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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 Populus to Ben Lomond Transmission Line and Dunlap I Wind Project

Docket No. 10-035-89

PREFILED DIRECT TESTIMONY OF KEVIN C. HIGGINS

The UAE Intervention Group (“UAE”) hereby submits the Prefiled Direct Testimony of Kevin C. Higgins.

DATED this 26th day of October, 2010.

/s/ _____
Gary A. Dodge,
Attorney for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 26th day of October, 2010, on the following:

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BEFORE
THE PUBLIC SERVICE COMMISSION OF UTAH

Non-Confidential Version

Direct Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 10-035-89

October 26, 2010

22 Prior to joining Energy Strategies, I held policy positions in state and local
23 government. From 1983 to 1990, I was economist, then assistant director, for the
24 Utah Energy Office, where I helped develop and implement state energy policy.
25 From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County
26 Commission, where I was responsible for development and implementation of a
27 broad spectrum of public policy at the local government level.

28 **Q. Have you previously testified before this Commission?**

29 A. Yes. Since 1984, I have testified in twenty-five dockets before the Utah
30 Public Service Commission on electricity and natural gas matters.

31 **Q. Have you testified previously before any other state utility regulatory**
32 **commissions?**

33 A. Yes. I have testified in approximately 110 other proceedings on the
34 subjects of utility rates and regulatory policy before state utility regulators in
35 Alaska, Arkansas, Arizona, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas,
36 Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New
37 York, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Virginia,
38 Washington, West Virginia, and Wyoming. I have also filed affidavits in
39 proceedings at the Federal Energy Regulatory Commission.

40 A more detailed description of my qualifications is contained in
41 Attachment A, attached to my direct testimony.

42

43 **Overview and Conclusions**

44 **Q. What is the purpose of your testimony in this proceeding?**

45 A. My testimony addresses aspects of the proposal made by Rocky Mountain
46 Power (“RMP”) to seek recovery of costs associated with certain major plant
47 additions pursuant to the provisions of URC 54-7-13.4.

48 My testimony concentrates on the following issues:

49 (1) The treatment of incremental revenues from the sale of Renewable
50 Energy Credits (“RECs”) that are currently being deferred pursuant to the
51 Commission’s decision in Docket No. 10-035-14;

52 (2) The REC revenues attributed to the Dunlap I wind project;

53 (3) The appropriate billing determinants used in calculating proposed
54 Major Plant Additions (“MPA”) Riders 40 and 97;

55 (4) MPA transmission cost recovery; and

56 (5) MPA rate spread.

57 **Q. What cost is RMP seeking to recover?**

58 A. RMP is seeking cost recovery for two major plant additions: the Populus
59 to Ben Lomond transmission line and the Dunlap I wind project. According to
60 the direct testimony of Brain S. Dickman, RMP is seeking an increase in Utah
61 revenue requirement for these two projects of \$39.0 million effective January 1,
62 2011. RMP is also seeking to begin amortizing and collecting the balance of
63 revenue requirement deferred between July 1 and December 31, 2010, related to
64 the previous MPA case, Docket No. 10-035-13. This recovery consists of \$30.8

65 million of going-forward annual revenue requirement plus \$15.7 million of
66 deferred revenues, including interest.

67 **Q. What are your primary conclusions and recommendations?**

68 A. (1) One hundred percent of the REC revenues being deferred pursuant to
69 the Commission's Decision in Docket No. 10-03-14 should be credited to
70 customers in this proceeding. This can be implemented through a sur-credit that
71 takes effect January 1, 2011 that will refund to customers the deferred balance
72 (including interest) accrued through December 31, 2010 using the prorated
73 method described in my testimony. In addition, there will continue to be a
74 significant differential between REC revenues in rates and actual REC revenues
75 received by RMP going forward from January 1, 2011, until new rates are
76 determined in a general rate case. Therefore, an on-going deferral of 100 percent
77 of the incremental REC revenues (above the level of RECs reflected in rates)
78 should continue from January 1, 2011 until the start of the rate-effective period
79 associated with the next general rate case. The deferred balance (including
80 interest) that is projected to be in place at the start of the rate effective period
81 should then be applied as a revenue credit against RMP's revenue requirement
82 determined in that general rate case. The REC deferral can properly expire upon
83 the start of the rate-effective period following the next general rate case, because
84 at that time, new base rates will reflect a revised going-forward level of REC
85 revenues.

86 I believe this action is necessary at this time because the MPA rate
87 increase that is approved in this docket, and the recovery of deferred costs from
88 the first MPA case, are scheduled to be implemented January 1, 2011. Because
89 the deferred REC revenues are not currently reflected in rates, but properly should
90 be credited to customers, current rates are, in my opinion, too high. Assessing a
91 further rate increase on January 1, 2011, without simultaneously recognizing the
92 value of the deferred RECs as a credit to customers would cause rates to diverge
93 even further from reasonable levels, an outcome that plainly would be inequitable
94 for customers.

95 (2) RMP's proposed revenue credit for the Dunlap I wind project
96 significantly understates the REC value that should be used in this proceeding.
97 Both the REC price and likelihood of REC sales from Dunlap I should be revised
98 upward. I recommend an adjustment that increases the total Company REC
99 revenues from Dunlap I by \$8.4 million. This results in an estimated reduction in
100 proposed Utah revenue requirement of \$4,851,303.

