

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

)	
)	DOCKET NO. 11-035-T10
)	Exhibit No. DPU 1.0 D
In the Matter of the Rocky Mountain)	
Power Proposed Schedule 94, Energy)	
Balancing Account (EBA) Pilot Program)	Direct Testimony and Exhibits
Tariff)	Charles E. Peterson
)	
)	

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

**Direct Testimony of
Charles E. Peterson**

February 23, 2012

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22 In 1991, I joined the Property Tax Division of the Utah State Tax Commission. In 1992, I
23 was promoted to manager over the Centrally Assessed Utility Valuation Section. I have
24 provided expert testimony regarding valuation, economic and cost of capital issues, both in
25 deposition and formal hearing before the Utah State Tax Commission.

26

27 I joined the Division in January 2005 as a Utility Analyst; in May 2006, I was promoted to
28 Technical Consultant. I have worked primarily in the energy section of the Division. In
29 2007, I earned the Certified Rate of Return Analyst (CRRRA) from the Society of Utility and
30 Regulatory Financial Analysts (SURFA).

31

32 My current resume is attached as DPU Exhibit 1.5.

33

34 **Q. Please outline the projects you have worked on since coming to the Division.**

35 A. I provided several rounds of testimony in the three phases of the energy cost adjustment
36 mechanism (ECAM), Docket No. 09-035-15, which is now referred to as the energy
37 balancing account (EBA).

38

39 I provided testimony in the PacifiCorp RFP matter in which the Commission approved the
40 construction of the Lake Side II plant (Docket No. 10-035-126).

41

42 Beginning in 2006 I have provided written and oral testimony on cost of capital in PacifiCorp
43 and Questar Gas Company general rate cases including Docket Nos. 06-035-21, 07-035-93,
44 07-057-13, 08-035-38, 09-035-23 and 10-035-124. I have worked on DSM, HELP, and

45 service quality and customer guarantees involving PacifiCorp. I was the Division lead on an
46 internal research project regarding ring-fencing that resulted in a report to the Utah Public
47 Service Commission (Commission). I have been the lead on a number of QF contract cases. I
48 was the lead of the economics and finance group within the Division assigned to evaluate the
49 proposed acquisition (Acquisition) of PacifiCorp by MidAmerican Energy Holdings
50 Company (MEHC). Please see Docket No. 05-035-54. I testified on behalf of the Division in
51 PacifiCorp's purchase of the Chehalis power plant on July 17, 2008 (see Docket No. 08-035-
52 35).

53

54 **Q. What is the purpose of your testimony in this matter?**

55 A. While the Commission designated that this docket is to consider the compliance of the Rocky
56 Mountain Power's proposed Schedule 94, it also ordered that testimony be filed and has
57 implicitly and explicitly solicited comments and testimony on a number of issues raised by
58 various intervening parties in this docket. My testimony presents the Division's current
59 position regarding Rocky Mountain Power's (Company)¹ compliance of the Company's
60 proposed Schedule 94 with the Commission's order establishing the EBA in Docket No. 09-
61 035-15, and the Stipulation approved by the Commission in Docket No. 10-035-124, as well
62 as make comments regarding the other matters the Commission seems to have opened for
63 discussion in this docket.

64

¹ Rocky Mountain Power (RMP) is an operating division of PacifiCorp primarily performing the retail distribution operations of PacifiCorp in the eastern part (i.e. Utah, Wyoming and Idaho) of PacifiCorp's system. Because this matter is a Utah tariff filing by the RMP division of PacifiCorp, I will use the terms Company, Rocky Mountain Power, and RMP interchangeably. I will reserve the term PacifiCorp for any instances when it is more reasonable to refer to the multi-state system as a whole.

65 **Q. Please briefly summarize the work and investigations that you have performed in this**
66 **matter.**

67 A. I have reviewed the Company's proposed Schedule 94 and compared it to the Commission's
68 order in Docket No. 09-035-15. I have also attended the technical conferences held by the
69 Commission for the purpose of discussion issues related to Schedule 94.

