ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

1407 W. North Temple, Suite 330
Salt Lake City, UT 84116

January 22, 2020

***VIA ELECTRONIC FILING***

Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, Utah 84114

Attention: Gary Widerburg
Commission Administrator

**RE: Docket No. 19-035-45**
**Application of Rocky Mountain Power for an Accounting Order to Defer Costs Related to Repowered Wind Plants or for Alternative Relief**

Pursuant to the Scheduling Order and Notice of Hearing issued by the Public Service Commission of Utah on January 9, 2020 in the above referenced docket, Rocky Mountain Power, a division of PacifiCorp ("Rocky Mountain Power" or the "Company"), submits its testimony in support of its Application for an order authorizing the Company to record and defer for future recovery certain costs and benefits, associated with the repowered wind facilities until the rate effective date of the Company's next general rate case, which was filed on December 30, 2019.

Rocky Mountain Power respectfully requests that all formal correspondence and requests for additional information regarding this filing be addressed to the following:

By E-mail (preferred): datarequest@pacificorp.com
Jana.saba@pacificorp.com
utahdockets@pacificorp.com

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232

Informal inquiries may be directed to Jana Saba at (801) 220-2823.

Sincerely,

Joelle Steward
Vice President, Regulation

## CERTIFICATE OF SERVICE

Docket No. 19-035-45

I hereby certify that on January 22, 2020, a true and correct copy of the foregoing was served by electronic mail to the following:

**Utah Office of Consumer Services**

| | |
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**Rocky Mountain Power**

| | |
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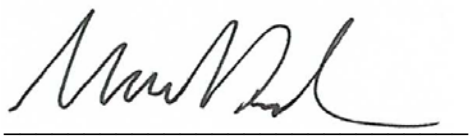

Mary Penfield
Adviser, Regulatory Operations

Rocky Mountain Power
Docket No. 19-035-45
Witness: Steven R. McDougal

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

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Direct Testimony of Steven R. McDougal

January 2020

**Q. Please state your name and business address with PacifiCorp dba Rocky Mountain Power ("Company").**

A. My name is Steven R. McDougal, and my business address is 1407 W. North Temple, Suite 330, Salt Lake City, Utah 84116.

**QUALIFICATIONS**

**Q. Please describe your education and professional background.**

A. I received a Master of Accountancy from Brigham Young University with an emphasis in Management Advisory Services and a Bachelor of Science degree in Accounting from Brigham Young University. In addition to my formal education, I have also attended various educational, professional, and electric industry-related seminars. I have been employed with PacifiCorp and its predecessor, Utah Power and Light Company (the "Company"), since 1983. My experience includes various positions with regulation, finance, resource planning, and internal audit. My current position is the Director of Revenue Requirements.

**Q. What are your current responsibilities with the Company?**

A. My primary responsibilities include overseeing the calculation and reporting of the Company's regulated earnings and revenue requirement, assuring that the interjurisdictional cost allocation methodology is correctly applied, and explaining those calculations to regulators in the jurisdictions in which the Company operates.

**Q. Have you testified in previous proceedings?**

A. Yes. I have testified in many dockets before the Public Service Commission of Utah ("Commission"). I have also testified before the California, Idaho, Oregon, Washington, and Wyoming public utility commissions.

