

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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

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November 16, 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. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

10 A. Yes.

11

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS CASE?**

13 A. The purpose of my rebuttal testimony is to address recommendations made by  
14 the Division of Public Utilities (“Division”) in its Final EBA Evaluation Report  
15 (“Report”) ordered by the Public Service Commission (“Commission”) and issues  
16 raised by parties in the direct testimony phase of this proceeding. My rebuttal  
17 testimony will address the following:

- 18
- 19 • The nature of the EBA
  - 20 • The Division’s Mismatch Issue and,
  - 21 • The Division’s Wheeling Revenue Elimination Proposal.

22 The Office’s other expert witness, Mr. Phil Hayet of J. Kennedy and Associates,  
23 Inc. will address the following issues in his rebuttal testimony:

- 24
- 25 • Extension of time to review the Company’s Energy Balancing Account  
26 (“EBA”) filing
  - 27 • Exclusion of prior period benefits and/or costs from the EBA
  - 28 • Imprudent forced outages
  - 29 • Inclusion of chemical costs, start-up fuel costs, and production tax  
30 credits in the EBA.
- 31

32 **II. THE NATURE OF THE EBA**

33 **Q. DOES THE OFFICE AGREE WITH MR. WILDING'S ASSESSMENT THAT THE**  
34 **EBA SHOULD BE A DYNAMIC MECHANISM?**

35 A. No. Mr. Wilding proposes that the EBA is a dynamic mechanism. Mr. Wilding's  
36 proposal is contrary to the original intent and purpose of the EBA. The EBA was  
37 specifically designed to recover narrowly defined net power costs as they vary  
38 from the general rate case test year forecast.

39

40 **Q. DO YOU AGREE WITH MR. WILDING'S ASSESSMENT THAT THE EBA**  
41 **SHOULD BE MADE PERMANENT?**

42 A. No. Mr. Wilding's assessment is premature. The EBA evaluation period was to  
43 end at the end of 2016 but was effectively extended by the passage of Senate  
44 Bill 115. Without a thorough study of the changes caused by SB 115, the public  
45 interest would not be served by making the EBA permanent at this time. The  
46 Office asserts that the Commission should wait to make any orders addressing  
47 the permanency of the EBA until after the reports to the legislature required by  
48 SB 115 are complete.

49

50 **III. TEST PERIOD MISMATCH ISSUE**

51 **Q. WHAT IS THE TEST PERIOD MISMATCH?**

52 A. The test period mismatch describes the fact that the test years used to set rates  
53 in general rate cases don't line up with the calendar year on which the EBA true-  
54 up filings are made. The Division within its "Final Evaluation of the PacifiCorp  
55 EBA" dated May 20, 2016 ("Report") uses the following example to describe the  
56 mismatch:

57

58 For example, the test year in a rate case may cover the period  
59 from July 1 of year "A" through June 30 of year "B." There is no  
60 general rate case with a test year covering July 1 through  
61 December 31 of year "B." The EBA filing is for calendar year "B."  
62 The practice has been to use as a baseline for July 1 through

63 December 31 of year “B” the amounts for July 1 through December  
64 31 of year “A.”<sup>1</sup>  
65

66 **Q. WHAT IS THE IMPACT OF THE MISMATCH ISSUE?**

67 A. The Company has asserted that comparing costs over different time periods is  
68 “difficult at best” and “not an ‘apples-to-apples’ comparison.” The Company has  
69 also raised concerns about an out-of-date forecast being the cause of large  
70 variances<sup>2</sup>.  
71

72 **Q. WHAT IS THE OFFICE’S VIEW REGARDING THE MISMATCH ISSUE?**

73 A. The mismatch issue is a natural consequence of the current design of the EBA.  
74 The only solution to the mismatch issue is to fundamentally change the design of  
75 the EBA. While the Division included a list of potential changes, none have yet  
76 been specifically proposed and advocated within this docket. The Office  
77 recommends that the EBA continues operating as currently designed until an  
78 alternative design is proposed and parties have had adequate time to provide  
79 input on any such proposal.  
80

81 **IV. WHEELING REVENUE**

82 **Q. DOES THE OFFICE AGREE WITH THE DIVISION’S RECOMMENDATION TO  
83 ELIMINATE WHEELING REVENUES FROM THE EBA?**

84 A. No.  
85

86 **Q. WHAT WAS THE DIVISION’S REASON FOR ELIMINATING WHEELING  
87 REVENUES FROM THE EBA?**

88 A. The Division asserts that wheeling revenues are inappropriate to be included in  
89 the EBA because they are not net power costs. The Division offered no evidence  
90 other than a philosophical rationale for removing wheeling revenues.  
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<sup>1</sup> See DPU’s Final Evaluation of the PacifiCorp EBA, May 20, 2016, p. 24

<sup>2</sup> See Prefiled Direct Testimony of Mr. Brian Dickman, Docket 13-035-32, lines 163 – 175.

