

Phillip J. Russell (0445)  
JAMES DODGE RUSSELL & STEPHENS, P.C.  
10 West Broadway, Suite 400  
Salt Lake City, UT 84101  
Telephone: 801-363-6363  
Facsimile: 801-363-6666  
Email: prussell@jdrsllaw.com

*Counsel for the Utah Association of Energy  
Users*

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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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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**

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**PREFILED PHASE II SURREBUTTAL TESTIMONY OF  
KEVIN C. HIGGINS**

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The Utah Association of Energy Users (“UAE”) hereby submits the Prefiled Phase II Direct  
Testimony of Kevin C. Higgins in this docket.

DATED this 29<sup>th</sup> day of October 2020.

JAMES DODGE RUSSELL & STEPHENS



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Phillip J. Russell  
*Counsel 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 29<sup>th</sup>

day of October 2020 on the following:

ROCKY MOUNTAIN POWER

Emily Wegener      emily.wegener@pacificorp.com  
Jana Saba            jana.saba@pacificorp.com  
                          Datarequest@pacificorp.com  
                          Utahdockets@pacificorp.com

DIVISION OF PUBLIC UTILITIES

William Powell      wpowell@utah.gov  
Patricia Schmid     pschmid@agutah.gov  
Justin Jetter        jjetter@agutah.gov

OFFICE OF CONSUMER SERVICES

Michele Beck        mbeck@utah.gov  
Steven Snarr        ssnarr@agutah.gov  
Robert Moore        rmoore@agutah.gov

WESTERN RESOURCE ADVOCATES

Sophie Hayes        sophie.hayes@westernresources.org  
Nancy Kelly         nkelly@westernresources.org  
Steven S. Michel    smichel@westernresources.org

UTAH CLEAN ENERGY

Hunter Holman      hunter@utahcleanenergy.org  
Sarah Wright        sarah@utahcleanenergy.org

SIERRA CLUB

Julian Aris          julian.aris@sierraclub.org  
Gloria Smith        gloria.smith@sierraclub.org  
Ana Boyd            ana.boyd@sierraclub.org

/s/ Phillip J. Russell

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

Application of Rocky Mountain Power, a )  
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**Phase II Surrebuttal Testimony of Kevin C. Higgins**

**On Behalf of the**

**Utah Association of Energy Users**

**October 29, 2020**

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Kevin C. Higgins. My business address is 111 East Broadway, Suite 1200,  
4 Salt Lake City, Utah, 84111.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am a Principal in the firm of Energy Strategies, LLC, a private consulting firm that  
7 specializes in economic and policy analysis applicable to energy production,  
8 transportation, and consumption.

9 **Q. ARE YOU THE SAME KEVIN C. HIGGINS WHO PREFILED DIRECT AND**  
10 **REBUTTAL TESTIMONY IN PHASE II OF THIS PROCEEDING ON BEHALF**  
11 **OF THE UTAH ASSOCIATION OF ENERGY USERS (“UAE”)?**

12 A. Yes.

13 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

14 A. My surrebuttal testimony responds to the Phase II Rebuttal Testimony of Rocky Mountain  
15 Power (“RMP” or “Company”) witness Steven R. McDougal regarding the ratemaking  
16 treatment of the wind assets that were retired in conjunction with RMP’s repowering  
17 projects.

18 **Q. PLEASE SUMMARIZE THE CONCLUSIONS OF YOUR SURREBUTTAL**  
19 **TESTIMONY.**

20 A. I recommend that the Commission adopt my proposal to adjust the depreciation reserve  
21 associated with the 11 repowered wind projects approved by the Commission, plus Leaning  
22 Juniper, to reflect the depreciation expense that customers have continued to pay in rates

23 between the time each of the wind assets was retired and January 1, 2021, the rate effective  
24 date of the ongoing general rate case, Docket No. 20-035-04. I recommend that the  
25 Commission adopt my recommendation and reject the approach preferred by RMP, which  
26 effectively freezes the value of the retired wind assets (associated with wind repowering  
27 projects) when each asset is retired until the rate effective date of the general rate case.  
28 RMP's approach deprives customers from getting proper credit for paying off these assets.  
29

## 30 II. RESPONSE TO RMP

31 **Q. WHAT IS RMP'S OBJECTION TO YOUR ADJUSTMENT FOR RATE BASE**  
32 **ASSOCIATED WITH RETIRED WIND ASSETS?**

33 A. In my direct testimony, I argued that rather than effectively freezing the value of the retired  
34 wind assets (associated with wind repowering projects) when each asset is retired until the  
35 rate effective date of the general rate case, the *de facto* "value" of the retired assets should  
36 continue to be reduced through that time to reflect the depreciation expense associated with  
37 these assets in current rates. This treatment would ensure that customers get the proper  
38 benefit from continuing to pay off these assets between the retirement date and the rate  
39 effective date.