## PURPOSE OF TESTIMONY

**Q. What is the purpose of your testimony?**

A. I explain and support the Company's request to record and defer for future recovery certain costs and benefits, associated with the repowering of Glenrock I, Glenrock III, Rolling Hills, Seven Mile Hill I, Seven Mile Hill II, High Plains, McFadden Ridge, Dunlap, Marengo I, Marengo II, and Goodnoe Hills wind facilities. The repowering of these projects was approved by the Commission in Docket No. 17-035-39 ("Repowering Docket"). I will refer to the projects hereafter as "Repowered Wind Plants" or, collectively, as "Repowering Project." The Company also requests deferral of the costs and benefits associated with repowering the Company's Leaning Juniper wind facility ("Leaning Juniper"). The Company proposes to 1) initiate the deferral when the Repowered Wind Plants and/or Leaning Juniper are placed in service and 2) continue the deferral until the rate effective date of the Company's next general rate case, as set forth in the Company's Application for Accounting Order or Alternative Relief ("Application"). Alternatively, if the Commission determines that the costs, net of the Production Tax Credit ("PTC") and zero-cost fuel benefits associated with the Repowering Project and Leaning Juniper are not appropriate for deferred accounting, the Company requests that the Commission issue an order allowing removal of the zero-cost fuel benefits of the Repowered Wind Plants and Leaning Juniper from the Energy Balancing Account ("EBA") until the rate effective date of the Company's next general rate case. My testimony will address the following specific areas:

- Repowering project status of the Repowered Wind Plants and Leaning Juniper,

- Repowering regulatory approval status and proposed regulatory accounting deferral treatment of the Repowered Wind Plants and Leaning Juniper repowering project costs and benefits,
- The Company's alternative proposal if the Commission determines that establishing deferred accounting for the Repowering Project and/or Leaning Juniper is not appropriate, and
- Description and calculation of the costs and benefits proposed for deferral treatment.

**REPOWERING STATUS**

**Q. What is the status of the Repowered Wind Plants and Leaning Juniper?**

A. The Company plans to repower a total of 12 wind projects. As shown in the table on page eight of the Application, eight of the 11 Repowered Wind Plants have been completed and placed in service. Of the remaining three, two Repowered Wind Plants are forecast to be completed and placed in service in early 2020. One of the Repowered Wind Plants is forecast to be completed and placed in service near the end of 2020. Leaning Juniper has also been completed and has been placed in service. Once the projects are placed in service, customers begin receiving the zero-fuel cost benefits.

**REGULATORY AND RATEMAKING TREATMENT**

**Q. Please describe the pre-approval of the Repowering Project and its costs in the Repowering Docket.**

A. Consistent with the Voluntary Request for Resource Decision Review under Utah Code Ann. § 54-17-401, et seq. ("Voluntary Request"), the Company filed an application with the Commission for approval of the Company's decision to repower the

Repowering Project and Leaning Juniper for a total estimated cost of $1.101 billion to provide significant benefits to customers including a reduction in long-term net power cost ("NPC") and new federal PTC. In addition, the Company requested approval of a proposed resource tracking mechanism ("RTM") as a way to track the costs and benefits of the Repowering Project for later ratemaking treatment. With the exception of Leaning Juniper, the Commission approved, "on a project-by-project basis, the projects and costs identified in PacifiCorp's voluntary request for approval of a resource decision to repower the Glenrock I, Glenrock III, Rolling Hills, Seven Mile Hill I, Seven Mile Hill II, High Plains, McFadden Ridge, Dunlap, Marengo I, Marengo II, and Goodnoe Hills wind facilities."[1]

**Q. The Commission declined to approve the Company's decision to repower Leaning Juniper and the corresponding costs. Why does the Company seek authority to defer the costs and benefits related to Leaning Juniper in this case?**

A. In its order in the Repowering Docket, the Commission declined to pre-approve the Leaning Juniper repowering project but stated:

> "This decision does not mean PacifiCorp may not still pursue that project. It means that the Leaning Juniper repowering project will not have the protections afforded by Utah Code Title 54, Chapter 17, Part 4. If PacifiCorp chooses to implement the project, the project will be subject to a standard prudence review in future general rate cases. Our order declining to approve the project in this docket may not be interpreted to pre-judge that issue in any way."[2]

The Company plans to demonstrate in its upcoming general rate case that its decision to repower Leaning Juniper and the corresponding costs are prudent and in the

[1] *See* Docket No. 17-035-39, Report and Order, issued May 25, 2018, at 1.

