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

REDACTED SURREBUTTAL TESTIMONY

AND EXHIBITS

OF

KEVIN C. HIGGINS

On Behalf of

Utah Association of Energy Users

October 29, 2020

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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 PREVIOUSLY FILED DIRECT AND REBUTTAL TESTIMONY ON BEHALF OF THE UTAH ASSOCIATION OF ENERGY USERS ("UAE") IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. My surrebuttal testimony responds to the rebuttal filing made by Rocky Mountain Power ("RMP or the "Company") in this docket. Primarily, it addresses the appropriate test period revenue requirement in light of the new adjustments and additional information provided in the Company's rebuttal filing.

Q. PLEASE SUMMARIZE YOUR PRIMARY CONCLUSIONS AND RECOMMENDATIONS CONCERNING REVENUE REQUIREMENT AS ADDRESSED IN YOUR SURREBUTTAL TESTIMONY.

A. I offer the following conclusions and recommendations:

1) I agree with RMP's acceptance of 11 specific adjustments proposed by UAE and the Office of Consumer Services ("OCS") enumerated below in my surrebuttal testimony.

2) I do not oppose the following RMP rebuttal adjustments, which are listed in Table KCH-2S in Section II of my testimony: (a) Wheeling Revenue Update, (b) Transmission Power Delivery Uncollectible Update; (c) Insurance Premium Update, (d) Wildland Fire O&M Update; (e) Rebuttal Net Power Cost Alignment; (f) Nodal Pricing Model Update; (g) Property Tax Update; (h) Pro Forma Tax Data Update; (i) Removal of TCJA Deferred Balances – Correction; and (j) Repowering Capital Additions.

3) I agree with RMP's acceptance of my Pro Forma Capital Additions adjustment and do not oppose RMP's expansion of that adjustment to: (a) include new plant that is expected to be in service during the test period that was not included in plant in service in the Company's direct filing; (b) update the costs of its new wind projects coming into service; and (c) remove the delayed plant associated with Phase 2 of the TB Flats and Pryor Mountain wind projects.

4) I recommend that the Commission reject RMP's proposal to calculate the revenue requirement for the delayed portions of the TB Flats and Pryor Mountain wind plants using a full-year's worth of costs rather than the costs that reflect their expected service during only part of the test period. RMP's proposal is inconsistent with the conventional practice for treating plant that is in service for only part of a fully projected test period on an average-of-period basis.

5) I recommend that the delayed portion of the TB Flats project be included in rate base at its average-of-period value, reflecting an expected in-service date of June 2021, with comparable pro rata treatment for expenses and benefits. This adjustment results in a Utah revenue requirement reduction of [redacted] relative to RMP's rebuttal filing.

6) The delay in the Pryor Mountain project schedule does not change my recommendation that RMP be paid $26.00/MWh for each MWh that the Pryor Mountain project produces for 20 years, and that the PTC and REC revenues be retained by the Company. This pricing is consistent with the 20-year levelized avoided cost pricing that RMP was calculating for Wyoming wind Qualifying Facilities ("QFs") at the time RMP acquired and developed the Pryor Mountain project. My adjustment results in a Utah revenue requirement reduction of [redacted] relative to RMP's rebuttal filing.

7) The accumulated depreciation reserve associated with the 11 repowered wind projects approved by the Commission, plus Leaning Juniper, should be adjusted to reflect the depreciation expense associated with the retired assets that customers have continued to pay in rates between the time each of the wind assets was retired and January 1, 2021. This adjustment reduces

the Utah revenue requirement by **$1,902,795** relative to RMP's rebuttal filing.

8) RMP's request to include its prepaid pension and post-retirement welfare ("PRW") assets in rate base should be rejected. This adjustment reduces the Utah revenue requirement by **$10,486,552** relative to RMP's rebuttal filing. In the alternative, if the Commission approves RMP's request to include these prepaid assets in rate base, the allowed return on RMP's prepaid pension and PRW assets should be set at RMP's Expected Return on Assets for these plans without a tax gross-up. The Commission should reject RMP's alternative proposal for a pension and PRW cost balancing account.

9) RMP's proposal to recover the cost of Construction Work in Progress ("CWIP") and obsolete materials and supplies associated with its retiring Cholla Unit 4 plant should be rejected as these expenditures did not result in plant that was used and useful. This adjustment reduces the Utah revenue requirement by **$960,404** relative to RMP's rebuttal filing.

10) The share of RMP's Annual Incentive Plan ("AIP") expense that is related to Company financial performance should be funded by shareholders, not customers, consistent with the longstanding ratemaking practices of the Commission. This adjustment reduces the Utah revenue requirement by approximately [redacted] relative to the Company's rebuttal filing.

11) RMP's projected 2021 pension settlement loss should be amortized over 20 years rather than being included in its entirety in test period pension cost. This adjustment reduces the Utah revenue requirement by **$3,340,818** relative to RMP's rebuttal filing

12) I present an illustrative revenue requirement adjustment that incorporates a return on equity ("ROE") of 9.50% rather than the 9.80% ROE requested by RMP in its rebuttal filing. My illustrative ROE is based on 9.50% ROE that the Company agreed to in Washington as part of a stipulation dated July 17, 2020 in Docket No. UE 191024, et al., before the Washington Utilities and Transportation Commission. The Utah revenue requirement reduction from such an adjustment is **$15,967,234** relative to the Company's rebuttal filing.

13) The authorized rate of return on common equity applicable to the undepreciated balance of the retired plant (inclusive of associated accumulated deferred income taxes ["ADIT"]) associated with RMP's wind repowering projects should be reduced by 200 basis points to better balance the benefits from these projects between customers and the Company. This adjustment reduces the Utah revenue requirement by **$3,129,591** relative to

the rate of return on rate base incorporating the illustrative ROE described in my testimony.

14) RMP should be allowed to recover the cost of the Craig 2 Selective Catalytic Reduction ("SCR") investment in rates but should earn less than a full return on rate base for this project. Specifically, I recommend that the ROE for this project be set equal to the cost of long-term debt, plus a tax gross up. This adjustment reduces the Utah revenue requirement deficiency by **$420,203** relative to the rate of return on rate base incorporating the illustrative ROE described in my testimony.

15) RMP's proposal to use deferred tax benefits to offset **$6,777,197** in projected Deer Creek Mine recovery royalties should be rejected. Instead, I recommend that customers be credited with these funds (plus carrying charges) through the Schedule 197 in proportion to the two-year payout proposed by RMP in its rate mitigation proposal.

16) RMP's proposal to include variations in PTC benefits in the Energy Balancing Account ("EBA") should be rejected.

Q. PLEASE SUMMARIZE THE IMPACT OF UAE'S ADJUSTMENTS TO RMP'S PROPOSED REVENUE INCREASE.

A. The impacts of UAE's recommended adjustments are summarized in Table KCH-1S below.

As shown in Table KCH-1S, UAE's adjustments reduce RMP's Utah base revenue requirement deficiency by **$54,040,611** relative to RMP's rebuttal filing. UAE's final base revenue requirement results in a **$18,009,296** increase relative to current base rates in Utah. This contrasts with the base rate increase of $**72,049,907** requested by RMP following Step 2 of its proposed two-step rate increase.

