

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. 10-035-124
)
) Rebuttal Testimony of Michele Beck
) On behalf of the Office of Consumer Services
)
)

June 30, 2011

1 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

2 A. My name is Michele Beck. I am the Director of the Office of Consumer
3 Services (Office). My business address is 160 East 300 South, Salt Lake
4 City, Utah.

5

6 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

7 A. Yes.

8

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. I will provide the following testimony:

- 12 • Rebuttal to certain elements of the positions with respect to
13 Klamath costs presented by the Division of Public Utilities (Division)
14 witness Dr. Artie Powell and the Utah Association of Energy Users
15 Intervention Group (UAE) witness Kevin Higgins;
- 16 • An update to the Office's position with respect to costs associated
17 with environmental upgrades; and
- 18 • A clarification with respect to the Office's recommendation for the
19 rate mechanism to implement deferred REC revenues and the
20 calculation of the overall revenue requirement, as well as a rebuttal
21 of the philosophy put forth by the Division regarding the calculation
22 of revenue requirement adjustments.

23

24 ***Klamath Costs***

25 **Q. PLEASE DESCRIBE THE OFFICE'S POSITION PRESENTED IN**
26 **DIRECT TESTIMONY ABOUT KLAMATH COSTS INCLUDED IN THIS**
27 **REQUEST FOR A RATE INCREASE.**

28 A. The Office's position is that Utah ratepayers should not bear these costs
29 and in any event, they should not be considered in this general rate case
30 for the following reasons:

- 31 • The costs relate to resolving Klamath basin regional interests and not the
32 continued operation of a generating resource;
- 33 • The total costs are uncertain due to the many conditions in the agreement
34 that have not been met; and
- 35 • The costs have not received the full regulatory scrutiny that they were
36 subject to in other jurisdictions.

37

38 **Q. IN HIS DIRECT TESTIMONY, DR. POWELL FOR THE DIVISION,**
39 **ADDRESSED THE KLAMATH HYDRO SETTLEMENT AGREEMENT**
40 **(KHSa), AS DID THE OFFICE. WHAT IS YOUR GENERAL RESPONSE**
41 **TO DR. POWELL'S TESTIMONY?**

42 A. Dr. Powell supports removing some, but not all, of the revenue
43 requirement adjustments related to the KHSa, for reasons similar to those
44 cited by the Office. He testifies to the uncertainty that the KHSa will be
45 funded. The Office agrees that dam removal funding is uncertain.
46 However, the Office does not agree that funding in California and Oregon

47 are “minor considerations”. It is true that the removal project has yet to be
48 approved by the Department of the Interior and only if this occurs will
49 Congress be asked to fund the project. Dr. Powell’s “problematic”
50 classification of Congressional funding also applies to California. Dr.
51 Powell does not discuss the fact that California ratepayer funding is only
52 approximately \$14 million. As I stated in my direct testimony, line 237 to
53 245, the State of California also must contribute an additional \$250 million
54 in public funding. As noted in footnote 8, page 6 of the California Public
55 Utilities Commission’s May 5, 2011 Decision Approving A Rate Increase
56 For PacifiCorp”, a ballot measure to approve such funding has been
57 postponed to November 2012. California’s funding obligation is certainly
58 not minor given the state’s economic and political climate. Dr. Powell’s
59 recommendation is that the Klamath removal surcharge, the \$200 million
60 collected from Oregon and California ratepayers, should be situs
61 assigned. The Office agrees with this recommendation, but asserts that
62 the concerns about the funding of the KHSA are even greater than what
63 was characterized by the Division.

