Q. Please state your name, business address and present position with PacifiCorp, dba Rocky Mountain Power (the "Company").

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

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

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. My testimony responds to the rebuttal testimony of the Utah Division of Public Utilities ("DPU"), the Office of Consumer Services ("OCS"), and the Utah Association of Energy Users ("UAE"). In particular, I address the value of the Energy Balancing Account ("EBA") to customers, the DPU's proposal to address the mismatch issue, proposed changes to the EBA procedural schedule, and non-Net Power Cost ("NPC") items in the EBA.

EBA Value

Q. Does the EBA provide value to customers?

A. Yes. The EBA ensures that customers pay the actual costs for the energy they consume, no more and no less. Truing up the Actual NPC to the NPC level in base rates each calendar year keeps the NPC component of rates just, reasonable, and in the public interest.

Q. What other benefits are there aside from customers paying the actual cost of their energy?

A. NPC is a significant component of the Company's revenue requirement, and the recovery of NPC through the EBA helps mitigate the need for more frequent general rate cases ("GRC"). For example, the Company has not filed a GRC in California or Idaho, states served by the Company with minimal or no sharing bands, since 2009 and 2011, respectively. Additionally, the Company has not filed a GRC in Utah since 2014.

Further, the EBA helps ensure customers are served by a financially healthy utility. Variables influencing NPC are generally outside of the Company's control and system operations are largely in response to these outside influences. First and foremost, customer demand determines the load that the Company must serve with safe and reliable energy. The Company must also react to weather events across both of its balancing authority areas ("BAA") which affect both loads and generation from all resources. Additionally, the Company is obligated to purchase the output of qualifying facilities over which the Company has minimal control. Lastly, the price of natural gas and electricity as determined by wholesale markets impacts the dispatch of Company-owned resources. As the Company is able to recover the variable Actual NPC it is better able to manage the more controllable non-NPC components of its revenue requirement.

Mismatch Issue

Q. What is the DPU's proposal to address the mismatch issue?

A. Initially the DPU took no position, but provided three possible courses of action and chose to review other parties' positions on the mismatch issue. After no parties proposed changes in direct testimony, the DPU in rebuttal recommended that the Commission order the Company to file a GRC at least every three years with the next GRC to be filed no later than July 1, 2017. The DPU proposed that each GRC include a NPC forecast of at least three full calendar years past the rate effective date with adjustments to base rates each year to reflect the forecasted NPC. The DPU argues that this will ensure that dates of the EBA deferral period would always match up to the forecast period used to set Base NPC. In supporting its position for the Company to file frequent GRCs, the DPU states: "While even annual forecast updates are justifiable, the Division believes that three years between updates (and general rate cases) strikes a balance between annual updating and allowing forecasts to become too old and stale."[1]

Q. What is the mismatch issue and why does it matter?

A. The mismatch issue refers to the fact that the deferral period in the EBA does not always align with the Base NPC set in rate cases. For example, in Docket No. 16-035-01 ("2016 EBA") the EBA deferral period was January 2015 through December 2015; however, this EBA deferral period was reconciling to Base NPC set in the 2014 GRC, Docket No. 13-035-184,[2] using a test period of July 2014 through June 2015. In these situations, the same months are compared to each other

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[1] DPU Exhibit 5.0 R, Rebuttal Testimony of Charles E. Peterson, lines 169-171.
[2] The Base NPC set in Docket No. 13-035-184 was a settled amount based on the forecasted NPC.

regardless of year. For example, in the 2016 EBA, Actual NPC for July 2015 was compared to the July 2014 period in Base NPC. This mismatch of periods can be one of the underlying causes of variances in the EBA, thus increasing the magnitude of the annual EBA adjustment. The DPU states that the desired outcome is reducing the effect of the annual EBA adjustment:

> One solution would be for the Company to forecast NPC for multiple years in a rate case, but then the forecast would have to be put into effect in multiple years to reduce the effect on the annual EBA adjustment.[3]

Q. How do you respond to the DPU's recommendation of forecasting three years NPC in a GRC?

A. The Company supports the use of forecasting as an appropriate mechanism in the rate setting process. However, as I will discuss below, the Company does not support the recommendation of the DPU because it is based on factors and time frames beyond which reasonable projections can be made for purposes of setting rates. Further, the DPU's proposal will not achieve the DPU's stated objectives of reducing the magnitude of the annual EBA adjustment.

