Witness OCS – 7D

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power, for)) Docket No. 10-035-124
Authority to Increase Its Retail Electric Utility Service Rates in Utah and For Approval of Its Proposed Electric Service Schedule and Electric Service)) Direct Testimony) of Seth Schwartz) On behalf of the
Regulations) Office of Consumer Services

May 26, 2011

REDACTED

1 INTRODUCTION 2 WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS? Q. 3 My name is Seth Schwartz. I am the President of Energy Ventures Α. 4 Analysis, Inc. ("EVA"), which is located at 1901 North Moore Street, 5 Arlington, VA 22209. 6 7 Q. PLEASE SUMMARIZE YOUR BACKGROUND AND QUALIFICATIONS. 8 Α. I have been a partner at EVA since it was founded in1981. In the last 30 9 years, my consulting work has included: 10 1) Assisting coal-fired electric power companies (regulated and 11 unregulated) in their coal procurement activities, such as coal 12 contract strategies, coal purchasing, coal contract administration, 13 and coal inventory planning; 14 2) Performing management audits of coal procurement activities of 15 electric power companies for management, regulatory 16 commissions and interveners. As a result of these projects, I have 17 testified before a number of state and federal regulatory 18 commissions; 3) Testifying in coal contract disputes, including litigation and 19 20 arbitration; 21 4) Preparing market studies on behalf of coal producers and investors; 22 and,

5) Assisting investors in the coal industry in evaluating the economicsof coal mining operations.

In the course of this work, I was part of EVA's team which prepared a
review of PacifiCorp's coal procurement policies and management
practices for the PacifiCorp Inter-jurisdictional Task Force on Allocations
(PITA) in 1991 and 1995.

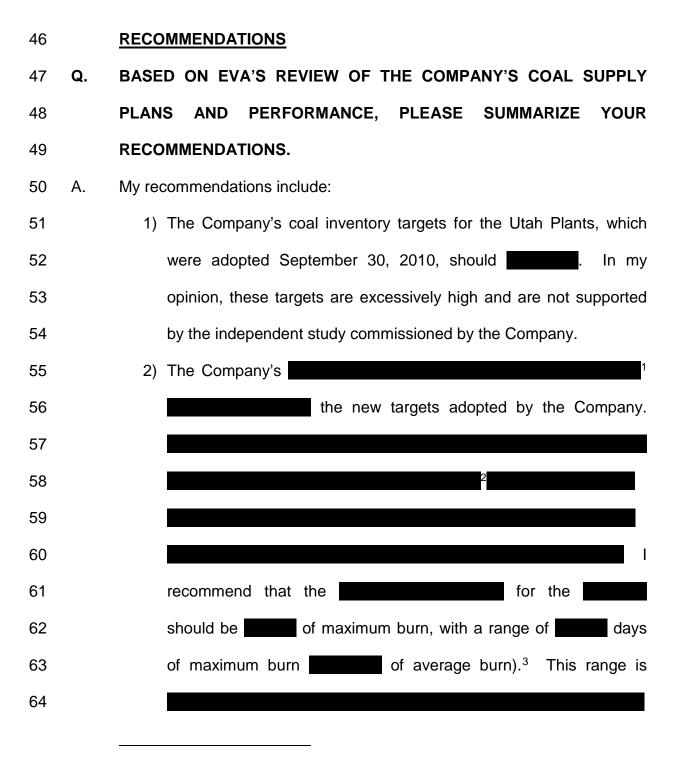
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30 Q. PLEASE DESCRIBE THE SCOPE OF YOUR WORK IN THIS CASE.

