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**

Surrebuttal Testimony and Exhibits of

Dennis E. Peseau

on Revenue Requirement

On behalf of

Utah Industrial Energy Consumers

July 19, 2011

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Dennis E. Peseau. My business address is Suite 250, 1500 Liberty Street, S.E., Salem, Oregon 97302.

Q. ARE YOU THE SAME DENNIS E. PESEAU WHO FILED DIRECT AND REBUTTAL TESTIMONY ON BEHALF OF THE UTAH INDUSTRIAL ENERGY CONSUMERS ("UIEC") IN THESE PROCEEDINGS?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of Rocky Mountain Power ("RMP" or the "Company") witnesses Messrs. John Cupparo and Darrell Gerrard and that of Division of Public Utilities ("DPU") witness Dr. Joni Zenger, regarding my position on the ratemaking treatment of the Populus to Terminal transmission line, and the Energy Gateway project in general.

Before I identify a number of the specific rebuttal points made by these witnesses, I would like to summarize what appear to be the general economic or regulatory philosophical differences that are apparently causing the divide between me and these witnesses that I surrebut.

Q. WHAT ARE THESE GENERAL DIFFERENCES?

A. I am an economist who has worked in the electric utility industry for approximately 35 years. Unlike Messrs. Cupparo and Gerrard, and Dr. Zenger (who equate the Populus to Terminal transmission line to a typical transmission upgrade), I see in this case an issue that probably surpasses all prior competition-vs.-regulation issues in importance.[1] The

[1] Other earlier such issues include the opening of competition to third parties for generation, and natural gas pipeline and electric transmission access.

outcome or resolution of this issue, by this and other state regulatory commissions, will have either extremely positive or negative impacts on retail and wholesale customers for decades to come.

PacifiCorp originally billed its Energy Gateway project for what it really is, a "superhighway"[2] connecting areas of potentially vast generation resources in the Rockies with markets in distant load centers between, and to, the west coast. When PacifiCorp encountered difficulties in marketing this superhighway competitively to third parties in 2007 and 2008, it chose to change its course and seek the safety of regulation by declaring, as it has in this case, that this superhighway was really always intended only to serve its own retail customers. If the Company succeeds in this effort, it will have effectively placed a roadblock in the middle of this superhighway for the competitive effectiveness of regional and interregional electric resource transfers.

PacifiCorp has chosen, as it explained to the Federal Energy Regulatory Commission ("FERC"), to seek to eliminate the shareholder market and financial risk for development of Energy Gateway by attempting to convince each of its state regulators to charge 100% of the project's revenue requirement to retail customers.[3] To the extent that 100% of Energy Gateway revenue requirement is required to be underwritten by retail ratepayers, the Company will have no incentive to act in a competitive manner, as would merchant developers, to seek maximum utilization of Energy Gateway energy transfers. Instead, it can simply subscribe all capacity to itself, putting the roadblock in place.

[2] Affidavit of John Cupparo, FERC Docket No. EL08-75-000, paragraph 40, page 19.

[3] Id. at 31 ("PacifiCorp will also face significant financial risks when it seeks rate recovery for its investment in the Project from its state regulators. PacifiCorp will ask all of the transmission investment for the Project to be included in PacifiCorp's rate base for delivered retail electric service. However, PacifiCorp faces a risk that state regulators will not include all of the investment in retail rates if the benefits to retail customers are not proven to be sufficient.").

Q. THE COMPANY'S REBUTTAL WITNESSES SUGGEST YOUR RECOMMENDATION IS INAPPROPRIATE AND UNPRECEDENTED. ISN'T THERE A MEANS BY WHICH THE INTERESTS OF RETAIL AND WHOLESALE CUSTOMERS, AND MIDAMERICAN ENERGY HOLDINGS COMPANY ("MEHC") CAN BE ALIGNED?