Q. Would the DPU's proposal result in smaller variances in the EBA?

A. Not necessarily. Simply matching the Base NPC test period and the EBA deferral period will not guarantee smaller variances in the EBA. A forecast grows stale not only because the time period forecasted has passed but also because the inputs at the time the forecast was made change. For example, if the Company were to forecast NPC for calendar year 2020 it would be based on current knowledge. However, that forecast would grow increasingly stale leading up to 2020 as the

[3] DPU Exhibit 5.1 DIR, DPU's Final Evaluation of the PacifiCorp EBA, Page 24.

inputs the forecast was based on, such as energy and natural gas market prices, load, weather patterns, and contractual agreements, change with new information. The DPU recognized the problem of stale forecasts when discussing annual updates to NPC, stating: "The downsides of this proposal is that forecast would necessarily be stale by ten or more months…"[4] By the DPU's own observation, if a shortcoming of annual updates to NPC is that the forecast is stale after only 10 months then the staleness of an NPC forecast prepared more than three years in advance is even more egregious in the DPU's own proposal.

Additionally, the mismatch issue is only one of many causes of EBA variances. A multitude of variables can cause Actual NPC to be different from Base NPC. For example, changes in load, more or less wind and hydro generation than normal, and changes in market prices can all produce significant swings from the forecast. These variables will change regardless of when the forecast is prepared so Actual NPC will still deviate from Base NPC even if the time periods more closely align.

Q. As an example, how does the Company's outlook of market prices in the 2014 GRC compare to actual 2016 market prices and the current outlook of 2017 market prices?

A. In preparing the forecast of NPC for the 2014 GRC, the Company used its March 2014 Official Forward Price Curve ("OFPC"). For 2016, the March 2014 OFPC showed market prices for both power and natural gas higher than what the Company actually experienced. Also, the March 2014 OFPC indicated higher prices for both

[4] DPU Exhibit 5.1 DIR, DPU's Final Evaluation of the PacifiCorp EBA, Page 25.

power and natural gas for 2017 when compared to the most recent OFPC from November 8, 2016. Figures 1 and 2 show the price comparisons for the Mid-Columbia market and the Opal natural gas hub, respectively.

