

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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)	DOCKET NO. 10-035-124
In the Matter of the Application of Rocky)	
Mountain Power for Authority to)	Exhibit No. DPU 18.0-R
Increase Its Retail Electric Utility Service)	Revenue Requirement
Rates in Utah and for Approval of Its)	
Proposed Electric Service Schedules and)	Rebuttal Testimony and Exhibits
Electric Service Regulations)	Charles E. Peterson
)	
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**FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH**

**Rebuttal Testimony of
Charles E. Peterson**

June 30, 2011

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Rebuttal Testimony of Charles E. Peterson

Q. Please state your name, business address and title.

A. My name is Charles E. Peterson; my business address is 160 East 300 South, Salt Lake City, Utah 84114; I am a Technical Consultant in the Utah Division of Public Utilities (Division, or DPU).

Q. On whose behalf are you testifying?

A. The Division.

Q. Did you previously file testimony in this Docket?

A. Yes.

Q. What is the purpose of your testimony in this matter?

A. My testimony comments on the pre-filed direct testimony of Mr. Roger Swenson who filed testimony on behalf of U.S. Magnesium.

Q. Please summarize Mr. Swenson’s testimony.

A. Mr. Swenson requests that the Commission make an approximately \$61 million¹ reduction to Rocky Mountain Power’s requested revenue require for the previously imprudent use of renewable energy credits (RECs) available to Rocky Mountain Power (Company).

¹ Direct Testimony of Roger J. Swenson, Docket No. 10-035-124, USM Exhibit RR 1.1, item 3.

22 Specifically Mr. Swenson asserts that the Company has sold only about one-third of the
23 RECs available to it² and that the Company should have sold all of the available RECs in
24 order to maximize the economic benefit to the Company's ratepayers.³ Mr. Swenson testifies
25 that RECs are in high demand particularly in California and that premium prices are currently
26 available for them.⁴ Prudent use of the RECs, according to Mr. Swenson, would be to sell all
27 of the available RECs on five and ten year contracts.⁵ The \$61 million is apparently the value
28 of Utah's share of the additional RECs that could be sold over the period of the test year.

29

30 **Q. Does the Division believe that REC revenues should be returned to ratepayers?**

31 A. Yes. RECs are the result of a government-created attribute of certain power generation plants
32 that were built and paid for with funds ultimately derived from ratepayers. The Company's
33 investors already receive a fair return on those assets through the regulatory rate base
34 mechanism. Any additional revenues that are derived from government-created attributes
35 should belong to the ratepayers.

36

37 **Q. Has Mr. Swenson, then, made a persuasive argument for a \$61 million reduction in the**
38 **Company's revenue requirement?**

39 A. Not at this time. There are several concerns the Division has with Mr. Swenson's testimony
40 as it currently stands. First, underlying Mr. Swenson's belief that the Company can safely
41 sell all of its available RECs is the assumption that the Company is protected by the Energy

² Ibid., page 2, lines 33-35.

³ Ibid., page 4, lines 75-76.

⁴ Ibid., pages 4-6.

⁵ Ibid., page 6, lines 119-122.

42 Balancing Account (EBA) mechanism.⁶ In fact REC revenues do not enter into the
43 calculations of the EBA as approved by the Commission.⁷ Thus, the Company is at risk for
44 these revenues, should they be refunded to ratepayers via a reduction in revenue requirement
45 in this rate case. The Division is proposing that a REC tracker mechanism be developed to
46 help protect the customers and the Company from REC volatility.⁸

47

48 Furthermore, Mr. Swenson does not seem to know why the Company has not sold more of
49 the RECs he claims are available for sale, or what the operational or planning implications
50 are if the Company were compelled to sell all of its RECs on intermediate to long-term
51 contracts as he proposes. For instance, Company witness, Stefan Bird, explains in his direct
52 testimony that the Company withholds 25 percent of available RECs in order to cover its
53 REC commitments should there be shortfalls in wind-energy production, e.g. the wind does
54 not blow.⁹ While the 25 percent figure might be the subject of debate, it is clear that Mr. Bird
55 raises a valid issue.

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57 Additionally, the Division at this time is unsure about the breadth and depth of the REC
58 market. It may well be that PacifiCorp could sell all of its RECs and not affect the REC
59 market. Alternatively, market prices could be suppressed, or parties dealing with PacifiCorp
60 could use Commission-ordered sale of RECs as a negotiating advantage over PacifiCorp and
61 its ratepayers.

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⁶ Ibid., page 8, lines 164-167.

⁷ "Report and Order," Utah Public Service Commission, Docket No. 09-035-15, March 2, 2011, pages 72-73.

⁸ Direct Testimony of Brenda Salter, Docket No. 10-035-124, May 26, 2011, page 13, lines 233-243.

⁹ Direct Testimony of Stefan A. Bird, Docket No. 10-035-126, January 2011, pages 3-4.

63 These topics should be fleshed out before the Commission orders such a significant reduction
64 to the Company's revenue requirement and broad-brushed policy declaration.

65

66 Lastly, Mr. Swenson estimates the available RECs by comparing two GRID runs; one with
67 renewable resources in the model and one with renewable resources removed. The difference
68 is an estimate of the value of the renewable resources and hence an estimate of the RECs.

69 (GRID is the Company's power cost dispatch simulation model). Mr. Swenson could have
70 taken steps to verify the accuracy of this estimation method by comparing actual valid RECs
71 the Company received through WREGIS or some similar formal REC-tracking system with
72 GRID model runs. Apparently he did not do this.

73

74 **Q. What conclusions do you derive at this time based upon the above critique?**

75 A. The Company would be completely at risk for any shortfalls in obtaining the \$61 million Mr.
76 Swenson proposes to deduct from the Company's revenue requirement (of course, the
77 Company would gain if it were able to sell its RECs for more than \$61 million). There could
78 be unintended consequences to the Company's operations and planning should the
79 Commission order the reduction of \$61 million for additional REC revenue the Company
80 allegedly could receive. Finally, the \$61 million is not vetted with real-world data, but
81 appears to be only an estimate from two GRID runs.

82

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

84 A. The Division recommends that the Commission not reduce the Company's revenue
85 requirement for these additional RECs that Mr. Swenson believes are available, until the

86 above criticisms are met and remedied. Specifically, the Division recommends that
87 Commission first understand why the Company has not sold these additional RECs allegedly
88 available; that the risks to the Company and the consequences to its operations and planning
89 be better understood; that the actual amount of available RECs for sale be verified, before a
90 reduction in revenue requirement is ordered. Finally the Division reiterates its previous
91 recommendation that a REC tracker be developed to mitigate some of the above issues.

92

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

94 A. Yes.