

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Voluntary Request	)	Docket No. 17-035-39
Of Rocky Mountain Power for Approval	)	
Of Resource Decision to Repower	)	Direct Testimony
Wind Facilities	)	of Donna Ramas
	)	For the Office of
	)	Consumer Services

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DIRECT TESTIMONY

OF

Donna Ramas

FOR THE OFFICE OF CONSUMER SERVICES

SEPTEMBER 20, 2017

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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 Principal at Ramas Regulatory Consulting, LLC,  
5       with offices at 4654 Driftwood Drive, Commerce Township, Michigan  
6       48382.

7   **Q.   HAVE YOU PREPARED A SUMMARY OF YOUR QUALIFICATIONS  
8       AND EXPERIENCE?**

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

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

12   A.   I was retained by the Utah Office of Consumer Services (OCS) to review  
13      Rocky Mountain Power's (the Company or RMP) voluntary request for  
14      approval of a resource decision relating to repowering most of the  
15      Company's existing wind facilities. Accordingly, I am appearing on behalf  
16      of the OCS.

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

18   A.   I primarily address the Company's request to establish a Resource  
19      Tracking Mechanism ("RTM") to recover the revenue requirement impacts  
20      of the proposed wind repowering projects. I also discuss additional risks  
21      that would be passed onto customers in this case associated with  
22      potential future changes in tax law, along with potential timing of tax law

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23 changes. Finally, I discuss the ability of the wind repowering projects to  
24 increase future Renewable Energy Credit (REC) revenues received by the  
25 Company.

26 **Q. DO YOU ADDRESS WHETHER OR NOT THE WIND REPOWERING**  
27 **PROJECTS SHOULD BE APPROVED BY THE COMMISSION AS**  
28 **PRUDENT AND IN THE PUBLIC INTEREST?**

29 A. No. OCS witness Phil Hayet addresses the wind repowering projects and  
30 the Company's request that the projects be approved as prudent and in  
31 the public interest in his direct testimony. My testimony focuses on the  
32 new RTM proposed by the Company.

33 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE NEW**  
34 **RESOURCE TRACKING MECHANISM PROPOSED BY RMP IN THIS**  
35 **CASE?**

36 A. I strongly recommend that the proposed new Resource Tracking  
37 Mechanism be rejected by the Commission. There is no need to establish  
38 a complex recovery mechanism that would shift risk away from RMP's  
39 shareholders to its ratepayers and add substantial complexity to the  
40 regulatory process. If the Company goes forward with the wind  
41 repowering projects being considered in this docket and the projects  
42 cause the Company to not be able to earn its authorized rate of return,  
43 adequate means exist to address the revenue requirements associated  
44 with the projects without the need to establish an RTM.

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45 **REVENUE REQUIREMENT / COST RECOVERY BACKGROUND**

46 **Q. AS BACKGROUND, WOULD YOU PLEASE PROVIDE A GENERAL**  
47 **DESCRIPTION OF HOW RMP RECOVERS COSTS ASSOCIATED**  
48 **WITH PLANT USED IN PROVIDING SERVICE TO ITS UTAH**  
49 **CUSTOMERS?**

50 A. Yes. In establishing revenue requirements in a general rate case  
51 proceeding, prudently incurred plant that is used and useful in providing  
52 service to RMP's utility customers is included in plant in service. The plant  
53 in service balance, less the associated accumulated depreciation reserve  
54 balance and less the associated accumulated deferred income tax  
55 ("ADIT") balance is included in rate base upon which the rate of return  
56 found to be just and reasonable by the Commission is applied.  
57 Additionally, the associated impacts of the plant found to be prudent on  
58 net operating income are also included in the revenue requirement  
59 determination. This would include various net operating income impacts,  
60 such as costs of operating and maintaining the plant, property taxes  
61 associated with the plant, and depreciation expense associated with  
62 depreciating the plant asset over its projected life.

63 During a general rate case, all elements of the revenue requirement  
64 calculation are matched to a consistent period to ensure that a  
65 synchronized approach is used in setting rates. Thus, rate base,  
66 revenues, expenses and income taxes are all synchronized using a  
67 consistent test period.

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68 **Q. HOW DOES THE COMPANY RECOVER COSTS ASSOCIATED WITH**  
69 **NEW PLANT THAT IS PLACED INTO SERVICE AFTER THE TEST**  
70 **PERIOD USED IN DETERMINING THE REVENUE REQUIREMENT AND**  
71 **SETTING BASE RATES, SUCH AS PLANT PLACED INTO SERVICE**  
72 **ONE OR TWO YEARS AFTER THE TEST PERIOD?**

73 A. Many aspects of the Company's operations change between rate case  
74 proceedings. While new plant is being added, existing plant continues to  
75 be depreciated, and the associated accumulated deferred income tax  
76 balance may grow. As the existing plant is depreciated, the net balance  
77 associated with the plant declines. Older plant may also be retired.  
78 Between rate cases, the amount of revenues will change, as will  
79 expenses. These changes do not occur in isolation. Depending on the  
80 specific circumstances, utilities may often go years between rate case  
81 proceedings, even though they are adding plant during the interim years.  
82 Other changes in the components of the overall revenue requirement  
83 calculation may offset the impact of the increase of plant in service caused  
84 by new plant investment.

85 **Q. CAN YOU OFFER AN EXAMPLE OF THIS?**

86 A. Yes. In RMP's most recent general rate case, Docket No. 13-035,184,  
87 RMP utilized a projected future test year ended June 2015 for purposes of  
88 determining its requested revenue requirement. While the rate case was

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89 resolved through an uncontested settlement stipulation<sup>1</sup> which did not  
90 identify or resolve the amount of plant in service or rate base used in  
91 determining the settled upon rate increases, the Company's initial filing in  
92 the rate case included plant in service, based on the 13-month average  
93 methodology, of \$10,912,081,614.<sup>2</sup> The Company's rebuttal position in  
94 the rate case included plant in service of \$10,920,111,386.<sup>3</sup> The  
95 settlement stipulation provided for a rate of return on equity of 9.80% and  
96 an overall rate of return of 7.57%, which was affirmed in the Commission's  
97 Report and Order adopting the settlement stipulation.

