RMP Cross Exhibit 7

Witness OCS – 3D

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority to Increase Its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations	)))))))	**Docket No. 10-035-124** **Direct Revenue Requirement Testimony of Donna Ramas For the Office of Consumer Services**

REDACTED

May 26, 2011

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DEPOSITION EXHIBIT
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State Process. Thus, the increase in projected REC revenues reflected in the update is $30,433,195. However, an additional $11,117,317 is reflected in RMP's update to be allocated to Utah using the SG allocation factor as a result of the re-allocation of the amounts that would otherwise be allocated to California, Oregon and Washington in the allocation model. The total impact that needs to be input into the jurisdictional cost allocation model is an increase in amounts allocated using the Account 456 SG allocation of $41,550,512. The adjustment presented on Exhibit OCS 3.10 does not modify this approach that was used by RMP in its filing and the update thereto.

<u>Additional REC Revenues</u>

Q. WOULD YOU PLEASE BRIEFLY DISCUSS HOW RMP PROJECTED THE AMOUNT OF RENEWABLE ENERGY CREDIT REVENUES INCORPORATED IN ITS ORIGINAL FILING?

A. The calculation of the Company's forecasted REC revenues for the future test year was presented by RMP in Exhibit __(SRM-3), page 3.4.2, and was discussed in the direct testimony of Stefan A. Bird. In forecasting REC revenues, the Company's calculation began with the total projected wind generation for the test year that is incorporated in its case, with each wind generated MWH equaling one REC from wind generation. The resulting total projected volume of RECs based on the wind resources in the Company's test year forecast was then reduced to remove the RECs that are banked to satisfy the renewable portfolio standards (RPS) in California, Oregon and Washington. After accounting for the RPS banking requirements, RMP then applied a 75% factor to the remaining wind MWHs, or RECs, available for sale, reflecting projected sales of RECs based on 75% of its total projected RECs available. On Company Exhibit RMP__(SRM-3), page 3.4.2, the resulting amount is shown as the Company's projected RECs to be sold in the test period. In its adjustment, RMP then separates the resulting amounts between the already known wind sales that are committed to for the test year and the remaining RECs. These exclude the 25% that were removed through RMP's application of the 75% factor and exclude the RECs reserved for California, Oregon and Washington RPS requirements banking.

For the known wind sales that are committed to for the test year, the Company reflected the projected revenues based on known amounts. For the remaining available wind credits that the Company incorporated in its filing to be sold during the test year, the Company applied a price of $7 per REC.

The Company's projections also incorporate a projected sale of vintage RECs, which is based on its projection of the amount of RECs remaining from the previous period, or the 12 months ending June 2011. For the projected vintage REC sales, RMP applied a price of $4 per REC.

All of these Company assumptions result in the projected test year REC revenues contained in the original filling of $55,714,225. As indicated previously in this testimony, in its first supplemental response to DPU 10.52, RMP increased its projected test year REC revenues to $86,147,420.

Q. WHAT REVISIONS DID THE COMPANY MAKE TO THE ORIGINAL FORECAST THAT IT PRESENTED IN EXHIBIT RMP__(SRM-3), PAGE 3.4.2 IN ITS UPDATED PROJECTION, WHICH REFLECTED THE NV ENERGY CONTRACT?

A. In its first supplemental response to DPU 10.52, RMP provided a confidential revised version of page 3.4.2 of its filing. ***__BEGIN CONFIDENTIAL__**[redacted]

[redacted] ***END CONFIDENTIAL***

The Company's original projections incorporated in its filing at page 3.4.2 excluded non-wind related REC sales from its forecast.

Q. WHY DID THE COMPANY APPLY A 75% FACTOR TO DETERMINE THE AMOUNT OF RECS TO BE SOLD IN THE TEST PERIOD FOR PURPOSES OF PROJECTING THE TEST YEAR REC REVENUES?

A. In the direct testimony of Stefan A. Bird, at page 3, he indicates that the Company sells only 75% of the forecast wind RECs <u>on a forward basis</u> "...to insure it can perform under any contracts, bundled or unbundled, that it may enter into." His testimony also indicates that based on the Company's experience so far coupled with the wind data that it has received, selling 75% on a forward basis ensures that the Company can perform under its contracts and avoid exposing the Company to costs associated with liquidated damages or non-performance.

