

1 **Q. Please state your name, business address and present position with PacifiCorp,**
2 **dba Rocky Mountain Power (the “Company”).**

3 A. My name is Michael G. Wilding. My business address is 825 NE Multnomah St.,
4 Suite 600, Portland, Oregon 97232. My title is Manager, Net Power Costs.

5 **Q. Are you the same Michael G. Wilding who submitted direct testimony on**
6 **behalf of the Company in this proceeding?**

7 A. Yes.

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. My testimony responds to certain changes to the Energy Balancing Account
10 (“EBA”) proposed by the Utah Division of Public Utilities (“DPU”) and the Office
11 of Consumer Services (“OCS”). In particular, I respond to the following proposed
12 changes:

- 13 1. Mismatch Issue. The Company supports resetting base net power costs
14 (“NPC”) annually.
- 15 2. Procedural Schedule. The Company supports the DPU’s proposed changes
16 to the EBA procedural schedule. However, the Company disagrees with the
17 OCS’ proposal to allow equal number of rounds of testimony among parties
18 because the Company is the moving party and bears the burden of proof.
- 19 3. Wheeling Revenue. The Company would support a separate tracker for
20 volatile components of its revenue requirement; however, keeping these
21 items in the EBA is administratively straightforward.

- 22 4. Carrying Charge. As agreed upon in a prior settlement agreement, the
23 carrying charge rate should not be changed until the next general rate case
24 when Base NPC are reset.
- 25 5. Accounting Entries Pertaining to Operating Periods Prior to the Deferral
26 Period. Including Accounting Entries Pertaining to Operating Periods Prior
27 to the Deferral Period in the EBA is just and reasonable.
- 28 6. Imprudent Outages. It would be inappropriate and unnecessary for the
29 Commission to make a determination on plant outages at this time. As each
30 outage has unique circumstances, plant outages should be reviewed on a
31 case-by-case basis.

32 **Mismatch Issue**

33 **Q. Please explain the mismatch issue.**

34 A. The EBA compares the actual NPC and wheeling revenue (“Actual EBAC”) to the
35 NPC and wheeling revenues in rates (“Base EBAC”). Each month the difference
36 between Actual EBAC and Base EBAC is either debited or credited into the EBA
37 Deferral Account using the following formula:

38
$$EBA\ Deferral_{Utah,Month}$$

39
$$= \left[\left(\frac{Actual\ EBAC_{Utah,month}}{MWh} \right) - \left(\frac{Base\ EBAC_{Utah,month}}{MWh} \right) \times Actual\ MWh_{Utah,month} \right]$$

40 The mismatch specifically relates to NPC. Since Base NPC are set in a
41 general rate case (“GRC”), Actual NPC typically do not perfectly align with the
42 Base NPC it is compared against. For example, in Docket No. 16-035-01 (“2016
43 EBA”) the Actual NPC were compared to the Base NPC set in
44 Docket No. 13-035-184 (“2014 GRC”). The 2014 GRC test period (July 2014

45 through June 2015) and did not perfectly align to the 2016 EBA Deferral Period
46 (January 2015 through December 2015). To calculate the EBA deferral, each month
47 in the Deferral Period is compared to the same month from Base NPC. For
48 example, in the 2016 EBA filing, July 2015 Actual EBAC were compared against
49 July 2014 Base EBAC to calculate the deferrable amount.

50 **Q. Has the misalignment of NPC periods been an issue in past EBA filings?**

51 A. Yes. This same issue has been a factor in most of the Company's EBA filings. The
52 Division addressed this in its Preliminary Evaluation of PacifiCorp's EBA Pilot
53 Program report, filed with the Commission on May 22, 2014. The Division noted
54 that it "considers the mismatch in months to be the greatest concern in the current
55 EBA structure."

56 **Q. What does the DPU propose regarding the mismatch issue?**

57 A. The DPU suggests three possible options. First, NPC would be forecasted for
58 multiple years as part of a GRC. The forecasted NPC would be implemented in
59 rates each year and would be used as the Base NPC in the EBA. Second, the Base
60 NPC would be reset each year as part of the EBA filing. The DPU presents a third
61 option which is to make no changes to how Base NPC are set and maintain the
62 status quo.