A. Yes. FERC has recently provided such a means.[4] My direct testimony references the recent FERC SunZia decision that, for the first time that I am aware, allowed the transmission developer to allocate an upfront 50% of the line's capacity to anchor customers through long-term negotiated rate contracts. This provision allows the transmission developer to finance the project on the basis of the long-term revenues from anchor customers. This is similar to instances where third-party generation developers are currently able to finance development of facilities based on a single purchase power agreement. In 2007-2008, PacifiCorp and other utilities could not have known that FERC would endorse a "SunZia" type incentive to finance merchant transmission facilities. In PacifiCorp's case, rather than attempt, as it did unsuccessfully in 2007-2008, to attract a development partner for Energy Gateway, it could now underwrite perhaps 50% of Energy Gateway with a long-term negotiated contract with either markets in the west, or, possibly, wind developers in Wyoming. This may provide an opportunity to return to, and even accelerate the "upsized" version of Energy Gateway discussed by Mr. Cupparo. This new opportunity provided by FERC has huge dividends for retail ratepayers. PacifiCorp would no longer be incented to seek the safety of regulatory authority to charge retail ratepayers for the entire Energy Gateway project development. Further, under the new world of interregional transmission development and the ability to anchor revenues, the Company

[4] SunZia FERC EL11-24-000, May 20, 2011.

would find it more profitable to market remaining available capacity on a long-term basis, rather than subscribe to the capacity itself, and market capacity paid for by retail customers on an inferior revenue-generating short-term and nonfirm basis. At present, short-term and nonfirm wheeling revenues comprise the overwhelming majority of FERC Account 456.1 revenues credited back to retail ratepayers. These short-term and nonfirm wheeling revenues are extremely difficult to track, and, as I discuss below, are reported differently depending on which Company filing one reviews. In essence, the Company's proposed allocation creates the perverse incentive for the Company to inflate transmission costs (to get the retail ratepayers to fully pay the incurred costs) while minimizing projected transmission revenues and push as much of the transmission revenue into the Energy Balancing Account ("EBA") as possible so that the Company can receive more through the EBA process.

Q. ARE YOU SURPRISED BY PACIFICORP'S CHANGE OF EMPHASIS FROM ATTEMPTS TO COMPETITIVELY MARKET ENERGY GATEWAY CAPACITY IN THE 2007-2008 TIME PERIOD TO ATTEMPTS NOW TO ALLOCATE ALL PROJECT COSTS AND REVENUE REQUIREMENTS TO ITS RETAIL RATEPAYERS?

A. No, the Company, sensing a weak market in 2007-2008 did what any profit-maximizing monopolist would attempt to do: take advantage of an excellent investment opportunity in transmission by seeking authority to charge the project entirely to its only captive customers—retail ratepayers. I believe FERC's recent SunZia decision constructively removes much of the merchant development risk and should, therefore, make it unnecessary for exercising the Company's monopoly position with captive ratepayers—again, an opportunity for a "win-win" outcome.

Q. IS PACIFICORP UNIQUE AMOUNG WESTERN ELECTRIC UTILITIES IN ATTEMPTING TO LEAN ON RETAIL RATEPAYERS TO FUND TRANSMISSION PROJECTS DESIGNED IN PART TO TRANSFER AND EXPORT RENEWABLE ENERGY?

A. No. Only a couple of months ago, NV Energy (dba for Nevada Power and Sierra Pacific Power) had an energy bill passed in the Nevada legislature in the final hour of the session that would have saddled Nevada retail ratepayers with the full revenue requirements of a proposed new NV Energy transmission line that "...could have put ratepayers on the hook for $1 billion in transmission lines so the utility could export power to other states, like California and Arizona." See my surrebuttal Exhibit UIEC ___ (DEP-SR3) taken from Energy Central Professional.

Nevada Governor Brian Sandoval vetoed the bill, commenting "To increase utility rates on Nevadans struggling to emerge from a severe economic recession would result in the imposition of an unnecessary and unfair burden on our recovery." PacifiCorp is requesting to put its retail customers on the hook for more than $6 billion.

Q. WOULD IMPLEMENTING FERC'S NEW POLICY FOR ANCHOR CUSTOMERS PROVIDE AMPLE REWARDS TO MEHC?

Yes. One significant upside for MEHC would be that once long-term anchor customers are in place, any remaining capacity could be marketed at the FERC-approved 200 basis point return on equity bonus. While there are numerous details that would need to be worked out for this alternative to the "all retail ratepayers" that the Company proposes, the proposition I have set out here should provide a "win-win" structure and remove the patently unfair burden of simply allocating all Energy Gateway development to retail customers. Below I outline one possible interim policy to allow a "stand still" for rate basing all of Energy Gateway, while details can be worked out.