In addition, I recommend that the Commission reject RMP's proposal to offset projected Deer Creek Mine recovery royalties with deferred tax benefits. Instead, I recommend that the associated **$6,777,197** (plus carrying charges) be credited to customers through Schedule 197, in proportion to the two-year payout proposed by RMP in its rate mitigation proposal. Since I recommend that this credit be effectuated through Schedule 197, this adjustment does not impact the base revenue requirement.

Table KCH-1S
Summary of UAE Surrebuttal Revenue Requirement Adjustments for 2021 Test Period

RMP Requested Increase - Rebuttal (After Step 2)	**$72,049,907**

Summary of Revenue Requirement Impact of UAE Adjustments

	Adjustment	Increase
Pro Forma Capital Additions	**	**72,049,907**
Retired Wind Plant Balances	**(1,902,795)**	**70,147,112**
Prepaid Pension/PRW Asset Reversal	**(10,163,554)**	**59,983,558**
Cholla 4 Closure Regulatory Asset Adjustment	**(960,404)**	**59,023,154**
Non-Labor O&M Inflation Reversal	**	**59,023,154**
Benefit Expense Error Correction	**	**59,023,154**
Wage Increase	**	**59,023,154**
Annual Incentive Compensation Expense	[redacted]	[redacted]
Employee Count Reduction	**	[redacted]
Pension Expense - Settlement Loss	**(3,340,818)**	[redacted]
Reliability Coordinator Expense	**	[redacted]
Colstrip Decommissioning Error Correction	**	[redacted]
Pryor Mountain Wind Plant Adjustment	[redacted]	[redacted]
Return on Equity *	**(15,967,234)**	[redacted]
Retired Wind Assets - Allowed Return	**(3,129,591)**	[redacted]
Craig Unit 2 SCR - Allowed Return	**(420,203)**	[redacted]
TB Flats Wind Plant Adjustment	[redacted]	**18,009,296**
Total UAE Test Period Adjustments	**(54,040,611)**	

*** Includes illustrative ROE adjustment @ 9.50% ROE.**
**** Indicates UAE direct filing adjustments that have been included in RMP's rebuttal filing.**

Revenue Increase reflecting UAE Adjustments	**$18,009,296**

II. RMP'S REBUTTAL REVENUE REQUIREMENT PROPOSAL - OVERVIEW

Q. PLEASE SUMMARIZE THE KEY ELEMENTS OF RMP'S REBUTTAL REVENUE REQUIREMENT PROPOSAL.

A. RMP's rebuttal revenue requirement proposal has six major elements: (1) a reduction in RMP's requested return on equity from 10.2% to 9.8%; (2) acceptance of several adjustments proposed by UAE and OCS; (3) significant updates to the expected plant in service for the 2021 test period, including delayed and canceled projects, as well as new projects that are expected to be in service in the test period, but which were not included in RMP's direct filing; (4) a proposed revision to the test period structure, in which the full-year costs of the delayed portions of the TB Flats and Pryor Mountain wind projects would be included in rates, despite being in service for only part of the projected test period; (5) a two-step base rate increase, the second of which would correspond to the expected in-service date of the delayed TB Flats and Pryor Mountain facilities; and (6) cost and revenue updates and additional corrections.

Q. WHAT IS RMP'S UPDATED REVENUE REQUIREMENT REQUEST AS PRESENTED IN ITS REBUTTAL TESTIMONY?

A. RMP is now requesting a base revenue increase of $49.5 million on January 1, 2021 and another $22.5 million on July 1, 2021, following the in-service date of the delayed portions of the TB Flats and Pryor Mountain wind projects, for a total base revenue increase of $72.0 million, as compared to an increase of $95.8 million in RMP's direct filing. In addition, RMP proposes a two-year continuation of Schedule 197, through which a portion of the remaining benefits from the Tax Cuts and Jobs Act ("TCJA") would be credited to customers in the amount of $62.7 million over two years. After inclusion of interest, approximately $38.2 million would be returned in 2021 and $26.8 million in 2022.[1]

RMP's rebuttal revenue requirement proposal is summarized in Table KCH-2S, below, which replicates the information presented in Table 1 in the Rebuttal Testimony of Steven R. McDougal.[2]

[1] Rebuttal Testimony of Steven R. McDougal, lines 1279-1281.
[2] *Id*. at line 137.

Table KCH-2S

RMP Rebuttal Proposed Revenue Requirement

RMP Rebuttal Adjustments to Its Direct Filing	**$ Millions**
RMP As-Filed Rate Increase	$95.80
Capital Cost - Cost of Debt	(0.7)
Capital Cost - Cost of Equity	(22.3)
O&M Escalation Removal	(3.6)
Wheeling Revenue Update	2.3
REC Revenues Update	[redacted]
NTUA Revenue Correction	(0.1)
M&S Inventory Sales Revenue Correction	(2.8)
Schedule 300 Fees	(0.7)
Reliability Coordinator Fees	(1.4)
Transmission Power Delivery Uncollectible Expense	(0.3)
Insurance Premium Update	1.8
Wildland Fire O&M Update	1.5
WEBA - Full-Time Equivalent	(1.4)
WEBA - UMWA Correction	(0.7)
WEBA - CY 2021 Annualization	(0.7)
Rebuttal Net Power Cost Alignment	3.4
Nodal Pricing Model Update	0.0
Other Decommissioning Cost – Colstrip - Correction	[redacted]
Electric Plant Acquisition Adjustment	(2.2)
Property Tax Update	4.4
Pro-Forma Tax Update	6.6
Removal of TCJA Deferred Balances - Correction	0.3
Pro-Forma Plant Data Update	(28.9)
Repowering Capital Additions	0.3
January 1, 2021 Price Change	**49.5**
Pryor Mountain and TB Flats - Phase 2	22.5
July 1, 2021 Cumulative Price Change	**$72.00**

RMP's rebuttal filing also responds to the proposed adjustments by UAE, OCS, and the Division of Public Utilities ("Division") with which the Company disagrees.

III. UAE AND OCS ADJUSTMENTS ACCEPTED BY RMP

Q. WHICH UAE AND OCS ADJUSTMENTS WERE ACCEPTED BY THE COMPANY?

A. RMP accepted the following adjustments presented by UAE and OCS in their respective Direct filings:

1. Removal of O&M cost escalation as proposed by UAE in my Non-Labor Inflation Reversal Adjustment, resulting in a Utah revenue requirement decrease of approximately $3.6 million;[3]
2. Recognition of a reduction in 35.2 full-time equivalent employees that has occurred since the end of the base period, as proposed by UAE in my Employee Count Reduction adjustment, resulting in a Utah revenue requirement decrease of approximately $1.4 million;
3. Correction of RMP's wage annualization adjustment as proposed by UAE in my Wage Increase adjustment, resulting in a Utah revenue requirement decrease of approximately $0.7 million;
4. Correction of certain errors related to wage and benefits as proposed by UAE in my Wage and Benefit Expense Correction, resulting in a Utah revenue requirement decrease of approximately $0.7 million;
5. Reduction in reliability coordinator expense as proposed by OCS and UAE in my Reliability Coordinator Expense adjustment, resulting in a Utah revenue requirement decrease of approximately $1.4 million;

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[3] RMP indicates that the Company disagrees with my arguments for this adjustment, but has nonetheless adopted the same adjustment "due to the overall uncertainty of escalation as a result of COVID-19." Rebuttal Testimony of Steven R. McDougal, lines 823-830.

