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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Application of Rocky Mountain Power, a Division of PacifiCorp, for Authority to Change Its Depreciation Rates Effective January 1, 2021	**Docket No. 18-035-36**

PREFILED SURREBUTTAL TESTIMONY OF

KEVIN C. HIGGINS

The Utah Association of Energy Users ("UAE") hereby submits the Prefiled Surrebuttal Testimony of Kevin C. Higgins in this docket.

DATED this 3rd day of April 2020.

JAMES DODGE RUSSELL & STEPHENS

Phillip J. Russell
Attorney for the Utah Association of Energy Users

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 3rd day of April 2020 on the following:

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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Surrebuttal Testimony of Kevin C. Higgins

On Behalf of the

Utah Association of Energy Users

April 3, 2020

I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. My name is Kevin C. Higgins. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. On whose behalf are you testifying in this proceeding?

A. My testimony is being sponsored by the Utah Association of Energy Users ("UAE").

Q. Please summarize your qualifications.

A. My academic background is in economics, and I have completed all coursework and field examinations toward a Ph.D. in Economics at the University of Utah. In addition, I have served on the adjunct faculties of both the University of Utah and Westminster College, where I taught undergraduate and graduate courses in economics. I joined Energy Strategies in 1995, where I assist private and public sector clients in the areas of energy-related economic and policy analysis, including evaluation of electric and gas utility rate matters.

Prior to joining Energy Strategies, I held policy positions in state and local government. From 1983 to 1990, I was economist, then assistant director, for the Utah Energy Office, where I helped develop and implement state energy policy. From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County Commission, where I was responsible for development and implementation of a broad spectrum of public policy at the local government level.

Q. Have you previously testified before the Utah Public Service Commission ("Commission")?

A. Yes. Since 1984, I have testified in forty-two dockets before the Utah Public Service Commission on electricity and natural gas matters.

Q. Have you testified previously before any other state utility regulatory commissions?

A. Yes. I have testified in approximately 210 other proceedings on the subjects of utility rates and regulatory policy before state utility regulators in Alaska, Arkansas, Arizona, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Virginia, Washington, West Virginia, and Wyoming. I have also filed affidavits in proceedings before the Federal Energy Regulatory Commission and prepared expert reports in state and federal court proceedings involving utility matters.

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony responds to the Direct Testimony of Sierra Club witness Ezra Hausman and his recommendation that the Commission reject the Stipulation in this proceeding.

Q. Is UAE a signatory to the Stipulation?

A. Yes.

Q. What is your recommendation to the Commission regarding the Stipulation?

A. Contrary to Dr. Hausman's position, I recommend that the Commission approve the Stipulation in its entirety. Dr. Hausman's recommendation that the Stipulation be rejected rests in significant part on his argument that the Stipulation's use of coal plant retirement dates from the Company's Depreciation Study for the Naughton 1&2 and Jim Bridger 1&2 plants, rather than the retirement dates for these plants in the 2019 Integrated Resource Plan ("IRP"), will result in inequitable treatment of future ratepayers. Dr. Hausman's contention is misplaced, as he fails to properly consider both the proper context of the Stipulation and the importance of mitigating the rate impacts on *current* ratepayers of shortening the lives of coal plants. The benefits presented in the 2019 IRP of retiring the Naughton 1&2 and Jim Bridger 1&2 plants early consist of projected cost savings to *future* customers relative to a benchmark case.[1] As future customers are the economic beneficiaries of early retirements based on the 2019 IRP analysis, it is unreasonable to insist, as Dr. Hausman does, that current customers pay an additional premium in the form of higher depreciation expense in order to achieve that future benefit. Moreover, Utah stakeholders have already diligently developed plans to absorb the costs of early coal retirements through the use of funds resulting from the Tax Cuts and Jobs Act ("TCJA") as well as the Sustainable Transportation and Energy Plan ("STEP") Act, as presented in the TCJA Settlement in Docket No. 17-035-69. Dr. Hausman's recommendation fails to recognize the multi-pronged effort being undertaken in Utah to address the impacts on customers from the early retirement of coal plants.

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[1] See 2019 IRP, Vol II, Appendix R, pp. 591-613. See also Appendix M, pp. 274-276.