Q. APART FROM THE GENERAL ECONOMIC DIFFERENCES, PLEASE ADDRESS YOUR SPECIFIC CONCERNS WITH THE REBUTTAL TESTIMONIES OF MESSRS. CUPPARO AND GERRARD AND DR. ZENGER.

A. These witnesses each attempt inexplicably to portray my recommendation to allocate the revenue requirement associated with Populus to Terminal as an attempt on my part to 1) challenge the design and configuration of the project as imprudent, 2) discourage this and additional transmission investment by denying RMP an opportunity to collect its full revenue requirement, and 3) be "…unfair to the Company…especially after the Company has financed and constructed the Line in good faith and hope of recouping its capital investment in rates.…" (Zenger, Rebuttal p. 19:357-363).

Q. WHAT IS YOUR POSITION ON EACH OF THESE THREE ISSUES?

A. I have not, and do not challenge the efficacy of the Populus to Terminal line as a critical segment of the overall eight original Energy Gateway project segments. Upon completion of Gateway West and Gateway South, presumably in the next ten years, Populus to Terminal will reach its full availability and design capacity. In the meantime, Populus to Terminal adds some capacity and additional reliability to the Path C corridor of which it is a part. All of RMP's and all of PacifiCorp's present and future customers, including its retail customers are deriving some benefits by the addition of the line. As discussed earlier in my prefiled direct testimony, I propose that this Commission allocate half of the revenue requirement of Populus to Terminal to all retail customers. (Direct p. 10:l13-20; p. 11:l1-17). Utah retail customers derive benefits and should be allocated approximately 43% of that system retail customers' revenue requirement.

As for the second point, RMP is, and should continue to be, encouraged to collect 100% of its Populus to Terminal revenue requirement by directly allocating to retail and wholesale customers, and to market subsequent capacity to parties.

As for the third point, the Company actually never presumed, nor was it encouraged to believe, that it would be granted a 100% underwriting of this special and unique Energy Gateway project solely by its retail customers. Familiarity with the progression of Energy Gateway planning and approval will support my conclusion in this regard. The testimony and conclusions reached by the Company and DPU witnesses are based upon convenient and unfortunate misquotes and incorrect characterizations of my direct testimony in this case.

Q. PLEASE EXPLAIN.

A. In order to make the rebuttal points made by Messrs. Gerrard and Cupparo, and Dr. Zenger at all valid, it was necessary to portray my direct testimony as disagreeing with the notion that Gateway Energy, and Populus to Terminal in particular, is being constructed for the benefit of PacifiCorp's present and future customers. Most of these witnesses' rebuttal testimony fails if this misrepresentation is dispelled. By definition, of course, all of Energy Gateway is being constructed for PacifiCorp's "present and future customers." This includes all parties, whether renewable energy developers, neighboring utilities, wholesale customers using the system, or what could broadly be called "customers." I heartily concur that Energy Gateway is being constructed for the benefit of the Company's present and future customers.

Q. SPECIFICALLY HOW HAS YOUR DIRECT TESTIMONY BEEN MISQUOTED SO THAT IT SUGGESTS THAT YOU DISPUTE THE FACT THAT ENERGY GATEWAY IS BEING CONSTRUCTED TO SERVE THE COMPANY'S PRESENT AND FUTURE CUSTOMERS?

A. My direct testimony references instances where PacifiCorp indicates that the purpose of Energy Gateway is to serve all transmission customers in the vast Western Region. But Messrs. Gerrard and Cupparo portray my testimony as denying this concept. Convenient misquotes aid this misrepresentation. For example, lines 45-47, page 3 of Mr. Gerrard's rebuttal states my testimony as:

> "the Populus to Terminal project is not, however, constructed exclusively for the purpose of meeting the needs of its present and future customers, but rather for a much broader use."

Mr. Gerrard footnotes the reference as "Peseau, Direct Testimony, p. 14, lines 18-20." In fact, the accurate quote is qualitatively very different:

> "The Populus to Terminal project is not, however, constructed exclusively for the purpose of meeting the needs of its present and future **<u>retail</u>** customers, but rather for a much broader use." [Emphasis provided.]