6. Correction of Renewable Energy Credit ("REC") revenues as recommended by OCS, resulting in a Utah revenue requirement decrease of approximately [redacted]

7. Correction of Navajo Tribal Utility Authority ("NTUA") revenues as recommended by OCS, resulting in a Utah revenue requirement decrease of approximately $0.1 million;

8. Correction of materials and supplies inventory sales revenue as recommended by OCS, resulting in a Utah revenue requirement decrease of approximately $2.8 million;

9. The inclusion of Schedule 300 fee changes as recommended by OCS, resulting in a Utah revenue requirement decrease of approximately $0.7 million;

10. Correction of decommissioning expense related to the Colstrip plant as proposed by OCS and UAE in my Colstrip Decommissioning Expense Error Correction, resulting in a Utah revenue requirement decrease of approximately [redacted] and

11. The buy-down of the remaining electric plant acquisition regulatory asset associated with the Hayden and Craig plants as recommended by OCS, resulting in a Utah revenue requirement decrease of approximately $2.2 million.

Q. DO YOU CONCUR WITH RMP'S INCORPORATION OF THESE ADJUSTMENTS?

A. Yes, I do. For ease of exposition, I have decided to use RMP's rebuttal filing as the point of departure for UAE's surrebuttal recommendations. As the UAE adjustments that were accepted by RMP are incorporated into RMP's rebuttal revenue requirement proposal, I no longer present the accepted items as going-forward adjustments.[4]

In addition to RMP's acceptance of the aforementioned adjustments by UAE and OCS, RMP revised its requested ROE downward from 10.2% to 9.8%. While the Company's revision does not connote acceptance of positions advocated by other parties regarding ROE, it represents a step in the direction of other parties' recommendations. As I stated in my direct testimony, UAE defers to the ROE recommendations of OCS and the Division. For presentation of my revenue requirement recommendations, I have used an illustrative ROE of 9.5%. This adjustment is presented in UAE Exhibit RR 5.14.

Q. HAS RMP MADE ANY OTHER ADJUSTMENTS IN RESPONSE TO PROPOSALS BY OTHER PARTIES THAT DIFFER FROM THE ACTUAL ADJUSTMENTS PROPOSED BY THOSE PARTIES?

A. Yes. I am aware of two such adjustments. The first is a proposed adjustment made by OCS witness Donna Ramas regarding the uncollectible expense associated with transmission power delivery. While RMP did not agree with the full adjustment proposed by Ms. Ramas, the issue she raised caused the Company to reconsider the manner in which it treated these costs, resulting in a Utah revenue requirement decrease of approximately $0.3 million.

[4] For consistency of presentation, the UAE adjustments accepted by RMP are included in my surrebuttal exhibits in their original sequence, but show a revenue requirement impact of nil.

Q. ARE YOU INCLUDING RMP'S TRANSMISSION POWER DELIVERY ADJUSTMENT IN UAE'S RECOMMENDED REVENUE REQUIREMENT?

A. Yes, although in doing so I am not indicating that I agree with this adjustment to the exclusion of the remaining portion of the adjustment that Ms. Ramas has proposed.

Q. WHAT IS THE OTHER ADJUSTMENT RMP MADE IN RESPONSE TO A PROPOSAL BY ANOTHER PARTY THAT DIFFERS FROM THE ACTUAL ADJUSTMENT PROPOSED BY THAT PARTY?

A. RMP accepted my recommendation that all post-2021 and canceled plant and associated depreciation expense should be removed from the 2021 revenue requirement. By itself, this adjustment reduces the Utah revenue requirement by approximately $7.1 million. However, RMP expanded this adjustment to: (a) include new plant that is expected to be in service during the test period that was not included in plant in service in the Company's direct filing; (b) update the costs of its new wind projects coming into service; and (3) remove the delayed plant associated with Phase 2 of the TB Flats and Pryor Mountain wind projects. The Phase 2 costs of these latter two projects are reincorporated into RMP's proposed revenue requirement in a separate adjustment.

Consequently, RMP's "Pro-Forma Plant Data Update" adjustment reduces the Utah revenue requirement by $28.9 million[5] and then adds back in $22.5 million for its "Pryor Mountain and TB Flats – Phase 2" adjustment.[6]

[5] RMP Exhibit SRM-2R, p. 10.20.
[6] RMP Exhibit SRM-2R, p. 10.22.

Q. DOES UAE OBJECT TO RMP'S PRO-FORMA PLANT DATA UPDATE ADJUSTMENT?

A. No. RMP's Pro-Forma Plant Data Update adjustment subsumes the Proforma Capital Additions adjustment I recommended in my direct testimony and I do not object to RMP's update for new plant or capital costs. However, I do not support RMP's "Pryor Mountain and TB Flats – Phase 2" adjustment, which I will address in the next section of my testimony.

IV. TB FLATS AND PRYOR MOUNTAIN SCHEDULE DELAYS

Q. PLEASE DESCRIBE THE SCHEDULE DELAYS FOR THE TB FLATS AND PRYOR MOUNTAIN WIND PROJECTS AS REPORTED BY RMP.

A. As described in the Rebuttal Testimony of Timothy J. Hemstreet, a portion of the TB Flats project will not be in service by the end of 2020, as originally expected. Instead, approximately 194 MW of nameplate capacity will be delayed until late spring or early summer 2021. Approximately 309 MW of nameplate capacity is expected to be in service at the start of the 2021 test period.[7]

Similarly, as described in the Rebuttal Testimony of Robert Van Engelenhoven, a portion of the Pryor Mountain project will not be in service by the end of 2020, as originally expected. Instead, approximately 60 MW of nameplate capacity will be delayed until mid-year 2021. Approximately 180 MW of nameplate capacity is expected to be in service at the start of the 2021 test period.[8]

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[7] Rebuttal Testimony of Timothy J. Hemstreet, lines 130-134.
[8] Rebuttal Testimony of Robert Van Engelenhoven, lines 66-68.

Q. HOW DO THESE DELAYS IMPACT THE REVENUE REQUIREMENT THAT RMP IS REQUESTING IN THIS CASE?

A. RMP is proposing to "carve out" the delayed portions of the TB Flats and Pryor Mountain projects from the originally proposed test period of January 1, 2021 through December 31, 2021. RMP removes the delayed portions of both projects from the revenue requirement proposed for the rate effective date of January 1, 2021. Instead, RMP requests a second step rate increase effective July 1, 2021, or 30 days after the final in-service date for the projects if there are further delays beyond the Company's control.[9] The second step rate increase would recover RMP's proposed incremental revenue requirement for the delayed plants measured on an annualized basis.[10]

Q. WHAT DO YOU MEAN BY THE PHRASE "MEASURED ON AN ANNUALIZED BASIS"?

A. RMP is proposing that the revenue requirement for the delayed wind plants be calculated for a full-year's worth of costs rather than the costs that reflect service during only part of the test period. The latter is the conventional practice for treating plant that is in service for only part of a fully projected test period, which is what RMP is using in this case. Under RMP's proposal, the effective test period for the delayed facilities is July 1, 2021 through June 30, 2022, whereas the test period for all other aspects of the case is January 1, 2021 through December 31, 2021. In essence, RMP is superimposing a second, single-issue test period on top of the test period otherwise being used in this case.

[9] Rebuttal Testimony of Joelle R. Steward, lines 188-192.
[10] Rebuttal Testimony of Steven R. McDougal, lines 575-579.

