ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

1407 W. North Temple, Suite 330
Salt Lake City, UT 84116

November 15, 2017

VIA ELECTRONIC FILING

Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Gary Widerburg
Commission Secretary

RE: Docket No. 17-035-39
APPLICATION FOR APPROVAL OF RESOURCE DECISION TO REPOWER WIND FACILITIES

Rocky Mountain Power hereby submits for electronic filing its Surrebuttal Testimony and Exhibits in Docket No. 17-035-39.

The Company would also like to inform the Commission and intervening parties that Joelle R. Steward will be adopting the Direct and Rebuttal Testimonies and related exhibits of Jeffrey K. Larsen.

Rocky Mountain Power respectfully requests that all formal correspondence and requests for additional information regarding this filing be addressed to the following:

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Informal inquiries may be directed to Jana Saba at (801) 220-2823.

Sincerely,

Joelle R. Steward
Vice President, Regulation

Rocky Mountain Power
Docket No. 17-035-39
Witness: Timothy J. Hemstreet

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Surrebuttal Testimony of Timothy J. Hemstreet

November 2017

Q. Are you the same Timothy J. Hemstreet who previously provided direct and rebuttal testimony in this case on behalf of Rocky Mountain Power ("Company"), a division of PacifiCorp?

A. Yes.

PURPOSE AND SUMMARY OF SURREBUTTAL TESTIMONY

Q. What is the purpose of your surrebuttal testimony?

A. I respond to the rebuttal testimony filed by the Utah Association of Energy Users witness Mr. Kevin C. Higgins.

Q. Please summarize your surrebuttal testimony.

A. I demonstrate that Mr. Higgins' proposed conditions for approving the wind repowering project are unreasonable and may actually work to reduce the customer benefits of repowering by limiting the Company's optionality to implement repowering in the least-cost, least-risk manner.

First, the proposed construction cost cap is unnecessary in light of the Company's prudent fixed-price contracting, which has largely eliminated the risk of construction cost over-runs. Mr. Higgins' proposed cap may potentially limit customer benefits by reducing flexibility to modify the facilities' interconnection agreements. Rather than a hard cap, the Company recommends that under Utah Code Ann. §54-17-402(7)(a), the Utah Public Service Commission ("Commission") approve the updated facility-by-facility cost estimates I sponsor in my testimony. If actual costs exceed the approved estimates, the Company will demonstrate the prudence of those additional costs before the amounts are reflected in rates through the Resource Tracking Mechanism.

Second, the proposed construction schedule condition is likewise unnecessary in light of the contractual guarantees the Company has prudently negotiated. These provisions largely eliminate the risk that a construction delay will reduce each facility's ability to qualify for the full federal wind production tax credits ("PTCs"). Imposing a strict construction schedule also unreasonably limits the Company's flexibility to change implementation schedules to minimize construction costs.

Third, I understand that Mr. Higgins' proposed performance guarantee is contrary to applicable Utah statutes, and is a radical departure from conventional ratemaking. It is also largely unnecessary in light of the fact the Company's generation projections are based on extensive historical data, and performance risk is mitigated through contractual guarantees. Any wind project will have variable generation, but the Company has made all reasonable efforts in the preparation of its energy projection estimates and believes that specific guarantees are unreasonable.

Finally, I clarify that, while the Company believes that customers will benefit from repowering all twelve facilities in the repowering project, the Company will update its economic analysis for each facility individually before implementing repowering.

SURREBUTTAL TESTIMONY

Q. In his rebuttal testimony, Mr. Higgins proposes conditions for the Commission's approval of the wind repowering project. (Higgins Rebuttal, lines 25-41.) Are these proposed conditions reasonable?

A. No. Mr. Higgins recommends that if the Commission approves the wind repowering project, it should be predicated on "the Company's ability to demonstrate that construction costs have come in at or below those estimated, that the projects were completed as scheduled, and that, measured over a reasonable period of time, the megawatt-hours produced by the repowered facilities are equal to or greater than the forecasted production provided in this proceeding." (Higgins Rebuttal, lines 25-33.) Mr. Higgins suggests these conditions are required to better balance project risks between the Company and its customers. (Higgins Rebuttal, lines 42-28.)

