

1 **Q. Are you the same Steven R. McDougal who submitted direct testimony**
2 **accompanying Rocky Mountain Power’s (“RMP” or the “Company”)**
3 **application for approval of the 2017 Protocol on December 31, 2015?**

4 A. Yes.

5 **Overview and Purpose of Testimony**

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of my testimony is to respond to certain issues raised by the Utah
8 Association of Energy Users (“UAE”) witness Neal Townsend and the Utah
9 Division of Public Utilities (“DPU”) witness Artie Powell. Additionally, I respond
10 to the public comments submitted by Kennecott Utah Copper (“KUC”). While
11 KUC has not requested intervention in this docket, it has requested that its public
12 comments be considered by the Commission.

13 **Q. Please summarize your rebuttal testimony.**

14 A. The Company maintains that the 2017 Protocol is a Rolled-In inter-jurisdictional
15 allocation methodology, which results in just and reasonable rates and is in the
16 public interest. Accordingly, the Company requests that the Public Service
17 Commission of Utah (“Commission”) approve it as filed. Approval of the 2017
18 Protocol is also supported by Dr. Artie Powell from the DPU and Ms. Michele Beck
19 from the Office of Consumer Services. Mr. Neal Townsend, representing the UAE,
20 filed testimony recommending that the Commission reject the 2017 Protocol and
21 continue to use the current allocation method. While not a party in this proceeding,
22 KUC was a participant in the Multi-State Process (“MSP”) and filed public
23 comments in which they construe the meaning of Section X and oppose the

24 Equalization Adjustment on the grounds that it is not cost based. In response to the
25 arguments of the parties and the public comments of KUC, my testimony is
26 organized as follows: First, I respond to UAE’s opposition to the \$4.4 million
27 Equalization Adjustment on the basis that it introduces additional “hydro-related
28 risk”; Second, I explain why a consistent cost allocation methodology among the
29 states is a reasonable regulatory objective despite the dismissive comments made
30 by Mr. Townsend; and third, I respond to Mr. Powell’s “merger fairness premium”
31 historical allocation discussion. Finally, I will respond to KUC’s comments.

32 **UAE Comments on Hydro-related Risks**

33 **Q. Please summarize the UAE’s arguments for its opposition to the \$4.4 million**
34 **Equalization Adjustment.**

35 A. Mr. Townsend testifies that the Commission should reject the 2017 Protocol and
36 not allow the Company to defer the Equalization Adjustment because under the
37 2017 Protocol Utah customers do not receive a proportionate benefit from hydro
38 resources and it does not properly align Utah’s share of system costs with the risks
39 borne by Utah ratepayers, particularly the added “hydro-related risks” because of
40 the Energy Balancing Account ("EBA").

41 **Q. How do you respond to Mr. Townsend’s claim?**

42 A. I disagree. Under the 2017 Protocol, just like under the current Rolled-In inter-
43 jurisdictional allocation method, all net power costs are system allocated so Utah
44 customers only pay Utah’s weighted share of those costs, they bear no additional
45 hydro-related risk. Hydro resources create no more risk to Utah customers than its
46 own load growth, or fluctuations in wind generation, or unplanned coal plant

47 outages, all of which are beyond the Company's control and appropriately included
48 in the EBA.

49 **Q. What does Mr. Townsend present as evidence that Utah ratepayers are**
50 **bearing the hydro risk?**

51 A. Mr. Townsend isolates two statements from the testimony of Company witness Mr.
52 Brian S. Dickman in EBA Docket Nos. 14-035-31 and 15-035-03, which discuss
53 the impact of hydro and wind resources on net power costs. However, a closer look
54 at Mr. Dickman's testimony shows that Utah's sales were 727 GWh higher than
55 projected by the Company in those dockets. When Utah sales are adjusted for line
56 losses up to load at input, Utah's load growth had more impact on net power costs
57 than the reduced hydro output.

58 **Q. Is Mr. Townsend's argument on hydro risk relevant to this proceeding?**

59 A. No. Hydro costs, as well as all other components of generation costs including net
60 power costs, are treated consistently between the 2017 Protocol and the current
61 Rolled-In inter-jurisdictional allocation methodology. Approving the 2017
62 Protocol will not change the allocation of hydro costs or any of the 'risks' referred
63 to by Mr. Townsend, making Mr. Townsend's comments irrelevant to the
64 Commission's consideration of the 2017 Protocol.