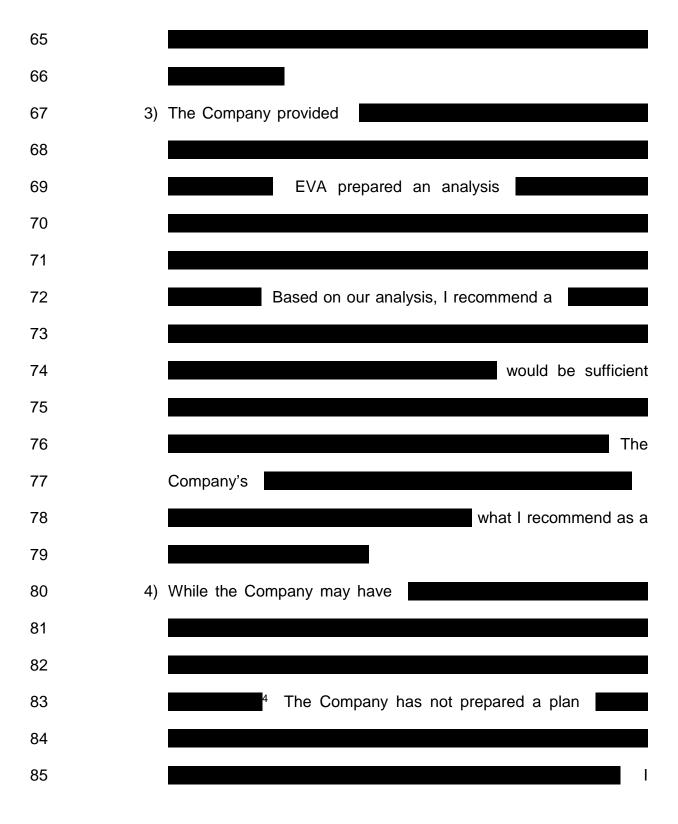
A. Energy Ventures Analysis, Inc. ("EVA") was retained by The Utah Office of
 Consumer Services ("OCS") to perform an independent review of the
 Company's coal supply plans and performance, including:

- 34 1) Benchmarking the Company's cost of coal for its power plants with
 35 other power plants in similar circumstances.
- 36 2) Review of the Company's coal supply strategy for each of its plants
 37 and the projected cost of coal in the Test Year.
- 38 3) Review of the Company's fuel supply organization, policies and
 39 procedures, and compliance with its policies.
- 4) Review of the Company's affiliate coal supply operations.
- 41 5) Review of the Company's long- and short-term coal inventory
 42 policies and projected cost of coal included in the Test Year.
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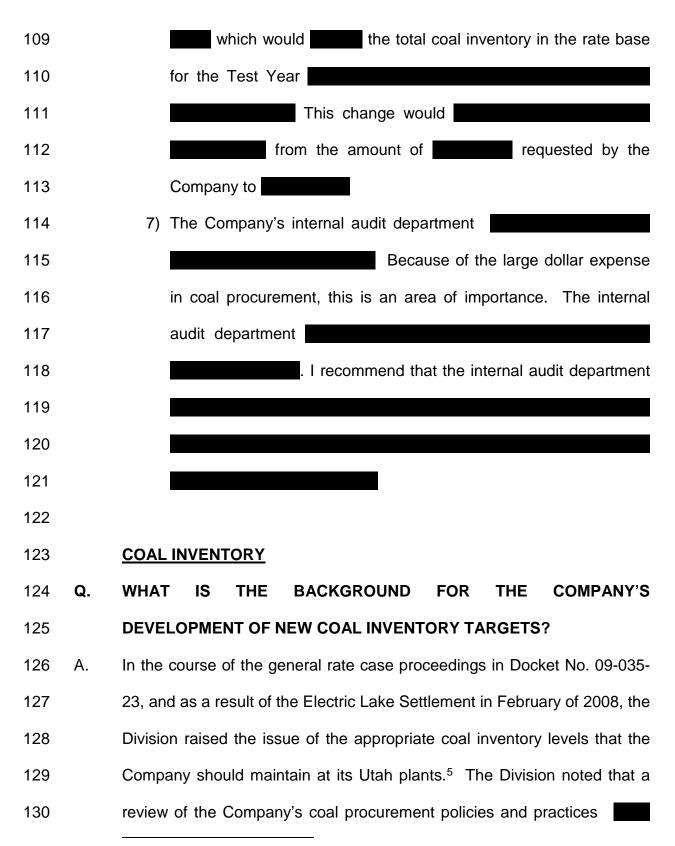
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1										
2 A	According	to data	prov	ided by the	Com	pany, the				
		burn	an	average	of		and	а	maximum	of
³	nventory	of								



86	recommend that the Company develop a plan	
87		
88	5) Because of its new	
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99	I recommend	that the
100	Company	
101		
102	6) The Company has requested in its total inven	tory value
103	for the Test Year of	The
104	Test Year value is determined by the average of the	projected
105	values for June 30, 2011 and June 30, 2012. Most of this	s increase
106	is due to the projected of of	
107	Based on my analysis, I recommend that the inventory in	cluded for
108	the Test Year should include for the	e



⁵ Docket No. 09-035-23, Direct Testimony of Michael J. McGarry, Sr., DPU Exhibit 3, October 8, 2009.