None of these conditions are reasonable or appropriate. As Company witness Ms. Cindy A. Crane explains in her rebuttal testimony, the Company is expressly assuming the risk of executing the wind repowering project in a manner that delivers PTC benefits to customers, based on currently known variables within the Company's control. This includes managing total project costs to meet the safe-harbor requirement and 80/20 tests, and completing repowering by the end of 2020. (Crane Rebuttal, lines 97-109.)

The Company has a strong incentive to successfully execute the wind repowering project and deliver PTC and other benefits to customers. Mr. Higgins' conditions are unnecessary to protect customers and may have the opposite effect by unreasonably limiting the Company's ability to implement repowering in the most cost-effective manner.

Q. Please describe your concerns related to the proposed construction cost guarantee.

A. The Company has prudently mitigated the risk of construction cost over-runs by negotiating largely fixed-cost contracts, as I described in my rebuttal testimony. There is a relatively small risk that construction costs will be higher than estimated under such contracts, especially because the Company must monitor costs closely to ensure PTC qualification.

Q. What is the most up-to-date construction cost estimate for the repowering projects?

A. The facility-by-facility costs are set forth in Confidential Exhibit RMP___(TJH-1S). These costs have not changed since the Company filed its rebuttal testimony, and represent the costs for which the Company is seeking approval under Utah Code Ann. §54-17-402(7)(a).

Q. Do you have any other concerns related to Mr. Higgins' proposed construction cost guarantee?

A. Yes. The Company anticipates that incremental customer benefits could accrue to the repowering project if the Company can operate the wind facilities under modified large generator interconnection agreements, as described in the rebuttal testimony of Company witness Mr. Rick T. Link. The incremental benefits come with additional construction costs, some of which are now identifiable, and some of which are not (i.e., potential transmission system upgrade costs). Mr. Higgins' construction cost guarantee could prevent the Company from modifying the interconnection agreements even if doing so produces higher customer benefits.

If the Company does incur additional expenses above the approved cost estimates, we will be prepared to demonstrate the prudence of these additional expenses. Rather than imposing a hard cap, which may ultimately backfire and harm customers, the Company's approach provides flexibility to maximize customer benefits while ensuring that the parties and the Commission have a full opportunity to review all repowering costs in excess of the estimates included here. I understand that Mr. Higgins' proposed hard cap is also contrary to the cost recovery provision of Utah

Code Ann. §54-17-403(1)(b), which allows the Company, in a subsequent rate proceeding, to demonstrate the prudence of any costs in excess of the costs approved here.[1]

Q. What are your concerns related to Mr. Higgins' proposed condition requiring that the repowering project be completed as currently scheduled?

A. Like his construction cost condition, Mr. Higgins' construction schedule condition is unnecessary and unreasonably limits options in implementing repowering, which could reduce customer benefits. The primary customer harm from construction delays would occur if some of the repowering facilities are not in service by the end of 2020 and therefore do not qualify for PTC benefits. Again, the Company has already agreed to assume all risks within its control to ensure in-service dates that qualify for the PTC. In addition, the Company has already mitigated a significant portion of this risk by negotiating the GE contract, which requires timely completion of the projects, or provides sufficient liquidated damages to effectively make customers whole. The planned completion of the Vestas repowering projects in 2019 also significantly mitigates schedule risks.

It may be prudent for the Company to alter its current construction schedule for individual facilities to manage costs and risks. For instance, to accommodate the availability of the installation contractor that provides the most cost-effective installation pricing, the Company may decide to adjust the construction schedules for the Vestas projects to stagger their in-service dates. The Company needs discretion to

[1] Utah Code Ann. §54-17-403(1)(b) (". . . any increase from the projected costs specified in the commission's order issued under Section 54-17-402 shall be subject to review by the commission as part of a rate hearing under Section 54-7-12.").

adjust the construction schedule to deliver the wind repowering project with maximum net benefits to customers.

Q. What are your concerns regarding Mr. Higgins' condition related to performance?

A. First, the Company’s generation projections are based on extensive historical data. Second, the Company has also prudently managed performance risk through contract guarantees with GE. Third, while the Company is confident in its repowering energy production estimates—and believes they may be conservative—wind production is dependent upon variable wind conditions. Mr. Higgins’ proposal that the megawatt-hours produced by the repowered facilities should equal or exceed the forecasted production over a reasonable range of time asks the Company to guarantee conditions outside the Company’s control. Thus, it will be difficult to assess a “reasonable amount of time” in which the impact of variable wind conditions is sufficiently averaged to provide a fair assessment of pre-versus post-repowering energy production under a megawatt-hour metric.