This omission hardly seems inadvertent, as it forms the basis for the criticism levied by all three witnesses at my testimony. At full capacity Energy Gateway as well as Populus to Terminal should be utilized for its "present and future customers," with which we all agree, but I conclude, with no challenge from anyone, that neither Populus to Terminal nor Energy Gateway is designed and planned only for its present and future **<u>retail</u>** customers.

I stress this omission because all discussion by RMP witnesses pertaining to the purpose of Energy Gateway's development refers to "customers" and "present and future customers" and never exclusively for retail customers. This simple distinction is the salient point of my direct testimony--allocate the Populus to Terminal line not 100% to retail customers, but to all present and future customers. On this point, my direct testimony describes the new world of massive transmission projects such as Energy Gateway as requiring an alternative approach to cost allocation, from the retail-only allocation methods appropriate for conventional service territory transmission to cost causation allocations—a method more in line with traditional economic theory of cost and benefits. I explain this issue and the growing awareness by federal and state entities a bit more below.

Q. ARE THERE OTHER INSTANCES IN WHICH RMP WITNESSES' REBUTTAL MISREPRESENTS YOUR DIRECT TESTIMONY?

A. Yes. While there are several examples I could point to, I will mention only a few other examples. Mr. Cupparo states:

> "Mr. Peseau suggests that retail customers of Utah do not benefit from the Project and should therefore not be required to pay for it" Cupparo, rebuttal, p. 7, lines 139-140.

Mr. Cupparo could not have read my testimony and believed that I am taking this position. He then goes on to devote lengthy rebuttal on this entirely inaccurate characterization, as well as his fictitious conclusion that my testimony "appears to suggest that electrons flowing through an integrated, networked transmission system can be 'color coded' to particular customers." Id. lines 145-146.

One final example of Company misrepresentations of my direct testimony is found on Mr. Cupparo's testimony at page 13, lines 282-286:

> …One of Mr. Peseau's chief arguments is essentially that Utah ratepayers should not bear the costs of Energy Gateway because they are neither cost causers nor beneficiaries of the majority of the Project, and that this is a result of the absence of "regional transmission organizations regulated by FERC where competitive outcomes can be preserved by regulation.

This not only is not a "chief" argument of mine; it is no argument of mine. Utah ratepayers do cause a portion of the costs and receive a portion of the benefits of the line. I concluded, in fact, that Utah ratepayers should be required to pay $23.45 million more in annual revenue requirement for their portion of the benefits.

Q. DOES MR. CUPPARO ARGUE AGAINST MARKETING AVAILABLE ENERGY GATEWAY CAPACITY TO THIRD PARTIES, AS YOU RECOMMEND?

A. Yes.[5] While I understand that the Company has no incentive to market available capacity as long as it can coax each of the six states' regulators to allow retail ratepayers to fully fund Energy Gateway, the Company argued and justified the entire project to FERC on the basis of the projects' serving all western states' markets, including its own, by connecting to regions where renewables may be developed in the future. The Company described this new field of dreams concept as a new "hub and spoke" transmission system. It seems incongruous to me that the Company now disowns this concept and suggests that it plans to serve only retail loads with Energy Gateway.

Q. DOES MR. CUPPARO REBUT YOUR ANALYSIS OF ENERGY GATEWAY ON THE BASIS OF THE BENEFITS AND COSTS OF THE LINE?

[5] Cupparo, Rebuttal, p. 15, lines 321-345.

A. Yes.[6] Mr. Cupparo summarizes the Company's 2011 IRP wherein he states that if the entire Energy Gateway project segments are completed as planned, the Company estimates a 20-year present value of net power cost savings of $900 million.

Q. DO YOU CHALLENGE THE ESTIMATE OF $900 MILLION NET POWER COST SAVING OVER 20 YEARS?

A. I do not challenge the quantitative estimate based on Company assumptions. As I have stated, if Energy Gateway can be completed as planned, I would anticipate that the project will enhance the Company's ability to economically serve all of its present and future customers. The issue I have raised in my direct testimony is that the capital expenditures on the Populus to Terminal segment, and its associated Utah-allocated annual revenue requirement of $47 million should not be allocated entirely to Utah **retail** customers. Mr. Cupparo's summary of the 20-year present value study omits that virtually none of the benefits are realized according to the Company's analysis until near the end of this decade.

