Witness OCS – 3 Second Rebuttal

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 Second Rebuttal Testimony of Donna Ramas For the Office of Consumer Services

SECOND REBUTTAL TESTIMONY

OF

Donna Ramas

FOR THE OFFICE OF CONSUMER SERVICES

April 17, 2018

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 PREVIOUSLY SUBMITTED TESTIMONY IN THIS DOCKET?

A. Yes. I submitted direct testimony and rebuttal testimony in this docket on behalf of the Utah Office of Consumer Services (OCS) on December 5, 2017 and January 16, 2018, respectively.

Q. WHAT IS THE PURPOSE OF YOUR SECOND REBUTTAL TESTIMONY?

A. In this case, the Company proposes to establish a Resource Tracking Mechanism (“RTM”) to recover the revenue requirement impacts of the proposed new wind and new transmission projects. My second rebuttal testimony focuses on the proposed RTM. Specifically, I respond to the supplemental direct and rebuttal testimony of Joelle R. Steward filed on January 16, 2018 and the second supplemental direct testimony of Joelle R. Steward filed on February 16, 2018.

Q. DO YOU ADDRESS WHETHER OR NOT THE PROPOSED NEW WIND PROJECTS AND THE PROPOSED NEW TRANSMISSION PROJECTS, AS REVISED IN THE COMPANY’S JANUARY 16, 2018 AND FEBRUARY 16, 2018 SUPPLEMENTAL FILINGS, 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 second rebuttal testimony. My testimony focuses on RMP's proposed method of recovering the costs associated with the projects from Utah ratepayers outside of a general rate case filing in the event the Commission determines that the projects are prudent and in the public interest.

Q. IN YOUR DIRECT AND SURREBUTTAL TESTIMONY, YOU RECOMMENDED THAT THE COMPANY'S PROPOSED NEW RESOURCE TRACKING MECHANISM BE REJECTED. DID ANY INFORMATION PRESENTED IN THE COMPANY'S SUPPLEMENTAL TESTIMONIES CAUSE YOU TO MODIFY YOUR POSITION THAT THE RTM SHOULD BE REJECTED?

A. No, absolutely not. I continue to strongly recommend that the Commission reject the proposed new Resource Tracking Mechanism. As indicated in my direct testimony, 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. As already discussed in my direct testimony, adequate means exist to address the revenue requirements associated with the proposed new wind and new transmission projects in this docket without the establishment of an RTM if the Company goes forward with the projects, the projects are found to be prudent, and the projects cause the Company to not be able to earn its authorized rate of return.

Q. DO YOU STILL STAND BEHIND THE RECOMMENDATIONS PRESENTED IN YOUR DIRECT TESTIMONY FILED IN THIS PROCEEDING?

A. Absolutely. As such, the positions and recommendations presented in my direct testimony will not all be repeated herein.

As part of my direct testimony, I addressed the significant risks associated with potential tax reform that was pending at the time the testimonies were filed. Since that time, new tax legislation was signed into law[1], hereinafter referred to as the Tax Reform Act, alleviating much of the tax uncertainty that existed at previous stages in this docket. In its supplemental filing and second supplemental filing, the Company incorporated the impacts of the Tax Reform Act, among other changes RMP made to the economic analyses associated with the new wind and new transmission projects in this case. The passage of the Tax Reform Act does not change my position that RMP's proposed RTM should be rejected.

Q. WHAT IS THE COMPANY'S POSITION IF THE PROPOSED RTM IS NOT APPROVED BY THE COMMISSION?

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[1] On December 22, 2017, President Trump signed "An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution of the budget for fiscal year 2018", also referred to as the "Tax Reform Act", into law.

A. In her second supplemental direct testimony, Ms. Steward states: "Absent recovery through the RTM, the Company continues to recommend symmetrical treatment of the costs and benefits of the Combined Projects by excluding net power cost benefits from the EBA if costs are not deferred or otherwise reflected in rates."[2]

Q. IF THE PROJECTS ARE FOUND TO BE PRUDENT AND IN THE PUBLIC INTEREST, WOULD RMP'S SHAREHOLDERS SOMEHOW BE PENALIZED IF THE RTM IS REJECTED AND FICTITIOUS COSTS ARE NOT ADDED TO THE ENERGY BALANCING ACCOUNT REPLACING THE ZERO COST ENERGY OR LOWER COST ENERGY FROM THE NEW WIND PROJECTS?