Q. HAS RMP ANNUALIZED THE BENEFITS AS WELL AS THE COSTS FOR THE DELAYED WIND PROJECTS?

A. No. It appears that RMP has not annualized the benefits for the delayed wind projects, but only the costs. For example, RMP's adjustment for the megawatt-hours produced by TB Flats and Pryor Mountain in 2021 reflects the lower output associated with partial year service for Phase 2 of these projects.[11] Similarly, PTC benefits reflect the lower output associated with partial year service for Phase 2.[12]

Q. DO YOU CONSIDER RMP'S PROPOSAL TO ANNUALIZE COSTS BUT NOT BENEFITS TO BE AN IMPROPER MISMATCH?

A. Yes, although I expect that RMP would respond that the full-year benefits would be captured in the EBA if the Company's proposal to include PTCs in the EBA is approved by the Commission.

Q. ARE YOU PROPOSING AN ADJUSTMENT TO ANNUALIZE THE BENEFITS FOR PHASE 2 OF TB FLATS AND PRYOR MOUNTAIN?

A. No, not as my primary recommendation, because I also object to the annualization of the costs of these two delayed projects as I will discuss below.

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[11] See RMP Responses to UAE Data Request 10.1, CONFIDENTIAL Attachment 10.1-2 and UAE Data Request 11.1, CONFIDENTIAL Attachment 11.1-2 (included in CONFIDENTIAL UAE Exhibit RR 5.18) in combination with RMP Work Paper "UTGRC20 – TB and PM COD NPC CONF," "NPC" worksheet, lines 589, 592 and 593, which together demonstrate that RMP is using the pro forma, not annualized, MWh for calculating its test period net power cost benefits for Phase 2 of the delayed wind projects.

[12] See RMP Responses to UAE Data Request 10.1, CONFIDENTIAL Attachment 10.1-2 and UAE Data Request 11.1, CONFIDENTIAL Attachment 11.1-2 (included in CONFIDENTIAL UAE Exhibit RR 5.18) in combination with RMP Exhibit SRM-2, p. 10.18.3, which together demonstrate that RMP is using the pro forma, not annualized, MWh for calculating its test period PTC benefits for Phase 2 of the delayed wind projects.

Q. WHAT IS YOUR RESPONSE TO RMP'S PROPOSAL FOR DETERMINING THE REVENUE REQUIRMENT FOR THE PORTIONS OF THE TB FLATS AND PRYOR MOUNTAIN PROJECTS THAT ARE DELAYED UNTIL AFTER THE START OF THE 2021 TEST PERIOD?

A. I disagree with the Company's proposed treatment for both projects. The test period proposed by RMP in this case is fully projected, running from January 1, 2021 through December 31, 2021. The end of the test period is nearly 20 months beyond RMP's filing date, distinguishing this test period as particularly "aggressive" in the sense that it extends far into the future relative to the date of the Company's application. The use of such an aggressive test period invites the risk that significant components projected in the filing are going to be wrong, particularly in a case in which significant plant is being added.

In my opinion, the appropriate treatment for dealing with the delayed plant is to incorporate it into the calendar year 2021 test period on an average-of-period basis, with comparable pro rata treatment for expenses and benefits. This approach is consistent with conventional ratemaking practice and is what would have been expected had the original schedules for these facilities anticipated a mid-2021 in-service date. The fact that these facilities are delayed from their original in-service dates should not convey an advantage to the Company in terms of ratemaking treatment (i.e., annualization) that otherwise would not have been warranted had the original in-service dates for a portion of the projects been mid-2021.

Q. IS YOUR PROPOSED TREATMENT CONSISTENT WITH STANDARD RATEMAKING PRACTICES IN UTAH?

A. Yes. In my experience, Utah ratemaking consistently uses average-of-period rate base applied to a 13-month test period in general rate cases.

Q. WHAT IS YOUR SPECIFIC RECOMMENDED REVENUE REQUIREMENT ADJUSTMENT FOR TB FLATS IN RESPONSE TO RMP'S REBUTTAL PROPOSAL?

A. I recommend that the delayed portion of the TB Flats project be included in rate base at its average of period value, reflecting an expected in service date of June 2021, with comparable pro rata treatment for expenses and benefits. I present this adjustment in CONFIDENTIAL UAE Exhibit RR 5.17. It results in a Utah revenue requirement reduction of [redacted] relative to RMP's rebuttal filing.

Q. WHAT IS YOUR SPECIFIC RECOMMENDED REVENUE REQUIREMENT ADJUSTMENT FOR THE PRYOR MOUNTAIN PROJECT IN RESPONSE TO RMP'S REBUTTAL PROPOSAL?

A. As I explained in my direct testimony, I am recommending that RMP be paid $26.00/MWh for each MWh that the Pryor Mountain project produces for 20 years, and that the PTC and REC revenues be retained by the Company. This pricing is consistent with the 20-year levelized avoided cost pricing that RMP was calculating for Wyoming wind QFs at the time RMP acquired and developed the Pryor Mountain project.

The delay in the Pryor Mountain project schedule does not change my recommendation, but rather reinforces it. As my proposal is to pay RMP only for actual megawatt-hours produced by this facility and to allow RMP to retain the PTC benefits, the delay in the project does not require the Commission to consider any special annualization of rate base, expenses, or benefits. Moreover, my approach to paying for the power is consistent with how a QF would be compensated for a project that was delayed (under a best-case scenario for the QF). Additionally, the projected cost of the Pryor Mountain project has increased from [redacted] to [redacted].[13] Whereas RMP proposes to pass this cost increase on to customers, my proposal would require the Company to absorb these higher costs, just as a QF would have to do.

For modeling purposes, I have removed the Pryor Mountain project from rate base and its associated expenses from the cost of service, just as I did in my direct testimony. I then substitute into the revenue requirement the equivalent of a power purchase agreement ("PPA") at $26.00/MWh. Going forward, I recommend that the cost recovery for this project be treated in this manner, with the $26.00/MWh cost included in net power cost and subject to the EBA. I present this adjustment in CONFIDENTIAL Utah Exhibit RR 5.13. It results in a Utah revenue requirement reduction of [redacted] relative to RMP's rebuttal filing.

Q. IF YOUR RECOMMENDED RATEMAKING TREATMENT FOR THE DELAYED TB FLATS AND PRYOR MOUNTAIN PROJECTS IS ADOPTED BY THE COMMISSION, DOES THAT OBVIATE THE NEED FOR A SECOND STEP RATE INCREASE IN THIS CASE AS PROPOSED BY THE COMPANY?

A. Yes, it does.

[13] Rebuttal Testimony of Robert Van Engelenhoven, lines 53-55.

