

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

)	DOCKET NO. 17-035-39
)	
IN THE MATTER OF THE)	
VOLUNTARY REQUEST OF ROCKY)	Exhibit No. DPU 3.0 Dir
MOUNTAIN POWER FOR)	
APPROVAL OF RESOURCE)	
DECISION TO REPOWER WIND)	Direct Testimony
FACILITES)	David Thomson
)	
)	

**FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH**

Direct Testimony of

David Thomson

September 20, 2017

1 **Introduction**

2 **Q. Please state your name and occupation.**

3 A. My name is David Thomson. I am employed by the Utah Division of Public Utilities
4 (“Division”) as a Utility Technical Consultant.

5 **Q. What is your business address?**

6 A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84111.

7 **Q. Please describe your education and work experience.**

8 A. I graduated from Brigham Young University with a Bachelor of Science degree in
9 Accounting. I am a Certified Public Accountant, licensed in the state of Utah. I began
10 working for the Division in July of 2004.

11 **Q. Have you testified before the Commission previously?**

12 A. Yes. I have testified in many rate case proceedings and other matters before the Commission.

13 **Q. What is the purpose of the testimony that you are now filing?**

14 A. The purpose of my testimony is to summarize the Division’s review of the 80/20 provision of
15 the Production Tax Credit (PTC) and Rocky Mountain Power’s (Company) proposed
16 Resource Tracker Mechanism (RTM) on the Company’s June 30, 2017 Wind Facilities
17 Repower request in this docket.

18 **Q. Before you summarize your review of the above, would you like to point out a
19 significant request that the Company makes in its filing?**

20 A. Yes. In its filing the Company is requesting continued cost recovery of plant balances
21 associated with equipment to be replaced in the wind repowering project. These balances are
22 currently recovered in rates and the Company is requesting that they remain in rates.

23 Company witness Mr. Jeffrey Larsen in his testimony states, “The Company’s decision to
24 pursue the wind repowering project is dependent on the Company continuing to recover its
25 current investment in its wind facilities.”¹

26
27 The way the Company is proposing to account for keeping the investment in rates, as
28 outlined in Mr. Larsen’s testimony, also maintains a return on investment in rates for
29 continued cost recovery. DPU witness Mr. Charles Peterson will discuss this in more detail in
30 his testimony.

31

32 **Production Tax Credit**

33 **Q. Please explain the PTC and the 80/20 rule of the PTC.**

34 A. Simply stated, for those companies that qualify, the PTC is a federal tax credit given to wind
35 operators on a per megawatt hour (Mwh) basis for wind generation. The credit would reduce
36 dollar for dollar the Company’s income tax liability in years where the credit is available.
37 The credit is approximately \$24 per Mwh. Because the wind repower project proposed by
38 the Company uses existing equipment, and because the purpose of the tax credit is to
39 stimulate new investments, the Internal Revenue Service (IRS) created a rule that requires
40 that at least 80% of the total value of repower projects be new investments and requires that
41 20% or less can be from existing equipment, called the “80/20 rule”.

42 **Q. What analysis did the Division perform on this critical component of the wind repower**
43 **Project?**

¹ Direct testimony of Mr. Jeffery Larsen Docket No. 17-035-39, lines 366-368.

44 A. Based upon information provided by the Company at this point, the Division analyzed the
45 Company's proposed compliance with various provisions of the IRS rules to investigate the
46 Company's representation that it had complied, or would be able to comply, with the IRS
47 requirements so that the wind repower costs/investments would be eligible for the PTC. The
48 Division specifically reviewed the requirements for the 80/20 rule.