Q. Are there broader implications to Mr. Higgins’ proposal?

A. Yes. Mr. Higgins’ recommendation would allow the Commission to revisit its approval of repowering in the future and impute a penalty on the Company if the actual performance of the asset is different than expected when the decision was taken (based on information the Company knew at the time). I understand that this conflicts with the cost recovery provisions in Utah Code Ann. §54-17-403 and with the prudence standard in Utah Code Ann. §54-4-4(4). It is also contrary to traditional ratemaking. Aside from the fact that his suggestion lacks symmetry (*i.e.*, the Company is not rewarded for better-than-expected performance), Mr. Higgins' suggested policy fundamentally alters the premise that the Company's decisions are judged on the basis of what the Company knew at the time. Mr. Higgins' recommendation could open the door for other past decisions to be re-assessed on an after-the-fact basis and, as Mr. Higgins suggests, subject the Company to one-sided disallowances.

Q. Mr. Higgins also suggests that the Company's approach to repowering is unreasonable because the Company did not analyze individual facilities to determine if they are economic to repower. (Higgins Rebuttal, lines 104-108.) Please respond.

A. The Company has never viewed repowering as an all-or-nothing project. In the 2017 Integrated Resource Plan ("IRP"), the Company performed the System Optimizer and Planning and Risk studies that included all the facilities that appeared economic to repower based upon available information. Before filing this case, the Company added facilities not included in the IRP based on additional, facility-specific analysis. The Company's rebuttal filing then included an extensive economic analysis on a facility-by-facility basis.

Before the Company moves forward with repowering any facility, it will perform updated facility-specific analysis to ensure that repowering each individual facility remains least-cost, least-risk. This updated analysis will consider market changes, updated contract costs and terms, and any potential changes to the tax code.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

REDACTED
Rocky Mountain Power
Exhibit RMP___(TJH-1S)
Docket No. 17-035-39
Witness: Timothy J. Hemstreet

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

REDACTED
Exhibit Accompanying Surrebuttal Testimony of Timothy J. Hemstreet

Repowering Project Details, Projected Capital Costs, and
Planned In-Service Dates

November 2017

REDACTED

CONFIDENTIAL

PacifiCorp Wind Fleet Repowering

Table 1: Repowering Project Details, Projected Capital Costs, and Planned In-Service Dates

Project #	Wind Project	WTGs	WTGs to be Repowered	Estimated Repowering Generation (MWh)	Projected Capital Cost* ($m)	Planned In-Service Date
Wyoming Projects						
1	Glenrock I	66	58	373,038	[redacted]	10/1/2019
2	Glenrock III	26	20	137,416	[redacted]	10/1/2019
3	Rolling Hills	66	48	319,831	[redacted]	10/1/2019
4	Seven Mile Hill I	66	66	417,258	[redacted]	7/1/2019
5	Seven Mile Hill II	13	13	87,480	[redacted]	7/1/2019
6	High Plains	66	66	382,400	[redacted]	11/1/2019
7	McFadden Ridge	19	19	116,644	[redacted]	11/1/2019
8	Dunlap I	74	74	476,749	[redacted]	12/1/2020
		396	**364**	**2,310,816**	[redacted]	

Washington Projects						
9	Marengo I	78	78	484,612	[redacted]	11/1/2019
10	Marengo II	39	39	228,704	[redacted]	11/1/2019
11	Goodnoe Hills	47	47	283,696	[redacted]	10/1/2019
		164	**164**	**997,012**	[redacted]	

Oregon Project						
12	Leaning Juniper	67	67	303,761	[redacted]	10/1/2019

13	**TOTAL**	**627**	**595**	**3,611,589**	**$1,083.3**

Note: Capital costs represent plant-in-service amounts for projects operated within current transmission limits. Capital costs do not include potential modifications for upgrades necessary to operate under modified transmission agreements.

Rocky Mountain Power
Docket No. 17-035-39
Witness: Nikki L. Kobliha

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Surrebuttal Testimony of Nikki L. Kobliha

November 2017

Q. Are you the same Nikki L. Kobliha who previously provided rebuttal testimony in this case on behalf of Rocky Mountain Power ("Company"), a division of PacifiCorp?

