Sophie Hayes (12546)
Western Resource Advocates
307 West 200 South, Ste 2000
Salt Lake City, Utah 84101
Telephone No. (801) 212-9419
Email: sophie.hayes@westernresources.org

Steven S. Michel
Western Resource Advocates
409 E. Palace Avenue, Unit 2
Santa Fe NM 87501
Telephone No. (505) 820-1590
Email: smichel@westernresources.org

Attorneys for Western Resource Advocates

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Approval of the 2020 Inter-Jurisdictional Cost Allocation Agreement	Docket No. 19-035-42

PREFILED DIRECT TESTIMONY OF

NANCY L. KELLY

ON BEHALF OF

WESTERN RESOURCE ADVOCATES

February 25, 2020

I INTRODUCTION AND SUMMARY

Q: Please state your name, employer, position, and business address.

A: My name is Nancy L. Kelly. I am employed by Western Resource Advocates ("WRA") in its Clean Energy Program as a Senior Policy Advisor. My business address is 9463 N. Swallow Rd., Pocatello, ID 83201.

Q: Please describe WRA.

A: WRA is a non-profit conservation organization dedicated to protecting the land, air and water of the Interior West. WRA's Clean Energy Program develops and advocates policies to advance a Western electricity system that provides affordable and reliable energy, reduces economic risks, and protects the environment with expanded use of energy efficiency, renewable energy resources, and other clean energy technologies. WRA has offices in Salt Lake City, Utah; Boulder and Denver, Colorado; Carson City, Nevada; Phoenix, Arizona; and Santa Fe, New Mexico.

Q: Please describe your current duties, work experience, and educational background.

A: I provide policy analysis and regulatory support to WRA in electric-industry-related matters. I have worked in the industry for more than 20 years, and I have participated in regulatory dockets in Utah, Colorado, Nevada, and New Mexico.

Before joining WRA in 2008, I worked with the Utah Office of Consumer Services as a consultant and Utility Economist; my primary areas of responsibility included interjurisdictional cost allocation, regional transmission initiatives, and integrated resource planning. I began my professional career as an academic economist at Idaho State University where I spent three years as a faculty member in the Department of

Economics and close to five years as the economist in the Center for Business Research and Services. I received a B.S. in economics from Idaho State University in1983, and completed my fieldwork toward a PhD in economics from the University of Utah in 1991.

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

A: Yes. Most recently, I testified before this Commission in Docket No. 17-035-40 (*In the matter of the Application of Rocky Mountain Power for Approval of a Significant Energy Resource Decision and Voluntary Request for Approval of Resource Decision*).

Q: On whose behalf are you testifying today?

A: I'm testifying on behalf of WRA.

Q: What is PacifiCorp requesting in this proceeding?

A: PacifiCorp, doing business as Rocky Mountain Power ("PacifiCorp" or "Company"), is requesting approval of the 2020 Inter-Jurisdictional Cost Allocation Agreement ("2020 Protocol"). This protocol is intended to supersede the current "2017 Protocol" for California, Idaho, Oregon, Utah, and Wyoming, and the West Control Area Inter-Jurisdictional Allocation Methodology for Washington, while continuing to use both methods, with some modifications, during a defined period to end no later than December 31, 2023 ("Interim Period").

The 2020 Protocol establishes the Interim Period and also contains agreement on "Implemented Issues," to be effectuated during the Interim Period; conditional agreement on "Resolved Issues," to be implemented as part of a post-Interim Period method; and a process and timeline to address and resolve remaining "Framework Issues," which will be part of the post-Interim Period method.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to support approval of the 2020 Protocol and explain WRA's reasons for our support.

Q: Do you have a recommendation?

A: I recommend the Commission approve the 2020 Protocol. It offers an opportunity for the state to make intentional, risk-aware decisions about its energy future, and it provides a reasonable path to a future in which states are no longer served by a common resource portfolio.

II DISCUSSION

Q: Please explain WRA's interest in this proceeding.