- 131 ⁶ As a result, the Commission
- 132 determined that the Company should have a regularly reviewed and
- 133 updated Company Coal Policy in place. In its Report and Order the
- 134 Commission stated the following:⁷

135 We direct the Division, beginning in 2011, to conduct 136 an annual audit of the Company's fuel inventory 137 policies, procedures. management and actual 138 practices and provide a summary of its audit and 139 associated findings to the Commission by no later 140 than March 31 of each year for the previous year's 141 activity.

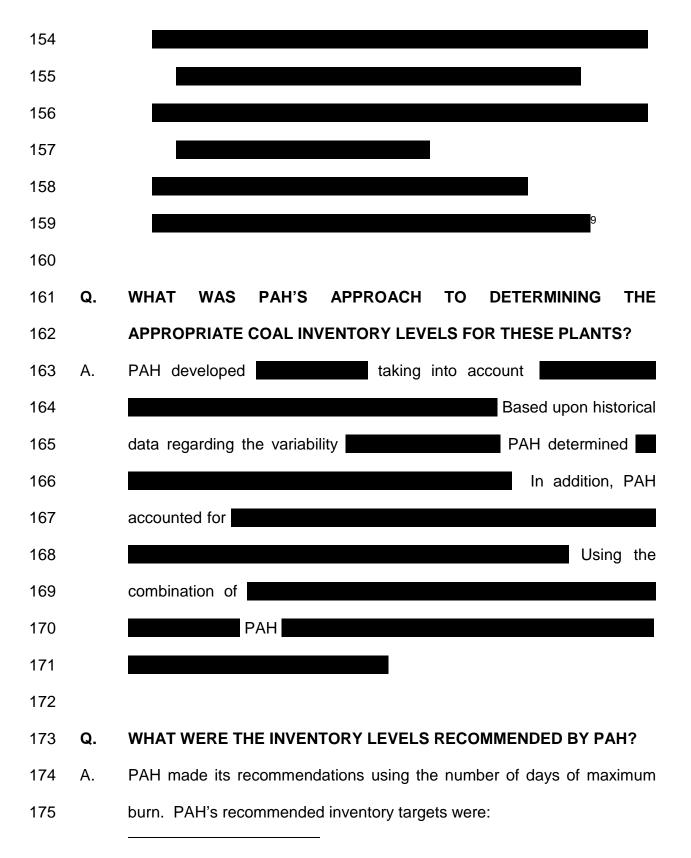
- 143 The Company retained the consulting firm of Pincock, Allen and Holt
- 144 ("PAH") to assist the Company in determining appropriate inventory levels.
- 145 The Company adopted new policies and procedures for coal inventory
- 146 effective September 30, 2010.⁸
- 147

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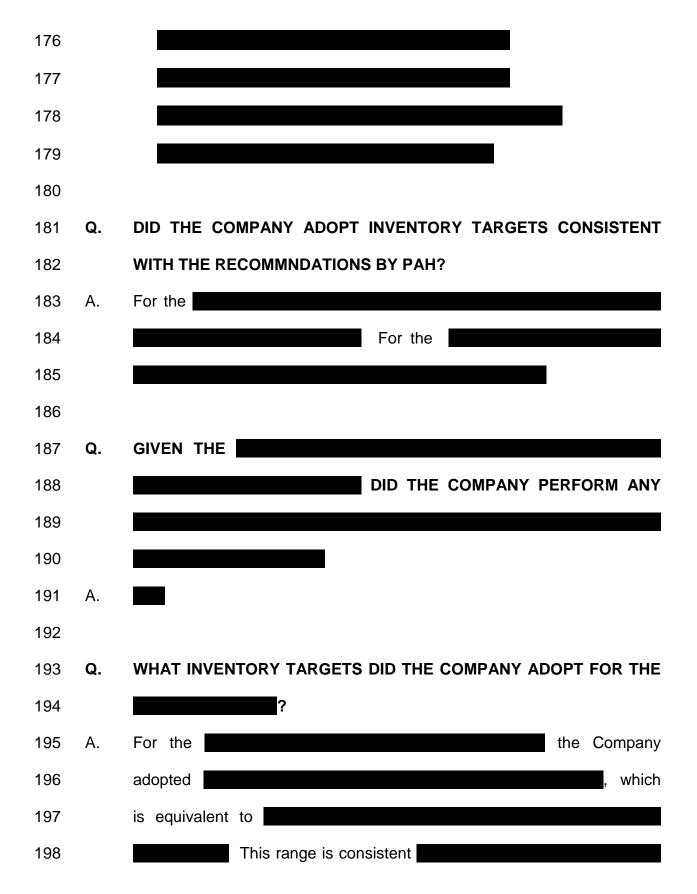
148 Q. HOW DID PAH ASSIST THE COMPANY IN DETERMINING

