I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND YOUR BUSINESS ADDRESS.

A. My name is Daniel E. Gimble. I am a special projects manager with the Office of Consumer Services (Office). My business address is 160 E. 300 S., Salt Lake City, Utah.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN PHASE II OF THIS DOCKET?

A. Yes. On June 16, 2010, I filed direct testimony addressing market reliance issues and presented the Office's recommendations in the areas of hedging and market reliance.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THE DESIGN PORTION OF PHASE II OF THIS PROCEEDING?

A. In response to direction provided by the Commission in its Phase I Order, my testimony discusses significant issues that call into question whether an ECAM could be found to be in the public interest and makes design recommendations that could partially remedy the public interest concerns.

II. RECOMMENDATIONS

Q. PLEASE SUMMARIZE THE OFFICE'S PRIMARY RECOMMENDATION AT THIS STAGE IN THE CASE.

A. The Office's primary recommendation remains as stated in Office witness Beck's Phase I Surrebuttal testimony: the Commission should reject the Company's ECAM Application on the basis that the Company has not met its evidentiary burden to demonstrate that its ECAM proposal is necessary and in the public interest.[1] In this testimony, the Office further explores the public interest considerations and recommends some design elements that could partially remedy the public interest concerns. The Office

[1] Beck SR Testimony, pg. 14, lines 301-304.

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continues to recommend that two issues, the Company's hedging practices and level of reliance on market purchases, need to be considered and acted upon in processes outside of the design proceeding in order for the outcome to be in the public interest.

Q. IN ITS FEBRUARY 9, 2010 PHASE I ORDER, HOW DID THE COMMISSION ELECT TO PROCEED WITH THE CASE?

A. The Commission indicated that it desired to explore whether it would be possible to design an ECAM that would be in the public interest and moved the case forward into Phase II to examine design issues. It should also be noted that the Commission did not indicate that an ECAM in general, or any specific design elements that have been presented to date, are in the public interest.

In determining whether an ECAM can be shown to be in the public interest, the Commission specifically requested that parties address the two threshold issues, hedging practices and reliance on market purchases, and how those issues impact an ECAM. Through compromise, parties recommended and the Commission set a schedule which approached the threshold issues and ECAM design issues along two separate tracks. The first track pertains to the Office's threshold issues of natural gas hedging and market reliance. Direct testimony addressing these threshold issues was filed by the Office, the Division and Western Resource Advocates on June 16, 2010. The second track relates to ECAM Design issues. Addressing the issues in two separate tracks was intended to facilitate Commission review of the threshold issues in time to incorporate any Commission decision or guidance in the design phase.

III. COMPANY'S ECAM PROPOSAL

Q. PLEASE GENERALLY DESCRIBE HOW THE COMPANY'S PROPOSED ECAM WOULD OPERATE IN RELATIONSHIP TO NET POWER COSTS SET IN BASE RATES.

A. The Company would continue to use the GRID model in general rate cases to determine a normalized level of net power costs in base rates. Once a normalized base level is established in a Commission general rate order, monthly net power cost fluctuations above and below the base level would be recorded and then trued-up (with interest) annually. Finally, a pass-through surcharge or credit would be assessed on customers' bills to recover the entire amount accumulated in the ECAM account and approved by the Commission for cost recovery. The Company proposes to file its annual ECAM reconciliation and updated factors on December 15 of each year, with a new ECAM rate becoming effective on February 15 of the following year.[2]

Q. WHAT KEY ISSUES SHOULD THE COMMISSION CONSIDER IN DETERMINING WHETHER SOME TYPE OF ECAM COULD BE IN THE PUBLIC INTEREST?

A. The Office and other parties raised important issues that make the Company's initial ECAM proposal contrary to public interest. These include reduced incentives to plan and operate the system in an overall least cost/risk manner, an inappropriate shifting of the risk of hydro variability to Utah customers, the lack of appropriate recognition of the contribution of revenues from load growth as an offset to rate base,and concerns that wheeling costs and revenues have not been dealt with on an equivalent and fair basis. I will discuss these important public interest considerations and whether design remedies exist in the next section of my testimony.

