

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 SR
MOUNTAIN POWER FOR)	
APPROVAL OF RESOURCE)	
DECISION TO REPOWER WIND)	Surrebuttal Testimony
FACILITES)	David Thomson
)	
)	

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

Surrebuttal Testimony of

David Thomson

November 15, 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. Did you previously file Direct Testimony in this Docket?**

8 **A.** Yes.

9 **Q. What is the purpose of your Surrebuttal Testimony?**

10 **A.** The purpose of my testimony is to comment on pages 10 to 12; lines 205 to 262 of the
11 rebuttal testimony of Rocky Mountain Power (Company) witness Mr. Jeffery K. Larsen. I
12 will address specifically the sections of his testimony entitled Deferral vs Accounting Order
13 and Carrying Charges. These sections are in response to my Direct Testimony.

14

15 My silence on any recommendations given in either Direct or Rebuttal Testimony of those
16 involved in this Docket should not be interpreted as support or disagreement.

17 **Q. In his rebuttal testimony Mr. Larsen outlines three problems associated with using**
18 **deferral instead of the Resource Tracking Mechanism (RTM) to track repowering costs**
19 **and benefits. Will you please identify and respond to the three problems Mr. Larsen**
20 **mentions?**

21 A. Yes. As to the first problem, Mr. Larsen states that the RTM will end when repowering costs
22 are reflected in base rates. A deferral would result in an amortization built into base rates
23 that would not be removed until a future rate case.

24

25 This concern could be alleviated by simply having a future rate case with time lines similar to
26 the RTM. This could be done voluntarily by the Company or ordered by the Commission.

27

28 For example, the Company could file a general rate case (GRC) on July 1, 2019 with a
29 December 31, 2018 base period, using a future test period of January 1, 2020 to December
30 31, 2020. This future test period would cover the repowering build to its end date and rates
31 would be effective March 1, 2020 (this period would also cover the investments outlined in
32 Docket 17-035-40). This GRC would put cost/benefits into rates sooner than that proposed
33 by the tracker by two months for the December 2019 period and 14 months for the period
34 ending December 31, 2020 (See Exhibit 3.1SR).¹ The above scenario wouldn't require a
35 deferred accounting order. It also shows, as stated in my direct testimony, that for recovery
36 of costs and benefits of the repowering a tracker is not necessary as such costs and benefits
37 are recovered in a timely manner.²

38

¹ As to filing a GRC, see also the Office of Consumer Services (OCS) Witness Donna Ramas' direct testimony pages 6-7; lines 116-130 and page 8; lines 163-175.

² The OCS witness Donna Ramas and the Utah Association of Energy Users (UAE) witness Kevin C. Higgins also believe a tracker is not necessary (Ramas) or is not convinced it is necessary (Higgins). See Donna Ramas' direct testimony on page 14; lines 302-308. See UAE witness Kevin C. Higgins direct testimony pages 4-5; lines 82-91 and his rebuttal testimony page 4; lines 67-68.

39 Second, Mr. Larsen argues that the deferral violates the matching principle because the
40 investment cost and the PTCs are deferred, but the power cost benefits flow through the
41 EBA. He states that if my approach is used, the net power cost benefits of the zero-cost
42 energy must be pulled out of the EBA and deferred as well.

43
44 If the Commission approves the repowering and a deferral, the Division would not object to
45 deferring the net power cost benefits as part of a Commission approved deferred accounting
46 order until the next rate case. This depends upon a proper method for assessing the net power
47 cost benefits.

48
49 Third, Mr. Larsen states that my proposal would lead to separate accounting, increased
50 auditing, and delayed inclusion of cost-benefit impacts for both customers and the Company.

51
52 The deferral accounting is going to be no more complicated than the RTM accounting. The
53 Division's review and analysis of either a deferred accounting order or an RTM would
54 basically require the same effort on the Division's part.³ Thus Mr. Larsen's arguments as to
55 separate accounting and increased auditing apply to the Company's proposed tracker as well.

56
57 Again if the Company or the Commission is concerned about delaying cost/benefits, this can
58 be overcome by deferring costs and having a GRC at any time during or shortly after the
59 repowering process.

