

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Alternative Cost Recovery for Major Plant Additions of the Populous to Ben Lomond Transmission Line and the Dunlap I Wind Project)	Docket No. 10-035-89
)	
)	Direct Testimony of
)	Donna Ramas
)	For the Office of
)	Consumer Services

CONFIDENTIAL-- SUBJECT TO PROTECTIVE ORDER

IN DOCKET 10-035-89

REDACTED INFORMATION INDICATED BY GRAY HIGHLIGHTS

October 26, 2010

Table of Contents

	Page
INTRODUCTION	1
REC REVENUES.....	3
TRANSMISSION PLANT RETIREMENTS	11
RECOVERY OF REVENUE REQUIREMENTS.....	12

1 **INTRODUCTION**

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

3 A. My name is Donna Ramas. I am a Certified Public Accountant licensed in
4 the State of Michigan and a senior regulatory consultant at Larkin &
5 Associates, PLLC, Certified Public Accountants, with offices at 15728
6 Farmington Road, Livonia, Michigan 48154.

7

8 **Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.**

9 A. Larkin & Associates, PLLC, is a Certified Public Accounting Firm. The firm
10 performs independent regulatory consulting primarily for public
11 service/utility commission staffs and consumer interest groups (public
12 counsels, public advocates, consumer counsels, attorneys general, etc.).
13 Larkin & Associates, PLLC has extensive experience in the utility
14 regulatory field as expert witnesses in over 600 regulatory proceedings,
15 including numerous electric, water and wastewater, gas and telephone
16 utility cases.

17

18 **Q. HAVE YOU PREPARED AN EXHIBIT SUMMARIZING YOUR**
19 **QUALIFICATIONS AND EXPERIENCE?**

20 A. Yes. I have attached Appendix I, which is a summary of my regulatory
21 experience and qualifications.

22

23 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

24 A. Larkin & Associates, PLLC, was retained by the Utah Office of Consumer
25 Services (OCS) to review Rocky Mountain Power's (the Company or
26 RMP) application for alternative cost recovery for major plant additions
27 associated with the Populous to Ben Lomond transmission line and the
28 Dunlap I wind project. Accordingly, I am appearing on behalf of the OCS.

29

30 **Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR**
31 **TESTIMONY?**

32 A. Yes. I have prepared Exhibits OCS 1.1 through 1.4, which are attached to
33 this testimony.

34

35 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

36 A. I am recommending an adjustment to the Company's proposed revenue
37 requirement resulting from the addition of the Dunlap I wind project.

38 Specifically, I recommend that the amount of projected revenues
39 associated with the sale of Renewable Energy Credits (RECs) to be
40 produced from the operation of the Dunlap I wind project be increased.

41

42 I also recommend that the projected amount of plant to be retired on
43 RMP's books as a result of the addition of the Populous to Ben Lomond
44 transmission line be reflected in determining the revenue requirements in
45 this case.

46

47 Additionally, I make a few recommendations regarding the recovery of the
48 increased revenue requirement resulting from major plant additions from
49 Utah customers.

50

51 **Q. IS THE OCS RECOMMENDING ANY ADDITIONAL ADJUSTMENTS?**

52 A. Yes. OCS witness Randall Falkenberg is recommending several
53 modifications to RMP's calculation of the net power cost impact of the
54 projects at issue in this case.

55

56 **Q. WHAT IS THE IMPACT ON THE REQUESTED REVENUE**
57 **REQUIREMENT RESULTING FROM THE OCS RECOMMENDED**
58 **ADJUSTMENTS IN THIS CASE?**

59 A. The impact of the recommended adjustment to the REC revenues
60 associated with the Dunlap I wind project presented in this testimony,
61 combined with the impact of the adjustments recommended by OCS
62 witness Randall Falkenberg, results in a \$3,331,941 reduction to RMP's
63 requested increase. This is shown on Exhibit OCS 1.1, attached to this
64 testimony.

