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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 Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations	**Docket No. 20-035-04**

PREFILED PHASE I REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

The UAE Intervention Group ("UAE") hereby submits the Prefiled Rebuttal Testimony of Kevin C. Higgins in Phase I of this docket.

DATED this 5th day of October, 2020.

JAMES DODGE RUSSELL & STEPHENS

/s/ Phillip J Russell
Phillip J. Russell
Counsel for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 5th day of October, 2020 on the following:

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BEFORE THE UTAH PUBLIC SERVICE COMMISSION

Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations	DOCKET NO. 20-035-04

PHASE I REBUTTAL TESTIMONY

OF

KEVIN C. HIGGINS

On Behalf of

Utah Association of Energy Users

October 5, 2020

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kevin C. Higgins. My business address is 111 East Broadway, Suite 1200, 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, a private consulting firm that specializes in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. ARE YOU THE SAME KEVIN C. HIGGINS WHO PREFILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE UTAH ASSOCIATION OF ENERGY USERS ("UAE")?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony responds to the recommendation of the Division of Public Utilities ("Division") to increase the Utah revenue requirement by accelerating the depreciation recovery period for the wind assets that were retired as a result of RMP's wind repowering projects. The Division's recommendation regarding the retired wind assets is set forth in the Phase I Direct Testimony of Gary L. Smith, filed on September 2, 2020.

Q. WHAT ARE YOUR PRIMARY CONCLUSIONS AND RECOMMENDATIONS IN YOUR REBUTTAL TESTIMONY?

A. The Commission should reject the Division's proposal to accelerate the depreciation recovery period for the retired wind assets. While the stated intention of the Division's adjustment is to improve intergenerational equity, I believe it would have the opposite effect if adopted. Although the Division did not attempt to calculate the revenue requirement impact of its recommendation, I estimate that it would unreasonably increase the Utah revenue requirement by between \$12.7 million and \$13.6 million, depending on the amount of the approved retired wind asset rate base.

II. RESPONSE TO THE DIVISON REGARDING THE RATEMAKING TREATMENT OF THE RETIRED WIND ASSETS

Q. WHAT DOES THE DIVISION RECOMMEND REGARDING THE RATEMAKING TREATMENT OF THE RETIRED WIND ASSETS?

A. Division witness Gary L. Smith objects to RMP's proposal to depreciate the remaining balance of the retired wind assets over the approved remaining lives of the recently repowered wind assets. Instead, the Division proposes to shorten the recovery period for the cost of the retired assets to match the ten-year life of the production tax credits ("PTCs") from the repowered assets.[1]

Q. WHAT IS THE DIVISION'S JUSTIFICATION FOR THIS PROPOSAL?

A. Mr. Smith argues that RMP's approach would create intergenerational inequity because "[h]aving future customers pay for assets which they do not receive a benefit would be intergenerational inequity."[2]

[1] Direct Testimony of Gary L Smith, lines 115-166. The Division's exact proposal with respect to the cost recovery period for the retired assets is not perfectly clear. However, the gist of the Division's proposal is that the cost recovery period should match the PTC benefit period from the repowered assets.
[2] *Id.*, lines 147-149.

Q. DO YOU AGREE WITH THE DIVISION'S JUSTIFICATION FOR ITS PROPOSAL?

A. No. I disagree for several reasons. First, I disagree with the premise of Mr. Smith's argument. His contention that under RMP's proposal future customers would pay for assets for which they do not receive a benefit is incorrect. The Commission approved the repowering proposal on the grounds that the early retirement of existing wind plant and the installation of new wind plant would benefit customers for a 30-year period.[3] The early retirement of the wind assets was inextricably linked to the new investment in the repowered assets. Customers will receive the benefit of (near) zero marginal cost energy production throughout the entire 30-year life of the repowered assets. While it is true that customers would be paying for *retired* assets for which they receive no direct benefit, the Division has already conceded the point that the cost of the retired assets should be recovered from customers. Having conceded that point, the salient question is to determine the most reasonable period over which the retired assets should be recovered. The Division's reliance on the argument that the retired assets do not themselves provide any benefit to certain future customers is not helpful in resolving this question because the retired assets do not provide benefits to *anyone* going forward.

The Division's notion that the recovery of the cost of the retired assets should match the ten-year life of the PTCs is misplaced. Most of the retired assets were replaced with around *twenty* years left on their depreciable lives – not ten years. Absent the repowering project, future customers 11 to 20 years from now still would have been responsible for

[3] *See Voluntary Request of Rocky Mountain Power for Approval of Resource Decision to Repower Wind Facilities*, Docket 17-035-39, May 25,2018 Report and Order at 17-22.

paying the depreciation expense on these now-retired assets, yet the Division's proposal frees this cohort from any going-forward responsibility to pay for this depreciation expense – a cost they otherwise would have borne – and instead transfers the full burden of this depreciation expense to the customers in the first ten years. I fail to see how this cost shift advances the cause of intergenerational equity.