[2] Duvall Direct, Pg. 9, lines 190-191.

IV. CAN PUBLIC INTEREST CONCERNS BE REMEDIED THROUGH ECAM DESIGN?

A. Incentive Problems

Q. WHAT IS THE MOST SIGNIFICANT ISSUE THAT NEEDS TO BE REMEDIED BEFORE AN ECAM COULD BE FOUND TO BE IN THE PUBLIC INTEREST?

A. The Office is most concerned about the issue of reduced management incentives to control costs. In the past PacifiCorp management and shareholders incurred the risk attendant to power cost fluctuations in between general rate cases. Consequently, PacifiCorp was strongly incented to actively manage net power cost risk through various cost control measures in the areas of planning and operations. With the advent of an ECAM, those strong cost control incentives may be reduced, thereby shifting risk from the utility's shareholders to ratepayers. Thus, an incentive issue arises in terms of ensuring that PacifiCorp management is properly motivated to control costs in a ratemaking environment that includes an ECAM.[3]

Q. HOW DOES THE OFFICE PROPOSE ADDRESSING THE INCENTIVE ISSUE IN ECAM DESIGN?

A. If the Commission grants the Company an ECAM, it would be important to ensure that the Company retains significant interest in the costs that would be passed through to customers. Therefore, the Office proposes that the Company only be allowed to recover a portion of the variation from base net power costs recorded in its ECAM account. Our proposal would be to implement a symmetrical cost sharing between shareholders and

[3]On behalf of the Office, Mr. Chernick sponsored testimony that discussed the incentive issue at considerable length in various parts of his Phase I Testimony. In particular, I would point the Commission to lines 36-205 of his Surrebuttal Testimony where Mr. Chernick establishes for the record that incentive effects have been recognized by utility experts in numerous empirical studies and state commissions have attempted to mitigate incentive effects through ECAM Design.

ratepayers of the variation in net power costs included in the ECAM from the level set in base rates.

Q. WHAT LEVEL OF COST SHARING DOES THE OFFICE RECOMMEND FOR ECAM DESIGN?

A. The Office recommends that a symmetrical 70% - 30% Cost Sharing ("70-30 Sharing") be adopted by the Commission in the ECAM Design. This would mean that only 70 percent of net power cost fluctuations above or below the base level would be recovered from or credited to ratepayers. With an ECAM in place, the Office believes that the Company needs to have a significant monetary stake in net power cost outcomes to ensure that management makes investment, operational and maintenance decisions in way that benefits ratepayers. Absent some level of "skin in the game," management could potentially cut budgets to meet profit center targets, re-direct funds targeted for plant maintenance to other areas of the business or delay the acquisition of cost-effective resources and rely on more volatile short-term market purchases to serve growing load requirements.

Q. ARE THERE IMPORTANT DESIGN ELEMENTS THAT WOULD BE NECESSARY IF A SHARING MECHANISM IS IMPLEMENTED?

A. Yes. If any kind of sharing mechanism is implemented, then it would be crucial to true up the rates on an annual basis. This would allow for a fair treatment of the anticipated deviations that will vary between positive and negative entries into the ECAM account. If the true up were done seasonally or monthly, then recovery could be distorted and potentially result in sharp swings in pass-through rates. If an annual true up is used, these seasonal or monthly cost differentials would offset each other over the course of a year.

Q. WOULD IMPLEMENTATION OF THIS SHARING MECHANISM ELIMINATE THE NEED FOR AUDIT AND PRUDENCY REVIEW OF THE ACCOUNT?

A. No. The sharing mechanism is intended as an offset to the problems of reduced or distorted incentives. The ECAM account would need to be audited and scrutinized for both accuracy and prudency. The costs of any transactions found by the Commission to be either inaccurate or imprudent would not be included in the balance.

Q. IS THE OFFICE CONCERNED THAT ITS PROPOSED 70-30 SHARING MAY RESULT IN THE COMPANY CONSISTENTLY OVER-FORECASTING THE BASE LEVEL OF NET POWER COSTS IN GENERAL RATE CASES AND POCKET 30% OF THE DIFFERENCE BETWEEN THE FORECAST AND ACTUAL LEVELS?

