

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	Docket No. 09-035-15
Rocky Mountain Power for Approval)	Direct Testimony of
of its Proposed Energy Cost)	Danny A.C. Martinez
Balancing Account Mechanism)	For the Office of
)	Consumer Services

September 21, 2016

1 **I. INTRODUCTION**

2
3 **Q. WHAT IS YOUR NAME, YOUR OCCUPATION AND YOUR BUSINESS**
4 **ADDRESS?**

5 A. My name is Danny A.C. Martinez. I am a utility analyst for the Office of
6 Consumer Services (Office). My business address is 160 E. 300 S., Salt Lake
7 City, Utah 84111.

8

9 **Q. PLEASE DISCUSS YOUR EDUCATION AND QUALIFICATIONS.**

10 A. I have B.S. and M.S. degrees in economics from the University of Utah. I also
11 have a M.P.A. degree from the University of Utah. My private and public sector
12 work experience spans over 25 years including ten years in financial services
13 and ten years in higher education teaching economics. In 2010, I was hired by
14 the Office of Consumer Services. At the Office, I have worked primarily in the
15 areas of cost of service (COS), rate design, and demand side management
16 (DSM). I have attended various training opportunities, including an intensive
17 course on cost of service and rate design issues.

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19 I filed testimony on cost of service and rate design issues in the last Questar Gas
20 general rate case (Docket 13-057-05). I also filed direct testimony on rate design
21 issues in Rocky Mountain Power's past two general rate cases (Dockets 11-035-
22 200 and 13-035-184). Lastly, I have filed testimony in EBA proceedings in
23 Dockets 14-035-31, 15-035-03, and 16-035-01.

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25 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

26 A. My testimony in this proceeding will discuss the purpose of this proceeding and
27 introduce the Office's witness. My testimony will present the Office's position
28 regarding the following issues:

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- Resetting the EBA carrying charge

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- Modification of the filing schedule

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- Additional EBA Evaluations

32 **Q. PLEASE IDENTIFY THE EXPERT WITNESS HIRED BY THE OFFICE FOR THIS**
33 **PROCEEDING.**

34 A. The Office retained Mr. Phil Hayet, Vice President of J. Kennedy and Associates,
35 Inc. Mr. Hayet will address the EBA carrying charge rate.

36

37 **II. PURPOSE FOR THIS PROCEEDING**

38 **Q. PLEASE SUMMARIZE THE HISTORICAL TIMEFRAME OF THE EBA.**

39 A. Earlier in this docket, the Public Service Commission (Commission) approved the
40 EBA in an order dated March 2, 2011 as a pilot program for four years ending
41 December 31, 2015. Furthermore the Division was ordered to file its final EBA
42 Evaluation Report “within four months after the conclusion of the third calendar
43 year of the pilot.”¹ In the last general rate case, Docket 13-035-184, a
44 settlement stipulation was approved by the Commission, which extended the
45 EBA pilot for one year ending December 31, 2016.² On May 20, 2016, the
46 Division filed the Report with the Commission.

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48 **Q. HOW IS THE CURRENT PHASE OF THIS PROCEEDING SCHEDULED?**

49 A. After the Division filed its Report, the Commission held a scheduling conference
50 to allow parties to address issues identified within the Division’s EBA Evaluation
51 Report. During those discussions, parties agreed that direct testimony would be
52 for parties to propose changes to the EBA. All responses to direct testimony and
53 responses to the Division’s EBA Evaluation Report will be included in rebuttal
54 testimony. Thus, the Office will present its responses to the Division’s EBA
55 Evaluation Report, as well as to other parties’ testimony, in its rebuttal testimony.

56

57 **III. PROPOSED DESIGN MODIFICATIONS TO THE EBA**

58 **A. CARRYING CHARGE**

59 **Q. HAS THE ISSUE OF THE CARRYING CHARGE BEEN ADDRESSED IN ANY**
60 **RECENT DOCKETS BEFORE THE COMMISSION?**

¹ See Commission Report and Order in Docket 09-035-15 dated March 2, 2011, page 79, paragraph 4.

² See Settlement Stipulation approved in the Commission’s Report and Order dated August 29, 2014, paragraph 26.

61 A. Yes. In Docket 15-035-69, the Commission changed the carrying charges for
62 various programs and regulatory accounts. At that time, the EBA carrying charge
63 was also under consideration, but a decision to change it was postponed. The
64 Commission explained this as follows:

65 "With respect to the EBA, we conclude PacifiCorp's argument
66 that the EBA carrying charge interest rate should not be
67 changed during the pilot period and should be evaluated during
68 the EBA evaluation, in 2016, is reasonable."³

69

70 **Q. WHY SHOULD THE EBA CARRYING CHARGE BE UPDATED IN THIS**
71 **DOCKET?**

72 A. The current phase of this docket has been established as the venue in which
73 parties may propose changes to the EBA. The Office asserts that it is
74 appropriate and in the public interest to change the carrying cost of the EBA.
75 While 6% was considered to be reasonable as the carrying cost rate at the
76 inception of the EBA, interest rates have dropped since the carrying cost rate
77 was set and should be adjusted to reflect current financial conditions.