Q. DO YOU HAVE OTHER OBJECTIONS TO THE DIVISION'S JUSTIFICATION FOR ITS PROPOSAL?

A. Yes. The Division's concern for intergenerational equity is most severely misapplied when we consider the circumstances of customers 21 years from now. As noted above, the early retirement of wind assets and the new investment in the repowered assets were inextricably linked. But for the new investment, the early retirement would not have occurred. In making the new investment, RMP has extended the useful lives of each of these wind facilities by at least ten years. As a result, customers 21 years from now, who otherwise would have had to bear the cost of replacing the original wind investments when they reached the end of their original useful lives, will instead continue to benefit from the repowered assets for an additional ten years. In this sense, today's generation of customers are making something of a "bequest" to the generation of customers who will take service twenty to thirty years hence.

The Division's concern for intergenerational equity fails to consider the benefits that the customers taking service today are conveying to the 21- to 30-year cohort by delaying the costs of new generation 21 years from now. In considering the intergenerational equity implications of the repowering projects, the early retirement of a portion of the wind assets must be considered in tandem with the intertemporal conveyance of the benefits from the new investment in repowered assets. The Division's proposal does not adequately consider the full picture and should be rejected.

In contrast, RMP proposes to align the recovery period for the retired assets to coincide with the period for which customers would receive the benefits from the repowered assets that replaced the retired assets. This position is inherently sensible and should be adopted by the Commission.

Q. HAS THE DIVISION INCORPORATED THE REVENUE REQUIREMENT IMPACT OF ITS PROPOSAL INTO ITS RECOMMENDED REVENUE REQUIREMENT IN THIS CASE?

A. No. The Division requests that RMP provide the impact of the Division's proposal in the Company's rebuttal filing.[4]

Q. HAVE YOU ESTIMATED THE IMPACT OF ADOPTING THE DIVISION'S RECOMMENDATION TO SHORTEN THE RECOVERY LIFE OF THE RETIRED WIND ASSETS?

A. Yes. I estimate that adopting the Division's proposal would increase the annual Utah revenue requirement by around $12.7 million in this rate case, using the retired wind plant balance of $743 million (Total Company) recommended in my direct testimony.[5] That retired wind plant balance was calculated using the method described in my Phase II testimony in the depreciation case, Docket No. 18-035-36, and in my direct testimony in this case.[6] My estimate of the impact of adopting the Division's proposal takes account of

[4] *Id.,* line 166.
[5] The retired wind plant balance of $743 million is calculated for the 12 repowering projects for which RMP sought approval in Docket No. 17-035-39. This balance is presented in UAE Exhibit RR 1.2, page 3.
[6] In this docket, *see* Direct Testimony of Kevin C. Higgins, lines 225-294.

the higher depreciation expense that would result, as well as the effect on accumulated deferred income taxes and the somewhat smaller return on rate base that would result from the higher depreciation expense.[7] Alternatively, using the higher retired wind plant balance proposed by RMP of $785 million in this case, I estimate that adoption of the Division's proposal would increase the Utah revenue requirement by about $13.6 million per year.

Q. DO YOU BELIEVE IT WOULD BE REASONABLE TO INCREASE UTAH RATES BY EITHER OF THESE AMOUNTS TO ACCOMMODATE THE DIVISION'S PROPOSAL?

A. No, for the reasons I explained above.

Q. DOES YOUR ADJUSTMENT TO THE RETIRED WIND PLANT BALANCES HAVE ANY BEARING ON THE DIVISION'S RECOMMENDATION TO RECOVER THE RETIRED WIND PLANT BALANCES OVER A SHORTER PERIOD THAN RMP AND UAE PROPOSE?

A. Only indirectly. My Retired Wind Plant Balances adjustment presented in my direct testimony addresses the appropriate remaining balance for the retired wind assets at the start of the presumed rate effective period, January 1, 2021. If the Division's proposal is accepted, my recommended starting plant balance of $743 million would be applicable to the shorter depreciable life the Division is proposing. As I discussed above, I used a starting plant balance of $743 million in calculating the annual rate impact of $12.7 million per year of the Division's proposal. On the other hand, if the Division's proposal is

[7] The Utah revenue requirement impact is estimated as follows:
[(($743M - $288M) ÷ 10 yrs.) – (($743M - $288M) ÷ 30 yrs.) x 44%] – Reduced Return on Utah Rate Base
= [($45.5M. – $15.2M) x 44%] - $0.6M.
= $12.7M

rejected, then the starting balance I recommend would be applicable to the longer depreciation lives that RMP and UAE are proposing.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THIS PHASE OF THE CASE?

A. Yes, it does.