

–BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH–

**IN THE MATTER OF APPLICATION OF ROCKY
MOUNTAIN POWER TO ESTABLISH EXPORT
CREDITS FOR CUSTOMER GENERATED
ELECTRICITY**

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**DOCKET No. 17-035-61
Exhibit No. DPU 1.0 SSR
Phase Two — Order on Agency Review**

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

Sur-Surrebuttal Testimony of

ROBERT A. DAVIS

February 22, 2021

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1 **I. INTRODUCTION**

2 **Q: Please state your name and occupation.**

3 A: My name is Robert A. Davis. I am employed as a Utility Technical Consultant at the
4 Utah Department of Commerce-Division of Public Utilities (“Division”).

5 **Q: What is your business address?**

6 A: My business address is 160 East 300 South, Heber Wells Building-4th Floor, Salt Lake
7 City, Utah, 84111.

8 **Q: On whose behalf are you testifying?**

9 A: The Division.

10 **Q: Are you the same Robert A. Davis who filed direct, rebuttal, and surrebuttal**
11 **testimony in this proceeding?**

12 A: Yes I am.

13 **Q: Do you have any exhibits that you would like to add to the record other than this**
14 **sur-surrebuttal?**

15 A: No.

16 **II. PURPOSE OF THIS SUR-SURREBUTTAL TESTIMONY**

17 **Q: What is the purpose of your additional sur-surrebuttal testimony in this part of the**
18 **proceeding?**

19 A: My sur-surrebuttal testimony offers the Division’s conclusions and recommendations in
20 response to the Public Service Commission of Utah (“Commission”) Order for Agency

21 Review granting a rehearing on the narrow issues of the carrying charge and capacity
22 contribution value used for calculation of the export credit rate.

23 **Q: Can you offer a brief summary of your conclusions for this part of the docket?**

24 A: Yes. The outcome of this matter is to finalize the calculation for an export credit rate
25 (“ECR”) that reasonably compensates customers for energy supplied to the grid. The
26 Commission reaffirmed its methods to determine the avoided energy, avoided generation,
27 transmission, and distribution components of the ECR in its December 23, 2020 Order on
28 Agency Review and sought further comments and clarification on two remaining items,
29 the carrying charge and capacity contribution, that are the purpose of this part of the
30 proceeding.¹

31 My sur-surrebuttal offers the Division’s conclusions and recommendations. I address the
32 carrying charge and capacity contribution assumptions used to determine the avoided
33 energy, avoided generation, transmission, and distribution capacity cost that form the
34 ECR summer and winter rates.

35 **III. RECOMMENDATIONS**

36 **Q: Does the Division have recommendations in this part of the proceeding to clarify the**
37 **application of a carrying charge and capacity contribution?**

38 A: Yes.

¹ Public Service Commission of Utah, Order on Agency Review, Docket 17-035-61, December 23, 2020,
<https://pscdocs.utah.gov/electric/17docs/1703561/3168191703561ooaroranovsc12-23-2020.pdf>.

39 **Q: Please offer the Division's recommendations for the carrying charge.**

40 A: The Division suggests the Commission approve a carrying charge that aligns to the
41 investment timing of the avoided resource capacity. Avoided resource capacity is a long-
42 term capital investment better aligned to a weighted average cost of capital ("WACC")
43 calculation approved by the Commission. There are other carrying charges that the
44 Commission might consider. For example, the Commission might consider the Utah
45 WACC calculated in PacifiCorp's annual results of operations ("ROO"), which shows the
46 annual gain or loss relative to the authorized return approved in the previous rate case.
47 Alternatively, the carrying charge rate that is annually approved by the Commission for
48 Rocky Mountain Power's ("RMP") other cost recovery mechanisms, as found in Electric
49 Service Schedule No. 300, Regulation Charges, Sheet No. 9R.4. These two rates are
50 worth considering due to the timing of the annual review. I discuss these methods further
51 in my testimony.

52 **Q: Please offer the Division's recommendation for the capacity contribution factor.**

53 A: The Division concludes that there are numerous and reasonable methods to determine
54 capacity contributions of each generation resource type or combinations of those
55 resources. The Division is aware that the methods come with different levels of
56 complexity, data requirements, and computing ability. With respect to the annual review
57 of Schedule No. 137, the capacity contribution factor approved by the Commission
58 should be relatively easy to understand and review, and the data should be publicly
59 available. Therefore, the Division recommends the Commission approve a capacity

60 contribution factor developed in a way similar to the method recommended by RMP
61 witness Mr. Dan MacNeil.²

62 **IV. CARRYING CHARGE**

63 **Q: Please discuss the Division’s conclusions in support of its recommendation for the**
64 **carrying charge.**

65 A: Future discount rates are unknown and unknowable. Therefore, a reasonable carrying
66 charge for calculations of the avoided capacities included in the ECR are not precise
67 because the adjustment of the ECR is short-term, adjusted annually, for resources that
68 have long-term capital investment.

