Witness OCS – 2R

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	**)**	**Docket No. 13-035-02**
Rocky Mountain Power for Authority	**)**	**Rebuttal Testimony of**
to Change its Depreciation Rates	**)**	**Jacob Pous**
Effective January 1, 2014	**)**	**For the Office of**
	)	**Consumer Services**

AUGUST 2, 2013

Q. PLEASE STATE YOUR NAME.

A. My name is Jacob Pous. I am the same Jacob Pous who filed direct testimony in this proceeding on June 21, 2013.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. On behalf of the Office of Consumer Services, I address the amortization of reserve imbalance issue raised in the direct testimonies of Mr. Dunkel for the Division of Public Utilities ("DPU") and Mr. Townsend for the Utah Association of Energy Users (UAE).

Q. WHAT DOES A RESERVE IMBALANCE REPRESENT?

A. A reserve imbalance exists when the theoretical reserve for a function, such as steam production, differs from the actual book reserve for the same function. The theoretical reserve is calculated based on proposed life and net salvage parameters. The theoretical reserve attempts to represent the reserve level that should exist if the proposed life and net salvage parameters were in place for the remainder of the useful life of the investment. In very simple terms, the theoretical reserve is an index to measure how close the actual or book reserve is at a given point in time to where it should be, based on the current life and net salvage estimates.

Q. IS IT APPROPRIATE TO PERIODICALLY REVIEW THE RELATIONSHIP BETWEEN THE THEORETICAL RESERVE AND THE BOOK RESERVE?

A. Yes. Depreciation parameters and resulting rates for any function (steam production, transmission, etc.) represents a forecast of the future. By their very nature, forecasts are subject to error. Historically, the actual level and pattern of plant retirements in any given function have deviated from prior estimates. Also, the historical gross salvage and the cost of removal may differ from projected levels in prior depreciation studies. Finally, estimated mortality characteristics (i.e., life and net salvage values) normally change between depreciation studies. All of these factors result in reserve imbalances that should be trued-up.

Q. WHAT METHOD OR TECHNIQUE IS USUALLY RELIED ON BY DEPRECIATION EXPERTS TO TRUE-UP THE THEORETICAL AND BOOK RESERVE FOR INDIVIDUAL ACCOUNTS OR FUNCTIONS?

A. The true-up mechanism commonly employed is the remaining life technique. The remaining life technique, as the name implies, attempts to amortize the reserve imbalance over the newly estimated remaining life. While the remaining life technique is extensively employed, there is no requirement that it is the only true-up alternative. Circumstances do arise that call for a different amortization period to address specific reserve imbalance situations. Witnesses for the DPU and the UAE have identified this case as one of those situations.

Q. WHAT IS THE PARTICULAR SITUATION IN ROCKY MOUNTAIN POWER COMPANY'S ("RMP" OR THE "COMPANY") REQUEST THAT TRIGGERED THE NEED TO REVIEW ALTERNATIVES TO THE REMAINING LIFE CALCULATION, AS IT RELATES TO TRUING-UP THE DIFFERENCE BETWEEN THE THEORETICAL AND THE BOOK RESERVE?

A. The Company's request for a significant increase in depreciation expense resulting from early retirement of the Carbon plant is the situation that triggered the issue in this case. As noted in the testimonies of all parties, the Company seeks a significant increase in depreciation expense to recover investment and estimated decommissioning costs for the Carbon plant that will not have been recovered by the time the plant is now scheduled to retire (2015). This estimated significant increase in depreciation expense and the related reserve deficiency is due in part to the Company's assumed 3.3-year remaining life for the Carbon plant based on a 2011 depreciation test year period and a 1.3-year remaining life based on a 2013 depreciation test year, as well as a dramatic increase in the Company's estimated cost to decommission the plant. While the Company's proposal selectively addresses its calculated reserve deficiency for the Carbon plant, it basically ignores the sizeable reserve surplus that currently exists for the remaining steam production plant.

Q. IF THERE IS A SIZEABLE RESERVE SURPLUS FOR THE REMAINING STEAM PRODUCTION PLANT, WHY DOESN'T THAT SURPLUS OFFSET THE DEFICIENCY FOR THE CARBON PLANT?

A. As noted in Mr. Dunkel's direct testimony at page 13, lines 174-177, even though the Company estimates a $109 million reserve surplus for all steam production plant other than the Carbon plant and a $61 million reserve deficiency for the Carbon plant, the assumed remaining lives for each are quite different. Based on a 2011 depreciation test year the Company proposes a 22.44-year remaining life for all steam production plant other than the Carbon plant and a 3.3-year remaining life for the Carbon plant. Although the steam production reserve surplus is much larger than the Carbon reserve deficiency, the differences in the remaining life estimate results in an annual $13.6 million net deficiency to be paid by customers.