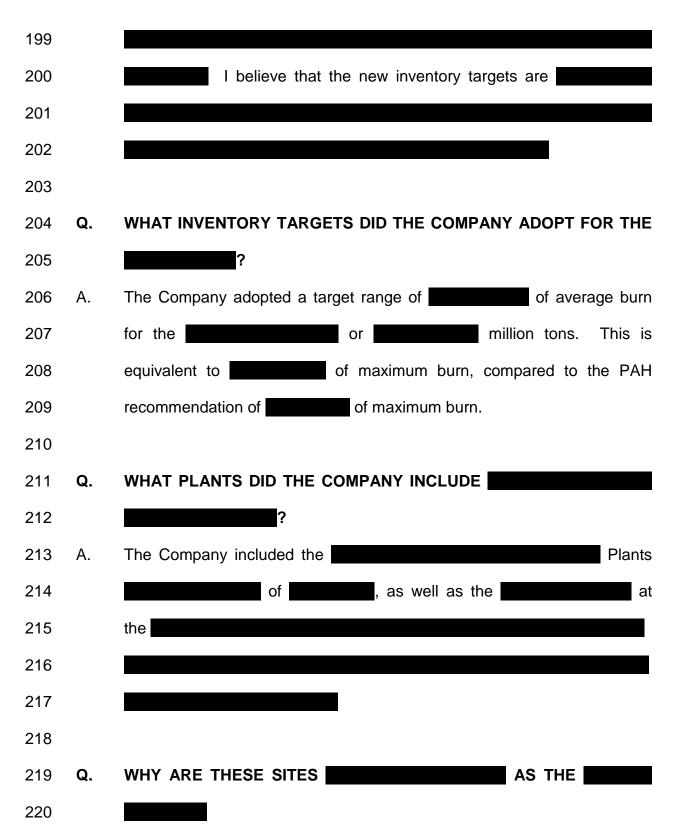
- 149APPROPRIATE INVENTORY LEVELS?
- 150 A. PAH prepared a study on coal inventory policies for the Company's coal-
- 151 fired power plants
- 152 The PAH scope of work included:
- 153

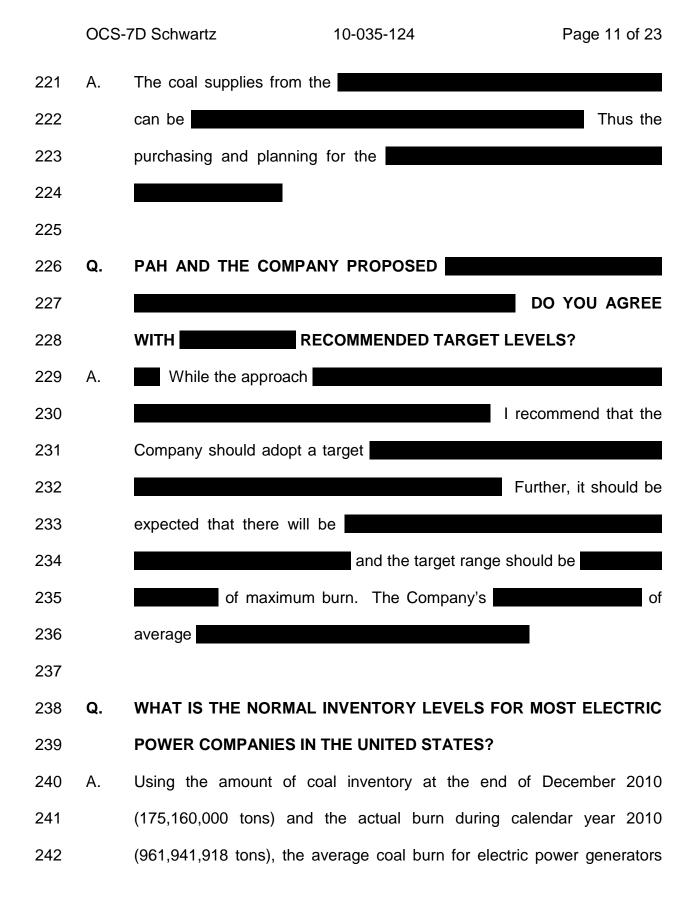
⁷ Docket No. 09-035-23, Report and Order on Revenue Requirement, Cost of Service and Spread of Rates, February 18, 2010, p. 106.