[2] *Id.,* at 20.

public interest. The Company requests the ability to track all of the costs and benefits associated with the Leaning Juniper repowering project to preserve the possibility of recovery until the general rate case.

**Q. Did the Commission approve the RTM in the Repowering Docket?**

A. No. Although the Commission expressly approved each project, and the estimated capital costs presented in the docket, excluding Leaning Juniper, the Commission did not adopt the Company's proposed RTM. However, in doing so, the Commission stated that "adequate means exist to allow PacifiCorp to seek recovery of Repowering Project costs without our implementation of a new rate mechanism"[3] and therefore concluded "…that PacifiCorp can effectively seek recovery of Repowering Project costs and benefits through available ratemaking mechanisms such as general rate cases, requests for *deferred accounting treatmen*t, and/or *the EBA*."[4]

**Q. In addition to the Commission's May 25, 2018 Order, are there other means that the Company can use to seek cost recovery?**

A. Yes. I believe that upgrades for repowering projects like those related to the Repowering Project and Leaning Juniper, may also qualify for deferred accounting under Utah Code Ann. § 54-17-605 titled "Recovery of costs for renewable energy activities" ("Renewable Energy Section").

[3] *Id.,* at 24.

[4] *Id.,* at 25. Emphasis added.

**Q. What specific costs could qualify for recovery under the Renewable Energy Section?**

A. Subsection 605(2) states the following costs may be recoverable: “a cost of siting, acquisition of property rights, equipment, design, licensing, permitting, construction, owning, operating, or otherwise acquiring a renewable energy source and any associated asset, including transmission, ...” among others. I would say that repowering upgrades which includes the installation of new equipment and associated construction activities are the types of costs that may qualify for recovery under the Renewable Energy Section.

**Q. What are the costs and benefits associated with repowering that the Company is seeking to include in a deferral account?**

A. The Company proposes to defer the following items on a monthly basis beginning when the Repowering Project and Leaning Juniper are placed into service until rates from the next general rate case reflect the full costs and benefits:

- The pre-tax return on investment;
- Depreciation expense;
- Operation and maintenance expense;
- Property taxes;
- Wind taxes, if assessed;
- Incremental NPC benefits; and
- PTC benefits.

**Q. Are any of the Repowering Project or Leaning Juniper costs and benefits currently being deferred, included in current rates, or both?**

A. Yes. The zero-cost energy benefits of repowering will flow through the EBA beginning when the Repowered Wind Plants or Leaning Juniper are placed into service and begin generating incremental energy associated with repowering. As currently established, without an accounting deferral or other recovery mechanism, the other costs and benefits listed above will not be included until the Repowered Wind Plants or Leaning Juniper costs and benefits are included in rates through a general rate case.

**Q. Please describe how the Accounting Deferral would work.**

A. Once the Repowered Wind Plants and the Leaning Juniper Repowering project are placed in service, the Company will defer the actual monthly amounts of each of the cost and benefit components listed above. The Company will provide actual costs or updated cost estimates in the general rate case. The final cost that would be reflected in the deferral for later amortization would be determined in the next general rate case. For instance, if the Commission determines that certain costs are not allowed for base rates, the deferred amount would reflect the same disallowance. The Company will propose an amortization schedule in the next general rate case. The deferred balances will accrue a carrying charge established at the then current pre-tax allowed rate of return, until such time that the deferred balance is fully passed through to customers.

## ALTERNATIVE RATEMAKING PROPOSAL

**Q. What is the impact of not establishing deferred accounting treatment?**

A. Without deferred accounting treatment, the zero-cost fuel generation benefits of the Repowered Wind Plants and/or Leaning Juniper will be passed to customers through

the EBA while the Company would absorb the other costs and benefits. This type of ratemaking treatment provides NPC benefits to customers without the associated and corresponding costs associated with generating those benefits. It is appropriate that the preapproved Repowering Project, and the full costs and benefits associated with Leaning Juniper, are accounted for in rates.