101 (3) The billing determinants used for calculating proposed MPA Riders 40
102 and 97 should reflect the expected jurisdictional sales level in the rate effective-
103 period for this MPA case. If jurisdictional load is growing, as is typically the case
104 in Utah, failure to update the billing determinants to reflect the projected sales
105 level in the rate-effective period will lead to over-recovery by RMP. To prevent
106 this potential outcome, I recommend adjusting the rates charged to all customers
107 by a jurisdictional scalar that accounts for projected jurisdictional load growth in

108 2011 relative to the pro-forma loads used in the test period ending June 2010.

109 Using RMP's load projection for 2011, I calculate this scalar to be 95.2 percent.

110 (4) I recommend that the Commission approve transmission cost recovery
111 in this docket with the express condition that transmission costs can be allocated
112 between retail and wholesale customers in a different manner in the future.

113 (5) I recommend adoption of the MPA rate spread relationships among the
114 customer classes in shown in UAE Exhibit __ (KCH-5). These relationships
115 comport with the rate spread recommendation presented by RMP witness William
116 R. Griffith in his direct testimony. I believe this rate spread reasonable in light of
117 the cost-of-service studies developed in the last general rate case proceeding, as
118 well as the updates to this analysis presented by RMP in this case. If the
119 Company's MPA revenue requirement is reduced, I recommend retention of the
120 relationships among the customer classes shown in UAE Exhibit __ (KCH-5).

121 Absence of comment on my part regarding a particular aspect of RMP's
122 proposal does not signify support (or opposition) toward the Company's filing
123 with respect to the non-discussed issue.

124

125 **Recovery of Deferred of Renewable Energy Credits**

126 **Q. Briefly describe the nature of Renewable Energy Credits.**

127 A. RMP is able to sell the renewable energy "attributes" associated with the
128 generation output of certain renewable generation facilities such as wind,
129 geothermal, and small hydro plants. These attributes have value to other utilities

130 that are required to procure specified amounts of renewable energy pursuant to
131 state statutes and regulations. When these attributes are sold in the marketplace,
132 the exchanged product has come to be known as RECs or Green Tags. Because
133 REC sales are made using assets that are paid for by customers, 100 percent of the
134 revenues from REC sales are appropriately treated as a revenue credit against the
135 revenue requirement recovered from customers in a rate case.

136 **Q. Are you familiar with UAE's application for a deferred accounting order for**
137 **incremental REC revenue filed in Docket 10-035-14?**

138 A. Yes, I am.

139 **Q. What is UAE's basic contention in that application?**

140 A. UAE's application, dated February 22, 2010, was filed four days
141 following the Commission's general rate case order issued in Docket No. 09-035-
142 23, in which the Commission approved a revenue requirement increase for RMP
143 of \$32.4 million. In its application, UAE contends that the market value available
144 to RMP in selling RECs had recently increased in a manner that was dramatic,
145 unprecedented, unforeseeable, and extraordinary. UAE further contends that
146 RMP did not incorporate into its rate case projections or disclose to the
147 Commission in the recently-concluded general rate case the extraordinary
148 increase in the value of RECs. UAE asserts that, as a result, RMP is receiving
149 significant incremental revenue from selling RECs over and above the value
150 reflected in Utah rates – on the order of tens of millions of dollars. Based on the
151 legal principles discussed in UAE's application, UAE argued that a deferred

152 accounting order should be issued to require RMP to defer for future ratemaking
153 treatment all incremental REC Revenue from the date of UAE's application to the
154 effective date of new rates in a future RMP proceeding.

155 Pursuant to a stipulation entered among parties to Docket No. 10-035-14,
156 the Commission approved UAE's deferred accounting request for incremental
157 REC revenues in its order issued July 14, 2010. However, the appropriate
158 ratemaking treatment of the deferred REC revenue as not yet been determined by
159 the Commission.

160 **Q. Do you agree with the contentions presented in UAE's application filed in**
161 **Docket No. 10-035-14?**

162 A. Yes, I do.

163 **Q. Do you have a recommendation regarding the appropriate ratemaking**
164 **treatment of the REC revenues identified in UAE's application?**

165 A. Yes. One hundred percent of the deferred REC revenues should be
166 credited to customers in this proceeding. A sur-credit should be established
167 effective January 1, 2011 that will refund to customers the deferred balance
168 (including interest) accrued through December 31, 2010. An on-going deferral of
169 100 percent of the incremental REC revenues (above the level of RECs reflected
170 in rates) should continue from January 1, 2011 until the start of the rate-effective
171 period associated with the next general rate case. The deferred balance (including
172 interest) that is projected to be in place at the start of the rate-effective period

173 should then be applied as a revenue credit against RMP's revenue requirement
174 determined in that general rate case.

175 These steps are the most reasonable actions that can be taken in response
176 to the extraordinary and unforeseeable orders-of-magnitude increase in REC
177 revenues that RMP experienced at the time the last general rate case, Docket No.
178 09-035-23, was being concluded. The REC deferral can properly expire upon the
179 start of the rate-effective period following the next general rate case, because at
180 that time, new base rates will reflect a revised going-forward level of REC
181 revenues.