Q. WHAT WAS RMP'S RESPONSE TO YOUR PROPOSED TREATMENT OF PRIOR MOUNTAIN IN THE COMPANY'S REBUTTAL TESTIMONY?

A. RMP witness Rick T. Link argues that my comparison of QF pricing to the Pryor Mountain project costs is inappropriate. He asserts that the Company's economic analysis of the Pryor Mountain project demonstrates that it will benefit retail customers, and the Company's decision to move forward with the project was prudent. He also argues that the Pryor Mountain project should not be treated as a PPA because it is a Company-owned generating asset that should be included in rate base.[14] Mr. Link also takes exception to my characterization of the substantial terminal value of $106.7 million for the project at the conclusion of its projected life in 2050 as "speculative." Mr. Link maintains that RMP's terminal value estimates are not speculative and should be included in the calculation of customer benefits for the project.[15]

Q. HOW DO YOU RESPOND TO RMP'S CRITICISM OF YOUR PROPOSAL?

A. I explained the basis for my recommendation in detail in my direct testimony and will not repeat it all here. In short, the Commission's consideration of what constitutes prudent cost recovery for this project should be informed by the fact that the cost of this fast-tracked, Company-developed project has turned out to be considerably more expensive than the avoided cost pricing that RMP was calculating for Wyoming wind QFs at the time this project was developed. It is particularly noteworthy that we are able to make [redacted]

[14] Direct Testimony of Rick T. Link, lines 362-369.
[15] Direct Testimony of Rick T. Link, lines 256-285.

[redacted]. RMP's development of this project has turned out to be [redacted]% more expensive than the avoided cost rate calculated by RMP for similarly situated QF projects. I see no justification for charging Utah customers this premium over the avoided cost rate that RMP calculated.

RMP appears to subscribe to the view that so long as a Company study indicates a forecasted net benefit of $1 for a project, then RMP should be able to recover whatever costs are required to generate that $1 of benefit.[16] I disagree. Lower costs for the same project produce greater net benefits, all other things being equal. The 20-year avoided cost pricing produced by the Company's own models for Wyoming wind QFs indicates that a lower level of cost recovery than what RMP is requesting is appropriate for Pryor Mountain.

Q. HOW DO YOU RESPOND TO MR. LINK'S CRITICISM OF YOUR DISCUSSION OF THE TERMINAL VALUE RMP ASSUMED FOR THIS PROJECT?

A. In my direct testimony I pointed out that RMP's economic analysis of Pryor Mountain includes a substantial terminal value of $106.7 million for the project at the conclusion of its projected life in 2050. This large terminal value is added as a benefit to customers in RMP's calculation. It is important for the Commission to recognize that the Company's claim that this project will produce net benefits for customers under its Low Gas/Zero Carbon ("LN") scenario depends entirely on the assumed terminal value benefits coming to fruition and being passed on to customers some thirty years from now.

[16] *See*, for example, Rebuttal Testimony of Rick T. Link, lines 142-149.

Mr. Link criticizes my characterization of these forecasted terminal benefits as "speculative," but I stand by it. In my experience, long-term forecasting of energy values, while it may be necessary in certain analyses, is extremely challenging.[17] It is not that I believe terminal values must necessarily be removed from the analysis, as Mr. Link states. But I consider it a red flag if the benefits to customers <u>depend</u> on the terminal value and <u>disappear</u> without it. I would be remiss if I did not point out to the Commission that this is the case for the Pryor Mountain project under the LN scenario.

Q. ARE THE OTHER ARGUMENTS OFFERED BY MR. LINK TO WHICH YOU WISH TO RESPOND?

A. Yes. Mr. Link complains that my pricing proposal is based on a 20-year levelized avoided cost even though the Pryor Mountain has an expected 30-year life.[18] This complaint is rich in irony given RMP's strident insistence just a few years ago that the Commission should limit the contract terms for QFs to just three years, despite the longer operating lives of those facilities.[19] Although the Commission rejected RMP's draconian contract-term proposals, the Commission ultimately reduced QF standard contract terms from 20 years to 15 years.[20] Thus, the 20-year term I am proposing is more generous to RMP than what is available to QFs today, but it is based on the terms available in

[17] To cite just one example of the challenges in long-term price forecasting, PacifiCorp's 2003 Integrated Resource Plan ("IRP"), which was issued 17 years ago, not 30 years ago, projected 7x24 wholesale power prices in excess of $60/MWh and average Utah natural gas prices of $5.70 per MMBtu in 2020 (2003 IRP, Appendix C, pp. 198, 226), well above what prices have turned out to be. I point this out not as a criticism of the IRP projections, but to add some perspective to the difficulty of forecasting a terminal value for the Pryor Mountain wind project 30 years from now.
[18] *Id.*, lines 324-332.
[19] Docket No. 15-035-53, Direct Testimony of Paul Clemens, lines 17-29.
[20] Docket No. 15-035-53, Order issued January 7, 2016 at 21.

Wyoming around the time RMP took over the Pryor Mountain project from the QF developers that had previously owned the project.

On a similar theme, Mr. Link also complains that the QF pricing I am using as a benchmark has been superseded by his more recent analysis.[21] However, the pricing I am relying on is contemporaneous with RMP's takeover of the Pryor Mountain project. Indeed, as I detailed in my Direct Testimony, the $26.00/MWh price I recommend is consistent with [redacted]. [redacted]

Mr. Link also attempts to differentiate Pryor Mountain as a Company-owned resource from a QF by noting that under RMP ownership, Pryor Mountain would be dispatchable.[22] However, this argument falls short. As a zero marginal cost facility, Pryor Mountain would be expected to be operating whenever physical conditions allow, except during special circumstances in which energy is priced at a substantially negative value in short-term markets. Anticipating this situation, the recommendation I made in my direct testimony has a provision that retains the economic incentives to curtail output from Pryor Mountain to the benefit of customers (and without economic harm to the Company) whenever such beneficial curtailments can be made under my $26.00/MWh pricing proposal. There is no good reason for Utah customers to pay a [redacted] premium

[21] Rebuttal Testimony of Rick T. Link, lines 336-349.
[22] *Id.*, lines 350-355.

over the QF rate to achieve the alleged benefits of "disptachability" that RMP claims would inure under Company ownership. As I demonstrate in my direct testimony, the same benefits – to the extent they exist – can be achieved without paying such a premium.

Q. DO YOU HAVE ANY CONCLUDING COMMENTS REGARDING THE PRYOR MOUNTAIN PROJECT IN RESPONSE TO RMP'S REBUTTAL?

A. Yes. Viewed strictly in "black and white" terms, there is a strong case for disallowing the costs of the Pryor Mountain project completely from rates. After all, under the LN scenario, if the substantial terminal value projected for 2050 is removed, the project does not produce benefits for customers over its lifetime. In recommending to pay RMP $26.00/MWh for the output of the project, I am attempting to find a constructive middle ground, one which would likely provide a modicum of benefits for customers, while compensating the Company fairly for the generation the project will produce.

V. <u>OTHER RMP REBUTTAL COST AND REVENUE UPDATES AND CORRECTIONS</u>

Q. IS UAE OBJECTING TO ANY OF THE OTHER RMP REBUTTAL COST AND REVENUE UPDATES OR ADDITIONAL CORRECTIONS LISTED IN TABLE KCH-2 ABOVE?

A. UAE is not objecting to the following RMP rebuttal adjustments shown in Table KCH-2, above: (1) Wheeling Revenue Update, (2) Insurance Premium Update, (3) Wildland Fire O&M Update; (4) Rebuttal Net Power Cost Alignment; (5) Nodal Pricing Model Update; (6) Property Tax Update; (7) Pro Forma Tax Data Update; (8) Removal of TCJA Deferred Balances – Correction; and (9) Repowering Capital Additions.