**Q. What does the Company propose if the Commission determines that the Repowering Project costs and PTC benefits, or that Leaning Juniper project costs and PTC benefits are not appropriate for deferred accounting treatment?**

A. If the Commission determines that the Repowering Project costs and PTC benefits are not appropriate for deferred accounting, in accordance with Utah Code Ann. § 54-17-403(1)(a) and the Repowering Order, or that the Leaning Juniper costs and PTC benefits are not appropriate for deferred accounting, the Company requests authority to implement an exception to the EBA to remove the incremental benefits of the Repowered Wind Plants and of Leaning Juniper until the rate effective date of the Company's next general rate case.

**DESCRIPTION AND CALCULATION OF COSTS AND BENEFITS**

**Q. Has the Company created a table that outlines the Company's proposal of how each of the cost and benefit components that will receive deferred accounting treatment should be calculated?**

A. Yes. Exhibit RMP___(SRM-1) describes each category of cost or benefit that would receive deferred accounting treatment. This table demonstrates that the deferred amount for each category would be equal to the new cost or benefit after repowering compared to the base cost or benefit before repowering. This deferred amount would

be subject to approval by the Commission and would be passed through to customers in a method established by the Commission in the next general rate case.

**Q. Repowering includes removal of existing equipment that is currently being depreciated in rates. Is the Company proposing an adjustment to remove the depreciation expense for the replaced equipment?**

A. Yes. The Company would reduce the amount of the accounting deferral for an amount equal to the depreciation expense associated with the equipment replaced during repowering.

**Q. Has the Company provided an illustration of the proposed monthly calculations of the accounting deferral?**

A. Yes. Confidential Exhibit RMP___(SRM-2) provides an illustration of the Company's monthly calculations for estimated amounts of PTC, incremental NPC, pre-return on investment, depreciation, property taxes, wind taxes and O&M expenses associated with the recently completed Seven Mile Hill I and Seven Mile Hill II repowered plants. This is the same table presented in Confidential Exhibit A of the Application. Footnote number nine to Exhibit A, as copied below, outlines the formula for how the incremental net power cost savings is calculated.

*Incremental Net Power Cost Savings Formula:*

*Base-Wind Plant Generation = Wind Plant Generation MWh / (1 + Project Generation Increase %)*

$$NPC\ Incremental\ Savings = [Incremental\ Gen_{HLH} \times (Monthly\ Market\ Price_{HLH} - Integration\ Costs)] + [Incremental\ Gen_{LLH} \times (Monthly\ Market\ Price_{LLH} - Integration\ Costs)]$$

*Where:*
*Incremental Generation = The increase in generation at the wind plant due to repowering*
*Project Generation Increase % = The percentage change in energy at the wind plant due to repowering*

| | |
|---|---|
| $Incremental\ Gen_{HLH} =$ | *The increase in generation at the wind plant due to repowering during heavy load hours* |
| $Incremental\ Gen_{LLH} =$ | *The increase in generation at the wind plant due to repowering during light load hours* |
| $Monthly\ Market\ Price_{HLH}$ | *Heavy load hour monthly market price* |
| $Monthly\ Market\ Price_{LLH}$ | *Light load hour monthly market price* |

*Integration Costs = Wind integration costs from the most recent IRP*

Additionally, page 2 of Exhibit A of the Application is a confidential table that shows the percentage increase in project generation for each of the Repowered Wind Plants and Leaning Juniper that would be used in calculating the incremental net power cost savings from repowering. The deferred amounts calculated per the example shown in Exhibit A would be subject to final Commission approval as determined in the next general rate case.