98 The Company's Utah Jurisdictional Result of Operations for the  
99 Period Ended December 31, 2016 filed with the Commission on April 28,  
100 2017 ("2016 Results of Operations") shows plant in service for 2016,  
101 based on the 13-month average methodology, as \$11,491,277,273 on an  
102 unadjusted basis and \$11,395,858,377 on a normalized (adjusted) basis.  
103 The 2016 Results of Operations identifies the rate of return on equity as  
104 11.367% on an unadjusted basis and 9.998% on a normalized (adjusted)  
105 basis. While plant in service increased for RMP as compared to the  
106 amount requested in its prior rate case, the Company was able to earn an

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<sup>1</sup> The Settlement Stipulation was approved by the Commission in its August 29, 2014 Report and Order in Docket No. 13-035-184 with the Settlement Stipulation attached thereto.

<sup>2</sup> Docket No. 13-035-184, Company Exhibit RMP\_\_(SRM-3), pages 1.0, 1.1 and 1.3.

<sup>3</sup> Docket No. 13-035-184, Company Exhibit RMP\_\_(SRM)-2R, pages 1.0 and 1.1.

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107 overall rate of return and a return on equity in excess of the authorized  
108 amounts.

109 Other components of the revenue requirement equation also  
110 changed during this time, and the above example addresses just one of  
111 the components that have changed since the most recent general rate  
112 case proceeding. The key point that I wish to illustrate is that the  
113 Company has been adding plant in service since the last rate case and yet  
114 it was still able to earn enough to achieve in excess of the rate of return on  
115 equity authorized by the Commission in the prior rate case.

116 **Q. THE PLANT ADDITIONS PROJECTED BY RMP ASSOCIATED WITH**  
117 **THE WIND REPOWERING PROJECTS ARE FAIRLY SUBSTANTIAL.**  
118 **ABSENT THE COMPANY'S REQUESTED RESOURCE TRACKING**  
119 **MECHANISM BEING APPROVED, WHAT OPTIONS DOES THE**  
120 **COMPANY HAVE TO RECOVER THE COSTS ASSOCIATED WITH**  
121 **THE PROJECTS?**

122 A. If the Company projects that new plant being added or other changes in  
123 the components of the revenue requirement equation will cause it to be  
124 unable to earn a fair and reasonable rate of return on its investments, the  
125 Company has the ability to seek to change its base rates by filing a rate  
126 case. As the Company has the ability to utilize a future test year in rate  
127 case filings, it would have the opportunity to include large new plant  
128 investments, such as the wind repowering projects, in rates during the

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129 period it is placed in service or soon thereafter if it projects that the new  
130 plant being added will cause it to under-earn.

131 **Q. CAN YOU PLEASE ELABORATE ON THE TEST YEAR OPTIONS AT**  
132 **THE COMPANY'S DISPOSAL?**

133 A. Yes. Section 54-4-4(3) of the Utah Statutes specifically states:

134 (a) If in the commission's determination of just and reasonable rates  
135 the commission uses a test period, the commission shall select a test  
136 period that, on the basis of the evidence, the commission finds best  
137 reflects the conditions that a public utility will encounter during the  
138 period when the rates determined by the commission will be in effect.  
139

140 In addressing the establishment of the test period for use in determining  
141 just and reasonable rates, Utah Statutes Section 54-4-4(3) specifically  
142 state:

143 (b) In establishing the test period determined in Subsection (3)(a),  
144 the commission may use:  
145 (i) a future test period that is determined on the basis of  
146 projected data not exceeding 20 months from the date a  
147 proposed rate increase or decrease is filed with the  
148 commission under Section 54-7-12;  
149 (ii) a test period that is:  
150 (A) determined on the basis of historic data; and  
151 (B) adjusted for known and measurable changes; or  
152 (iii) a test period that is determined on the basis of a  
153 combination of:  
154 (A) future projections; and  
155 (B) historic data.  
156  
157

158 Thus, under the statutory language, if a future test year will best reflect the  
159 conditions the Company will encounter during the rate effective period, the  
160 Company has the ability to request a future test year as long as the ending

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161 date of the test year does not exceed 20 months from the date the case is  
162 filed.

163 **Q. WOULD THE ABOVE QUOTED STATUTES PROVIDE THE COMPANY**  
164 **THE OPPORTUNITY TO RECOVERY THE COSTS ASSOCIATED WITH**  
165 **THE REPOWERED WIND PROJECTS IN RATES THROUGH A**  
166 **GENERAL RATE CASE?**

167 A. Yes. If the Company forecasts that it will not earn its authorized rate of  
168 return once the wind repowering projects are placed into service, when  
169 taking into account its internal forecasts for all components of the revenue  
170 requirement equation, it has the ability to submit a rate case filing  
171 requesting authority to increase its retail electric utility service rates. As  
172 the Company projects placing the wind repowering projects into service  
173 starting mid-2019 through 2020, it would have ample time to prepare a  
174 rate case utilizing a test period that would capture the impacts of the  
175 projects.