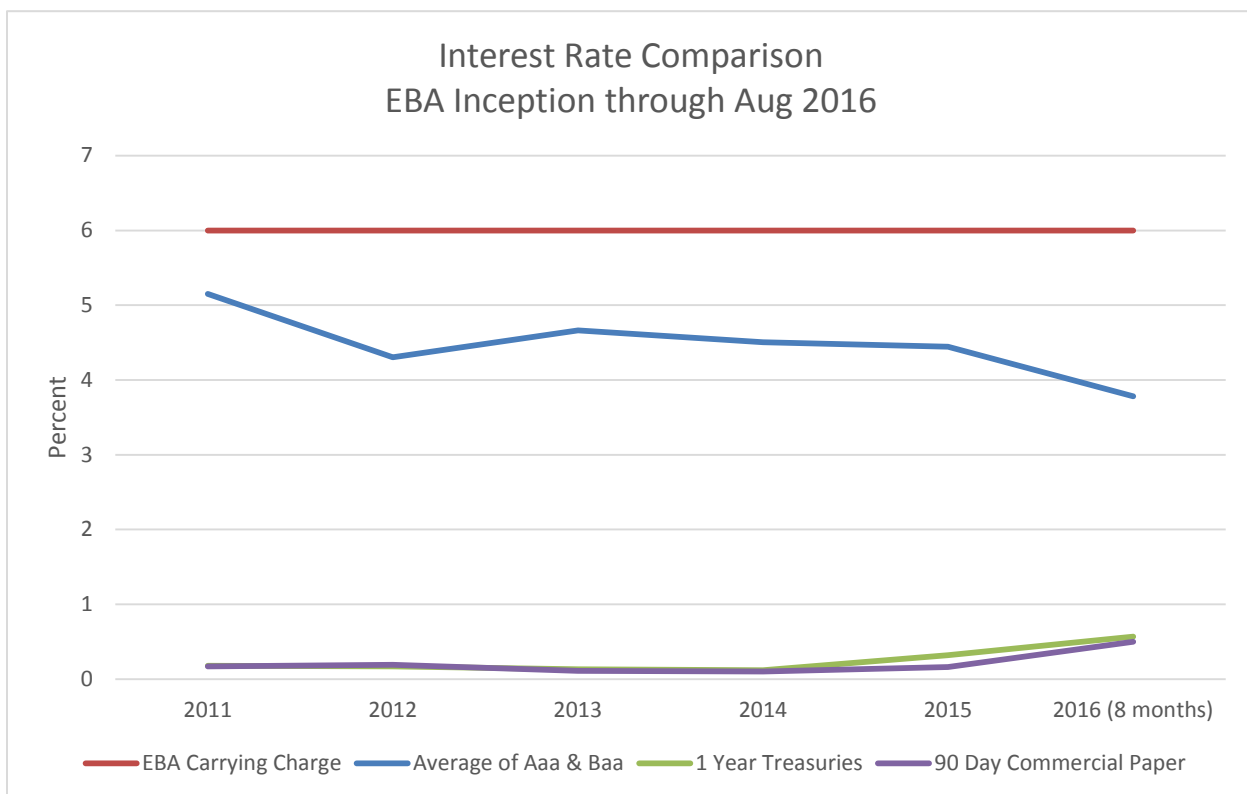
78

79 **Q. WHAT IS THE BASIS OF YOUR CONCLUSION THAT INTEREST RATES**
80 **HAVE DROPPED SINCE THE INCEPTION OF THE EBA?**

81 A. Based on Federal Reserve data, I compared Aaa and Baa corporate bond rates,
82 90 day nonfinancial commercial paper rates, and one year Treasury bond rates
83 with the current 6% EBA carrying charge rate from the inception of the EBA to
84 August 2016. That information is shown in the chart below:

³ See Commission Report and Order in Docket 15-035-69 dated January 20, 2016, page 16, paragraph 3.

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Source: <http://www.federalreserve.gov/releases/h15/data.htm>

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Q. HAS THE OFFICE STATED ANY PRINCIPLES REGARDING HOW CARRYING CHARGE RATES SHOULD BE SET?

