Witness OCS – 2R

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. 11-035-200** **Rebuttal Revenue Requirement Testimony of Michele Beck For the Office of Consumer Services**

July 13, 2012

Q. WHAT IS YOUR NAME, TITLE, AND BUSINESS ADDRESS?

A. My name is Michele Beck. I am the director of the Office of Consumer Services, with a business address of 160 East 300 South, Salt Lake City, Utah.

Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will address portions of the testimony of Division of Public Utilities (Division) witness Artie Powell and UAE witness Kevin Higgins with respect to the Klamath issues. I will also address an issue pertaining to the REC balancing account raised by Mr. Higgins.

Klamath Issues

Q. THE DIVISION INDICATES THAT THE COMPANY'S COST-BENEFIT ANALYSIS IS REASON TO SUPPORT THE COMPANY'S PROPOSAL FOR RECOVERY OF KLAMATH COSTS. (POWELL DIRECT 238-240) DO YOU AGREE?

A. No. First, basing support on such a limited assessment is essentially supporting the Company in incurring significant obligations associated with the Klamath agreement without requiring the level of detailed analysis, which is typically necessary for the Commission to determine whether or not to allow cost recovery from Utah ratepayers. Second, the Company's analysis is based upon many assumptions, all of which were developed by the Company and many of which may not be possible to independently verify. A key component to the analysis includes assumptions about what types of modifications and mitigation would be required if the KIamath facilities were relicensed and the costs associated with those requirements. Another key component is that replacement power was modeled using the Company's forward price curve. In my experience, market price forecasts more than one or two years into the future are unreliable. Any number of changes in economic conditions or policy could significantly impact market price and availability. At a minimum, the analysis should have included some degree of sensitivity analysis, including an evaluation of replacement power using a pro-rationed share of a new generating plant given the uncertainty of market price forecasts. It is unclear to what extent the Division tested any of the Company's assumptions for reasonableness before accepting one analytical study as the basis for agreeing that such a significant set of costs should be borne by Utah ratepayers. The Commission should not consider an unverified study conducted by the Company to be sufficient evidence to allow recovery of all Klamath costs from Utah ratepayers.

Q. IS THE DIVISION'S ASSESSMENT OF THE COMPANY'S COST-BENEFIT ANALYSIS CONSISTENT WITH RESOURCE PLANNING AND EVALUATION PRACTICES?

A. No. It is not appropriate to pursue a resource option that simply meets the test of not exceeding the cost of a single option (i.e., the relicensing option). There may be a range of less costly resource options available that should be evaluated by the Company. This type of simple test is particularly troubling in the circumstance of the Company making resource decisions incorporating the costs of an agreement that represent regional interests. Using the standard of measurement that an agreement must simply be less than a single alternative could lead to an agreement that allows those regional interests to include all costs up to a dollar limit rather than trying to determine the most cost-effective outcome from a range of alternatives.

Such a simple comparison may be appropriate for Oregon and California as regulators in those states may be balancing public policy considerations associated with those regional interests and evaluating net costs to ratepayers. However, a simple analysis to show that KHSA costs don't exceed the projected costs of relicensing should not be sufficient for Utah.

Q. UAE PROPOSED THAT THE CARRYING CHARGE ON THE RELICENSING COSTS BE LIMITED TO THE COMPANY'S LONG-

TERM COST OF DEBT GOING FORWARD. (HIGGINS DIRECT 326-332) WHAT IS YOUR RESPONSE?

A. The Office's position is that prudence of these costs has not been established. Mr. Higgins' proposal is based upon a presumption of prudence. If the Commission ultimately allows recovery of either all or a portion of the costs from Utah ratepayers, then limiting the return to be applied to the resulting regulatory asset to the weighted cost of debt would be appropriate. Office Witness Donna Ramas will explain further the Office's view regarding potential changes to the carrying charge on Klamath process costs.

Q. UAE ALSO PROPOSED APPLYING A REVENUE CREDIT TO REFLECT THE CONTRIBUTION OF OREGON AND CALIFORNIA RATEPAYERS TOWARD DAM REMOVAL COSTS. WHAT IS YOUR RESPONSE?

A. My understanding is that the net mathematical impacts of using this revenue credit are equivalent to the Office's proposal to disallow recovery of dam removal costs from Utah ratepayers. However, UAE's proposal does not address the issue of whether the dam removal costs are reasonable to recover from Utah ratepayers since they are based upon an agreement designed to represent regional interests of Oregon and California. The Office is also concerned that the UAE proposal would not adequately protect Utah ratepayers. It appears that allowing the costs in rates and applying a revenue credit from the other states actually results in greater risk to Utah ratepayers than Oregon and California ratepayers bear.

