–BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH–

IN THE MATTER OF PACIFICORP'S APPLICATION FOR APPROVAL OF ALTERNATIVE COST RECOVERY FOR MAJOR PLANT ADDITIONS OF THE PRYOR MOUNTAIN AND TB FLATS WIND PROJECTS	)))))))	**DOCKET NO. 21-035-42** **Exhibit No. DPU 2.0 DIR** **Direct Testimony of William A. Powell, PhD**

Redacted

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

Direct Testimony of

William A. Powell, PhD

October 6, 2021

INTRODUCTION

Q. PLEASE STATE YOUR NAME, EMPLOYER, AND BUSINESS ADDRESS.

A. My name is Dr. William "Artie" Powell; my business address is Heber Wells Building, 160 East 300 South, Salt Lake City, Utah; I am employed by the Utah Division of Public Utilities ("Division" or "DPU"); my current position is manager of the energy section.

Q. ARE YOU TESTIFYING ON BEHALF OF THE DIVISION?

A. Yes.

Q. WOULD YOU PLEASE SUMMARIZE YOUR EDUCATION AND EXPERIENCE?

A. I hold a doctorate degree in economics from Texas A&M University. Prior to joining the Division, I taught courses in economics, regression analysis, and statistics both for undergraduate and graduate students. I joined the Division in 1996 and have since attended several professional courses or conferences dealing with a variety of regulatory issues including, the NARUC Annual Regulatory Studies Program (1995) and IPU Advanced Regulatory Studies Program (2005). Since joining the Division, I have testified before or presented information to the Public Service Commission (Commission) on a variety of topics including, electric industry restructuring, incentive-based regulation, revenue decoupling, energy conservation, evaluation of alternative generation projects, and the cost of capital.

SCOPE OF TESTIMONY AND RECOMMENDATIONS

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I present the Division's position regarding whether the Company's application meets the statutory requirements for a major plant addition. In order to qualify for cost recovery under the major plant addition statute, Utah Annotated Code § 54-7-13.4(1)(c) requires that Utah allocated cost of a major plant addition project exceed one percent of the

Company's rate base used to serve its Utah customers. As the Company indicates, Utah's allocated total costs of each of the two wind plants exceeds this one percent threshold. Importantly, however, most of these costs are already included in rates because the facilities entered service before or during the test year of the Company's recent general rate case, which ordered rates effective January 1, 2021. Therefore, in this case, the Company is requesting to recover only the portion of those total costs not already included in base rates from the last general rate case. Neither the additional cost of each individual plant nor the combined additional cost of the two plants set forth here meets this statutory threshold.

Q. WHAT IS THE DIVISION'S POSITION ON THIS ISSUE?

A. After careful consideration of the Company's application and applicable Utah statutes, the Division concludes that the Company's application does not meet the statutory threshold. Neither the additional amounts of each individual plant or the combined additional amounts of the two plants exceed $75.6 million, which is one percent of PacifiCorp's rate base dedicated to serving its Utah customers. Therefore, the Commission should deny the Company's request to recover the additional costs associated with the two wind projects, TB Flats and Pryor Mountain.

Central to the concept of a major plant addition is that plant is being added. Here, the plant is already in rates, albeit at projected costs and with an average-of-period approach. Even assuming the statute would allow incremental cost additions to already-in-rates facilities, the ongoing uncertainty surrounding outstanding costs and the relatively low (under 1%) values do not satisfy the statute. If the Commission adopts this recommendation, the Division also recommends that the PTCs and other NPC benefits

continue to be treated on an average or prorated basis consistent with the Commission's rate case order.

The Division's conclusion and recommendation are based on the Company's request both in the recent general rate case, Docket No. 20-034-04, and in this case, and the Commission's order in the general rate case.

STATUTORY THRESHOLD DISCUSSION

Q. PLEASE PROVIDE SOME BACKGROUND FOR THE COSTS THE COMPANY IS NOW SEEKING TO RECOVER IN THIS CASE.

A. As I stated above, the Company is now requesting recovery for additional costs, which were not included in rates in the general rate case, because the two plants entered service after the beginning of the test year. On a Utah basis, the Company is requesting to recover total additional costs for the two plants of [redacted] A brief review of events in the general rate case follows.