70

71 **Q. Please outline the scope of your testimony.**

72 A. First, I review RMP's proposed Schedule 94 and present and support the current Division
73 view that the proposed schedule generally complies with the Commission's order in Docket
74 No. 09-035-15. The Division, however, has one or two recommendations to modify the
75 filing.

76

77 Then, I will briefly discuss the Division's view of the various issues and options that have
78 been raised in the Commission's Prehearing Order issued on January 20, 2012 in this docket.
79 These items include the calculation of the carrying charge, the use of fixed or dynamic
80 factors, and the use of the rate spread and rate design approved in the most recent general rate
81 case (i.e. Docket No. 10-035-124).

82

83 In addition to my testimony, Matthew Croft will be testifying as to the sufficiency of the
84 Federal Energy Regulatory Commission's (FERC) accounts listed in the proposed tariff as
85 well as commenting on the Division's current thinking on its relationship to the finality of
86 rates issue.

87

88 **Q. Please summarize the Division's current positions in this docket.**

89 A. At the outset, I want to emphasize that an overriding consideration for the EBA tariff and the
90 operation of the tariff is to keep in mind that this is a pilot program.² As such the Division
91 believes that the initial policies and procedures should be kept as simple as reasonably
92 possible; complexity can be added later as we gain experience, and should be added only
93 when there is a significant demonstration of need. With that in mind, the following
94 summarizes the Division's current positions:

- 95 • The Division believes that the proposed Schedule 94 substantially complies with the
96 Commission's Final Order in Docket 09-035-15 and therefore should be approved subject
97 to some minor modifications outlined below. In this regard the Commission specified
98 three questions to be answered. The Division summarizes its responses as follows:³
 - 99 ○ The Division believes that the proposed tariff specifies the proper costs in a form
100 similar to Questar's pass-through tariff as ordered by the Commission, however,
101 the Division believes there should be more detail regarding the sub-accounts that
102 are to be included or excluded;
 - 103 ○ The Division believes the proposed tariff is consistent with the Commission
104 orders in the manner in which it provides for finality of rates;
 - 105 ○ The Division believes that the proposed tariff specifies carrying charges that are
106 consistent with the Commission's order.
- 107 • The Division agrees with the Commission's observation that this docket is "not the best
108 forum in which to promulgate EBA administrative details."⁴ The Division recommends
109 rejection of efforts to overly refine the EBA process at this time, in line with the

² Public Service Commission, Corrected Report and Order, Docket No. 09-035-15, March 3, 2011, p. 67. Restated in Public Service Commission, Prehearing Order, Docket No. 11-035-T10, January 20, 2012, p. 3.

³ Prehearing Order, p. 5.

⁴ Prehearing Order, p. 2.

- 110 conception that this is a pilot program and the processes and policies should be refined
111 with actual experience.
- 112 • The Division finds merit with the expected rate spread proposal by the Office of
113 Consumer Services (Office) to allocate substantially on energy. The Division will
114 comment further after the Office files its testimony.
 - 115 • The Division continues to support the “scalar method” set forth in the Stipulation in the
116 general rate case Docket No. 10-035-124, as the appropriate method to begin the EBA
117 pilot program, especially for the first filing in March 2012.
 - 118 • Given the frequency of rate cases and the inherent imprecision of the many factors that
119 go into ratemaking, the Division recommends that actual loads for the EBA deferral
120 period be used to recalculate a single SG factor and a single SE factor. The recalculated
121 SG and SE factors will be used to calculate Utah’s actual wheeling revenue and will also
122 be used to recalculate the scalar⁵ which will be used to in the calculation of Utah’s non-
123 wheeling revenue NPC components.