Q. HOW DO THE NEAR TERM BENEFITS OF POPULUS TO TERMINAL COMPARE WITH THE $47 MILLION ANNUAL UTAH REVENUE REQUIREMENT SOUGHT BY THE COMPANY?

A. Poorly. Mr. Cupparo relies on a 20 year present value, which may well be appropriate for long-term planning of optimal resource portfolio choices, but the 20 year figure masks the issue that I have raised—Utah ratepayers are being requested unfairly to fund this project that is planned for broader purposes than solely retail service. The Company's proposal to charge 100% of the Energy Gateway project to retail ratepayers now causes a huge intergenerational inequity between today's retail ratepayers and the Company's other present and future customers. A 20 year forecast cannot reflect or account for the real

[6] Cupparo, Rebuttal, p. 16-17 lines 346-376.

possibility that this project will be absorbed into an RTO in the west with an open question as to how such a system is to be funded. In the meantime, present retail ratepayers will have paid all of the near-term and upfront return on Energy Gateway's costs, the return of those costs (i.e., depreciation), and other of Energy Gateway's costs. In this regard, Energy Gateway is a first and unique regional and interregional project. There simply has never been a $6+ billion transmission expansion project planned or constructed in the western U.S.

Q. WHAT LEVEL OF NEAR-TERM COST SAVINGS ARE EXPECTED TO BE REALIZED FROM THE COMPLETION OF POPULUS TO TERMINAL?

A. The Utah-allocated power cost savings for the test year in this case are approximately $3.7 million.[7] This compares to a $47 million annual Utah Populus to Terminal revenue requirement. The basis for the $3.7 million Utah net power cost estimate is the difference between total system net power cost difference for the test year, with and without Populus to Terminal, times the Utah allocation factor of .433. Mr. Widmer provided each of these GRID runs, with the following net power costs:

NPC w/o Populus to Terminal:	$1,529,892,961
NPC with Populus to Terminal:	$1,521,262,900
Difference:	$8,630,061

I also note that no material net power cost savings are predicted on a year-by-year basis until after the entire Energy Gateway project is completed and on line. Review of the confidential backup for Mr. Cupparo's $900 million present value of net power cost savings indicates that the Populus to Terminal line cannot alone generate significant net power cost savings until Gateway South and Gateway West are completed in the hoped

[7] Calculated as 43.3% of $8.6 million.

for time period 2017-2020. It is inappropriate for Mr. Cupparo to suggest that the Populus to Terminal line, and the "all retail ratepayer" allocation he supports, can be justified given that no meaningful cost savings will be realized by them for a decade. The meager $3.7 million of estimated savings cannot form the basis for charging retail ratepayers $47 million per year for the entire Populus to Terminal line. As I stated above, by the time Energy Gateway is completed, Utah retail ratepayers will have paid a significant amount of the project’s life-cycle revenue requirement for the benefit of a future generation of transmission users.

Q. IN YOUR REVIEW OF THE COSTS OF POPULUS TO TERMINAL AND ENERGY GATEWAY, HAVE YOU REACHED ANY CONCLUSIONS REGARDING THE REASONS WHY THE SAVINGS DISCUSSED BY MR. CUPPARO ARE NOT ATTRIBUTABLE IN ANY SIGNIFICANT WAY TO POPULUS TO TERMINAL?

A. Yes, as noted on pages 25-26 of my direct testimony, the Populus to Terminal segment has nearly 2.25 times the per-mile costs of the remaining Energy Gateway segments. I attribute this not to any poor engineering, design or management, but rather to the fact that this segment is described as the first, and integral investment of Energy Gateway and in particular, to the support for the Gateway West and Gateway South segments. The 135-mile Populus to Terminal line costs $6.1 million per mile ($819 million/135), as I noted in my direct testimony, page 26. The remaining 1865 miles of Energy Gateway is estimated to cost $2.8 million per mile ($5181 million/1865). These remaining segments are largely 500 kV configurations, rather than the 345 kV double circuit configuration of Populus to Terminal. I conclude that the primary reason that Populus to Terminal line has such a low

NPC savings to cost ratio is due to the investment in infrastructure for eventual integration with Gateway South and Gateway West. This is not a design criticism, but rather a reason that retail ratepayers should not be carrying the entire burden of funding the project that will be fully available to them only at the end of this decade.