VI. RESPONSE TO RMP OBJECTIONS TO ADJUSTMENTS RECOMMENDED IN MY DIRECT TESTIMONY

Rate Base Associated with Retired Wind Assets

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

A. In my direct testimony and in testimony I filed in Phase II of Docket No. 18-035-36, I argued that rather than effectively freezing the value of the retired wind assets (associated with wind repowering projects) when each asset is retired until the rate effective date of this case, the *de facto* "value" of the retired assets should continue to be reduced through that time to reflect the depreciation expense associated with these assets in current rates. This treatment would ensure that customers get the proper benefit from continuing to pay off these assets between the retirement date and the rate effective date.

RMP objects to my recommendation, arguing that it is "inconsistent with normal practice" and ignores "the new capital placed in-service due to the retirement."[23] RMP characterizes my proposal as single-issue ratemaking.[24]

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

A. Firstly, it is not "normal practice" to retire $785 million in net plant some 20 years before the end of its useful life, which is what has occurred as a result of repowering. The Commission should pay careful attention to how this enormous asset retirement is handled for ratemaking purposes. Secondly, it would be more accurate to describe the asset retirement as occurring *due to the new capital placed in service* rather than "the new

[23] Rebuttal Testimony of Steven R. McDougal, lines 964-974.
[24] *Id*., lines 1016-1022.

capital being placed in service due to the retirement," as RMP has described it. The distinction between cause and effect is relevant because the retirement of these assets has been forced by the Company's plan to invest in the repowering assets. Given this forced retirement, and given the fact that customers will be required to pay for the full recovery of these assets plus a return, it is a matter of fundamental equity that customers be given proper credit for paying down the cost of these assets through the depreciation expense they are currently paying in rates between the time of the assets' retirement and the rate effective date of this case. RMP's treatment deprives customers of this credit.

RMP witness Steven R. McDougal contends that my recommendation is not correct because I am not considering the new capital placed in-service subsequent to the retirement. However, I am fully cognizant of the new repowered plant being placed into service. In fact, I interpret RMP's approach to this issue as one in which the Company is attempting to obtain cost recovery for a portion of its new repowered plant prior to the rate effective date of this case. It is, in effect, a "workaround" of the regulatory lag that would otherwise apply to plant that comes into service prior to rate effective date of a rate case. The Company is basically "swapping" the revenues paid by customers that had been applied to recovering the cost of the now-retired assets for recovery of the new repowered assets. This "swapping" occurs between the date of each asset's retirement and the rate effective date of this case, after which the depreciation expense for both the retired assets and the new repowering assets are included in rates and are applied going forward to the remaining plant balances of both. I do not disagree with RMP on what occurs after the rate effective date. But prior to the rate effective date, I believe it is equitable and reasonable for the depreciation expense that customers currently pay in rates toward the now-retired wind assets to continue to be credited against the remaining balance of those assets. In his rebuttal testimony, Division witness Gary L. Smith expressed the Division's agreement with me on this point.[25]

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

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR SURREBUTTAL ADJUSTMENT?

A. My Retired Wind Asset Balances adjustment reduces the Utah revenue requirement by **$1,902,795** relative to RMP's rebuttal filing. This adjustment is presented in CONFIDENTIAL UAE Exhibit RR 5.2.

Prepaid Pension and Post-Retirement Welfare ("PRW") Assets

Q. DOES RMP CONTINUE TO PROPOSE THAT ITS PREPAID PENSION ASSET AND PRW ASSET BE INCLUDED IN RATE BASE?

A. Yes. RMP objects to my recommendation and the recommendation of OCS witness Donna Ramas that the prepaid pension asset and PRW asset continue to be excluded from rate base. RMP also proposes that the Commission consider authorizing a balancing account for all pension and other postretirement costs, including events such as pension

[25] Rebuttal Testimony of Gary L. Smith, lines 17-32.

settlements, with any resulting regulatory asset or liability being included in the net prepaid pension and other postretirement asset at the Company's weighted average cost of capital.[26]

Q. HAS RMP'S REBUTTAL CAUSED YOU TO MODIFY YOUR RECOMMENDATIONS?

A. No. The prepaid pension asset and PRW asset are currently not in rate base. Including these items in rate base would add more than $10 million per year to the Utah revenue requirement at RMP's requested ROE. As I explained in my direct testimony, RMP's prepaid pension asset has been growing, caused largely by negative pension accounting costs, which causes the prepaid pension asset to increase even when Company contributions to the plan are zero (while customers continue to pay rates that assume positive pension costs). If the prepaid pension asset is included in rate base, customers would be required to pay the Company a return on the growth in the asset due to higher expected returns in the market. I believe this is an unreasonable shift of risk to customers. The Commission should reject RMP's proposal to include these items in rate base.

However, in the event the Commission approves some version of RMP's proposal, I would recommend that the Commission set the allowed return on the Company's prepaid assets equal to the Expected Return on Assets for its pension and PRW plans, as explained in my direct testimony.

[26] Rebuttal Testimony of Nikki L. Kobliha, lines 206-218.

Q. WHAT IS YOUR RESPONSE TO RMP'S BALANCING ACCOUNT OPTION?

A. UAE does not support establishing a pension and post-retirement plan tracking account, as it would be an unwarranted exercise in single-issue ratemaking. I recommend that the Company's alternative pension cost balancing account proposal be rejected.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR SURREBUTTAL ADJUSTMENT?

A. My Prepaid Pension/PRW Asset adjustment reduces the Utah revenue requirement by **$10,163,554** relative to RMP's rebuttal filing. This adjustment is presented in UAE Exhibit RR 5.3.

Cholla Unit 4 Closure Costs

Q. WHAT IS RMP'S RESPONSE TO YOUR RECOMMENDATION TO EXCLUDE CWIP AND OBSOLETE MATERIALS AND SUPPLIES ("M&S") FROM THE AMORTIZATION OF CHOLLA UNIT 4 CLOSURE COSTS?

A. RMP opposes my recommendation.[27] Mr. McDougal also indicates that when the Company included the amount of CWIP for purposes of the original filing, there was an estimated $1.8 million balance. RMP later determined that $526 thousand of the total balance was actually moved out of CWIP and into Electric Plant in-service in December 2019.[28]

[27] Rebuttal Testimony of Steven R. McDougal, lines 1201-1214.
[28] *Id.*, lines 1216-1221.

Q. DO YOU CONTINUE TO RECOMMEND THAT CWIP AND OBSOLETE M&S BE EXCLUDED FROM THE AMORTIZATION OF CHOLLA UNIT 4 CLOSURE COSTS CHARGED TO CUSTOMERS?

A. Yes. As these items were never used to serve customers, I recommend that they be excluded from cost recovery.

Q. HAVE YOU MODIFIED YOUR ADJUSTMENT TO TAKE ACCOUNT OF THE REVISION TO CWIP IDENTIFIED BY RMP?

A. Yes. My revised Cholla 4 Closure adjustment reduces the Utah revenue requirement by **$960,404** relative to RMP's rebuttal filing. This adjustment is presented in UAE Exhibit RR 5.4.

Annual Incentive Compensation

Q. WHAT ARE RMP'S OBJECTIONS TO YOUR ADJUSTMENT FOR ANNUAL INCENTIVE COMPENSATION?

A. RMP objects to my recommendation that shareholders – and not customers – fund the share of RMP's annual incentive expense that is related to the Company's financial performance. As I discussed in my direct testimony, the 2019 Annual Incentive Plan ("AIP") included PacifiCorp goals tied to [redacted] and [redacted], weighted at approximately [redacted] and [redacted], respectively.[29] I recommend that the AIP expense

[29] RMP response to UAE Data Request 5.2, Confidential Attachment UAE 5.2, PacifiCorp 2019 Scorecard CONF, previously included in Confidential UAE Exhibit RR 1.18.

included in rates exclude these components, which together comprise [redacted]% of the basis for the AIP awards.