64

65 **Q. DID THE DIVISION PROPERLY IMPLEMENT THE KLAMATH**
66 **ADJUSTMENTS SUPPORTED BY DR. POWELL?**

67 A. No, it appears that they did not. In lines 408 to 415, Dr. Powell explained
68 why an adjustment was not necessary to reflect the Division’s position that
69 the Klamath surcharge should be situs assigned. He also indicated that if

70 rates were calculated using rolled-in methodology then an adjustment
71 would be necessary. The Office did calculate its recommendation for
72 revenue requirement using the rolled-in methodology. The Office's
73 witness, Donna Ramas, calculated the revenue requirement impacts
74 resulting from the Klamath adjustments I supported in my direct testimony,
75 including the removal of the Klamath surcharge from Utah rates. As Ms.
76 Ramas testified, under the rolled-in methodology it is necessary to
77 incorporate a reduction of \$7,271,561 to Account 557 –UT to remove the
78 Facilities Removal Surcharge. (See Exhibit OCS 3.8) Based on DPU
79 Exhibit 8.2, my understanding is that the Division also calculated its
80 recommended revenue requirement using the rolled-in methodology.
81 Thus, an additional \$7,271,561 needs to be subtracted from the Division's
82 overall revenue requirement recommendation to reflect Dr. Powell's
83 recommendation regarding the Klamath surcharge. Additionally, it is not
84 clear that the entire \$4.5 million described in line 442 of Dr. Powell's direct
85 testimony has been included, as the only Klamath adjustment identified in
86 DPU Exhibit 8.2 is for \$3.4 million. However, the difference may be
87 imbedded within other categories.

88

89 **Q. BOTH DR. POWELL AND UAE WITNESS KEVIN HIGGINS ADDRESS**
90 **KLAMATH COSTS. HOWEVER, NEITHER RECOMMENDS**
91 **DISALLOWANCE OF THE RELICENCING COSTS THAT YOU**
92 **INCLUDED IN YOUR ADJUSTMENTS. WHAT IS YOUR RESPONSE?**

93 A. Dr. Powell refers to his “understanding” of the FERC license and the fact
94 that “it appears” that the \$74 million would be incurred regardless of
95 whether dams are relicensed or removed. Dr. Powell offers no evidence
96 supporting his conclusion that any portion of the \$74 million was incurred
97 to relicense the Klamath dams or a comparison that the costs would be
98 incurred regardless of whether relicensing or removal had been pursued.
99 He does not address the fact that after October 2004, the costs were
100 incurred to eliminate a generation resource, not relicense it. He does not
101 address the fact that these costs were incurred and paid for a hydro
102 resource, the benefit of which at that time was reserved by the Revised
103 Protocol for Pacific Power jurisdictions. In fact, the Office contends that
104 the same reasons Dr. Powell cited for his recommendation that the
105 Klamath removal costs be situs assigned should also apply to the \$74
106 million, much of which was incurred in the negotiation of that removal.
107
108 Mr. Higgins expressed concerns about the Company’s request to begin
109 collecting these costs in this rate case, but did not recommend any
110 adjustments. He also failed to take into account the aforementioned
111 issues. Mr. Higgins also stated that the approximately \$15 million
112 adjustment to move to the rolled-in allocation methodology “takes this cost
113 into account” (Higgins Direct, lines 299-302) but it is unclear what that
114 statement is intended to mean.
115

116 Moving from Revised Protocol to the rolled-in allocation methodology
117 results in these \$74 million in costs being assigned to Utah, when they
118 previously would have been allocated away from Utah through the
119 Embedded Cost Differential. Thus, the question becomes whether such
120 costs are *properly* assigned to Utah. The Office's position, as described in
121 my direct testimony, continues to be that such costs should not be borne
122 by Utah customers. Even if the Commission determines that the \$74
123 million is proper to include in base rates, it must also determine whether
124 Utah customers specifically should be asked to contribute to these costs.
125 This determination is necessary because the costs are associated with a
126 resource from which Utah customers have not received benefit for the
127 majority of its operating life.

128

129 The Company received the original license to operate the Klamath dams
130 as a generating resource in 1954. Despite the Utah Power merger with
131 Pacific Power in 1989, the output from the Klamath resources has not
132 benefited Utah customers except from 1998 to 2005 when the rolled-in
133 methodology was used to allocate costs to the PacifiCorp jurisdictions. It
134 would not be fair nor would it result in just and reasonable rates to now
135 give Utah customers a full load ratio share of costs that coincidentally
136 occurred just at the time that rates begin to be calculated based on the
137 rolled-in methodology.