**Q. Does this conclude your direct testimony?**

A. Yes.

Rocky Mountain Power
Exhibit RMP___(SRM-1)
Docket No. 19-035-45
Witness: Steven R. McDougal

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

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Exhibit Accompanying Direct Testimony of Steven R. McDougal

Wind Repowering Deferred Accounting Components

January 2020

# Wind Repowering Deferred Accounting Components

## Incremental Revenue Requirement

| Category | Base | New | Deferral |
|---|---|---|---|
| **Capital Investment** | Zero until the next general rate case. After rate case, the base will be the amount included in the test period, beginning on the rate effective date of that case. | Actual monthly plant in-service balances associated with wind repowering less the base, beginning with first repowering assets placed in service. | The difference between the base and new columns will be included in the deferral calculation until the amounts are fully included in a general rate case, at which time this Accounting Deferral will end. |
| **Accumulated Depreciation Reserve** | Same as capital investment. | Monthly depreciation reserve of repowered assets less base amount. | |
| **Accumulated Deferred Income Tax** | Same as capital investment. | Actual accumulated deferred income tax balances associated with the repowering investment, less base amount. | |
| **Operation & Maintenance Expense** | Four-year average O&M expense for wind projects from 2014 to 2017, (2018-2019 are excluded to avoid any changes in O&M related to repowering). | Actual O&M expense for wind projects less base O&M. | |
| **Depreciation Expense** | Zero. | Actual monthly plant in-service balances associated with wind repowering less the base multiplied by current depreciation rates. The plant in service amounts used will be reduced by the replaced assets until the next depreciation study. | |
| **Property Taxes** | Zero. | Capital Investment deferral less the Depreciation Reserve deferral multiplied by the average property tax rate from the last rate case. | |
| **Wind Tax** | Zero. | Incremental energy production MWh associated with repowering multiplied by the wind tax rate. | |
| **NPC Savings** | The EBA tracks and captures any incremental changes to wind production between NPC in base rates and actual NPC.<br>The base energy production= Actual energy produced by wind projects divided by (1 + Project Generation Increase %). | The EBA has a 100% pass through of the difference between base NPC and actual NPC. The Accounting Deferral will capture any savings not included in the EBA related to incremental energy production associated with repowering, and pass these savings back to customers. | Any incremental wind production not in base rates will be multiplied by monthly HLH and LLH prices, (Mid C for west and Four Corners for east resources) less wind integration costs. |
| **PTC** | Zero until next general rate case. After a rate case, the base will be the amount included in the test period, starting on the rate effective date, associated with repowering projects. | Actual MWh eligible for PTC produced by repowered wind plants multiplied by the production tax rate. | Difference between the base and actual. Tracked until repowering PTC's have expired, or until PTC's are included in a general rate case, at which time this Accounting Deferral will end. |

**REDACTED**
Rocky Mountain Power
Exhibit RMP___(SRM-2)
Docket No. 19-035-45
Witness: Steven R. McDougal

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

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**REDACTED**
Exhibit Accompanying Direct Testimony of Steven R. McDougal

Example of Monthly Deferral

January 2020

**Rocky Mountain Power**
**Illustrative Example of Monthly Revenue Requirement Deferral Calculation**
**$-Dollars**

The following is an example calculation of the Seven Mile Hill I and II repowering projects, which were placed into service September 9, 2019. This is exhibit is intended to show the detail of the proposed calculation for the monthly revenue requirement deferral.

| Line No. | | | |
|---|---|---|---|
| 1 | Federal/State Combined Tax Rate | 24.5866% | |
| 2 | Net to Gross Bump up Factor = (1/(1-tax rate)) | 1.3260 | |
| 3 | Utah SG Factor Docket No. 13-035-184 | 42.6283% | |
| 4 | Utah GPS Factor Docket No. 13-035-184 | 42.4704% | |

