  
38 because the relicensing costs were not incurred as expected. It would be  
39 ironic and unjust to include these process costs into rate base just at the  
40 time that Utah has access to the resource. At a minimum, these process  
41 costs must be pro-rated as described in my rebuttal testimony.

42

43 **Q. RMP WITNESS MR. BROCKBANK HAS ASSERTED THAT THE COSTS**  
44 **ASSOCIATED WITH THE KHSAs ARE NOT PRIMARILY ASSOCIATED**  
45 **WITH REGIONAL INTERESTS AND THAT YOU MUST HAVE**  
46 **CONFUSED THE KBRA AND THE KHSAs. WHAT IS YOUR**

47           **RESPONSE?**

48    A.    I did not confuse the KBRA and the KHSA.  Despite the Company's  
49           assertions, one needs only look at the signatories to the KHSA to draw  
50           conclusions as to whose interests were represented.  I have attached a list  
51           of signatories taken directly out of the KHSA as Exhibit OCS 2.1 SR.  The  
52           Company often indicates that it represents the interests of its ratepayers in  
53           these and other forums.  However, it has been my experience that we  
54           might not always agree with the manner in which the Company represents  
55           us.  Further, Company representatives have a fiduciary duty to its  
56           shareholders so it is reasonable that shareholder interests will be the  
57           primary focus of the Company's negotiations.

58

59    **Q.    AS FURTHER SUPPORT FOR THE ASSERTION THAT THE KHSA**  
60           **DOES NOT PRIMARILY REPRESENT THE REGIONAL INTERESTS,**  
61           **MR. BROCKBANK CITES THE FACT THAT INDEPENDENT**  
62           **COMMISSIONS IN BOTH OREGON AND CALIFORNIA DETERMINED**  
63           **THAT THE COSTS WERE PRUDENTLY INCURRED.  WHAT IS YOUR**  
64           **RESPONSE?**

65    A.    The Office does not dispute whether the Commissions in California and  
66           Oregon are independent.  However, these Commissions are determining  
67           rates that they find to be in the public interest for California and Oregon  
68           ratepayers.  Different state Commissions often reflect differing values and  
69           regulatory principles reasonably developed based on various regional

70 differences. The regulatory proceedings in Oregon and California  
71 addressing Klamath costs took place in states where the stakeholders had  
72 a longstanding understanding of the issues. Notably, in both cases the  
73 proceedings were focused solely on the Klamath issues, rather than  
74 treating these costs as a minor issue imbedded in a rate case as the  
75 Company has done in this case. The Oregon and California proceedings  
76 also came on the heels of a decade of study of the issues related to the  
77 Klamath Dam. Many of the same parties participating in discussions of  
78 the dam removal were parties in the regulatory proceeding. There were no  
79 participants representing the interests of the State of Utah or the Utah  
80 ratepayers of Rocky Mountain Power. The Company cannot now shift  
81 costs to Utah based on other Commissions' approval.

82

83 **Q. MR. BROCKBANK SUGGESTS THAT THERE ARE SUBSTANTIVE**  
84 **REASONS FOR NOT DELAYING THE ADJUSTMENT IN THE**  
85 **DEPRECIATION LIVES OF THE KLAMATH FACILITIES. (Brockbank**  
86 **Rebuttal, Lines 252 – 270) DO YOU AGREE?**

87 A. No. Mr. Brockbank's only reason appears to be that the change in  
88 depreciation lives help to advance the KHSA. Mr. Brockbank himself  
89 notes that "a delay in the adjustment of the depreciation schedule for the  
90 Klamath facilities ... may frustrate the realization of the KHSA ..." Thus, it  
91 is clear that the change in depreciation rates is tied to the KHSA and must  
92 be examined in the context of an evaluation of whether the KHSA benefits

93 Utah ratepayers and whether it is appropriate to have its costs allocated to  
94 Utah. Since benefits from the KHSA have not been demonstrated, the  
95 depreciation rates for the Klamath facilities should not be changed.

96

97 **Q. MR. BROCKBANK DISPUTED THE UNCERTAINTY OF**  
98 **CONGRESSIONAL APPROVAL OF THE KHSA. WHAT IS YOUR**  
99 **RESPONSE?**

100 A. Given the current political environment, it doesn't seem wise to discount  
101 the uncertainty associated with any congressional action. Further, there  
102 are other uncertainties associated with implementation of the KHSA, such  
103 as the requirement that the Secretary of Interior make a determination by  
104 March 2012 that dam removal is in the public interest and the California  
105 bond election for the \$250 million contribution on behalf of the State of  
106 California (which has now been postponed to 2012.)

