BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Request of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for approval of Its Proposed Electric Service Schedules and Electric Service Regulations	))))))))))	**DOCKET NO. 09-035-23** **Exhibit No. DPU 12.0SR** **Surrebuttal Testimony** **Douglas D. Wheelwright**

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Surrebuttal Testimony of

Douglas D. Wheelwright

November 30, 2009

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

A: My name is Douglas D. Wheelwright. I am a Utility Analyst in the Division of Public Utilities (Division). My business address is 160 East 300 South, Salt Lake City, Utah 84114.

Q: Are you the same Douglas Wheelwright who filed Direct Testimony in this case?

A: Yes, I filed Direct Testimony, DPU Exhibit 12.0, dated October 8, 2009.

Q: What is the purpose of your surrebuttal testimony?

A: I am offering surrebuttal comments relating to the rebuttal testimony of Gregory N. Duval and the Company's hedging policies and practices.

Q: Do you agree that the Division's recommendations cannot get the full consideration they deserve until the Commission has ruled on the structure of an ECAM?

A: No. This issue has been discussed and testimony has been submitted. Interested parties have participated in technical conferences and have submitted data requests relating to the Company's hedging practices. While these issues are related and interconnected, each one will need to be addressed by the Commission.

Q: **Do you agree that this issue should be addressed in the ECAM or the Natural Gas Hedging dockets and not in the General Rate Case?**

A: No. While these cases are closely connected, this issue should be addressed by the Commission in this case. The Company's hedging policies and practices have been raised in this case and in the previous rate case (08-035-35). As part of this application, the Company has included an expense of $174.2 million[1] in the net power costs for natural gas swaps and revenue of $187.8 million[2] from electric swaps for a net reduction of $13.6 million in net power costs. Docket 09-035-21 was opened following the previous rate case in order to address the unanswered questions concerning the Company's natural gas hedging practices. It is uncertain if the proposed ECAM will be approved and if it is approved, what form it

[1] Exhibit RMP ___(GND-1), page 5 – line labeled Gas Swaps.
[2] Exhibit RMP ___(GND-1), page 4 – line labeled STF Electric Swaps.

may take. The Natural Gas Hedging docket has been opened to gain a better understanding of the Company practices and does not have a specific resolution or completion date.

Q: Has the Company indicated if the current hedging program would be changed or remain the same if the ECAM is approved?

A: Yes. In DPU Data Request 4.1 for the proposed ECAM, the Division asked the following:

> What is the functional relationship between the proposed ECAM and the Company's current hedging policies? Why are both these processes needed to minimize risk of being exposed to volatile fuel or other power costs? Describe in detail how the Company's current hedging policies will change with the establishment of an ECAM.

> Response to DPU Data Request 4.1

> The Company's current hedging program is independent of the proposed ECAM. The current hedging program is designed to reduce the Company's exposure to wholesale market price volatility impact to net power costs. The hedges available to the Company do not completely match the Company's exposure; therefore, the Company will continue to have some exposure. While the Company plans to continually improve its hedge program, there are no plans to change the hedge program due to the establishment of an ECAM.

Since the current hedging program is independent of the proposed ECAM and there will not be any anticipated changes, the Division believes that the hedging policies and practices should be reviewed as part of this case.

Q: Do you believe that the Company's hedging practices are relevant to the rate case for other reasons?

A: Yes. The projected load forecasts can have an impact on the effectiveness of the hedging program. The supplemental testimony of Frank C. Graves in the ECAM case identified the following:

> When deciding how much to hedge, a utility relies heavily on forecasting (esp. of untraded factors that influence its total costs) to estimate how much fuel and power it will need to procure in future months and years. Forward gas prices are observable and can

> be locked in, but forward demands for retail power can only be estimated. Errors in forecasting and estimation can reduce the value of hedging and impose additional costs to a utility which might otherwise be fully hedged absent the load uncertainty.[3]

The importance of having accuracy in the projected load forecast was addressed by the Company in response to OCS Data request 2.143 under the ECAM docket.

> Having the "right hedges" for the wrong load will impose costs and reduce the net value of hedging. Likewise, having the wrong hedges for the right load will also be costly. For instance, even if the load forecast is accurate, if correlations between different factors driving prices are estimated with error, the hedges may cover more or less risk than perceived.

Q: Since one of the primary concerns is the amount of hedging in future years, is there other supporting information concerning this issue.

A: Yes. In Frank Graves' testimony in the ECAM docket he states;

> "In particular, a longer and larger forward position entails both credit and collateral risks that can become prohibitive. When a company chooses to lock down future prices (especially far in advance of delivery), it becomes more vulnerable to intervening price changes and resulting financial performance concerns about (and from) the counterparty to the contract. These concerns arise from the possibility of supplier failure and/or the consequences of mark to market accounting and cash collateralization obligations for positions that become "out of market."[4]

> "Most of the standard hedging wholesale contracts are actively traded in the near-term (up to one to two years out), but are much less frequently traded in the more distant, years forward. The market for hedging contracts becomes less traded in the long-term, so liquidity becomes an important factor in determining how much to hedge in the long-term."[5]

Q: Do you agree that the Division's proposals raise a number of questions such as what it means for the Commission to "approve" the Company's hedging portfolio plan?

A: No. This is a very sensitive issue and as demonstrated in my direct testimony, there is no perfect hedging program. What works for one utility may or may not work for another. The Division has made a number of recommendations that would allow the Company to present

[3] 09-035-15 Frank C. Graves Supplemental ECAM Testimony, p. 39, Line 797
[4] Ibid, p. 37, line 752
[5] Ibid, p. 38, line 778

its recommended program to the Commission. Commission approval of such plans would serve to protect the Company from retrospective “second-guessing”. The guidance or “approval” from the Commission would not need to contain rigid goals or strategies but should include the following: (1) the objective of hedging, (2) the cost of hedging, (3) the mix of hedging tools allowed, (4) the time horizon for financial derivatives, (5) the appropriate criteria or triggers for discretionary hedging, and (6) the appropriate reporting requirements. Guidelines would need to be reviewed every 3 – 5 years or if there were significant changes in market conditions.

Q: Do you agree with the Company that the degree of Commission oversight would vary depending on whether there is an ECAM and if so, what form it takes?

A: No. As identified above and as stated by the Company, the ECAM and the hedging program are closely related but independent of each other. Whether the ECAM is approved or not approved should not determine if the Commission provides guidance to the Company on how far in advance it should hedge natural gas and electric contracts.

Q: Does this conclude your surrebuttal testimony?

A: Yes.