49
50 The Division reviewed several pieces of the published information on the PTC and the 80/20
51 rule specifically. The first was US IRC Section 45 and IRS Notice 2016-31: which states
52 that:

53 In general, a facility may qualify as originally place in service even
54 though it contains some used property, provided the fair market
55 value of the used property is not more than 20 percent of the
56 facility's total value (the cost of the new property plus the value of
57 the used property) (80/20 Rule).
58

59 After reviewing the information, the Division concluded that in order to determine if the
60 Company could pass the 80/20 rule, the Division would need to know:

- 61 1. How the Company valued the old equipment;
- 62 2. The value as determined by the Company of the old equipment; and
- 63 3. The amount of expected "qualifying expenditures" to be capitalized in new
64 equipment.

65 The Division inquired about these issues in its data request numbers 1.13, 1.14, and 1.15.

66 **Q. What was the Company's response to the Division's request for information?**

67 A. The Company responded that it had worked with an outside consultant to determine what an
68 appropriate method of valuation would be for tax purposes. The Company provided

69 information about the valuation method to the Division. The Company also provided the
70 information related to preliminary values and the associated costs it anticipated as
71 “qualifying expenses”.

72 **Q. At this time, is it assured that the 80/20 provision of the PTC will be met by the**
73 **Company if its proposal is approved?**

74 A. No. At this time, the Company has performed economic analysis assuming the repowering
75 qualifies for the PTC. However, not until each repowered wind generator is completed (with
76 the first completion sometime in 2019) will the Company have final costs or construction
77 results to compute the PTC and the 80/20 provision for compliance with IRS regulations. If
78 the Company’s computations for the wind generator shows that the 80/20 rule is not met,
79 then the PTC can’t be used for that generator. The Company’s PTC computations using
80 completed cost information and the assumptions (such as qualifying expenses) related to
81 those costs that the Company used to determine adherence to the 80/20 rule will not be under
82 IRS scrutiny until the Company’s tax returns taking the PTC come under audit. At that time
83 the tax credit is subject to allowance or disallowance as determined by IRS. The Division
84 understands that that determination potentially could be several years after the conclusion of
85 the present docket. Thus, under the Company’s proposal, ratepayers potentially bear the risk
86 of an IRS disallowance.

87 **Q. After conducting its analysis what has the Division determined?**

88 A. It appears to the Division that the Company will generally be able to meet the provisions of
89 the IRS 80/20 rule. This determination is based on information the Company provided and
90 assumes that the actual results from the repower are comparable to the Company’s estimates

91 and valuation methodologies. If actual conditions diverge substantially from the Company's
92 assumptions or timelines, ratepayers would bear the risk that the repowering projects do not
93 qualify for the PTC and are uneconomic.

94

95 **Resource Tracker Mechanism**

96 **Q. Please explain the Resource Tracker Mechanism (RTM) as proposed in the Company's**
97 **filing?**

98 A. For a detailed explanation of the tracker the Division points to Mr. Jeffery Larsen's
99 testimony and exhibits. In the following, the Division provides a simplified explanation of
100 the RTM.

101

102 The RTM is a balancing account that would operate on a calendar-year basis. Upon
103 completion of repowering of each wind resource, on a monthly basis, the Company will
104 begin monthly deferral of the associated costs and benefits. The amount after the netting of
105 the costs and benefits will be the balance in the account. In other words, the account will
106 track the balance from month to month of this netting and will defer the balance until cost
107 recovery. The Division assumes the cost of construction for each wind resource will be
108 accounted for in a construction work in process (CWIP) account until the time of completion
109 and the costs will be transferred to the balancing account. There will be no benefits until the
110 repowered wind resource starts generating electricity.

111

112 In his testimony, Mr. Larsen states:

113 On March 15 each year, the Company will file the RTM deferral
114 balance from the prior calendar year, to be included in rates
115 beginning May 1, on an interim basis. This schedule is aligned
116 with the EBA, and the RTM review will continue on the same
117 schedule as the EBA each year.²
118

119 The RTM will be used until the costs and benefits are fully included in base rates through a
120 general rate case. Once the full costs and benefits are included in base rates, recovery of
121 those elements through the RTM will cease, with the exception of the PTCs. After the next
122 general rate case, the Company proposes to use the RTM to continue to track the actual
123 change in PTCs from the base level included in rates.