³ See Mr. Jeffery K. Larsen Rebuttal Testimony Docket 17-035-39 page 10; lines 212 -214.

60

61 The Company is proposing to add \$3.13 billion⁴ dollars to rate base (this amount includes
62 amounts from both Docket Nos. 17-035-39 and 17-035-40). Capital investment of this
63 magnitude probably requires a GRC. The impact to rates and revenue requirement of the
64 above investments with their associated costs and benefits, should be synchronized and in
65 balance with other entity-wide changes. Changes in class cost of service, revenue and
66 expense components, and many other factors would be impacted by the addition of so much
67 capital to rate base. Having a general rate case to realign rates to match then-existing
68 conditions would be wise and likely in the public interest, particularly given that the last
69 general rate case concluded in 2014 employed 2013 data and a 2015 test year.

70 **Q. Does Company witness Mr. Larsen explain why the Company is proposing a 6%**
71 **carrying charge for the RTM?**

72 A. He does explain the Company's position in his rebuttal testimony. The zero-cost benefits of
73 the Production Tax Credit (PTC) will flow through the Energy Balancing Account (EBA),
74 which includes a six percent carrying charge until the next GRC. The Company proposes
75 that the same 6% carrying charge apply to the RTM.

76 **Q. Mr. Larsen says that in your Direct Testimony you do not explain your rationale or**
77 **justify your recommendation for the Commission to use an accounting order without an**
78 **interest carrying charge. What is your response to this observation?**

79 A. The GRC filing in Docket No. 11-035-200 was settled through stipulation and
80 Commission order. In that Docket the Company received authorization to defer costs on a

⁴ See Cindy A. Crane Direct Testimony for Docket 17-035-39 page 2; lines 37-39. See Cindy A. Crane Direct Testimony for Docket 17-035-40 page 1; lines 21-23.

81 number of items as explained here and below. Per the settlement and order, the Company
82 was authorized to defer the costs related to the decommissioning of the Carbon plant. No
83 carrying charge was provided for in the stipulation.

84

85 Also in that same docket, the Company was authorized to defer costs incurred for Naughton
86 development costs. No carrying charge was provided. The Company was also authorized
87 deferred accounting in conjunction with its FERC rate case in Docket No. ER11-3643-000.
88 The stipulation said the FERC deferral account would not accrue a carrying charge.

89

90 Recovery of the Klamath relicensing and process cost were authorized for amortization in
91 rates from October 12, 2012 through the end of calendar year 2022 with a carrying charge at
92 the authorized long-term cost of debt. This was a recovery of actual costs and not a deferral
93 of costs. Since carrying charges would accrued, the net unrecovered relicensing and process
94 costs were to be excluded from rate base in future rate case proceedings.

95

96 On another non-deferral matter in the above Docket No 11-035-200, it was agreed that any
97 difference between base Renewable Energy Credits (REC) revenues and actual REC
98 revenues as determined by the Commission for calendar year 2014 should be recovered or
99 returned over a two-year period from the effective date of the approved rate change to collect
100 or refund such balance, with no carrying charges during such two-year collection or refund
101 period.

102

103 The GRC filing in Docket No.13-035-184 was settled through stipulation and Commission
104 order. As with the previous GRC the Company received authorization to defer costs on a
105 couple of items as explained here and below. It was agreed that if the Company did not
106 obtain an amended permit in 2014 that would allow it to continue to operate Naughton Unit 3
107 as a coal-fueled resource through December 31, 2017, parties would not oppose a deferred
108 accounting order dealing with the revenue requirement impact of not obtaining the permit.
109 No carrying charges for the deferral were provided for in the stipulation.

110
111 A deferred accounting order was authorized to defer Energy Imbalance Market (EIM) related
112 operations and maintenance expenses after September 1, 2014 and depreciation expense
113 related to capital investments necessary to implement EIM recorded also after September 1,
114 2014. Any deferral of EIM-related labor cost would be limited to positions exclusively
115 created as a results of the Company's participation in the EIM in excess of the full time
116 equivalent employee positions, 5,460, reflected in the Company's direct filing in that rate
117 case. No carrying charges for the deferral were provided for in the stipulation.