176 **Q. DOES THE COMPANY ANTICIPATE THAT THE WIND REPOWERING**  
177 **PROJECTS, WHEN CONSIDERED IN ISOLATION, WILL INCREASE**  
178 **ITS OVERALL REVENUE REQUIREMENTS?**

179 A. The answer to this question is dependent upon the period reviewed. As  
180 net power costs are trued-up through the energy balancing account  
181 (“EBA”), the net revenue requirement impacts to the Company will be  
182 based on: 1) the pre-tax return on rate base associated with the project; 2)  
183 plus the incremental operation & maintenance expenses, depreciation

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184 expense, property tax expense and wind tax expense; and 3) less the new  
 185 production tax credit benefits grossed up for income taxes. The  
 186 Company's current best projections of each of these amounts for 2019  
 187 through 2022 were provided in Exhibits RMP\_\_(JKL-2) and RMP\_\_(JKL-  
 188 3) attached to the direct testimony of Jeffrey K. Larsen. The table below  
 189 shows the impact of the total wind repowering project revenue  
 190 requirement (calculated by Mr. Larson as the pre-tax return on rate base  
 191 plus the associated expenses listed above) coupled with the offsetting  
 192 revenue requirement impact of the associated production tax credits.  
 193

**Table 1 - Net Impact on Company of Wind Repowering Projects (000s)**

	2019	2020	2021	2022
Total Plant Revenue Requirement	\$ 9,641	\$ 54,308	\$ 58,188	\$ 53,354
PTC Benefit	\$ (11,958)	\$ (47,437)	\$ (56,331)	\$ (56,371)
Net Impact on Company	\$ (2,317)	\$ 6,871	\$ 1,857	\$ (3,017)

194 Source: Exhibit RMP\_\_(JKL-2), Lines 12 and 18

195

196 The above numbers, which are based on information provided in Mr.  
 197 Larsen's exhibits, would be the revenue requirement impact on the  
 198 Company associated with only the wind repowering projects. As the first  
 199 repowering projects are shown as going into service in July 2019, the  
 200 2019 amounts in the Company's analysis covers a six-month period.  
 201 Thus, the Company projects that the wind repowering project would  
 202 reduce its revenue requirements for 2019, would increase its revenue  
 203 requirements in 2020 and 2021, and reduce the revenue requirements in

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204 2022. The above table excludes the net power cost impacts as they are  
205 trued-up through the EBA. The above analysis is limited to the wind  
206 repowering projects at issue in this case. Whether or not the above  
207 revenue requirement impacts associated with the wind repowering  
208 projects would themselves cause the Company to be unable to earn a  
209 reasonable rate of return on its investments used in providing service to  
210 Utah customers is not known.

211 **Q. HAS THE COMPANY PROVIDED ANY INFORMATION IN THIS CASE**  
212 **ADDRESSING WHETHER OR NOT THE WIND REPOWERING**  
213 **PROJECTS WILL CAUSE IT TO BE UNABLE TO EARN ITS**  
214 **AUTHORIZED RATE OF RETURN IF ITS REQUESTED RTM IS**  
215 **REJECTED?**

216 A. No, it has not. OCS Data Request 8.1 (OCS Exhibit 3.9D) asked the  
217 Company to provide its most recent forecasted rate of return on equity on  
218 a Utah jurisdiction basis for each calendar year, 2017 through 2022, under  
219 several scenarios. One of the scenarios was if the Company's requested  
220 RTM were approved as requested in the docket. Another scenario  
221 requested was if the Company goes forward with the wind repowering  
222 project, is allowed to book the stranded costs with the early retired assets  
223 to the accumulated depreciation reserve as it has requested, but the  
224 requested RTM was rejected. In response, the Company indicated that it  
225 has not performed the requested analysis. Thus, apparently the Company  
226 has not forecasted what its earned rate of return on equity will be during

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227 the first several years after the wind repowering project is placed into  
228 service if it goes forward with the project.

229 **Q. WHILE THE NEW WIND AND NEW TRANSMISSION PROJECTS**  
230 **BEING ADDRESSED IN DOCKET NO. 17-035-40 ARE NOT AT ISSUE**  
231 **IN THIS CASE, THE COMPANY'S FILING IN THAT DOCKET SHOWS**  
232 **SUBSTANTIAL PLANT ADDITIONS GOING INTO SERVICE IN**  
233 **NOVEMBER 2020. IF THE COMPANY GOES FORWARD WITH THE**  
234 **WIND REPOWERING PROJECTS BEING CONSIDERED IN THIS CASE**  
235 **AND THE NEW WIND AND NEW TRANSMISSION PROJECTS BEING**  
236 **CONSIDERED IN ANOTHER DOCKET, WOULD THIS CAUSE RMP TO**  
237 **FILE BACK-TO-BACK RATE CASE FILINGS?**

238 A. No, not necessarily. As previously indicated, the Company has the ability  
239 to submit a rate case filing to request an increase in rates if it forecasts  
240 that it will not earn its authorized rate of return once the wind repowering  
241 projects are placed into service. Whether or not the wind repowering  
242 projects will result in the Company not earning its authorized rate of return  
243 will be dependent on all components of the revenue requirement equation  
244 and not just the wind repowering project. If the RTM is rejected and the  
245 Company forecasts that it will be able to earn its authorized rate of return  
246 in the period during and subsequent to the wind repowering projects being  
247 placed into service, then it presumably would not file a rate case.  
248 Subsequently, if RMP goes forward with the new wind and new  
249 transmission projects being considered in Docket No. 17-035-40, it would

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250 have the opportunity to file a rate case utilizing a future test year that  
251 spans the period the new assets are in service.

252 If the Company does submit a rate case filing that utilizes a test  
253 year covering the period in which the new wind repower projects are in  
254 service, it would have the opportunity to subsequently file an application  
255 for alternative cost recovery for major plant additions associated with the  
256 new wind and new transmission projects.

257 **Q. PLEASE ELABORATE ON THE ABILITY TO FILE FOR ALTERNATIVE**  
258 **COST RECOVERY.**

259 A. Utah Statute Section 54-7-13.4 addresses alternative cost recovery for  
260 major plant additions. Section 54-7-13.4(2) states: "A gas corporation or  
261 an electrical corporation may file with the commission a complete filing for  
262 cost recovery of a major plant addition if the commission has, in  
263 accordance with Section 54-7-12, entered a final order in a general rate  
264 case proceeding of the gas corporation or electrical corporation within 18  
265 months of the projected in-service date of a major plant addition." Section  
266 54-7-13.4(c) defines major plant additions as a single capital investment  
267 project that exceeds 1% of the rate base determined in the most recent  
268 general rate case. The procedures provided for in the statute are more  
269 streamlined than a full rate case and are processed over a shorter time-  
270 frame.