A: As described in my introduction, WRA is a conservation organization that advocates for an electric system that provides affordable and reliable energy, reduces economic risks, and protects the environment with expanded use of energy efficiency, renewable energy, and other clean-energy technologies. Providing a path for PacifiCorp to reduce its carbon emissions and their associated social and environmental impacts is central to our interests.

At a time when climate impacts are increasing and public support for mitigation efforts is growing rapidly, PacifiCorp still has a significant fleet of coal-fueled generation. Some of the states in PacifiCorp's service territory have implemented policies to stop using coal-based generation, because it is a major emitter of climate-changing greenhouse gas emissions. As part of the Multi-State Process ("MSP") Broad Review Work Group ("BRWG"), PacifiCorp and stakeholders have sought to address cost recovery for coal resources when states stop paying their ongoing costs.

WRA's interest in these MSP discussions and negotiations has been to ensure that the costs and risks of coal being abandoned by any of PacifiCorp's states are not automatically assigned to Utah. The costs and risks attendant with continued coal plant operations are too high to accept an additional allocation of coal without a much more thorough public interest review.

The 2020 Protocol provides a path for Oregon (or any other state) to "exit" coal resources. It also provides a timeline and process for Utah to determine if it wants to assume this extra coal and pay more for plants' ongoing costs, including fuel, operations and maintenance, capital investments, and decommissioning costs. As a result of this agreement, Utah has near-term opportunities to make important decisions about its energy future and the economic and environmental costs associated with the sources of electricity it uses to meet the needs of its growing population.

Q: Please explain the process that Utah will have to evaluate the economic and environmental costs of accepting additional shares of coal-fired generation.

A: Sections 4.1 and 4.2 of the 2020 Protocol describe near-term decision points related to the cost allocation of coal resources and provide processes and timelines for state decision-making. Section 4.1 addresses a state's ability to "exit" a coal resource with an Exit

Order and establishes timeframes for addressing Exit Orders from Oregon. An Exit Order establishes an Exit Date upon which PacifiCorp will discontinue the cost allocation of an affected coal facility to the exiting state.

An Exit Order by one state does not result in any reallocation of coal costs to other states. Rather, Section 4.2 establishes the process and timing for PacifiCorp to evaluate, and potentially propose, coal resource "Reassignment" to other states. After receipt of an Exit Order, PacifiCorp will evaluate whether it is reasonable to continue to operate the affected coal resource for states without Exit Orders. Specifically, for coal resources without common Closure dates that Oregon will exit before 2028,[1] PacifiCorp will file its analysis and recommendations regarding any proposed additional cost allocations by February of 2021.[2] For coal resources that Oregon will exit between 2028 and 2030, PacifiCorp will make filings in 2024.[3] The projected Oregon Exit Dates are listed in Section 4.1.

As a result of this agreement, this Commission will be evaluating the potential Reassignment of additional coal costs to Utah as soon as next year (and again in 2024). That is why I said Utah has near-term opportunities to make important decisions about its energy future.

Q: Do you have any additional information regarding these Reassignment filings?

A: Yes. Because the potential Reassignment of additional coal-fired generation to Utah is a significant resource decision, the Utah parties created a Letter Agreement with

[1] Units with common Closure dates include Cholla Unit 4, Craig Units 1 & 2, and Colstrip Units 1 & 2.
[2] These include the units at Jim Bridger, Naughton, and Dave Johnston.
[3] These include the units at Hunter, Huntington, and Wyodak.

PacifiCorp outlining specific requirements for proposed Reassignment filings (see Exhibit RMP__(JRS-3) for the letter agreement). For purposes of a Reassignment filing, the Letter Agreement is intended to modify and expand PacifiCorp's integrated resource planning and energy resource procurement analysis in the interest of providing sufficient information for the Commission to determine whether the Reassignment is in the public interest for Utah ratepayers.

Q: Why is it important that Utah have an opportunity to thoroughly review a potential Reassignment of additional coal resources to the state?

A: Coal is increasingly costly and risky relative to other available resource alternatives. Renewable energy resources with storage are outcompeting both coal and natural gas on economic terms, while at the same time climate change is increasingly salient in the public consciousness. It would be an unreasonable risk to Utah ratepayers to accept an additional coal allocation without taking a hard look at the economics of the ongoing costs and the environmental and regulatory risks.