65 **Q. Do you agree with Mr. Townsend's assertion that the Equalization**
66 **Adjustment is associated with the ECD?**

67 A. No. The Equalization Adjustment represents a negotiated amount and is not tied to
68 any one particular item. Mr. Townsend may believe that the Equalization
69 Adjustment is associated with the ECD, but other Broad Review Work Group

70 ("BRWG") participants could also argue the \$4.4 million Equalization Adjustment
 71 is to account for Utah's higher load growth or changes that they believe should
 72 occur to the coincident peaks or the demand / energy weightings. Below is the table
 73 from Section XIV of the 2017 Protocol's State-Specific Terms.

Revenue Requirement (\$000)	Total					
	Company	California	Oregon	Utah	Idaho	Wyoming
2017 Protocol Baseline ECD **	(9,578)	(324)	(8,238) *	0	836	(1,851)
2017 Protocol Equalization Adjustment	9,074	324	2,600	4,400	150	1,600
2017 Protocol Adjustment		(0)	(5,638)	4,400	986	(251)

* Oregon's 2017 Protocol Baseline ECD is dynamic and will change over time with the parameters described in paragraph 3 below. For the other states, the 2017 Protocol Baseline ECD is fixed and does not change over time.
 ** 2017 Protocol Baseline ECD amounts shown in the table for California, Oregon, and Wyoming are based on the test year data as filed by the Company in the 2015 Wyoming general rate case (Docket 20000-469-ER-15) on March 3, 2015. The amount for Idaho's 2017 Protocol Baseline ECD is its 2010 Protocol Fixed ECD amount. Utah's 2017 Protocol Baseline ECD is zero based on its 2010 Protocol agreement.

74 As can be seen on the line labeled 2017 Protocol Baseline Embedded Cost
 75 Differential ("ECD") and specified in the footnote, Utah's 2017 Protocol ECD is
 76 zero, just as it is under Rolled-In. The 2017 Protocol is a Rolled-In inter-
 77 jurisdictional allocation methodology. The only difference between the current
 78 Rolled-In method and the 2017 Protocol is the Equalization Adjustment.

79 **Q. Was the Equalization Adjustment a negotiated settlement?**

80 A. Yes. While the MSP BRWG did not specify what specific cost elements the
 81 Equalization Adjustment represented, they did agree that the final result was just
 82 and reasonable and in the public interest based on the analyses performed and facts
 83 presented to the group during the BRWG process and negotiations. The BRWG
 84 studied and considered the Rolled-In allocation methodology using various
 85 coincident peaks ("CP") and demand and energy weightings. The results of these
 86 studies are consistent with Dr. Powell's Exhibit No. DPU 1.2 DIR. In light of the

87 range of possible outcomes, ranging from a decrease to Utah's revenue requirement
88 of 0.05 percent to an increase of 3.0 percent, the \$4.4 million Equalization
89 Adjustment, approximately 0.22 percent of Utah's revenue requirement, is a
90 reasonable outcome for Utah ratepayers. The Commission has a longstanding
91 practice of approving negotiated stipulations. The Commission has recognized that
92 stipulations are the result of parties' inability to reach agreement on individual
93 issues but agree to a certain overall, negotiated outcome, which is the case with the
94 BRWG's development of the Equalization Adjustment.

95 **Q. Can you provide some examples of negotiated stipulations?**

96 A. All of the past inter-jurisdictional cost allocation agreements, including the 2010
97 Protocol and Rolled-In as currently defined in Utah, were negotiated stipulations.
98 For example, the number of coincident peaks, the demand and energy weightings
99 and many other issues were all the result of negotiated settlements. Even the current
100 definition of Rolled-In, which uses a demand factor derived using twelve monthly
101 coincident peaks (12 CP) and a System Generation factor that is weighted 75
102 percent demand and 25 percent energy, was the heavily debated outcome in
103 negotiations among almost all parties of the BRWG.

104 As Dr. Powell testified:

105 A Rolled-In method can be defined in numerous ways, and much of
106 the discussions and work of the MSP Workgroup centered on
107 defining alternative demand or energy factors, primarily variations
108 of Rolled-In and divisional allocations. As part of the MSP
109 Workgroup meetings, the Company performed numerous studies
110 and provided a model to simulate various Rolled-In allocation
111 assumptions including weighting the classification of costs and the
112 coincident peaks used in defining capacity.

113 During the BRWG discussions, many participants expressed opinions that the

114 current definition of Rolled-In is not “cost based” and advocated for modifying the
115 number of CPs and the demand/energy weightings. The BRWG discussions and
116 studies played a large role in parties’ willingness to negotiate the Equalization
117 Adjustment rather than insist on modifications to CPs or demand and energy
118 weightings.