40 RMP objects to my recommendation, arguing that it is "inconsistent with normal  
41 practice" and ignores "the new capital placed in-service due to the retirement."<sup>1</sup> RMP  
42 characterizes my proposal as single-issue ratemaking.<sup>2</sup>

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<sup>1</sup> Rebuttal Testimony of Steven R. McDougal, lines 63-73.

<sup>2</sup> *Id.*, lines 102-106.

43 **Q. WHAT IS YOUR RESPONSE TO RMP'S OBJECTIONS?**

44 A. Firstly, it is not "normal practice" to retire \$785 million in net plant some 20 years before  
45 the end of its useful life, which is what has occurred as a result of repowering. The  
46 Commission should pay careful attention to how this enormous asset retirement is handled  
47 for ratemaking purposes. Secondly, it would be more accurate to describe the asset  
48 retirement as occurring *due to the new capital placed in service* rather than "the new capital  
49 being placed in service due to the retirement," as RMP has described it.<sup>3</sup> The distinction  
50 between cause and effect is relevant because the retirement of these assets has been forced  
51 by the Company's plan to invest in the repowering assets. Given this forced retirement,  
52 and given the fact that customers will be required to pay for the full recovery of these assets  
53 plus a return, it is a matter of fundamental equity that customers be given proper credit for  
54 paying down the cost of these assets through the depreciation expense they are currently  
55 paying in rates between the time of the assets' retirement and the rate effective date of this  
56 case. RMP's treatment deprives customers of this credit.

57 RMP witness Steven R. McDougal contends that my recommendation is not correct  
58 because I am not considering the new capital placed in-service. However, I am fully  
59 cognizant of the new repowered plant being placed into service. In fact, I interpret RMP's  
60 approach to this issue as one in which the Company is attempting to obtain cost recovery  
61 for a portion of its new repowered plant prior to the rate effective date of this case. It is, in  
62 effect, a "workaround" of the regulatory lag that would otherwise apply to plant that comes  
63 into service prior to rate effective date of a rate case. The Company is basically "swapping"

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<sup>3</sup> *Id.*, lines 72-73.

64 the revenues paid by customers that had been applied to recovering the cost of the now-  
65 retired assets for recovery of the new repowered assets. This “swapping” occurs between  
66 the date of each asset’s retirement and the rate effective date of this case, after which the  
67 depreciation expense for both the retired assets and the new repowering assets are included  
68 in rates and are applied going forward to the remaining plant balances of both. I do not  
69 disagree with RMP on what occurs after the rate effective date. But prior to the rate  
70 effective date, I believe it is equitable and reasonable for the depreciation expense that  
71 customers currently pay in rates toward the now-retired wind assets to continue to be  
72 credited against the remaining balance of those assets. In his rebuttal testimony, Division  
73 witness Gary L. Smith expressed the Division’s agreement with me on this point.<sup>4</sup>

74 Finally, I do not consider my proposal to be an example of single-issue ratemaking.  
75 If anything, RMP’s attempt to freeze the effective book value of these assets on the dates  
76 of their retirement subjects them to single-issue treatment. I am simply trying to ensure  
77 that customers are not deprived from getting proper credit for paying off these assets.

78 **Q. IS THE COMMISSION LIMITED TO THE METHOD FOR ACCOUNTING FOR**  
79 **THE RETIRED ASSETS THAT IS PREFERRED BY RMP?**

80 A. No. The Commission can approve the adjustment that I am recommending concurrently  
81 in the general rate case regarding this issue, which results in a Utah revenue requirement  
82 reduction of approximately \$1.9 million relative to RMP’s rebuttal filing. Alternatively,  
83 the Commission could require that the unrecovered balance of the retired assets be  
84 converted into a regulatory asset at the value I calculate for these assets effective January

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<sup>4</sup> Rebuttal Testimony of Gary L. Smith, lines 17-32.

85 1, 2021 and which I present in the general rate case, which would result in the same  
86 reduction in Utah revenue requirement. Either approach would treat customers fairly by  
87 capturing the contributions they have continued to make in rates toward paying off these  
88 prior investments. The Commission is not restricted to the approach preferred by RMP.

89 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY IN THIS PHASE**  
90 **OF THE CASE?**

91 A. Yes, it does.