Witness OCS – 3D

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 Direct Testimony of Donna Ramas For the Office of Consumer Services

REDACTED DIRECT TESTIMONY

OF

Donna Ramas

FOR THE OFFICE OF CONSUMER SERVICES

December 5, 2017

Table of Contents

REDACTED

INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and Principal at Ramas Regulatory Consulting, LLC, with offices at 4654 Driftwood Drive, Commerce Township, Michigan 48382.

Q. HAVE YOU PREPARED A SUMMARY OF YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. I was retained by the Utah Office of Consumer Services (Office) to review Rocky Mountain Power's (the Company or RMP) request for approval of a significant energy resource decision relating to construction or procurement of new wind facilities and voluntary request for approval of various transmission facilities. Accordingly, I am appearing on behalf of the Office.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I primarily address the Company's request to establish a Resource Tracking Mechanism ("RTM") to recover the revenue requirement impacts of the proposed new wind projects and transmission projects. I also discuss potential changes in tax law that could impact the economic analysis of the projects at issue in this docket. Finally, I discuss the ability of the new wind projects to increase future Renewable Energy Credit (REC) revenues received by the Company.

Q. DO YOU ADDRESS WHETHER OR NOT THE PROPOSED NEW WIND PROJECTS AND THE PROPOSED NEW TRANSMISSION PROJECTS SHOULD BE APPROVED BY THE COMMISSION AS PRUDENT AND IN THE PUBLIC INTEREST?

A. No. Office witness Phil Hayet addresses the projects and the Company's request that the projects be approved as prudent and in the public interest in his direct testimony. My testimony focuses on the new RTM proposed by the Company and risks associated with potential changes to tax law.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE NEW RESOURCE TRACKING MECHANISM PROPOSED BY RMP IN THIS CASE?

A. I strongly recommend that the proposed new Resource Tracking Mechanism be rejected by the Commission. There is no need to establish a complex recovery mechanism that would shift risk away from RMP's shareholders to its ratepayers and add substantial complexity to the regulatory process. If the Company goes forward with the wind and transmission projects being considered in this docket and the projects cause the Company to not be able to earn its authorized rate of return, adequate means exist to address the revenue requirements associated with the projects without the need to establish an RTM.

Q. BESIDES THE LACK OF NEED TO ESTABLISH A COMPLEX NEW REGULATORY RECOVERY MECHANISM, IS THERE ANOTHER COMPELLING REASON THAT THE RTM SHOULD BE REJECTED?

A. Yes. The Company's last application for an increase in retail rates before this Commission was filed on January 3, 2014 in Docket No. 13-035-184. RMP's application in Docket No. 13-035-184 utilized a historic base year ended June 30, 2013 and a future test year ending June 30, 2015. The direct testimony of RMP witness Cindy A. Crane in this proceeding indicates that the Company is proposing to invest $2 billion in new wind and transmission facilities that would become operational by December 31, 2020.[1] Exhibit RMP__(JKL-3), at page 1 of 5, provided with the Direct Testimony of RMP witness Jeffrey K. Larsen shows that the Company projects $2,084,848,000 will be placed in service in November 2020. The projects at issue in this case, exceeding $2 billion, are anticipated to be placed into service more than seven years after the historic base year evaluated by the parties in RMP's most recent rate case and more than five years after the end of the future test year considered in that rate case.

In Docket No. 17-035-39, RMP is also requesting that over $1 billion of capital costs associated with proposed wind repowering projects be recovered through an RTM. Given the amount of time that has elapsed since a detailed and rigorous review of RMP's revenue requirements was

---

[1] Direct Testimony of Cindy A. Crane, lines 21 – 23.

performed, coupled with the over $3 billion in investments at issue in this docket and Docket No. 17-035-39, it is my opinion that it is not reasonable to allow for the recovery of these significant investments through a recovery mechanism outside of base rates. Too much time has elapsed and will continue to elapse between the base year and the future test year utilized in the most recent rate case and the date the substantial investments at issue in the current docket and Docket No. 17-035-39 will be placed into service to assume that current base rates PLUS additional amounts to be collected via the proposed RTM will result in fair and reasonable rates to RMP's Utah ratepayers.