A. Despite the possibility of upward bias in the net power cost forecast, the Office is not overly concerned. The Office has retained power cost experts in each rate case since the Company's first post-merger rate case (1990) to assess the reasonableness of the utility's net power cost forecast. These experts have typically sponsored adjustments to the Company net power cost forecast and many of these adjustments have been adopted by the Commission in its general rate orders.

Further, reductions in actual net power costs compared to forecasted levels may stem from the Company making economic decisions to timely acquire a cost-effective renewable resource or advance plant maintenance schedules such that it improves the performance of a cheap coal unit. These are actions by management that would benefit shareholders and ratepayers alike under a 70-30 Sharing arrangement.

Q. DOES THE SHARING MECHANISM RESOLVE ALL OF THE OFFICE'S CONCERNS ABOUT INCENTIVE PROBLEMS THAT WOULD BE CAUSED BY AN ECAM?

A. No. The Office believes that a sharing mechanism represents the minimum type of mechanism that needs to be in place to maintain operational incentives. A sharing mechanism does not fully address planning incentives, which will be addressed later in this testimony.

B. Exposing Utah Customers to Hydro Risk without Hydro Benefits

Q. PLEASE EXPLAIN HOW AN ECAM WOULD EXPOSE UTAH CUSTOMERS TO HYDRO RISK WITHOUT PROVIDING COMMENSURATE HYDRO BENEFITS.

A. According to the Company's ECAM Proposal, all fluctuations in net power costs above or below the base level would be recorded in the ECAM account and recovered from Utah ratepayers. Fluctuations in net power costs could result from a number of factors, including hydro variability. For example, in low water years the Company may have to run its gas plants more hours and make additional market purchases to replace lost hydro output. Thus, the loss of hydro generation would likely result in the need to run or purchase more expensive resources and thereby increase the amount of net power costs recovered through an ECAM.

If Utah ratepayers are going to be asked to pick up the replacement costs associated with hydro variability, then it is only fair and reasonable that they should receive the full benefit of relatively lower cost hydro resources in base rates. To do otherwise would create a mismatch between general and pass-through rates and produce an unfair result for Utah ratepayers. Because of the current MSP methodology, Utah customers do not currently receive the full benefit associated with hydro resources.

Q. WHAT IS THE OFFICE'S RECOMMENDATION RELATING TO THE ISSUE OF HYDRO VARIABILITY?

A. If the Commission elects to implement an ECAM, the Office recommends that Utah revenue requirement be calculated using the rolled-in, inter-jurisdictional allocation method, without the current 1.0% MSP cap.[4] Eliminating the MSP cap and determining revenue requirement using the rolled-in method would align the benefits and costs associated with the hydro system in both general and pass-through rates.

Q. IF THE COMMISSION ACCEPTS THE OFFICE'S RECOMMENDATION TO REMOVE THE MSP CAP OF 1.0% AND MOVE TO FULLY ROLLED-IN REVENUE REQUIREMENT, WHAT IS THE REDUCTION TO UTAH REVENUE REQUIREMENT?

A. Based on the level of Utah general business revenues after the Commission's ordered revenue requirement increase in Docket 09-035-23, the reduction in revenue requirement would be approximately $14.9 million on an annual basis.[5]

Q. WHEN SHOULD A DECREASE IN REVENUE REQUIREMENT RESULTING FROM USING THE ROLLED-IN METHOD BE RECOGNIZED IN RATES?

A. The Office recommends that the revenue requirement reduction be reflected as a credit against base rates the first time any accumulated balance in the ECAM is amortized in the pass-through rate. Alternatively, the Office proposes that the initial amortization of an ECAM balance take place at the conclusion of the Company's next rate case.

[4] In Utah rate cases since 2004, Utah revenue requirement has been determined using the rolled-in allocation method plus the applicable MSP cap in place at the time. Currently, the MSP Cap is at 1.0%.

