

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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**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  
DPU Exhibit 2.0 SR**

**Testimony and Exhibits  
Daniel Peaco**

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

**Surrebuttal Testimony of**

**Daniel Peaco**

**On Behalf of the Division of Public Utilities**

**March 16, 2018**

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1     **I. Introduction**

2     **Q. Are you the same Daniel Peaco who previously provided Direct Testimony in this**  
3     **proceeding on behalf of the Utah Division of Public Utilities (Division or DPU)?**

4     A. Yes. I submitted Direct Testimony on December 5, 2017 on behalf of the Division as  
5     DPU Confidential Exhibit 2.0 DIR.

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

7     A. The purpose of my Surrebuttal Testimony is to respond to issues pertaining to my  
8     December 5, 2017 Direct Testimony contained in the Rebuttal Testimony filed on  
9     January 16, 2018 by Parties (Other Parties) other than Rocky Mountain Power (RMP or  
10    Company).<sup>1</sup> Specifically, I respond to two issues raised in the Rebuttal Testimony of  
11    Ms. Kate Bowman (on behalf of Utah Clean Energy) and the Rebuttal Testimony of Mr.  
12    Bradley Mullins (on behalf of the Utah Association of Energy Users and the Utah  
13    Industrial Energy Consumers) filed on January 16, 2018. My testimony addresses: (a) the  
14    consideration of carbon price risk and (b) the hedge value of the New Wind and  
15    Transmission Projects (Combined Projects) for Utah ratepayers.

16    I do not address other issues raised in Other Parties' Rebuttal Testimonies that are  
17    specific to the analysis presented in RMP's Direct Testimony. The Company introduced  
18    material changes to the Combined Projects and the economic analysis supporting the  
19    Combined Projects in its supplemental filings on January 16, 2018, February 16, 2018,  
20    and on February 23, 2018. Given these changes, much of the Other Parties' Rebuttal

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<sup>1</sup> Consistent with the Amended Scheduling Order issued on February 13, 2018 and the Order Clarifying Amended Scheduling Order issued on March 6, 2018, I do not address Supplemental or Rebuttal Testimony submitted on or after January 16, 2018 in this Surrebuttal Testimony.

21 Testimony is subject to change, as well. The Division reserves the right to address issues  
22 raised by Other Parties in this proceeding in later testimony based on the review of this  
23 new information from the Company.

24

## 25 **II. Carbon Price Risk**

26 **Q. Please summarize the rebuttal offered to your Direct Testimony regarding carbon**  
27 **price risk.**

28 A. Kate Bowman, on behalf of Utah Clean Energy, takes issue with my Direct Testimony  
29 regarding the Company's treatment of carbon price risk.<sup>2</sup> Specifically, she disagrees with  
30 my view of the importance of the low gas, zero CO<sub>2</sub> price-policy scenario in the  
31 consideration of the merits of the Combined Projects.<sup>3</sup>

32 **Q. Please summarize your response to Ms. Bowman's critique.**

33 A. I disagree with her view of the importance of carbon emissions pricing risk in the context  
34 of the proposal before the Commission in this case. Her testimony:

- 35 1) Does not properly characterize the Company's proposal;
- 36 2) Does not consider the alternatives to proceeding with the Combined Projects now;
- 37 and,
- 38 3) Misrepresents my testimony regarding the zero CO<sub>2</sub> price scenario.

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<sup>2</sup> Rebuttal Testimony of Kate Bowman on behalf of Utah Clean Energy, January 16, 2018, lines 9-11.

<sup>3</sup> Id., lines 11-26.

39 **Q. How did Ms. Bowman mischaracterize the Company's proposal?**

40 A. Ms. Bowman's testimony does not discuss the fact the Company's Application proposes  
41 to advance in time its plans for the development of the Combined Projects due to an  
42 economic opportunity presented by federal Production Tax Credit (PTC) policy.<sup>4</sup> Rather,  
43 her Rebuttal Testimony implicitly assumes that if these projects are not constructed on  
44 this advanced schedule, they would not be available to be built at a later time when the  
45 carbon pricing policies she anticipates become a reality.<sup>5</sup>

46 The Company's Direct Testimony characterizes the Combined Projects as an economic  
47 opportunity to take advantage of federal PTCs and provide net benefits to customers.<sup>6</sup>  
48 Company witness Mr. Rick Link specifically noted that the analysis performed for the  
49 Company's 2017 Integrated Resource Plan found that there is no need for incremental  
50 capacity until 2028.<sup>7</sup> Although the Company describes the Transmission Projects as  
51 necessary to relieve congestion,<sup>8</sup> subsequent responses to data requests confirmed that  
52 there is no reliability need for the Transmission Projects if the Wind Projects are not  
53 constructed.<sup>9</sup> As I noted in my Direct Testimony, Company witnesses Ms. Cindy Crane

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<sup>4</sup> June 30, 2017 Direct Testimony of Cindy A. Crane, lines 21-29 and 41-45, and Rick A. Vail, lines 56-71. See also, Direct Testimony of Daniel Peaco, lines 286 – 292.