REVENUE REQUIREMENT / COST RECOVERY BACKGROUND

Q. WOULD YOU PLEASE PROVIDE A GENERAL DESCRIPTION OF HOW RMP RECOVERS COSTS ASSOCIATED WITH PLANT USED IN PROVIDING SERVICE TO ITS UTAH CUSTOMERS?

A. Yes. In establishing revenue requirements in a general rate case proceeding, prudently incurred plant that is used and useful in providing service to RMP's utility customers is included in plant in service. The plant in service balance, less the associated accumulated depreciation reserve balance and less the associated accumulated deferred income tax ("ADIT") balance is included in rate base upon which the rate of return found to be just and reasonable by the Commission is applied. Additionally, the associated impacts of the plant found to be prudent on net operating income are also included in the revenue requirement determination. This would include various net operating income impacts, such as costs of operating and maintaining the plant, property taxes associated with the plant, and depreciation expense associated with depreciating the plant asset over its projected life.

During a general rate case, all elements of the revenue requirement calculation are matched to a consistent period to ensure that a synchronized approach is used in setting rates. Thus, rate base, revenues, expenses and income taxes are all synchronized using a consistent test period. As mentioned above, in matching the elements of the revenue requirement calculation in the last rate case application filed by RMP in Utah, the Company used a future test year ending June 30, 2015.

Q. HOW DOES THE COMPANY RECOVER COSTS ASSOCIATED WITH NEW PLANT THAT IS PLACED INTO SERVICE AFTER THE TEST PERIOD USED IN DETERMINING THE REVENUE REQUIREMENT AND SETTING BASE RATES, SUCH AS PLANT PLACED INTO SERVICE ONE OR TWO YEARS AFTER THE TEST PERIOD?

A. Many aspects of the Company's operations change between rate case proceedings. While new plant is being added, existing plant continues to be depreciated, and the associated accumulated deferred income tax balance may grow. As the existing plant is depreciated, the net balance associated with the plant declines. Older plant may also be retired.

Between rate cases, the amount of revenues will change, as will expenses. These changes do not occur in isolation. Depending on the specific circumstances, utilities may often go years between rate case proceedings, even though they are adding plant during the interim years. Other changes in the components of the overall revenue requirement calculation may offset the impact of the increase of plant in service caused by new plant investment.

Q. THE PLANT ADDITIONS PROJECTED BY RMP ASSOCIATED WITH THE NEW WIND AND NEW TRANSMISSION PROJECTS AT ISSUE IN THIS CASE ARE FAIRLY SUBSTANTIAL. ABSENT THE COMPANY'S REQUESTED RESOURCE TRACKING MECHANISM BEING APPROVED, WHAT OPTIONS DOES THE COMPANY HAVE TO RECOVER THE COSTS ASSOCIATED WITH THE PROJECTS?

A. If the Company projects that new plant being added or other changes in the components of the revenue requirement equation will cause it to be unable to earn a fair and reasonable rate of return on its investments, the Company has the ability to seek to change its base rates by filing a rate case. As the Company has the ability to utilize a future test year in rate case filings, it would have the opportunity to include large new plant investments, such as the new wind and new transmission projects, in rates during the period such plant is placed in service or soon thereafter if it projects that the new plant being added will cause it to under-earn.

Q. CAN YOU PLEASE ELABORATE ON THE TEST YEAR OPTIONS AT THE COMPANY'S DISPOSAL?

A. Yes. Section 54-4-4(3) of the Utah Statutes specifically states:

> (a) If in the commission's determination of just and reasonable rates the commission uses a test period, the commission shall select a test period that, on the basis of the evidence, the commission finds best reflects the conditions that a public utility will encounter during the period when the rates determined by the commission will be in effect.

In addressing the establishment of the test period for use in determining just and reasonable rates, Utah Statutes Section 54-4-4(3) specifically states:

> (b) In establishing the test period determined in Subsection (3)(a), the commission may use:
> (i) a future test period that is determined on the basis of projected data not exceeding 20 months from the date a proposed rate increase or decrease is filed with the commission under Section 54-7-12;
> (ii) a test period that is:
> (A) determined on the basis of historic data; and
> (B) adjusted for known and measurable changes; or
> (iii) a test period that is determined on the basis of a combination of:
> (A) future projections; and
> (B) historic data.

