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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Voluntary Request of Rocky Mountain Power for Approval of Resource Decision to Repower Wind Facilities	Docket No. 17-035-39
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REDACTED PREFILED REBUTTAL TESTIMONY AND EXHIBITS

OF KEVIN C. HIGGINS

The Utah Association of Energy Users (“UAE”) hereby submits the Redacted, Public version of the Prefiled Rebuttal Testimony and Exhibits of Kevin C. Higgins in this docket.

DATED this 19th day of October 2017.

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 served by email this 19th day of October 2017 on the following:

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Voluntary Request of)
Rocky Mountain Power for Approval of)
Resource Decision to Repower Wind) Docket No. 17-035-39
Facilities)
)
)

Redacted Rebuttal Testimony of Kevin C. Higgins

On Behalf of the

Utah Association of Energy Users

[Confidential Testimony Redacted]

October 19, 2017

1

I. INTRODUCTION AND SUMMARY

2 **Q. Please state your name and business address.**

3 A. My name is Kevin C. Higgins. My business address is 215 South State
4 Street, Suite 200, Salt Lake City, Utah, 84111.

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

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

9 **Q. Are you the same Kevin C. Higgins who previously filed Direct Testimony in
10 this proceeding on behalf of the Utah Association of Energy Users (“UAE”)?**

11 A. Yes, I am.

12 **Q. What is the purpose of your Rebuttal Testimony?**

13 A. My Rebuttal Testimony responds to several observations and arguments
14 made by Division of Public Utilities witnesses Daniel Peaco and Charles E.
15 Peterson, and Office of Consumers Services (“OCS”) witnesses Philip Hayet and
16 Donna Ramas. Specifically, I address the following issues: (1) the portfolio of
17 repowering sites proposed by Rocky Mountain Power (“RMP”); (2) RMP’s
18 pricing scenarios; and (3) the Resource Tracking Mechanism (“RTM”).

19 **Q. Please provide a summary of the conclusions of your Rebuttal Testimony.**

20 A. As I stated in my Direct Testimony, the magnitude of the benefits from the
21 repowering project in relation to the benefits to RMP over the next 20 years do
22 not make a compelling case for UAE’s endorsement. After reviewing the

23 testimony of other parties to this case, I continue to believe that a compelling case
24 to proceed with this project has not been made by the Company.

25 Moreover, in light of analysis presented by other parties in this case
26 concerning the risks to customers from the Company's proposal, if the project is
27 approved, I recommend the Commission expressly condition the Company's
28 future cost recovery associated with the wind repowering project on the
29 Company's ability to demonstrate that construction costs have come in at or
30 below its estimated costs in this case, that the projects were completed as
31 scheduled, and that, measured over a reasonable period of time, the megawatt-
32 hours produced by the repowered facilities are equal to or greater than the
33 forecasted production provided in this proceeding. If those conditions are not
34 satisfied, notwithstanding any determination in this proceeding, I recommend that
35 the Commission expressly reserve the right in a future rate case to reduce the
36 Company's recovery of costs associated with the repowering project to allow for a
37 reasonable sharing of the risks and benefits of the project between the Company
38 and customers. I make this recommendation in addition to my proposal for a 200
39 basis point reduction to the authorized rate of return on common equity applicable
40 to the un-depreciated balance of the retired plant, as a way of better balancing the
41 equities in this project.

42 I note that although my recommended modifications would improve the
43 terms of the proposal for customers, they will not, by themselves, overcome the
44 potential impacts of all the material risks in this case, such as changes to the

45 corporate tax rates or continued low gas prices. Therefore, they should not be
46 viewed as an overall “cure” to the shortcomings in the Company’s proposal, but
47 rather as an improvement to the balancing of equities should the project be
48 approved or approved with other conditions.

49 In my Rebuttal Testimony I discuss the concerns raised by Mr. Peaco and
50 Mr. Hayet regarding whether the portfolio of repowering sites proposed by the
51 Company is the most cost effective and I agree with these witnesses that prior to
52 any approval of the Company’s proposal, the Commission should require that
53 customer benefits be analyzed on a project-by-project basis to identify the most
54 cost-effective package of repowering sites for customers.