65

66 **REC REVENUES**

67 **Q. HAS ROCKY MOUNTAIN POWER INCLUDED THE PROJECTED**
68 **REVENUES IT WILL RECEIVE FROM THE SALE OF RENEWABLE**
69 **ENERGY CREDITS TO BE GENERATED BY THE DUNLAP I WIND**

70 **PROJECT AS AN OFFSET TO THE MAJOR PLANT ADDITION COST**
71 **ASSOCIATED WITH THAT FACILITY?**

72 A. Yes. On RMP Exhibit__(BSD-1), at page 3.4, the Company presented its
73 projected amount of Green Tag revenues that will result from the sale of
74 renewable energy credits produced by the Dunlap I wind project during
75 2011, totaling \$1,320,919 or \$763,558 on a Utah basis.

76

77 **Q. HOW WAS THE AMOUNT OF GREEN TAG REVENUES DETERMINED**
78 **BY RMP?**

79 A. In calculating the amount of REC revenues, RMP projected that 353,606
80 MWH will be produced by the Dunlap I wind project during 2011. The
81 Company then applied a 71.15% factor to that amount, which is the SG
82 allocation factor that is applicable to PacifiCorp service territories,
83 excluding California and Oregon. As a result of renewable portfolio
84 standards required in the states of California and Oregon, RMP banks the
85 amount of RECs that would be allocated to those two states under the SG
86 allocation factor for future compliance. Application of the 71.15% factor to
87 the projected 353,606 MWHs resulted in wind MWHs or Renewable
88 Energy Credits available for sale of 251,604 (353,606 MWH x 71.15%).

89

90 The Company then applied a "Percent Sold in Test Period" factor of 75%,
91 resulting in the projected MWH or RECs to be sold by RMP in 2011 of
92 188,703. The Company then applied a projected price per REC to be sold

93 of \$7 per MWH in deriving the projected incremental Dunlap I Green Tag
94 revenues, totaling \$1,320,919 (188,703 MWH x \$7/MWH).


95

96 **Q. WHAT EXPLANATION DID THE COMPANY PROVIDE FOR APPLYING**
97 **THE 75% "PERCENT SOLD IN TEST PERIOD" FACTOR IN ITS**
98 **CALCULATION OF THE RECS TO BE SOLD?**

99 A. In response to OCS Data Request 9.1, the Company stated that it ". . .
100 uses a factor of 75% to represent uncertainty in renewable generation
101 forecast and REC market depth." In response to OCS Data Request
102 9.1(e), the Company indicated that its current best estimate of the
103 percentage of RECs produced from the Dunlap I wind project during 2011
104 that will be sold is 75%.

105

106 **Q. ARE YOU RECOMMENDING A REVISION TO THAT 75% FACTOR?**

107 A. No, not in this case. While the Company will ultimately go back and
108 attempt to sell *****BEGIN CONFIDENTIAL*****  *****END**
109 **CONFIDENTIAL***** of the RECs that will be generated by the Dunlap I
110 wind project during 2011, minus the amount it retains for renewable
111 portfolio standard compliance, *****BEGIN CONFIDENTIAL*****

112 

113 

114 

115  *****END**

116 **CONFIDENTIAL***** If RMP is able to generate RECs above that 75%
117 level, the Company will have the ability to go back and sell any remaining
118 RECs that are available into the market. However, as 2011 would be the
119 first full calendar year of operation of the Dunlap I wind project, it is
120 reasonable to assume that a full annual level of RECs produced by the
121 project will not be sold during 2011. The additional revenues from
122 remaining RECs that were produced in 2011, but will not be sold until
123 2012, would most likely be booked to revenues during 2012.

124

125 As the Company has indicated that it anticipates filing a rate case in
126 January 2011, and such rate case will likely incorporate a future test
127 period, any additional sales above and beyond that 75% threshold should
128 be considered in that rate case.

129

130 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE**
131 **COMPANY'S PROJECTED INCREMENTAL DUNLAP I GREEN TAG**
132 **REVENUES INCORPORATED IN THIS CASE?**

133 A. Yes. I recommend that the projected price of \$7 per MWH or per REC be
134 increased. Based on the information reviewed to date, it is my opinion
135 that the \$7 per MWH incorporated in the filing is too low and will not likely
136 be reflective of the actual sale price.

