

BEFORE THE UTAH PUBLIC SERVICE COMMISSION

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)

DPU EXHIBIT 9.0 D-RR
DOCKET No. 10-035-124

Pre-filed Direct Testimony

Of

Joni S. Zenger, PhD

On Behalf of

Utah Division of Public Utilities

May 26, 2011

Revenue Requirement

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Joni S. Zenger, PhD
Pre-Filed Direct Revenue Requirement Testimony

Introduction

Q. Please state your name, business address, and occupation for the record.

A. My name is Joni S. Zenger. My business address is Heber Wells Building, 160 East 300 South, Salt Lake City, Utah, 84114. I am employed by the Utah Division of Public Utilities (Division) of the Utah Department of Commerce as a Technical Consultant.

Q. On whose behalf are you testifying?

A. The Division.

Q. Are you the same Joni S. Zenger who filed direct testimony on test period in this proceeding?

A. Yes, I am. I filed DPU Exhibit 1.0 on March 9, 2011 in this proceeding.

Q. What is the purpose of your revenue requirement testimony?

A. The purpose of my testimony in this phase of Rocky Mountain Power's (Company) rate case is two-fold. First, I present the Division's analysis, findings, and recommendation to

23 the Commission on the prudence of the Top of the World Power Energy, LLC (Top of the
24 World) Power Purchase Agreement (PPA) filed in this case. Second, I propose an
25 adjustment to rate base related to the sale of transmission assets to Black Hills Power
26 Company (Black Hills Power).

27

28 **Top of the World PPA**

29

30 **Q. Please describe the Top of the World PPA filed in this case?**

31 A. On August 26, 2009, the Company executed a long-term power purchase agreement
32 with Duke Energy for the Top of the World wind project. The PPA is a 20-year contract
33 for the purchase of 200.2 MW of wind resources along with the accompanying
34 renewable energy credits (RECs). The Top of the World project is located near the
35 Glenrock wind farm in Converse County, Wyoming and consists of 66 General Electric
36 wind turbine generators (1.5 MW each) and 44 Siemens Energy, Inc. wind turbines (2.3
37 MW each). Duke Energy Generation Services is the operator of the wind farm, and the
38 project became commercially operational on October 1, 2010. PacifiCorp has agreed to
39 purchase all of the output from the project. At the end of the 20-year term of the
40 contract, the Company has the option to purchase the wind farm and associated
41 facilities at fair market value. Any revenues received from the sale of the RECs

42 associated with the purchase will be credited back to ratepayers. The Top of the World
43 PPA is included in the rate case in the amount of \$40,387,465.¹

44

45 **Q. Please explain how the Division determined that the Top of the World PPA is a**
46 **prudent resource that will benefit ratepayers?**

47 A. The Division reviewed and analyzed the Company's planning documents and filings and
48 its selection process, along with reports of the Utah independent evaluator and the
49 Oregon independent evaluator. More detail concerning the steps taken by the Division
50 are found below.

51

52 PacifiCorp's 2008 Integrated Resource Plan (IRP) Update states that the Company will
53 acquire 230 MW of wind resources in 2010 and 200 MW of wind resources in 2011.²

54 The Top of the World PPA is the 2010 wind resource contained in the Business Plan
55 portfolio in the IRP, with a projected in-service date of December 31, 2010.³ At the time
56 the 2008 IRP was issued, wind was shown to be a cost effective resource compared to
57 other resource options.⁴ Therefore, the Division's review shows that the project is
58 consistent with the Company's long-term resource planning needs and its 2010 Business
59 Plan.

60

¹ Direct Testimony of Steven R. McDougal (PacifiCorp witness), Exhibit RMP_(SRM-3), page 5.1.2.

² PacifiCorp's 2008 Integrated Resource Plan Update, March 31, 2010, p. 8.

³ Id. at p. 7.

⁴ PacifiCorp's 2008 IRP, p. 104.

61 Top of the World went through a rigorous competitive bidding and selection process.
62 The Top of the World PPA was selected as the winning bid in the 2008R-1 Request for
63 Proposal (2008R-1 RFP), which was later re-issued as the Amended 2008R-1 RFP.
64 Company witness Mr. Stefan A. Bird outlines the history of the RFP process and the
65 economic analysis as it pertains to this project in his Direct Testimony.⁵ Boston Pacific,
66 Oregon’s independent evaluator (Oregon IE) oversaw the entire RFP process from the
67 bidder pre-approval to the bid evaluation and shortlist selection to the final selection of
68 the winning bid. The Oregon IE confirmed that the selected bids represented the lowest
69 cost alternatives for ratepayers.⁶

70
71 In addition, the Utah Commission retained Merrimack Energy Group, Inc. (the Utah
72 consultant) to monitor and evaluate the Amended 2008R-1RFP process. The Utah
73 consultant concluded that the results of the Amended 2008R-1 competitive process
74 should lead to the procurement and delivery of electricity to PacifiCorp’s retail
75 customers at the lowest reasonable cost, considering risk, reliability, and financial
76 impacts.

77
78 Finally, the Division examined the price and non-price analysis contained in the 2008R-1
79 RFP, including a review of the modeling used to evaluate and score the short-list bids

⁵ Direct Testimony of Stefan A. Bird, pp. 11-17.

⁶ Direct Testimony of Stefan A. Bird – Confidential SAB-4.

