

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	Docket No. 09-035-15
Rocky Mountain Power for Approval)	
of its Proposed Energy Cost Balancing)	Direct Testimony of
Account Mechanism)	Philip Hayet for the
)	Utah Office of
)	Consumer Services

September 21, 2016

I. INTRODUCTION AND SUMMARY

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Philip Hayet. My business address is 570 Colonial Park Drive, Suite 305, Roswell, Georgia, 30075.

Q. PLEASE STATE YOUR OCCUPATION, EMPLOYMENT, AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am a utility regulatory consultant and Vice President of J. Kennedy and Associates, Inc. (“Kennedy and Associates”). I am appearing on behalf of the Office of Consumer Services (“Office”).

Q. WHAT CONSULTING SERVICES ARE PROVIDED BY KENNEDY AND ASSOCIATES?

A. Kennedy and Associates provides consulting services related to electric utility system planning, net power cost analysis, revenue requirements, regulatory policy, and other regulatory matters.

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND APPEARANCES.

A. My qualifications and appearances are provided in Exhibit Hayet OCS - 2.1D. I have participated in numerous PacifiCorp and Rocky Mountain Power (or the “Company”) cases, including PacifiCorp’s 2014 General Rate Case (“GRC”) (Docket No. 13-035-184), PacifiCorp’s Net Metering docket (Docket No. 14-035-114), PacifiCorp’s 2015 Energy Balancing Account (“EBA”) proceeding (Docket No. 15-035-03), and PacifiCorp’s 2016 EBA proceeding (Docket No. 16-035-01).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Mr. Danny Martinez provides the Office’s recommendations regarding the EBA Pilot. One of Mr. Martinez’s recommendations is a proposal to reduce the EBA carrying charge rate

25 from the fixed 6% rate that has been in effect since the EBA was approved in 2011 to the
26 Company's most current short term debt interest rate, which is more consistent with the
27 financing costs associated with the underlying fuel costs in the EBA. I provide additional
28 support for the use of a short term debt rate including evidence of other lower energy cost
29 adjustment carrying charge rates in other utility jurisdictions.

30 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

31 A. Based on the evidence I discuss below, I recommend that the Commission reduce the 6%
32 EBA carrying charge rate to PacifiCorp's most current short term debt interest rate, which
33 rate would be consistent with the underlying assets in the EBA, and would also be
34 consistent with the period of time that costs in the EBA are recovered.

35

36 **II. EBA CARRYING CHARGE**

37 **Q. WHAT IS THE PURPOSE OF THE EBA CARRYING CHARGE?**

38 A. The EBA is currently a pilot mechanism that allows the Company to collect actual net
39 power costs each calendar year. At the end of each calendar year, the Company will have
40 either over or under-recovered its net power costs, and the EBA deferral mechanism allows
41 the under or over-recoveries to be trued-up such that the Company is able to recover 100%
42 of its actual annual net power cost over the calendar year.¹ As part of the EBA mechanism,
43 the Company either charges or pays customers a fixed 6% carrying cost charged on the
44 under-collected or over-collected balance in the EBA deferral account. The 6% carrying
45 charge is viewed as the equivalent of a finance charge for borrowed funds in the EBA
46 deferral account.

¹ In March 2016, S.B. 115 was signed into law, which included a provision that eliminated the 70%/30% sharing band beginning June 1, 2016 that had previously been in effect.

47 **Q. HOW IS THE EBA DEFERRAL AMOUNT, INCLUDING INTEREST,**
48 **DETERMINED?**

49 A. At the time the Company conducts a General Rate Case (“GRC”), it develops an estimate
50 of Utah net power cost for a future 12-month test period. The Company then divides the
51 forecast of net power costs by its projection of Utah sales to derive a Base Rate (\$/MWH)
52 used to recover net power costs beginning when the new rates go into effect. On a calendar
53 year basis, the Company compares its actual revenues collected to its actual net power costs
54 incurred to determine if it has either under or over-recovered its net power costs. The under
55 or over-recovered balance is deferred until the Commission approves a rate adjustment to
56 either allow the Company to recover or to refund amounts deferred. As part of the EBA
57 mechanism, a fixed 6% simple interest rate is paid on the deferred balance.

