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 DPU Exhibit 1.0 SR

SURREBUTTAL TESTIMONY

OF

DR. JONI S. ZENGER

UTAH DIVISION OF PUBLIC UTILITIES

November 15, 2017

Q. Please state your name, occupation, and business address.

A. My name is Dr. Joni S. Zenger. I am a Technical Consultant for the Utah Division of Public Utilities (Division). My business address is 160 East 300 South, Salt Lake City, Utah 84111.

Q. On whose behalf are you testifying?

A. The Division.

Q. Are you the same Dr. Zenger who previously filed direct testimony in this proceeding on September 20, 2017?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. I provide the Division's overall position and recommendations to the Utah Public Service Commission (Commission) regarding PacifiCorp's (Company) rebuttal testimony and request for approval of its resource decision to repower most of its wind facilities in this proceeding.

Second, I will briefly describe the surrebuttal position of the Division's witnesses who testified previously in this docket and who are now testifying in this phase of the docket, rebutting points made by the Company and its witnesses in the Company's October 19, 2017 rebuttal filing. The Division also reviewed the rebuttal filings of the Office of Consumer Services (OCS) and the Utah Association of Energy Users (UAE).

Third, I will address certain points in the rebuttal testimony of the Company's witnesses, as well as discovery the Division has received as of the filing date of the Division's surrebuttal testimony. The fact that the Division does not address a particular point or position in this surrebuttal testimony should not be construed as acquiescence.

Q. Please summarize the Division's overall position in its surrebuttal testimony and recommendations.

A. After reviewing the Company's rebuttal testimony as well as the rebuttal of the other parties to this proceeding, the Division continues to recommend that the Commission not approve the Company's Application to repower most of its wind facilities. Although the Company has attempted to mitigate some of the risks of the project, it has not adequately demonstrated that projected benefits of the project outweigh even the revised costs of the project when combined with the risks.

The Company's rebuttal filing includes changes to the wind turbine generator configurations that are not included in Company witness Mr. Link's testimony, new estimated production cost analysis, and projects costs that have changed once again. The project economics are so different from the Company's original and updated findings that they highlight, rather than assuage, the Division's concern that too many uncertainties and risks exist relative to purported benefits. The project-by-project sensitivity analysis was performed for only one price-policy scenario, that of medium gas and medium carbon prices. The economic analysis for the nine price-policy scenarios are for the aggregate projects, not project-by-project. There are many factors other than gas and carbon prices that should be considered in the Company's wind repowering resource decision. The Division's witnesses will provide supporting testimony for each of these points.

Q. Please identify the Division's witnesses who provide supporting surrebuttal testimony in this phase of the proceeding.

A. Mr. Peaco will provide supporting surrebuttal testimony on the project economics and the reasonableness of the Company's assumptions and analysis. Mr. Peaco will show that the Company's modeling does not provide reasonable results, the Company's rebuttal filing does not demonstrate the lowest reasonable cost energy benefits, and the Company's analysis does not reasonably address risk.

Mr. Thomson will reiterate his position with respect to the Company's RTM tracking mechanism and the production tax credits (PTCs).

Mr. Peterson will respond to objections made by Company witness Mr. Larsen in his rebuttal testimony regarding the intergenerational equity problem, as well as the issue of recovering costs for assets that are taken out of service.

My testimony addresses risk, public interest factors, and other considerations that need to be included in making a public interest finding in this docket. The Division's witnesses all address various aspects of the public interest factors that the Division believes the Commission should consider in the Company's request for approval of its resource decision under Utah Code Ann. § 54-17-402.

Q. The Company claims that its wind repowering decision is timely and proper, and that sufficient stakeholder input was provided. How do you respond?

A. I stand by my original testimony that the Company committed significant time and investment in wind repowering project costs for approximately nine months before it notified stakeholders. In light of the nearly complete changes embodied in the Company's October 19, 2017 rebuttal filing, the parties' ability to effectively review the information on which the Company now relies has been severely diminished.

The Company is requesting a Commission-approved order to move forward with a $1.083 billion project before the end of the year. The magnitude and scope of this project warrants a comprehensive review. Doing such a review is impossible with a changing target. The Company should have made a full filing upfront. The Company filed its Application for repowering on June 30, 2017. It then filed substantially new analyses on rebuttal. As of the date of this filing, data requests addressing the information filed in rebuttal remain outstanding. These facts alone warrant caution. Significant changes to the filing in rebuttal testimony effectively truncate the Division's timeline for review and thwart the ability of all intervening parties to perform an effective review.

In a situation such as this where the purported benefits are small relative to the costs and are spread over an extended time horizon, the accuracy of the projections is critical to the evaluation. Submitting significantly different sets of projections this late in the review process calls into question the accuracy of those projections, having changed in only a few months. Moreover, submitting these changes this late in the process effectively eliminates the ability of the Division to fully review them. For these reasons the Division cannot conclude that the projects are in the public interest.