Q. WHAT IS THE CAUSE OF YOUR CONCERN REGARDING RELATIVE RISK FOR UTAH RATEPAYERS?

A. While evaluating the merits of the UAE proposal for a revenue credit, the Office re-examined the Company's proposed treatment of revenues to be collected from Utah ratepayers to cover dam removal costs. In particular, it is not clear that the Company is treating the revenues from Utah consistent with the revenues from Oregon and California[1]. The Oregon and California contributions to dam removal are being placed in a trust and will eventually be turned over to a Dam Removal Entity. The Company has not indicated how the revenues from Utah will be treated, but they appear to be treated as general revenues that are not explicitly tied to the KHSA and put into the trust. In the event that the dam is not removed according to the KHSA, there are provisions for refund to Oregon and California ratepayers. There does not appear to be similar provisions to refund contributions from Utah ratepayers. The Office is also concerned that Utah ratepayers are not adequately protected in the event that actual dam removal costs exceed those estimated by the KHSA.

[1] The Office issued additional discovery which has not yet come due and has not yet been answered.

Thus, it appears that Utah ratepayers are at greater risk than the ratepayers of Oregon and California.

Lastly, it should be noted that California and Oregon were significant stakeholders in the KHSA process, that protections for those ratepayers were explicitly included in the agreement and that the California and Oregon contributions were determined through focused regulatory and legislative proceedings. None of these conditions exist for Utah, which results in the higher level of risk for Utah ratepayers unless the dam removal costs are simply disallowed.

Q. DOES THE UAE PROPOSAL TO USE REVENUE CREDITS REMEDY THE CONCERNS ABOUT RISK TO RATEPAYERS?

A. Only in part. The application of the revenue credit will completely offset Utah ratepayer contribution to dam removal at this time. Thus, potential refund in the event the dam is not removed would not be an issue. However, if California and/or Oregon reduced the level of their contributions to reflect some amount of Utah contributions, the risk would return. Also, the Office is concerned that the UAE proposal would not adequately protect Utah ratepayers against changed circumstances that could arise, including higher than expected total dam removal costs.

Q. DO YOU HAVE ANY UPDATES REGARDING THE CONDITIONS THAT MUST BE MET IN ORDER FOR THE KHSA TO BE IMPLEMENTED?

A. Yes. The California water bond is now officially delayed by being moved from the 2012 ballot to the 2014 ballot. The California legislature enacted this delay through AB1422 passed by the legislature on July 5, 2012 and signed into law by Governor Jerry Brown on July 9, 2012.

Q. WHAT IMPACT DOES THIS DELAY HAVE ON THE KHSA?

A. Delaying the California water bond places the $250 million California obligation toward the dam removal costs at risk. The Department of Interior has already delayed taking action because other necessary conditions, such as the California water bond, had not yet been met. There is no reason to believe the Department of Interior will move forward until after the California vote, which is currently scheduled to take place in late 2014. This means that it will be three years, at a minimum, before enough additional certainty is in place such that further progress toward implementing the KHSA could be realized. Thus, implementation is more uncertain than ever.

Q. WHY IS THE DELAY SUCH A CONCERN?

A. It fundamentally calls into question the cost-benefit analysis upon which the Company bases its request and the Division bases its support for including Klamath-related costs In Utah rates. Not only is the analysis potentially becoming outdated, but it would be negated if the KHSA is terminated. Customers are being asked to pay for these costs based on the benefits of not having to pay for the relicensing process. If the KHSA is terminated, the Company has indicated that it would restart its relicensing efforts. This could leave Utah ratepayers in the position of paying the current costs associated with the KHSA as well as being subject to future relicensing costs.

REC Balancing Account

Q. UAE PROPOSES TO IMPLEMENT AN INCENTIVE TO THE COMPANY FOR ADDITIONAL REC SALES. (HIGGINS DIRECT 847-857) WHAT IS YOUR RESPONSE?

A. The Office supports developing a mechanism to provide the Company an incentive to sell additional RECs. The revenue from REC sales has recently been a significant offset to rate increases for Utah customers. Now that these revenues have dropped off, the Office supports giving the Company incentives to promote additional REC sales. However, it is important to carefully design the incentive such that it achieves the goal of promoting additional sales rather than simply allowing the Company to share in the revenues from the current status quo. The Office supports the UAE proposal of a 90/10 sharing mechanism to be applied to incremental REC sales. The Office notes that current REC contracts and obligations that extend beyond the test period must also be explicitly identified in this case in order to ensure that the sharing mechanism is only applied to incremental REC revenues in future years.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.