271 The opportunity under the statutes to request alternative cost  
272 recovery for major plant additions would alleviate the potential need for

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273 back-to-back rate case proceedings should the Company's internal  
274 forecasts determine that both the wind repowering projects AND the  
275 projects being considered in Docket No. 17-035-40 would cause it to not  
276 earn its authorized return.

277 **Q. HAS THE COMPANY DISCLOSED WHEN IT ANTICIPATES IT WILL**  
278 **FILE ITS NEXT RATE CASE IN UTAH?**

279 A. Not to the best of my knowledge.

280 **Q. TABLE 1 PRESENTED PREVIOUSLY IN THIS TESTIMONY SHOWS**  
281 **THE NET IMPACT OF THE WIND REPOWERING PROJECTS**  
282 **REDUCES THE REVENUE REQUIREMENT NEEDS IN 2022. UNDER**  
283 **THE COMPANY'S RTM PROPOSAL, WOULD THE PROJECTS**  
284 **RECOVERED THROUGH THE RTM REMAIN IN THE RTM**  
285 **INDEFINITELY?**

286 A. No. Under the Company's proposal, once the projects are included in  
287 base rates through a general rate case proceeding, recovery of the  
288 revenue requirement impacts of the projects would no longer flow through  
289 the RTM. The only exception would be for the true-up of the production  
290 tax credits, which would continue to be trued-up to the amount  
291 incorporated in base rates through the RTM. Table 1 in this testimony  
292 showed that the Company's projections, exclusive of the net power cost  
293 impacts flowing through the EBA, have the revenue requirement impacts  
294 associated with the wind repowering projects becoming a reduction to  
295 revenue requirements in 2022. However, if the RTM is approved and the

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296 Company subsequently files a rate case based on a test period that spans  
297 either 2020 or 2021, the subsequent reduction in the revenue requirement  
298 impacts of the projects shown for 2022 would not be factored into rates  
299 charged to customers, as the rate base associated with the projects would  
300 no longer flow through the RTM. The net power cost impacts of the  
301 repowered wind projects would continue to be trued-up through the EBA.

302 **Q. IS RMP'S PROPOSED ESTABLISHMENT OF A NEW RESOURCE**  
303 **TRACKING MECHANISM NEEDED?**

304 A. No, it is not. As addressed above, if the repowered wind projects are  
305 found to be prudent and in the public interest, existing Utah Statutes allow  
306 for the means to address the revenue requirement impacts of the projects.  
307 There is no need to institute a complex recovery mechanism to address  
308 the costs and benefits associated with the projects.

309

310 **CONCERNS RAISED BY COMPANY**

311 **Q. A PART OF ITS FILING, THE COMPANY IS ALSO REQUESTING**  
312 **APPROVAL OF ITS PROPOSED ACCOUNTING TREATMENT FOR**  
313 **THE EQUIPMENT THAT WOULD BE REPLACED AS PART OF THE**  
314 **WIND REPOWERING PROJECTS. COULD YOU PLEASE BRIEFLY**  
315 **DESCRIBE THIS COMPANY REQUEST?**

316 A. Yes. The proposed accounting treatment to address the portion of the  
317 original investment that would otherwise be stranded as a result of the

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318 repowering projects is discussed at lines 353 through 376 of Mr. Larsen's  
319 direct testimony. To avoid needing to write-off the remaining net book  
320 value of the assets being replaced, the Company is requesting authority to  
321 transfer the original investment associated with the assets being replaced  
322 from plant in service to the accumulated depreciation reserve. Mr. Larsen  
323 indicates at lines 203 – 209 of his direct testimony that the next  
324 depreciation study will be filed in the fall of 2018 and that the depreciation  
325 rates will be revised at that time to recover the remaining wind plant  
326 balances, including the impacts of the transfer of the replaced assets into  
327 the accumulated depreciation reserve, over the life of the assets.  
328 Presumably this is over the life of the new assets being placed into  
329 service. In its Application, at paragraph 16, the Company indicates that  
330 when it files for new depreciation rates<sup>4</sup>, it will reset the 30-year  
331 depreciable life of the repowered wind facilities, extending the depreciable  
332 life over 10 to 13 years. Thus, under the Company's proposal, the assets  
333 being replaced will be recovered with the replacement assets over the  
334 new time period to be established in the next depreciation study.

335 **Q. DOES THE RTM HAVE TO BE APPROVED TO ESTABLISH THIS**  
336 **TREATMENT?**

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<sup>4</sup> The Application indicates at paragraph 16 that the Company intends to file new depreciation rates in 2019, while Mr. Larsen's testimony indicates at lines 203 – 209 that the new depreciation study will be filed in the fall of 2018.

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337 A. No, it does not. If the Commission determines that the wind repowering  
338 projects are prudent and in the public interest, inclusive of the impacts of  
339 recovery of the assets being replaced, and also rejects the RTM, the  
340 Commission can still address the Company's accounting request as part  
341 of its decision in this case. It could allow the Company to transfer the  
342 original value of the assets being replaced to the accumulated  
343 depreciation reserve at the time the new assets are placed into service.  
344 As an alternative, if the Commission determines the projects are prudent  
345 and in the public interest inclusive of the impacts of the recovery of the  
346 assets being replaced, it could permit the Company to establish a  
347 regulatory asset for the unrecovered costs associated with the assets  
348 being replaced. The resulting regulatory asset, if established, could then  
349 be considered in a future rate case proceeding and the recovery period  
350 could coincide with the remaining life of the replacement assets.