Figure 1

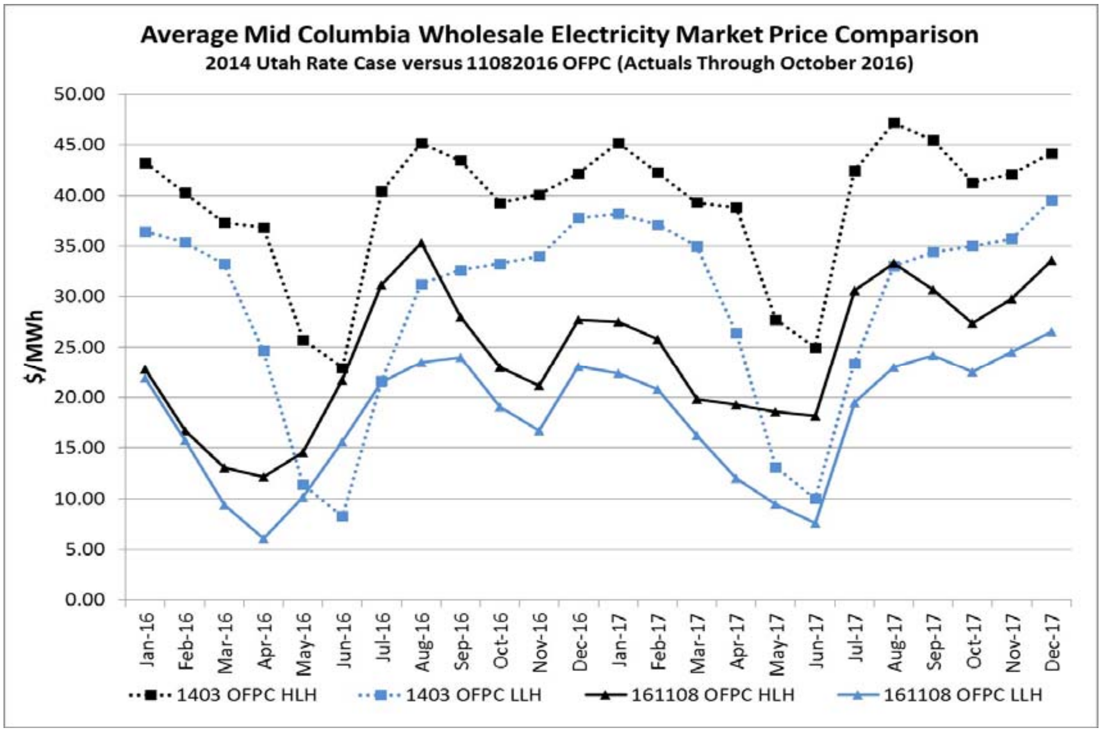
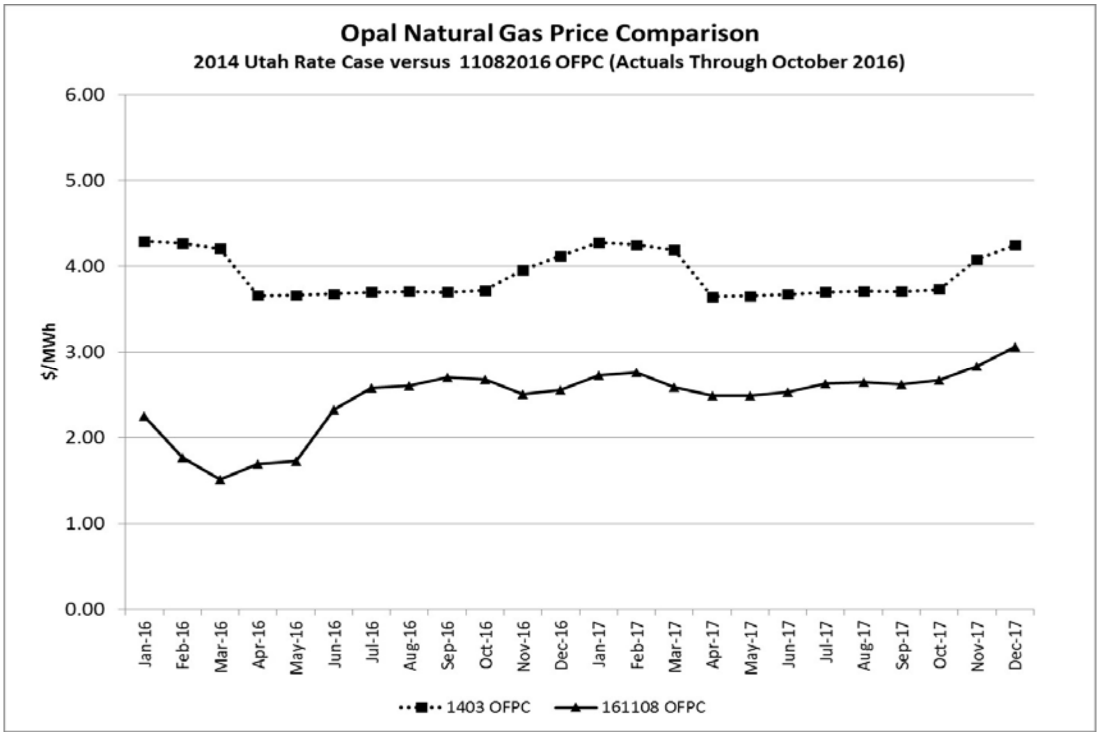


Figure 2



It is difficult to say for certain what the results of a three year forecast would have been in the 2014 GRC, but the power and natural gas market prices used in the forecast of 2016 and 2017 would have been too high.

Q. Does the DPU's proposal change the recovery of NPC?

A. No. Under the current mechanism, NPC are recovered through base rates at the level set by the Base NPC in the immediately preceding GRC. The EBA then trues-up the Actual NPC to the Base NPC in rates. With the elimination of the sharing band, the Company recovers its Actual NPC so there is no over- or under-recovery. While DPU's proposal adds additional complexity, it does not fundamentally change recovery of NPC. The DPU's proposal simply shifts recovery of NPC between base rates and the EBA without necessarily reducing the magnitude of the EBA.