Thus, under the statutory language, if a future test year will best reflect the conditions the Company will encounter during the rate effective period, the Company has the ability to request a future test year as long as the ending date of the test year does not exceed 20 months from the date the case is filed.

Q. WOULD THE ABOVE QUOTED STATUTES PROVIDE THE COMPANY THE OPPORTUNITY TO RECOVER THE COSTS ASSOCIATED WITH THE PROPOSED NEW WIND AND NEW TRANSMISSION PROJECTS IN RATES THROUGH A GENERAL RATE CASE?

A. Yes. If the Company forecasts that it will not earn its authorized rate of return once the projects are placed into service, when taking into account its internal forecasts for all components of the revenue requirement equation, it has the ability to submit a rate case filing requesting authority to increase its retail electric utility service rates. The Company projects placing the new wind and new transmission into service in late 2020,[2] which is almost three years from the current date. Thus, RMP will have ample time to prepare a rate case utilizing a test period that would capture the impacts of the projects.

Q. WHILE THE WIND REPOWERING PROJECTS BEING ADDRESSED IN DOCKET NO. 17-035-39 ARE NOT AT ISSUE IN THIS CASE, THE COMPANY'S REBUTTAL FILING IN THAT DOCKET SHOWS PLANT ADDITIONS OF $1.08 BILLION GOING INTO SERVICE BETWEEN JULY 2019 AND DECEMBER 2020.[3] IF THE COMPANY GOES FORWARD WITH THE NEW WIND AND NEW TRANSMISSION PROJECTS BEING CONSIDERED IN THIS CASE AND THE WIND

[2] Exhibit RMP___(JKL-3) provided with the Direct Testimony of Jeffrey K. Larsen shows the projects as being included in plant in service in November 2020.
[3] Docket No. 17-035-39, Exhibit RMP__(JKL-3R) provided with the Rebuttal Testimony of Jeffrey K. Larsen.

REPOWERING PROJECTS BEING CONSIDERED IN ANOTHER DOCKET, WOULD THIS CAUSE RMP TO FILE BACK-TO-BACK RATE CASE FILINGS?

A. No, not necessarily. As previously indicated, the Company has the ability to submit a rate case filing to request an increase in rates if it forecasts that it will not earn its authorized rate of return. Whether or not the wind repowering projects at issue in Docket No. 17-035-39 and the new wind and new transmission projects at issue in this docket will result in the Company not earning its authorized rate of return, as well as the timing in which the projects may cause the Company to begin to earn below its authorized rate of return, will be dependent on all components of the revenue requirement equation. If the RTM is rejected and the Company forecasts that it will be able to earn its authorized rate of return in the period during and subsequent to the wind repowering projects at issue in Docket No. 17-035-39 being placed into service, then it presumably would not file a rate case. As pointed out in Surrebuttal Testimony I submitted on November 15, 2017 in Docket No. 17-035-39, RMP projects that the benefit associated with the Production Tax Credits ("PTC") generated from the wind repowering projects will exceed the revenue requirements driven by those same projects during the first calendar year the repowering projects are placed into service (i.e., 2019) and in three of the first four calendar years the repowered assets are in service.[4] Subsequently, if RMP then projects that the new wind and new transmission projects will result in the inability to earn its authorized rate of return, RMP would have the opportunity to file a rate case utilizing a future test year in which the new assets are in service.

If the Company does submit a rate case filing that utilizes a test year covering the period in which the wind repowering projects are initially placed into service but the projects at issue in this case will not yet be in service in that test year, RMP would have the opportunity to subsequently file an application for alternative cost recovery for major plant additions associated with the new wind and new transmission projects.

Q. PLEASE ELABORATE ON THE ABILITY TO FILE FOR ALTERNATIVE COST RECOVERY.

A. Utah Statute Section 54-7-13.4 addresses alternative cost recovery for major plant additions. Section 54-7-13.4(2) states: "A gas corporation or an electrical corporation may file with the commission a complete filing for cost recovery of a major plant addition if the commission has, in accordance with Section 54-7-12, entered a final order in a general rate case proceeding of the gas corporation or electrical corporation within 18 months of the projected in-service date of a major plant addition." Section 54-7-13.4(c) defines major plant additions as a single capital investment

[4] Docket No. 17-035-39, Surrebuttal Testimony of Donna Ramas, lines 70 – 88.

project that exceeds 1% of the rate base determined in the most recent general rate case. The procedures provided for in the statute are more streamlined than a full rate case and are processed over a shorter time-frame.