II. RESPONSE TO SIERRA CLUB

Q. Briefly summarize the Sierra Club's objections to the Stipulation.

A. Dr. Hausman maintains that the depreciable lives proposed in RMP's application and Depreciation Study for the Naughton 1&2 and Jim Bridger 1&2 coal plants are unrealistic and unreasonable and are in direct conflict with the Company's 2019 IRP and action plan. Dr. Hausman concludes that, as a result, RMP "risks imposing a significant intergenerational inequity on its ratepayers without showing appropriate countervailing benefit."[2]

Q. Do you agree that there are differences in the expected retirement dates for these four units between the Depreciation Study and the 2019 IRP preferred portfolio?

A. Yes. That is clearly the case. The Depreciation Study assumes a retirement date of 2029 for Naughton 1&2 and this date is moved up by four years to 2025 in the 2019 IRP preferred portfolio. Similarly, the Depreciation Study assumes a retirement date of 2028 for Jim Bridger 1 and 2032 for Jim Bridger 2, whereas the 2019 IRP preferred portfolio moves these dates up to 2023 and 2028, respectively.

Q. Do you agree with Dr. Hausman's conclusion that these differences in the expected retirement dates between the Depreciation Study and the 2019 IRP preferred portfolio risks imposing a significant intergenerational inequity on RMP ratepayers without showing appropriate countervailing benefit?

A. No, not at all. It is important to consider the overall context here. First, the Depreciation Study itself advances the retirement dates for many of the Company's coal plants relative

[2] Direct Testimony of Ezra Hausman, 3:55-61.

to the Company's prior depreciation study. Table KCH-1, below, compares the retirement dates incorporated in current depreciation rates with those from the most recent Depreciation Study.

Table KCH-1
Comparison of Coal Unit Retirement Dates[3]

	Current Rates	Depreciation Study
Cholla Unit 4	2042	2025
Colstrip Unit 3	2046	2027
Colstrip Unit 4	2046	2027
Craig Unit 1	2034	2025
Craig Unit 2	2034	2026
Jim Bridger Unit 1	2037	2028
Jim Bridger Unit 2	2037	2032

Second, the Stipulation further advances the retirement date of Cholla 4 from 2025 in the Depreciation Study to 2020, and also reflects the conversion of Naughton 3 to gas with a retirement date of 2029. The plain fact is that Utah stakeholders and the Commission are already grappling with the ratemaking challenge of absorbing the cost of shortening the lives of so many coal facilities at once. On top of that, expected increases in coal plant decommissioning costs will add to that challenge.

In the face of these challenges, Utah stakeholders previously developed a path forward for mitigating the increased depreciation expense associated with early coal plant retirements through the negotiation of the TCJA Settlement approved by the Commission. The terms of the TCJA Settlement designate a portion of TCJA benefits to "buy down" the undepreciated balance of the Dave Johnston coal plant as well as outline

[3] Docket No. 18-035-36, McDougal Workpapers 10 - Depreciation Rate Comparison, "WY-UT-ID" tab.

a plan to utilize all available STEP funding to buy down the balances of other eligible coal plants.[4] The use of a portion of TCJA benefits to buy down plant balances is an example of current customers foregoing near-term benefits for the advantage of future ratepayers. However, these settlement terms were developed prior to the acceleration of the Naughton 1&2 and Jim Bridger 1&2 retirements proposed in the 2019 IRP preferred portfolio.

In this context, in which current ratepayers have already agreed to forego near-term benefits for the advantage of future ratepayers, it is not unreasonable for the parties to the Stipulation to agree to depreciation rates that will result in annual depreciation expense based on the expected plant lives for Naughton 1&2 and Jim Bridger 1&2 from the Depreciation Study rather than from the 2019 IRP preferred portfolio. Doing so will more readily allow the Commission the option to set rates in the upcoming general rate case that recover the undepreciated balances of the Naughton 1&2 and Jim Bridger 1&2 plants over their previously anticipated lives, mitigating the rate impact of early retirement on current customers, even if the plants are retired sooner than previously anticipated. In such a case, the undepreciated balances can be converted into a regulatory asset and recovered over the expected lives in the Depreciation Study.

There is already ample precedent in Utah for such an approach, as a similar concept was employed when the retirement date for the Company's Carbon plant was moved up from 2020 to 2015: the increase in depreciation expense associated with this change was converted into a regulatory asset (called Remaining Carbon Balances) and

[4] See Docket No. 17-035-69, Settlement Stipulation at Paragraphs 38, 40-49; Order Approving Settlement Stipulation Issued: November 9, 2018.

amortized (i.e., recovered from customers) through the previously expected retirement date of 2020.[5] Similarly, the undepreciated balance of the Deer Creek Mine was converted into a regulatory asset after its earlier-than-expected closure and amortized at a rate equal its original depreciation rates.[6] These departures from a rigid adherence to fully recovering remaining plant balances by the time of the facility's retirement were undertaken in the public interest. Going forward, I suggest that the Commission be prepared to approve other departures from the rigid adherence to timing of recovery espoused by Dr. Hausman, as such departures are also likely to satisfy a compelling public interest.