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A. Yes, the Office articulated principles regarding establishing carrying charge rates in Docket 14-057-32, which was a proceeding in which the Commission reviewed carrying charge rates for Questar Gas Company's tariff accounts. In that docket, the Office asserted that carrying charges should be consistent with the underlying risk the Company or ratepayers incur resulting from over-collection or under-collection of costs within respective regulatory accounts (such as the 191 Gas Pass through Costs Account (191 Account) and the Demand-Side

103 Management Account) and set appropriately to provide an incentive for the
104 Company to maintain zero or near zero balances when feasible and applicable.
105 Furthermore, the carrying charge should reflect the underlying risks associated
106 with assets making up the regulatory account.
107

108 **Q. SHOULD THE CARRYING CHARGE BE THE SAME CARRYING CHARGE AS**
109 **QUESTAR GAS COMPANY'S PASS THROUGH CARRYING CHARGE?**

110 A. Not necessarily. The Questar carrying charge rate is set using a specific rate
111 based on the annual average of the Aaa and Baa corporate bond rates published
112 by the Federal Reserve for the previous calendar year of 2014 effective July 1,
113 2015, through February 2016. This carrying charge interest rate is updated on
114 March 1 of succeeding years based on the aforementioned calculation. This rate
115 does not necessarily reflect the same risks associated with the EBA compared to
116 Questar's 191 Account or other Questar regulatory accounts using this specific
117 rate. However, the determination of the EBA carrying charge using a similar
118 methodology that reflects the risks and behavior of the EBA would be reasonable
119 in comparing treatment of each utility.
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121 **Q. WHAT RATE IS THE OFFICE PROPOSING IN SETTING THE EBA CARRYING**
122 **CHARGE?**

123 A. The Office currently believes that 6% is significantly overstated, and
124 recommends that a short term debt rate should be used coinciding with the time
125 period of the EBA filing. For example, the annual short term debt rate for 2015
126 would be used as the carrying charge for the 2015 EBA period. Mr. Hayet will
127 elaborate more on using short term debt rates in setting the EBA carrying charge.
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129 **B. FILING SCHEDULE MODIFICATION**

130 **Q. DO YOU HAVE ANY CONCERNS WITH THE FILING SCHEDULE**
131 **CURRENTLY IN PLACE?**

132 A. Yes. The current filing schedule creates confusion on what issues are presented
133 and rebutted in providing evidence to the Commission due to the different direct

134 testimony filing dates. Typically, the Company will file its application along with
135 direct testimony supporting the Company's application. Intervenors in the case
136 will file direct testimony on the Company's application. Then, all parties file
137 rebuttal and surrebuttal testimony on all parties' direct testimony and rebuttal
138 testimony respectively. However, the EBA proceeding does not act typically.

139
140 Direct testimony is filed at different times during the filing schedule. For example,
141 the Company files direct testimony when it files its application; the Division files
142 its direct testimony when it files its EBA Audit Report; other intervenors file their
143 direct testimony after the Division files its Audit Report. Typically, the rebuttal
144 testimony phase is the phase where all parties get to rebut others' testimony.
145 However, in the EBA proceedings, the responses become somewhat muddled
146 because the Company may be rebutting the same issues in rebuttal testimony as
147 in direct testimony if different parties either raised similar issues or supported
148 those raised in the Division's Audit Report. Further, this effectively allows the
149 Company to file rebuttal testimony on the Division's Audit Report during the other
150 intervenors' direct testimony phase, giving the Company three rounds of rebuttal
151 testimony where other parties have two.

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153 **Q. HOW SHOULD THE FILING SCHEDULE BE MODIFIED TO RESOLVE THE**
154 **CONFUSION OF ADDRESSING ISSUES DURING THE APPROPRIATE**
155 **PHASE OF THE CASE?**

156 A. The Office recommends that since the Company has filed direct testimony
157 accompanying its filing, the direct testimony round should be for all parties other
158 than the Company. Then the Company would file its response testimony to the
159 Division's Audit report, and all other direct testimony, during the rebuttal phase.
160 This filing schedule modification would allow parties to have equal opportunities
161 to file testimony in EBA proceedings and would reduce the confusion of parties
162 rebutting the same or similar issues in different portions of the proceeding.

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164 **C. ADDITIONAL EBA EVALUATIONS**

165 **Q. WHAT ADDITIONAL EBA EVALUATION IS CURRENTLY CONTEMPLATED?**

166 A. During the 2016 legislative session, Senate Bill 115 (SB115) passed which
167 requires the Commission to report to the Public Utilities and Technology Interim
168 Committee before December 1 in 2017 and 2018. In Docket 16-035-T05, the
169 Commission further stated that SB 115 requires continued review of the EBA
170 through 2019.⁴

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172 **Q. DOES THE OFFICE HAVE ANY REQUESTS REGARDING THAT**
173 **ADDITIONAL EBA EVALUATION?**

174 A. Yes. The Office recommends that the Commission develop and articulate a
175 process through which stakeholders can provide comment that the Commission
176 can consider in developing its reports to the legislature.

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178 **IV. SUMMARY**

179 **Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS FOR THIS**
180 **PROCEEDING.**

181 A. The Office recommends the following:

- 182 • The EBA carrying charge should be set at the short term bond rate.
- 183 • The filing schedule should be modified to allow all parties to have an
184 equal number of rounds of testimony in these proceedings.
- 185 • The Office recommends that the Commission develop and articulate a
186 process through which stakeholders can provide comment that the
187 Commission can consider in developing its reports to the legislature

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189 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

190 A. Yes.

⁴ See Commission Report and Order in Docket 16-035-T05 dated May 16, 2016, page 7, paragraph 4.