The opportunity under the statutes to request alternative cost recovery for major plant additions would alleviate the potential need for back-to-back rate case proceedings should the Company's internal forecasts determine that both the wind repowering projects AND the projects being considered in Docket No. 17-035-40 would cause it to not earn its authorized return.

Q. YOU INDICATED THAT THE LAST UTAH BASE RATE CASE UTILIZED A HISTORIC BASE YEAR ENDED JUNE 2013 AND A FUTURE TEST YEAR ENDING JUNE 2015. HAS THE COMPANY DISCLOSED WHEN IT ANTICIPATES IT WILL FILE ITS NEXT RATE CASE IN UTAH?

A. No, not to the best of my knowledge.

Q. IS RMP'S PROPOSED ESTABLISHMENT OF A NEW RESOURCE TRACKING MECHANISM NEEDED?

A. No, it is not. As addressed above, if the projects at issue in this proceeding are found to be prudent and in the public interest, existing Utah Statutes provide the means to address the revenue requirement impacts of the projects. There is no need to institute a complex recovery mechanism to address the costs and benefits associated with the projects. Overall, the traditional ratemaking approach has resulted in fair and reasonable rates being charged to customers for the services they receive from the Company. It is my opinion that the Company's testimony regarding the RTM is not persuasive enough to justify modifying the long standing approach by implementing an additional recovery mechanism outside of base rate recovery.

Additionally, as indicated previously in this testimony, it is my opinion that too much time would have elapsed from the last base rate case to the date the projects at issue in this docket will be placed into service to assume that current base rates combined with the Company's proposed RTM will result in fair and reasonable rates being charged to Utah ratepayers.

Q. AS PART OF THE COMPANY'S REQUEST, WHAT IS IT ASKING WITH REGARDS TO THE PRODUCTION TAX CREDITS ASSOCIATED WITH THE NEW WIND PROJECTS?

A. The Company is requesting that the RTM be used to track the year-to-year changes in the PTCs so that the full impacts of the PTCs are captured through the date of expiration of the PTCs.

Q. DO YOU AGREE THAT THE RTM SHOULD BE ESTABLISHED TO ADDRESS THE TREATMENT OF THE PRODUCTION TAX CREDITS THROUGH THEIR EXPIRATION DATE?

A. No, I do not. My recommendation is that the proposed RTM be rejected. If the Company goes forward with the new wind projects at issue in this docket, the appropriate treatment of the PTCs resulting from the projects can be addressed in a future rate case proceeding. At that time, the Company would have the opportunity to request that the PTCs be added to the Energy Balancing Account (EBA) or to request the establishment of a regulatory asset account to track the differences between the PTC incorporated in base rates and the actual PTCs received by the Company. Parties to the rate case would then have the ability to address whether or not the requested EBA revisions or the requested regulatory asset should be established and the Commission can make a decision regarding the requested treatment as part of its order in the rate case.

If either EBA treatment or regulatory asset accounting for the PTCs is not established by the Commission as part of a rate case order, the Company would still have the ability to file a rate case at a future date if the expiration of the PTCs would cause it to not be able to earn its authorized rate of return. Under current tax law, the PTCs would expire ten years after the projects begin to generate the energy to which the PTCs apply. Many changes in the Company's operations will occur over that time frame and there is no way to know this far out if the distant future expiration of the PTCs under current tax law will cause the Company to be unable to earn its authorized rate of return on its investments.

Q. DO YOU HAVE ANY ADDITIONAL OVERARCHING CONCERNS REGARDING THE PROPOSED ESTABLISHMENT OF AN RTM?

A. Yes. Shifting costs from base rates to automatic recovery mechanisms removes some of the incentive to control costs. If costs are automatically trued-up to actual, there may not be as much focus on controlling the costs between base rate proceedings.

Q. IF THE COMMISSION DOES APPROVE AN RTM IN THIS CASE, WILL ADDRESSING THE APPROPRIATE BALANCES TO FLOW THROUGH THE MECHANISM EACH YEAR BE A SIMPLE TASK?

