

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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)	DOCKET NO. 09-035-15
In the Matter of the Application)	Exhibit No. DPU 5.0 SR
of Rocky Mountain Power for)	
Approval of its Proposed Energy)	Surrebuttal Testimony of
Cost Adjustment Mechanism)	Charles E. Peterson
)	
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**THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH**

**Surrebuttal Testimony of
Charles E. Peterson**

December 15, 2016

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Q. Please state your name, business address and title.

A. My name is Charles E. Peterson. My business address is 160 East 300 South, Salt Lake City, Utah 84114. I am a Technical Consultant in the Utah Division of Public Utilities (Division or DPU).

Q. Did you previously file direct testimony on September 21, 2016 in this EBA Evaluation phase of this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. I will briefly comment on issues raised by the parties in their rebuttal testimonies filed on or about November 16, 2016 including Mr. Danny Martinez and Mr. Philip Hayet testifying on behalf of Office of Consumer Services (Office); Mr. Kevin Higgins, testifying on behalf of the Utah Association of Energy Users (UAE); and finally, Rocky Mountain Power (Company) witness Mr. Michael Wilding.

Absence of comments on other specific issues should not be construed to mean that the Division either agrees, or disagrees, with a position a party took with respect to that issue.

23 **Q. Please summarize your understanding of the Office’s positions as set forth in Messrs.**
24 **Martinez’s and Hayet’s rebuttal testimonies that you wish to comment on.**

25 A. Mr. Martinez raises four arguments, one regarding the mismatch issue, with the last three
26 related to wheeling revenues in which he argues for continuing the inclusion of wheeling
27 revenues in the EBA. Regarding the mismatch problem he states that it is a fundamental
28 design issue of the EBA and that the EBA should continue as it is “until an alternative design
29 is proposed....”¹ With respect to keeping wheeling revenues in the EBA he offers three
30 points: First, the “Division offered no evidence other than a philosophical rationale for
31 removing wheeling revenues.”² Second, the removal of wheeling revenues violates a
32 matching principle.³ And finally, third, removing wheeling revenues from the EBA would
33 “remove the only element of the EBA that benefits customers.”⁴

34
35 I will comment on Mr. Hayet’s rebuttal testimony that: (1) focuses on questions about what
36 the Division would do if it were granted more time to perform its EBA audit; (2) opposes the
37 implementation of interim rates for the EBA; and (3) supports the inclusion of two of the
38 three items the Company requested should be added to the EBA. Mr. Hayet also had
39 comments regarding prior period adjustments and imprudent forced outages that were the
40 subject of Division witness Mr. David Thomson’s direct testimony. Mr. Thomson will be
41 providing surrebuttal comments on these last two topics for the Division.

42

¹ Rebuttal Testimony of Danny A.C. Martinez, November 16, 2016, lines 77-78.

² Ibid., lines 89-90.

³ Ibid., lines 98-101.

⁴ Ibid., lines 152-153.

43 **Q. What comments do you have regarding Mr. Martinez’s comments on the mismatch**
44 **issue?**

45 A. As summarized above, Mr. Martinez represents the Office position on the mismatch issue
46 that the EBA should continue as it is until an alternative is proposed. The Division proposed
47 a solution through my rebuttal testimony principally that the Company needs to file general
48 rate cases at least every three years. It is expected that parties will comment on this proposal
49 in their surrebuttal testimony.

50

51 **Q. What is the Division’s response to Mr. Martinez’s claims regarding wheeling revenues?**

52 A. I will deal with the second claim first, the alleged matching principle. While it is true that in
53 general rate cases wheeling revenues have been traditionally presented as an offset to
54 wheeling expenses, this tradition does not make it the correct presentation in all contexts or
55 does not elevate a practice to a principle. In accounting, the matching principle is that
56 revenue streams are matched with the expense streams that give rise to those revenues.⁵

57 However, in the case of wheeling expenses and wheeling revenues there is no such

⁵ See the section: “What is MATCHING PRINCIPLE? ‘An Accounting term that is a [fundamental](#) concept of [accrual basis accounting](#). It offsets revenue by expenses based on their *cause-and-effect relationship*. It states that the costs incurred in a period should be matched against the revenue generated in the same period while measuring net income for an [accounting period](#).’ ” [bold and italics added]

Law Dictionary: [What is MATCHING PRINCIPLE? definition of MATCHING PRINCIPLE \(Black's Law Dictionary\)](#)

<http://thelawdictionary.org/matching-principle/> last accessed December 7, 2016.

Also see: <http://cpaclass.com/gaap/sfac/> last accessed December 7, 2016.