[5] The Commission authorized a general business revenue level of $1,506,662,077 in Docket 09-035-23. $1,506,662,077 * 101.0% = $1,491,744,631. $1,506,662,077 - $1,491,744,631 = $14,991,744,631, which is the current value of the 1.0% MSP Cap.

Q. ARE THERE SEPARATE EFFORTS UNDERWAY ADDRESSING THE ISSUE OF INTER-STATE COST ALLOCATION AND ROLLED IN RATES?

A. Yes. My understanding is that there is an agreement in principle within the MSP forum that includes rolled-in rates for Utah. It is anticipated that such an agreement will be filed with the various state regulatory authorities in September. The Office intends to participate fully in any such proceeding. However, the issue of rolled-in rates remains important within this current proceeding. It is the Office's position that rolled-in rates must be in place during any period in which an ECAM is being implemented. Otherwise, Utah customers will bear the risks associated with hydro variability without receiving a proper level of benefit from those resources.

C. Hedging Costs

Q. PLEASE EXPLAIN HOW NATURAL GAS HEDGING COSTS ARE IMPACTED BY AN ECAM.

A. Without an ECAM, the costs due to variations of natural gas costs from that which were forecasted and included in base rates are borne solely by the Company. This reality is reflected in hedging practices and policy that focus on reducing volatility, as was described in much greater detail in Dr. Schell's testimony in the other portion of this case. With an ECAM, some portion of the costs due to these variations would be borne by customers. Therefore, it is important that the hedging practices and policy reflect the risk tolerance and preference of customers.

Q. SHOULD NATURAL GAS HEDGING COSTS AT THIS TIME BE INCLUDED IN ANY ECAM DESIGN APPROVED BY THE COMMISSION??

A. No. In June 16, 2010 testimony addressing the Company's hedging practices, the Office's experts recommended that an analysis and evaluation of the Company's hedging practices be undertaken. The Office further recommended that natural gas hedging costs and natural gas fuel costs be excluded from an ECAM until this analysis and evaluation has been completed.

Q. A COMMISSION DECISION ON HEDGING RECOMMENDATIONS MAY BE AVAILABLE PRIOR TO EITHER THE FILING OF SURREBUTTAL TESTIMONY OR HEARINGS PERTAINING TO ECAM DESIGN. WILL THE OFFICE INCORPORATE ANY COMMISSION DECISIONS IN THIS AREA IN ITS ECAM DESIGN RECOMMENDATIONS?

A. Yes. The Office looks forward to reviewing the Commission's order on hedging as well as market reliance issues. If the Commission issues an order in time to be incorporated into future rounds of pre-filed testimony or the ECAM Design hearing, we will take into consideration the Commission's decisions in formulating our ECAM Design recommendations in these areas.

D. Market Purchases

Q. PLEASE DESCRIBE HOW THE ISSUE OF MARKET PURCHASES WOULD BE IMPACTED BY AN ECAM.

A. Depending on what design is ultimately approved, some level of market purchases would be automatically passed through to customers rather than being examined in the context of a rate case. The Office's concerns, which have been described in greater detail in my direct testimony filed in the market reliance portion of this case, is that a pass-through of these costs would expose customers to the price risk associated with the Company's previous resource planning and procurement decisions. The Commission has explicitly indicated in other orders that these are risks that would be borne by the Company.

Q. WHAT RECOMMENDATIONS DID THE OFFICE MAKE ABOUT MARKET PURCHASES IN THE MARKET RELIANCE PORTION OF THIS CASE?

A. The Office recommended that the Commission had two alternatives:

- Do not allow these costs associated with market purchases until sufficient analysis justifies their inclusion; or
- Establish limits for the total amount of market purchases that could be allowed to flow through the ECAM.

Q. CAN THE ISSUE OF MARKET PURCHASES BE RESOLVED THROUGH PROPER ECAM DESIGN?

A. No. In that same testimony, I further described the Office's analysis and provided our conclusion that establishing limits would require a focused proceeding to determine what limits are reasonable and to avoid imposing arbitrary restrictions. Further, no one specific design should be implemented because the appropriate level of market purchases is not static rather, the level would vary based on many factors.