Q. IS THE THEORETICAL VERSUS BOOK RESERVE DIFFERENCE ISSUE LIMITED TO THE PRODUCTION FUNCTION?

A. No. Mr. Dunkel also addresses the significant excess reserve position for transmission and Utah's jurisdictional distribution plant.

Q. WHAT IS YOUR OPINION REGARDING THE OVERALL RESERVE ISSUE?

A. While a more rapid amortization than the remaining life is appropriate given the overall circumstances for the production, transmission, and distribution functions, I believe at a minimum that the large surplus reserve for steam production plant should be used to offset the significant reserve deficiency estimated by the Company for the Carbon Plant. However, there are at least two alternatives the Utah Public Service Commission (the "Commission") can consider for offsetting the Company's estimated reserve deficiency at the Carbon Plant.

Q. PLEASE EXPLAIN THE FIRST ALTERNATIVE.

A. The Commission could simply accept the recommendation of DPU and UAE witnesses to amortize the reserve surplus for steam production plant (other than Carbon) and the reserve deficiency for Carbon over the same 2011-2020 time period, based on a 2011 depreciation test year. As indicated in Mr. Dunkel's direct testimony at page 13, Table 4, the Company's proposal increases the Utah jurisdictional depreciation expense based on a 2011 depreciation test year by $5.7 million.[1] Offsetting the Company's request with a 9-year amortization of the $109 million reserve surplus and the $61 million claimed reserve deficiency yields a $2.24 million Utah jurisdictional decrease[2], also based on a 2011 depreciation test year. The net difference between the Company's request and amortizing the reserve surplus and deficiency over the same period is $8.0 million ($5.72 million plus $2.24 million) on a Utah jurisdictional basis, prior to modifying the depreciation rates for the balance of the steam production units.[3]

Since the DPU and the UAE amortized the reserve surplus separately outside of the remaining life calculation, the non-Carbon Plant remaining life depreciation rates would need to be increased by $2.0 million[4] on a Utah jurisdiction basis to reflect the use of the $109 million in the reserve amortization proposal. Based on the Company's claimed $61 million reserve deficiency for the Carbon Plant, the overall net impact for the Utah jurisdiction would be a decrease of approximately $6.0 million as set forth in Table 1 below.

[1] $13.6 million total company amount x Utah allocation factor of 42% = $5.72 million.
[2] $5.3 million total company amount x Utah allocation factor of 42% = $2.24 million.
[3] The non-Carbon Plant steam production rates would need to be increased over the remaining life to allow recovery of the surplus reserve used to offset the estimated Carbon Plant reserve deficiency.
[4] $109 million/22.44 years x 42% = $2.04 million.

Table 1

Equal Amortization of Steam Plant Reserve Imbalances (Millions of Dollars)				
	Reserve	Period	Total Company	Utah
Surplus	$109	22.44	$4.86	
Deficiency	($61)	3.3	($18.48)	
Total			($13.63)	($5.72)
Surplus	$109	9	$12.11	
Deficiency	($61)	9	($6.78)	
Total			$5.33	$2.24
Subtotal			$18.96	$7.96
Remaining				
Life Impact	$109	22.44	$4.86	$2.04
Net Impact			$14.10	$5.92

Q. PLEASE EXPLAIN THE SECOND ALTERNATIVE.

A. A second approach is to change the amortization of the reserve surplus for steam production plant (other than Carbon) so that it exactly offsets the dollar impact of the reserve deficiency for the Carbon Plant the Commission orders in this case. Based on the Company's claimed $61 million deficiency for the Carbon Plant, only $61 million of the $109 million reserve surplus would be amortized on over a shorter period. The overall net impact of this alternative would be a Utah jurisdictional decrease of approximately $4.6 million, as set forth in Table 2 below. This alternative produces a slightly smaller decrease of $4.6 million compared to the $6.0 million decrease under the approach recommended by the DPU and UAE.