⁹ Pincock, Allen & Holt, "Coal Inventory Policies for Coal-Fired Power Plants in Utah", August 13, 2009





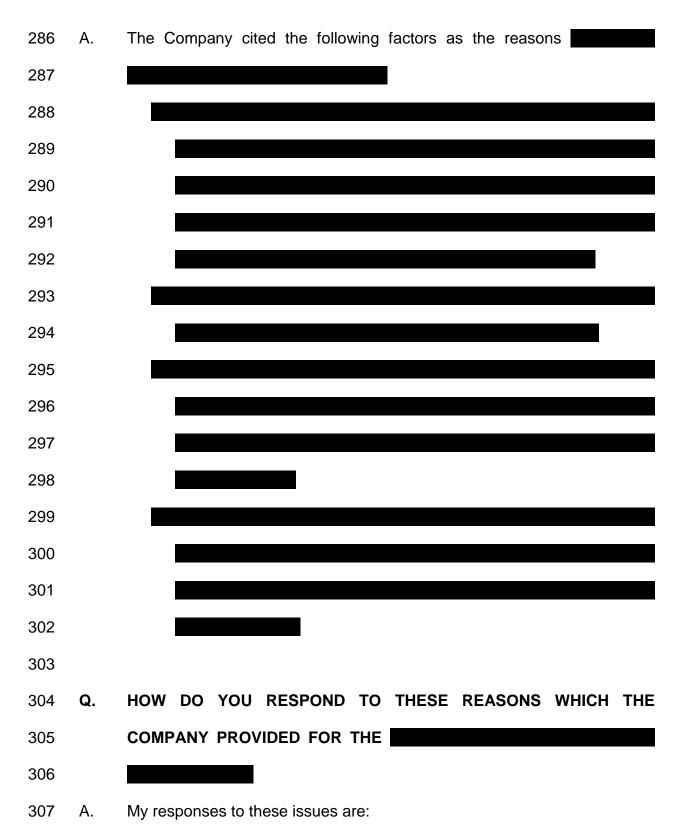


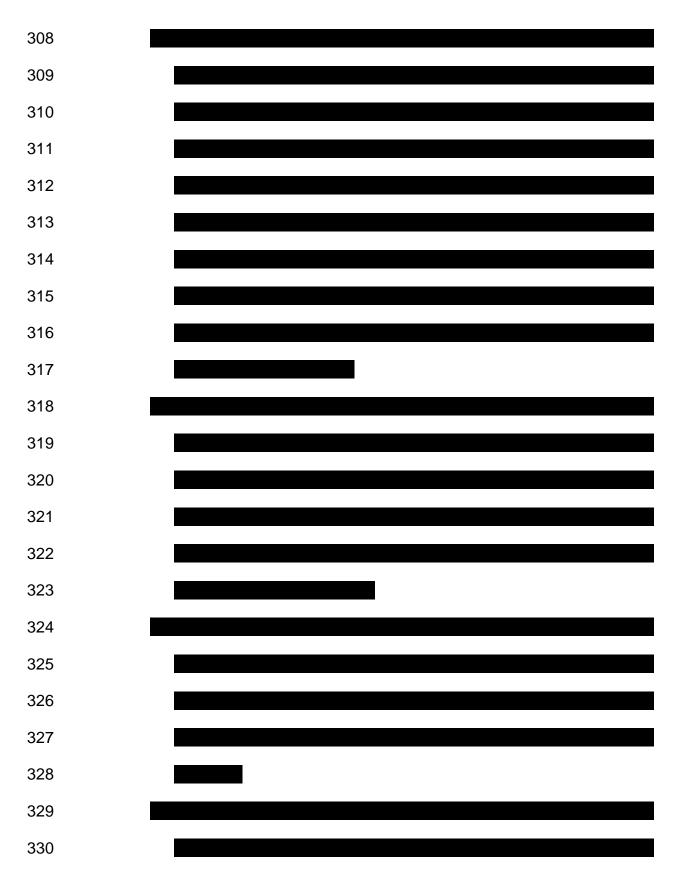
243		was 66.5 days of average burn. ¹⁰ Looking at the inventory levels by state,
244		almost all of the states averaged 40 – 90 days of average burn,
245		. Only 7
246		states had inventories above 90 days of average burn,
247		My recommended
248		inventory target of maximum burn is
249		equivalent to of average burn, which is
250		
251		
252	Q.	DID THE COMPANY ALSO ADOPT A