119 **Q. Is there additional evidence supporting the negotiated settlement and**
120 **customer benefits?**

121 A. Yes. Section XIV of the 2017 Protocol summarizes the state specific terms that
122 were negotiated. Part of the consideration negotiated by the Utah Parties in trade
123 for the \$4.4 million Equalization Adjustment was that the Company would not file
124 a Utah general rate case or major plant addition case prior to May 1, 2016, assuring
125 new rates would not be effective prior to January 1, 2017. Utah's annual revenue
126 requirement is approximately \$2 billion. If rates were increased by only 0.25
127 percent, delaying a rate increase by four months more than offsets the Equalization
128 Adjustment. Customers are receiving the value that was exchanged for the risk of
129 a potential rate case filing in exchange for the limited deferral of the Equalization
130 Adjustment.

131 **Importance of Consistent Allocation Methodologies**

132 **Q. Rejection of the 2017 Protocol in Utah, as recommended by UAE, undermines**
133 **a long-standing regulatory objective of achieving consistent cost allocation**
134 **methodologies. Does Mr. Townsend discuss this issue in his testimony?**

135 A. Yes. Mr. Townsend briefly raises the issue that if Utah does not adopt the 2017
136 Protocol it would cause inconsistent cost allocation methods. He then dismisses the
137 issue by using Washington's departure from MSP as a reason why he is not
138 concerned by the prospect of inconsistent allocation methodologies.

139 **Q. Has UAE expressed concern with inconsistent cost allocation methodologies in**
140 **past cost allocation proceedings?**

141 A. Yes. In the proceeding to approve the 2010 Protocol, Mr. Townsend filed testimony
142 on behalf of UAE in support of the stipulation. In his testimony he states:

143 From UAE's perspective, there are at least two reasons why the MSP
144 Agreement should be approved. First, UAE believes that it is
145 important for the various states served by the Company to at least
146 attempt to develop reasonable and generally consistent cost
147 allocation methodologies that will both produce just and reasonable
148 results in this State and also provide the Company with a reasonable
149 opportunity to recover its prudently incurred costs. The MSP
150 Agreement reduces the risk that various jurisdictions will adopt
151 inter-jurisdictional cost allocation methods that are materially
152 inconsistent.¹

153 So at least at that time, Mr. Townsend demonstrated a clear understanding of the
154 value of consistent allocation methodologies.

155 **Q. At the time of Mr. Townsend's 2010 Protocol testimony, had Washington**
156 **adopted a separate allocation methodology?**

157 A. Yes. Washington was using the West Control Area methodology.

¹ Docket 02-035-04, August 18, 2011, UAE Exhibit 1.0, Testimony of Neal Townsend, pages 8 - 9, lines 175 - 181.

158 **Q. In his testimony opposing the 2017 Protocol, does Mr. Townsend provide any**
159 **reasoning, other than the fact that Washington does not intend to adopt the**
160 **2017 Protocol, as to why his opinion has changed from when he filed his**
161 **testimony supporting the 2010 Protocol?**

162 A. No. There is no apparent reason for his change of opinion.

163 **Q. Has the Commission expressed concern with inconsistent cost allocation**
164 **methodologies in past jurisdictional cost allocation proceedings?**

165 A. Yes. In the Revised Protocol proceeding, the Commission included the following
166 statement in its order:

167 Least cost system expansion to meet growing service obligations
168 requires infrastructure investment by the Company for which
169 confidence of cost recovery is needed. Parties acknowledge the
170 Company has conflicting incentives from the states in which it
171 serves, especially regarding generation cost recovery. If left
172 unresolved, this could lead to higher cost or less reliable service for
173 customers or cost disallowances for the company. We concur and
174 find that agreement among states on an interjurisdictional allocation
175 method, consistent with least cost integrated system planning and
176 operation and adequate and reliable service to customers, is a
177 reasonable regulatory objective. However, the particular agreement
178 must be fair, just and reasonable.²

179 **Q. Do all other Parties expressly agree that the 2017 Protocol agreement is fair,**
180 **just and reasonable for Utah's ratepayers?**

181 A. Yes.

182 **Q. Why should consistent allocation methodologies be important?**

183 A. The Commission has the responsibility to set fair, just, and reasonable rates for

² Docket 02-035-04, Report and Order, December 14, 2004, page 31.

184 customers and to allow the Company an opportunity to recover its prudently
185 incurred costs. Inconsistent allocation methodologies amongst the states served by
186 PacifiCorp ultimately does not allow the Company an opportunity to recover its
187 prudent costs. The 2017 Protocol makes a positive step towards minimizing the
188 difference in allocation shortfalls.