351 **Q. AS PART OF THE COMPANY'S REQUEST, WHAT IS IT ASKING WITH**  
352 **REGARDS TO THE NEW PRODUCTION TAX CREDITS ASSOCIATED**  
353 **WITH THE REPOWERED WIND PROJECTS?**

354 A. The Company is requesting that the RTM be used to track the year-to-  
355 year changes in the PTCs so that the full impacts of the PTCs are  
356 captured through the date of expiration of the PTCs.

357 **Q. DO YOU AGREE THAT THE RTM SHOULD BE ESTABLISHED TO**  
358 **ADDRESS THE TREATMENT OF THE PRODUCTION TAX CREDITS**  
359 **THROUGH THEIR EXPIRATION DATE?**

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360 A. No, I do not. My recommendation is that the proposed RTM be rejected.  
361 If the Company goes forward with the repowered wind projects, the  
362 appropriate treatment of the PTCs resulting from the projects can be  
363 addressed in a future rate case proceeding. At that time, the Company  
364 would have the opportunity to request establishment of a regulatory asset  
365 account to track the differences between the PTC incorporated in base  
366 rates and the actual PTCs received by the Company. Parties to the rate  
367 case would then have the ability to address whether or not the requested  
368 regulatory asset should be established and the Commission can make a  
369 decision regarding the requested treatment as part of its order in the rate  
370 case.

371 If regulatory asset accounting is not established by the Commission  
372 as part of a rate case order, the Company would still have the ability to file  
373 a rate case at a future date if the expiration of the PTCs would cause it to  
374 not be able to earn its authorized rate of return. The PTCs will expire ten  
375 years after the projects begin to generate the energy to which the PTCs  
376 apply. Many changes in the Company's operations will occur over that  
377 time frame and there is no way to know this far out if the distant future  
378 expiration of the PTCs will cause the Company to be unable to earn its  
379 authorized rate of return on its investments.

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380 **ADDITIONAL PROBLEMS AND CONCERNS WITH RTM**

381 **Q. ARE THERE ANY PROBLEMS AND CONCERNS WITH THE**  
382 **COMPANY'S PROPOSED RTM THAT YOU WOULD LIKE TO POINT**  
383 **OUT FOR THE COMMISSION'S CONSIDERATION IN EVALUATING**  
384 **WHETHER OR NOT THE PROPOSED RTM SHOULD BE APPROVED?**

385 A. Yes. First, as addressed previously in this testimony, there is no need to  
386 establish an RTM in this case. My recommendation is that a Resource  
387 Tracking Mechanism not be approved or established. However, in the  
388 event the Commission allows the establishment and implementation of an  
389 RTM, there are several serious problems and issues with the various  
390 components of the RTM.

391 **Q. WHAT IS THE FIRST ISSUE YOU WISH TO ADDRESS?**

392 A. As explained on lines 210 through 219 of Mr. Larsen's testimony, the  
393 Company is proposing to compare the actual O&M expenses for each  
394 repowered wind resource to the historic four-year average of O&M  
395 expense for that wind resource. The difference between the actual O&M  
396 expense and the historic four-year average amount would be included in  
397 the RTM. First, tracking the O&M expense on an individual wind resource  
398 basis would be fairly complex given the number of separate wind projects  
399 that the Company is proposing to replace. In monitoring the RTM, the  
400 Commission, the Division of Public Utility's auditors and interested parties  
401 would need to review and confirm the amounts on a project by project  
402 basis. Of even greater concern than the complexity of determining the

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403 amount of O&M expense to be deferred is the method by which the  
404 Company intends to determine the historic costs that the actual expenses  
405 are compared to in calculating the deferral.

406 **Q. WHY IS THE COMPANY'S PROPOSED USE OF A FOUR-YEAR**  
407 **HISTORIC AVERAGE O&M EXPENSE LEVEL IN THE CALCULATION**  
408 **A CONCERN?**

409 A. The rates currently being recovered from ratepayers were not established  
410 based on the recent four-year average of O&M expenses. As previously  
411 mentioned, the most recent RMP rate case proceeding was resolved  
412 through the adoption by the Commission of a settlement stipulation. The  
413 settlement stipulation did not establish a specific amount that was included  
414 in the resulting rates for wind generation O&M expenses. However, the  
415 Company's initial filing in the rate case included non-labor O&M expense  
416 for the wind resources of \$23,897,854.<sup>5</sup> In response to OCS Data  
417 Request 2.9 (OCS Exhibit 3.3D) in this docket, the Company confirmed  
418 that this amount was included in the direct filing in Docket 13-035-184. If  
419 the non-labor O&M expenses from that docket associated with the Foote  
420 Creek wind project is removed since the project is not being repowered in  
421 this case, the approximately \$23.9 million would decline to \$21.34 million.  
422 In response to the data request, the Company also provided the actual  
423 wind generation O&M expenses for 2013 through July 2017 and as

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<sup>5</sup> Docket No. 13-035-184, Company Exhibit RMP\_\_(SRM-3), page 4.9.1

424 projected for August through December 2017 for all of the wind projects  
 425 excluding Foote Creek. The total annual amounts, broken down between  
 426 labor and non-labor costs, for each year as well as the resulting four-year  
 427 average amounts are provided in the table below:

Table 2 - Wind Generation O&M Expenses (000s)

	<u>Non-Labor O&amp;M</u>	<u>Labor O&amp;M</u>	<u>Total O&amp;M</u>
2014 Actual	\$ 22,147	\$ 1,581	\$23,729
2015 Actual	\$ 19,849	\$ 1,633	\$21,483
2016 Actual	\$ 16,116	\$ 1,541	\$17,657
2017	<u>\$ 17,297</u>	<u>\$ 1,702</u>	<u>\$19,000</u>
4 Year Average	\$ 18,852	\$ 1,614	\$20,467

428 Source: Response to OCS 2.9, Attachment OCS 2.9

429 Assuming the 2017 actual amounts come out similar to the Company's  
 430 currently forecasted amounts, the four-year average non-labor wind  
 431 generation O&M expense would be approximately \$18.85 million. The  
 432 non-labor wind generation O&M expense incorporated in the Company's  
 433 original filing in the most recent rate case excluding Foote Creek was  
 434 \$21.34 million. Thus, under the Company's proposed RTM it could defer  
 435 wind generation O&M expenses even if the actual expenses are lower  
 436 than the amount that was under consideration in the Company's last rate  
 437 case proceeding and recover the amount it defers from customers.