253		
254	Α.	Yes, the Company adopted a
255		of average burn
256		of maximum burn).
257		
258	Q.	DID THE COMPANY PROVIDE A DEFINITION OF A
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260	Α.	No. The Company does not define a
261		new coal inventory policies and procedures. The new inventory policies
262		and procedures manual states that:
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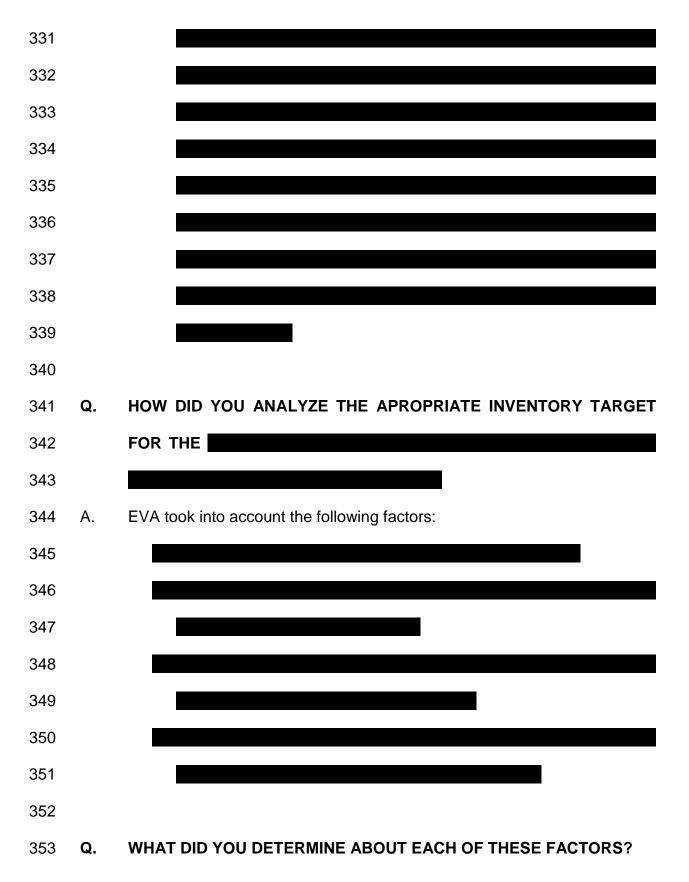
¹⁰Energy Information Administration, December 2010 data for actual inventory and annual 2010 coal burn by state.