137

138 **Q. HAS THE COMPANY BEEN SUCCESSFUL IN PAST RATE CASES IN**
139 **PROJECTING THE SALES PRICE OF RECS?**

140 A. No. In the Company's most recent rate case, Docket No. 09-035-23, RMP
141 significantly under projected the amount of revenues to be produced from
142 the sale of RECs and substantially under projected the price per MWH of
143 the RECs.

144
145 **Q. COULD YOU PLEASE ELABORATE?**

146 A. Yes. Docket No. 09-035-23 incorporated a future test period ending June
147 30, 2010. In its filing in that case, RMP incorporated a projected test year
148 price per wind-related REC to be sold of \$3.50. In my direct testimony
149 filed in that case on October 8, 2009, I recommended that the price per
150 REC be increased from \$3.50 to *****BEGIN CONFIDENTIAL ***** [REDACTED]

151 [REDACTED] *****END**

152 **CONFIDENTIAL***** In retrospect, this recommended amount per REC
153 ended up being significantly understated.

154
155 The Company's response to UAE Data Request No. 2.4(b), indicates that
156 the average price per MWH of REC sales were *****BEGIN**

157 **CONFIDENTIAL***** [REDACTED]

158 [REDACTED]

159 [REDACTED]

160 [REDACTED]

161 [REDACTED] *****END CONFIDENTIAL***** The response to UAE Data
162 Request 2.4(c) stated that "The 2010 wind-related REC sales prices for
163 known transactions for period *****BEGIN CONFIDENTIAL***** [REDACTED]
164 [REDACTED] *****END**
165 **CONFIDENTIAL*****

166
167 In response to OCS Data Request No. 9.2, the Company provided an
168 attachment that showed the average annual sales price per REC sold for
169 each wind generating facility owned by the Company, by year, for 2007
170 through 2010. The response showed that the average annual sales prices
171 per REC sold in 2009 from the Company's various wind sources ranged
172 from a low of *****BEGIN CONFIDENTIAL***** [REDACTED]
173 *****END CONFIDENTIAL***** For 2010, the range was from a low of
174 *****BEGIN CONFIDENTIAL***** [REDACTED] *****END**
175 **CONFIDENTIAL***** per REC.

176
177 Clearly, these amounts are significantly more than what the Company had
178 projected at the time of its recent rate case filing.

179

180 **Q. ABOVE YOU ADDRESS RMP'S PROJECTIONS OF THE SALES PRICE**
181 **PER WIND-RELATED REC. HOW ACCURATE WAS RMP IN**
182 **PROJECTING TOTAL ANNUAL REVENUES FROM THE SALE OF**
183 **RECS IN ITS LAST RATE CASE?**

184 A. In Docket No. 09-035-23, on Exhibit RMP__(SRM-2), at page 3.5.1, RMP
185 projected total Green Tag revenues for the twelve months ending June
186 2010 of \$7,411,125 on a total Company basis. In its rebuttal testimony,
187 RMP agreed to increase this \$7.4 million to \$18.5 million.

188

189 According to RMP's confidential response to OCS data request 9.4(d), the
190 actual REC revenues recorded by the Company during 2009 was

191 *****BEGIN CONFIDENTIAL***** [REDACTED] *****END CONFIDENTIAL*****

192 and the amount recorded for the nine-months ended September 30, 2010

193 was *****BEGIN CONFIDENTIAL***** [REDACTED] *****END**

194 **CONFIDENTIAL***** Clearly the amounts in the prior rate case for the

195 twelve months ended June 30, 2010 were significantly under-projected by

196 RMP.

197


198 **Q. HOW DID THE COMPANY DETERMINE THE PROJECTED SALES**
199 **PRICE PER REC FOR THE DUNLAP I WIND PROJECT OF \$7.00 THAT**
200 **IS INCORPORATED IN ITS FILING?**