80 submitted in the RFP. The Division reviewed in detail both the Oregon IE's final report
81 and the Utah Independent Consultant's final report. The Division's conclusion that the
82 Top of the World PPA is a prudent resource acquisition that will provide cost effective,
83 renewable energy that will benefit ratepayers is supported by the work done by the
84 Oregon IE and the Utah consultant.

85

86 **Sale of Transmission Plant to Black Hills Power Corporation**

87

88 **Q. Please explain the adjustment that you are proposing related to the sale of**
89 **certain transmission assets.**

90 A. The Division determined that an adjustment needs to be made because the
91 Company sold its interest in the Windstar Substation and Dave Johnston Substation to
92 Black Hills Power Corporation (Black Hills Power). Due to the sale these assets no longer
93 serve the Company's customers. Therefore, the associated costs need to be removed
94 from the rate base used to compute the retail rates in this case. Note this asset sale
95 may already be accounted for in the Company's filings. The Division has outstanding
96 data requests that should answer whether the sale was taken into account in the
97 Company's filing.

98

99 **Q. Please describe the nature of the sale.**

100 A. The Company sold its undivided joint interest in its existing Windstar and Dave
101 Johnston substations and associated plant to Black Hills Power. Until the Company
102 answers the outstanding data requests, the Division does not have full documentation
103 of this transaction. The Company, or its affiliates, has filed information related to the
104 sale with the Oregon commission in a compliance filing, (U 265)⁷, with the Wyoming
105 commission that resulted in the Wyoming Notice and Order approving the sale,⁸ and the
106 buyer, Black Hills Power, has filed the record of the sale with the Federal Energy
107 Regulatory Commission (FERC).⁹ At this time, the Division has based its recommended
108 adjustment on information in those filings, and will update its recommendation as
109 needed after it receives responses to the outstanding data requests.

110

111 **Q. Please describe the adjustment you are proposing.**

112 A. In the Wyoming proceeding, the Company stated that “it does not need the
113 capacity associated with these facilities for load service or any other obligation to its
114 customers.”¹⁰ Therefore, both substations should be excluded from rate base. The
115 estimated price for the sale of transmission assets is \$6,220,172 plus sales tax,
116 generating estimated net proceeds of \$1,350,480.¹¹ This amount should be deducted
117 from the revenue requirement in the category of “other revenue,” since it represents a

⁷ <http://www.oregon.gov/PUC/meetings/pmemos/2010/110910/ca5.pdf?ga=t>

⁸ Notice and Order, Docket No. 20000-382-EA-10, Record No. 12653, February 22, 2011.

⁹ FERC Docket No. EC10-84-000, August 23, 2010.

¹⁰ Id. at p. 2.

¹¹ <http://www.oregon.gov/PUC/meetings/pmemos/2010/110910/ca5.pdf?ga=t>

118 gain on the sale. Based on the further estimations from the Wyoming docket,¹² the
119 Division makes an adjustment of \$3,962,100 to rate base as contained in DPU Exhibit
120 9.1D-RR. Removal of this plant from rate base reduces the Company's revenue
121 requirement by approximately \$171,496. When the Division receives responses to
122 outstanding data requests in this docket, the Division will update its adjustment
123 accordingly.

124

125 **Q. Do you have any related recommendations?**

126 A. The Division recommends the Company provide the actual transaction costs in
127 rebuttal testimony, including evidence that Black Hills Power will or has reimbursed the
128 Company for any necessary upgrades. Ratepayers should not be liable for those costs;
129 rather Black Hills Power should reimburse the Company for the costs of any upgrades
130 required as part of the sale to Black Hills Power. Then all revenues received for
131 upgrades and from the sale of the transmission assets should flow through to
132 ratepayers.

133

134 **Conclusion and Recommendations**

135

136 **Q. What do you conclude based on the Division's review of the Top of the World PPA?**

¹² <http://edocs.puc.state.or.us/efdocus/HAD/up265had103834.pdf>.

137 A. Based on the Division's review, I conclude that the output from the Top of the World
138 PPA will provide a long-term renewable resource at the least cost and accounting for
139 risk. The 20-year contract for the purchase of 200.2 MW of wind resources includes the
140 accompanying renewable energy credits, the sale of which will be credited back to
141 ratepayers. The Division's analysis shows that the Top of the World PPA filed in this
142 case went through a rigorous competitive bidding and selection process that was
143 overseen and approved by both the Oregon IE and the Utah consultant. The Top of the
144 World PPA is consistent with the Company's IRP, meets a demonstrated need for
145 renewable resources, and is prudent.

146

147 **Q. What does the Division recommend?**

148 A. The Division recommends that the Commission find that the Top of the World PPA is a
149 prudent resource acquisition, and costs associated with the project should be included
150 in the Company's revenue requirement in this case.

151

152 **Q. What do you conclude and recommend with respect to the sale of transmission plant
153 to Black Hills Power?**

154 A. The Division concludes that the Windstar and Dave Johnston substations no longer
155 benefit the Company's ratepayers and those costs should be removed from retail rates.
156 The Division recommends adjustment of \$3,962,100 to rate base with a revenue
157 requirement effect of \$141,496, and will update its adjustment appropriately.

158

159 **Q. Does that conclude your direct testimony?**

160 **A.** Yes, it does.