138

139 Utah has only had access to the benefits of the Klamath resources for
140 approximately 12 percent of the operating life of the time since the
141 resource was licensed. Utah has only had access to the benefits of the
142 Klamath resources for approximately 30 percent of the time period during
143 which it has been part of the same operating system as the Klamath
144 resources. The Office continues to advocate that none of the \$74 million
145 costs are properly assigned to Utah. However, under no circumstance
146 would it be fair to assign a full load ratio share. Rather, a pro-rated share
147 reflecting Utah's access to these resources should serve as a ceiling for
148 what costs are assigned to Utah customers.

149

150 ***Costs Associated with Environmental Upgrades***

151 **Q. PLEASE DESCRIBE THE OFFICE'S CONCERNS ABOUT THE COSTS**
152 **ASSOCIATED WITH ENVIRONMENTAL UPGRADES.**

153 A. In my direct testimony, I described the Office's concerns that the
154 investments in environmental upgrades have not been justified by a robust
155 analysis of the associated costs and benefits of all alternatives available
156 for compliance with current and reasonably expected future environmental
157 regulations.

158

159 **Q. BOTH WRA AND THE SIERRA CLUB RECOMMEND THAT FUTURE**
160 **INTEGRATED RESOURCE PLAN (IRP) ANALYSIS SHOULD INCLUDE**
161 **AN ANALYSIS OF COSTS OF ENVIRONMENTAL UPGRADES IN**

162 **COMPARISON TO OTHER OPTIONS SUCH AS PLANT RETIREMENT**
163 **AND REPLACEMENT POWER. DO YOU AGREE?**

164 A. Yes. The IRP is an appropriate forum to evaluate resource options such
165 as continued operation of existing plants with the costs of necessary
166 environmental upgrades compared to the costs of replacement power
167 from the market and other resource options. In fact, the IRP analysis
168 should incorporate all reasonably anticipated expenses in its profile of
169 existing plants to be used in the capacity expansion and risk modeling.
170 However, this analysis is not sufficient for the Commission to determine
171 prudence of the investment in environmental upgrades. First, any IRP
172 analysis would be too late both for the costs included in this case and any
173 costs incurred in the near future. Generating resources are largely pre-
174 established for the early years of the IRP analysis whereas options are
175 more robustly analyzed starting two or three years into the planning
176 horizon. Second, in addition to the analysis of resource options, a
177 comparison of the cost effectiveness of different available technologies
178 should be included in the evaluation of whether costs associated with
179 environmental upgrades were prudently incurred.

180

181 **Q. BOTH UAE AND SIERRA CLUB RECOMMEND DISALLOWANCES**
182 **RELATED TO ENVIRONMENTAL UPGRADES IN THIS CASE. DO**
183 **YOU AGREE?**

184 A. The Office believes that the Sierra Club presented compelling evidence
185 that the Company did not present any analysis of the cost implications of
186 current environmental regulations and presented almost no analysis of the
187 cost implications of compliance with anticipated future regulations. UAE
188 has presented a robust analysis that evaluates specifically whether
189 upgrades were required by the governing environmental regulations and
190 whether the technology chosen was the most cost effective option. The
191 Office finds the UAE evidence particularly compelling as it reflects the kind
192 of robust, comprehensive analysis for which we have advocated.
193 However, since our position is that the Company's decisions should have
194 been based on such robust analysis, we will review the Company's
195 rebuttal testimony to see if they provide such analysis before specifically
196 supporting any other party's proposed adjustment.