182 **Q. Why do you believe this docket is the appropriate venue for addressing the**
183 **ratemaking treatment of the incremental REC revenues addressed in UAE's**
184 **application?**

185 A. As proposed by RMP, the MPA rate increase in this docket, and recovery
186 of deferred costs from the first MPA case, would be implemented January 1,
187 2011. Because the incremental REC revenues identified in UAE's application
188 are not currently reflected in rates, but properly should be credited to customers,
189 current rates are, in my opinion, too high. Assessing a further rate increase on
190 January 1, 2011, without simultaneously recognizing the value of the deferred
191 RECs as a credit to customers would cause rates to diverge even further from
192 reasonable levels, an outcome that plainly would be inequitable for customers.
193 Simply put, there is a strong public interest basis for recognizing the deferred
194 RECs in rates sooner rather than later.

195 **Q. Please explain why you agree with the assertion in UAE’s application that**
196 **RMP has experienced an increase in REC revenue, over and above what is**
197 **recognized in Utah rates, that was unforeseeable and extraordinary.**

198 A. In 2009, REC values soared to unprecedented levels. As I will discuss
199 below, in a matter of weeks, between the time of the Company’s rebuttal filing
200 and the issuance of a final order in Docket No. 09-035-23, RMP’s projections for
201 annual REC revenues increased by more than fourfold. This orders-of-magnitude
202 of change is clearly extraordinary by any reasonable standard. Moreover, the
203 scale of dollars involved is substantial. RMP’s REC revenues are now projected
204 by the Company to exceed \$[redacted] per year.¹ Proper recognition of these
205 revenues in Utah rates would have made the rate increase adopted by the
206 Commission on February 18, 2010 entirely unnecessary. The scale of the dollars
207 involved reinforces the extraordinary nature of the change in REC revenue
208 received by RMP.

209 Further, as I will discuss below, given the timing of the information
210 released by the Company, the extraordinary change in revenue was not
211 foreseeable to parties who were not directly involved in the negotiations that led
212 to the tremendous run-up in the price of the RECs that RMP sold to others.

213 **Q. Please describe the timing and magnitude of the changes in projected REC**
214 **revenues issued by RMP.**

¹ RMP Idaho Rate Case Filing May 2010, cited in Confidential 1st Revised UAE DR 5.2 Docket 09-035-15.

215 A. In the Company's filing in Docket No. 09-035-23, submitted in June 2009,
216 RMP projected \$7.4 million in REC revenues for the test period ending June
217 2010.² RMP's rebuttal testimony in that same docket, filed November 12, 2009,
218 stated that for purposes of the rate case, \$18.5 million represented a reasonable
219 level of its system-wide REC revenues for that test period.³ The Commission's
220 Report and Order in that docket, dated February 18, 2010, utilized that value in
221 setting Utah rates.

222 However, by early October 2009, RMP was already projecting REC sales
223 for Calendar Year 2009 in excess of \$[redacted].⁴ And by January 2010, just two
224 months after filing its rebuttal testimony in Utah, and prior to the issuance of the
225 final order in Docket No. 09-035-23, RMP projected REC sales of \$[redacted]
226 for Calendar Year 2010 – more than \$[redacted] of the RECs used in
227 setting rates in Utah one month later. The \$[redacted] value appeared in a
228 confidential data response provided to parties in a general rate case in Wyoming,
229 and thus was not publicly disseminated.⁵ A confidential data response prepared
230 by RMP confirming this timeline is presented in the confidential attachment to
231 UAE Exhibit 1.1 (KCH-1).

232 In a matter of weeks, RMP's projections for REC sales had grown by
233 orders of magnitude prior to the conclusion of the Utah rate case. Yet this

² All dollar references to REC revenues in this testimony refer to system-wide totals, unless specifically stated otherwise.

³ Rebuttal testimony of Steven R. McDougal, pp. 5-6.

⁴ Source: Confidential Attachment UAE 3.5, attached to UAE Exhibit 1.3 (KCH-3).

⁵ On March 18, 2010, RMP stipulated in Wyoming to system-wide REC sales of \$84.4 million for Calendar Year 2010, with a provision for a true-up.

234 information was not disclosed by RMP to the parties in the Utah rate case nor was
235 it disclosed, to my knowledge, to the Utah Commission.

236 The hearings in the revenue requirement phase of the rate case took place
237 from December 2, 2009 to December 8, 2009. Given the speed at which REC
238 values changed, and the timing of the information made available to the parties in
239 the proceeding, the extraordinary and rapid increase in projected REC revenues
240 was not reasonably foreseeable to the parties in the Utah case within the
241 framework of the procedural schedule – at least not for those parties without
242 firsthand knowledge of the transactions that were unfolding.