<sup>5</sup> Rebuttal Testimony of Kate Bowman, lines 44-46.

<sup>6</sup> June 30, 2017 Direct Testimony of Cindy A. Crane, lines 21 – 29 and 247.

Note that the Company's Rebuttal and Supplemental Direct Testimony, filed concurrently with Ms. Bowman's testimony, expanded the rationale for the Combined Projects. In that testimony the Company, for the very first time, characterizes the proposal as addressing a resource need, rather than taking advantage of an economic opportunity. See, e.g. Supplemental Direct and Rebuttal Testimony of Cindy A. Crane, lines 161-172.

<sup>7</sup> Direct Testimony of Rick T. Link, lines 111-115.

<sup>8</sup> Direct Testimony of Cindy A. Crane, lines 200-201.

<sup>9</sup> RMP Response to Data Request DPU 8.1. Direct Testimony of Rick A. Vail, lines 431 – 432.

Note that the Company's Rebuttal and Supplemental Direct Testimony, filed concurrently with Ms. Bowman's testimony, also modified the Company's response to Data Request DPU 8.1 by now arguing that there is a need for the Transmission Projects absent the Wind Projects. See, e.g. Supplemental Direct and Rebuttal Testimony of Rick A. Vail, lines 261-271.

54 and Mr. Rick Vail both acknowledge that the Transmission Projects are not economic  
55 without the Wind Projects and the associated PTC benefits.<sup>10</sup>

56 Ms. Bowman ignores the fact that the Company's Application is solely focused on  
57 whether there are compelling economics to Utah customers, based on the time-limited  
58 availability of PTC benefits, to proceed now with these projects. A Commission decision  
59 denying approval of the Combined Projects in this proceeding does not change the  
60 significant wind energy resource potential in eastern Wyoming and does not preclude  
61 development of the Combined Projects at a later date if the carbon pricing policies that  
62 Ms. Bowman anticipates come to fruition. At this time, based on the Company's analysis  
63 in its Direct Testimony, meaningful ratepayer savings appear only in scenarios with high  
64 natural gas prices and high carbon pricing.<sup>11</sup>

65 **Q. How does Ms. Bowman's Rebuttal Testimony fail to consider alternatives to the**  
66 **Combined Projects?**

67 A. In addition to her lack of consideration of a later development of the Combined Projects,  
68 she makes no mention of other clean energy resources that might serve as economic  
69 alternatives to the Combined Projects in a high carbon pricing future. She did not  
70 comment on my testimony regarding the Company's lack of consideration of alternatives  
71 to the Combined Projects as proposed.<sup>12</sup>

72 By neglecting the options for different timing of the Combined Projects, alternative wind  
73 and transmission configurations, and alternative clean energy options that may be

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<sup>10</sup> Direct Testimony of Cindy A. Crane, lines 202 – 205. Direct Testimony of Rick A. Vail, lines 56 – 71.

<sup>11</sup> Direct Testimony of Daniel Peaco, lines 318-322.

<sup>12</sup> Id., lines 390-423.

74 economic when the carbon pricing rules she expects to be established, Ms. Bowman  
75 incorrectly positions the decision to proceed with the Combined Projects now as an all-  
76 or-nothing proposition.

77 **Q. How does Ms. Bowman’s testimony misrepresent your Direct Testimony?**

78 A. Ms. Bowman ignores the context of my discussion of the carbon price risks in  
79 challenging my statements on the importance of the zero CO<sub>2</sub> scenario.<sup>13</sup>

80 The passages that she cites from my testimony come from the section of my testimony  
81 that identifies carbon pricing policy as one of many risks that the Company is asking the  
82 ratepayers to assume. In her response, she incorrectly asserts that my testimony is arguing  
83 for an assumption of zero carbon pricing and then proceeds to rebut that false premise.<sup>14</sup>

84 Due to the fact that the Company has advanced these projects as an economic opportunity  
85 to ratepayers, I discuss carbon pricing uncertainty and many other uncertain factors that  
86 could, in aggregate, fail to provide ratepayers a high likelihood of economic benefits  
87 from the Combined Projects. My discussion of carbon pricing pertains not to whether  
88 carbon pricing in the future is possible, but rather to the question of the degree of  
89 uncertainty and the magnitude of the risks that the Company is asking ratepayers to  
90 assume. In fact, Ms. Bowman ignores the passage in my testimony that states, “I do not  
91 have any particular issue with the three specific scenarios selected by the Company.”<sup>15</sup>

92 Further, Ms. Bowman actually agrees with my assessment that there is the possibility of a  
93 zero CO<sub>2</sub> price throughout the lifetime of the proposed projects. She states that the zero

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<sup>13</sup> Rebuttal Testimony of Kate Bowman, lines 11-26.