58 **Q. OVER WHAT PERIOD OF TIME IS THE DEFERRED BALANCE WITH**
59 **INTEREST RECOVERED?**

60 A. Since the inception of the EBA in 2011, there have been five EBA proceedings and in each
61 the Company had under-recovered balances. The fifth and most recent is currently under
62 review, however, in each of the four prior proceedings, recovery of the under-recovered
63 balances have taken place over a short one or two-year recovery period, with the most
64 recent ones being one-year recovery periods. Even though the under-recovered costs are
65 collected over a short-term period and the underlying fuel costs are financed using short
66 term working capital, the carrying charge rate is set at as a fixed 6% rate, which is very
67 high, even when compared to long-term debt rates available today. There is simply no
68 reason that the carrying charge rate should be set as high as it is right now.

69 **Q. IS THERE ANY OTHER REASON TO SUPPORT A LOWER CARRYING**
70 **CHARGE RATE?**

71 A. Yes. With the elimination of the sharing band, the Company will now recover more costs
72 when under-recoveries occur, which has been the case in every EBA proceeding, and going
73 forward the Company should not have the opportunity to recover even more costs using an
74 overstated 6% carrying charge rate. The elimination of the sharing band is even more
75 reason that the carrying charge rate should be lowered to the more appropriate short term
76 debt rate.

77 **Q. HOW DO OTHER JURISDICTIONS SET CARRYING CHARGES?**

78 A. In my experience, and based on my research, fuel cost carrying charge rates are generally
79 set based on a short-term debt rate, the prime index rate, or a low rate consistent with
80 interest rates for customer deposits. The following chart summarizes the interest rates used
81 for energy cost recovery in various jurisdictions. Though not comprehensive, this list does
82 include tariff descriptions of some of PacifiCorp's carrying charge rates in other states.

83

State	Utility	Adjustment Mechanism	Rate
WY	Rocky Mountain Power	Schedule 95, Energy Cost Adjustment Mechanism ("ECAM") ³	1.75%, Customer Deposits ⁴
ID	Rocky Mountain Power	Schedule 95, Energy Cost Adjustment	1%, Customer Deposits ⁵
WA	Pacific Power	Power Cost Adjustment Mechanism ("PCAM")	3.25%, current FERC interest rate ⁶
CA	PacifiCorp	Energy Cost Adjustment Clause ("ECAC")	Commercial Paper Rate ⁷
GA	Georgia Power Company	Fuel Cost Recovery ("FCR") Rider	Short-Term Debt Rate ⁸
NM	Public Service Co. of New Mexico	Fuel and Purchase Power Cost Adjustment Clause ("FPPCAC")	2.4% ⁹
CO	Public Service Co. of Colorado	Electric Commodity Adjustment	Average of Commercial Paper, Financial, 3-month rates ¹⁰
AR	Entergy Arkansas	Energy Cost Recovery	0.3% ¹¹

84

85 **Q. WHAT ARE YOUR OBSERVATIONS REGARDING THESE CARRYING**
86 **CHARGE RATES IN OTHER STATES?**

87 **A.** This table is consistent with my experience that often, carrying charge rates on energy cost
88 adjustment balances are set to the same rates as used for customer deposits, and in several
89 jurisdictions this value is very low. Even if the carrying charge rate on the energy balance
90 is not set consistent with the rate used for customer deposits, the table indicates that the
91 carrying charges in these other states are significantly lower than what is used in Utah, and
92 some of the utilities are even Rocky Mountain Power affiliates. All of the carrying charge
93 rates are nearly less than half of the 6% rate used in Utah, and five of the utilities use rates
94 based on short term debt which is currently set at less than 1% (Rocky Mountain Power –

95 Idaho, Pacific Power – California, Georgia Power, Public Service Co. of Colorado, and
96 Entergy Arkansas). Currently, the Arkansas carrying charge rate is very low, .3% per year.