243 **Q. The test period used in Docket No. 09-035-23 ended June 2010, whereas the**
244 **dramatic increase in projected REC revenues you identified above applies to**
245 **Calendar Year 2010. Does the difference between these two test periods**
246 **explain the tremendous difference between the REC revenues used to set**
247 **rates in Docket No. 09-035-23 and the Calendar Year 2010 REC revenues**
248 **that have been recognized in Wyoming rates?**

249 A. No. According to a confidential attachment to an RMP data response,
250 attached to UAE Exhibit 1.2 (KCH-2) , the REC revenues actually recorded by
251 the Company during the July 2009 to June 2010 test period totaled \$[redacted]
252 [redacted] more than the REC revenues recognized in Utah rates and
253 comparable in size to the REC value projected for Calendar Year 2010. The
254 difference in actual REC values actually received by RMP for the test period
255 ending June 2010 and the REC values included in Utah rates translates into a Utah

256 revenue requirement differential of nearly \$[redacted]. Put another way, proper
257 recognition of the surge in REC revenues in Utah rates [redacted]

258

259

260 **Q. Given that the extraordinary increase in projected REC revenues was not**
261 **foreseeable to the parties in the Utah case and given the lack of disclosure to**
262 **Utah parties of updated projections by RMP, how did UAE come to file its**
263 **application for deferred accounting treatment?**

264 A. It was a matter of coincidence. I happened to be a witness in the
265 Wyoming proceeding and had the opportunity to review the confidential REC
266 projections provided to the Wyoming parties in January 2010. As I was also a
267 witness in the Utah rate case, I was aware of the great difference between the
268 REC revenues being projected in the Wyoming case and the REC revenues
269 adopted by RMP in its rebuttal filing in Utah. Without revealing the magnitude of
270 the change indicated by the confidential data, I discussed with UAE the merit of
271 seeking a deferred accounting order, which was filed after legal review.

272 **Q. Why should the deferred REC revenues be credited 100 percent to**
273 **customers?**

274 A. As I stated above, REC sales are made using assets that are paid for
275 entirely by customers; consequently, 100 percent of the revenues from REC sales
276 are appropriately treated as a revenue credit against the revenue requirement
277 recovered from customers in a rate case. This treatment is especially appropriate

278 in light of the increasing cost burden borne by Utah customers to pay for RMP's
279 aggressive expansion of its fleet of wind resources used for making REC sales; in
280 the past four Utah rate proceedings the Company has added over \$1.6 billion in
281 wind-related plant in service (total Company) and another \$265 million has been
282 proposed in this proceeding. Utah's allocated share of these recent additions to
283 wind plant in service is approximately \$700 million and \$100 million,
284 respectively. Moreover, the Company's claims for wind integration costs have
285 increased dramatically over the past several rate cases, including a significant
286 increase awarded by the Commission in the last general rate case.

287 **Q. What is the amount of the REC deferral at this time?**

288 A. I cannot say with certainty at this time. To date, the information provided
289 to UAE by RMP concerning the amount of REC revenues received by the
290 Company contains apparent inconsistencies,⁶ causing me to question the accuracy
291 and/or meaning of the data. Moreover, information provided by the Company
292 suggests a highly unusual monthly pattern of booking REC revenue.

293 **Q. Please elaborate.**

294 A. The explanation for and monthly pattern of booking REC revenue was
295 provided by RMP in confidential attachments to UAE Exhibit 1.2 (KCH-2). As
296 shown, the reported January 2010 receipts, occurring just before the start of the
297 deferral period at issue, total \$[redacted]
298 [redacted].

299 [Redacted]
300 [Redacted]
301 [Redacted]
302 [Redacted]
303 [Redacted]
304 [Redacted]
305 [Redacted]

306 **Q. Do you have any other observations concerning the monthly pattern of REC**
307 **revenues reported by RMP?**

308 A. Yes. According to the attached information provided by RMP, the
309 Company's REC revenue receipts in November and December 2009 alone
310 exceeded \$[redacted] – which is more than the amount of REC revenues the
311 Company had indicated on November 12 was reasonable for the *entire test*
312 *period*. This was followed by another \$[redacted] of REC revenues received in
313 January 2010, as noted above. Thus, in the three months preceding the
314 Commission's February 18 Order in the rate case, RMP received over \$[redacted]
315 in REC revenues.

316 With this surge in REC revenue, it seems RMP was in a position prior to
317 the issuance of the Commission's Order to inform the parties and Commission
318 that the Company's REC revenues had grown in a dramatic and unprecedented
319 fashion, with serious implications for the pending rate case decision. It seems

⁶ For example, RMP's response to UAE 2.12b (Docket No. 09-035-15) indicates that \$50.8 million of REC revenues were accrued in 2009, but the information provided by RMP in the confidential attachment to

320 highly unlikely that any party would have objected to the receipt of such
321 beneficial information. Yet the Company apparently chose to do nothing. And by
322 doing and saying nothing, the Company appears to have booked over \$[redacted]
323 in test-period REC revenue prior to the start of the REC deferral period, according
324 to the monthly pattern of REC receipts provided by the Company.

325 **Q. In light of the foregoing discussion, how should the deferred REC revenues**
326 **be measured for purposes of crediting these revenues to customers?**

327 A. In light of the curious monthly pattern of REC revenue booking, the
328 apparent discretion as to timing on the part of the seller, and the lack of disclosure
329 by RMP to Utah parties concerning the surge in REC revenues, I recommend that
330 the measurement of REC revenues for purposes of deferral be measured from
331 January 1, 2010 through December 31, 2010, and pro-rated at 85.75 percent, to
332 correspond to the 313 days of the calendar year that occur from February 22, 2010
333 – the start of the deferral period – to the end of the year.