A. No. As indicated in my direct testimony, the traditional regulatory process would allow the Company, and its shareholders, the opportunity to earn its authorized rate of return on plant additions that are found to be prudent and in the public interest without the need for a new complex recovery mechanism. If the projects are found to be prudent and in the public interest, and RMP forecasts that it will not earn its authorized rate of return once the new wind and new transmission projects are placed into service, it has the ability to submit a rate case filing requesting authority to increase its retail electric utility service rates. The Company also would have ample time to prepare a rate case utilizing a test period that would

[2] Second Supplemental Direct Testimony of Joelle R. Steward at lines 43 – 46.

capture the impacts of the proposed new wind and new transmission projects.

Q. DID RMP ADDRESS YOUR POSITION THAT THE COMPANY COULD RECOVER THE COSTS OF THE NEW WIND AND NEW TRANSMISSION PROJECTS THROUGH A RATE CASE FILING IF THE PROJECTS ARE FOUND TO BE PRUDENT AND IN THE PUBLIC INTEREST?

A. Yes. In addressing my position and the position of Division of Public Utility (“DPU”) witness David Thomson on RMP’s ability to file a general rate case using a future test year, Ms. Steward states as follows:

> Although the Company can request the use of a future test year, the Commission may not approve one, and parties, including OCS and UAE, have opposed future test years in the past. Thus, it is highly uncertain whether the Company could implement the proposal to use a future test year to fully capture the costs and benefits of the Combined Projects in a single, timely general rate case, making timely cost recovery of this investment uncertain.[3]

Q. IS THE POTENTIAL THAT THE COMMISSION COULD REJECT THE USE OF A FUTURE TEST YEAR IN A RATE CASE PROCEEDING A COMPELLING REASON TO ALLOW FOR RECOVERY OF THE SUBSTANTIAL PROPOSED NEW INVESTMENTS FROM RATEPAYERS OUTSIDE OF A GENERAL RATE CASE PROCEEDING?

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[3] Supplemental Direct and Rebuttal Testimony of Joelle R. Steward, lines 143 – 154. Footnote omitted from citation.

A. Absolutely not. As indicated in my direct testimony, at lines 136-142, Section 54-4-4(3) of the Utah Statutes indicates that if the Commission uses a test period in determining just and reasonable rates, it is required to select a test period, based on the evidence, that it finds best reflects the conditions that the utility will encounter during the rate effective period. One of the test period options the Commission may use in determining just and reasonable rates is a future test period. If the Company submits a general rate case filing utilizing a future test year, it is the Company's responsibility and burden to present evidence demonstrating that its requested future test year best reflects the conditions it will encounter during the rate effective period. Thus, I do not understand how Ms. Steward can assert that it is "…highly uncertain whether the Company could implement the proposal to use a future test year to fully capture the costs and benefits of the Combined Projects…" in a general rate case. Apparently, if the Commission finds the projects at issue in this case to be prudent and in the public interest, the Company questions its ability to present compelling evidence to the Commission supporting a future test year that incorporates the projects in a general rate case. The Company's uncertainty of its ability to present adequate evidence supporting a future test year incorporating the projects is not a compelling reason to deviate from traditional ratemaking standards by implementing automatic and guaranteed recovery of the Combined Project revenue requirements outside of base rates.

Q. DESPITE THE ALLEGEDLY HIGH UNCERTAINTY DISCUSSED BY MS. STEWARD, HAS THE COMPANY GIVEN ANY INDICATION REGARDING WHETHER IT INTENDS TO USE A FUTURE TEST YEAR IN ITS NEXT RATE CASE AND THE POTENTIAL TIMING OF THE NEXT RATE CASE?

A. Yes. RMP's response to OCS Data Request 13.9, indicates that it currently anticipates it will file its next general base rate case during calendar year 2020 with a 2021 test year.

Q. DOES THE CURRENTLY ANTICIPATED 2021 TEST YEAR REASONABLY ALIGN WITH THE PROJECTED IN SERVICE DATES FOR THE NEW WIND AND NEW TRANSMISSION PROJECTS?