It is critical that Utah has the opportunity to make intentional, risk-aware decisions about its energy future. The 2020 Protocol provides a process for doing that. In the next few years, Utah will have to decide if it wants to take on the additional costs and risks of coal-fired generation. This process carries with it a lot of responsibility – both in terms of the analysis necessary to make these decisions and in terms of the consequences of the decisions. WRA supports the 2020 Protocol because it allows for deliberate decision making rather than an automatic Reassignment of coal to Utah.

Q: Do you have other reasons to support the 2020 Protocol?

A: Yes. WRA supports the 2020 Protocol because it provides a reasonable transition from dynamic allocation of system generation to fixed allocation of state-specific generation following a state's exit from common resources. In the near-term, it has the additional benefit of finally achieving a near-Rolled-In allocation through the Interim Period.[4]

Q: Why are you supporting a transition away from a fully dynamic Rolled-In allocation method at the end of the Interim Period?

Once a state exits from resources that continue to serve customers in other of PacifiCorp's jurisdictions, PacifiCorp customers will no longer be served by common generating facilities as they are today. As a result, dynamic allocation of generating resources will be less viable.[5]

The 2020 Protocol provides for a transition from dynamic cost allocation of common generating resources to fixed allocations of state-specific resources and sets out a four-year timeline to address the remaining, challenging issues that must be negotiated before fixed allocations of state-specific generation can be implemented.

[4] A Rolled-In cost allocation is the appropriate methodology for apportioning the costs and revenues of a single system to state jurisdictions based on each state's use of system resources determined through cost-of-service analysis. All dynamic allocation methods have had Rolled-In as the basis for the method. In Utah, Rolled-In is the ratemaking standard for determining current cost causation and for evaluating whether a rate is fair, just and reasonable. The Commission established Rolled-In as its goal in its December 7, 1990 Report and Order in Docket No. 90-035-06 (*In the Matter of the Investigation into the Reasonableness of Allocation and the Rates and Charges for Utah Power & Light Company)*, adopted it in its April 16, 1998 Report and Order in Docket No. 97-035-04 (*In the Matter of a Proceeding to Establish an Allocation Methodology to Separate PacifiCorp's Assets, Expenses and Revenues Between the Various States)*, and has since reaffirmed Rolled-In as its standard in multiple orders.
[5] Other categories of costs and revenues, such as those associated with transmission, will continue to be allocated dynamically.

Q: What other issues must be addressed?

A: The 2020 Protocol identifies these other issues as "Framework Issues." They include resource planning and new resource assignment; allocation of net power costs using a nodal pricing model; special contracts; limited Realignment; and capital additions in Interim-Period Coal-Fueled Resources.

Q: Do you consider certain of these issues to be of greater consequence than others?

From my perspective maintaining the benefits of single-system planning and operation is the fundamental concern in moving from a common resource portfolio to state-specific portfolios. Two issue areas are key: (1) how to plan at the state level while maintaining the benefits of integrated resource planning, and (2) how to avoid inadvertently shifting costs between states while allocating the costs and benefits of differing types of resources to individual states using a nodal pricing model. These are not easy issues to resolve, and it may turn out that loss of efficiency is the price that must be paid for state autonomy.

Q: Do you have any final thoughts regarding the changes the 2020 Protocol anticipates?

A: In my view, the need to fundamentally change cost allocation is the result of PacifiCorp's six state jurisdictions undertaking at differing speeds the energy transition that the electricity industry is undergoing. As the multiple factors driving the energy transition continue to play out, I anticipate that the day will arrive, perhaps sooner than generally expected, when PacifiCorp could once again serve customers with common generating resources and costs could again be dynamically allocated.

III RECOMMENDATIONS

Q: What do you recommend?

A: I recommend the Commission approve the 2020 Protocol. It offers an opportunity for the state to make intentional, risk-aware decisions about its energy future, and it provides a reasonable path to a near-term future in which states are no longer served by a common resource portfolio.

Q: Does this conclude your testimony?

A: It does.