189 **Relevance of “Merger Fairness Premium”**

190 **Q. Dr. Powell’s testimony presented a discussion on the history of cost allocation,**
191 **in particular what he referred to as the “merger fairness premium”. Would**
192 **you like to comment on this item?**

193 A. Yes. While Dr. Powell included a significant amount of history of cost allocations
194 in Utah, the Company does not agree with the DPU's conclusions on a "merger
195 fairness premium". However, Dr. Powell’s testimony on the “merger fairness
196 premium” has no bearing on the decision before the Commission in this docket.

197 Net positive merger benefits were evidenced by the fact that Utah customers
198 received an immediate rate reduction as part of the merger approval followed by
199 several other rate reductions. In 1989 at the time of the merger, Utah’s average
200 retail rate was 6.62 cent per kilowatt-hour. Utah’s rates didn’t surpass that level
201 until 2010, over 21 years later. Utah customers have been and continue to be the
202 recipient of significant “net positive merger benefits”.

203 **Kenecott Public Comments**

204 **Q. Is KUC an intervener in this Docket?**

205 A. No.

206 **Q. Should KUC's comments be considered evidence in this evidentiary phase of**
207 **the case?**

208 A. No. They are public comments unsupported by a witness not sworn testimony
209 subject to discovery and cross examination. With that understanding in mind, the
210 Company provides the following comments.

211 **Q. Please summarize public comments of KUC.**

212 A. KUC's comments address two issues: First, they assert that the Equalization
213 Adjustment is not just and reasonable because it is not based on the cost of
214 providing service to Utah's customers; and Second, KUC tries to misconstrue the
215 meaning and intent of Section X subpart B of the 2017 Protocol.

216 **Q. What is your response to KUC's comments concerning the Equalization**
217 **Adjustment?**

218 A. The same positions I discussed in response to Mr. Townsend's testimony apply to
219 KUC. The Equalization Adjustment was a negotiated settlement due to the BRWG's
220 inability to reach agreement on individual issues but support of the overall 2017
221 Protocol, including the Equalization Adjustment, as fair, just, and reasonable result.

222 **2017 Protocol Section X Applicability to Kennecott Utah Copper**

223 **Q. Do you agree with KUC's assertion that Section X does not require or**
224 **recommend the allocation of costs to Utah as a consequence of KUC**

225 **transferring service to a nonutility provider?**

226 A. No. The language in Section X subpart B is clear and does not need to be
227 “construed” to mean anything other than what it states:

228 “If, pursuant to Utah Code Annotated Section 54-3-32, an eligible customer
229 in Utah transfers service to a non-utility energy supplier, the Public Service
230 Commission of Utah will make determinations under Utah law as
231 contemplated therein.”

232 A significant amount of time was spent developing this section of the 2017
233 Protocol, and the BRWG was very careful with the language so as not to make any
234 predeterminations before this Commission has had an opportunity to review the
235 facts and make its own determination as specified in Utah Code Section 54-3-32, if
236 and when an eligible customer transfers service to a non-utility energy supplier.
237 KUC was a party to all of these discussions, and spent a considerable amount of the
238 BRWG's time trying to influence the 2017 Protocol. In the current docket, KUC's
239 unsworn public comments continue in the same vein, this time attempting to
240 influence the Commission by introducing issues that are outside the scope of the
241 2017 Protocol by means of public comments without a witness to support the
242 statements, and putting forth an attempt to "construe" an interpretation of Section
243 X.B that is not reflected in the language of the 2017 Protocol. KUC's statement that
244 the 2017 Protocol assists the Commission in making the determination required
245 under section 54-3-32(6) by clearly stating whether there will be “costs or credits
246 allocated to Utah” is not consistent with the facts or discussion by the BRWG. The
247 language of Section X is clear--the Public Service Commission of Utah will make
248 a determination of law pursuant to Utah Code Annotated Section 54-3-32. This
249 section was carefully drafted to make it clear that the parties were not presupposing

250 the decision to be made by the Commission.
251 Section X.B further provides that the Company would inform other state
252 commissions and parties of the Utah decision. Other states would then have the
253 opportunity to determine the impact of that determination on their jurisdiction.
254 The Commission should not provide any weight to the KUC comments in making
255 their decision in this proceeding.

256 **Q. Does this conclude your rebuttal testimony?**

257 A. Yes. The 2017 Protocol is a Rolled-In inter-jurisdictional allocation methodology
258 that is fair, just and reasonable and the company requests that it be approved as
259 filed.