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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Approval of the 2017 Protocol	**Docket No. 15-035-86**

PREFILED DIRECT TESTIMONY OF NEAL TOWNSEND
IN OPPOSITION TO APPROVAL OF THE 2017 PROTOCOL

The Utah Association of Energy Users (UAE) hereby submits the Prefiled Direct Testimony of Neal Townsend in opposition to approval of the 2017 Protocol in this docket.

DATED this 16th day of March, 2016.

HATCH, JAMES & DODGE

/s/ ___________________________
Gary A. Dodge
Attorneys for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was mailed, postage prepaid, this 16th day of March, 2016, to the following:

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BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Direct Testimony of Neal Townsend

In Opposition to Approval of the 2017 Protocol

On behalf of UAE

Docket No. 15-035-86

March 16, 2016

DIRECT TESTIMONY OF NEAL TOWNSEND

INTRODUCTION

Q. Please state your name and business address.

A. My name is Neal Townsend. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. On whose behalf are you testifying in this proceeding?

A. My testimony is being sponsored by the Utah Association of Energy Users ("UAE").

Q. Please describe your educational background.

A. I received an MBA from the University of New Mexico in 1996. I also earned a B.S. degree in Mechanical Engineering from the University of Texas at Austin in 1984.

Q. Please describe your professional experience and background.

A. I have provided regulatory and technical support on a variety of energy projects at Energy Strategies since I joined the firm in 2001. Prior to my employment at Energy Strategies, I was employed by the Utah Division of Public Utilities as a Rate Analyst from 1998 to 2001. I have also worked in the aerospace, oil and natural gas industries.

Q. Have you previously filed testimony before this commission?

A. Yes. Since 1997, I have testified in twelve dockets before the Utah Public Service Commission on electricity and natural gas matters.

Q. Have you testified before utility regulatory commissions in other states?

A. Yes. I have testified in utility regulatory proceedings before the Arkansas Public Service Commission, the Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the Kentucky Public Service Commission, the Michigan Public Service Commission, the New Mexico Public Regulation Commission, the Public Utilities Commission of Ohio, the Public Utility Commission of Oregon, the Public Utility Commission of Texas, the Utah Public Service Commission, the Virginia Corporation Commission, and the Public Service Commission of West Virginia.

<u>Overview and conclusions</u>

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

A. The purpose of my testimony is to:

(1) Recommend Commission denial of the Agreement Pertaining to Rocky Mountain Power's ("RMP", "PacifiCorp" or "the Company") December 31, 2015 Application for Approval of the 2017 Protocol allocation method ("2017 Protocol"), and particularly Section XIV, Utah State Specific Terms, entered into among PacifiCorp, the Utah Division of Public Utilities, and the Office of Consumer Services; and

(2) Explain UAE's reasons for opposing the 2017 Protocol, including the Utah State Specific Terms, and articulate UAE's understandings and assumptions in so opposing.

<u>Opposition to the 2017 MSP Protocol</u>

Q. What is the 2017 MSP Protocol?

A. The 2017 Protocol is a proposed agreement among certain parties in some of the states in which PacifiCorp provides retail electric utility service that is suggested as a replacement of the current 2010 MSP Protocol that forms the basis for the current allocation of PacifiCorp's system costs. By its terms, the 2010 Protocol (and its related 2010 Utah MSP Agreement) is set to expire on December 31, 2016.

Q. Can you briefly describe the activities that were undertaken to address the inter-jurisdictional allocation of costs after 2016 and the related Utah State Specific MSP Terms that are the subjects of the current filing?

A. Yes. As explained in the direct testimony of RMP witness Jeffrey K. Larson, certain stakeholders from across PacifiCorp's service territories began meeting in the fall of 2012 to attempt to develop a post-2016 allocation method. The stakeholders and PacifiCorp held numerous meetings throughout 2013, 2014, and 2015. Despite extensive efforts to evaluate alternative allocation methods, the MSP participants were unable to reach agreement on a new allocation method. In addition, several emerging issues were identified, the most important of these being potential new carbon emission regulations promulgated under Section 111(d) of the Clean Air Act and possible expansion of the California ISO to include the PacifiCorp transmission system. These emerging issues caused many participants to be reluctant to agree to any new allocation method until the impacts of these emerging issues were fully understood. Given the lack of consensus and the uncertainty caused by the emerging issues, and with encouragement from commissioners of some of the states in which PacifiCorp does business, MSP participants ultimately opted to focus on a short-term interim solution based largely on maintaining the status quo for a few years. The result is the *proposed* 2017 Protocol interim solution described in Mr. Larson's testimony.