Q. Does the current Base NPC set in the 2014 GRC need to be reset?

A. Not at this time. The current levels of Actual NPC are fairly close to the Base NPC in rates. The EBA variance, before adjustments for Deer Creek, reported in the most recent quarterly filing was approximately $1.7 million to be refunded to customers.

Q. Is it reasonable to set Base NPC three years in advance using a forecast from a single point in time?

A. Not necessarily. The DPU's proposal would predetermine Base NPC rates for a three-year period as forecasted in the last GRC. Many moving pieces cause Actual NPC to fluctuate, and a forecasted NPC can grow stale as the inputs used in the forecast become outdated. These moving variables increase the likelihood that Base NPC and Actual NPC will not always move in the same direction; for example, base rates could increase to adjust for a higher Base NPC while Actual NPC could be declining or vice versa. In this scenario, the variances between Base NPC and Actual NPC would increase, the complete opposite effect the DPU is trying to accomplish with its proposal. Additionally, adjusting Base NPC to a level that is directionally incorrect, i.e. increasing Base NPC during a period of declining costs is not just and reasonable.

Q. The DPU assumes periods of rising costs are the normal situation.[5] Is this accurate?

A. No. If NPC were always in a consistent period of rising costs it is possible the DPU's proposal would result in just and reasonable rates. However, NPC are

[5] DPU Exhibit 5.1 DIR, DPU's Final Evaluation of the PacifiCorp EBA, Page 24.

variable and dependent on many factors across a large geographical area. Table 1 below shows the Utah Allocated NPC from 2012 through 2015.

Table 1

	2012	2013	2014	2015
Utah Allocated NPC	$ 646,618,468	$ 697,512,585	$ 687,782,868	$ 667,972,072
Utah Load at Input	25,485,038	25,913,260	25,688,102	25,478,481
Utah $/MWh	$ 25.37	$ 26.92	$ 26.77	$ 26.22

Q. Does the DPU proposal contradict other positions taken by the DPU in this docket?

A. Yes. First, in response to my direct testimony recommending that the EBA be made permanent the DPU responded as follows:

> The Division believes that the current process is to consider relatively minor adjustments to the current EBA pilot program. Therefore, consideration of the question of the permanence of the EBA is far outside the scope of the current docket and should not even be raised.[6]

Requesting the Company be required to file a GRC every three years and include three years of NPC forecasts is not a "relatively minor adjustment" to the EBA. Additionally, under the DPU's proposal, the next GRC would be filed on or before July 1, 2017 with a rate effective date of approximately March 1, 2018 and would include a Base NPC forecast through February 2021 which is well beyond the end of the current EBA pilot program period.

Second, the DPU has stated that the EBA taxes its current resources and has expressed concerns over staffing, expertise, and consultant funding.[7] In fact, to alleviate some of those concerns, the DPU proposed changing the EBA procedural

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[6] DPU Exhibit 5.0 R, Rebuttal Testimony of Charles E. Peterson, lines 127-130.
[7] DPU Exhibit 5.1 DIR, DPU's Final Evaluation of the PacifiCorp EBA, Page 46.

schedule, which the Company has supported. Additionally, the DPU states that annual NPC updates would "make the annual EBA review more complicated with the necessity to review the updated NPC forecast as well."[8] However, the DPU's latest proposal is perhaps the most complicated of the original three methods. In light of these challenges, it seems odd that the DPU would request a full GRC every three years to reset Base NPC especially considering that the proposal would not change the recovery of NPC.

Lastly, in describing the option of forecasting multiple years of NPC in a GRC the DPU states: "This seems to be undesirable from the perspective that customers would have to endure more rate changes."[9] After clarifying that multiple year NPC forecasts in a GRC is indeed its position, the DPU has not reconciled the "undesirable" consequence of its proposal. In fact, of the three original options identified by the DPU this method results in the highest number of rate changes. Under the DPU's proposal, customers would be subject to four additional rate changes in a three year period, a change in the Base NPC rate each year and change in general base rates every three years.