63 **Q. Does the Company support any of the DPU proposed solutions to the mismatch
64 issue?**

65 A. Yes. The Company supports setting Base NPC annually in the EBA filing using a
66 forecast that is aligned with the period during which rates will be in effect, i.e. the
67 next calendar year. For instance, in the 2016 EBA filing, the Company would have

68 included a forecast for calendar year 2017 Base NPC to be included in rates, against
69 which the 2017 deferral would be calculated.

70 **Q. Is resetting Base NPC annually more effective than setting the Base NPC only**
71 **in a GRC?**

72 A. Yes. Annually resetting Base NPC ensures that forecasts do not become stale and
73 test periods will always line up with the deferral period. The current EBA frequently
74 compares Base NPC from an earlier year to Actual NPC during the deferral period.
75 This misalignment between GRC test periods and EBA deferral periods increases
76 the probability of larger variances between Base NPC and Actual NPC.

77 Forecasting and annually resetting Base NPC in the EBA will provide
78 customers more accurate price points by which they can more wisely determine
79 their energy consumption and will reduce forecast variances resulting in over or
80 under collection of NPC.

81 **Q. When should this change be implemented?**

82 A. The Company proposes to implement this change with the next GRC. A GRC would
83 facilitate the unbundling of NPC from general rates and allow for the annual update
84 of NPC.

85 **Q. Do you have any comments on the other solutions proposed by the DPU**
86 **concerning the mismatch issue?**

87 A. Yes. The Company does not support forecasting NPC for multiple years in a GRC.
88 A two or three year forecast of Base NPC would most likely produce similar
89 variances in the EBA as under the current method. Therefore, if the Commission

90 does not approve annual updates, the Company's position is that the current method
91 for setting Base NPC remain unchanged.

92 **EBA Procedural Schedule**

93 **Q. Please briefly describe the DPU's proposed change in the EBA procedural**
94 **schedule.**

95 A. The DPU has proposed changes to the EBA schedule to allow more time for the
96 DPU to complete its audit. The proposed schedule is summarized below:

- 97 • March 15: EBA is filed (no change)
- 98 • May 1 - April 30: Rate effective period
- 99 • May 1: Interim rates effective
- 100 • November 15: DPU audit report is filed
- 101 • February 1 (approximate): Hearing is held
- 102 • March 1: Final rates effective

103 **Q. Does the Company support the DPU's proposed changes to the EBA**
104 **procedural schedule?**

105 A. The Company supports the EBA procedural change as proposed by the DPU with
106 the exception of the DPU's interpretation of "final rates" as discussed later in my
107 testimony. However, if the Commission adopts the proposal to reset Base NPC in
108 the EBA, the above procedure schedule would need to be modified. The change in
109 Base NPC would need to be effective January 1. This could be accomplished by
110 having a separate schedule for resetting Base NPC.

111 **Q. Were there any other proposed changes to the EBA procedure?**

112 A. Yes, the OCS proposed that all parties be given equal rounds of testimony. This
113 proposed change would take the opportunity away from the Company to reply to
114 the DPU's audit report at the same time as all other parties, and instead the
115 Company would be able to respond to the direct testimony of all parties during
116 rebuttal testimony.

117 **Q. Does the Company support the proposed change to the rounds of testimony?**

118 A. No. Since the Company bears the burden of demonstrating its costs are prudent,
119 due process dictates that the Company have an opportunity to respond to any
120 adjustments proposed by the DPU's audit report at the same time that other parties
121 respond to the report. However, if the Commission decides all parties should be
122 given equal rounds of testimony then all intervening parties should be required to
123 file direct testimony at the same time, when the DPU files its audit report.

124 **Wheeling Revenues**

125 **Q. Please summarize the DPU's proposal concerning wheeling revenues.**

126 A. The DPU proposes that wheeling revenues not be included as part of the EBA
127 because they are not NPC; however, they would likely support a separate wheeling
128 revenue tracker. If not tracked through the EBA, the Company would support a
129 separate tracker for related variable costs and revenues such as wheeling revenues,
130 production tax-credits ("PTCs"), chemical costs, and start-up fuel. However, the
131 Company would prefer including these items in the EBA for administrative
132 convenience.