Q. ARE YOU AWARE OF OTHER REGIONAL TRANSMISSION STUDIES THAT ESTIMATE RECENT TYPICAL PER-MILE COSTS OF SIMILAR HIGH VOLTAGE TRANSMISSION PROJECTS?

A. Yes. My surrebuttal Exhibit UIEC **___** (DEP-SR1) is a copy of a February 2009 study by Lawrence Berkeley National Laboratory, The Cost of Transmission for Wind Energy: A Review of Transmission Planning Studies. This study reviews 40 proposed transmission upgrades expected to accommodate increased wind power generation from 2001-2008. I refer to this not as a gauge of the reasonableness of the costs of Populus to Terminal as a standalone line. I include the study to indicate that, as a completed project, Energy Gateway falls within the zone of reasonableness at present cost estimates, but that the Populus to Terminal segment does not.

Q. WHAT ARE THE SPECIFIC PER-MILE COST ESTIMATES SUMMARIZED IN THE STUDY?

A. The summary of the ranges of per-mile costs of the sample of 40 studies is provided on Table 4, page 38 of the study. These ranges are reported by voltage level. Maximum costs per mile of 500 kV lines according to Table 4 are approximately $3 million, and double circuit 345 kV lines are about $2.3 million per mile. These figures suggest that the relatively high costs per mile of the Populus to Terminal line are due to significant investment in the line designed to support the functioning of the later Gateway South and Gateway West larger, higher voltage lines.

Q. ARE THE LAWRENCE BERKELEY STUDY RESULTS GENERALLY IN LINE WITH OTHER RECENT HIGH VOLTAGE TRANSMISSION PROJECTS IN WHICH YOU HAVE BEEN INVOLVED?

A. Yes. I have for many years participated in some of the financial planning for the Southwest Intertie Project, or "SWIP" as it has been called. This project, originally proposed by Idaho Power Company, has been planned in various stages since as early as 1992. Today, SWIP is a project functioning similarly to the planned Energy Gateway, and owned jointly by NV Energy and Great Basin Transmission, LLC. The project originates at Midpoint, Idaho and terminates initially in Nevada Power Company's service territory near Las Vegas, Nevada. The SWIP project is being constructed in two phases, the first being called "ON Line" and will originate in Sierra Pacific Power Company's service territory in eastern Nevada (Robinson Summit substation) and run south for 235 miles to major markets in the southern Nevada and California markets. The ON Line is a 500 kV line approved and under construction.

Q. WHAT ARE THE INVESTMENT COSTS FOR "ON LINE" THAT HAVE BEEN APPROVED BY THE PUBLIC UTILITES COMMISSION OF NEVADA?

A. $509.6 million. The investment cost per mile for this 500 kV, 235 mile line is $2.2 million ($509.6 million/235). The ON Line is below, but in line with the $2.8 million/mile investment in the remaining Energy Gateway project, but well below the $6.1 million/mile investment cost for Populus to Terminal. I point this out to counter Mr. Cupparro's rebuttal, pages 16-17 where he attempts to justify the costs of Populus to

Terminal in terms of some future benefits that may be obtained if the entire Energy Gateway project is completed as planned. I want to be clear that my challenge here is not that Populus to Terminal is expensive because it is poorly designed, but rather that it has been built to accommodate the future segments Gateway West and Gateway South. Specifically, these costs demonstrate that Populus to Terminal is being built with specific future investments in mind—investments that will turn the Energy Gateway into the "superhighway" it is planned to be that will benefit **all** present and future customers, not just present and future **retail** customers. Thus, if the Company is touting the benefits that may exist over the next twenty years, it is appropriate to allocate the costs of the project to those who will benefit over this same time period and not just the retail customers as Messrs. Cupparo and Gerard advocate.

Q. WHAT IS THE POSITION OF MR. CUPPARO WITH REGARD TO YOUR DIRECT TESIMONY REGARDING WHETHER WHEELING REVENUES CREDITED TO RETAIL CUSTOMERS ARE COMPENSATORY?