A. No. There are many components to the proposed RTM described and illustrated in Mr. Larsen's direct testimony and exhibits. Essentially, all aspects of the new wind and new transmission projects on the revenue requirements will need to be evaluated and considered on an annual basis in determining the RTM surcharges to customers. This would include, but not necessarily be limited to, the impacts of the various projects at issue in this proceeding on plant in service, accumulated depreciation, accumulated deferred income taxes, O&M expense, depreciation expense, property tax expense, wind tax expense, and production tax credits. The cost allocation factors and RMP's application of the factors in determining the various impacts on a Utah jurisdictional basis would also need to be reviewed in the annual RTM reviews. Establishing a new recovery mechanism outside of base rates adds significant complexity to the regulatory process as well as the amount of necessary oversight between rate case proceedings. In addition to the need for an annual review of the Energy Balancing Account, an annual review of the RTM would be added. Instead of making the regulatory process less complex, it would greatly increase the complexity. As indicated in this testimony, establishment of an RTM along with the added regulatory oversight and complexity it would bring, is not needed.

TAX RATE UNCERTAINTY

Q. IS THE COMPANY'S ANALYSIS PRESENTED IN THIS CASE BASED ON FEDERAL INCOME TAX RATES CURRENTLY IN EFFECT AND ON CURRENT TAX LAW AS IT PERTAINS TO PRODUCTION TAX CREDITS?

A. Yes. The Company's assumptions and calculations in this case are based on the 35 percent federal corporate income tax rate currently in effect as well as the production tax credit provisions existing in current tax law.

Q. IS IT POSSIBLE THAT THE FEDERAL INCOME TAX RATES COULD CHANGE IN THE NOT TOO DISTANT FUTURE?

A. Yes. There is a distinct possibility that the federal corporate income tax rate could decline to 20 percent between the present date and when the projects at issue in this docket are placed into service. The "Unified Framework for Fixing Our Broken Tax Code" developed by the Trump Administration, the House Committee on Ways and Means, and the Senate Committee on Finance issued on September 27, 2017 would reduce the corporate federal income tax rate to 20 percent. Subsequently, on November 16, 2017, the U.S. House of Representatives ("House") passed the Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act passed by the House provides for a corporate federal income tax rate of 20 percent. As of the date this testimony was prepared, the current U.S. Senate Committee on Finance version of the Tax Cuts and Jobs Act also provides for a corporate federal income tax rate of 20 percent. While it is not yet certain that a corporate federal income tax rate of 20 percent will ultimately be signed into law, it is a distinct possibility.

Q. WOULD LOWER CORPORATE INCOME TAX RATES HAVE A SUBSTANTIAL IMPACT ON THE ANALYSIS PRESENTED BY THE COMPANY IN THIS DOCKET?

A. Yes. Company witness Jeffrey K. Larsen presented the estimated revenue requirement costs and benefits resulting from the combined projects at issue in this docket for calendar years 2020 through 2023 in his Exhibit RMP__(JKL-2). OCS Data Request 3.1(b) asked the Company to provide the impact on Mr. Larsen's figures presenting the results of the combined projects on revenue requirements if the corporate federal income tax rate was reduced to 20 percent. The table below shows a comparison of the Company's estimated annual revenue requirements associated with the projects[5] on a Utah jurisdictional basis for 2020

[5] The revenue requirements are also referred to as "Net Customer Impact" by the Company on Exhibit RMP__(JKL-2). It includes all revenue requirement impacts projected by the Company associated with the combined projects, such as the after-tax return on rate base, expenses, offsetting wheeling revenues, reduction to net power costs and PTC offsets.

REDACTED

through 2023 based on federal income tax rates of 35 percent and 20 percent.

Table 1 - Estimated Revenue Requirement Impact - Combined Projects
(000s of dollars on a Utah Jurisdictional Basis)

	2020	2021	2022	2023
At 35% Federal Income Tax Rate	(6,764)	37,115	38,037	29,728
At 20% Federal Income Tax Rate	(5,487)	39,089	43,126	37,268
Impact of Tax Rate Change	1,277	1,974	5,089	7,540

As shown in the above table, the Company's estimated net impact on customers for the revenue requirements associated with the combined projects at issue in this docket are considerably higher at a federal income tax rate of 20 percent as compared to a rate of 35 percent. The above table is based on the revenue requirement impact analysis presented by Company witness Jeffrey K. Larsen. In his direct testimony, Office witness Phil Hayet addresses the impacts of a reduction to the federal income tax rate on the economic analysis presented in Company witness Rick T. Link's testimony.