<sup>14</sup> Id. at lines 22-23.

<sup>15</sup> Direct Testimony of Daniel Peaco, lines 765-766.

94 CO<sub>2</sub> scenario is “unlikely.”<sup>16</sup> She properly stops well short of asserting that it is  
95 impossible.

96 **Q. Please summarize your conclusions on the differences between Ms. Bowman’s**  
97 **testimony and your own on the issue of carbon price risk.**

98 A. My testimony is specifically focused on the unique economic opportunity offered to  
99 ratepayers, the uncertainties in the economics of the Combined Projects, and, ultimately  
100 the likelihood that ratepayers will realize material economic benefits from the proposal.  
101 The focus on economics in this case is due to the uniqueness of this case, namely  
102 accelerating the transmission line to enable eastern Wyoming wind projects to capture  
103 time-limited opportunities for PTC benefits.

104 Ms. Bowman’s perspective does not appear to take into consideration the unique  
105 circumstances of this proposal or the specifics of the economic risks that ratepayers are  
106 being asked to assume including, but not limited to, the uncertainties regarding the form  
107 and timing of any prospective federal policy on greenhouse gas emissions.

108 As posed in the Company’s Direct Testimony, customers stand to realize meaningful  
109 economic benefits only in cases that include full PTC benefits and significant CO<sub>2</sub>  
110 pricing beginning in 2025. In that circumstance, deferring action on the Combined  
111 Projects until a later time when carbon pricing policies are more certain may be the better  
112 outcome for ratepayers.

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<sup>16</sup> Rebuttal Testimony of Kate Bowman, lines 25-26.



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114 **III. Hedge Value of the Wind and Transmission Project**

115 **Q. Please summarize the Rebuttal Testimony offered regarding the hedge value of the**  
116 **Combined Projects.**

117 A. The hedge value of the Combined Projects was raised in Direct Testimony filed by Ms.  
118 Nancy Kelly on behalf of Western Resource Advocates and in the Direct and Rebuttal  
119 Testimony of Mr. Bradley Mullins on behalf of the Utah Association of Energy Users  
120 and the Utah Industrial Energy Consumers. Mr. Mullins offers rebuttal to Ms. Kelly's  
121 testimony regarding the value of these projects as a hedge against thermal fuel prices and  
122 carbon emission costs.<sup>17</sup>

123 **Q. Please describe your view of the hedge value of the Combined Projects.**

124 A. Ms. Kelly and Mr. Mullins agree that the Combined Projects can be thought of as a  
125 hedge. Ms. Kelly advocates for the hedge value of the projects while Mr. Mullins argues  
126 that the projects are inconsistent with the Company's hedging policy.

127 I support Mr. Mullins's view that the projects should not be considered in the context of a  
128 hedge. In addition to the points he raises, I have additional concerns.

129 The discussion of hedge value in each testimony does not explicitly address the material  
130 risks inherent in the Combined Projects, as discussed in my Direct Testimony.<sup>18</sup> The  
131 Combined Projects are not offered as a fixed price proposition. Ratepayers face

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<sup>17</sup> Rebuttal Testimony of Bradley Mullins, lines 169-186; Direct Testimony of Nancy Kelly, lines 180-186 and 270-275.

<sup>18</sup> Direct Testimony of Daniel Peaco, lines 787-800.

132           uncertainties in ultimate project costs, timing, PTC realization, and other factors with the  
133           projects.

134           Further, like Ms. Bowman, Ms. Kelly and Mr. Mullins do not consider the option to defer  
135           development of the Combined Projects to a later time. Today, the market outlook for  
136           natural gas and carbon emissions are low. Should those outlooks change at some point in  
137           the future, the Combined Projects could still offer the values Ms. Kelly describes.

138           In summary, as I have described above and in my Direct Testimony, the specifics of the  
139           current proposal to accelerate development of the Combined Projects to gain PTC  
140           benefits should be based on demonstration of high likelihood of economic benefits.

141   **Q.    Does this conclude your Surrebuttal Testimony?**

142    A.    At this time, yes, it does.  If additional, relevant information becomes available, I will  
143           supplement this testimony as appropriate.