In response, RMP witness Julie Lewis confirms that [redacted]% of the AIP is tied to financial performance,[30] but Ms. Lewis defends the inclusion of these costs in customer rates on the grounds that customers also benefit from strong utility financial performance and achievement of ROE objectives.[31] Ms. Lewis also states that AIP is not a "bonus" but a form of "at-risk" compensation.[32]

Q. WHAT IS YOUR RESPONSE TO RMP'S REBUTTAL?

A. As I stated in my direct testimony, I do not object to the inclusion of annual incentive compensation plans in utility rates, but only to the extent that the compensation in such plans is not excessive and to the extent that the goals of such plans are not tied to utility financial performance, but rather to goals such as customer satisfaction, operating efficiency, and safety. While rewarding employees for *financial* performance can be entirely appropriate, the responsibility for funding such awards rests most appropriately with shareholders, who are the primary beneficiaries of meeting or exceeding financial targets.

In support of the Company's position, Ms. Lewis notes that the Washington Utilities and Transportation Commission has concluded that the AIP is an appropriate method of implementing incentive-based compensation.[33] Of course, my adjustment does not disallow the AIP *per se*, but only the fraction of its expense related to financial

[30] Rebuttal Testimony of Julie Lewis, lines 62-76.
[31] *Id.*, lines 122-127.
[32] *Id.*, lines 114-117.
[33] Id., lines 128-133

performance. But fundamentally, RMP fails to respond to my extensive citation to this Commission's longstanding and consistent requirement that incentive compensation tied to financial performance must be funded by shareholders. RMP's proposed treatment is squarely at odds with the stated policy of the Commission on this subject and should be rejected.

Q. MS. LEWIS EMPHASIZES THAT THE AIP IS NOT A BONUS. DO YOU EVER CHARACTERIZE THE AIP AS A BONUS IN YOUR TESTIMONY?

A. No. I understand that the AIP is a form of at-risk compensation. However, consistent with the Commission's previous findings, I believe the portion tied to financial performance should be funded by shareholders, who are the primary beneficiaries when RMP's financial performance meets or exceeds expectations.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR SURREBUTTAL ADJUSTMENT?

A. My Annual Incentive Compensation adjustment reduces the Utah revenue requirement by [redacted] relative to RMP's rebuttal filing. This adjustment is presented in CONFIDENTIAL UAE Exhibit RR 5.8.

Pension Expense – Settlement Loss

Q. WHAT IS RMP'S REBUTTAL RESPONSE TO YOUR ADJUSTMENT FOR SETTLEMENT LOSSES RELATED TO PENSION EXPENSE?

A. As I explained in my direct testimony, I recommend that the recovery of RMP's projected test period pension settlement loss be amortized over 20 years rather than being included in its entirety in annual pension cost in this case. OCS witness Donna Ramas makes a similar proposal.[34] RMP does not accept our adjustments as an alternative to its proposal to recover this projected expense in a single year, although RMP witness Nikki L. Kobliha indicates the Company would ultimately be willing to accept authorization to defer all future pension settlement losses and to amortize them if the Company's primary proposal is not accepted by the Commission. However, RMP's first alternative recommendation is to establish a balancing account to address both pension settlement losses and on-going net periodic benefit cost, as noted above in my discussion of the proposed prepaid pension asset. Specifically, RMP's preferred alternative is to establish a balancing account to track both on-going net periodic benefit cost of its pension and other post-retirement plans, pension settlement losses and any other potential settlement or curtailment gains or losses in the plans.[35]

Q. WHAT IS YOUR RESPONSE TO RMP'S ALTERNATIVE PROPOSAL?

A. As I explained above in my discussion of the proposed prepaid pension asset, UAE does not support establishing a pension and post-retirement plan tracking account, as it would be an unwarranted exercise in single-issue ratemaking. I recommend that the Company's alternative pension cost balancing account proposal be rejected.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR SURREBUTTAL ADJUSTMENT?

A. My Pension Expense – Settlement Loss adjustment reduces the Utah rebuttal revenue requirement by **$3,340,818** relative to RMP's rebuttal filing. This adjustment is presented in UAE Exhibit RR 5.10.

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[34] Direct Testimony of Donna Ramas, lines 505-515.
[35] Rebuttal Testimony of Nikki L. Kobliha, lines 38-70.

Retired Wind Assets – Allowed Return

Q. WHAT IS RMP'S REBUTTAL RESPONSE TO YOUR ADJUSTMENT FOR THE ALLOWED RETURN ON THE WIND ASSETS THAT ARE RETIRED DUE TO REPOWERING?

A. RMP opposes my recommendation. Mr. McDougal contends that my recommendation would have been better addressed in the cost of capital phase of this case.[36] He also contends that I never provided testimony challenging the overall prudence of the projects or the economic analysis that Mr. Link prepared in support of these investments, leading him to characterize my recommendation as an "unsupported disallowance."[37]

Q. WHAT IS YOUR RESPONSE TO THESE CRITICISMS?

A. My recommended disallowance is fully supported. I was a witness in Docket No. 17-035-39, in which RMP sought preapproval for the wind repowering projects, and contrary to Mr. McDougal's assertion, I most certainly did challenge the overall prudence of the repowering projects as proposed by the Company, recommending that the Commission deny preapproval for the repowering projects as a whole.[38] In particular, I singled out the Glenrock 3, High Plains, McFadden Ridge, Dunlap Ranch, Rolling Hills, Leaning Juniper, Marengo I, Marengo II, and Goodnoe Hills projects as not warranting preapproval because these projects failed to provide net benefits over a 20-year period using the measurement metrics in the IRP, i.e., real levelized PTC values, for one or both of the gas/CO_2 scenarios.[39]

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[36] Rebuttal Testimony of Steven R. McDougal, lines 1046-1057.
[37] *Id*., lines 1059-1061.
[38] Docket No. 17-035-39, April 2, 2018 Response Testimony of Kevin C. Higgins, lines 23-32.
[39] *Id*., lines 642-647.

I also challenged the economic analysis prepared by Mr. Link in that case, particularly his decision to change the methodology for evaluating PTC benefits midway through the case.[40]

In that case, I noted the significant disparity between the benefits to RMP from its expected earnings on its investment in the repowered wind projects compared to the projected benefits to customers.[41] To mitigate this disparity, I recommended a reduction of 200 basis points to the authorized rate of return on common equity applied to the undepreciated balance of the plant that RMP would retire to install the repowering investment – the same recommendation I making in this case. I laid the groundwork for this reduction as follows:

> RMP's wind repowering proposal is not a typical utility investment proposition. Utility generation projects are typically driven by the need to meet reliability requirements, load growth, and/or to replace retired plant that has come to the end of its useful life. That is not the case here. I have described the wind repowering project as an "opportunity" investment that seeks to take advantage of the availability of PTCs before federal tax credits begin to phase out.
>
> If approval of the repowering project is based on public necessity, then clearly it should be rejected because the project is simply not needed to meet utility service requirements. Not even RMP, the chief advocate for the project, has ventured to make the claim that the project is needed to serve customer load requirements. Indeed, in some respects, the project is the antithesis of need, in that its core activity involves taking an action that, but for an expiring tax policy, would not make economic sense in the first place: namely, prematurely replacing 10-year-old wind generating equipment that has 20 years remaining on its useful life.
>
> If public necessity cannot reasonably be the basis for approval of this project, then what should be considered – if it is to be considered beyond that threshold? In my direct testimony, I addressed that question by recommending that the relative benefits to customers, taking account of the range of risks to customers, in relation to the benefits to RMP, should be

[40] *Id.*, lines 229-509.
[41] *See, e.g., id*. at lines 72-80 and 778-797.