107

108 **Q. RMP WITNESS STEVEN MCDOUGAL DISPUTES YOUR ASSERTION**  
109 **THAT KLAMATH COSTS HAVE NOT RECEIVED ADEQUATE**  
110 **REGULATORY REVIEW. (MCDOUGAL REBUTTAL, LINES 1486 –**  
111 **1494) WHAT IS YOUR RESPONSE?**

112 A. The Office strongly disagrees that the Klamath costs have received  
113 sufficient regulatory review. Mr. McDougal's primary reasoning is that the  
114 Klamath costs have been examined within the context of the MSP Docket  
115 No. 02-035-04. While I concur that these costs have been discussed at

116 length within the MSP docket, many (if not most) of those discussions  
117 included Commission staff and therefore were focused on understanding  
118 the numbers and issues rather than justifying their inclusion in rates<sup>1</sup>.  
119 There has been no agreement, expressly stated or implied, as to the  
120 proper treatment of Klamath costs in Utah rates. In fact, as demonstrated  
121 by the terms of the agreement relating to the 2010 Protocol, parties  
122 expressly reserved all rights to challenge the rate treatment of Klamath  
123 costs. The Commission must now determine whether the inclusion of  
124 Klamath costs can result in just and reasonable rates for Utah ratepayers.  
125 This determination can only be made with a full examination of the facts  
126 and circumstances leading to the KHSA, among other issues. Evidence  
127 discussed among certain parties in the MSP docket or agreements derived  
128 from conversations outside of the record in this case cannot be construed  
129 to be sufficient regulatory treatment.

130

131 **Q. WHAT IS THE OFFICE'S RECOMMENDATION REGARDING KLAMATH**  
132 **COSTS?**

133 A. The Commission cannot approve any of the Klamath costs being included  
134 in Utah rates. Evidence has not been presented to demonstrate that the  
135 KHSA reflects the interests of Utah customers. If the Company would like  
136 to request or the Commission would like to consider the inclusion of these

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<sup>1</sup> In my experience, the Commission staff has been careful in their participation in the MSP proceedings to excuse themselves from discussions that may address specific topics to be ruled upon by the Commission.

137 costs in Utah rates, it must be done via a separate proceeding, focused on  
138 the Klamath costs and their applicability to Utah customers. This  
139 evaluation would be most effective (and relevant) after some of the highly  
140 uncertain events described above have taken place.

141

142 **Q. PLEASE DESCRIBE THE OFFICE'S POSITION REGARDING THE**  
143 **ENVIRONMENTAL UPGRADES INCLUDED IN THIS CASE.**

144 A. The Office recommends that the Commission disallow costs associated  
145 with upgrades that have not been justified as part of a rigorous analytical  
146 process that considers various technology options, present and  
147 anticipated environmental regulations and different resource options.

148

149 **Q. PLEASE DESCRIBE THE COMPANY'S APPROACH TO ITS REBUTTAL**  
150 **TESTIMONY ON THIS ISSUE.**

151 A. The Company included rebuttal testimony in all or part of the testimony of  
152 five witnesses, amounting to 161 pages (excluding exhibits). This is in  
153 contrast to 27 pages in the Company's initial filing, much of which was  
154 simply descriptive.

155

156 **Q. WHAT IS YOUR RESPONSE TO THIS REBUTTAL APPROACH?**

157 A. It appears representative of the approach the Company has taken on this  
158 issue in general: an after-the-fact justification of costs and actions. I do  
159 not understand why some portion of this testimony was not included in the



160 Company's initial filing as evidence that these large investments were  
161 prudently incurred. It should not be intervenors' responsibility to provide  
162 the evidentiary record. By not including its evidence and analysis in its  
163 initially filed case, the Company has disadvantaged the ability of  
164 intervenors – and the Commission – to properly understand and evaluate  
165 the issues.

166

167 **Q. WHAT IS THE OFFICE'S GENERAL VIEW TOWARDS INVESTMENTS**  
168 **IN ENVIRONMENTAL UPGRADES FOR COAL PLANTS IN**  
169 **COMPARISON TO THE USE OF DIFFERENT TYPES OF**  
170 **RESOURCES?**

171 A. The Office does not have any pre-established view on this issue. In fact,  
172 the Office is officially neutral with respect to various types of generating  
173 resources<sup>2</sup>. The Office supports generation choices that are least cost,  
174 considering risks. The Office advocates that such choices can only be  
175 determined as a result of robust cost-benefit analysis. Thus, the Office  
176 had no particular views toward the inclusion of costs associated with  
177 environmental upgrades in this case, but expected to see supporting  
178 analysis from which it could independently evaluate the Company's

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<sup>2</sup> In fact, this issue has been addressed in one of the policy objectives established by the Committee of Consumer Services which states, "The Committee of Consumer Services supports a process for determining new electric resources that considers all appropriate costs, benefits and risks to Utah consumers. The Committee does not support a preference for any type of fuel or generating source, but rather a decision that minimizes costs (appropriately considering risk) and maximizes benefits to consumers in the long run." (approved 10/15/09)

179 choices.