55 I also agree with Mr. Peaco that current NYMEX futures pricing for
56 Henry Hub gas most closely aligns with the Company’s low gas price forecast
57 and I conclude that his concern about relying on the Company’s medium price
58 forecast is well founded. This concern makes the overall economics of the
59 proposal even more tenuous. In addition, it reinforces my belief that if the
60 Commission nevertheless grants approval of the wind repowering project, as
61 discussed in my Direct Testimony, it should be contingent on a 200 basis point
62 reduction to the authorized rate of return on common equity applicable to the un-
63 depreciated balance of the retired plant, among other things, as a way of better
64 balancing the equities in this project.

65 I agree with Ms. Ramas that the RTM would add complexity to the
66 ratemaking process and that other reasonable avenues are available to the

67 Company to address cost recovery. I remain unconvinced that the RTM would be
68 a necessary ratemaking component if the repowering project proceeds. I also
69 agree with Ms. Ramas that if the RTM is adopted, the treatment of property tax
70 should be corrected to properly take account of the expected reduction in property
71 tax on existing plant.

72

73 **II. PORTFOLIO OF REPOWERING SITES**

74 **Q. Have concerns been raised regarding the package of repowering sites being**
75 **proposed by the Company?**

76 A. Yes. Mr. Peaco and Mr. Hayet argue that it is not clear that the grouping
77 of wind sites being proposed by the Company for repowering is necessarily the
78 most cost-effective package. These witnesses note that RMP has not evaluated
79 the customer benefits from each individual site, but rather has measured the
80 benefits from the package as a whole, along with an analysis of two sites, Leaning
81 Juniper and Goodnoe Hills, at the margin. Specifically, RMP performed present
82 value of revenue requirements (“PVRR”) analyses with the Leaning Juniper and
83 Goodnoe Hills sites alternately included and excluded from the portfolio.

84 **Q. What has the Company’s analysis of Leaning Juniper and Goodnoe Hills**
85 **shown?**

86 A. Mr. Peaco points out that in his testimony that the Company indicates that
87 the risk-adjusted PVRR benefits for the package are increased by \$7 million with
88 the addition of Leaning Juniper to the portfolio and by \$18 million with the

89 inclusion of Goodnoe Hills.¹ These measurements are for the Medium Gas,
90 Medium CO₂ scenario.² Mr. Peaco observes that since the risk-adjusted PVRR
91 for the entire proposal under the Medium Gas, Medium CO₂ scenario is only \$15
92 million, and \$25 million of incremental benefit is being contributed by Leaning
93 Juniper and Goodnoe Hills taken together, it suggests that the collective benefit
94 from the remaining sites in the Medium Gas, Medium CO₂ scenario may be
95 negative.³ Mr. Peaco states that his analysis demonstrates the importance of a
96 project-by-project analysis to determine which, if any, of the projects are in the
97 best interest of customers. He recommends that, prior to any approval of the
98 Company's proposal, the Commission require that customer benefits be analyzed
99 on a project-specific.⁴

100 Mr. Hayet has performed his own site-by-site analysis and has concluded
101 that several of the sites proposed by RMP are not cost effective.⁵

102 **Q. What is your response to Mr. Peaco's and Mr. Hayet's arguments on this**
103 **issue?**

104 A. The concerns raised by Mr. Peaco and Mr. Hayet are important points that
105 should be addressed. If individual components of the package do not provide net
106 benefits to customers, then they should be removed from the portfolio. This issue
107 illustrates the hazard of the approach the Company took with respect to the

¹ See Direct Testimony of Rick T. Link, pp. 13-15. Although Mr. Link stated in his testimony that the marginal benefit from Goodnoe Hills is \$20 million, RMP has since clarified that the correct amount is \$18 million. See RMP Response to DPU 9.5.

² See RMP Responses to DPU 9.3 and DPU 9.5.

³ Direct Testimony of Daniel Peaco, lines 313-360.

⁴ *Id.*, lines 951-954.

⁵ Direct Testimony of Philip Hayet, lines 381-447.

108 repowering project and the IRP. My understanding is that the repowering project
109 was not presented to IRP stakeholders until very late in the process, at the very
110 last public input meeting, after the major analytics had all been completed. It
111 therefore did not receive the benefit of the vetting through the stakeholder process
112 that might have otherwise identified the issue these witnesses have raised. I agree
113 with these witnesses that prior to any approval of the Company's proposal, the
114 Commission should require that customer benefits be analyzed on a project-by-
115 project basis to identify the most cost-effective package of repowering sites for
116 customers.