Q. Please state the main points you wish to address in your surrebuttal testimony.

A. The two most important facts I stress in my surrebuttal are the very same points I called to the Commission's attention to in my direct testimony:

(1) The Company's 2017 IRP analysis shows there is a lack of an operational need for the wind repowering resources (or any other major generating resource) in the front 10 years of the Company's IRP planning horizon. According to the Company's 2017 IRP filing, the next major resource, a natural gas generating resource is not needed until around the 2028-2029 timeframe.[1]

[1]Docket No. 17-035-16, PacifiCorp's 2017 Integrated Resource Plan, April 4, 2017, pp. 1-2.

(2) The Company does not have a Commission-acknowledged IRP or Action Plan acknowledging the wind repowering resources.

Risk is a factor identified in Utah Code Ann. § 54-17-402, that the Commission is required to consider. The fact that the Company does not have an established need for new wind suggests the Company's decision to repower its wind facilities is an opportunistic economic decision and is not an ordinary resource acquisition. The Division is not opposed in concept to making such economic decisions. It does view them with a higher level of scrutiny because of the lack of operational benefits. As compared to operationally necessary investments, a speculative investment for economic reasons involves unnecessary risk.

The Commission should heavily weigh the risks against these facts in making the public interest determination in this proceeding. Ratepayer exposure to risk in a situation such as this one, in which the resources are not actually *needed*, deserves significant weight.

Q. What does the Company say about potential unequal benefits in this case?

A. Mr. Larsen claims that the Company's resource decision is like any other cost of capital decision (lines 150-156):

> A basic premise of ratemaking, however, is that "a capital attracting rate of profit is here considered a part of the necessary cost of service."
>
> The cost of capital is no different than any other prudent cost recoverable in rates if incurred to provide utility service.

> It is inaccurate to say that shareholders are receiving a greater benefit than customers based on the fact that shareholders recover the costs incurred to provide utility service.

Mr. Larsen's testimony refers to the benefits to shareholders and ratepayers. However, that selection misses the point, which is not that ratepayers may not benefit, but that ratepayers benefit is small and only financial while shouldering a risk the utility's shareholders will not be faced with. Appropriately, regulators must judge decisions at the time they are made. An approval now will virtually guarantee shareholders a long-run return. Once that decision is made, the utility has shifted significant forecast risks to its ratepayers.

One of the benefits derived from most resource decisions that often offsets the additional long-term risks borne by customers is the safe and reliable delivery of electric energy. That benefit of operational reliability is difficult to accurately assign a dollar value to in the equation. That does not however change the fact that the value of those benefits to customers are significant. In comparison to other resource decisions the lack thereof requires a rebalancing of the scales. Unlike investors deciding to undertake a risky endeavor in search of higher returns, ratepayers are captive customers of a monopoly utility in search of service at reasonable rates. Those ratepayers should not shoulder the risk of the Company's speculative investment.

Q. Why is the shift of forecast risk important in this case?

A. In the ordinary course of adding generation that runs to the end of its economic life in order to meet load, the risks of fuel costs shifting, technological change, and the like are reasonably borne by the ratepayers. This matter warrants a slightly different focus and weighing of risk because the utility seeks to take advantage of an economic opportunity that is highly dependent on long-run assumptions. Thus, it is not that the benefits are unequally shared under traditional cost of capital considerations discussed by Mr. Larsen, but rather that the risks are unevenly spread when the project's *sine qua non* is a highly speculative economic opportunity hinging on numerous assumptions and federal tax policy.

Since the date direct testimony was filed in this case, the Division completed its review of the Company's 2017 IRP. On October 24, 2017, the Division filed IRP comments with the Commission in Docket No. 17-035-16. The Division's main findings were two-fold: (1) the primary driver of the Energy Vision 2020 projects is potential economic opportunity, not resource need as traditionally understood; and (2) the Commission should not acknowledge the Company's 2017 IRP.[2]

With this additional knowledge at hand, the Division reiterates: This is not a typical request for approval of an ordinary resource decision, but rather a request to approve an enormous economic investment that will most certainly benefit the Company, but as Mr. Peaco will show, will result in highly speculative benefits for ratepayers packaged with unmitigated risk. PacifiCorp's latest

[2] Docket No. 17-035-16, Division Comments on PacifiCorp's 2017 IRP, October 24, 2017.

analyses show a net reduction in total present value revenue requirement (PVRR) of $115.2 million over 20 years for the $1.083 billion investment, and a PVRR reduction of $471 million over the period from 2017 through 2050.[3] The $1.083 billion investment for these resources would remain in rate-base for more than three decades.

The Division cannot conclude that the wind repowering projects are likely to be the least-cost resources. The Division can say that the wind repowered resources (if they were actually needed) would displace resources such as short-term market purchases, for which the Company receives no rate of return.