201 A. OCS Data Request No. 9.3 asked the Company to explain in detail how
202 the \$7.00 per MWh for REC sales used in the Company's filing was
203 derived. RMP's response referenced UAE Data Request 2.3. According
204 to the response to UAE Data Request 2.3, "The prices were obtained
205 verbally from market participants on July 22, 2010." The only additional
206 support provided was a simplified listing provided as Exhibit RMP__(SAB-

207 1) which shows a projected 2011 REC vintage period "bid" of \$5.00 and
208 "Offer" of \$9.00, with an average of \$7.00. Apparently this would have
209 been based on the prices that were verbally obtained on July 22, 2010.
210 No further support for the \$7.00 per REC was provided.

211

212 **Q. WHAT AMOUNT DO YOU RECOMMEND BE USED IN THIS CASE IN**
213 **PROJECTING THE AMOUNT OF INCREMENTAL REC REVENUE**
214 **THAT WILL RESULT FROM THE OPERATION OF THE DUNLAP I**
215 **WIND FACILITY DURING 2011?**

216 A. I recommend that the \$7 per MWH incorporated in the Company's case be
217 increased to *****BEGIN CONFIDENTIAL*****  *****END**
218 **CONFIDENTIAL** per MWH or per REC.

219

220 **Q. HOW WAS YOUR RECOMMENDED PRICE PER MWH DERIVED?**

221 A. In the confidential response to OCS Data Request 9.2, RMP provided an
222 attachment which presented the average annual sales price per REC sold
223 by each of the individual wind projects operated by the Company for each
224 year, 2007 through 2010. The price of *****BEGIN CONFIDENTIAL*****

225  ***** END CONFIDENTIAL** per MWH I am recommending is based

226 on the *****BEGIN CONFIDENTIAL***** 

227 

228 

229  *****END**

230 **CONFIDENTIAL***** which are based on amounts from RMP, are provided
231 on Confidential Exhibit OCS 1.4, attached to this testimony. Given that
232 the actual sales of 2010 RECs ranged from a low of *****BEGIN**
233 **CONFIDENTIAL***** [REDACTED] *****END**
234 **CONFIDENTIAL***** per REC sold, the price I am recommending is
235 *****BEGIN CONFIDENTIAL***** [REDACTED]
236 [REDACTED] ***** END CONFIDENTIAL***** RECs sold by RMP.

237

238 **Q. WHAT ADJUSTMENT DO YOU RECOMMEND?**

239 A. I recommend that the projected REC revenues incorporated in the
240 Company's filing of \$1,320,919 on a total Company basis be increased by
241 \$4,749,648 to \$6,070,567. The calculation of the \$6,070,567 is presented
242 on Exhibit OCS 1.3. The impact on a Utah basis is an increase in the
243 REC revenue offset to the Dunlap I wind project costs of \$2,745,532. This
244 results in \$3,509,090 of RECs revenues being reflected on a Utah
245 jurisdictional basis. The calculation of this amount is presented on Exhibit
246 OCS 1.2.

247 **TRANSMISSION PLANT RETIREMENTS**

248 **Q. IN DETERMINING THE REVENUE REQUIREMENT IMPACT OF THE**
249 **POPULUS TO BEN LOMOND TRANSMISSION LINE, DID RMP**
250 **FACTOR IN THE PLANT RETIREMENTS THAT WILL RESULT FROM**
251 **THE ADDITION OF THE LINE?**

252 A. No, it did not. In response to OCS Data Request 9.6, RMP indicated that
253 it did not include plant retirements in the filing associated with this project
254 “because an estimate for those retirements was not available during filing
255 preparation.” In the response, RMP also indicated that it “will include the
256 impact of the identified retirements in its rebuttal filing.” These retirements
257 should not impact on rate base as the amount of reduction to plant in
258 service will be offset by the amount of accumulated depreciation for the
259 assets. However, there will be a small impact on depreciation expense,
260 reducing the expense, as the assets being retired will no longer be
261 depreciated. I agree that it is appropriate to reflect the impact of the
262 retirements and the associated reduction to depreciation expense. I have
263 not quantified the impact at this time as RMP has indicated its intent to do
264 so in its rebuttal filing.