334 Thus far, \$[redacted] in REC revenues have been booked from January
335 through September 2010. Using the proration approach described above, this
336 corresponds to a prorated value of \$[redacted]. This total exceeds the REC
337 revenues reflected in Utah rates by \$[redacted] which is the (total Company)
338 deferred REC revenue that should be booked through September 2010.

339 **Q. What is your recommended course of action?**

340 A. One hundred percent of the deferred REC revenues should be credited to
341 customers in this proceeding. This can be implemented through a sur-credit that

342 takes effect January 1, 2011 that will refund to customers the deferred balance
343 (including interest) accrued through December 31, 2010 using the prorated
344 method described above. Because of the curious monthly pattern of REC revenue
345 booking, these bookings should be subject to a careful audit. I believe it is
346 preferable for the sur-credit to take the form of a standalone rider, as it will make
347 its tracking more explicit; however, in the alternative, it could be incorporated
348 into the rider that will recover approved MPA-related costs.

349 In addition, there will continue to be a significant differential between
350 REC revenues in rates and actual REC revenues received by RMP going forward
351 from January 1, 2011, until new rates are determined in a general rate case.
352 Therefore, an on-going deferral of 100 percent of the incremental REC revenues
353 (above the level of RECs reflected in rates) should continue from January 1, 2011
354 until the start of the rate-effective period associated with the next general rate
355 case. The deferred balance (including interest) that is projected to be in place at
356 the start of the rate effective period should then be applied as a revenue credit
357 against RMP's revenue requirement determined in that general rate case. The
358 REC deferral can properly expire upon the start of the rate-effective period
359 following the next general rate case, because at that time, new base rates will
360 reflect a revised going-forward level of REC revenues.

361 (In the alternative, a credit based on the estimated value of incremental
362 RECs in 2011 could be adopted January 1, 2011, subject to a final true-up in the
363 next rate case. This credit would be in addition to the deferral credit discussed

364 above. This approach would have the advantage of better synchronizing the
365 benefit to customers from 2011 REC sales and the rates paid by customers.
366 However, it would require an evidentiary determination of projected 2011 REC
367 revenues.)

368 **Q. How should the customer credit from REC revenues be spread among**
369 **customer classes?**

370 A. It should be spread using the SG allocation factor, which is how REC
371 revenues are allocated.

372 **Q. The treatment of REC revenues is currently being discussed in the Energy**
373 **Cost Adjustment Mechanism (“ECAM”) proceeding, Docket No. 09-035-15.**
374 **If an ECAM is approved, would it be reasonable to include REC revenues in**
375 **the ECAM rather than through the recovery mechanism you are proposing?**

376 A. No, it would not be reasonable or in the public interest to include the
377 deferred RECs in the ECAM rather than through adopting a 100 percent recovery
378 mechanism in this proceeding. First, we should consider the provenance of this
379 issue. The merit and substance of UAE’s application for deferred accounting
380 treatment for REC revenues are entirely independent of any ECAM. Indeed,
381 RMP’s initial ECAM application did not include REC revenues as an ECAM
382 component. Significantly, RMP’s application for deferred accounting for an
383 ECAM, filed February 9, 2010, still did not include an amendment to recognize
384 REC revenues, even though by that date RMP was well aware of the tremendous

385 run-up in REC valuation. RMP's proposal to include REC revenues in its ECAM
386 did not occur until after UAE's application for deferred accounting was filed.

387 Second, we should consider the timing. A significant rate increase is
388 assured on January 1, 2011 in light of the extant proceeding. Providing customers
389 with the rate relief to which they are entitled on that same date would help
390 mitigate the MPA rate impact. In contrast, the timing of any ECAM
391 implementation is uncertain at this point; crediting REC revenues through an
392 ECAM is certain to delay delivery of customer rate relief until after January 1,
393 2011.

394 Finally, a well-designed ECAM should provide for a sharing of risks and
395 benefits between customers and the utility. In contrast, 100 percent of the
396 deferred REC revenues should be credited to customers. Not only were the
397 revenues generated using assets paid for by customers, but RMP is already
398 benefiting from the incremental REC revenue bonanza that the Company is
399 retaining from REC sales prior to the start of the deferral. Further diluting the
400 customer benefit from these revenues by sharing it through the ECAM would
401 simply be unjust. It would represent an undue reward to a company that elected
402 not to disclose the surge in REC revenues that was occurring prior to the final
403 determination of the last rate case.

404 If the Commission determines that as a matter of ECAM design, it is
405 appropriate to include REC revenues in an ECAM, then I recommend that such

406 inclusion be initiated following the next general rate case, after the actions I am
407 recommending above have run their course.

408

409 **REC Revenues Attributed to Dunlap I Wind Project**

410 **Q. Why are REC revenues attributed to the Dunlap I wind project?**

411 A. Because Dunlap I is a renewable energy resource, RMP can sell RECs
412 associated with the plant's output, per the discussion in the previous section of my
413 testimony.

