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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 Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations	**)))))))**	**Docket No. 13-035-184** **Rebuttal Testimony of Philip Hayet On Behalf of the Utah Office of Consumer Services**

CONFIDENTIAL - SUBJECT TO RULE 746-100-16

REDACTED

June 4, 2014

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. Philip Hayet, 215 Huntcliff Terrace, Sandy Springs, Georgia 30350. I am a utility industry regulatory consultant at Hayet Power Systems Consulting ("HPSC"), and I am appearing on behalf of the Office of Consumer Services ("OCS").

Q. ARE YOU THE SAME PHILIP HAYET WHO SUBMITTED DIRECT TESTIMONY IN THIS DOCKET ON MAY 1, 2014?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am addressing two issues in this testimony. The first is discussed by both George Evans on behalf of the Division of Public Utilities ("DPU") and Kevin Higgins on behalf of the UAE Intervention Group ("UAE"), and concerns adjustments to the Company's calculation of wind integration costs associated with non-PacifiCorp wind resources owned by PacifiCorp transmission customers. The second issue concerns the transmission loss factor adjustment that I presented in Direct Testimony. I am presenting a refinement to the calculation I included in my Direct Testimony.

Non-Owned Wind Generation Integration Costs

Q. PLEASE EXPLAIN WHAT THIS ISSUE CONCERNS.

A. The Company has chosen to charge retail customers for the costs of providing integration services to wholesale transmission customers that provide wind energy to non-PacifiCorp loads. The Company states that as an offset to these charges, it credits revenue requirements with PacifiCorp's Open Access Transmission Tariff ("OATT") Schedule 3 and 3A revenues charged for Regulation and Frequency Response Service for network customers and generators that sell their energy off-system. The issue that the DPU and

UAE have raised, and that I am now raising is whether it is appropriate for PacifiCorp to charge retail customers for the cost of providing integration services to these transmission customers even though it also credits retail customers with Schedule 3 and 3A revenues.

Q. WHAT POSITIONS DO GEORGE EVANS AND KEVIN HIGGINS TAKE REGARDING THIS MATTER?

A. Both Messrs. Evans and Higgins believe that wholesale customers should be fully liable for the costs PacifiCorp incurs in providing integration services to wind generators that serve non-PacifiCorp loads. Mr. Evans recognizes that PacifiCorp asserts it credits retail customers with Schedule 3 and 3A revenues, but he notes that the "OATT charges fall short of completely covering the wind integration cost the Company includes in NPC".[1] Therefore, Mr. Evans nets integration costs and Schedule 3 and 3A revenues, and he reduces revenue requirements by the amount that integration costs exceed Schedule 3 and 3A revenues.

Q. DOES MR. HIGGINS SHARE THE SAME CONCERN REGARDING NON-OWNED WIND INTEGRATION COSTS?

A. As mentioned above, both Messrs. Evans and Higgins agree that wholesale customers should be fully liable for the costs PacifiCorp incurs in providing integration services to wind generators that serve non-PacifiCorp loads. However, Mr. Higgins does not agree that Schedule 3 and 3A revenue should be treated as an offset as compensation for the integration costs PacifiCorp incurs in accommodating the non-owned wind generation on its system. Mr. Higgins states, "Specifically, the OATT does <u>not</u> include any recovery of the opportunity cost of holding back reserves to support wind integration that are recovered in net power costs, but only includes the fixed (capital-related) costs associated with providing wind integration to wholesale customers."[2] Mr. Higgins draws a distinction

[1] George Evans Direct Testimony, page 9, line 121.
[2] Kevin Higgins Direct Testimony, page 38, line 757.

between the "opportunity cost of holding back reserves to support wind integration" and the "fixed (capital-related) costs". In other words, not only does PacifiCorp incur real time operational costs when wind resources generate energy, but PacifiCorp also incurs fixed costs associated with capacity that must be available as reserves to back-up the wind resources given the intermittent nature of wind. Mr. Higgins' point is that Schedule 3 and 3A revenues compensate PacifiCorp for the fixed capacity costs, but not for the real time operational costs that are incurred. Therefore, in developing his adjustment, Mr. Higgins removes the entire integration cost associated with non-owned wind generators, and does not net out the Schedule 3 and 3A revenues.