Q. What about concerns over intergenerational equity if the undepreciated balance of a plant continues to be recovered after it is retired?

A. Intergenerational equity is a valid consideration, but it must be balanced with equally valid concerns about the impacts on current customers, particularly when the acceleration of coal plant retirements is as pervasive as it is now across the Company's system. We should also be clear what we mean by "intergenerational" equity. In the context of the potential acceleration in retirement dates for Naughton 1&2 and Jim Bridger 1&2, the equity concerns do not literally cut across "generations," but rather span four to five years. It may be more useful to think of these concerns as involving "intertemporal" equity.

[5] See Docket Nos. 11-035-200, 12-035-79, and 12-035-80, Settlement Stipulation at Paragraphs 46-50; Report and Order Issued: September 19, 2012, § III. B. 5. b. at 15-16, § VI., Paragraphs 6-7 at 28-29.

[6] See Docket No. 14-035-147, Settlement Stipulation at Paragraph 13; Report and Order Memorializing Bench Ruling Issued: April 29, 2015, § V., Paragraph 3 at 11.

Irrespective of terminology, the proposals in the 2019 IRP to shorten coal plant lives are based on the Company's analysis of the net savings to future customers relative to a benchmark case. In evaluating the going-forward benefits of early retirement, the recovery of the undepreciated balances of the existing coal units is taken as a given, i.e., the undepreciated balances do not factor into the Company's revenue requirement analysis[7] of the net benefits to customers from early coal plant retirement. If decisions are made to retire coal plants early based on the conclusion that doing so will provide economic benefits to *future* customers (relative to a benchmark) it does not follow of necessity that *current* customers must somehow be penalized (by absorbing a higher rate of fixed cost recovery) as a result of such a decision. If future customers are indeed better off as a result of closing certain coal plants early, then it may not be unreasonable for those future customers to participate in the recovery of prudently-incurred fixed costs of those original investments for a limited period of time, if it means mitigating the burden on current customers from such an action. The potential for this important rate mitigation for current customers is the countervailing benefit that Dr. Hausman incorrectly asserts is missing from the Stipulation.

Q. Do you have any additional comments regarding the intergenerational equity concerns raised by Dr. Hausman?

A. Yes. The pursuit of intergenerational equity in ratemaking is already an exercise in approximation. It is well understood in ratemaking that customers taking service at the time a major long-lived investment comes into service will pay a greater return on rate

[7] More formally, Present Value Revenue Requirement, or PVRR.

base for that investment than customers taking service and using that same asset decades later. In this sense one "generation" of customers bequeaths to the "next generation" the ability to take service from an asset that has been significantly depreciated (and thus costs less in rates) while remaining fully functional. We accept that there is no compensation provided between the "generations" to level out this cost. In the current context, this point is readily seen when we consider that much of the new wind generation that will effectively displace the coal generation being retired early can only be delivered to the Company's system through major investment in new transmission facilities costing an estimated $756.5 million.[8] The new transmission facilities constructed to deliver new wind energy are very long-lived assets, but the cost burden of this investment will fall more heavily on current customers than later generations of customers, as the latter will be able to enjoy the benefits of these assets as the assets' net book value declines.

The notion advanced by Dr. Hausman that the recovery of the remaining book value of the coal plant assets must be borne entirely by current customers when a plant's retirement date is accelerated is too narrow a prescription for the current circumstances. Rather, a more pragmatic and holistic approach is warranted, as cogently explained in the Direct Testimony of Western Resource Advocates witness Nancy Kelly in support of the Stipulation.[9] Dr. Hausman's recommendation to reject the Stipulation should be denied.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

[8] Docket No. 17-035-40, Surrebuttal Testimony of Rick A. Vail, p. 3 states that the cost of network upgrades is $77.32 million, and p. 12 states that the cost estimate for the Aeolus-to-Bridger/Anticline transmission line is $679.2 million.
[9] See Direct Testimony of Nancy L. Kelly, 21:352-366.