414 **Q. What value is RMP ascribing to the RECs expected to be produced by
415 Dunlap I?**

416 A. As discussed in the direct testimony of Stefan A. Bird, RMP is estimating
417 that the volume of RECs available for sale from Dunlap I is approximately
418 188,703 MWH per year, resulting in estimated REC revenues of \$1.3 million per
419 year (total Company). In calculating this revenue estimate, Mr. Bird uses a REC
420 price of \$7.00 per MWH. RMP also assumes that 75 percent of the RECs
421 available for sale from Dunlap I are eventually sold to the REC market.

422 **Q. What is your assessment of the REC credit proposed by RMP for Dunlap I?**

423 A. RMP's proposed revenue credit for Dunlap I significantly understates the
424 REC value that should be used in this proceeding. Both the REC price and
425 likelihood of REC sales should be revised upward.

426 **Q. Please explain your assessment of the appropriate REC price.**

427 A. RMP uses a price of \$7.00 per MWH to estimate the value of RECs sold
428 from Dunlap I. This REC price is not representative of the actual REC prices that
429 RMP has realized in 2010 for its wind plants. According to an RMP data
430 response, in 2010 to date, the REC prices for sales from RMP wind plants have
431 averaged \$[xx.xx] per MWH – several times the price proposed by RMP for
432 Dunlap I. The Dunlap I REC price should be adjusted to align better with this
433 actual experience. This adjustment is especially important because, as discussed
434 in the prior section of my testimony, the 2010 high-end REC prices are currently
435 not reflected in Utah rates. That is, the credit reflected in Utah rates for wind
436 REC sales is just \$6.57 per MWH, even though RMP has been selling wind RECs
437 in excess of \$[xx.xx] per MWH (on average). RMP’s proposed “low-ball” price
438 for RECs from the Dunlap I is unreasonable in light of the Company’s actual
439 experience and in light of the fact that customers have not been realizing the
440 benefit in rates from the high actual REC prices.

441 **Q. Please explain your assessment of the appropriate sales volume projection.**

442 A. RMP’s assumption that 75 percent of the RECs available for sale from
443 Dunlap I are eventually sold to the REC market is low relative to the Company’s
444 actual experience. For 2010 to date, the comparable percentage is [xx.x] percent
445 based on actual experience. I recommend that this sales proportion projection be
446 used instead of 75 percent.

447 **Q. What is the impact of your adjustment for Dunlap I REC revenues on the**
448 **revenue requirement in this proceeding?**

449 A. My adjustment increases the total Company REC revenues from Dunlap I
450 by \$8.4 million. This results in an estimated reduction in proposed Utah revenue
451 requirement of \$4,851,303. This adjustment is presented in Confidential UAE
452 Exhibit 1.4 (KCH-1.4).

453 **Q. Please explain the relationship between this adjustment and the recovery of**
454 **deferred REC revenues discussed in the previous section of your testimony.**

455 A. In the previous section of my testimony, I recommended that 100 percent
456 of deferred REC revenues should be credited to customers. The value of deferred
457 RECs is the difference between actual REC revenues and the REC revenues
458 reflected in Utah rates. When calculating the amount of the REC revenue
459 deferral, the REC revenues reflected in Utah rates must be adjusted starting
460 January 1, 2011 to account for the Dunlap I revenues that will be incorporated in
461 rates as a result of the decision in this proceeding. This adjustment is necessary
462 irrespective of whether the Dunlap I REC revenues are based on RMP's estimate,
463 my estimate, or another party's estimate.

464

465 **Billing Determinants Used in Calculating Proposed MPA Riders 40 and 97**

466 **Q. What billing determinants should be used for the proposed MPA Riders 40**
467 **and 97?**

468 A. The billing determinants should reflect the expected sales level in the rate
469 effective period for the MPA case. If jurisdictional load is growing, as is typically
470 the case in Utah, failure to update the billing determinants to reflect the projected

471 sales level in the rate effective period will lead to over-recovery by the utility.

472 Over-recovery will occur because the approved revenue for recovery will be

473 divided by too-few kWh (or kW) in calculating rates, resulting in a per-unit

474 charge that is too high given the kWh (or kW) actually being sold to customers.

475 **Q. Have you estimated the over-recovery that would occur if RMP's billing**
476 **determinants are not updated?**

477 A. Yes. If MPA rider rates are calculated using billing determinants for the
478 test period ending June 2010, rather than 2011 sales forecast data, then RMP will
479 over-recover its requested Schedule 40 revenue requirement by approximately
480 \$3.5 million, on an annualized basis, and by another \$787 thousand for Schedule
481 97. This calculation is shown in UAE Exhibit 1.5 (KCH-1.5).

482 **Q. What do you recommend to avoid this potential for over-recovery?**

483 A. I recommend adjusting the rates charged to all customers by a
484 jurisdictional scalar that accounts for projected jurisdictional load growth in 2011
485 relative to the pro-forma loads used in the test period ending June 2010. Using
486 RMP's load projection for 2011, I calculate this scalar to be .952, as shown in
487 UAE Exhibit 1.5 (KCH-1.5).

488 **Q. Are there other ways to avoid over-recovery of MPA revenues?**

489 A. Yes. Recovery can be deferred until the next general rate case and the
490 deferred revenues recovered using the billing determinants applicable to the test
491 period adopted in that proceeding. However, in its order issued October 13, 2010
492 in this docket the Commission determined that the MPA cost recovery in this case

493 would not be deferred beyond the January 1, 2011 rate-effective period requested
494 by RMP.