69 **Q: Please discuss your suggestion that the Commission consider adopting a carrying**
70 **charge based on the approved WACC from the most recent general rate case.**

71 A: The Commission found that aggregated customer generation (“CG”) exports avoid other
72 energy use and avoid capital investment in generation, transmission, and distribution
73 capacity. Those capitalized costs would otherwise be recovered through rates at the
74 authorized rate of return. It makes sense that the carrying charge used in the calculation
75 of the ECR should reasonably align to the investment timing of those avoided resources.

76 The Commission’s approved WACC from the most recent general rate case is timely but
77 not always adjusted annually and therefore may not always be directly aligned with the
78 annual adjustment of the ECR. The debt component of the WACC is pre-tax whereas the

² RMP witness Daniel J. MacNeil, Rocky Mountain Power’s Phase II Rebuttal and Surrebuttal Testimonies, Docket No. 17-035-61, July 15, 2020 and September 15, 2020, respectively, lines 289-748 and lines 527-598, respectively.

79 equity component is after-tax. The Division is unclear how the Commission-approved
80 WACC might work in the cash flow stream for present value calculations of an individual
81 resource versus that same resource as part of a generation fleet. In other words, the cash
82 flow stream of a stand-alone resource would likely include tax benefits and have an after-
83 tax discount rate as that used in the supply-side resource calculations in the integrated
84 resource plan (“IRP”).³

85 **Q: Please discuss your alternative suggestion of a carrying charge equivalent to the**
86 **most recent annual results of operations.**

87 A: Utilizing the annual results of operations to determine if RMP is earning above or below
88 its approved rate of return ties better to the annual timing of the ECR review. However,
89 there are at least two concerns with using this value. First, the annual ROO is generally
90 made available near the end of the first quarter of the year and may delay completion of
91 the annual review of the ECR. Second, the calculated value is not approved by the
92 Commission and the Division’s review of PacifiCorp’s ROO takes several months, with
93 the Division filing a report around September of each year. Further, it is not clear that it is
94 appropriate to use an actual return in the place of an authorized one. Finally, the ROO can
95 change up and down throughout the year or from year to year, albeit in a relatively
96 narrow window.

³ See PacifiCorp Integrated Resource Plan, Docket No. 19-035-02, October 18, 2019, Volume I, Discount Factor, page 179.

97 **Q: Please discuss your alternative suggestion of using Schedule No. 300 as the carrying**
98 **charge.**

99 A: The Commission considered carrying charges and offered its findings and conclusions in
100 the determination of carrying charges in Docket Nos. 09-035-15, and 15-035-69.⁴

101 In Docket No. 09-035-15, addressing the Energy Balancing Account (“EBA”), the
102 Commission approved a change from a six percent carrying charge to a charge consistent
103 with its Carrying Charge Order.⁵ In its Carrying Charge Order, the Commission found
104 that determining a single carrying charge, updated annually, provides a consistency in the
105 rate, is simple to determine, understandable to parties, and easy to administer through
106 Schedule No. 300. The carrying charge is based on the average of the annual Aaa and
107 Baa corporate bond interest rates as published by the Federal Reserve Board of the
108 Governors and applies to certain accounts including the Demand-Side Management
109 Balancing Account,⁶ the Renewable Energy Certificate Balancing Account, the Home
110 Energy Lifeline Program, the Solar Incentive Program, the Blue Sky Program, customer
111 security deposits, and customer overpayments accounts.⁷ The Commission concluded in
112 its Order for Docket No. 09-035-15, dated November 14, 2019, that the carrying charge
113 for Schedule 94, Energy Balancing Account, should be changed to be consistent with the

⁴ See Docket No. 09-035-15, In the Matter of the Application of Rocky Mountain Power for Approval of Its Proposed Energy Cost Adjustment Mechanism, November 14, 2019, and 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, January 20, 2016.

⁵ See Docket No. 09-035-15, November 14, 2019.

⁶ The STEP DSM Carrying Charge is the Pre Tax WACC. See Utah Code Annotated § 54-7-12.8(2)(b)(iii).

⁷ See Commission Order, 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, January 20, 2016, page 18, ¶ 2.