124

125 **II. REVIEW OF SCHEDULE 94 FOR COMPLIANCE**

126

127 **Q. Based upon the Commission’s Prehearing Order in this docket, what should be the**
128 **scope of the discussion?**

129 A. The Commission stated in its Prehearing Order “We emphasize at the outset of this
130 discussion that proposed Schedule 94 is a compliance filing. As such, our inquiry in this
131 docket is limited to questions regarding the proposed tariff’s compliance with pertinent

⁵ Except possibly for the March 2012 filing, as noted below.

132 statutes and our prior orders.”⁶ The Order goes on to state that this docket is not a forum to
 133 re-litigate issues previously raised and that it is “not the best forum in which to promulgate
 134 EBA administrative details.”⁷

135

136 The Division understands this to mean that this docket is primarily a compliance docket and
 137 furthermore, that the Commission is going to be reluctant to prescribe details on the
 138 administration of the EBA pilot program at this time.

139

140 **Q. What are the features that the Company was expected to have in its Schedule 94 tariff**
 141 **filing to be in compliance with the Commission’s Order in Docket No. 09-035-15?**

142 A. The Division has identified the following features that are required from the Commission’s
 143 Order:

- 144 1. A 70-30 percent risk sharing percentage.⁸
- 145 2. The Company’s recommended FERC accounts form the basis for determining
 146 costs that are in, or out, of the EBA. As mentioned earlier, Mr. Croft, of the
 147 Division, will testify to this point in detail in separate testimony.⁹
- 148 3. Wholesale revenues, FERC account 456.1, are to be included in the EBA.¹⁰
- 149 4. EBA costs will capture incremental growth in Utah’s load. This is accomplished
 150 by multiplying the Utah cost per unit basis by actual Utah sales.¹¹
- 151 5. Wind integration costs are to be included in the EBA costs.¹²
- 152 6. “[T]he balancing account must be based on Utah’s approved factors for allocating

⁶ Prehearing Order, p. 2.

⁷ Ibid.

⁸ Corrected Report and Order, p. 70.

⁹ Ibid., p. 72. The Commission originally excluded swap transactions from the EBA; however, in its Report and Order for several dockets including Docket No. 09-035-15, dated September 11, 2011, the Commission approved a settlement stipulation that reversed the earlier Commission order and concluded that swap transactions should be included in the EBA.

¹⁰ Ibid., p. 72.

¹¹ Ibid., p. 73.

¹² Ibid., p. 74.

153 total Company costs to the retail customers in Utah. Accordingly, the allocation
154 factors approved in the pending general rate case, Docket No. 10-035-124, shall
155 be used to determine Utah's allocated share of the power-related expenses and
156 revenues approved for balancing account treatment."¹³ "[The Commission] will
157 rely on our most recent general rate case revenue spread and rate design decisions
158 for the spread of the deferred balance to rate schedules and to rate elements. For
159 simplicity, we decline to adopt UIEC's proposal to account for the balance by rate
160 schedule."¹⁴ "Utah allocated costs and retail sales megawatt hours are used in the
161 calculation."¹⁵

- 162 7. The collection or refund of the EBA balance must be based upon the cost of
163 service.¹⁶
- 164 8. An annual carrying charge of 6 percent is to be applied to the EBA balance.¹⁷
- 165 9. The calculations of the EBA balancing account additions and the calculation of
166 the carrying charge must comply with the formulae set forth on pages 75 and 76
167 of the Commission's order.
- 168 10. The Company's tariff is to be compiled in a similar fashion to Questar Gas
169 Company's (Questar) balancing account tariff.¹⁸
- 170 11. There will be annual reconciliation over a calendar year. The Company will file
171 each March 15.¹⁹
- 172 12. Rates approved following the March 15 filing will be considered interim until
173 after the Division completes its audit and prudence review at which time the
174 Commission will set the final rates.²⁰
- 175

176 **Q. Does the proposed tariff comply with the twelve points you have outlined above? Please**
177 **explain.**

¹³ Ibid., p. 74.

¹⁴ Ibid., p. 76-77.

¹⁵ Ibid., p. 81.