Table 2

Offset Amortization of Steam Plant Reserve Imbalances				
(Millions of Dollars)				
	Reserve	Period	Total Company	Utah
Surplus	$109	22.44	$4.86	
Deficiency	($61)	3.3	($18.48)	
Total			($13.63)	($5.72)
Surplus	$61	9	$6.78	
Deficiency	($61)	9	($6.78)	
Total			$0.00	$0.00
Subtotal			$13.63	$5.72
Remaining				
Life Impact	$61	22.44	$2.72	$1.14
Net Impact			$10.91	$4.58

Q. HAVE OTHER JURISDICTIONS ADOPTED A MORE RAPID TRUE-UP PERIOD THAN THE REMAINING LIFE OF INVESTMENT?

A. Yes. In Docket No. 080677-EI, a 2009 Florida Power & Light ("FP&L") proceeding before the Florida Public Service Commission ("FPSC"), the FPSC adopted my recommendation regarding a more rapid amortization of excess reserve. In particular, it should be noted that similar to the situation in this case, FP&L not only was seeking a true-up over an approximate 20-year remaining life for its reserve surplus, but at the same time was seeking immediate recovery of the underfunded reserves resulting from the early retirement of generating facilities. The FPSC found FPL's request to be unreasonable and adopted my recommendation to immediately offset the reserve deficiencies for the early retirement of power plants in the amount of $314 million from a $1.2 billion

excess reserve position and amortize the remaining $895 million of excess reserve over a four-year period rather than over the remaining life.

Q. ABSENT THE FPSC'S DECISION IN THE FP&L CASE, AS WELL AS OTHER SIMILAR DECISIONS, WOULD IT STILL BE APPROPRIATE FOR THE UTAH COMMISSION TO ADOPT A MORE RAPID AMORTIZATION FOR THE STEAM PRODUCTION EXCESS RESERVE IN THIS PROCEEDING?

A. Yes. From a fairness standpoint, it is unreasonable to retain the significant level of intergenerational inequity that has been created by the historical depreciation practices of the Company, which is aggravated in this proceeding by the Company's short remaining life calculation for the claimed level of the Carbon Plant reserve deficiency. To recognize a significant excess reserve and not take a proactive corrective action means that future generations of customers will underpay for assets and the current generation of customers will continue to overpay for assets. By adopting an amortization period shorter than the remaining life in this case, the Commission will ensure that the generation of customers that have overpaid historically is the same generation of customers that receive an appropriate share of the depreciation reserve true-up.

Q. DOES A MORE RAPID TRUE-UP OF THE RESERVE DENY THE COMPANY FULL RECOVERY OF ITS PLANT INVESTMENT?

A. No. The Company is entitled to recover 100% of its prudently incurred plant investment and will not be harmed by a more rapid amortization of the excess reserve. Alternatively, the same cannot be said for different generations of customers who will either overpay or underpay for utility plant if the Commission is slow to address and remedy a significant excess reserve position for individual functions.

Q. DOES A MORE RAPID AMORTIZATION OF EXCESS RESERVE REPRESENT A FORM OF RETROACTIVE RATEMAKING?

A. While I am not an attorney, I can represent to the Commission that FP&L raised the legal argument of retroactive ratemaking in the Florida proceeding and the FPSC found that the argument had no merit. The FPSC rejected FP&L's argument because the issue is one of modifying the amortization time period prospectively to address an excess reserve situation. Thus, a change to the amortization time period to better align the theoretical with the book reserve does not constitute a form of retroactive ratemaking.

Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATION ON THE PLANT RESERVE IMBALANCE ISSUE.

A. While a more rapid amortization of the excess reserve for all functions (production, transmission, and distribution) should be considered by the Commission, I recommend that no less than the amount necessary to offset the reserve deficiency ultimately determined by the Commission for the Carbon plant be used from the excess reserve for the remainder of the steam production function. The impact of my recommendation decreases steam production depreciation expense by $4.6 million on a Utah jurisdictional basis assuming the Commission were to adopt the Company's proposed $61 million reserve deficiency for the Carbon Plant.

Q. GIVEN MR. DUNKEL ALSO PROPOSES TO ESTABLISH A SHORTER AMORTIZATION PERIOD FOR THE RESERVE SURPLUSES ASSOCIATED WITH THE TRANSMISSION AND DISTRIBUTION FUNCTIONS, DOES THE COMMISSION NEED TO BE CAREFUL ON HOW IT APPLIES DEPRECIATION RESERVE DOLLARS TO SPECIFIC FUNCTIONS?

A. Yes. To the extent the Commission does elect to establish a shorter period for amortizing the reserve surpluses for the transmission and distribution functions as recommended by Mr. Dunkel, it should not use dollars from these other functions to offset deficiencies in the production function. The transfer of reserve dollars between functions can negatively impact customers due to jurisdictional and functional allocation factors between rate classes.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes it does. However, to the extent I have not addressed a particular issue raised by any of the parties in this proceeding does not mean I concur with their position.