

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	Docket No. 09-035-15
Rocky Mountain Power for)	Surrebuttal Testimony
Approval of its Proposed Energy)	Paul Wielgus
Cost Adjustment Mechanism)	For the Office of
)	Consumer Services

August 10, 2010

Phase II, Part 1

Surrebuttal Testimony on Issues Relating to Hedging and
Reliance on Market Energy in Connection with an ECAM

1 **INTRODUCTION**

2 **Q. WHAT IS YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS?**

3 A. My name is Paul J. Wielgus. I am a Managing Director with GDS
4 Associates, Inc. (“GDS”). My business address is 1850 Parkway Place,
5 Marietta, GA, 30067.

6

7 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

8 A. Yes.

9

10 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

11 A. To respond to some of the issues raised by Mr. Gregory N. Duvall of
12 PacifiCorp (“Company”) in his Rebuttal Testimony of July 20, 2010, filed in
13 this case (“Rebuttal Testimony”).

14

15 **Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF THIS
16 TESTIMONY?**

17 A. Yes. Exhibit OCS 4.1SR is Rocky Mountain Power’s response to UIEC
18 Data Request 14.16 in this docket.

19

20 **Q. PLEASE SUMMARIZE WHAT YOU WILL BE ADDRESSING IN THIS
21 TESTIMONY.**

22 A. I will address three of the issues discussed by Mr. Duvall in his Rebuttal
23 Testimony: one, Mr. Duvall's assertion that the Company does not believe
24 that any additional analysis is required before an ECAM is implemented;
25 two, Mr. Duvall's comment on lines 809 and 810 regarding market
26 exposure; and three, Mr. Duvall's risk discussion starting on line 881
27 through line 921. I will also discuss a point made by Mr. Duvall regarding
28 transaction costs.

29

30 **Q. PLEASE RESPOND TO MR. DUVALL'S ASSERTION THAT THE**
31 **COMPANY DOESN'T BELIEVE THAT ANY ADDITIONAL ANALYSIS IS**
32 **REQUIRED BEFORE AN ECAM IS IMPLEMENTED.**

33 A. That is a very definitive statement to make at this point in this proceeding
34 and I disagree with Mr. Duvall's assertion. According to Mr. Duvall's
35 Rebuttal Testimony on lines 52 through 54, he states that continuing study
36 and analysis will always be required because of the Company's reliance
37 on market purchases and its hedging program which by their nature are
38 dynamic issues. Mr. Duvall's own conclusion supports further analysis
39 given the degree of potential fluctuations and any setting of those limits.
40 Because of the magnitude of the consequences of decisions in this area
41 as is evidenced by the material filed in this case, it would not be prudent to
42 implement a completely new recovery method without first having a
43 thorough evaluation and analysis of the salient issues. My understanding,
44 through discussions with the Office of Consumer Services, is that issues

45 surrounding hedging practices have been raised in past cases leading to
46 the opening of Docket No. 09-035-21. However, there has yet to be a
47 complete analysis or Commission order on hedging issues.

48

49 **Q. PLEASE RESPOND TO MR. DUVALL’S COMMENT THAT REDUCING**
50 **HEDGING INCREASES MARKET EXPOSURE.**

51 A. Mr. Duvall makes this comment on lines 809 and 810 of his Rebuttal
52 Testimony. Up to this point, it has been the Company’s position that the
53 purpose of its hedging is to reduce volatility, not market exposure. That is,
54 reduce the volatility of the price of the energy market commodity being
55 hedged, not its exposure to that market. With Mr. Duvall’s comment, the
56 Company is moving away from its many times previously stated hedging
57 objective of reducing volatility. The Company reinforces that it has moved
58 away from this objective in its response to UIEC Data Request 14.16 in
59 this Docket.¹ This inconsistency supports my previous comments above
60 regarding the need for additional analysis. Based on these statements,
61 the Company’s own consensus on its stated hedging objective now seems
62 to be in question. These two different objectives will be discussed more
63 just below.

64

¹ Provided as Exhibit OCS 4.1SR.

65 **Q. PLEASE RESPOND TO MR. DUVALL’S COMMENTS REGARDING**
66 **ENTERPRISE-WIDE RISKS.**

67 A. Although Mr. Duvall defines the various risks in terms of the Company’s
68 Energy Commercial & Trading Risk Management Policy (“Policy”) and
69 also points to enterprise risk management², Mr. Duvall addresses these
70 various risks in the valid but more narrow application of the Policy, not in
71 relation to the whole enterprise and ultimately the ratepayer. His response
72 misses the point of the recommendation to examine enterprise-wide risk
73 management. If hedging is also viewed from the level of the Company
74 and ultimately the ratepayer, then management of the energy market
75 exposures could be better evaluated. That is, what might be best,
76 managing just the volatility of the related market price or determining what
77 the appropriate exposure is to that overall market? Currently, the
78 objective of the Policy is to reduce the volatility of the market price. These
79 definitions should be applied at the enterprise level from the ratepayer
80 perspective in addition to being applied at the Policy level so that the
81 process produces the best results.

82

83 **Q. WHAT POINT WOULD YOU LIKE TO MAKE REGARDING MR.**
84 **DUVALL’S COMMENTS RELATED TO TRANSACTION COSTS?**

² Beginning at line 889 of Mr. Duvall’s Rebuttal Testimony in this docket.

85 A. Mr. Duvall states starting on line 859 of his Rebuttal Testimony that costs
86 associated with the front, mid, and back office would be largely incurred
87 even if the Company did not have a hedging program. While there would
88 still be some front, mid, and back office costs if the Company didn't hedge,
89 that is not the complete answer. First, there would be a measurable
90 reduction in IT systems, reporting, accounting, legal, and risk
91 management and compliance resources. There are front, mid and back
92 office related costs that would be avoided if the Company did not hedge.
93 More importantly, as discussed in my original testimony, other
94 components of transaction costs, including those related to credit, which
95 can be very material to the Company and as noted by the Company,
96 would be reduced. These impacts should not be discounted and further
97 transaction cost analysis is warranted.

98

99 **Q. WHAT ARE YOUR CONCLUSIONS?**

100 A. Based on my previous testimony in this case and this testimony, I still
101 contend there should be ample opportunity for all of the affected
102 stakeholders, including ratepayers, to have input into the development
103 process, much of which is policy formulation and input based on a
104 complete analysis.

105

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

107 A. Yes.