Q. DO YOU AGREE WITH MR. HIGGINS?

A. Yes I do, and in fact, this is the same position the OCS took in the last General Rate Case (Docket No. 11-035-200). Mr. Randall Falkenberg, on behalf of the OCS, explained that the FERC OATT revenues were only intended to recover fixed costs associated with wind integration services, not the variable production cost impacts caused by the non-owned wind farms.[3] Furthermore, in response to UAE 3.5, the Company agreed and stated the rates "…do not include variable net power costs (NPC) component costs. The rates are based upon the fixed capital costs of the generating units associated with providing Schedule 3 and Schedule 3A regulating margin reserve service to wholesale transmission customers."

Q. WHAT IS YOUR RECOMMENDATION?

A. I agree with Mr. Higgins that the Commission should disallow recovery of the full integration costs that the Company has charged retail customers for the non-owned wind

[3] Randall Falkenberg Direct Testimony, Docket No. 11-035-200, page 15, line 370.

generation; however, I believe a small adjustment needs to be made to Mr. Higgins calculation.

Q. WHAT ADJUSTMENT DO YOU PROPOSE?

A. I believe that Mr. Higgins used the wrong wind integration cost in his calculation. With regard to the non-owned wind generators, I believe that the Company only charged retail customers for intra-hour wind integration costs, while Mr. Higgins included a charge for both intra-hour and inter-hour integration costs. My adjustment is $.37 per megawatt hour lower than Mr. Higgins. The following table compares our two adjustments.

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In summary, the Company's methodology requires retail customers to subsidize wholesale customers for the integration charges that non-owned wind generators cause, and the OCS adjustment, $849,625 on a Utah basis, removes these charges from retail revenue requirements.

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<u>Transmission Losses</u>

Q. PLEASE EXPLAIN WHAT THIS ISSUE CONCERNS.

A. In developing transmission loss factors, the Company used a simple five-year average of calendar year losses from the period January 2008 through December 2012. In my Direct Testimony, I presented an adjustment (Adjustment No. 8) which used more up-to-date information, as I averaged calendar year losses from the period January 2009 through December 2013. Since filing that testimony I have requested additional discovery that I have used to refine my GRID calculations. Previously, I calculated an updated System loss factor and applied that equally to all jurisdictional load. I have now revised my calculations by developing individual loss factor adjustments for each state.

Q. PLEASE COMPARE THE VALUES YOU USED IN THE DIRECT VERSUS REBUTTAL PHASES OF THIS CASE.

A. The following table compares the state and System loss factors based on an average over the 2008 – 2012 time period and based on an average over the 2009 – 2013 time period.

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In my Direct Testimony, I relied on data that covered the 2009 – 2013 time period, whereas the Company relied on load factors from the 2008 – 2012 time period. To adjust the Company's load forecast, I developed a System Load Adjustment Factor, which was computed as the ratio of the System Average over the 2009 – 2013 period divided by the System Average over the 2008 – 2012 period, as follows:

[redacted]

I multiplied this load adjustment factor by the load requirements modeled in GRID for each hour and for each state to create the new adjusted load requirements. In my Rebuttal Testimony, I developed load adjustment factors the same way, but I improved the calculation by developing specific load adjustment factors on a state by state basis. As a result, I have now developed an improved load forecast by applying the above State Load Adjustment factors to the appropriate state load requirements modeled in GRID for each hour.

Q. WHAT IS THE IMPACT OF YOUR REFINED LOSS FACTOR ADJUSTMENT?

A. The loss factor adjustment that I previously recommended lowered net power costs by $1,685,806 on a system basis, or by $713,096 on a Utah jurisdictional basis compared to the Company's April 10, 2014 updated filing. Now, using the improved calculation, the Company's net power cost from the April update is reduced by $1,310,725 on a system basis, or by $554,437 on a Utah jurisdictional basis. This reflects a small reduction in the adjustment that I had previously recommended, however, this is now based on an improved adjustment calculation.

Q. WITH RESPECT TO THE TWO ADJUSTMENTS DISCUSSED ABOVE, IS THE OCS PROVIDING AN UPDATED BALANCING ADJUSTMENT AND THE RESULTING REVENUE REQUIREMENT IMPACT AFTER FLOWING THROUGH THE COMPANY'S JURISDICTIONAL ALLOCATION MODEL?

A. At this time the OCS is only presenting the net power cost impact of these two adjustments. The OCS will perform a final balancing adjustment and the corresponding impact on overall revenue requirements after flowing through the Company's Jurisdictional Allocation Model at the time it presents its Sur-Rebuttal Testimony. At that time, the OCS will include all other adjustments and any other changes resulting from its review of the Company's and other Parties' Rebuttal Testimony.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.