124

125 The Company is proposing to cap the RTM until the next general rate case so that, after
126 taking into account the wind repowering benefits that will flow through the Company's
127 Energy Balancing Account (EBA), it will not operate as a customer surcharge.

128 **Q. What are the repowering benefits included in the RTM?**

129 A. The major benefits claimed are two. First is an incremental reduction of Net Power Costs
130 (NPC) from repowering due to physical and technological advances of the repowered wind
131 generation assets over the original wind generation assets. This is adjusted out of the RTM
132 as explained below. And second, the ten year PTC benefit reduces taxes. One can determine
133 the total dollar benefit of the PTC on a revenue basis by grossing up the tax benefit. These
134 benefits will be recorded on a total company basis.

135 **Q. What repowering costs are included in the RTM?**

² Direct testimony of Mr. Jeffery Larsen Docket No. 17-035-39, lines 134-137.

136 A. The costs are operation and maintenance, depreciation, property taxes, wind tax related to the
137 repowered assets plus a pretax return on capital investment of repowering after deducting the
138 depreciation reserve and the related accumulated deferred income tax balance. These costs
139 will be recorded on a total company basis.

140 **Q. The RTM has an EBA pass through adjustment. Please explain.**

141 A. By netting the total company monthly deferral amounts (NPC and PTC) to the total company
142 monthly cost deferral amounts, a monthly revenue requirement (balance) can be determined
143 on a total company basis. Because this revenue requirement amount is projected to have a
144 total company NPC savings, that amount must be adjusted out since it is passed through the
145 EBA. Not adjusting it out would create a double counting of the benefit in the deferral
146 balancing account.

147 **Q. What happens next after this adjusted revenue amount is determined?**

148 A. The determined balance is multiplied by a Utah allocation factor to derive a Utah balance.
149 The Company is proposing a carrying charge on the Utah allocated balance of 6.00%. If the
150 balance is a credit, a carrying credit is generated. Adding together monthly ending deferral
151 amounts from January to December provides a yearly deferral balance. The Company is
152 proposing to recover this revenue requirement as explained above by using a yearly deferral
153 balance rate recovery that mirrors the EBA. The EBA and this deferral would be netted on
154 customer billings but the RTM would have its own tariff – Schedule 97.

155 **Q. Does the Division support the 6.00% carrying charge proposed by the company?**

156 A. No. The Company has not provided support for using a 6.00% carrying charge rather than the
157 Commission approved carrying charge method.³

158 **Q. Has the Division read Mr. Larsen's RTM testimony and reviewed his RTM exhibits?**

159 A. Yes.

160 **Q. What was the result of this review?**

161 A. Based on our review, it appears that the RTM mechanism is a method to account for the
162 benefits and costs as outlined by the Company in its filing and Mr. Larsen's testimony. It
163 provides a way to recover the yearly deferral amount with interest, in the RTM balancing
164 account, for rate recovery comparable to the EBA.

165 **Q. If the Commission determines that the repowering is reasonable, prudent, and in the**
166 **public interest and that the Company can continue to recover the costs of the existing**
167 **assets that will be repowered with an investment return, how should the benefits and**
168 **the costs of the repowering be treated for ratemaking?**

169 A. The Division's recommendation is that the Commission issue an accounting order deferring
170 repowering costs and benefits until the next general rate case. The deferral could be
171 computed using the Company's balancing account method as outlined in its filing, without
172 the interest carrying charges or sur-credits. The RTM with its EBA type rate recovery would
173 not be necessary.

174 **Q. Does this conclude your testimony?**

175 A. Yes.

³ Docket No. 15-035-69, In the Matter of a Request for Agency Action to Review the Carrying Charges Applied to Various Rocky Mountain Power Account Balances, Commission Order dated January 20, 2016.