438 This serves as another prime example of why a true-up mechanism  
 439 is problematic and not appropriate. The Company indicated in response  
 440 to discovery in this case that amounts included in current base rates for

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441 specific cost categories are not known because of the prior rate case  
442 being resolved through a settlement stipulation that did not specify costs  
443 included.<sup>6</sup> How can amounts be trued-up to costs being recovered in  
444 current base rates when the Company asserts that it does not know how  
445 much is included in current base rates for the costs?

446 **Q. ABOVE YOU ADDRESS THE NON-LABOR WIND GENERATION O&M**  
447 **EXPENSES. IS THERE ALSO A CONCERN WITH THE LABOR**  
448 **EXPENSES THE COMPANY PROPOSES TO TRACK THROUGH THE**  
449 **RTM?**

450 A. Yes. In response to OCS Data Request 2.10 (OCS Exhibit 3.4D), the  
451 Company indicates that it is proposing to include labor costs in the O&M  
452 expenses tracked in the RTM. In the base year in the Company's most  
453 recent rate case, spanning from July 2012 through June 2013, the actual  
454 full-time equivalent employee complement at the Company declined from  
455 5,558.5 employees to 5,364.5 employees.<sup>7</sup> The Company's adjusted test  
456 year labor costs in the case, Docket 13-035-184, was based on the June  
457 2013 employee complement. As of July 2017, the actual full-time  
458 employee complement at the Company was 4,996, which is 368.5  
459 employees lower than at the end of the base year in the most recent rate  
460 case. Under the Company's proposal, it would be able to track increased

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<sup>6</sup> See for example Company responses to data requests OCS 2.2 and OCS 2.9 (OCS Exhibits 3.2D & 3.3D).

<sup>7</sup> Response to OCS Data Request 2.11 (OCS Exhibit 3.5D).

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461 labor costs if it hires new employees to work on the repowered wind  
462 resources even though its actual overall employee complement has  
463 declined substantially since the last rate case.

464 **Q. HOW DOES THE COMPANY PROPOSE TO TREAT PROPERTY**  
465 **TAXES ASSOCIATED WITH THE NEW CAPITAL INVESTMENTS IN**  
466 **THE RTM?**

467 A. As explained on lines 220 – 224 of Mr. Larsen’s testimony, the Company  
468 is proposing to multiply the monthly average of the new capital  
469 investments for the repowered wind projects less the associated  
470 accumulated depreciation reserves that are included in the RTM by an  
471 average property tax rate calculated from data presented in the  
472 Company’s last general rate case. Mr. Larsen’s Exhibit RMP\_\_(JKL-4), at  
473 lines 7 through 14, shows the calculation of the property tax rate used,  
474 which is based on property taxes, electric plant in service, accumulated  
475 depreciation and accumulated amortization included in the Company’s  
476 initial filing in its most recent rate case, Docket No. 13-035-184.<sup>8</sup>

477 While the Company asserts in response to discovery that the  
478 amounts included in the determination of the current base rates for  
479 existing wind generation assets and wind generation O&M expenses is not  
480 known because of the prior case being settled, it apparently feels that the

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<sup>8</sup> The property tax estimation procedures and estimation worksheet was filed as confidential by the Company in the rate case in Confidential Exhibit RMP\_\_(SRM-5).

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481 average property tax rate incorporated in its prior base rate case filing is a  
482 reasonable amount to use in its proposed tracking mechanism  
483 calculations. Thus, the Company proposes to use values from its prior  
484 rate case application for the calculation some of the components it  
485 proposes to track through the RTM, but not for others.

486 **Q. BEYOND THE INCONSISTENCIES REGARDING INFORMATION USED**  
487 **BY THE COMPANY FROM THE PRIOR RATE CASE FILING, IS THERE**  
488 **ANY ADDITIONAL CONCERN YOU WISH TO ADDRESS REGARDING**  
489 **THE DEFERRAL OF PROPERTY TAX EXPENSES IN THE RTM?**

490 A. Yes. RMP proposes to defer the property tax expense specific to the new  
491 wind resource net plant in service it would like to include in the RTM while  
492 ignoring the fact that the property tax expense on the existing wind  
493 resources has declined. In the proposed RTM calculations, the calculated  
494 property tax rate is being applied to the plant in service less the  
495 associated accumulated depreciation on the new assets. Since the time  
496 of the last rate case, the amount of existing wind generation plant has  
497 continued to depreciate and the net plant balance (i.e., plant in service  
498 less accumulated depreciation) would now be lower. This would reduce  
499 the property tax expense being incurred on the existing wind resource  
500 plant investments as compared to the amount considered in the last rate  
501 case. Additionally, once the assets being replaced are removed from  
502 service, the property taxes on those assets would also presumably  
503 discontinue yet the Company would still recover the property taxes

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504 associated with the retired assets in base rates. The Company's proposal  
505 to track only the increase in property tax expense associated with the new  
506 assets while ignoring the reduction in the property tax expense associated  
507 with the existing asset being retained and those being retired is not  
508 reasonable.

509 **Q. DO YOU HAVE ANY ADDITIONAL OVERARCHING CONCERNS**  
510 **REGARDING THE PROPOSED ESTABLISHMENT OF AN RTM?**

511 A. Yes. Shifting costs from base rates to automatic recovery mechanisms  
512 removes some of the incentive to control costs. If costs are automatically  
513 trued-up to actual, there may not be as much focus on controlling the  
514 costs between base rate proceedings.

