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 DIRECT AND REBUTTAL TESTIMONY IN THE DESIGN PORTION OF PHASE 2 OF THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THE DESIGN PORTION OF THIS PROCEEDING?

A. My testimony responds to the rebuttal testimony of Company witnesses Duvall and Bird and Division witness Peterson relating to ECAM design issues. I also respond to UAE witness Higgins' proposal to deal with the revenue accrued in the REC deferral account in the Major Plant Addition (MPA) I-II proceeding.

II. SUMMARY

Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.

A. My surrebuttal testimony addresses the following issues:

- Cost Sharing – Prudence reviews are not a substitute for methods to address incentive issues. The Office continues to recommend the Commission adopt a symmetrical 70-30 Cost Sharing to address incentive effects associated with an ECAM.
- Load Growth Adjustment - The Office continues to recommend adoption of UAE's proposed load growth adjustment as part of the Utah ECAM design. Absent such an adjustment, the Company would over-recover generation and transmission costs during periods of growth.

- Rolled-In Allocation/Hydro Benefits and Risks – The approach endorsed by the Company (UAE's third alternative) produces a sub-optimal result for Utah customers. The implementation of an ECAM should correspond in timing and effect to the determination of Utah revenue requirement using a rolled-in, inter-jurisdictional allocation method. A mismatch of hydro benefit and risk should not be allowed for any amount of time. If the Commission finds it in the public interest to implement an ECAM before the completion of the next rate case, the effect of rolled in rates can be achieved through a credit on customers' bills.
- REC Revenue - The Office opposes UAE's proposal to apply the REC revenue currently being deferred as a credit against costs in the MPA I-II Docket. The Office recommends applying this revenue either as credit against the initial NPC deferral balance (if an ECAM is implemented) or as a credit in the next general rate case. The Office also supports inclusion of REC revenues in an ECAM design on a going forward basis, if the public interest hurdles of implementing an ECAM are overcome.
- ECAM Design – The Office rebuts Company testimony claiming that the Office recommends a partial ECAM. The Company's market reliance strategy and hedging practices represent threshold issues and throughout this case the Office has recommended these issues be addressed and resolved by the Commission prior to implementing an ECAM. The Company's stated need for an ECAM must be balanced by customer protections. Specifically, the Commission should determine whether the Company's market reliance strategy and hedging program are appropriate to ensure the elements included in an ECAM are consistent with and promote the public interest.
- Carrying Charge - The Company, Division, Office and UAE agree that the interest rate applied to ECAM balances should not exceed the Company's long-term cost of debt.

III. SURREBUTTAL ISSUES

Cost Sharing

Q. WHAT IS THE COMPANY'S POSITION ON THE 70-30 COST SHARING PROPOSED BY THE OFFICE AND OTHER PARTIES?

A. Mr. Duvall asserts that 70-30 Cost Sharing should be rejected by the Commission and 100% of actual variations in NPC should be included in an ECAM.[1] In particular, Mr. Duvall argues that regular prudence reviews of costs accrued in the ECAM will enable the Commission to determine whether or not the Company's actions were reasonable.

Q. WHAT IS THE OFFICE'S RESPONSE?

A. Prudence reviews do not obviate the need to address incentive concerns raised by a number of parties in this proceeding. The Office continues to recommend the Commission adopt a symmetrical 70-30 Cost Sharing to ensure that Company management has adequate incentives to control costs and make investment, operational and maintenance decisions that benefit ratepayers. By adopting the 70-30 Cost Sharing proposed by the Office and other parties, the Commission would take a first and necessary step to address incentive effects associated with a regulatory regime that includes an ECAM.

Load Growth Adjustment

Q. WHAT IS THE COMPANY'S POSITION ON THE LOAD GROWTH ADJUSTMENT PROPOSED BY UAE AND SUPPORTED BY THE OFFICE.

A. Despite recently agreeing to a similar load growth adjustment as part of the ECAM design in Idaho, the Company opposes including such an adjustment as part of the Utah ECAM design.[2]

[1] Mr. Duvall references both Bonbright and Utah Code Ann. 54-7-13.5(2)(h) as support for the Company's position (Duvall Rebuttal, pg. 4, lines 82-90).
[2] Duvall Rebuttal, pgs 7-9, lines 153-185.

Q. WHAT IS THE OFFICE'S RESPONSE?

A. Load growth in Utah increases sales revenue, net power costs and the need for new investment. If an ECAM is approved by the Commission, variations in net power cost will be recovered from customers between rate cases and the Company can also seek recovery of new plant additions through MPA filings. Therefore, it is reasonable for the Commission to recognize and include a load growth adjustment in the ECAM design, as proposed by UAE. The load growth adjustment gives appropriate credit for additional revenue contributions to existing generation and transmission plant that comes from the additional load. Absent such an adjustment, the Company would over-recover on those components during times of load growth. The load growth adjustment allows for a more consistent treatment of rate base costs as compared to net power costs and costs associated with major plant additions.