The Company has stated in IRP proceedings, as well as in avoided cost proceedings, that the wind repowering (as well as new wind resources) is a PTC-based economic opportunity—not based on a reliability or capacity need.[4] The Company has stated repeatedly that the loss of the PTCs would eliminate much of the benefits associated with the Wyoming wind resources, and without the PTCs, the Wyoming wind would not be part of the Company's least-cost, least-risk plan to reliably meet system load.[5] If the Company truly had a resource need, the Company would seek to acquire capacity to meet that need. However, PacifiCorp's 2017 IRP shows no resources in its acquisition path analysis.[6] Without PTCs, the Company indicates it will take no resource acquisition action.

[3] Rebuttal Testimony of Rick T. Link, October 19, 2017, p. 4, see Tables 1-3.
[4] Docket No. 17-035-39, Company's response to OCS #2.8 Highly Confidential Attachment A and Attachment B, respectively.
[5] Oregon Docket UM 1802, Pacific Power 300/MacNeil, p. 26.
[6] Docket No. 17-035-16, PacifiCorp's 2017 IRP, April 2, 2017, Volume 1, p. 276.

Q. How have parties responded to you raising the lack of resource need and the absence of these repowering projects in an approved IRP?

A. None of the parties, including the Company's witnesses, objected to them. It is true that silence on certain topics does not necessarily mean that parties agree to all portions of an intervenor's testimony. However, these were such key and foundational issues, and I believe they are such significant facts, that no party would disagree. Although the Company claims that the IRP is not the forum for deciding resource decisions like wind repowering,[7] the Division believes that the Company makes a good faith effort to accurately represent its future resource needs to the best of its current abilities when it files its IRPs. The fact that the Company made a supplemental August 2, 2017, Energy Vision 2020 filing in the IRP docket means that the results are integral to the IRP, regardless of whether parties had time to provide stakeholder input during the IRP stakeholder process or during the pendency of this proceeding.

Q. Are there other risks of approving these projects that concern you?

A. Yes. The Division encourages the Commission to consider the precedent that would be set if the Commission were to approve the Company's resource decision that is based on a purely economic opportunity in the face of risk and intergenerational inequities. Allowing the Company to invest capital in speculative projects in the absence of operational need misaligns utility incentives. Allowing recovery of removed assets creates intergenerational

[7] Rebuttal Testimony of Jeffrey K. Larsen, October 19, 2017, lines 90-93.

inequities, as Mr. Peterson discusses in his testimony. Both of these allowances are likely to lead to unwanted future utility actions.

There may be other time-limited opportunities that arise that add significant capacity and energy to the Company's generating resources as well as expenses to rate base. With precedent from this docket, the Company would be better-equipped to argue for approval of more resources customers simply do not need. When the construction of additional resources depends on removing existing, productive resources, additional intergenerational problems could arise. Additionally, removing productive assets from use is not an efficient use of resources.[8] Each additional rate-based speculative resource would impose costs on customers, and the Company would receive virtually risk-free returns, counter to the regulatory compact and basic cost of service construct. As more of these types of resources are added, with greater amounts of retired plants remaining on the books, over time customers' rates will bear a decreasing relationship with the actual, then-current, cost of service.

Q. Taking into account the points made above, what is your conclusion about the Company's request?

A. Based on the Division's analysis of the filings in this docket and its consideration of the IRP analysis, the Division concludes the Company has failed to demonstrate there is a need for these large capital investments. Need should be a

[8] The Division is mandated to consider utility efficiency among many factors in judging the public interest. See Utah Code Ann. § 54-4a-6.

prerequisite to forcing customers to take on the risk associated with the Company's investment, which shows modest benefits over a long period of time relying on many assumptions about load, fuel prices, and other factors. As customers of a regulated monopolist, the utility's ratepayers have no individual choice whether to undertake such a risky investment. As Mr. Peaco describes more fully in his surrebuttal testimony, any benefits that can be derived from the wind repowering do not sufficiently outweigh the risks to ratepayers.

Q. Please summarize your conclusions and recommendations to the Commission.

A. The Commission should deny the Company's Application. The Division finds real and significant concerns with the Company's proposed project. The risk mitigation the Company identifies in its rebuttal testimony is insufficient. In some instances, the risks today are even greater than when the Company filed its original Application on June 30, 2017. The project economics are uncertain and the assumptions cannot be found to be reasonable.

The Division concludes that it cannot find that the Company's proposed resource decision to repower almost all of its wind facilities will most likely result in the acquisition, production, and delivery of utility services at the lowest reasonable cost to the retail customers. Further, the Company's proposal puts an unacceptable amount of risk on ratepayers who have no choice and are forced to pay for the costs of such a decision years from now when the PTCs expire and for decades as long as the $1.083 billion remain in rate base. The Division's witnesses providing surrebuttal testimony provide support for these conclusions.

The Commission should pay particular attention to the ramifications of the precedent this case would set if the Commission were to approve the Company's resource decision. The Division strongly recommends the Commission deny the Company's wind repowering resource Application.

Q. Does this conclude your testimony?

A. Yes.