A. Ms. Steward's Exhibit RMP__(JRS-3SS), page 1 of 5, shows that RMP forecasts that most of the project costs at issue in this case will be placed into service in November and December, 2020, which is the two months immediately preceding the anticipated test year in the Company's next general rate case. The Company has not demonstrated that the projects at issue in this case would result in RMP being unable to earn its authorized rate of return in 2020. If RMP determines that the projects will cause it to be unable to earn its authorized rate of return, it can modify the anticipated timing of its next rate case and the test year utilized in that case. It is RMP that chooses when to file a rate case, not ratepayers.

Q. ARE THERE ADDITIONAL ASPECTS OF THE CURRENTLY ANTICIPATED TEST YEAR AND THE COMPANY'S PROPOSED RTM THAT YOU FIND TROUBLING?

A. Yes. Ms. Steward states at lines 140 to 142 of her supplemental direct and rebuttal testimony that the RTM is a "short-term tracking mechanism" and that it is "…not intended to be a permanent mechanism in place for the life of the Combined Projects." Exhibit RMP__(JRS-2SS), page 2 of 2, shows that the "Total Plant Revenue Requirement"[4] associated with the new wind and new transmission projects are anticipated to be the highest in 2021, which is RMP's anticipated future test year for its next rate case. The exhibit shows that the projected revenue requirement associated with the projects decline approximately $5 million in 2022 and $4.6 million in 2023 on a Utah jurisdictional basis. The decline in anticipated revenue requirement impacts is due largely to the reduction in the net plant investment from accumulating depreciation. Thus, under the Company's proposal, it would receive recovery of the revenue requirement impacts outside of base rates through a guaranteed recovery mechanism during the period the revenue requirements associated with the projects are increasing, then it anticipates incorporating the project in base rates at the highest projected annual cost level. That higher cost recovery level would

[4] The "Total Plant Revenue Requirement" on Exhibit RMP__(JRS-2SS) includes the return on rate base, operation and maintenance expenses, depreciation expense, property taxes, wind taxes and offsetting wholesale wheeling revenues.

stay in place until the subsequent rate case, even though the projected revenue requirement impacts of the projects decline.

Q. AT LINES 325 THROUGH 334 OF HER SUPPLEMENTAL DIRECT AND REBUTTAL TESTIMONY, MS. STEWARD INDICATES THAT THE COMMISSION HAS PREVIOUSLY APPROVED RESOURCE ACQUISITIONS BASED ON THEIR ECONOMIC BENEFITS TO CUSTOMERS. WHAT PRIOR RESOURCE ACQUISITIONS DOES SHE IDENTIFY?

A. Ms. Steward indicates that the Commission "…has allowed cost recovery for the Cholla, Craig and Hayden, and Chehalis power plants." She indicates that these were economic opportunities that the Commission determined were in the interest of customers. She also indicates that the Commission allowed full recovery of the projects.

Q. DID THE COMPANY RECOVER THE REVENUE REQUIREMENTS ASSOCIATED WITH THE PROJECTS IDENTIFIED BY MS. STEWARD THROUGH A SEPARATE RECOVERY MECHANISM OUTSIDE OF BASE RATES?

A. No. In response to OCS Data Request 13.1, the Company indicated that the Cholla, Craig and Hayden plants were included in the Company's rate case filing in Docket No. 97-035-01. It is my understanding that these plants, or a portion thereof, were owned by PacifiCorp for many years before they were included in base rates through a rate case filing. The response also indicates that the Chehalis plant was included in the

Company's rate case filing in Docket No. 08-035-38. The Chehalis plant was acquired by RMP in 2008 and rates from Docket 08-035-38 became effective May 8, 2009. Thus, for each of the projects identified by Ms. Steward, the project costs were included in general rate case filings after they were acquired by PacifiCorp. To the best of my knowledge, no recovery mechanisms outside of base rates were established for the projects.

Q. ARE THERE ANY ADDITIONAL STATEMENTS IN MS. STEWARD'S SUPPLEMENTAL DIRECT AND REBUTTAL TESTIMONY FILED JANUARY 16, 2018 THAT YOU WISH TO ADDRESS?