92 **Q. WHAT WAS RATIONALE FOR INCLUDING WHEELING REVENUES IN THE**  
93 **ORIGINAL EBA FILING?**

94 A. In the initial phases of this docket, the Office was one of the primary parties that  
95 identified the need to recognize similar transactional behavior between wheeling  
96 costs and wheeling revenues. The Office recognized that wheeling revenues  
97 were accounted for separately from net power costs. Yet including variability of  
98 wheeling costs in the EBA without including wheeling revenues would result in an  
99 inconsistent treatment of costs and revenues for one element of ratemaking,  
100 which would be inconsistent with the matching principle often used in setting and  
101 designing rates. The Commission recognized the importance of including  
102 wheeling revenues when it ordered the following:

103

104 “We find it appropriate to include wholesale wheeling revenues,  
105 FERC 456.1, in the balancing account calculation. Though not  
106 modeled through GRID, wheeling revenues have always formed an  
107 offset to wheeling expenses in general rates. To set power-related  
108 rates without recognition of this offsetting revenue would violate the  
109 matching principle.”<sup>3</sup>

110

111 If variability of wheeling costs gets passed through to ratepayers, then the  
112 variability of wheeling revenues should be passed through in the same manner.  
113 Failing to do so would result in a loss of these benefits to customers.

114

115 **Q. HAS INCLUDING WHEELING REVENUES IN THE EBA DEFERRAL**  
116 **CALCULATION PROVIDED BENEFITS TO RATEPAYERS?**

117 A. Yes. Including wheeling revenues in the EBA deferral calculation has decreased  
118 EBA deferrals to customers on average by 5.56%. OCS Exhibit 1R-1 shows the  
119 positive impact of including wheeling revenues by case.

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<sup>3</sup> See Commission Report and Order in Docket 09-035-15, page 72.

121 **Q. DOES THE DIVISION AGREE THAT WHEELING REVENUES PROVIDE**  
122 **BENEFITS TO RATEPAYERS?**

123 A. Yes. The Division analyzed wheeling revenue impacts and produced DPU  
124 Exhibit 5.2 & 5.3. The Division concluded the following, "From this the Division  
125 concludes that to date ratepayers have, on average, received a net benefit from  
126 the inclusion of wheeling revenues in the EBA."<sup>4</sup> Later the Division filed  
127 supplemental testimony to correct its exhibits by including the 70/30 sharing band  
128 in its calculation where it was omitted. This update did not change the Division's  
129 conclusion.<sup>5</sup>

130

131 **Q. WITH THE ELIMINATION OF THE SHARING BANDS, ARE RATEPAYERS**  
132 **DISADVANTAGED WITH INCLUSION OF WHEELING REVENUES?**

133 A. No. The Division asserts that with the elimination of sharing bands, ratepayers  
134 take on all the risk of changes in wheeling revenues. While it is true that  
135 ratepayers would receive the full amount of wheeling revenue differential with the  
136 removal of the 70/30 sharing band, eliminating wheeling revenues from the EBA  
137 deferral calculation imposes additional rate burden to ratepayers by removing the  
138 only rate element that to date that has mitigated ratepayer rate impact of the  
139 EBA.

140

141 **Q. DID THE DIVISION FIND THAT THE EBA PROVIDED ANY OTHER BENEFITS**  
142 **TO RATEPAYERS?**

143 A. No. On page 50 of the Report, the Division in the Report concluded the  
144 following:

- 145
- 146 • The EBA was implemented to benefit the Company, which it obviously  
147 has done. The Company is now earning its authorized rate of return.
  - 148 • Concurrently ratepayers are worse off both in higher rates, but also in  
terms of risk that the Company was able to shift to them.

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<sup>4</sup> See 09-35-15 Peterson Prefiled Direct Testimony for DPU – 09-21-2016 – Exhibit 5.0 at lines 196 – 210.

<sup>5</sup> See Supplemental Direct Testimony of Charles E. Peterson dated Nov. 8, 2016 at lines 35-36.

- 149                   • The Division perceives no significant benefits to ratepayers as a result of  
150                   the EBA.

151                   Thus, the Division's proposal to remove wheeling revenues from the EBA is  
152                   essentially a proposal to remove the only element of the EBA that benefits  
153                   customers.

154

155   **Q.     PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATION REGARDING**  
156   **THE DIVISION'S WHEELING REVENUE PROPOSAL.**

157   A.     The Division's wheeling revenue elimination proposal should be rejected. The  
158           Division's own analysis indicates that including wheeling has been a net benefit  
159           for ratepayers. As the Commission has previously ordered, including these  
160           revenues is important for consistency with the matching principle. Further,  
161           including the wheeling revenues is the only benefit ratepayers currently receive  
162           from the EBA.

163

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

165   A.     Yes.