Q. IF ITS PROPOSED 70-30 SHARING IS ADOPTED BY THE COMMISSION, WOULD COMPANY MANAGEMENT BE PROPERLY INCENTED TO ENSURE THAT SHAREHOLDERS AND RATEPAYERS INTERESTS ARE ALIGNED WHEN IT COMES TO DECISIONS ON WHETHER TO RELY ON THE MARKET OR BUILD OR ACQUIRE RESOURCES?

A. No. In the past the Company management incurred 100% of the risk associated with its planning and operational decisions between general rate cases. Adoption of the Office's 70-30 Sharing proposal as part of the ECAM Design would leave management with a reduced monetary stake in the outcomes of resource planning and operational decisions. The Office does not believe that a 30% stake in net power cost variations is a strong enough incentive to ensure long-term planning decisions are made that best meet customer needs.

E. Wheeling Costs and Revenues

Q. PLEASE DESCRIBE HOW WHEELING COSTS AND REVENUES ARE CURRENTLY TREATED FOR RATEMAKING PURPOSES.

A. The current practice is to include wheeling costs as part of net power costs and treat wheeling revenues separately from net power costs. The difference in treatment of wheeling costs and revenues is largely due to a series of FERC transmission open access orders (888-890) that required electric utilities to open up their transmission systems and provide various kinds of transmission services Consequently, wheeling revenues have been a distinct and separate revenue category reflecting wheeling services provided through PacifiCorp's OATT.

Q. WHY WOULD CURRENT TREATMENT BE CONTRARY TO THE PUBLIC INTEREST IF AN ECAM WERE IMPLEMENTED?

A. It would result in an inconsistent treatment of costs and revenues for one element of ratemaking. If variability of costs gets passed through to ratepayers, then the variability of revenues should be passed through in the same manner.

Q. DOES THE OFFICE PROPOSE CHANGING THE RATEMAKING TREATMENT OF WHEELING COSTS AND REVENUES AS PART OF ECAM DESIGN?

A. Yes. The Office proposes wheeling cost and revenue differences from levels set in base rates should be included if an ECAM is implemented.

Q. PLEASE EXPLAIN WHY THE CHANGE IN RATEMAKING TREATMENT WOULD BE NECESSARY.

A. It would be necessary to ensure comparable treatment of similar types of costs and revenues. This is particularly important under current circumstances. With segments of the Gateway Project now underway, the Company has begun a major expansion of its transmission system over the next decade. This significant expansion of the transmission system provides new opportunities to provide wheeling services and garner associated wheeling revenues. In addition, these new wheeling opportunities may be accompanied by greater forecast error in projecting the level of wheeling revenues in general rates. Therefore, the Office believes that variations in wheeling costs and revenues should be included in the ECAM Design and be afforded symmetrical treatment under its 70-30 Sharing proposal.

F. Proper Recognition of Load Growth Contribution to Rate Base

Q. PLEASE EXPLAIN WHY LOAD GROWTH NEEDS TO BE PROPERLY CONSIDERED IN ECAM DESIGN IN ORDER FOR THE PUBLIC INTEREST TO BE SERVED.

A. In the last rate case, parties stipulated to, and the Commission approved, a July 2009 - June 2010 test year for determining revenue requirement and setting new rates. Thus, the new rates set by the Commission were based on forecasts of loads, revenue, expenses and rate base items through June 2010. With the advent of an ECAM, variations in an expense element of rates, i.e., net power costs, will be separately tracked and recovered from Utah ratepayers between general rate cases. This type of design implicitly collects any additional power costs due to load growth beyond the time of the test period. In order to ensure that ratepayers are not overcharged in pass-through rates, the ECAM design needs to also recognize additional revenue contributions to incremental generation and transmission fixed costs (rate base) that the Company receives from load growth beyond the time of the test period.

Q. HAS THIS NEXUS BETWEEN VARIATIONS IN LOAD GROWTH AND NET POWER COSTS BEEN RECOGNIZED AND ADDRESSED IN ANY OTHER OF THE COMPANY'S JURISDICTIONS?