In its direct testimony from the rate case, the Company projected that the two wind projects would be online and in service by the end of the year 2020. (Ms. Joelle Steward, Direct Testimony, lines 218, 250-252). Under this scenario, the full costs of the two plants were included in the Company's initial 2021 test year revenue requirement request in the rate case based on a 13-month average rate base. However, in rebuttal testimony, the Company explained that there were COVID-19 pandemic-related delays in the construction schedules and part of each plant would only be in service for part of the test year. Under this scenario, a 13-month treatment would prorate or credit the plant

accordingly. Due to the delays, the Company requested in its rebuttal testimony a two-step increase in rates. The first step, effective January 1, 2021, would recover the portion of the two wind plants that were completed and in service in 2020. The second step, effective July 1, 2021, would recover the additional costs of the two wind plants that were completed and in service during the test year, 2021. (Ms. Steward, Rebuttal Testimony, Docket No. 20-035-04, lines 185-198).

While the Commission approved total projected costs for the two plants, it rejected the Company's two-step rate increase proposal. This means that only a prorated portion of the total cost — an average-of-period portion — was utilized in calculating the final approved revenue requirement:

> We conclude UAE's proposed treatment of the Delayed Plant is just and reasonable.
>
> RMP may recover for the Delayed Plant on an average-of-period basis over the Test Year.
>
> Applying RMP's assumptions, including those identified in RMP's rebuttal adjustment 10.22, we adjust RMP's revenue requirement to reflect the inclusion of the delayed portions of these facilities in rate base at their average-of-period values in the Test Year. . . . Accordingly, we approve and adopt this approach. (Confidential Order, Docket No. 20-035-04, p. 46).

Q. WILL YOU PLEASE EXPLAIN WHAT COSTS THE COMPANY IS SEEKING RECOVERY FOR IN THIS CASE?

A. The total additional cost the Company is requesting, in this case, is approximately [redacted] for TB Flats plus [redacted] for Pryor Mountain.

The amount for TB Flats is the Utah share (43.9975%) of the difference between the total Company estimated cost for TB Flats, in this case, approximately [redacted] and the total Company cost approved for rates from the rate case, approximately [redacted] (Direct Testimony of Mr. McDougal, Docket No. 21-025-42, SRM-1, p. 1.1).

The amount for Pryor Mountain is the Utah share (43.9975%) of the difference between the total Company estimated cost for Pryor Mountain, in this case, approximately [redacted] and the total Company cost approved for rates from the rate case, approximately [redacted] (Direct Testimony of Mr. McDougal, SRM-1, p. 1.2).

Q. WILL YOU EXPLAIN WHY THESE COSTS DO NOT MEET THE STATUTORY REQUIREMENT FOR ALTERNATIVE COST RECOVERY UNDER THE MAJOR PLANT ADDITION STATUTE?

A. In order to qualify for cost recovery under the major plant addition statute, Utah Annotated Code § 54-7-13.4(1)(c) requires that Utah allocated cost of a major plant addition project exceed one percent of the Company's rate base used to serve its Utah customers. According to Mr. McDougal, one percent of the Company's Utah rate base is $75.6 million (Direct Testimony of Mr. McDougal, lines 58-59). The additional costs the Company is seeking recovery for in this case fall short of this threshold. On a Utah basis, the additional cost of TB Flats is only [redacted] And the additional amount for Pryor Mountain is only [redacted] Even if the costs for the two plants are combined into one request, the additional costs are only [redacted] more than [redacted] short of the statutorily required threshold.

Q. WHAT IS THE BASIS FOR THE COMPANY'S ASSERTION THAT THESE PLANTS QUALIFY FOR ALTERNATIVE COST RECOVERY UNDER THE STATUTE?

A. The Company erroneously focuses on Utah's share of the total cost for each of the plants. In this case, the Company has estimated the total cost for TB Flats as approximately [redacted] and [redacted] for Pryor Mountain. Based on these total costs, Utah's share for each plant is approximately [redacted] for TB Flats and [redacted] for Pryor Mountain. The Company argues that since these Utah total costs exceed the statutory threshold, the plants qualify for alternative cost recovery. (Mr. McDougal Direct, lines 56-61).

However, the Company's approach ignores the fact that most of the total costs for each plant were already approved and included in rates in the last general rate case. Therefore, the only "additional" costs that would potentially qualify under the statute would be those costs that are not already in rates. These additional amounts, [redacted] for TB Flats and [redacted] for Pryor Mountain, are explained in my testimony above.

The word "addition" in the statute should have meaning. Only the additional costs should be considered. If the complete project costs can be relied on as a basis for meeting the threshold size, any incremental addition to a large project might be able to rely on the original capital cost to meet the requirement. The workaround subsumes the rule. Therefore, the Division recommends that the Commission deny the Company's request for alternative cost recovery.