A. Mr. Cupparo points out that revenues received from third-party wholesale customers are returned dollar for dollar as a credit to the revenue requirement of retail customers and that the Company is "following the rules" for allocation of revenues from wheeling. I have no disagreement with these points. Mr. Cupparo concludes, however, that this has the "…meaning each customer class pays its share for use of the transmission system.…" (page 5 lines 112-113). This is not true as the wheeling revenues are not fully cost compensatory, as I discussed in my direct testimony. My surrebuttal Exhibit UIEC ___ (DEP-SR2) is a copy of RMP's 1st Supplemental to UIEC Data Request 29.2. This response further explains that wheeling rates are significantly tied to contractual arrangements and not regularly updated. These rates are not based in any way on the state jurisdictional allocation of 100% of transmission revenue requirements being allocated to retail customers. Accordingly, these "legacy" contracts are not cost compensatory, leaving the retail ratepayers to pay the balance. The point of my testimony is that a direct allocation of transmission revenue requirement to all classes of transmission users would simply ensure a fair and equitable cost-causation basis for the use of the transmission system.

Q. DOES THE DPU AGREE THAT THE COST ALLOCATION BETWEEN RETAIL AND WHOLESALE CUSTOMERS IS A COMPLEX AND SALIENT ISSUE?

A. Yes.[8] Dr. Zenger indicates, however, that this issue need not be addressed in this case, but should be deferred to a subsequent proceeding. My concern with her position is that the $47 million rate increase sought for Populus to Terminal in this case is but one-seventh of what lies ahead in rate increases for the entire line. Energy Gateway was justified by RMP as a new and novel concept, designed as a complete project rather than individual segments. Subsequent major completion deferrals have changed that somewhat. These issues should be worked out now with the intention of protecting retail ratepayers, wholesale customers and MEHC. If this isn't done now, upfront, it will destroy any chance of competitive merchant transmission being built.

Q. IN ADVANCE OF WORKING OUT THIS REVENUE REQUIREMENT ISSUE IN THE FUTURE AS DR, ZENGER SUGGESTS, IS THERE PERHAPS AN INTERIM STEP THAT COULD BE ACCOMPLISHED IN THESE PROCEEDINGS TO PROVIDE SOME PROTECTION FOR RETAIL

[8] Zenger, Rebuttal at p. 3, line 51 and p. 18, line 338.

CUSTOMERS AND PRESERVE THE OPPORTUNITY FOR PARTIES TO BETTER RESOLVE THESE ISSUES?

A. Yes. As an interim fix, RMP ought to credit retail ratepayers with a higher test year level of revenue credits. In its present filing in this case, RMP includes only $70.5 million dollars on a system wide basis, which may very well be inadequate.

Q. WHAT LEVEL OF WHEELING REVENUE CREDITS DO YOU PROPOSE FOR THIS CASE INSTEAD?

A. In the Company's May 26, 2011, FERC OATT filing, the Company projects $115 million for the test year wheeling revenues, of which $112 million is attributed to FERC Account 456.1, wheeling revenues. This is the account from which the Company in past cases has drawn from for wheeling revenue credits. While there may be some intracompany revenues as part of this $115 million, the Company has not been forthcoming about the precise breakdown of projected wheeling revenues, so it is difficult to identify exactly how much transmission revenue should be imputed to the Company. The models used by PacifiCorp in this FERC filing show the $115 million as an inputted number, without references to sources or derivation. Setting the test year revenues in this case at $115 million would soften the burden of the $47 million Populus to Terminal 100% revenue requirement allocation to retail ratepayers until a subsequent proceeding can better tackle the complex and salient issue of the project's revenue requirement and better follow a FERC direct allocation model among all customer classes.

Q. UNDER THE NEW ENERGY BALANCING ACCOUNT MECHANISM ("EBA"), DOES THE COMPANY HAVE AN INCENTIVE TO UNDERESTIMATE TEST YEAR WHEELING REVENUES?

A. Yes. I understand that the differences between test year and actual wheeling revenue in FERC Account 456.1 are shared 70% - retail customers, 30% - Company, through the EBA. A lower level of test year wheeling revenues increases the likelihood that actual revenues will exceed those set in the test year. Thus, increasing imputed wheeling revenues offsets the perverse incentive referenced above whereby the Company seeks to minimize transmission revenues (to later share in the difference through the EBA), while maximizing transmission costs to have the retail ratepayers fully pay these costs. Again, I recommend that $115 million be imputed as normalized test year wheeling revenues.