¹⁶ Ibid., p. 75.

¹⁷ Ibid., p. 75.

¹⁸ Ibid., p. 76.

¹⁹ Ibid., p. 77. However, the first EBA filing will be based upon the last three months of calendar year 2011.

²⁰ Ibid., p. 77.

178 A. The proposed tariff generally complies with the twelve points. However, some comments are
179 in order. The Company's proposed tariff complies with item 1, the 70-30 percent sharing
180 percentage. With one small exception, the Company's proposed tariff does, from the "similar
181 to Questar" (item 10) perspective, comply with the Commission's order regarding the FERC
182 accounts, items 2 and 3 above. However, due to the differences in complexity between the
183 two balancing accounts, the Division believes that the detail of the FERC accounts needs to
184 be expanded in the tariff. Mr. Croft will discuss this recommend expansion of the FERC
185 account details. The proposed tariff complies with items 4, 8, and 9 in that it follows the
186 formulae set forth in the Commission's order. However, the Company's formulae include a
187 Utah Allocation Factor that was developed in the Stipulation that settled the most recent rate
188 case as well as clarified certain issues with the EBA. The Commission approved the
189 Stipulation and the changes to the EBA. This stipulation will be discussed further below.

190

191 Wind integration costs should be imbedded in the costs included in the FERC accounts (item
192 5). The annual period is a calendar year, with a March 15 date to file (Item 11). The tariff
193 states that the rates will be implemented on an interim basis (item 12).

194

195 Finally, with respect to cost of service, rate spread, and rate design issues (items 6 and 7), the
196 Company's proposed tariff sets forth that the EBA balance will be allocated to the rate
197 schedules and special contracts as approved by the Commission in the most recent general
198 rate case. This complies with the Division's understanding of the Commission's Order. The
199 Division is proposing some language changes to clarify this understanding. Section V, below,
200 sets forth this and some other proposed clarifying language changes to the tariff.

201

202 With the exceptions discussed above, the Division believes the Company's proposed tariff
203 substantially complies with the Commission's March 3, 2011 Order in Docket No. 09-035-
204 15.

205

206 **Q. As you alluded to above, there were changes to the EBA stipulated to by the parties and**
207 **approved by the Commission in its September 13, 2011 Order that settled several open**
208 **dockets including the last general rate case, Docket No. 10-035-124. What are those**
209 **changes, and is the proposed tariff in compliance with those stipulated changes?**

210 A. By way of explanation, in order for the EBA to function, the Commission needs to order
211 certain baseline net power cost values for the test year in a general rate case. In the EBA
212 Order in Docket No. 09-035-15, the Commission determined that the formula for the
213 monthly EBA accruals should be based upon both Utah megawatt-hours (MWh) and Utah
214 net power costs (NPC). While the Company does compile MWh by jurisdiction, the
215 Company does not, and apparently cannot, directly determine monthly NPC by jurisdiction.²¹
216 The monthly Utah NPC could be estimated by applying the annual inter-jurisdictional
217 allocation factors to the system monthly NPC. However, such a direct calculation was not
218 considered sufficiently accurate due to the differences in the load shapes between Utah and
219 the system. Therefore, the parties in the rate case Stipulation created the "scalar method" to
220 estimate the monthly NPC amounts.

221

222 The proposed tariff includes a scalar factor in the EBA deferral amount formula. Therefore,
223 the proposed tariff complies with this part of the Commission orders, although it does not

²¹ Annual system NPC is allocated to jurisdictions based upon the accepted inter-jurisdictional allocation factors.

224 directly define whether the scalar is the *value* from the Stipulation or the *formula* used to
225 calculate the scalar value.

226

227 **Q. Is the use of the scalar, whether formula or value, from the general rate case Stipulation**
228 **reasonable?**

229 A. Yes. The use of the scalar probably makes the monthly Utah NPC estimates slightly more
230 accurate. However, as demonstrated in DPU Exhibit 1.1, the practical effect of the particular
231 scalar value from the previous general rate case is negligible.