118
119 The settlement stipulation and order for the Deer Creek closure in Docket No. 14-035-147
120 are very complex. However there are a number of provisions in the settlement that have
121 carrying charges and some that do not. Certain provisions provide for a 6% carrying charge
122 for EBA type costs. Funded costs and Deer Creek CWIP have a debt interest carrying
123 charge of 4%. The \$10 million sold mining assets, settlement of the retired medical
124 obligation, Fossil Rock coal leases and fuel inventory get ROR. Deer Creek investment,

125 Preliminary Survey and Investigation costs, closure costs and the 1974 Pension Trust
126 payment have no carrying charges. When it comes to carrying charges this Docket is a
127 mixed bag and appears to be an outlier.

128

129 Based upon reading the many deferred accounting orders reference above that have no
130 carrying charges, the Division believes it has ample rationale for recommending that the
131 Commission can issue a deferred accounting order that provides no carrying charges.

132

133 Even though the majority of deferred accounting orders mentioned above do not have
134 carrying charges, since this is a fuel cost item, the Commission may want to allow a carrying
135 charge on the incremental costs savings (zero-cost energy) part of the deferred accounting
136 order. Fuel cost items through the EBA have a carrying charge.

137

138 As stated in Mr. Larsen's testimony the Production Tax Credit (PTC) creates a benefit by
139 generating revenue through a tax credit.⁵ The PTC is not a fuel cost item and should not
140 receive an EBA-like carrying charge.

141

142 If the Commission orders a carrying charge, a reasonable carrying charge⁶ would deviate
143 from the 6% applicable for the EBA except perhaps the deferral for the zero-cost energy
144 EBA component. As suggested in my Direct Testimony a reasonable carrying charge would
145 be based on the Commission approved carrying charge method.

⁵ See Mr. Jeffery K. Larsen Rebuttal Testimony Docket 17-035-39 page 11; lines 246-247.

⁶ See Mr. Jeffery K. Larsen Rebuttal Testimony Docket 17-035-39 page 12; lines 261 -262.

146 **Q. In his Rebuttal Testimony Mr. Larsen states that the Company would be willing to**
147 **move forward with the wind repowering project without an RTM . What is the**
148 **Company proposing under the “no RTM” scenario?**

149 A. The Company is proposing that the results of the repowering would be captured in semi-
150 annual results of operation reports provided to the Commission, and the impact to earnings
151 would be a matter of routine review by the regulatory agencies for reasonableness. An
152 adjustment would be required to remove the zero-cost energy from the Energy Balancing
153 Account and replace the energy at market cost.

154 **Q. Do you have any comments about Mr. Larsen’s proposal?**

155 A. Before commenting, I am assuming the zero-cost energy Mr. Larsen is referring to is the
156 incremental savings of fuel cost due to repowering.

157

158 The Company believes the semi-annual filings would be subject to an energy market cost
159 adjustment. Since base line projections of wind would most likely be required for such an
160 adjustment, there is risk that such projections are over or under stated. The Division is not
161 yet comfortable with the forecast risk, the possible risk magnitude and its cost implications,
162 along with the methodology used to replace the energy at market cost. These risks would
163 need to be addressed before such an adjustment is in the public interest.

164

165 The Division appreciates the Company’s efforts to provide accounting for the repowering
166 first through a RTM and now through the use of the semi-annual results of operations reports
167 provided to the Commission.

168

169 However, the Division still believes as explained above that due to the magnitude of the large
170 capital investment proposed by the Company that a GRC is the proper rate recovery method
171 and would best serve ratepayers. As the Division and others have argued a RTM is not
172 necessary. A GRC concurrent or in conjunction with the large capital investments proposed
173 would better serve ratepayers than a semi-annual filing that would use 2013 data projected to
174 2015 as base information. The Company's zero cost adjustment is required because a semi-
175 annual filing based on a 2015 test period does not reflect the current investment and
176 operation activities of the Company.

177

178 If the Commission approves the repowering as proposed by the Company, the Division
179 continues to recommend that the Commission use a general rate case and if necessary a
180 deferred accounting order for ratemaking associated with the repowering.

181 **Q. Does this conclude your surrebuttal testimony?**

182 A. Yes.