133 **Carrying Charge**

134 **Q. What are the proposed changes to the EBA carrying charge?**

135 A. As it did in Docket No. 15-035-69, the DPU proposes for the EBA carrying charge
136 to be based upon the preceding year's average corporate bond rate, but also notes
137 that it would not oppose a short-term rate since the EBA balance is amortized over
138 a 12-month period. The OCS proposes applying a short-term interest rate based on
139 the risk of recovery and because the recovery period is short term.

140 **Q. Have the DPU and OCS previously agreed that the EBA carrying charge**
141 **should remain unchanged until the next GRC?**

142 A. Yes. In Docket No. 14-035-147 both the DPU and the OCS explicitly agreed that
143 the EBA carrying charge should remain 6 percent until the next GRC. Paragraph 18
144 of the settlement stipulation states:

145 The Parties agree that the carrying costs of EBA-related deferrals should
146 continue to be 6 percent, as set forth in the EBA tariff, except for the
147 amortization expense associated with the Deer Creek Mine and loss on
148 Mining Assets, for which the EBA-related carrying costs should be zero
149 during the calendar year in which the Net Power Cost differential is
150 calculated and deferred to the EBA. This condition should exist until the
151 rate effective date of the Company's next general rate case.¹

¹ See Docket No. 14-035-147, Settlement Stipulation, April 16, 2015.

152 **Q. Would the Company support a change to the EBA carrying charge at the time**
153 **of the next GRC?**

154 A. Yes. At the time Base NPC are reset for purposes of calculating the deferral in the
155 EBA in the next GRC, the Company would support a change consistent with the
156 carrying charges adopted in Docket No. 15-035-69, which is the average corporate
157 bond rate of the preceding year. The Company does not support adopting a short-
158 term rate because the recovery period is not short-term. Short-term is typically
159 defined as less than one year, and currently the EBA deferral is not recovered within
160 one year. Under the current EBA procedures the deferral period is always the prior
161 calendar year and rates are not effective until November 1. Therefore, an 11-month
162 lag from the end of the Deferral Period to the rate effective date exists. Once rates
163 are effective, the EBA deferral is amortized over one year, so the Company must
164 wait 23 months to recover the EBA deferral. This does not consider that credits and
165 debits are made to the EBA Deferral Account on a monthly basis, for example, the
166 deferral amount for January has a 22-month lag until rates are effective. Interim
167 rates will shorten the lag but will still not provide recovery of the deferral amount
168 within one year.

169 **Accounting Entries Pertaining to Operating Periods Prior to the Deferral Period**

170 **Q. Please describe the DPU's proposed change to certain accounting entries**
171 **pertaining to operating periods prior to the deferral period.**

172 A. The DPU suggests that accounting entries pertaining to operating periods prior to
173 the deferral period ("adjusting entries") should be disallowed because it constitutes
174 retroactive ratemaking since a Commission order in an annual EBA sets final rates.

175 In addition, the DPU believes that the “EBA mechanism is a yearly filing and
176 account” and if these accounting entries are allowed in the EBA it would violate
177 the EBA.

178 **Q. Please explain the difference between accounting and operating periods.**

179 A. Each accounting entry in NPC has an accounting period and an operating period.
180 The accounting period is the month and year in which the entry is booked, and the
181 operating period is the month and year in which the transaction occurred. Typically,
182 the accounting period and the operating period are the same; however, there are
183 times when they are not. For example, during the checkout process for reconciling
184 transactions with counterparties, if the Company does not agree with the
185 counterparty on a certain transaction before closing the accounting period an
186 estimate will be booked to properly account for the purchase or sale that has taken
187 place. Once the checkout process has been completed for that transaction, an
188 adjusting accounting entry is made in a later accounting period but with an
189 operating period that corresponds to the underlying transaction.

190 **Q. Is the current method of excluding accounting entries pertaining to operating**
191 **periods prior to the implementation of the EBA, or October 1, 2011, just and**
192 **reasonable?**

193 A. Yes. Using the EBA implementation as a cut-off for prior period adjustments
194 ensures that customers pay accurate NPC. It is just and reasonable that the benefits
195 and/or costs resulting from corrections and updated information should also flow
196 through the EBA if the underlying benefit or cost was included in a prior EBA.