Q. How have other parties responded to the mismatch issue?

A. The OCS "recommends that the EBA continues operating as currently designed until an alternative design is proposed and parties have had adequate time to provide input on any such proposal."[10] UAE strongly recommends against changing how Base NPC is set stating:

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[8] DPU Exhibit 5.1 DIR, DPU's Final Evaluation of the PacifiCorp EBA, Page 25.
[9] DPU Exhibit 5.1 DIR, DPU's Final Evaluation of the PacifiCorp EBA, Page 24.
[10] OCS Exhibit 1R, Rebuttal Testimony of Danny A.C. Martinez, lines 76-79.

> The objective of the EBA is not to provide perfect forecasting per se, but to allow for an adjustment to revenue recovery when actual NPC deviates from NPC in base rates. This objective is completely met using the current approach. By its nature, the EBA is concerned with the differences between Actual NPC and NPC in base rates. Such differences are expected; otherwise there would be no reason for the mechanism in the first place. In this context, there is nothing inherently wrong with the specific months used in the EBA filing differing from the specific months used in the test period. The whole point of the EBA is to address the inevitable deviations in NPC values between the two.[11]

The Company agrees with both the OCS and UAE on certain points. The EBA as it currently functions fulfills its intended purpose of addressing the deviations between Actual NPC and Base NPC. Annual NPC updates can reduce the inevitable deviations but parties should work together to come up with a procedural schedule that limits the amount of rate changes for customers and allows more time for the DPU's audit of the EBA.

Q. What are your final thoughts on the mismatch issue?

A. The DPU's proposal that the Company be required to file a GRC every three years with the next GRC being filed July 1, 2017, should be rejected. The Company continues to support annual updates to Base NPC because customers would benefit from a more accurate price signal and reduced variances in the EBA. However, if the Commission determines that annual NPC updates are not in the public interest, the Company requests the EBA remain unchanged with respect to the way Base NPC is set.

11 UAE Exhibit 1R.0, Rebuttal Testimony of Kevin C. Higgins, lines 265-273.

EBA Procedural Schedule, Non-NPC Items, and Other Comments

Q. How did other parties respond to the DPU's request to extend the EBA procedural schedule to include interim rates?

A. The OCS did not support interim rates and requested that the DPU provide an explanation of how the expectations surrounding its review of the EBA would change with the extended time. The Company supported the DPU's proposal for an extended time to perform its audit and implementation of interim rates; however, if the Commission determines that interim rates are not in the public interest the Company does not support modifying the EBA procedural timeline because this would add additional regulatory lag and exacerbate concerns with intergenerational equity.

Q. How did other parties respond to your request to add chemicals, start-up fuel, and production tax credits ("PTC") to the EBA?

A. The DPU and UAE both opposed the inclusion of chemicals, start-up fuel, and PTCs in the EBA. The OCS supported the inclusion of chemicals and start-up fuel. Regarding the inclusion of PTC's in the EBA, the OCS expressed concerns but neither supported nor opposed inclusion in the EBA.

Q. Why did you describe chemicals, start-up fuel, and PTCs as volatile in your direct testimony?

A. Chemicals, start-up fuel, and PTCs have a similar profile to NPC in that they are tied to generation. The same outside influences that affect NPC affect chemicals, start-up fuel, and PTCs. These costs are appropriately included in the EBA because they are volatile in the fact that they are subject to rapid and sometimes unpredictable change.

Q. What changes did the UAE request in rebuttal testimony?

A. UAE requested that if the EBA is extended beyond 2019, the sharing bands be reinstated. The Company's opposition to the sharing bands is well documented and the Company reserves its right to further respond to this if necessary. However, it is premature to make changes to the EBA sharing before the Commission reports to the Public Utilities and Technology Interim Committee at the end of 2017 and 2018.

Q. Did any other party file rebuttal testimony?

A. The Utah Industrial Energy Consumer ("UIEC") submitted comments which requested multiple changes to the EBA. The Company respectfully requests that the UIEC's comments be stricken because they contravene the Commission's Scheduling Order in this case. First, the comments are in the wrong format and second, they were late. The UIEC missed the direct testimony deadline, which was clearly identified as the date on which proposals for changes to the EBA should have been filed, and filed its position as comments rather than testimony. However, if the Commission wishes to consider the comments made by the UIEC the Company respectfully requests that it be allowed to respond to said comments.

Q. Does this conclude your testimony?

A. Yes.