197

198 ***Other Issues and Clarifications***

199 **Q. UAE WITNESS KEVIN HIGGINS RAISES THE ISSUE THAT THIS RATE**
200 **CASE MUST TAKE INTO CONSIDERATION THE TERMINATION OF**
201 **SCHEDULES 97 AND 98. (HIGGINS DIRECT, LINES 54 TO 75) WHAT**
202 **IS YOUR RESPONSE?**

203 A. The Office is recommending that Schedule 98 stay in place. As Ms.
204 Ramas and I addressed in direct testimony, the Office has requested rate
205 recovery of the balance of the deferred account for REC revenues. To
206 clarify our position, the Office does not advocate that these revenues

207 serve as a credit to base rates. In fact, we explicitly advocate against that
208 methodology. The impact of returning these REC revenues that are owed
209 to customers should not be incorporated in the determination of the total
210 rate increase awarded to the Company. To do so would distort the
211 numbers and give misleading information regarding the amount of rate
212 increase requested compared to the amount granted. Rather, the
213 Commission should separately decide what level of rate increase results
214 in just and reasonable rates and the rate recovery mechanism for the
215 deferred REC revenues. The Office has proposed that the rate changes
216 resulting from both decisions be implemented at the same time.
217 Therefore, Schedule 98 should be maintained and adjusted to reflect the
218 new balance of the deferred account amortized over an appropriate
219 period.

220

221 **Q. YOU INDICATED IN DIRECT TESTIMONY THAT THE OFFICE DOES**
222 **NOT SUPPORT A RATE DECREASE. DOES THIS MEAN THAT THE**
223 **OFFICE SUPPORTS A RATE INCREASE THAT HAS NOT BEEN**
224 **JUSTIFIED? WOULD YOU LIKE TO CLARIFY THIS STATEMENT?**

225 A. My purpose was solely to clarify that while the Office may agree with
226 adjustments of other parties in addition to those it proposes, it does not
227 advocate that a decrease in base rates is warranted at this time. The
228 Office does not support a rate increase that has not been justified, but it
229 recognizes that not all adjustments will be adopted by the Commission.

230

231 **Q. DR. POWELL STATED THAT THE COMMISSION SHOULD**
232 **“CONSIDER THE CUMULATIVE WEIGHT OF OTHERWISE**
233 **REASONABLE ADJUSTMENTS” (POWELL DIRECT, LINES 34 - 37), IS**
234 **THIS CONSISTENT WITH THE OFFICE’S POSITION?**

235 A. No. This concept is very different from the Office’s statement that it is not
236 advocating a decrease in base rates. The intent of my comment cited
237 above was very limited, as described above. The Office advocates that
238 the Commission should consider each proposed adjustment on its own
239 merit and determine whether the inclusion of each individual cost and
240 expense will lead to the result of just and reasonable rates. I am unaware
241 of any regulatory principle or practical methodology that facilitates a
242 Commission evaluation of the cumulative weight of adjustments or allows
243 some kind of adjustment to raise the allowed increase above that which is
244 justified by the evidence on an issue by issue basis.

245

246 ***Summary***

247 **Q. PLEASE SUMMARIZE THE OFFICE’S POSITIONS PRESENTED IN**
248 **THIS REBUTTAL TESTIMONY.**

249 A. The Office rebuts the views of other parties that believe it is appropriate to
250 include in Utah rate base \$74 million of costs associated with Klamath
251 relicensing and removal negotiations. The costs have not been justified as
252 being properly assigned to Utah customers. At a minimum, the costs must

253 be prorated such that Utah only receives its load ratio share adjusted to
254 reflect the percentage of time Utah customers have received benefits from
255 these resources.

256

257 The Office continues to advocate that investments in environmental
258 upgrades must be justified through a robust analysis considering the costs
259 and benefits of all alternatives. Other parties presented compelling
260 evidence that could support specific disallowances, but the Office will wait
261 to review the Company's rebuttal testimony before adopting any
262 adjustment.

263

264 The Office clarifies its position that Schedule 98 should remain in place
265 and be the mechanism for returning the balance in the deferred account
266 for REC revenues to customers. The Office continues to advocate that
267 this credit go into effect at the same time as new rates from this case are
268 implemented, but opposes including the credit in base rates or in the
269 calculation of the allowed rate increase. The calculation of Schedule 98
270 should remain separate.

271

272 The Office clarifies its statement that it does not support a rate decrease
273 and opposes the Division's suggestion that the Commission should
274 "consider the cumulative weight of otherwise reasonable adjustments."

275 The Commission must determine whether the inclusion of each individual
276 cost and expense will lead to the result of just and reasonable rates.

277

278 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

279 **A. Yes.**