114 rate the PSC ordered in the Carrying Charge Order, as amended by the PSC on February
115 27, 2017.⁸ Although current amounts of customer generated exported energy may be
116 similar in magnitude as these types of accounts, the Division concludes that this rate is
117 not preferred over the others because this rate is intended to address the value of
118 significantly shorter term financing that typically occurs between account true-ups. The
119 type of transaction that this rate is used for generally is less similar to the financing that
120 would be used for a generation, transmission, or distribution system capital projects.

121 The Division recommends the Commission approve a carrying charge consistent with the
122 weighted average cost of capital methods approved by the Commission as explained
123 above.

124 V. CAPACITY CONTRIBUTION

125 **Q: Please discuss the Division's conclusions in support of its recommendation for the**
126 **capacity contribution factor.**

127 A: The end result of Docket No. 17-035-61 is the determination of a reasonable rate to
128 compensate CG customers for their exports to the grid and a means to administer it, i.e.,
129 Schedule No. 137. While the structure of the annual review of Schedule 137 is yet to be
130 determined, if set as a tariff review, the law may limit the time for the review without a
131 suspension of the tariff.⁹ In order to avoid a lengthy process, the Commission should

⁸ *In the Matter of a Request for Agency Action to Review the Carrying Charges Applied to Various Rocky Mountain Power Account Balances*, Docket No. 15-035-69, Order issued February 27, 2017.

⁹ See Utah Code Annotated § R746-405-2(E)(4)(b).

132 approve a method that is timely, is easy to understand, uses easily obtainable data based
133 on existing resources, and is understandable by interested parties.

134 RMP witness Mr. Daniel MacNeil describes capacity contribution as “*The volume of*
135 *generation capacity avoided by a resource....*”¹⁰ [emphasis added] The value of the
136 resource capacity contribution is associated with the timing of the resource’s contribution
137 to system load. The extent to which the resource avoids the operation of a more costly
138 resource or the purchase of additional resources is the standard. Ideally, the cost per
139 MWh of the contributing resource is less than the otherwise marginal cost resource or the
140 contributing resource has nothing to contribute. This concept becomes even more
141 important during times when the system has to supply load by way of its own generation,
142 transmission, and distribution resources.

143 It makes sense that the most efficient way to reasonably determine and review a capacity
144 contribution for CG exports is to compare the timing of the hourly Utah aggregate CG
145 exports to the high load hours (“HLH”) being replaced during the recent historical year.
146 This method better aligns CG exports to system peaks. This method represents a
147 reasonably accurate reflection of what is avoided by the CG resources.

148 One comparison to Mr. MacNeil’s method is the most recent twelve-month average of
149 capacity contribution for RMP’s contracted Utah-only utility scale solar resources
150 including the Subscriber Solar resource for Schedule No. 37. Contracted facilities

¹⁰ RMP witness Mr. Daniel J. MacNeil, Rebuttal Testimony, Docket No. 17-035-61, July 15, 2020, lines 293-294.

151 generally employ tracking solar resources with high performing orientations as compared
152 to customer generation fixed tilt resources and therefore are reasonably expected to
153 provide higher capacity contributions. The nature of the contracts for these utility-scale
154 requires those resources to perform in an expected manner unlike customer generation.
155 Given those differences, the Division suggests this alternative valuation of capacity
156 contribution should serve as little more than an upper boundary marker in the absence of
157 unique circumstances.

158 The Division recommends the Commission approve the capacity contribution calculation
159 method depicted by RMP witness Mr. Dan MacNeil in his rebuttal and surrebuttal
160 testimony. Mr. MacNeil's method offers a reasonable determination for CG capacity
161 contribution that is understandable, uses public data, and is easy to review annually.

162 VI. SUMMARY AND CONCLUSIONS

163 **Q: Please offer the Division's summary and conclusions for this part of the docket.**

164 A: The public interest necessitates an ECR and structure that is easy to understand, reviewed
165 annually in a timely manner, and reasonably compensates customer generators for energy
166 supplied to the grid. Carrying charges and capacity contributions are the two remaining
167 narrow issues to be fit to those same guidelines.

168 The Division concludes the best way to meet these goals is to recommend the
169 Commission approve a carrying charge based on the Commission's approved WACC
170 from RMP's most recent general rate case with the debt component tax affected at RMP's

171 effective tax rate for a true after-tax WACC. The Division recommends that the
172 Commission approve a capacity contribution rate based on the method prescribed by
173 RMP witness Mr. Dan MacNeil in his rebuttal and surrebuttal testimony.

174 **Q: Does this conclude your sur-surrebuttal testimony?**

175 **A:** Yes, it does.