Q. WILL YOU EXPLAIN FURTHER THE ISSUE WITH THE COMPANY'S REQUEST FOR RECOVERY OF THESE ADDITIONAL COSTS?

A. Yes. As I previously explained, the Commission approved in the general rate case an average-of-period treatment for the two plants. This treatment included consideration that the plants were not online or in service for the entire test year, and, thus, only a prorated share of the plants' costs was included in rates. This is not unusual for any plant that is only in service for part of the forecasted test year. For example, if in a rate case, the Company forecasted a plant to be only online for six months of the test year, then using a 13-month average rate base would mean that only 6/13 of the total cost would be considered for setting rates.

This is exactly the situation in the present case. In the general rate case, the Company initially forecasted that the construction of the two wind plants would be completed and online by the end of 2020. However, in rebuttal testimony, the Company revised its forecast indicating that portions of each plant would be delayed and come online only after the start of the test year. The Commission approved cost recovery of the plants based on a 13-month rate base treatment for the total costs of the two plants. In asking for recovery of the additional cost for these wind plants, the Company is attempting to use the major plant addition statute in a way that, in my opinion, it was not intended to be used.

Instead of asking for recovery of a "major plant addition" that meets the statutory threshold, the Company combines the costs of plant already included in rates with costs

of plant that only came online after the start of the test year. The facilities are already in rates, only some costs remain out of rates. This obfuscates the idea that the Company's investment is in "addition" to the investment that was considered and approved in the previous subject general rate case. If approved by the Commission, this use of the statute would set a precedent that would be ripe for abuse and would not be in the public interest.

For example, the Company could use the statute to selectively correct forecasting errors in the rate case. The Company's current IRP anticipates the addition of billions of dollars in plant investment over the next decade. It is not hard to imagine a case where the forecasting errors in the costs of two or more new plants when combined in an application could meet the statutory threshold. It is clear, however, that the statute was not intended to correct such forecasting errors or missteps in construction schedules. Rather the statute was intended to allow for recovery of legitimate additional investment by the Company that was not considered or approved in a subject rate case.

EBA BASE RATE CHANGE

Q. THE COMPANY IS PROPOSING TO CHANGE BASE EBA RATES IN THIS CASE. WHAT IS THE COMPANY'S EXPLANATION OF THIS CHANGE?

A. In direct testimony Mr. McDougal, at lines 171-174, states,

> The Company's request in this docket includes a change in NPC included in the base EBA beginning January 1, 2022. Additionally, the Company is requesting to revise the PTC base included for true-up in

the EBA, also beginning January 1, 2022. The changes result in [redacted]

Q. IS THE COMPANY'S REQUEST IN THIS CASE CONSISTENT WITH ITS POSITION IN THE RECENT GENERAL RATE CASE?

A. No. In the general rate case, Docket No, 20-035-04, Company witness Mr. David G. Webb explained that "the Company agrees that base EBA rates should not be changed outside of a general rate case." This explanation came in response to the Division's concern of changing the base EBA rate in an annual EBA filing:

> **Q. Why does DPU witness Mr. Smith recommend the Commission not approve the Company's proposal to update the base EBA in each annual EBA filing?**
>
> A. Mr. Smith's only rationale for this recommendation is his belief that it is inconsistent with the statute enabling the EBA. He argues that Utah Code § 54-7-13.5(2)(f)(ii) allows the EBA collection to "be incorporated into base rates in an appropriate commission proceeding" and that the only appropriate commission proceeding is a general rate case. He then reasons that the Company's proposed change is inconsistent with the law, because it would change base EBA rates outside of a general rate case.
>
> **Q. Do you agree with Mr. Smith's conclusion concerning the Company's proposed change to the EBA?**
>
> A. No. Mr. Smith may misunderstand the Company's proposed change. The Company does not propose updating base EBA rates in each annual EBA filing, ***and the Company agrees that base EBA rates should not be changed outside of a general rate case***. The Company's proposal is to use the actual revenue collected from base EBA rates established in a rate case instead of the forecast revenue collection from the test period in the rate case in its annual EBA filings. ***The Company is not recommending that base EBA rates themselves would change outside of rate cases; therefore, the proposed change is not inconsistent with the law***. (Mr. Webb, Rebuttal Testimony, lines 271-288, emphasis added).

Mr. Webb appears to imply that if the Company were proposing to change base EBA rates outside of a general rate case, the Company's proposal would be inconsistent with the EBA statute.

