Witness OCS 6SR – Wielgus

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	**)**	**Docket No. 10-035-124**
Rocky Mountain Power for Authority	**)**	
to Increase Its Retail Electric Service	**)**	**Surrebuttal Testimony**
Rate in Utah and for Approval of Its	**)**	**Paul Wielgus**
Proposed Electric Service Schedules	**)**	**For the Utah Office of**
And Electric Service Regulations	**)**	**Consumer Services**

July 19, 2011

Q. PLEASE STATE YOUR NAME.

A. My name is Paul J. Wielgus. I am a Managing Director with GDS Associates, Inc. ("GDS"). My business address is 1850 Parkway Place, Marietta, GA, 30067. I am testifying on behalf of the Office of Consumer Services ("OCS").

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

A. Yes, I filed direct testimony.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. To respond to the rebuttal testimony comments of: John A. Apperson, Gregory N. Duvall, and Frank C. Graves, all on behalf of Rocky Mountain Power ("the Company"), regarding the results of the Company's test year natural gas and power trading activities.

Q. WHAT COMMENTS BY MR. APPERSON DO YOU WISH TO ADDRESS?

A. Mr. Apperson's criticism of Exhibit OCS 6.1 included in my direct testimony, Mr. Apperson's comments on my experience regarding the unwillingness of customers to pay premiums above a certain amount for price certainty, and Mr. Appreson's comments that price hedging does not result in increased administrative costs.

Q. WHAT CRITICISM DID MR. APPERSON MAKE REGARDING YOUR EXHIBIT OCS 6.1?

A. That it focuses on one year, the test year.

Q. HAS THE COMPANY PREVIOUSLY TESTIFIED ON HOW THE CONDITIONS THE COMPANY WILL EXPERIENCE DURING THE RATE-EFFECTIVE PERIOD IN THIS CASE ARE REFLECTED IN THE TEST YEAR?

A. Yes. Per the test year rebuttal testimony of David L. Taylor, on behalf of the Company, Mr. Taylor in lines 16 and 17 stated that the test year better reflects the conditions the Company will experience during the rate-effective period in this case. In that testimony, Mr. Taylor goes on further to say in lines 19 and 20 that the Company's proposed test year, which turned out to be the test year accepted by the Commission, best aligns with the rate-effective period.

Q. WHAT COMMENTS DID MR. APPERSON MAKE REGARDING YOUR EXPERIENCE ON THE UNWILLINGNESS OF CUSTOMERS TO PAY PREMIUMS ABOVE A CERTAIN AMOUNT FOR PRICE CERTAINTY?

A. That this experience is evidence of the unreasonableness of the OCS' position regarding the use of options as part of the Company's hedging strategy.

Q. DO YOU AGREE WITH MR. APPERSON'S COMMENTS?

A. No. The unwillingness of customers to overpay for price certainty in instances like this is a very prudent decision. Customers are effectively balancing the cost of price certainty against the potential benefit as discussed further just below. The Company argues that price hedging through swaps reduces risk. But this is only part of the equation. Additional questions that must be asked include: what risk does it reduce if any, does the Company's hedging create new risks, and are there costs associated with these new risks.

Q. WHAT RISKS DOES THE COMPANY CLAIM THEIR HEDGING REDUCES?

A. The volatility of Net Power Costs ("NPC").

Q. HAS THIS RISK BEEN REDUCED?

A. No, as shown in Exhibit OCS 6.1.

Q. DOES HEDGING LIKE THE COMPANY DOES CREATE NEW RISKS?

A. Yes, as confirmed by the supplemental direct testimony of Frank C. Graves on behalf of the Company in Docket No. 09-035-15. According to Mr. Graves in line 193, hedging one risk often creates another or different risk. In this case regarding hedging, two of these other risks, according to lines 194 and 195 of Mr. Graves' testimony, include new credit and collateral risks. Falling market prices are another added risk.

Q. ARE THERE COSTS ASSOCIATED WITH THESE OTHER RISKS?

A. Yes, also according to Mr. Graves' testimony noted above, in lines 188 and 189, hedging is a time, money, and human resource consuming activity. According to Mr. Graves in line 189, this resource consuming activity must be balanced against other uses of assets and capabilities.

Q. DOES MR. GRAVES TESTIMONY MENTIONED CONCUR WITH MR. APPERSON'S POSITION THAT PRICE HEDGING DOES NOT INCREASE ADMINISTRATIVE COSTS?

A. No, Mr. Graves's testimony states just the opposite. Mr. Graves's testimony is in agreement with my direct testimony that hedging transaction costs can include added administrative and organizational functions along with increased cost of credit.

Q. WHAT COMMENTS BY MR. DUVALL DO YOU WISH TO ADDRESS?

A. Mr. Duvall's, like Mr. Apperson's, criticism of Exhibit OCS 6.1. Like Mr. Apperson, Mr. Duvall states that Exhibit OCS 6.1 demonstrates only changes in the test year.

Q. WHAT IS YOUR RESPONSE TO MR. DUVALL'S COMMNENTS REGARDING EXHIBIT OCS 6.1?

A. The same as my response to Mr. Apperson's criticism.

Q. WHAT COMMENTS BY MR. GRAVES DO YOU WISH TO ADDRESS?

A. Two comments by Mr. Graves. One that options are more complex to understand than swaps and are often not well understood, and two, the formation of a collaborative approach to hedging by the Company that involves the Company and other stakeholders.

Q. ARE OPTIONS MORE COMPLEX THAN SWAPS?

A. Not at all. They are fairly simple and easy to understand. Buying call options simply caps the price of the energy commodity hedged. The buyer of the option pays the premium up front, and for the term of the option, the buyer will never pay more for the energy commodity than the cap price set by the option. If the market price is below the cap, the buyer pays that lower price. If the price is above the cap, the buyer pays the cap price. It's as simple as that.

Q. DO YOU AGREE WITH MR. GRAVES THAT A COLLABORATIVE APPROACH REGARDING HEDGING COULD BE USED GOING FORWARD?

A. Yes, a collaborative approach to the Company's energy hedging going forward that includes the Company along with ratepayers and other affected stakeholders, all having input into the process, should be developed.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.