Matching Principle

- > Revenues and *related expenses* require recognition at the same time.
- > Expenses are recognized in the period
in which *related revenues* are recognized. [italics added].

58 connection, i.e., wheeling expenses do not give rise to wheeling revenues, or vice versa.
59 Hence there is no “matching principle” in play. The Company could operate perfectly well in
60 providing reliable, cost effective electric energy to its retail customers absent wheeling
61 revenues. The existence of wheeling revenues is a bonus benefit to retail ratepayers.

62

63 The first part of Mr. Martinez’s argument is that the Division did not present any “evidence”
64 just “philosophical rationale.” Mr. Martinez’s makes no suggestion about what sort of
65 “evidence” would be acceptable. Perhaps implicitly, from his third point, since ratepayers
66 have benefited, so far, from the inclusion of wheeling revenues in the EBA, that that is
67 “evidence” in favor of keeping wheeling revenues in the EBA. Thus, perhaps it would be
68 “evidence” for its removal from the EBA if ratepayers were consistently not benefiting from
69 wheeling revenues. In the case of his third point, Mr. Martinez is correct that to date
70 ratepayers have benefitted from wheeling revenues in the EBA. Indeed, this is the only
71 measurable benefit to ratepayers from the EBA that the Division is aware of. However
72 noteworthy this may be, there is no assurance that wheeling revenues in the EBA will, on
73 average, benefit ratepayers in the future. The Division believes that the chance that
74 ratepayers will continue to be net beneficiaries of wheeling revenues in the future is
75 insufficient reason to keep a non-net power cost item in the EBA.

76

77 **Q. Mr. Hayet requested an explanation from the Division “of how it anticipates these**
78 **expectations [e.g. improved audit review] might change if its request for an extension in**

79 **its audit review period is granted”⁶ Do you have an explanation to provide to Mr. Hayet**
80 **and the Office?**

81 A. Yes. The Division anticipates that with more time sample sizes will be larger and the
82 Division will make greater in-depth inquiries into various issues that might come up. The
83 Division could only speculate as to what the result of such additional inquiries might be.

84

85 **Q. Mr. Hayet opposes the imposition of interim rates observing that the Division is only**
86 **asking for a four-month extension of the time and, in any case, either the Company or**
87 **ratepayers would accrue a carrying charge during that period. Do you have further**
88 **comments on interim rates?**

89 A. Yes. The Division suggested that interim rates be implemented in order for the Company or
90 ratepayers to more timely receive the monies due under the EBA. While, theoretically,
91 carrying charges might make ratepayers or the Company somewhat indifferent to receiving
92 money later instead of sooner, the Division believes that “sooner” is generally better than
93 later because the recipients may have different opportunity costs than is covered by the
94 carrying charge. Additionally, the sets of ratepayers that will pay or recover charges imposed
95 in different periods are not identical. However, the Division is not strongly wedded to
96 supporting the imposition of interim rates, but wanted to suggest it as something the
97 Commission could consider in conjunction with the Division’s request for an extension of its
98 EBA audit period.

99

⁶ Rebuttal Testimony of Philip Hayet, November 16, 2016, lines 84-86.

100 **Q. Mr. Hayet, testifying on behalf of the Office, supports the inclusion of chemical costs**
101 **and start-up fuel/gas costs in the EBA as requested by the Company, but appears less**
102 **sanguine about including production tax credits (PTCs). Do you have a response to Mr.**
103 **Hayet?**

104 A. Yes. Mr. Hayet appears to accept the Company's position with respect to chemical costs and
105 start-up fuel/gas costs. The Division continues to reject the inclusion of non-net power costs
106 in the EBA as a bad precedent, as explained in my rebuttal testimony. The Division expects
107 that more "volatile" and/or costs "related to generation" will in time be brought forward
108 because, *reductio ad absurdum*, everything the Company does is related to the generation
109 and provision of electric power to customers. The Company has already signaled that it plans
110 to propose more additions to the EBA. Interestingly, Mr. Hayet appears to understand the
111 problem, and undercuts his argument in favor of adding these costs to the EBA, when he
112 states "In my experience, I have seen utilities attempt to load in various unrelated costs into
113 their fuel balances simply because of the ease of recovering the costs afforded by the fuel
114 recovery tariff."⁷

115

116 **Q. Please outline the issues that you wish to comment on that were brought up in UAE**
117 **witness Mr. Kevin Higgins' rebuttal testimony.**

118 A. Similar to the Office's witnesses, Mr. Higgins takes issue with the Division's request to
119 remove wheeling revenues from the EBA and doubts that much would be gained by solving
120 the mismatch issue.