> considered as part of the Commission's review. My conclusion at this juncture of the proceeding is that the overall equities are not sufficiently balanced or reasonable to support approval – particularly in light of the large capital cost required, the lack of public necessity for this project, the ad hoc deviation from the IRP process surrounding this project, and the uncertainties that may impair the realization of projected customer benefits.[42]

Even though in Docket No. 17-035-39, the Commission granted preapproval to 11 of the 12 repowering projects proposed by RMP, the Commission reserved the question of the appropriate return on the retired assets for this general rate case.[43]

I do not subscribe to the view that so long as a Company study indicates a forecasted net benefit of $1 for a project, then RMP should be able to recover whatever costs are required to generate that $1 of benefit. My proposed 200-basis point reduction is a means to mitigate the imbalance in potential benefits between customers and the Company associated with these "opportunity" projects. In my direct testimony in this case, I updated my comparison of these potential benefits between customers and the Company and demonstrate that my proposal achieves a more equitable result.

Finally, my 200-basis point reduction to the ROE applied to the retired plant balance is independent of the overall ROE authorized by the Commission in this case and future cases, and is not based on the factors the Commission is being asked to consider in determining the Company's overall authorized ROE. My adjustment is a partial disallowance to a specific cost item – plant that is no longer used and useful – and it

[42] *Id*. at lines 657-683.
[43] *See* Docket No. 17-035-39, Report and Order issued May 25, 2018 at 26. "…[W]e reserve for consideration in an appropriate future ratemaking proceeding the degree, if any, to which the rate of return on those [retired] assets should be adjusted."

properly should be considered as part of the revenue requirements phase of this case, as distinct from the cost of capital phase.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR SURREBUTTAL ADJUSTMENT?

A. My adjustment to the allowed return on the Retired Wind Assets reduces the Utah revenue requirement by **$3,145,085** relative to RMP's rebuttal filing. This adjustment is presented in UAE Exhibit RR 5.15.

Craig Unit 2 SCR – Allowed Return

Q. WHAT IS RMP'S REBUTTAL RESPONSE TO YOUR ADJUSTMENT FOR THE ALLOWED RETURN ON THE CRAIG UNIT 2 SCR INVESTMENT?

A. RMP opposes my recommendation that the Company should earn less than a full return on rate base for this project. RMP contends that it should be able to earn a full return because the Company financed this investment under its capital structure and the project provides customer benefits.[44]

Q. DO YOU CONTINUE TO RECOMMEND THE ADJUSTMENT PROPOSED IN YOUR DIRECT TESTIMONY?

A. Yes. Utah customers are being asked to pay for an investment that was not cost effective, indeed not prudent, at the time it was made. At the same time, RMP's actions to independently evaluate the economics of the SCR investment and its decision to vote no on moving forward with the investment are mitigating factors in the Company's favor.

[44] Rebuttal Testimony of Steven R. McDougal, lines 1176-1182.

In light of these competing equities, I continue to recommend that RMP be allowed to recover the cost of the Craig 2 SCR investment in rates but should earn less than a full return on rate base for this project. Specifically, I recommend that the return on equity for this project be set equal to the cost of long-term debt, plus a tax gross up. I believe this approach strikes a reasonable balance between the interests of customers and shareholders.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR SURREBUTTAL ADJUSTMENT?

A. My adjustment to the allowed return on the Craig SCR investment reduces the Utah revenue requirement by **$420,203** relative to RMP's rebuttal filing. This adjustment is presented in UAE Exhibit RR 5.16.

Deer Creek Mine Closure Royalties

Q. HAS RMP RESPONDED TO YOUR RECOMMENDATION TO NOT APPROVE RMP'S REQUEST TO USE EXCESS DEFERRED INCOME TAXES ("EDIT") RESULTING FROM THE TCJA TO OFFSET PROJECTED RECOVERY ROYALTIES ASSOCIATED WITH THE DEER CREEK MINE CLOSURE?

A. Not directly. However, RMP opposes a similar recommendation from Ms. Ramas.[45]

Q. HAVE YOU CHANGED YOUR RECOMMENDATION?

A. No. RMP has not paid these recovery royalties and the final amount will not be known until negotiations are underway and settled with the ONRR.[46] Therefore I do not believe

[45] Rebuttal Testimony of Steven R. McDougal, lines 1128-1134.
[46] *See* RMP Response to UAE Data Request 4.10, previously included in UAE Exhibit RR 1.17.

it is appropriate to utilize EDIT funds – or any customer funds – to pay for projected royalties at this time. Instead, I recommend that the EDIT that RMP proposes to apply to the recovery royalties be returned to customers through Schedule 197.

In its rebuttal filing, RMP revised the amount of recovery royalties it is seeking to recover from customers from $5,249,190 to $6,777,197.[47] Accordingly, and consistent with my proposal in my direct testimony, I am revising the amount of my adjustment to remove **$6,777,197** from the proposed Deer Creek buy-down and instead credit this amount (including carrying charges) to customers through Schedule 197, in proportion to the two-year payout proposed by RMP in its rate mitigation proposal. Since I recommend that this credit be effectuated through Schedule 197, this adjustment does not impact the base revenue requirement.

VI. PROPOSED CHANGES TO THE EBA

Q. WHAT IS RMP'S RESPONSE TO YOUR RECOMMENDATION TO REJECT THE COMPANY'S PROPOSAL TO INCLUDE PTCS IN THE EBA?

A. RMP witness David G. Webb defends the Company's proposal and maintains that its proposal to include PTCs in the EBA is not about transferring risk to customers, but rather about ensuring that customers' rates reflect the full costs and benefits of these wind resources. Mr. Webb also stresses the variability of wind output in justifying inclusion in the EBA.[48]

[47] *See* Rebuttal Testimony of Steven R. McDougal, lines 1124-1127 and Exhibit RMP SRM-2R, p. 10.23.1.
[48] Rebuttal Testimony of David G. Webb, lines 216-235.

Q. ARE YOU PERSUADED BY RMP'S REBUTTAL ARGUMENTS?

A. No. The variability of wind generation is one of the risks inherent in the Company's decision to move forward with its Repowering and EV2020 wind investments. Customers did not propose these projects. RMP did. Customers will not earn a rate of return on the billions invested in these projects. RMP will. The variability in wind output already exposes customers to the full risk of acquiring replacement power when wind production is below expectations. Including PTCs in the EBA would only add to that customer risk exposure. The risk in PTC variability is most fairly borne by the Company. RMP's proposal should be rejected.

VII. DOCUMENTATION OF DATA RESPONSES RELIED ON

Q. HAVE YOU PROVIDED COPIES OF THE DATA RESPONSES YOU RELIED UPON IN PREPARING YOUR ANALYSIS?

A. Yes. The responses that I relied on are provided in CONFIDENTIAL UAE Exhibit RR 5.18.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.