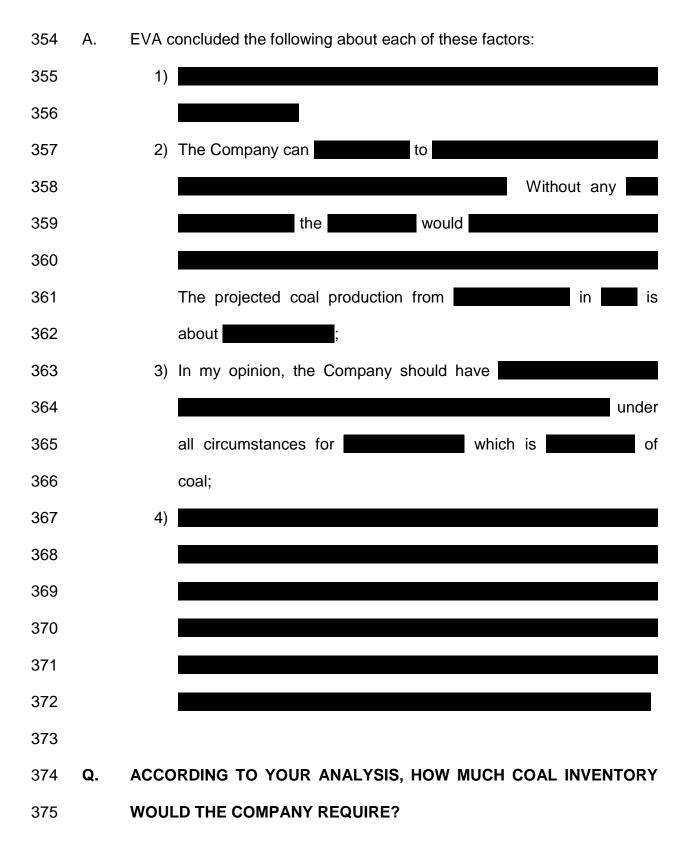
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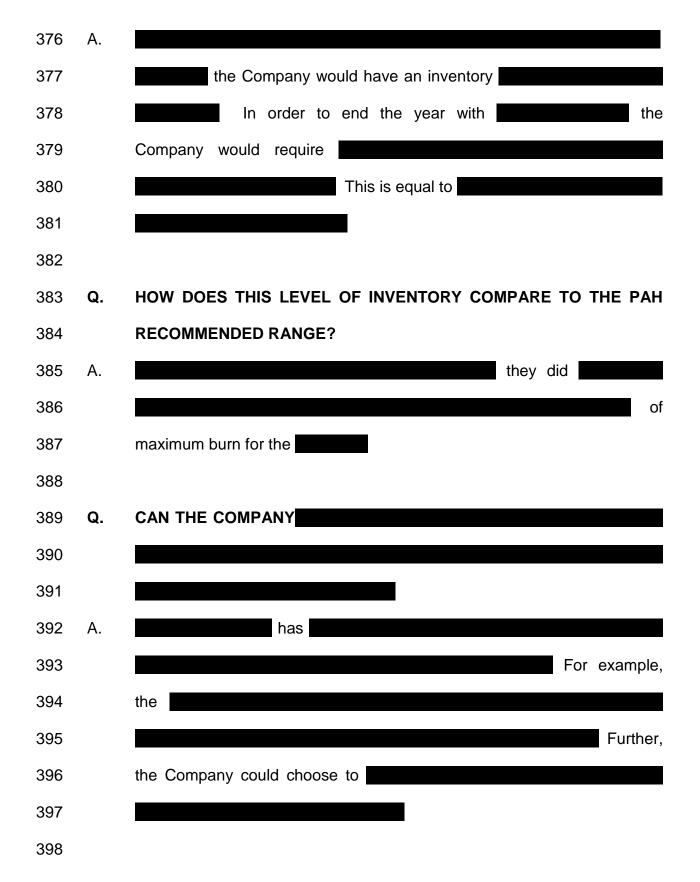
265		
266		11
267		I believe that the are intended to quantify
268		the level to which inventories may be
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270	Q.	DID PAH RECOMMEND A
271	A.	PAH recognized that there may be
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273		
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276	Q.	DID THE COMPANY ADOPT
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278	A.	
279		
280	Q.	DID THE COMPANY PROVIDE ANY
281		SUPPORTING ITS ?
282	A.	
283		
284	Q.	WHAT BASIS DID THE COMPANY PROVIDE FOR THE
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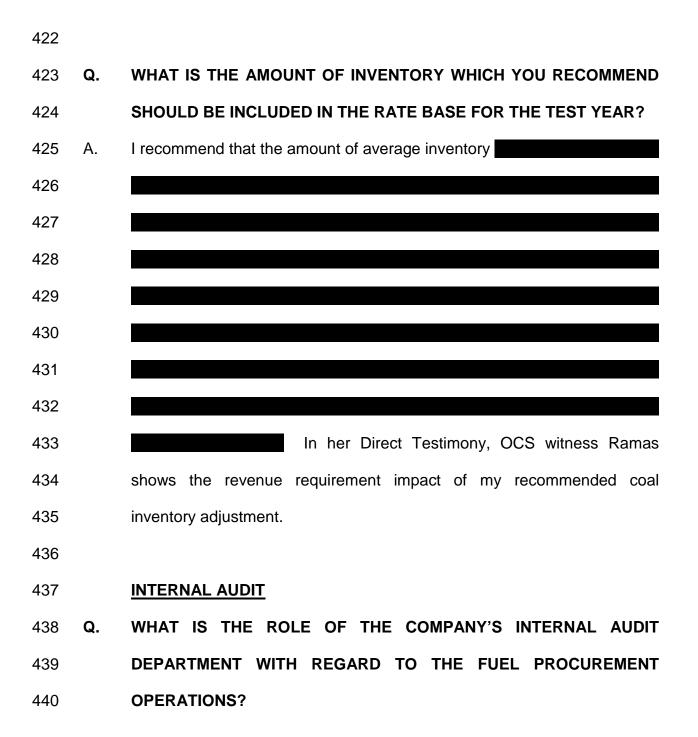