Under the 2017 Protocol, Utah would be subject to a "Utah Equalization Adjustment" which would add an additional $4.4 million to its revenue requirement on top of its Rolled-In allocated costs. In addition, discussions between PacifiCorp and certain Utah stakeholders led to the proposed Utah State Specific Terms described under Section XIV, paragraph 4. UAE actively participated in all of the MSP meetings and negotiations, but it ultimately concluded that it cannot support the proposed 2017 Protocol.

Q. Can you briefly describe the Section XIV Utah State Specific Terms?

A. Yes. Under the Utah State Specific Terms, RMP agreed not to file a general rate case or major plant additions case prior to May 1, 2016 and that any new rates will not be effective until January 1, 2017. The terms further contemplate that a general rate case filing in 2016 will use the 2017 Protocol, a condition that effectively modifies the termination date of the 2010 Protocol. Further, if for some reason, new rates are not in place by January 1, 2017, the Utah State Specific Terms contemplate that RMP will defer the annual $4.4 million Utah Equalization Adjustment on a monthly basis.

Q. Do you believe the Commission should approve the 2017 Protocol and the Section XIV Utah State Specific Terms?

A. No. Taken as a package, I believe the 2017 Protocol and related Section XIV Utah State Specific Terms are not in the public interest and should be rejected by the

Commission. Instead, Utah should continue to utilize the Rolled-In allocation method currently in use.

Q. Why do you believe the 2017 Protocol and the Utah State Specific Terms are not in the public interest?

A. From UAE's perspective, the main reason why the 2017 MSP Protocol and related Utah Terms should be rejected is to properly align Utah's share of system costs with the risks borne by Utah ratepayers. UAE has long argued that a Rolled-In inter-jurisdictional allocation method should be used in Utah, particularly for so long as the Energy Balancing Account ("EBA") continues to subject Utah ratepayers to hydro-related risks. Given that Utah ratepayers are currently subject to hydro-related risks, it is unreasonable to subject these same ratepayers to any additional revenue requirement on top of the Rolled-In results that would otherwise be calculated in a Utah regulatory proceeding.

Q. Can you describe what you mean by "Rolled-In" inter-jurisdictional allocation method?

A. Yes. The Rolled-In allocation method, as currently defined for PacifiCorp's system, allocates PacifiCorp's generation and transmission costs based on a demand factor derived using twelve monthly coincident peaks (12 CP), an annual energy factor, and a 75% demand factor/25% energy factor weighting. The 12 CP demand factor measures each state's relative demand at the time of the system peak for each month of the year. The energy factor measures each state's annual energy usage. The allocation of generation and transmission costs using the Rolled-In method recognizes that the PacifiCorp system is planned and operated as a single utility. In addition, by using the demand and energy loads as the basis for deriving the allocation factors, the Rolled-In method is designed to allocate costs to each state based upon the costs each state imposes on the system. Most importantly, there is generally no recognition of any state specific or divisional specific cost adjustments included under the Rolled-In method. Since the location and usage of distribution costs can be specifically determined, distribution costs are assigned to the state where they are located.

Q. Can you more fully describe what you mean by the hydro-related risks included in the EBA?

A. PacifiCorp has substantial hydro resources, located primarily in the Pacific Northwest portion of the Company's system. Generally, these hydro resources are significantly less expensive than other resources on the Company's system. In a general rate case, Base Net Power Cost ("NPC") is determined using a production dispatch model, GRID, assuming "normal" water conditions based on median hydro levels. However, a poor water year might require the Company to make more off-system purchases or operate more expensive generation facilities to replace reduced hydro production. With RMP's EBA, any increased (or decreased) cost associated with deviations from a normal water year is included in PacifiCorp's actual NPC. This higher (or lower) cost is captured in the EBA and largely passed through to Utah customers through the current 70/30 sharing mechanism, thereby exposing them to hydro-related risk.[1]

[1] The Utah legislature passed Senate Bill 115 on March 10, 2015 which mandates a repeal of the 70/30 ratepayer/shareholder sharing mechanism in favor of 100/0, thus placing Utah's proportionate share of the hydro risk even more completely on Utah ratepayers if it is signed into law.