A. Yes. Ms. Steward, at lines 305 to 315 of her supplemental direct and rebuttal testimony, addresses Mr. Peaco, Dr. Zenger and Mr. Mullin's direct testimonies and claims that "The purported shareholder benefit is the capital costs incurred to fund the Combined Projects." Ms. Steward indicates that "[t]he cost of capital is no different than any other prudent cost recoverable in rates if incurred to provide utility service" and that "[i]t is inaccurate to say that shareholders are receiving a greater benefit than customers based on the fact that shareholders recover the costs incurred to provide utility service." What this testimony does not acknowledge is the fact that the projects proposed in this case would significantly increase the amount of capital upon which a return would be earned by shareholders. In other words, while it may not necessarily increase the overall percentage of return on equity earned, it will increase the base upon which the equity rate is applied. Growing rate base upon which the equity return is applied is a benefit by shareholders, even more so when the risk associated with earning the authorized return on the expanding investment is reduced. It would also result in ratepayers paying a return on the significant amount of new rate base associated with the projects for many years to come.

Given the significant concerns raised by OCS witness Hayet regarding the potential net benefits and possible net detriments to ratepayers, the potential return to shareholders associated with the proposed new wind and new transmission projects is a reasonable consideration in evaluating the risks to ratepayers associated with these projects. Under the Company's proposal in this case, it would recover its proposed investment and earn a return on that sizable investment for its shareholders even if the projects end up being only a small net benefit, or even a net detriment, to ratepayers in the long term.

Q. CAN YOU ELABORATE ON THE SIZE OF THE RETURN ON INVESTMENT FOR SHAREHOLDERS THAT COULD RESULT FROM THE PROPOSED NEW WIND AND NEW TRANSMISSION PROJECTS?

A. Based on the revenue requirement example contained in Ms. Steward's second supplemental direct testimony Exhibit RMP__(JSS-2SS), the pretax return on rate base associated with the projects would be $81,895,000 in 2021, $75,707,000 in 2022 and $71,028,000 in 2023. These amounts include the debt return and the equity return. Based on information contained in the examples of the RTM and revenue requirement calculations contained in Ms. Steward's Exhibit RMP__(JRS-2SS) and Exhibit RMP__(JRS-4SS), the equity return on the investments are presented in the following table.

Table 1 - Equity Return on New Wind/New Transmission Projects (000s)

	2021	2022	2023
Net Rate Base, per RMP	$ 889,252	$ 822,080	$ 771,245
Weighted Cost of Equity, per RMP	5.04%	5.04%	5.04%
Equity Return	$ 44,818	$ 41,433	$ 38,871

The above table is meant to be an example of the returns that would potentially be earned on the investments by shareholders if the projects are implemented. The actual earned returns would be based on many factors, such as timing of rate case proceedings, accuracy of forecasts included in Ms. Steward's exhibits, whether the Commission finds the investments prudent and approves RMP's request, whether the RTM mechanism is approved and/or modified, etc. While the actual return earned by shareholders will likely vary from the amounts presented above, it should give the Commission a feel for the potential annual returns to shareholders on the projects as compared to the potential net benefits or net detriments to ratepayers.

Q. TO BE ABUNDENTLY CLEAR, IS IT STILL YOUR POSITION THAT THE COMPANY'S PROPOSED RTM SHOULD BE REJECTED?

A. Yes. I continue to recommend that the Company's proposed RTM be rejected. As indicated in my direct testimony, if RMP goes forward with the projects, the projects are found to be prudent, and the projects cause RMP to earn below its authorized rate of return, adequate means exist for the Company to recover its prudently incurred costs without the need to implement a complex new recovery mechanism. There is nothing precluding the Company from filing a general rate case should it determine that the projects at issue in this docket, as well as the repowered wind projects at issue in Docket No. 17-035-39, would cause the Company to be unable to earn a fair and reasonable rate of return. In such a general rate case, parties would have the opportunity to review all factors impacting the Company's revenue requirements rather than focusing on select projects of RMP's choosing in isolation, akin to single-issue-ratemaking, that could result in a distorted view of the Company's overall revenue needs.

Q. DOES THIS COMPLETE YOUR PREFILED RESPONSE TESTIMONY?

A. Yes.