197 **Q. Does the current method of including accounting entries pertaining to**
198 **operating periods after the implementation of the EBA, or October 1, 2011,**
199 **constitute retroactive ratemaking?**

200 A. No. Utah Code Section 54-7-13.5(4)(c) explicitly states: “An energy balancing
201 account or gas balancing account that is formed and maintained in accordance with
202 this section does not constitute impermissible retroactive ratemaking or single-issue
203 ratemaking.”

204 **Q. Does the current method of including accounting entries pertaining to**
205 **operating periods after the implementation of the EBA, or October 1, 2011,**
206 **violate the EBA?**

207 A. No. Though the EBA is a yearly filing and accounting, Utah Code Section 54-7-
208 13.5(2)(c)(ii) states: “An electrical corporation: shall file a reconciliation of the
209 energy balancing account with the commission at least annually with actual costs
210 and revenues incurred by the electrical corporation.” In accordance with the law,
211 the annual EBA filing is a reconciliation of the balancing account. As a balancing
212 account, the EBA facilitates reconciliation when new information is available for
213 inclusion in rates. The law requires filing the reconciliation *at least annually*, but
214 does not preclude updates at other times.

215 **Q. Do you agree with the DPU’s proposal that “final rates” should be interpreted**
216 **to mean that NPC is finalized for the Deferral Period?**

217 A. No. First, the DPU’s proposal would potentially disallow prudent NPC
218 appropriately booked according to Generally Accepted Accounting Principles
219 (“GAAP”). Under the DPU’s proposal, an adjusting accounting entry made in July

220 (accounting period) for a January (operating period) transaction could flow through
221 the EBA but an adjusting accounting entry made in June (accounting period) for
222 transaction occurring the previous December (operating period) could not flow
223 through the EBA simply because the December transaction occurred in the prior
224 deferral period.

225 Second, the DPU's proposed treatment would unnecessarily complicate the
226 EBA. Under the DPU's proposal the Company would be able to pass through the
227 difference between the actual expense and the accrued expense as long as the actual
228 expense could be included in the EBA before the Commission issued an order.
229 Under this policy, an actual expense could be known after the DPU audit but before
230 the Commission order, but instead of letting the adjusting entry flow through the
231 EBA and be subject to audit in the next EBA, the DPU suggests the adjusting entry
232 only be recoverable if it is somehow included in the current EBA. This means that
233 the EBA would need to be continually updated to allow adjusting accounting entries
234 booked in a period after the Deferral Period to be included in the EBA under review
235 before the Commission issues an order. Another option would be for the Company
236 to request that the Commission recognize specific accounting entries that may be
237 subject to future adjustments and allow those to flow through a future EBA.
238 However, the Company does not always know beforehand that an adjusting entry
239 will need to be made. In addition, tracking the entries that have been removed from
240 their accounting period for purposes of the EBA would be cumbersome and
241 complicated for both the Company and the DPU.

242 **Q. What other consequences could result from the DPU proposal?**

243 A. The DPU proposal would create a disconnect between cost and benefits in EIM.
244 Because of the EIM settlement and invoicing schedule, EIM purchases and sales
245 are frequently booked in accounting periods which differ from the operating period.
246 The California Independent System Operator ("CAISO") publishes EIM settlement
247 statements daily and invoicing is weekly. The initial daily statement is published
248 after three business days and daily recalculations are published at 12 and 55
249 business days. The Company makes its initial accounting entry for EIM using the
250 12 business day EIM statement; however, since that statement is based on estimated
251 meter data another accounting entry is needed to true-up to the 55 business day EIM
252 statement which is based on actual meter data. Additionally, optional daily reruns
253 are published at nine, 18, 35, and 36 months.

254 Therefore, the disconnect would occur at the end of a calendar year when
255 55 business day statements are received after the closing the last accounting period
256 for the calendar year and with nearly all adjusting entries pertaining to the 9, 18,
257 35, and 36 months statements.