| | | *September 2019* | | *October 2019* | | |
|---|---|---|---|---|---|---|
| | **Repowering Costs:** | **Total Company** | **Utah Allocated** | **Total Company** | **Utah Allocated** | **Note** |
| | Incremental Expense: | | | | | |
| 5 | O&M Expense | (46,914) | (19,999) | 34,098 | 14,536 | 1 |
| 6 | Depreciation Expense | 191,075 | 81,452 | 379,225 | 161,657 | 2 |
| 7 | Depreciation Expense (Credit) | (221,874) | (94,581) | (443,749) | (189,163) | 2 |
| 8 | Property Taxes | - | - | - | - | 3 |
| 9 | Wind Tax | 1,525 | 650 | 6,903 | 2,943 | 4 |
| 10 | **Total Expense** | **(76,189)** | **(32,478)** | **(23,522)** | **(10,027)** | |
| | Incremental Rate Base: | | | | | |
| 11 | Capital Investment | - | - | 139,385,946 | 59,417,859 | 5 |
| 12 | Accumulated Depreciation | - | - | (191,075) | (81,452) | |
| 13 | Accumulated Deferred Income Tax | - | - | (5,110,943) | (2,178,708) | |
| 14 | **Total Rate Base** | **-** | **-** | **134,083,928** | **57,157,699** | |
| 15 | Pre-Tax Return | | 9.21% | | 9.21% | 6 |
| 16 | Pre-Tax Return on Rate Base | | - | | **438,658** | |
| 17 | **Total Repowering Costs** | | **(32,478)** | | **428,631** | |
| | **Repowering Benefits:** | | | | | |
| | Production Tax Credit: | | | | | |
| 18 | Production Tax Credit | (38,126) | (16,253) | (172,587) | (73,571) | 7 |
| 19 | Gross Up | | (5,299) | | (23,986) | 8 |
| 20 | **Total Production Tax Credit** | | **(21,551)** | | **(97,557)** | |
| | Net Power Cost Savings: | | | | | |
| 21 | **Incremental NPC Savings (EBA)** | | **(18,118)** | | **(70,817)** | 9 |
| 22 | **Total Repowering Benefits** | | **(39,669)** | | **(168,374)** | |
| | **Repowering Net Deferral:** | | | | | |
| 23 | **Total Repowering Monthly Deferral** | | **(72,147)** | | **260,258** | 10 |

Notes:
1) Incremental O&M expense calculated using actual O&M associated with Repowering project compared to a 4 year historical average
2) Based on currently approved depreciation rates. Depreciation expense for the replaced equipment is removed
3) Incremental property taxes, if assessed
4) Incremental wind taxes
5) Capital investment once assets are placed into electric plant in service
6) Based on the capital structure from Docket No. 13-035-184
7) Incremental PTC benefits
8) Gross up using Net to Gross Bump up Factor = (1/(1-tax rate))
9) Incremental net power cost savings formula:

*Incremental Generation = Wind Plant Generation MWh – Base Wind Plant Generation MWh*
*Base Wind Plant Generation = Wind Plant Generation MWh / (1 + Project Generation Increase %)*

$$NPC\ Incremental\ Savings = [Incremental\ Gen_{HLH} \times (Monthly\ Market\ Price_{HLH} - Integration\ Costs)] + [Incremental\ Gen_{LLH} \times (Monthly\ Market\ Price_{LLH} - Integration\ Costs)]$$

*Where:*
*Incremental Generation = The increase in generation at the wind plant due to repowering*
*Project Generation Increase % = The percentage change in energy at the wind plant due to repowering*

| | |
|---|---|
| $Incremental\ Gen_{HLH} =$ | *The increase in generation at the wind plant due to repowering during heavy load hours* |
| $Incremental\ Gen_{LLH} =$ | *The increase in generation at the wind plant due to repowering during light load hours* |
| $Monthly\ Market\ Price_{HLH}$ | *Heavy load hour monthly market price* |
| $Monthly\ Market\ Price_{LLH}$ | *Light load hour monthly market price* |

*Integration Costs = Wind integration costs from the most recent IRP*
10) before carrying charges

**Rocky Mountain Power**
**Wind Fleet Repowering**

Generation increases for base case repowering scenario