515 **Q. IF THE COMMISSION DOES APPROVE AN RTM IN THIS CASE, WILL**  
516 **ADDRESSING THE APPROPRIATE BALANCES TO FLOW THROUGH**  
517 **THE MECHANISM EACH YEAR BE A SIMPLE TASK?**

518 A. No. The mechanism, as described and illustrated in Mr. Larsen's direct  
519 testimony and exhibits, is quite complex. There are numerous  
520 assumptions that must be made in calculating the mechanism and  
521 numerous calculations involved. The fact that the calculations will need to  
522 be done on a project by project basis magnifies the complexity and review  
523 process exponentially. Going away from the traditional method of  
524 recovery associated with the wind generation projects to a recovery  
525 mechanism outside of base rates adds significant complexity to the  
526 regulatory process as well as the amount of necessary oversight between

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527 rate case proceedings. In addition to the need for an annual review of the  
528 Energy Balancing Account, an annual review of the RTM would be added.  
529 Instead of making the regulatory process less complex, it would greatly  
530 increase the complexity. As indicated in this testimony, establishment of  
531 an RTM along with the added regulatory oversight and complexity it would  
532 bring, is not needed.

533 **Q. THE COMPANY CONTENDS THAT THE PROPOSED RTM WOULD**  
534 **BENEFIT BOTH THE COMPANY AND RATEPAYERS. DOES THE**  
535 **CONTENTION THAT IT WILL ALSO BENEFIT RATEPAYERS CAUSE**  
536 **YOU TO CHANGE YOUR RECOMMENDATION ON THE PROPOSED**  
537 **RTM?**

538 A. Absolutely not. While overall rates in total could possibly be lower in  
539 certain periods under the proposed RTM if approved, that may not hold  
540 true in other periods as the costs the Company proposes to cap would  
541 continue to be deferred for future recovery from customers so that the  
542 Company is made whole under its proposed mechanism. Additionally,  
543 since the Company controls the timing of its future rate case proceedings,  
544 it is not known if on an overall basis customer rates would be lower in total  
545 if the RTM mechanism is implemented than if it is not implemented.

546 Overall, the traditional ratemaking approach has resulted in fair and  
547 reasonable rates being charged to customers for the services they receive  
548 from the Company. It is my opinion that the Company's testimony  
549 regarding the RTM is not persuasive enough to justify modifying the long

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550 standing approach by implementing an additional recovery mechanism  
551 outside of base rate recovery.

552 As indicated above, there are many problems associated with the  
553 proposed new recovery mechanism. These problems and concerns  
554 include, but are not limited to: the complexity of tracking the costs and  
555 auditing such costs; not knowing with specificity the amount included in  
556 current base rates for the existing wind resources to track cost changes to;  
557 proposed inclusion of labor costs when employee complement has  
558 declined; ignoring the reduction in property taxes being paid on existing  
559 wind resources; and loss of incentive to control costs.

560

561 **TAX RATE UNCERTAINTY**

562 **Q. IS THE COMPANY'S ANALYSIS PRESENTED IN THIS CASE BASED**  
563 **ON FEDERAL INCOME TAX RATES CURRENTLY IN EFFECT?**

564 A. Yes. The Company's assumptions and calculations in this case are based  
565 on the 35% federal corporate income tax rate currently in effect.

566 **Q. IS IT POSSIBLE THAT THE FEDERAL INCOME TAX RATES COULD**  
567 **CHANGE IN THE NOT TOO DISTANT FUTURE?**

568 A. Yes. The current administration in Washington, D.C. is seeking to  
569 substantially lower the corporate income tax rates. With the same party  
570 controlling the White House and Congress, there is a reasonable  
571 possibility that federal income tax law will change and that federal

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572 corporate income tax rates will decline. The American Institute of Certified  
573 Public Accountants (AICPA) has set up a tax reform resource center on its  
574 website<sup>9</sup>. A video was posted to the website by the AICPA Tax Policy and  
575 Advocacy Team (“Team”) dated July 26, 2017. The Team indicates in the  
576 video and in the frequently asked questions section of the AICPA Tax  
577 Reform Resource Center website that it sees a window of opportunity for  
578 tax reform occurring between October of this year and early 2018. Under  
579 the frequently asked question section, it indicates that “A new Republican  
580 administration, together with Republicans holding the majority of both the  
581 House and Senate, has created the best opportunity for enactment of  
582 fundamental tax reform since 1986.” The Senate Finance Committee has  
583 scheduled a hearing on business tax reform for Tuesday, September 19,  
584 2017, which is the day before this testimony is filed. Additionally, U.S.  
585 House Speaker Paul Ryan announced on September 13<sup>th</sup> that an outline  
586 reflecting the consensus of the Administration, the House Ways and  
587 Means Committee, and the Senate Finance Committee on tax reform  
588 would be released the week of September 25<sup>th</sup>, 2017.

589 **Q. WHAT CORPORATE TAX RATES ARE BEING CONSIDERED?**

590 A. While it is likely that various rates will be considered in going forward with  
591 possible tax reform, the Trump Administration issued a one-page

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<http://www.aicpa.org/InterestAreas/Tax/Resources/Specializedguidance/Taxreform/Pages/default.aspx>

592 statement of tax reform principles in April that supported lowering  
593 business tax rates to 15%. The June 2016 House Republican Blueprint  
594 that has been issued proposed a corporate income tax rate of 20%. Thus,  
595 rates of 15% and 20% are presumably still among the corporate tax rates  
596 being considered.