495 **Q. Why do you recommend using a jurisdictional scalar rather than class-**
496 **specific scalars?**

497 A. The use of class-specific scalars is problematic absent a new class cost of
498 service study. In this situation, absent deferral of approved costs until the next
499 general rate case proceeding, the use of a jurisdictional scalar applied to all rates
500 is the most reasonable option available to the Commission to protect customers as
501 a whole from over-recovery.

502 **Q. Do you believe the use of a jurisdictional scalar is consistent with the**
503 **Commission's order in this docket issued October 13, 2010?**

504 A. Yes. The Commission's order emphasizes the administrative efficiency of
505 relying on the rate spread and class cost of service studies relied upon in the most
506 recent general rate case final order:

507 The MPA alternate ratemaking process is efficient in its reliance on the revenue
508 requirement spread inherent in the Company's most recent general rate case final
509 order. It could lose this efficiency were the procedure to require re-examination of
510 cost-of-service studies and customer class allocation methods, or preparation of
511 new ones. [Order at 10]
512

513 Class cost of service is a complex, detailed analysis that allocates cost
514 responsibility among customer groups. In contrast, the jurisdictional scalar I am
515 recommending is a simple billing determinant update that benefits all customers
516 in equal proportion by making sure that Utah customers as a whole are not
517 overcharged for MPA cost recovery. In my opinion, the type of straightforward

518 adjustment I am recommending is not comparable to performing a new class cost
519 of service analysis. Adopting this type of adjustment is in the public interest to
520 ensure that rates are just and reasonable.

521

522 **MPA Transmission Cost Recovery**

523 **Q. Most of the proposed MPA revenue requirement in this proceeding is for**
524 **transmission infrastructure. Do you have any issues you wish to identify for**
525 **the Commission concerning the allocation of transmission costs?**

526 A. Yes. RMP's testimony in this case offers several reasons in support of its
527 decision to construct the Populus to Ben Lomond transmission line, including
528 benefits such as increased transmission capacity, improved reliability and greater
529 flexibility.⁷ However, most of these benefits inure both to retail customers and to
530 wholesale customers. RMP's testimony does not identify the portion of these
531 benefits that will inure to RMP's retail customers as opposed to its wholesale
532 customers. Rather, RMP presumes that all of the transmission costs (and
533 corresponding benefits) should be allocated to retail customers only.

534 Absent a convincing showing why all transmission costs should be
535 allocated only to retail customers, the Commission is not in a reasonable position
536 to make a supportable determination on how such costs should properly be
537 allocated. I thus recommend that the Commission condition its order approving
538 cost recovery in such a way that these new transmission costs potentially can be

⁷ See for example, direct testimony of Darrell T. Gerrard, lines 62-91; and direct testimony of John A. Cupparo, lines 188-226.

539 allocated in the future to the appropriate retail and wholesale jurisdictions, once
540 adequate information on that subject has been presented to the Commission.

541 I recommend that the Commission take note of national and local efforts
542 underway to address the proper allocation of new transmission costs. For
543 example, given renewed emphasis on transmission construction, a national debate
544 is underway regarding how costs of new transmission facilities should be
545 allocated as between retail and wholesale customers. FERC has issued a Notice
546 of Proposed Rulemaking on this very topic. [131 FERC ¶ 61,253, Docket RM10-
547 23-000 (June 17, 2010)].

548 Local debates are also underway. PacifiCorp has proposed in the context
549 of its 2011 IRP to run a number of scenarios with and without various Gateway
550 transmission segments.⁸ If these scenarios are done properly and with
551 supportable inputs and assumptions, the results may provide meaningful
552 information on the value to retail ratepayers of new transmission projects. In
553 addition, an application has recently been filed with this Commission by
554 PacifiCorp seeking a change in the manner of allocating costs among
555 jurisdictions.⁹

556 The results of these national and local discussions and debates will not be
557 available to the Commission in time to inform the Report and Order in this
558 docket, which must be issued by the end of the year. I thus recommend that the
559 Commission approve transmission cost recovery in this docket with the express

⁸ See for example, PacifiCorp 2011 IRP Portfolio Development Case Definitions – 10/05/10.

560 condition that transmission costs can be allocated between retail and wholesale
561 customers in a different manner in the future.

562 **Q. Do you believe such a conditional order is necessary to preserve this issue for**
563 **later Commission consideration?**

564 A. It is not clear to me that such a condition is necessary. It is my general
565 understanding that the Commission can re-allocate costs in a different manner at
566 any time in the future, based on new evidence. However, the impact of the new
567 law governing alternative cost recovery for major plant additions is not clear. To
568 avoid any dispute over this issue, and also to highlight the importance of this issue
569 and the need for it to be addressed in detail in the near future, I recommend that
570 the Commission's order in this docket reflect an express condition reserving the
571 issue of the proper allocation of these and other new transmission facilities.