Q. Why is hydro-related risk in the EBA relevant to the inter-jurisdictional allocation of costs under the 2017 Protocol?

A. Under the proposed 2017 Protocol, Utah customers do not receive a proportionate benefit from the PacifiCorp hydro resources. Although NPC in GRID reflects the benefits of the hydro system, the 2017 Protocol removes some of these benefits from Utah through the Utah Equalization Adjustment. This will occur in each Utah rate case in which the terms of the 2017 Protocol are applied, which will increase Utah's revenue requirement without any sound basis. The Utah Equalization Adjustment arises because of inconsistent allocation methods currently used by the various PacifiCorp state jurisdictions. The inconsistent allocation methods arise from each state's interpretation and application of the 2010 Protocol, including the calculation of the Embedded Cost Differential ("ECD"), which removes a share of the benefits of PacifiCorp's hydro resources from the Utah revenue requirement.

Q. Do you have any evidence that Utah ratepayers are bearing the hydro risk?

A. Yes. For example, in EBA Docket No. 14-035-31, RMP Witness Brian S. Dickman made the following statement in his direct testimony:

> "[A]ctual generation from Company owned hydro and wind resources was 784 GWh and 127 GWh lower than projected in Base NPC, respectively…. Generation from hydro and wind facilities is a zero cost resource and must be replaced with additional generation from the Company's thermal resources or a net increase in power procured from the wholesale market, also increasing net power costs. Consequently, variances in load and

> hydro and wind generation impact each of the cost categories shown in Table 1."[2]

As another example, in EBA Docket No. 15-035-03, Mr. Dickman stated:

> "Actual NPC were also higher than Base NPC due, in part, to an increase in system load and a reduction in zero-fuel-cost generation from the Company's owned hydro and wind resources…. [A]ctual generation from Company owned hydro and wind resources was 139 GWh and 188 GWh lower than projected in Base NPC, respectively…. Generation from hydro and wind facilities is a zero cost resource and must be replaced with additional generation from the Company's thermal resources or a net increase in power procured from the wholesale market, also increasing NPC. Consequently, variances in load and hydro and wind generation impact several of the cost categories shown in Table 2."[3]

Q. If Utah rejected the 2017 Protocol, wouldn't there be inconsistent cost allocation methods used in the PacifiCorp system?

A. Yes, but that has been the case for many years and will continue to be the case regardless. Different applications of the ECD by various states have existed for years, causing inconsistent cost allocation methods. Also, the State of Washington has already indicated that it does not intend to adopt the 2017 Protocol. At this point, it is also unknown whether any or all of the remaining states will approve the 2017 Protocol and the related state specific agreements. Regardless of the outcome in other states, however, it is clear that the public interest in Utah would not be served by subjecting Utah

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[2] See UPSC Docket No. 14-035-31, Witness Brian S. Dickman Direct Testimony, p. 10-11, Lns. 171-180.
[3] See UPSC Docket No. 15-035-03, Witness Brian S. Dickman Direct Testimony, p. 10-11, Lns. 192-206.

ratepayers to both the full EBA hydro-related NPC risk and the 2017 Protocol revenue requirement adder.

UAE has consistently argued in previous proceedings before this Commission that a Rolled-In allocation method should be used in Utah as long as the EBA continues to subject Utah ratepayers to hydro-related risks.[4] Given current regulatory and other circumstances, UAE cannot support the 2017 Protocol, since it unfairly assigns additional revenue requirement obligations to Utah above the Rolled-In allocation method for hydro-related costs, while leaving Utahns subject to all of the NPC risks of hydro resources.

Q. If the Commission rejects the 2017 Protocol, what allocation method should be used in Utah regulatory proceedings?

A. As noted earlier, I recommend that the Commission order the continued use of the Rolled-In Method as that method is currently defined.

Q. Do you support deferral of the $4.4 million Utah Equalization Adjustment beginning January 1, 2017 as specified under the Utah State Specific Terms?

A. No, the Commission should reject the 2017 Protocol and should not allow RMP to defer any of the Utah Equalization Adjustment.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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[4] For example, see UPSC Docket 09-035-15, UAE Witness Kevin C. Higgins Phase II Direct Testimony, p. 26, Lns. 543-548.