Q. DO YOU HAVE COMMENTS ON MR. CUPPARO'S REBUTTAL TESTIMONY THAT HE THINKS THAT MARKETING EXCESS CAPACITY ON ENERGY GATEWAY IS A BAD IDEA?

A. Yes. His testimony on this issue is essentially that if this capacity is marketed, it would be unavailable for future use by retail customers. This is a puzzling position for at least three reasons. One, the Company correctly notes elsewhere that it has the statutory duty to provide ample transmission capacity to serve all its present and future customers. As I discussed at page 20 lines 4-17 of my prefiled direct testimony, Mr. Cupparo made similar threats of dire consequences of third-party use to the Idaho Commission in PAC-E-10-07. Two, the timing of any future capacity needs is a management issue. The Company should be capable of managing marketed capacity with tools such as rollover rights and terms of contracts with third parties. Failure to market capacity results in foregone wheeling revenues that could offset the transmission revenue requirements. Third, PacifiCorp would recognize the recent gains in marketing and financing opportunities becoming available at FERC. It could move forward with the plan to expand the Energy

Gateway project without shifting all the risk on to retail ratepayers. The Company could plan to upgrade the circuitry on Gateway West and Gateway South, essentially moving from single to dual 500 kV lines, to accommodate prospective third party users. I noted as one example the recent FERC decision in the SunZia docket where the transmission developer was allowed to secure anchor customers on a long-term capacity allocation for up to 50% of the new line's capacity. This enables the developer to move forward financially with the line and remove the risk of idle or unused capacity from retail ratepayers. This recent decision appears to signal FERC's recognition that a better means needs to be devised to encourage the development of new transmission lines.

Q. ARE THERE ANY OTHER HINDRANCES TODAY THAT WOULD PREVENT PACIFICORP FROM BEING ABLE TO MARKET PORTIONS OF ENERGY GATEWAY CAPACITY TO OTHERS ON A LONG-TERM BASIS?

A. None of which I am aware. In fact, only a couple of weeks ago, the proposed Wyoming-Colorado Intertie, with a 900 MW capacity, announced that a renewable power developer in Wyoming proposes to buy all the capacity on this line. I attach 2 pages from the July 15, 2011 MEGAWATT DAILY as my Exhibit UIEC __ (DEP-SR4) summarizing this circumstance. Again, the new federal provisions and the new world of interregional transmission development may now allow PacifiCorp to move forward with the upsized Energy Gateway project in a manner that does not saddle retail ratepayers with the financial risk and responsibility.

Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.

A. When all of the inaccuracies and misquotes of my rebuttal testimony are corrected, my recommendation remains largely unchallenged. I believe that the Commission should either (1) allocate the costs of the Populus to Terminal line to those "customers" who will benefit from the project; or, at a minimum, (2) credit retail ratepayers with $115 million of transmission revenue credits consistent with the Company's recent filing with FERC.

It is clear that the Populus to Terminal line is part of a larger transmission superhighway planned by the Company that will benefit not only retail customers, but all customers. However, in violation of traditional economic theory of cost-benefit allocations, the Company has proposed to allocate 100% of the costs to its retail rate payers. To impose this cost exclusively on retail rate payers would foreclose competition in the transmission market and place the entire burden of non-use on retail rate payers—all for a project that provides benefits to all customers.

If the Commission adopts Dr. Zenger's approach and pushes this issue to yet another proceeding, it will be too late. The transmission upgrades will be in place and no other competitor would rationally consider duplicating this infrastructure. Thus, as I stated in my prefiled direct testimony, I recommend that the Commission determine that only 50% of the Populus to Terminal costs should be allocated to Utah retail ratepayers, which has the effect of reducing the Company's Utah revenue requirement by $23.45 million, or, alternatively impute $115 million to wheeling revenues as an interim measure to provide protection to retail customers until a subsequent proceeding that would provide protection for all customers, and to MEHC.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE
(Docket No. 10-035-124)

I hereby certify that on this 19th day of July 2011, I caused to be emailed, a true and correct copy of the foregoing **SURREBUTTAL TESTIMONY AND EXHIBITS OF DENNIS E. PESEAU ON REVENUE REQUIREMENT ON BEHALF OF UIEC** to:

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