A. Yes. A $/MWh load adjustment has been developed and implemented in connection with the Company's pass-through mechanism in Idaho. The Idaho load adjustment relates to both incremental net power costs and generation fixed costs. However, the Idaho load adjustment does not reflect the fixed costs of incremental transmission investment.

Q. HAS THE COMPANY PROPOSED A SIMILAR $/MWH ADJUSTMENT IN ITS PROPOSED ECAM DESIGN IN UTAH?

A. While the Company's proposed ECAM Design in Utah recognizes and reflects the relationship between a change in loads (revenue) and net power costs,[6] it does not reflect the nexus between loads (revenue) and the fixed costs of incremental generation and transmission plant.

Q. WHAT IS THE OFFICE'S POSITION AS TO WHETHER A LOAD GROWTH (REVENUE) ADJUSTMENT SIMILAR TO THE ONE IN PLACE IN IDAHO IS NECESSARY IN THE ECAM DESIGN?

A. The matching of variations in loads (revenue), net power costs and the fixed costs of incremental generation and transmission plant has merit and should be considered as part of ECAM Design. Conceptually, the Office believes that the Idaho load adjustment should be expanded to include the fixed costs of incremental transmission investment because of the inter-related nature of the generation and transmission system. The Company continues to make substantial new investment in generation and transmission plant to meet load growth. If an ECAM is implemented, it should also recognize the contribution of the load growth toward these rate base elements. Otherwise, customers would be overcharged in total

[6] Any differences in the system per-unit cost will be multiplied by actual Utah MWh load in that month and the product will be deferred in the balancing account. (Duvall Direct, Pg. 8, lines 177-179)

since increased in revenues due to growth would not be included in base rates, even though increased costs due to growth would be included in pass through rates.

Q. DOES THE OFFICE HAVE A SPECIFIC LOAD ADJUSTMENT PROPOSAL AT THIS TIME TO OFFER FOR CONSIDERATON?

A. No. The Office understands certain parties to the case will be submitting proposals for the Commission to consider as part of ECAM Design. The Office will review and comment on those proposals in rebuttal testimony.

G. Administrative

Q. WHAT ADMINISTRATIVE ITEMS DOES THE COMMISSION NEED TO ADDRESS IN THE AREA OF ECAM DESIGN?

A. The Commission must first determine whether an ECAM is in the public interest. The Office has proposed several substantial changes and additional analysis that would need to be completed in order for the public interest to be met. If such criteria were met, the Commission would also need to consider the following administrative items in the process of establishing an ECAM:

- Whether the ECAM should initially be set up as a pilot program for a specific period of time;
- ECAM accruals, interest and reconciliation period;
- Reporting and Auditing Requirements.

Q. IF THE COMMISSION DECIDES TO MOVE FORWARD AND IMPLEMENT SOME TYPE OF ECAM, DOES THE OFFICE RECOMMEND THAT THE MECHANISM BE INITIALLY DESIGNED AS A PILOT PROGRAM?

A. Yes. Assuming an ECAM is implemented, a significant portion of variations in the Company’s net power costs will now flow through a new reconciliation account that shifts risk associated with weather, loads and near-term market volatility to customers. This represents a major policy change in the way net power costs are treated in setting rates. Consequently, it is reasonable for the ECAM to undergo a trial run to see if strong incentives remain for management to make optimal decisions in the areas of resource planning and investment and utility operations. If management incentives are found to be lacking under an ECAM and sub-optimal outcomes result, then modifications may be required to the ECAM design or the entire mechanism may need to be removed to protect ratepayer interests.

Q. HOW LONG SHOULD THE ECAM PILOT RUN?

A. According its 2008 IRP Update, the Company's resource deficit substantially increases in the 2012 – 2014 "bridging period."[7] From a policy standpoint, the ECAM should remain as a pilot until the first major resource is acquired in 2015. This will provide the Commission with experience of how the ECAM performs over a period when the Company plans to rely heavily on market transactions to serve capacity requirements.

Q. DOES THE OFFICE AGREE WITH THE COMPANY'S PROPOSAL THAT ACCRUALS TO THE ACCOUNT SHOULD BE MADE MONTHLY AND THAT A TRUE-UP OR RECONCILIATION OF THE ACCOUNT OCCUR ANNUALLY?