572 **Q. Do you believe such a conditional order is permissible?**

573 A. Yes, based on my reading of the statute governing alternative cost
574 recovery for a major plant addition. It expressly authorizes the Commission to
575 "approve, approve with conditions, or deny cost recovery of the major plant
576 addition." Utah Code § 54-7-13.4(4)(a)(ii). While I have discovered no basis for
577 a disallowance of all cost recovery in this docket, there is a reasonable basis for
578 approving cost recovery with the condition proposed above.

579

580 **Rate Spread**

⁹ Application for Approval of Amendments to Revised Protocol Allocation Methodology; UPSC Docket No. 02-035-04; September 15, 2010.

581 **Q. Have you reviewed the Commission's statements pertaining to rate spread**
582 **order in this docket issued October 13, 2010?**

583 A. Yes, I have. In addition to the passage quoted in a previous section of my
584 testimony, the Commission also stated:

585 In the interim, while work groups address cost-of-service issues and the Company
586 prepares and presents a new general rate case filing, the data and class allocation
587 methods relied on in the Company's most recent general rate case should be the
588 basis for any MPA-related rate recovery. [Order at 13]
589

590 **Q. From a technical standpoint, what does this statement mean to you with**
591 **respect to development of a rate spread for MPA recovery?**

592 A. To me, it means that the class cost allocation results relied upon by the
593 Commission to determine the rate spread in the most recent general rate case
594 should be used to guide the rate spread in the MPA proceeding.

595 **Q. Do you believe that a strictly mechanistic formula that mimics the rate**
596 **spread determined in the most recent general rate case satisfies this**
597 **objective?**

598 A. No, in fact, as a matter of logic, simply mimicking the rate spread
599 approved in the most recent general rate case, e.g., by adopting the same spread
600 scaled for the MPA revenue requirement, is not likely to result in just and
601 reasonable rates.

602 **Q. As this issue may be of some precedential importance, please explain further.**

603 A. Assume for a moment that in a general rate case the Commission approves
604 a 6 percent jurisdictional increase. Assume further that Class A requires a rate

605 increase of 9 percent – or 3 percent above the system average increase – to move
606 exactly to cost of service parity, and also assume that the Commission elects to
607 increase Class A’s rates by exactly 9 percent to accomplish this.

608 Now assume that it is determined that a jurisdictional increase of 10
609 percent was actually necessary, which is conceptually comparable to approval of
610 an MPA revenue requirement that increases rates by another 4 percent. If the
611 class cost of service study is re-run with a revenue requirement increase of 10
612 percent, then as a general proposition, Class A would require a rate change to
613 achieve cost-of-service parity that continues to exceed the class average by about
614 3 percent (corresponding to a total rate increase of 13 percent), assuming that the
615 incremental revenue requirement associated with the 4 percent increase is
616 allocated to classes in the same proportion as the initial total revenue requirement.

617 Let us now examine this question: If the jurisdictional rate increase in the
618 example is applied in two steps, i.e., 6 percent followed by 4 percent, what is the
619 equitable rate increase for Class A in the second step if Class A is moved to parity
620 in the first step? The answer of course, is 4 percent, the jurisdictional average,
621 which when added to the 9 percent increase in the first step would produce a total
622 increase of 13 percent for Class A, keeping Class A at parity.

623 What this means is that it would not be appropriate, as a general rule, to
624 simply mimic the spread in the first step of an equitable increase by applying the
625 same proportionate increase in the second step. If such a mimicry were adopted
626 in this example, Class A would receive a second step increase of 6 percent (50

627 percent above the jurisdictional average), which would cause it experience total
628 rates that were 2 percent higher than parity (i.e., 15 percent versus 13 percent).

629 The upshot is that a mechanistic formula that simply mimics the rate
630 spread determined in the most recent general rate case would not produce
631 reasonable results for MPA rate spreads. In fact, the only mechanistic formula for
632 the MPA increase that would produce arguably reasonable results, a priori, is an
633 equal percentage increase for all classes. This is defensible under the premise that
634 in the first step of the increase the Commission moved classes toward parity to the
635 extent that was consistent with the public interest. An equal percentage increase
636 in the second step merely retains this relationship among the customer classes.

637 **Q. Have you reviewed the MPA rate spreads proposed by Mr. Griffith?**

638 A. Yes, I have. Mr. Griffith has proposed rate spreads for the requested
639 going-forward MPA revenue requirement as well as the MPA deferral. These rate
640 spreads are summarized in UAE Exhibit 1.5 (KCH-5).

641 **Q. Do you believe that the MPA rate spreads proposed by Mr. Griffith are**
642 **reasonable in light of the cost-of-service studies developed in the last general**
643 **rate case proceeding and the Commission's Order dated October 13, 2010?**

644 A. Yes, I do. I believe that the rate spread relationships among the customer
645 classes in UAE Exhibit 1.5 (KCH-5) are reasonable in light of the cost-of-service
646 studies developed in the last general rate case proceeding, as well as the updates
647 to this analysis presented by RMP in this case. I recommend adoption of the rate
648 spreads shown in UAE Exhibit 1.5 (KCH-5); if the Company's revenue

649 requirement is approved; if the Company's MPA revenue requirement is reduced,
650 I recommend retention of the relationships among the customer classes shown in
651 UAE Exhibit 1.5 (KCH-5).

652 **Q. Does this conclude your direct testimony?**

653 A. Yes, it does.