Q. WHY DOES THE LOWERING OF THE CORPORATE TAX RATE CHANGE THE ECONOMICS OF THE COMBINED PROJECTS?

A. The production tax credits received by the Company are grossed up for income taxes in order to determine the impact on revenue requirements. While lowering the income tax rates would reduce the pre-tax return on the investments included in the revenue requirements, it also significantly lowers the revenue requirement value of the production tax credits.

REDACTED

Q. HAS THE COMPANY PROVIDED THE POTENTIAL IMPACTS OF LOWER CORPORATE INCOME TAX RATES ON THE ECONOMIC ANALYSIS PRESENTED IN THE DIRECT TESTIMONY OF RICK T. LINK?

A. No. The Company was asked in the OCS's Seventh Set of Data Requests to provide the impacts on various tables presented in Mr. Link's testimony if the federal income tax rate is reduced from 35% to 15%, 20% and 25%. The Company responded that "PacifiCorp has not performed the requested analysis."[6]

Q. ARE THERE ANY ADDITIONAL PROVISIONS IN THE TAX CUTS AND JOBS ACT PASSED BY THE US HOUSE ON NOVEMBER 16, 2017 THAT COULD HAVE A SIGNIFICANT IMPACT ON THE ECONOMIC ANALYSES DISCUSSED IN MR. LINK'S REBUTTAL TESTIMONIES?

A. Yes. Company witness Chad A. Teply explains on lines 109 to 113 of his direct testimony that "The time-sensitive nature of the Combined Projects is primarily driven by the pending phase-out of the federal PTC for new wind resources" and that the Internal Revenue Code "…provides for a PTC at the 2017 full rate of 2.4 cents per kilowatt hour of electrical energy production by a wind facility." Under current tax law, the PTCs on a per kilowatt hour basis are inflation-adjusted. The un-inflated rate is 1.5 cents per kilowatt hour of electricity produced and sold and the current inflation

---

[6] RMP's responses to OCS Data Requests 7.1, 7.2 and 7.3.

adjusted rate is 2.4 cents per kilowatt hour. In his economic analysis, Company witness Rick T. Link assumes that the PTC benefits increase with inflation until the PTC expiration.[7] Mr. Link's economic analysis assumes that the wind repower projects at issue in this docket will qualify for the full 100 percent of the PTCs and that the value of the PTCs will be based on the inflation-adjusted PTC rate.

The Tax Cuts and Jobs Act passed by the House includes Section 3501 – *Modifications to Credit for Electricity Produced from Certain Renewable Resources*. The modifications remove the inflation adjustment to the PTC rate for projects that begin after the date of the enactment of the new rules and revises the rules for determining the beginning of construction. The revised rules for the determination of the beginning of construction would potentially negate the safe-harbor provisions relied upon by the Company in determining that the projects would qualify for 100 percent of the PTC. The Section by Section Summary of the Tax Cuts and Jobs Act issued by the House indicates that it is projected that the revisions in Section 3501 will increase federal revenues by $12.3 billion over 2018 – 2027. Thus, the changes are projected to have a substantial impact on the amount of PTCs received as compared to current tax law.

---

[7] Direct Testimony of Rick T. Link, lines 868 – 873.

Q. IS IT CERTAIN THAT THE MODIFICATIONS TO THE PTCs CONTAINED IN THE TAX CUTS AND JOBS ACT PASSED BY THE U.S. HOUSE OF REPRESENTATIVES WILL BE SIGNED INTO LAW?

A. No. The U.S. Senate Committee on Finance version of the Tax Cuts and Jobs Act did not include the changes to the PTC provisions that are reflected in the House version of the Act as of the date this testimony was prepared. It is not yet known with certainty if the revisions to the PTCs contained in the Tax Cuts and Jobs Act passed by the House on November 16, 2017 will become law. It is also not yet known if the Senate will pass a version of the Tax Cuts and Jobs Act that will revise the current PTC provisions. It is also not yet known if the changes to the PTC provisions passed by the House will be removed or modified in the reconciliation process between the House and Senate versions of the Tax Cuts and Jobs Act (assuming the Senate passes a version of the Tax Cuts and Jobs Act). While the outcome is uncertain, these are real risks associated with potential changes in tax law that would greatly impact the economic analysis of the projects at issue in this case.