265 **RECOVERY OF REVENUE REQUIREMENTS**

266 **Q. DO YOU HAVE ANY CONCERNS WITH RMP’S CALCULATION OF**
267 **THE RATES TO BE IMPLEMENTED TO RECOVER THE MAJOR**
268 **PLANT ADDITION REVENUE REQUIREMENTS IN THIS CASE?**

269 A. Yes. RMP has proposed tariff Schedule 40, Major Plant Additions, to
270 recover the revenue requirement for major plant additions from both
271 Docket No. 10-035-13 and the current case. Based on a review of Exhibit
272 RMP__(WRG-1) attached to the direct testimony of RMP witness William
273 Griffith, in calculating the proposed rates, RMP has incorporated the
274 annual MWH from Docket No. 09-035-23. In other words, the billing

275 determinants developed in the last rate case are being used to determine
276 the proposed rate increases in this case. The test period in that case was
277 the twelve months ended June 30, 2010. RMP has experienced customer
278 growth and load growth since the last rate case. Assuming normal
279 weather, the amount of MWH sales and the number of customers served
280 by RMP during the period Schedule 40 will be in place will be higher than
281 those considered in setting rates in Docket No. 09-035-23. The result will
282 be that RMP will over-recover the revenue requirement associated with
283 the major plant additions resulting from this case and from Docket No. 10-
284 035-13 if the billing determinants are not updated in deriving the Schedule
285 40 rates.

286

287 **Q. SHOULD THE BILLING DETERMINANTS BE UPDATED?**

288 A. Yes. The billing determinants to be used in setting the Schedule 40 rates
289 should be updated to reflect the projected customers and MWHs that will
290 be realized during the period the Schedule 40 tariffs are projected to be in
291 effect. This would lower the percentage increase in rates needed to
292 recover the major plant additions revenue requirement as the amounts will
293 be spread among more customers and more usage. If this is not done,
294 there will be an almost guaranteed over-recovery of the major plant
295 additions revenue requirement until such time as rates become effective
296 from the next general rate case.

297

298 **Q. THE COMPANY HAS ALSO PROPOSED THAT THE PROJECTED**
299 **AMOUNT TO BE DEFERRED AS OF DECEMBER 31, 2010 FROM THE**
300 **PRIOR MAJOR PLANT ADDITIONS CASE, DOCKET NO. 10-035-13,**
301 **BE RECOVERED FROM CUSTOMERS THROUGH A SURCHARGE**
302 **OVER AN APPROXIMATELY EIGHT MONTH PERIOD. DO YOU WISH**
303 **TO MAKE ANY COMMENTS REGARDING THIS PROPOSAL?**

304 A. RMP estimates that as of December 31, 2010 it will have deferred
305 approximately \$15.7 million as a result of the stipulation in Docket No. 10-
306 035-13. RMP proposes to recover this amount over a period of
307 approximately eight months through a surcharge. The impact is an overall
308 increase of 1.57% over the eight months that the Schedule 97 surcharge
309 would be in effect.

310
311 Typically, for a deferral of this magnitude, i.e., \$15.7 million, I would
312 recommend a longer amortization period in the range of three to five years
313 in order to both make the Company whole and to mitigate the impact on
314 customers. However, this case presents a unique situation in that RMP
315 has indicated its intent to file a general rate case in January 2011 with
316 rates anticipated to become effective from that upcoming case in or about
317 September 2011. Given the likelihood that rates will increase in
318 September or soon thereafter, the OCS has opted not to oppose the
319 Company's request to recover the \$15.7 million deferral over a shorter
320 period of time. This is due largely to the fact that the surcharge will drop

321 off at the time the new rates become effective, thus lessening the impact
322 of the magnitude of the increase in rates that will occur in September
323 2011.

324

325 **Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?**

326 **A. Yes.**