A. Yes. The Office supports monthly accruals to the account with an annual reconciliation. In particular, a true-up of the account on annual basis should even out the seasonality in monthly accrual amounts.

[7] Table 3.9 in the IRP Update (pg.33) shows a system resource deficit position of 1,264 MW in 2012 increasing to a deficit position of 2,198 MW in 2014.

Q. DOES THE OFFICE HAVE A RECOMMENDATION ON THE INTEREST RATE THAT SHOULD BE APPLIED TO BALANCES IN THE ECAM ACCOUNT?

A. The Office recommends that a 6.0% simple interest rate be applied to the monthly accruals in the ECAM account. An interest rate of 6.0% approximates the Company's current long-term debt rate of 5.98%, which was used to set the interest assessed on the REC revenue and net power cost deferred accounts in the Stipulation recently approved by the Commission in Dockets 09-035-15 and 10-035-14. In addition, a simple interest rate of 6.0% is currently applied to accruals in Questar Gas's 191 Account.[8]

Q. REGARDING REPORTING AND AUDITING REQUIREMENTS, DOES THE OFFICE HAVE ANY SPECIFIC RECOMMENDATIONS?

A. Yes. Assuming the Commission implements an ECAM on trial basis, the Office recommends that the information associated with the net power cost accounts allowed by the Commission to flow through the ECAM be identified with the same level of granularity as net power cost accounts associated with base rates. The Office also recommends the Commission make it clear in its order that the Office has same ability to audit the ECAM account, and the same access to information included in the account, as provided to the Division.

V. <u>CONCLUSIONS AND RECOMMENDATIONS</u>

Q. PLEASE SUMMARIZE THE OFFICE'S POSITION ON THE COMPANY'S ECAM PROPOSAL.

A. The Company has not met its evidentiary burden to show that it's ECAM proposal is in the public interest. The Office and other parties have identified several public interest concerns that must be remedied before

[8] Questar Gas Tariff, pg. 2-13, April 1, 2009.

an ECAM could reasonably be found to be in the public interest. These include:

- reduced incentives to plan and operate the system in an overall least cost/risk manner,
- an inappropriate shifting of the risk of hydro variability to Utah customers,
- the lack of appropriate recognition of the contribution of revenues from load growth toward rate base, and
- concerns that wheeling costs and revenues have not been dealt with on an equivalent and fair basis.

Q. WHAT DESIGN RECOMMENDATION DOES THE OFFICE PROPOSE?

A. In order for an ECAM to be in the public interest, the Office asserts that the design must include the following elements:

- a significant sharing mechanism of 70/30 is needed to maintain incentives to operate the system on a least cost/risk basis;
- base rates established on a rolled in basis in order to ensure that Utah customers receive a fair share of the benefits of hydro resources, since an ECAM would expose them to the risks of hydro variability;
- contribution of revenues from load growth should offset generation and transmission plant additions to rate base;
- variations in both wheeling costs and revenues should be included in the ECAM;
- a true-up of the ECAM account should be performed annually;
- an 6.0% simple interest rate should be applied to accrual in the ECAM account;
- accounts included in the ECAM should be maintained with the same level of granularity as net power cost accounts in base rates to facilitate proper review; and

- if the Commission decides to implement an ECAM, implementation should be done on a trial basis and the pilot should run until January 1, 2015.

Q. IF THESE DESIGN ELEMENTS ARE ORDERED BY THE COMMISSION WOULD THAT ENSURE THAT PUBLIC INTEREST IS MET?

A. No. As the Office has explained in this testimony and in the market reliance of this case, two issues require examination outside of the design process. Specifically, the Company's hedging policies and practices should be analyzed and approved prior to including the costs of hedging or natural gas fuel in an ECAM. Also, the issue of the level of reliance on market purchases must be resolved prior to including the costs of those purchases in an ECAM. Rather than implementing a partial ECAM which could create unintended perverse incentives, the Office recommends these two issues be addressed and resolved prior to the implementation of any ECAM.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON ECAM DESIGN ISSUES?

A. Yes it does.