Q. ARE THERE ADDITIONAL CHANGES IN THE TAX CUT AND JOBS ACT PASSED BY THE HOUSE AND BEING CONTEMPLATED BY THE SENATE THAT WOULD IMPACT THE ECONOMIC ANALYSIS PRESENTED IN THE COMPANY'S APPLICATION?

A. Yes. Current tax law allows for accelerated depreciation, or "bonus depreciation" for certain qualified property. The bonus depreciation allowed under current tax law for qualified property is 50% for qualified property placed in service during 2017, phasing down to 40% in 2018 and 30% in 2019. There is an exception in the current tax law that would allow costs incurred before January 1, 2020 for certain property having longer production periods, with a tax recovery period of at least ten years and cost in excess of $1 million, to remain eligible for the 30% bonus depreciation rate if the property is placed into service before January 1, 2021. Thus, under current tax law, at least a portion of the costs associated with the projects at issue in this proceeding would qualify for the 30% bonus depreciation provisions. While the Tax Cut and Jobs Act passed by the House as well as the current version of the Act being contemplated by the Senate (as of the date this testimony was prepared) provides for immediate expensing of 100% of the cost of qualified property placed in service between certain dates, property used by a regulated public utility company would no longer qualify for the special bonus depreciation or new 100% expensing provisions. Thus, the projects at issue in this case may not qualify for bonus depreciation. If the projects do not qualify for bonus depreciation, the accumulated deferred income tax offset to rate base will be lower during the initial years the projects are in service, increasing the associated revenue requirements and negatively impacting the economic analysis.

Q. ARE YOU AWARE OF ANY RISKS REGARDING THE ABILITY OF THE PROJECTS TO QUALIFY FOR BONUS DEPRECIATION UNDER CURRENT TAX LAW?

A. Yes. As indicated above, under current tax law a portion of the costs associated with the projects at issue in this docket would qualify for the 30% bonus depreciation provisions if the projects are placed in service by January 1, 2021. If the Company is unable to meet the required January 1, 2021 in service date, the benefits associated with the bonus depreciation provisions would no longer apply.

Q. DO YOU KNOW THAT THE CORPORATE INCOME TAX RATES WILL BE REDUCED?

A. No. However, there is real potential that the federal corporate income tax rates will change and this real potential should not be ignored. The possibility of tax reform in the near term raises a significant risk with regards to the economic viability of the projects at issue in this case, and that risk would shift to ratepayers under the Company's proposal.

IMPACTS OF RENEWABLE ENERGY CREDITS

Q. IN HIS DIRECT TESTIMONY, AT LINES 83 TO 85, MR. LINK INDICATES THAT THE PROJECTED BENEFITS OF THE COMBINED PROJECTS HE PRESENTS DO NOT INCLUDE ANY VALUE ASSOCIATED WITH RECs THAT WILL BE GENERATED BY THE NEW

WIND FACILITIES. DO YOU AGREE THAT THE POTENTIAL VALUE OF RECs SHOULD BE EXCLUDED FROM THE ANALYSIS?

A. Yes. In fact, I recommend that the Commission not give credence to the possibility of future revenues from the Renewable Energy Credits (RECs) that will be generated by the repowered wind projects in its evaluation in this case.

Q. WHY NOT?

A. The amount of potential future revenues that RMP will receive from the new RECs, if any, is unknown. The Company indicated in its response to OCS Data Request 6.9 that the REC market "…is not consistently active and is illiquid" and that there is "…little price transparency in REC markets." The Company also stated in the response that the volume of RECs available in the market as well as the location of the resources generating the RECs impacts the REC prices. The amount of additional wind resources anticipated to come on line between the present time and the expiration of the PTCs will obviously put downward pressure on the ability to sell generated RECs as well as the prices paid for RECs.

*****BEGIN CONFIDENTIAL***** [redacted]

REDACTED

[redacted] ***END CONFIDENTIAL***

Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?

A. Yes.