A. Yes.

PURPOSE AND SUMMARY OF SURREBUTTAL TESTIMONY

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

A. I respond to the rebuttal testimony filed by the Utah Association of Energy Users witness Mr. Kevin C. Higgins and confirm the reasonableness of the Company's tax rate sensitivity analysis.

Q. Please summarize your testimony.

A. Since the Company filed rebuttal testimony, the political environment surrounding potential federal tax reform has grown somewhat clearer because there are now competing bills in the House and Senate that contain specific details of each proposal. That said, there remains very little certainty about the outcome of federal tax reform, particularly because current estimates indicate that neither bill can meet the requirements necessary to pass the Senate with a simple majority vote. Therefore, without substantial changes that increase revenue, neither bill could become law today. Based on the Company's assessment of the current political environment, the 25 percent effective tax rate used for the Company's tax rate sensitivity analysis remains reasonable, along with the continued availability of the 100 percent production tax credit ("PTC") under the current phase-out provisions.

SURREBUTTAL TESTIMONY

Q. Mr. Higgins reiterates his concern that changes in the federal tax code pose a material risk to customers in this case. (Higgins Rebuttal, lines 44-45.) Has the introduction of specific legislation changed your earlier assessment that, if any federal tax reform is actually enacted, the most likely outcome is a reduction of the effective corporate tax rate to 25 percent?

A. No. Based on the deep political divisions between the two parties on the goals of tax reform and the large economic impact surrounding all the major areas of tax reform, the Company believes that at this time it is pure speculation to try to determine the ultimate outcome of tax reform in 2017. Therefore, for purposes of modeling a tax sensitivity for repowering, the Company assumed, as a reasonable proxy for tax reform impacts, a congressional compromise on the corporate income tax rate, reducing the rate to an *effective* rate of 25 percent, as compared to the current *statutory* rate of 35 percent. As set forth in Mr. Rick T. Link's rebuttal testimony, the wind repowering project produces net benefits to customers if the Company's effective tax rate is reduced to 25 percent. (Link Rebuttal, lines 700-703.)

Q. Please explain the difference between the effective tax rate the Company used in its sensitivity modeling and a statutory tax rate.

A. The 25 percent tax rate the Company assumed for purposes of its sensitivity modeling is an *effective* tax rate, not a *statutory* tax rate. An effective tax rate accounts for the base statutory rate, but also incorporates numerous other factors, including the impact of excluding certain deductions from taxable income (*i.e.*, a broadening of the tax base to which the new tax rate is applied). Even though both the House and Senate versions of the Tax Cuts and Jobs Act propose a 20 percent statutory corporate tax rate, the effective tax rate will be higher if deductions are eliminated or limited.

Q. Do the House and Senate versions of the tax reform bill clearly meet the budgetary requirements of the Senate reconciliation rules?

A. No. In their current form, it is not clear that either the House or Senate version of the tax reform bill will meet the Senate budgetary requirements of the Senate reconciliation rules to avoid requiring 60 senators to pass the bill, versus a bare majority. This could require an increase in statutory tax rates, or an increase in the effective tax rate, or some combination of the two.

Q. Does the Company believe that tax reform will impact the phase-out of the PTCs?

A. No. Even if tax reform is passed, the Company does not believe it will impact the existing phase-out of the PTC previously enacted by the Protecting Americans from Tax Hikes Act ("PATH Act"). Although the House bill contains provisions regarding modification of the PTC, the Senate draft does not. Key Republican senators have indicated that the final bill will retain the current PATH Act phase-outs and current four-year safe harbor.

Q. Under the most likely schedule for tax reform legislation, will the Company have time to assess tax changes before irrevocably committing to the wind repowering project?

A. Yes. In my rebuttal testimony, I noted that the window for Congress to enact tax reform legislation is likely to close by early 2018 given the run-up to the mid-term Congressional elections. (Kobliha Rebuttal, lines 246-248.) There has been no change in this projected schedule. Thus, in early 2018, the Company should know the outcome of potential legislative changes that might impact corporate tax rates and impact the customer value of the repowering project. This will give the Company time to assess tax law changes, if any, on an individual facility basis before moving forward with the repowering project.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that on November 15, 2017, a true and correct copy of the foregoing was served by electronic mail and overnight delivery to the following:

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