117

118 **III. RMP's PRICING SCENARIOS**

119 **Q. Have concerns been raised regarding the pricing scenarios used in the**
120 **Company's analysis?**

121 A. Yes. Mr. Peaco warns against reliance on the medium gas price scenarios
122 for drawing conclusions about customer benefits because he has observed that the
123 NYMEX futures pricing for Henry Hub gas most closely aligns with the
124 Company's low gas price forecast.⁶

125 **Q. Have you examined this question as well?**

126 A. Yes. I compared RMP's low and medium ("base") gas price forecasts for
127 Henry Hub to NYMEX futures prices dated October 12, 2017 through 2029. (I
128 also examined NYMEX prices for April 26, 2017, the date of RMP's forward

⁶ Direct Testimony of Daniel Peaco, lines 579-616.

129 price curve.) This comparison is presented in Confidential Exhibit UAE 1.1R.

130 My observation is that while [REDACTED]

131 [REDACTED]

132 [REDACTED]

133 [REDACTED]

134 [REDACTED]

135 [REDACTED].

136 **Q. What conclusions do you draw from this examination?**

137 A. I conclude that Mr. Peaco's concern about relying on the Company's
138 medium price forecast is well founded. Among other things, it reinforces the
139 proposal in my direct testimony that if the Commission grants approval of the
140 wind repowering project it should be contingent on a 200 basis point reduction to
141 the authorized rate of return on common equity ("ROE") applicable to the un-
142 depreciated balance of the retired plant, as a way of better balancing the equities
143 in this project, as discussed in my Direct Testimony. However, as I discussed
144 above, although my recommendation would improve the terms of the proposal for
145 customers, it will not, by itself, overcome the potential impacts of all the material
146 risks in this case, such as the continuation of low gas prices. Therefore, my ROE
147 reduction proposal should not be viewed as an overall "cure" to the shortcomings
148 in the Company's proposal, but rather as an improvement to the balancing of
149 equities should the project be approved or conditionally approved. I note that the
150 concept of an ROE reduction on retired plant was also suggested in the Direct

151 Testimony of Mr. Peterson, who stated that the Commission might wish to allow
152 recovery of the unrecovered plant balance without a return, or some similar
153 approach, as a hedge against ratepayer risk as a way of helping to ensure the
154 project meets the “economic desirability” standard.⁷

155

156 **IV. RESOURCE TRACKING MECHANISM (RTM)**

157 **Q. What concerns have been raised by Ms. Ramas regarding the RTM?**

158 A. OCS witness Donna Ramas recommends against adoption of the RTM,
159 noting that it is complex and shifts risk from the Company to customers.⁸ If,
160 nevertheless, the RTM is adopted by the Commission, Ms. Ramas objects, among
161 other things, to the Company’s proposed treatment of property tax expense in the
162 RTM. Ms. Ramas notes that RMP only includes incremental property tax
163 expense associated with the new plant, without taking into account the expected
164 reduction in property tax on existing plant that would occur as the repowering
165 project in implemented and existing plant is retired.⁹

166 **Q. Do you agree with Ms. Ramas on this latter point?**

167 A. Yes, I do. If the RTM is adopted, this asymmetry in the treatment of
168 property tax should be corrected to properly take account of the expected
169 reduction in property tax on existing plant.

⁷ Direct Testimony of Charles E. Peterson, lines 161-165.

⁸ Direct Testimony of Donna Ramas, lines 36-40.

⁹ *Id.*, lines 486-508.

170 **Q. In your direct testimony you stated that if the repowering project were to go**
171 **forward, you were not convinced it is necessary to adopt the RTM approach**
172 **in lieu of RMP simply filing a general rate case at the appropriate time. In**
173 **light of the other testimony filed in this case on this subject what is your**
174 **current view of the RTM?**

175 A. I remain unconvinced that the RTM would be a necessary ratemaking
176 component if the repowering project proceeds and thus I recommend against its
177 adoption. I agree with Ms. Ramas that it would add complexity to the
178 ratemaking process and that other reasonable avenues are available to the
179 Company to address cost recovery.

180 **Q. Does this conclude your Rebuttal Testimony?**

181 A. Yes, it does.

Henry Hub Futures Pricing: RMP Senario vs. NYMEX

[Chart Redacted]