Q. DID THE COMPANY EXPLAIN WHY IT IS APPARENTLY ALTERING ITS POSITION ON CHANGING BASE EBA RATES OUTSIDE OF A GENERAL RATE CASE?

A. No, at least not clearly in its testimony or application. However, in response to DPU data request 3.3, the Company explained,

> The intent of the rebuttal testimony of Company witness, Dave G. Webb was to make clear that the Company "does not propose changing the base energy balancing account (EBA) rates in each annual EBA filing" which is consistent with page 54 of the Public Service Commission of Utah's (UPSC) Confidential Rate Case Order (paragraph 3).
>
> The Company believes it is appropriate and in the interest of customers as part of a major plant addition (MPA) filing to update the energy balancing account (EBA) base to appropriately match costs and benefits associated with the MPA filing in a timely manner. This is also consistent with Utah Electric Service Schedule 94, which includes the following definition:
>
> **"Base Energy Balancing Account Costs (Base EBAC):** The Utah allocated NPC, PTCs, and Wheeling Revenues approved by the Commission in the most recent Utah general rate case, *major plant additions case*, or other case where Base EBAC are approved" (*emphasis added*).

While the Company's tariff does contemplate that base EBA rates may be changed in a major plant addition case, the Division maintains that the most appropriate proceeding to

change base EBA rates is in a general rate case unless there are clearly demonstrable ratepayer benefits.

Q. DOES THE COMPANY DEMONSTRATE HERE SUCH RATEPAYER BENEFITS?

A. In theory, or according to the Company's application, the answer is yes. As explained in Mr. McDougal's direct testimony, the $4.2 million decrease the Company is proposing in this case [redacted] (Mr. McDougal, Direct Testimony, lines 178-184). However, the available NPC information for 2021 suggests caution.

In his direct testimony, Division witness Mr. Gary Smith, compares actual NPC to the forecasted NPC in the rate case. For the first part of the year, Utah NPC are approximately [redacted] than that projected for the test year from the general rate case. Mr. Smith also demonstrates that production for the two wind plants is lower than expected, resulting in fewer production tax credits than anticipated. (Mr. Gary Smith, Direct Testimony, Tables 3-6).

If these trends continue, the relatively small net benefit reported by the Company would be lost in future (e.g., the next) Company EBA filing. Therefore, the base NPC forecast should be viewed with skepticism and the Commission should not double down on it by adding additional PTC value that is unlikely to be realized. It is not yet clear whether the

low production reflects poor projections or other factors that will not persist. More information is needed. If the reduced production and accompanying benefits do persist, adjusting base NPC to match bad projections is not in the public interest and won't benefit ratepayers.

Q. WHAT WOULD BE THE EFFECT OF THE COMMISSION DENYING EITHER THE RECOVERY OF THE ADDITIONAL COSTS, OR CHANGING BASE EBA RATES, OR BOTH?

A. The Company is requesting that both the change in EBA base rates, and the recovery of the additional costs be effective January 1, 2022. Currently, the costs and benefits of the two projects are matched on an average-of-period basis only for the 2021 test year. Absent approval of the recovery of the additional costs, "the pro-rated capital and depreciation costs of the Pryor Mountain and TB Flats wind projects will remain embedded in customer rates until the next general rate case," (Mr. McDougal, Direct Testimony, line 49). If the PTCs and other NPC benefits associated with the additional costs are allowed to flow through the EBA, then ratepayers will receive through a future EBA filing an approximate [redacted] without the offsetting commensurate additional costs from the two plants. Therefore, the Division recommends that the PTCs and other NPC benefits continue to be treated on a prorated basis consistent with the Commission's order with the treatment of the two wind projects from the rate case.

CONCLUSION

Q. WILL YOU PLEASE SUMMARIZE THE DIVISION'S RECOMMANDATIONS REGARDING THE STATUTORY THRESHOLD ISSUE?

A. The Division finds that the Company's application fails to meet the necessary one percent threshold found in the statute. Most of the costs for the two wind plants were considered and approved in the last rate case and the relatively small costs not already included in rates do not add up to the required $75.6 million. Therefore, the Division recommends that the Commission deny the Company's alternative cost recovery request. If the Commission adopts this recommendation, the Division further recommends that the benefits arising from these plants continue to be treated on an average-of-period basis consistent with the Commission's order from the rate case.

Q. DOES THAT CONCLUDED YOUR DIRECT TESTIMONY?

A. Yes, it does.