BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR APPROVAL OF A SIGNIFICANT ENERGY RESOURCE DECISION AND VOLUNTARY REQUEST FOR APPROVAL OF RESOURCE DECISION	))))))))))	**DOCKET NO. 17-035-40** **Exhibit No. DPU 4.0 Dir** **Direct Testimony** **David Thomson**

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

Direct Testimony of

David Thomson

December 5, 2017

<u>Introduction</u>

Q. Please state your name and occupation.

A. My name is David Thomson. I am employed by the Utah Division of Public Utilities ("Division") as a Utility Technical Consultant.

Q. What is your business address?

A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84111.

Q. Please describe your education and work experience.

A. I graduated from Brigham Young University with a Bachelor of Science degree in Accounting. I am a Certified Public Accountant, licensed in the state of Utah. I began working for the Division in July of 2004.

Q. Have you testified before the Public Service Commission of Utah (Commission) previously?

A. Yes. I have testified in many rate case proceedings and other matters before the Commission.

Q. What is the purpose of the testimony that you are now filing?

A. The purpose of my testimony is to summarize the Division's review of the Production Tax Credit (PTC) for New Wind Assets in the Company's June 30, 2017 application for New Wind and Transmission request in this docket and its review of the Resource Tracker Mechanism (RTM) for New Wind and Transmission Assets. .

Q. Please summarize the Division's conclusions.

A. While the Division believes that the Company likely will be able to meet specific parts of the PTC requirements as those requirements currently exist, it must be recognized that ratepayers bear significant risks associated with the New Wind Assets. Also, because traditional ratemaking methods are available, the Division recommends that the Commission should deny the Company's request for the RTM and the Division is proposing that any deferrals related to this Docket not have carrying charges.

Production Tax Credit

Q. Did the Division review the PTC and the 80/20 rule of the PTC in Docket No. 17-035-39 (wind repowering)?

A. Yes. That analysis is also applicable to the new wind generation proposed by the Company in this Docket. The new transmission does not qualify for the PTC so no PTC analysis was performed for that part of the application.

Q. After conducting its analysis what has the Division determined in this docket regarding the PTC?

A. It appears to the Division that the Company will generally be able to meet the provisions of the PTC and the IRS 80/20 rule. This initial determination is based on the Division's review of the PTC provisions and the Company's response to data requests and information in its application. It is also based on the assumption that the actual results from building the new assets are comparable to the Company's estimates and valuation methods and those estimates and valuation satisfy the PTC provisions. If actual conditions diverge substantially from the Company's assumptions or timelines, ratepayers pursuant to the Company's application, would bear the risk that the project does not qualify for the PTC and is uneconomic.

Q. What are the PTC risks for the New Wind generation Assets?

A. First, the risk that the Company's proposal would not comply with provision of the Internal Revenue Service (IRS) PTC general rules and specifically the IRS' 80/20 rule. Second, the risk that the generation units will not be completed before the expiration date for full or partial recovery of PTC credits. And third, the risk that PTC credits taken will not stand up under IRS audit and examination. Any disallowance would have a significant impact on the new wind and transmission economic benefits and the results would have a long term negative impact to ratepayers.

Whether this year or in the future, legislative action on proposed changes to the United States tax code relating to the Corporate tax rate (for example, a lowering of the rate to 15%, or 20%, or another figure) or the PTC,[1] as now proposed or pursuant to other possible future legislative changes, could have a significant impact on, and bring uncertainty to, the economics of the new wind generation and transmission.

<u>Resource Tracker Mechanism</u>

Q. Is the RTM proposed in this Docket the same mechanism the Company proposes in the Docket No. 17-035-39?

A. Yes, according to the Company. In addressing the new wind and transmission asserts ("Combined Projects"), Company witness Mr. Jeffery K. Larsen's states.

> Yes. The Company proposes to use an RTM to track the costs and benefits associated with both the Combined Projects and the wind repowering project addressed in the Company's concurrent filing. The

[1] Possible proposals for change include eliminating the inflation adjustment that currently increases the PTC on an annual basis and modifying safe harbor provisions regarding completion dates for projects to qualify for a 100% credit.

> Company proposes to separately tract the costs and benefits of the two projects through different sections of the new tariff, in this case Schedule 97B, which I provide in Exhibit RMP__(JKL-5). The Company proposes slight differences in the treatment of the deferred balances, applying the surcharge cap to the wind repowering project only. [2]

As with the wind repowering, once the full costs are reflected in base rates in a general rate case (GRC), the Company proposes that the RTM continue to track only year-to-year changes in PTCs to capture the full impact of the new PTCs[3].

Q. Has the Division read Mr. Larsen's RTM testimony and reviewed his RTM exhibits?

A. Yes. We have reviewed Mr. Larsen's testimony and exhibits addressing the RTM.[4]

Q. What is the result of this review?

A. Based on our review, it appears that the RTM mechanism is a method to account for the benefits and costs as outlined by the Company in its filing and Mr. Larsen's testimony. It provides a way to recover the yearly deferral amount with interest, in the RTM balancing account, for rate recovery comparable to the EBA. The Division recommends denying the RTM for the reasons explained below.

Q. What is the Division's recommendation regarding the 6.00% carrying charge the Company proposes?

A. The Division is proposing that any deferrals related to this Docket not have carrying charges. If the Commission orders a carrying charge, a reasonable carrying charge would deviate from the 6% applicable for the EBA, except perhaps the deferral for the zero-cost energy EBA

[2] See Direct Testimony of Mr. Jeffery K. Larsen Docket No. 17-035-40, page 4, lines 79-85.
[3] See Direct Testimony of Mr. Jeffery K Larsen Docket No. 17-035-40, Pages 2-3, lines 39-47.
[4] See Direct testimony of Mr. Jeffery K. Larsen Docket No. 17-035-40, pages 6-11, lines 131-252.

component. A reasonable carrying charge would be based on the Commission approved carrying charge method[5].

Q. If the Commission determines that the new wind generation and transmission projects are reasonable, prudent, and in the public interest, how should the benefits and the costs of the new wind generation and transmission projects be treated for ratemaking?

A. The Division's recommendation is that the Commission issue an accounting order deferring new wind generation and transmission costs and benefits until the next general rate case (GRC). The deferral could be computed using the Company's balancing account method as outlined in its filing, with possible required modifications, and without the interest carrying charges or sur-credits.

However, it is possible to have a GRC covering the assets to be built without a deferred accounting order and the concern of carrying charges. For example, the Company could file a GRC on July 1, 2019 with a December 31, 2018 base period, using a future test period of January 1, 2020 to December 31, 2020. This future test period would cover the new wind and transmission projects' build to their end dates and rates would be effective March 1, 2020. Since traditional methods for rate recovery, such as a GRC or possibly deferred accounting until a GRC are available to the Commission, the RTM with its EBA type rate recovery is not necessary. The Commission should deny the Company's request for the RTM.

Q. Does this conclude your testimony?

[5] Docket No. 15-035-69, In the Matter of a Request for Agency Action to Review the Carrying Charges Applied to Various Rocky Mountain Power Account Balances, Commission Order dated January 20, 2016.

A. Yes.