Rolled-In Revenue Requirement – Matching of Hydro Benefits and Risks

Q. WHAT IS THE OFFICE'S RESPONSE TO THE COMPANY'S ASSERTION THAT THE ISSUE OF ROLLED-IN RATES SHOULD BE ADDRESSED IN THE MSP DOCKET AND IMPLEMENTED IN THE NEXT RATE CASE?

A. As I stated in my rebuttal testimony (lines 445- 446), the Office believes this is a sub-optimal approach and would result in a mismatch of hydro benefits and costs. The Office's position is that if and when an ECAM is first implemented and a surcharge assessed on customers' bills, Utah revenue requirement should be determined using a rolled-in, inter-jurisdictional allocation method. To do otherwise would be to expose Utah customers to risk associated with hydro resources without providing them access to the benefits of those resources. Any clearly identified hydro benefit-risk mismatch should not be allowed, even temporarily. If the Company would like to wait for the outcome of its recent filing in Docket

02-035-04, then any implementation of an ECAM should be delayed until that process is complete.

Q. DOES THE OFFICE'S POSITION CAUSE DELAY IN IMPLEMENTING AN ECAM?

A. No. If the Commission finds that it would be in the public interest to implement an ECAM before the conclusion of the next general rate case, it should simultaneously eliminate the current 1.0% MSP Cap and establish a revenue credit based on the current rolled-in method. This credit should be prorated to reflect the difference between rolled in and base rates for one month and included for each month an ECAM is allowed. However, such a revenue credit should not be subject to any sharing mechanism, since it is designed to pass through the benefits of the hydro resources to Utah customers and is not tied to the incentive issue being addressed by the Office's proposed 70-30 Cost Sharing.

REC Revenue Treatment

Q. PLEASE RESPOND TO THE COMPANY'S ASSERTION THAT NO PARTY SUPPORTS INCLUDING REC REVENUE IN AN ECAM.

A. In rebuttal, the Office proposed to include a portion of "incremental" REC revenue in the ECAM design because of recent concerns with accurately forecasting these revenues in base rates. However, the Office was careful to split incremental REC revenue into two pieces: (1) the incremental REC revenue that is currently being accrued in the deferral account as a result of the Company's significant under-forecast of REC revenue included in base rates; and (2) the incremental REC revenue (positive or negative) that will accrue during any time period for which an ECAM is in place. It is this second piece of REC revenue (the going-forward portion) that the Office recommends for inclusion in the ECAM design.

Regarding the REC revenue currently accruing in the deferral account, the Office recommends this revenue be recognized as either a credit against the initial account balance if an ECAM is adopted by the Commission or as a revenue credit in the next general rate case if the Commission decides against adopting an ECAM.

Q. IN REBUTTAL, UAE WITNESS HIGGINS RECOMMENDS THAT REC REVENUE IN THE DEFERRAL ACCOUNT BE CREDITED AGAINST COSTS ALLOWED FOR RECOVERY IN THE MPA I-II PROCEEDING. WHAT IS THE OFFICE'S RESPONSE TO UAE'S PROPOSAL?

A. The origin of the REC revenue being accrued in the deferral account is the "missed forecast" in the last general rate case. REC revenue levels are and will continue to be determined in base rates as part of the normal procedure of matching revenue, expense and rate base accounts in a test year. Accordingly, the Office stands by its recommendation (above) to apply deferred REC revenue either as a credit against the initial ECAM balance or as a revenue credit in the next general rate case. However, the Office believes that how and when to include credits from this deferral should not be decided within this case.[3]

Q. SHOULD THE REC REVENUE CURRENTLY BEING DEFERRED BE SUBJECT TO A 70-30 COST SHARING PROPOSAL?

A. No. The REC revenue in the deferral account stems from a misstep in the regulatory process and it is imperative these revenues be treated in a way that maximizes benefits to Utah retail customers. None of the deferred REC revenue should be subject to any kind of cost sharing. The Office agrees with UAE that 100% of the deferred revenue should be used to benefit Utah retail customers.[4]

[3] While the Office opposes inclusion of the REC revenue credits in the MPA case, UAE clearly has the ability to present its proposed treatment of those credits in the MPA case and have its proposal fully vetted by the parties and decided by the Commission on the merits.
[4]Higgins Rebuttal, pgs. 6-7, lines 126-139.

ECAM Design

Q. AT LINES 288 -290 OF HIS REBUTTAL TESTIMONY, MR. DUVALL STATES THAT THE OFFICE CHARACTERIZES ITS DESIGN PROPOSAL AS A PARTIAL ECAM. HAS MR. DUVALL ACCURATELY REPRESENTED THE OFFICE'S ECAM DESIGN PROPOSAL?

A. No. In rebuttal testimony, Mr. Duvall has misrepresented the Office's design position so that it appears the Office is recommending a partial ECAM design. On line 288 through line 290 in his rebuttal testimony, Mr. Duvall offers the following Q&A:

"Q. How does Mr. Gimble characterize his proposal?
A. He characterizes it as a partial ECAM which could create unintended perverse incentives. (Gimble page 19, lines 545-546) I agree."