258 **Q. What are some other examples where the DPU's proposal would cause a**
259 **disconnect between costs and benefits?**

260 A. In the 2016 EBA filing the Company passed onto customers the savings resulting
261 from the reversal of a severance tax that was accrued for in prior periods. Following
262 the accounting principle of conservatism the Company had previously been
263 accruing an expense for a severance tax that, given the available information at the
264 time, it was likely the Company would owe. However, after completion of an audit

265 the Company did not owe the severance tax and therefore reversed the prior
266 accruals in the current accounting period. This benefit appropriately flowed back to
267 customers through the EBA because customers had paid for the accrual of the
268 severance tax in prior years. Under the DPU's proposal customers would not have
269 received the benefit of the reduced costs because it pertained to operating periods
270 prior to the deferral period.

271 Also in the 2016 EBA, the Company included the costs of providing energy
272 to a third party. In prior years the third party had provided the Company energy
273 equal to the line losses incurred when transmitting energy on the Company's
274 system. The Company had previously over estimated line losses and received
275 excess energy from the third party. The Company returned energy to the third party
276 equal to the value of the excess line losses. The cost of returning the energy was
277 appropriately included in the EBA because customers benefited in prior years from
278 receiving the excess energy.

279 **Q. Do you have any other thoughts concerning the DPU proposed treatment of**
280 **adjusting accounting entries?**

281 A. Yes. In supporting the proposed change, the DPU argues that allowing adjusting
282 accounting entries into the EBA would “create the opportunity for the Company to
283 selectively include prior period adjustments with knowledge that it will be difficult
284 for regulators to ensure consistent application of such adjustments.”² First, per
285 Company policy and accounting controls, every accounting entry in the EBA has

² DPU Exhibit 6.0, Direct Testimony of David Thomson, Page 5.

286 an accounting period and an operating period and these entries should be easy to
287 identify and each accounting entry includes an audit trail. Second, while the
288 Company believes the DPU is not alleging fraudulent intent on the part of the
289 Company, what the DPU is describing is financial statement fraud, a federal crime.
290 The DPU continues “while there is no indication Rocky Mountain Power has
291 attempted such selective accounting, regulators must guard against the opportunity
292 for mischief, not just react to it.”³ Though the DPU downplays the severity of fraud
293 by calling it “mischief”, there would be serious ramifications for Company
294 executives and any employee involved in a crime of fraudulent “selective
295 accounting,” including serving prison sentences. The DPU itself has stated:

296 Through a review of documentation testing implementation and
297 adherence to key controls, and the external auditors’ and
298 management’s opinions expressed on internal controls in the
299 Company’s latest 10K report, the Division was able to assess the risk
300 of material misstatement due to error or fraud. The Division
301 concludes that the risk of material misstatement due to error or fraud
302 is low.⁴

303 In its own report the DPU has shown that the Company has adequate
304 controls in place to guard against fraud, and therefore the DPU’s justification for
305 disallowing prudently incurred costs to guard against the opportunity of fraud is
306 moot.

³ Id.

⁴ Docket No. 16-035-01, DPU Exhibit 1.2, 2016 EBA Audit Report for Rocky Mountain Power, Page 14.

307 **Imprudent Outages**

308 **Q. Do you believe the Commission needs to issue a statement clarifying that**
309 **customers should not pay for costs related to imprudent outages as suggested**
310 **by the DPU?**

311 A. No. The Company agrees and the statute is very clear that the Company can only
312 recover prudently incurred costs. The DPU's consultant, Daymark, issued a memo
313 on imprudent outages to which it stated: "As with many prudence determinations,
314 this is a necessarily subjective standard that can only be determined on a case-by-
315 case basis."⁵ The Company agrees that it can only recover prudently incurred costs
316 and that the determination of prudence in the case of plant outages should be
317 considered based on the unique circumstances of each outage on a case-by-case
318 basis. Therefore a statement from the Commission clarifying that customers should
319 not pay for costs related to imprudent outages is not necessary.

320 **Q. Does this conclude your rebuttal testimony?**

321 A. Yes.

⁵ DPU Exhibit 6.1, Daymark Energy Advisors' Memorandum to the Utah Division of Public Utilities, Page 5.