Q. DO MR. BIRD'S STATEMENTS MEAN THAT THE COMPANY WILL ONLY SELL 75% OF THE WIND RELATED RECS THAT ARE

GENERATED DURING THE TEST YEAR THAT ARE NOT BEING BANKED FOR RPS COMPLIANCE REQUIREMENTS?

A. No, it does not. It simply means that the Company sells only 75% of the forecasted wind RECs on a "forward basis". If RMP is able to generate RECs above the 75% level, it will have the ability to offer any remaining RECs for sale in the market. The Company has provided no justification for its assumption that it will not sell the remaining 25% of the RECs that its filing projects it will produce during the test year in this case.

Q. HOW HAS THE HISTORIC PERCENTAGE OF WIND GENERATED RECS SOLD IN EACH YEAR COMPARED TO THOSE PRODUCED?

A. After removing the amount associated with RPS banking requirements, *****BEGIN CONFIDENTIAL***** [redacted] *****END CONFIDENTIAL*****

Q. DO YOU RECOMMEND THAT THE 75% FACTOR APPLIED BY THE COMPANY AND DISCUSSED IN THE DIRECT TESTIMONY OF MR. BIRD BE REVISED?

A. Yes. In this case, I recommend that the 75% factor be increased to 90%, reflecting a projection that the Company will sell 90% of its wind related RECs that it projects to produce during the test year. This is after removal of the RPS banking requirement factors for the states of California, Oregon and Washington.

Q. IS THE COMPANY'S PROJECTED SALES PRICE OF $7 PER REC FOR THE REMAINING AVAILABLE WIND-RELATED RECS A REASONABLE PROJECTION?

A. No, it is not. It is my opinion that it is significantly understated.

Q. HAS THE COMPANY BEEN SUCCESSFUL IN PAST CASES IN PROJECTING THE REC SALES PRICE?

A. No. In the last rate case, Docket No. 09-035-23, the Company significantly under projected the amount of revenues to be produced from the sale of RECs and substantially under projected the price per REC.

Q. COULD YOU PLEASE ELABORATE?

A. Yes. The Company's last rate case incorporated a future test period ending June 30, 2010. In its original filing, RMP projected total REC revenues of $7,411,125. This assumption included a projected sales price per wind related REC sold of $3.50. It also assumed that only 75% of the available MWHs would be sold after removal of the RPS banking requirements. In response to an OCS recommended adjustment to the projected REC revenues, RMP increased its projected test year ended June 30, 2010 REC revenues in rebuttal testimony from the $7.4 million in its initial filing to $18.5 million. However, as shown in Exhibit RMP__(SRM-3), page 3.4 of the current case, the actual booked REC revenues for the base year ended June 30, 2010 was $98,525,363. In other words, the Company's rebuttal position in the last rate case under forecast the REC revenues for the period ended June 30, 2010 by over $80 million.

By the time of hearings in the last general rate case, and possibly by the time it filed the rebuttal testimony in that case, the Company would have been aware of the substantial increase in the price per REC that was occurring, yet it chose not to inform the parties of this information either prior to or during the hearings in that case.

Q. HOW HAVE RECENT SALE PRICES PER REC COMPARED TO THE $7 PER REC ASSUMPTION INCORPORATED IN THE COMPANY'S FILING IN THIS CASE?

A. In the table below I present the actual average wind related REC sales price received by the Company in 2010, as well as the Company's forecast average wind related REC sales price for 2011 and 2012. These amounts were provided by the Company in its confidential responses to UAE 5.3 and UAE 5.4.

*****BEGIN CONFIDENTIAL*****

Redacted

[redacted]

Q. [redacted]

A. [redacted] *****END CONFIDENTIAL*****

Clearly, based on the sale prices for the last few years and known contracts, the Company's projection of $7 per REC for the remaining available wind credits that are not under contract is not a reasonable or realistic assumption.

Q. WHAT AMOUNT DO YOU RECOMMEND BE USED FOR THE REMAINING AVAILABLE WIND CREDITS THAT ARE NOT

CURRENTLY UNDER CONTRACT FOR THE TEST YEAR IN THIS CASE?