597 **Q. WOULD LOWER CORPORATE INCOME TAX RATES HAVE A**  
598 **SUBSTANTIAL IMPACT ON THE ANALYSIS PRESENTED BY THE**  
599 **COMPANY IN THIS DOCKET?**

600 A. Yes. Company witness Jeffrey K. Larsen presented the estimated  
601 revenue requirement costs and benefits resulting from the wind  
602 repowering projects in his direct testimony and exhibits. OCS Data  
603 Request 3.2 (OCS Exhibit 3.6Da-c) asked the Company to provide the  
604 impact on Mr. Larsen's figures presenting the results of the project on  
605 revenue requirements for the period 2019 through 2022 if the corporate  
606 tax rates were reduced to 15%, 20% or 25%. Based on the response and  
607 the attachments thereto, the net customer benefits calculated by Mr.  
608 Larsen would become net detriments to customers over the four-year  
609 period considered in his analysis when the proposed deferrals are  
610 considered if corporate tax rates are reduced to 15%, 20% or 25%. While  
611 the impacts in the 20% and 25% corporate tax rates scenarios do show  
612 rates charged to customers in two of the years would be lower than what  
613 would occur absent the RTM, a substantial deferral balance would exist at  
614 the end of 2022 that would be recovered from ratepayers in future periods.

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615 **Q. WHY DOES THE LOWERING OF THE CORPORATE TAX RATE**  
616 **CHANGE THE ECONOMICS OF THE PROPOSED REPOWERED WIND**  
617 **PROJECTS?**

618 A. The production tax credits received by the Company are grossed up for  
619 income taxes in order to determine the impact on revenue requirements.  
620 While lowering the income tax rates would reduce the pre-tax return on  
621 the investments included in the revenue requirements, it also significantly  
622 lowers the revenue requirement value of the production tax credits.

623 **Q. HAS THE COMPANY PROVIDED THE POTENTIAL IMPACTS OF**  
624 **LOWER CORPORATE INCOME TAX RATES ON THE ECONOMIC**  
625 **ANALYSIS PRESENTED IN THE DIRECT TESTIMONY OF RICK T.**  
626 **LINK?**

627 A. No. The Company was asked in the OCS's Seventh Set of Data  
628 Requests to provide the impacts on various tables presented in Mr. Link's  
629 testimony if the federal income tax rate is reduced from 35% to 15%, 20%  
630 and 25%. The Company responded that "PacifiCorp has not performed  
631 the requested analysis."

632 **Q. DO YOU KNOW THAT THE CORPORATE INCOME TAX RATES WILL**  
633 **BE REDUCED?**

634 A. No. However, there is real potential that the federal corporate income tax  
635 rates will change and this real potential should not be ignored. The  
636 possibility of tax reform in the near term raises a significant risk with  
637 regards to the economic viability of the wind repowering projects at issue

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638 in this case, and that risk would shift to ratepayers under the Company's  
639 proposal. It is my understanding that OCS witness Phil Hayet has stated  
640 in his testimony in this docket that the Company could allow more time to  
641 collaborate with stake holders regarding the wind repowering projects at  
642 issue in this case, and refile its petition if it still believes the repowering  
643 options are economic. If the Company were to allow more time for the  
644 project to be reconsidered, as recommended by Mr. Hayet, this would  
645 allow more time to monitor potential changes in federal income tax law  
646 and possibly provide some certainty with regards to the status of federal  
647 income tax reform before a final decision on the Company's proposed  
648 wind resource projects is issued by the Commission. I strongly endorse  
649 Mr. Hayet's recommendation for the Company to further collaborate with  
650 stakeholders in considering the projects at issue in this case given the  
651 current status of potential federal income tax reform.

652 **IMPACTS OF RENEWABLE ENERGY CREDITS**

653 **Q. IN HIS DIRECT TESTIMONY, AT PAGE 3, LINES 58 TO 63, MR. LINK**  
654 **INDICATES THAT THE PROJECTED BENEFITS HE PRESENTS**  
655 **ASSOCIATED WITH THE WIND REPOWERING PROJECTS DOES**  
656 **NOT INCLUDE ANY VALUE ASSOCIATED WITH THE INCREMENTAL**  
657 **RECS THAT WILL BE PRODUCED BY THE REPOWERED WIND**  
658 **FACILITIES. DO YOU AGREE THAT THE POTENTIAL VALUE OF**

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659 **INCREMENTAL RECS SHOULD BE EXCLUDED FROM THE**  
660 **ANALYSIS?**

661 A. Yes. In fact, I recommend that the Commission not give credence to the  
662 possibility of future revenues from the incremental RECs that will be  
663 generated by the repowered wind projects in its evaluation in this case.

664 **Q. WHY DO YOU RECOMMEND THAT THE POSSIBILITY OF FUTURE**  
665 **REVENUES ASSOCIATED WITH THE SALE OF INCREMENTAL RECS**  
666 **NOT BE FACTORED INTO THE COMMISSION'S EVALUATION IN THIS**  
667 **CASE?**

668 A. The amount of potential future revenues that RMP will receive from the  
669 incremental RECs, if any, is unknown. The Company indicated in its  
670 response to OCS Data Request 6.9 (OCS Exhibit 3.8D) that the REC  
671 market "...is not consistently active and is illiquid" and that there is "...little  
672 price transparency in REC markets." The Company also stated in the  
673 response that the volume of RECs available in the market as well as the  
674 location of the resources generating the RECs impacts the REC prices.  
675 The amount of additional wind resources anticipated to come on line  
676 between the present time and the expiration of the PTCs will obviously put  
677 downward pressure on the ability to sell generated RECs as well as the  
678 prices paid for RECs.

679 **\*\*\*BEGIN CONFIDENTIAL\*\*\***

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682 [REDACTED]

683 [REDACTED]

684 [REDACTED]

685 [REDACTED]

686 [REDACTED]

687 [REDACTED]

688 [REDACTED]

689 [REDACTED]

690 [REDACTED]

691 [REDACTED] \*\*\*END CONFIDENTIAL\*\*\*

692 Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?

693 A. Yes.

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