180

181 **Q. RMP WITNESSES PROVIDED ADDITIONAL TESTIMONY DESCRIBING**  
182 **ITS INTERNAL ANALYSIS, AS WELL AS TESTIMONY FROM OUTSIDE**  
183 **WITNESSES OPINING ON THE REASONABLENESS OF THE**  
184 **COMPANY’S APPROACH AND WHETHER CERTAIN UPGRADES**  
185 **WERE REQUIRED BY STATE AIR QUALITY REGULATORS. WHAT IS**  
186 **YOUR RESPONSE?**

187 A. The Office believes that the record is complete with respect to options for  
188 compliance and what equipment was or was not required. However, it is  
189 notable that despite the volume of rebuttal testimony, the Company does  
190 not provide evidence of integrated resource planning that evaluates the  
191 cost of upgrades against other resource alternatives with the same rigor  
192 and risk evaluation applied to the selection of new generating resources.  
193 RMP witness Cathy Woollums references the way in which new  
194 environmental proposals or legislation may result in a modification to the  
195 business plan. (Woollums rebuttal, lines 364 – 370) Ms. Woollums also  
196 indicates that “environmental assumptions reflect both existing and  
197 expected requirements under the most likely scenario and are utilized as  
198 the basis for the Company’s integrated resource planning as well as for  
199 the Company’s 10-year business plan,” which appears to indicate that the  
200 Company’s proposed updates are simply included as base assumptions  
201 and not studied as part of the IRP modeling (consistent with the assertions

202 of several parties in this case.)  
203  
204 RMP witness Chad Teply describes how the capital cost “to retrofit  
205 pollution controls on existing coal fueled generation is approximately the  
206 same cost to build a new combined cycle natural gas generation unit” but  
207 that the fuel cost differences “will overwhelm the capital cost  
208 competitiveness of a combined cycle natural gas unit when compared to a  
209 retrofitted coal fueled facility.” Mr. Teply then concludes that retrofitting  
210 existing coal units is clearly the least cost option. (Teply rebuttal, lines 550  
211 – 563) The analysis presented by Mr. Teply is not comparable to the  
212 robust evaluation of multiple resource options for price and risk  
213 performance under multiple scenarios, the type of analysis undertaken in  
214 the IRP context. Determining least cost (especially when factoring in risk)  
215 is more complex than a static evaluation of capital and fuel costs. Mr.  
216 Teply also cites (and provides as confidential attachments) two studies  
217 that compare the PVRR (present value revenue requirements) of coal  
218 retrofits versus market power and one study that compares the PVRR of  
219 coal retrofits versus conversion to natural gas. (Teply rebuttal, lines 676 –  
220 709) Although he indicates that these analyses “offer insight into the  
221 potential impacts of various CO<sub>2</sub> cost and market pricing scenarios on  
222 investment recovery periods,” the analyses in fact offer insight using only  
223 one scenario for each study. Thus, it would appear that no studies exist  
224 evaluating the PVRR of coal retrofits in an integrated resource planning

225 environment that would consider multiple levels of potential CO2 costs, a  
226 variety of fuel and market price forecasts and other scenarios used in  
227 resource planning.

228

229 **Q. WHAT IS THE OFFICE'S RECOMMENDATION REGARDING THE**  
230 **INCLUSION OF COSTS ASSOCIATED WITH ENVIRONMENTAL**  
231 **UPGRADES IN UTAH RATES?**

232 A. The Office asserts that whether investments in environmental upgrades  
233 are cost effective is not intuitively obvious. Therefore, comprehensive  
234 analysis is necessary to determine the answer. The Commission must  
235 provide guidance to the Company regarding the type of analysis required  
236 to justify additional capital investments for additional upgrades necessary  
237 to comply with future regulations. The Commission should direct the  
238 Company to present the following types of analysis in support of any  
239 future investments in environmental upgrades:

- 240 • An evaluation of the cost-effectiveness (costs, benefits, likely  
241 results, etc.) of each proposed expenditure;
- 242 • A demonstration of need, i.e. that each expenditure is  
243 reasonably required to meet current and reasonably expected  
244 future environmental requirements;
- 245 • An evaluation of which technology is best suited to address  
246 current and reasonably expected future environmental  
247 requirements;

- 248                   • An evaluation of costs of compliance with new regulations in the  
249                   context of total anticipated costs to meet all anticipated  
250                   regulations; and
- 251                   • An integrated examination (using IRP and risk modeling) of the  
252                   relative costs from pursuing environmental upgrades as  
253                   compared to other resource options such as replacement power  
254                   costs.

255                   However, more importantly, the Commission should clearly indicate that  
256                   the analysis done for the capital investments for environmental upgrades  
257                   included in this case was insufficient and order a partial disallowance of  
258                   inclusion of those costs in rate base. It is the Office's view that the  
259                   evidence put forth by UAE provides ample evidence for the Commission to  
260                   make such a disallowance.

261

262   **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

263   **A.    Yes.**