A. I recommend that the amount be calculated based on a price per REC of $36. It is my opinion that this is a more reasonable assumption than the $7 per REC incorporated in the Company's projections.

Q. WHAT OVERALL ADJUSTMENT DO YOU RECOMMEND?

A. As shown on Exhibit OCS 3.11, I recommend that the Company's updated REC revenue projections be increased by an additional $44,538,991 on a total Company basis, resulting in total OCS recommended REC revenues for the test year ending June 30, 2012 of $130,686,411. The impact on a Utah basis is an increase in Utah allocated REC revenues of $26,461,642.

In calculating this amount I used the same assumptions and calculations used by the Company and its updated REC revenue projection provided in its first supplemental response to DPU 10.52. The only changes I have made were to increase the percent sold from the amount in the Company's update to 90%, and to increase the price per REC for the remaining wind credits that are not under contract from the amount in the Company's update to a price of $36 per REC.

Q. COULD THE AMOUNT OF REC REVENUES TO BE COLLECTED BY THE COMPANY DURING THE FUTURE TEST YEAR ENDED JUNE 30,

2012 BE HIGHER THAN THE AMOUNT INCLUDED IN YOUR FORECAST?

A. Yes, it could. The Company's original forecasted REC revenues did not include any amounts associated with non-wind related REC sales. However, historically the Company has sold RECs generated from assets other than wind, such as hydro RECs and RECs created by the Blundell facilities. It is not reasonable to assume that there will be no non-wind related REC sales in the test year.

Q. DO THE COMPANY'S UPDATED PROJECTIONS INCLUDE ANY PROJECTED REVENUES ASSOCIATED WITH NON-WIND RELATED REC SALES?

A. *****BEGIN CONFIDENTIAL***** [redacted] *****END CONFIDENTIAL***** However, it is likely that the Company will sell additional non-wind related RECs during the test year. At this time I have not included an adjustment to incorporate additional non-wind related REC sales. As a result, the projected REC revenues in my recommendation may be understated.

Q. GIVEN THE COMPANY'S RECORD REGARDING THE PROJECTION OF REC REVENUES AS WELL AS THE VOLATILITY IN THE REC MARKET, SHOULD ANY SAFEGUARDS BE PUT INTO PLACE TO PROTECT RATEPAYERS IN THE EVENT THAT THE AMOUNTS YOU ARE PROJECTING IN THIS CASE ARE UNDERSTATED?

A. Yes. REC sales and REC revenues are impacted by many factors such as the amount of RECs produced and purchased in a year, the amount of RPS banking requirements, as well as the amount the Company sells in any given year. They are also impacted by factors such as whether they are sold as a bundled product with the energy or as an unbundled REC. RECs that are produced in a year and not sold within that year (Vintage RECs) still exist and can be sold in future periods. Additionally, various states have recently changed and are still changing renewable energy portfolio requirements thereby impacting the market. The addition of transmission allowing for the bundling of more RECs with the energy produced can also impact the sales level and prices. These factors, as well as others, result in changes and uncertainties in the REC market and fluctuations in the prices available for REC sales. There are also many opportunities for the Company to manipulate the amount of REC sales within a 12 month period, which can negatively impact ratepayers.

Given the amount of volatility, uncertainty and fluctuation, as well as the ability of the Company to control the amount and timing of sales to some degree, I recommend that RMP be required to record the difference between the amount of REC revenues approved by the Commission in this case for inclusion in rates and the actual REC revenues realized, with any differences being recorded in a regulatory deferral account. As ratepayers are paying for the wind facilities and other generation facilities that produce the RECs, they should also receive the benefit of the revenues generated from the REC sales. Additionally, interest should be imputed on the amount deferred. At the time of the next rate case, the balance in the regulatory deferral account could be amortized. I recommend that this regulatory deferral treatment remain in place for the next several rate cases and can be reconsidered at a future time.

At the time of the next rate case following this case, any deferred balance would be amortized as part of the revenue requirement. The annual REC revenue level can be reviewed and possibly reset for inclusion in base rates based on facts and information available at that time. Following the next rate case, the regulatory deferral treatment would continue based on the amount incorporated in the base rates. This mechanism would protect both customers and the Company. As I recommend the deferrals accumulate interest, this would give the Company incentive to project a realistic amount in its rate case filings.