97 **Q. WHAT IS YOUR RECOMMENDATION REGARDING CHANGING THE**
98 **CARRYING CHARGE RATE FOR THE EBA?**

99 A. As in the five states listed above, I believe that the EBA carrying charge rate should be set
100 to a short debt rate, which is less than 1% at the present time. This rate is commensurate
101 with the risk to cost recovery for the underlying assets in the EBA account, which I believe
102 is minimal. Furthermore, I believe the time period over which the under-recovered balance
103 is recovered is short term, and therefore, any financing of the EBA balance would be based
104 on short term debt, which again, argues in favor of using a short term debt rate for the EBA
105 carrying charge rate.

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

107 A. Yes it does.

-
- ³ Tariff Schedule 95 at page 95-6 states, “Interest shall be computed on the monthly ECAM Adjustment balance at the rate determined by the Commission pursuant to Rule 241, Customer Deposits.”
https://www.rockymountainpower.net/content/dam/rocky_mountain_power/doc/About_Us/Rates_and_Regulation/Wyoming/Approved_Tariffs/Rate_Schedules/Energy_Cost_Adjustment_Mechanism.pdf
- ⁴ The Customer Deposit Rate for the period January 1, 2016 through December 31, 2016, per the Wyoming Commission’s Rule 241(c), is described at <http://psc.state.wy.us/pscdocs/electric.html>.
- ⁵ RMP’s February 1, 2016 application in re: CASE NO. PAC-E-16-05, at page 8
<http://www.puc.idaho.gov/fileroom/cases/elec/PAC/PACE1605/20160201APPLICATION.PDF>
- ⁶ June 1, 2016 filing, 2015 Power Cost Adjustment Mechanism, page 2,
<http://www.utc.wa.gov/layouts/CasesPublicWebsite/GetDocument.ashx?docID=5&year=2016&docketNumber=160783>, and see also Attachment A, Power Cost Adjustment Mechanism Calculation.
- ⁷ Wilding August 2015 Testimony, Docket_A_15_08_004, at page 4, line 11,
https://www.pacificpower.net/content/dam/pacific_power/doc/About_Us/Rates_Regulation/California/Regulatory_Filings/Docket_A_15_08_004/08-03-15_Direct_Testimony_and_Exhibits/1_Michael_G_Wilding/Michael_G_Wilding_PAC_100.pdf
- ⁸ Tariff Schedule FCR-24 states, “carrying costs on over or under recovered fuel balance calculated at the Company’s short-term debt rate and excluding the first \$15 million of any under recovered cost;”
https://www.georgiapower.com/docs/rates-schedules/common/10.40_FCR.pdf
- ⁹ Rider No. 23 states, “Monthly carrying costs on any under-recovered or over-recovered balance at the end of the month shall be calculated by multiplying the balance by 2.4%.” Effective April 29, 2015 / July 11, 2015
<http://www.nmprc.state.nm.us/consumer-relations/company-directory/electric/pnm/riders/rider23.pdf>
- ¹⁰ Page 224 of 377, Sheet 111D, 9th revised,
https://www.xcelenergy.com/staticfiles/xcel/Regulatory/Regulatory%20PDFs/rates/CO/psco_elec_entire_tariff.pdf
- ¹¹ Arkansas Public Service Commission, December 3, 2015 Order in Docket No. 15-111-U, In the Matter of the Annual Determination of the 2016 Interest Rate Applicable to Utility Customer Deposits, states, “Staff’s recommendation for the year 2016 simple interest rate of 0.3%, to be paid by all jurisdictional utilities on utility customer deposits, including the methodology used to develop this recommendation, is reasonable, in the public interest, and should be adopted.” http://www.apscservices.info/pdf/15/15-111-U_5_1.pdf