⁷ Hayet, Op. Cit. lines 223-225.

121 **Q. Regarding wheeling revenues, do you have anything additional to add with respect to**
122 **Mr. Higgins' comments?**

123 A. Mr. Higgins believes that keeping wheeling revenues in the EBA provides “symmetry” with
124 wheeling expenses.⁸ What he seems to mean by this is something similar to the Office’s
125 position: if the Company gets the benefit of having wheeling expenses in the EBA,
126 ratepayers should get the (potential) benefit of having wheeling revenues in the EBA. While
127 the Division understands the incentive to have some item in the EBA that may be a
128 measurable benefit to ratepayers, it is questionable, at best, to include a non-net power cost
129 item in the EBA.

130

131 **Q. What is Mr. Higgins' position regarding the mismatch issue?**

132 A. Mr. Higgins argues that for various reasons the mismatch issue is not one that needs to be
133 dealt with. Mr. Higgins observes that the purpose of the EBA is simply to allow for the
134 recovery of the difference between actual net power costs (NPC), and those in rates (base
135 NPC), and that the current process succeeds in doing that.⁹ While the Division does not
136 disagree with Mr. Higgins' observations *per se*, what concerns the Division is that as base
137 NPC and actual NPC become increasingly disconnected as time goes on, the annual EBA
138 true-ups could become a fairly large portion of customer bills with the concurrent inclusion
139 of increasingly large carrying charge amounts. In my rebuttal testimony, the Division

⁸ See Rebuttal Testimony of Kevin C. Higgins, November 16, 2016, lines 221-226.

⁹ *Ibid.*, lines 265-273.

140 proposed regular rate cases—at least every three years—to minimize the rate impacts from
141 the annual EBA true-ups and the Division continues to support that recommendation.

142

143 **Q. Please outline the issues in Company witness Mr. Michael Wilding’s rebuttal testimony**
144 **that you wish to address here.**

145 A. I will comment on three of the issues Mr. Wilding brings up in his rebuttal testimony: the
146 mismatch issue, wheeling revenue, and carrying charge.

147

148 **Q. What is the Division’s response to Mr. Wilding’s position on the mismatch issue?**

149 A. Mr. Wilding suggests that base NPC be reset each year with the implementation beginning
150 with the next general rate case. Since this is, essentially, one of the suggestions the Division
151 mentioned in its evaluation report on the EBA, the Division neither supports, nor opposes
152 this recommendation. However, the Division notes that this proposal may have a legal
153 problem of being tantamount to a single item rate case.

154

155 **Q. Mr. Wilding says that the Division (and other parties) stipulated in Docket No. 14-035-**
156 **147 (Deer Creek mine closure) that it would not seek a change in the EBA carrying**
157 **charge rate until the next general rate case. Do you have a comment on that?**

158 A. Yes. The Division thanks Mr. Wilding and the Company for bringing this to its attention.
159 Given this fact, the Division withdraws its request for consideration of a new carrying charge
160 rate and mechanism in this docket. The Division notes that it, and presumably other parties,

161 agreed to this condition in April 2015 under the belief that the Company would file a general
162 rate case around the first of January 2016.

163

164 **Q. Finally, do you have anything further to say about the wheeling revenue issue?**

165 A. Yes. Mr. Wilding and the Company apparently see the Division's suggestion that it might
166 support a separate wheeling revenue tracker as an opening to have separate trackers "for
167 volatile components of its revenue requirement."¹⁰ The Division was willing to consider
168 supporting a separate tracker for wheeling revenues because implicitly it already has a
169 tracker through the EBA mechanism. The Division did not intend its suggestion of support
170 for a wheeling revenue tracker to be justification for trackers for any and all "volatile"
171 components of the Company's revenue requirement.

172

173 If the Company believes that certain costs are volatile or have spiked beyond expectations
174 and is worried about recovering those costs, it should file a general rate case where those
175 issues can be dealt with.

176

177 **Q. What are your conclusions and recommendations?**

178 A. The Division withdraws its request to reconsider the EBA carrying charge.

179

180 The Company should file a general rate case if it believes that current rates are not
181 adequately recovering non-net power cost costs.

¹⁰ Rebuttal Testimony of Michael G, Wilding, lines 19-20.

182 The Division continues to ask the Commission to support its other conclusions and
183 recommendations made in my direct testimony filed on September 21, 2016 and in my
184 rebuttal testimony dated November 16, 2016.

185

186 **Q. Does that complete your surrebuttal testimony?**

187 A. Yes.