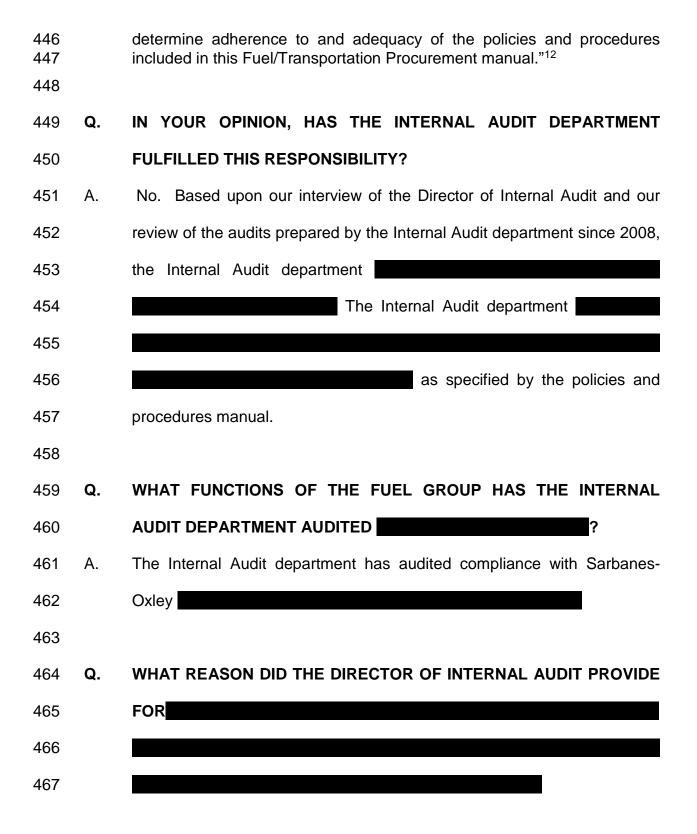


399	Q.	WHAT LEVEL OF INVENTORY HAS THE COMPANY INCLUDED IN ITS
400		RATE BASE FOR THE TEST YEAR?
401	A.	The Company calculates the rate base for the Test Year using the
402		average of the projected inventory in dollars for the months ending June
403		2011 and June 2012. The total projected inventory dollars averaged
404		which includes \$ for the
405		
406		The increase in
407		the amount of inventory requested by the Company for the Test Year is
408		over the amount currently included in the rate base. The
409		inventory dollars for the exercise is based upon the projected cost of
410		coal and projected average inventory of
411		This average
412		equates to of average burn and of maximum burn for
413		the
414		
415	Q.	DO YOU AGREE THAT THE COMPANY SHOULD EARN A RETURN
416		ON THE AMOUNT OF INVENTORY WHICH IT HAS PROJECTED FOR
417		THE TEST YEAR?
418	A.	
419		
420		
421		



441 A. The Company's policies and procedures manual states that:

442 "It is the responsibility of the Internal Audit Department to conduct a
443 thorough review of the fuel procurement function. The review shall include
444 all aspects of the fuel procurement function from solicitations and
445 evaluations through fuel receipts and payments. The audit shall also



¹² PacifiCorp Fuel/Transportation Procurement Policies and Procedures, effective date 9/30/04, page 17.