Q. WHAT IN FACT DO LINES 545-546 OF YOUR DIRECT TESTIMONY STATE?

A. The lines referenced by Mr. Duvall are a portion of a complete sentence that runs from line 545 through line 548 in my direct testimony that reads as follows:

> "Rather than implementing a partial ECAM which could create unintended perverse incentives, the Office recommends these two issues [*market reliance and hedging*] be addressed and resolved prior to implementation of an ECAM."

The Office has never recommended to the Commission that it should adopt a partial ECAM design. What we have recommended is that before implementing an ECAM the threshold issues of market reliance and hedging should be analyzed so the Commission can take evidence and make an informed decision on whether an ECAM is in the public interest.

This is a distinction with a clear difference and the Company's testimony is simply misleading.

Q. DOES MR. BIRD'S REBUTTAL TESTIMONY SIMILARLY ASSUME THAT THE OFFICE IS RECOMMENDING A PARTIAL ECAM?

A. Yes. The example presented by Mr. Bird in his rebuttal testimony (lines 237-247) makes certain assumptions based upon the same incorrect interpretation of the Office's position. With reference to this example, he concludes that a partial ECAM results in perverse incentives. As I indicated above in responding to Mr. Duvall's testimony, the Office has not recommended that the Commission implement a partial ECAM. In fact, the Office's recommendations relating to market reliance and hedging issues are targeted to avoid perverse incentives.

Q. DOES THE DIVISION ALSO MISREPRESENT THE OFFICE'S RECOMMENDATION ON MARKET RELIANCE AND HEDGING AS THEY RELATE TO IMPLEMENTATION OF AN ECAM?

A. Yes. At lines 285-287 of his rebuttal testimony, Mr. Peterson states that the Office proposes excluding natural gas hedging, fuel costs and front office transactions from the ECAM design until such time as the Commission approves the Company's hedging practices and market reliance strategies. Again this suggests the Office is recommending adoption of a partial ECAM at this time.

Q. PLEASE RE-STATE THE OFFICE'S POSITION TO CLARIFY THE RECORD.

A. The Office is not recommending that the Commission adopt a partial ECAM where it would selectively include and exclude certain items. We believe that an ECAM should be designed to minimize or avoid perverse incentives. The Company's market reliance strategy and hedging practices represent threshold issues and throughout this case the Office has consistently recommended these issues be addressed and resolved by the Commission prior to implementing an ECAM. The Company's stated need for an ECAM must be balanced by customer protections. Specifically, the Commission should determine whether the Company's market reliance strategy and hedging program are appropriate to ensure the elements included in an ECAM are consistent with and promote the public interest. The Office believes that addressing these issues first is an integral part of minimizing or avoiding perverse incentives.

Carrying Charge on ECAM Balancing Account

Q. DO OTHER PARTIES AGREE WITH THE OFFICE'S RECOMMENDATION ON THE CARRYING CHARGE APPLIED TO THE ECAM BALANCING ACCOUNT?

A. UAE, DPU, the Office and the Company all appear to agree that the interest rate applied to the ECAM Account should not exceed the Company's long-term cost of debt (currently, 5.98%). The Company does not object to using the current long-term cost of debt as a proxy for the carrying charge, as long as it is updated every time the Commission authorizes a new cost of capital.

IV. <u>OFFICE POSITION</u>

Q. PLEASE SUMMARIZE THE OFFICE'S OVERALL POSITION IN THIS PROCEEDING.

A. The Company has not met its significant evidentiary burden to demonstrate that its ECAM proposal is necessary and in the public interest. Further, the Company's market reliance strategy and hedging practices represent threshold issues that must be addressed and resolved by the Commission prior to implementing an ECAM. If and when these threshold issues are addressed in such a way that puts satisfactory customer protections in place, then an ECAM must be designed to maintain protections. A reasonable ECAM design should reflect the following key components:

- Significant cost sharing to ensure management has incentives to control costs and make investment, operational and maintenance decisions that benefit ratepayers. The Office, DPU, UAE and WRA all recommend a 70-30 Cost Sharing approach.
- Recognition of generation and transmission revenue margins between rate cases in the form of a ($/MWh) load growth adjustment.
- Matching of hydro benefits and risks for customers fostered through rolled-in general rates at the point in time when an ECAM is implemented.
- Inclusion of incremental REC revenue as a credit to pass-through rates.
- Inclusion of variations in wheeling revenues and costs to ensure symmetry in ratemaking treatment of these items.
- A carrying charge no higher than the Company’s cost of long-term debt, as periodically updated in general rate cases.
- Implementation on a pilot basis for a term running until January 1, 2015.

Lastly, all accounts included in any ECAM approved and implemented by the Commission should be maintained with the same level of detail as NPC accounts in base rates.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY IN THE DESIGN PORTION OF THE CASE?

A. Yes it does.