232

233 **Q. Could there be more accurate methods to estimate and adjust the estimated monthly**
234 **Utah NPC?**

235 A. Possibly. The Commission held a series of technical conferences to discuss a suggestion by
236 the Commission staff to estimate the monthly Utah NPC. This suggested method appears
237 much more complex than the Stipulation scalar method and is difficult to explain to a
238 layperson.

239

240 **Q. What is the practical benefit from accurate monthly Utah NPC amounts in the EBA?**

241 A. While it is true that the actual and base total Utah NPC amounts for the EBA deferral period
242 are important, breaking those amounts into monthly balances is of significance only for
243 accurate carrying charge accruals.

244

245 **Q. Are there any other benefits to the monthly breakdown?**

246 A. As they relate to ratepayers and the Company, I am not aware of any.

247

248 **III. ARE “INACCURACIES” IN THE CARRYING CHARGE**
249 **CALCULATION LIKELY SIGNIFICANT?**
250

251 **Q. Is the carrying charge calculation an issue in this matter?**

252 A. Yes. This issue is alluded to in the Commission’s Prehearing Order in this docket.²²

253 Furthermore, intervening parties, primarily UIEC, has raised the issue in its “issues list” filed
254 with the Commission on December 16, 2011.²³

255

256 **Q. Do you believe that the Commission has clearly indicated when and how the carrying**
257 **charge is to be applied?**

258 Q. Yes. The Division believes that, based upon its construction of the carrying charge formula
259 on page 76 of its March 2011 order in Docket No. 09-035-15, the Commission clearly
260 intends for the carrying charge to begin accruing on the first month that EBA Deferrals
261 begin. The formula itself referenced on page 76 is reasonably constructed to calculate
262 monthly carrying charge accruals.

263

264 **Q. What are the effects of any inaccuracies in the monthly EBA Deferral on the accrued**
265 **carrying charge?**

266 A. Whether talking about the base or actual Utah NPC, the monthly deferrals might be
267 inaccurate because of the necessity of estimating the monthly Utah NPC by allocating the
268 system monthly NPC to Utah; where the allocation factors are based upon annual averages

²² Prehearing Order, p. 5.

²³ “Issues List from the UIEC Intervention Group,” Docket No. 11-035-T10, December 16, 2011, pp. 4-5.

269 and thus do not reflect monthly differences in the load shapes between the system as a whole
270 and Utah and the fact that not all net power costs are allocated on energy loads. Therefore
271 any monthly allocation is likely to be different than a hypothetically “True” value.

272

273 As stated above, calculating a monthly EBA deferred balance is only important to the
274 calculation of the carrying charge. Since there are likely to be “inaccuracies” in the monthly
275 balances, there would be “inaccuracies” in the carrying charge. But the carrying charge
276 inaccuracies are of limited magnitude and significance since they are based upon the 6
277 percent interest rate ordered by the Commission.

278

279 **Q. Have you performed any analyses of the impact of different monthly allocations of the**
280 **annual Utah NPC amounts?**

281 A. Yes. DPU Exhibits 1.2-1.4 set forth different analyses of the effects of different monthly
282 allocation methods.

283

284 **Q. Please explain what DPU Exhibit 1.2 is showing us.**

285 A. Each section begins with information derived from Exhibit B of the general rate case
286 Stipulation in Docket No. 10-035-124. In that docket the monthly base Utah NPC and the
287 twelve month total were stipulated to. I then calculated the carrying charges under five
288 scenarios representing the actual dollars accruing to the EBA as percentage deviations from
289 the base NPC: 5 percent, 10 percent, 20 percent, 30 percent, and 50 percent. Hopefully
290 actual dollar deviations from the base NPC of 20 percent or more will be relatively rare
291 events.

292

293 For a 5 percent deviation, the annual carrying charge amounts to about \$656,000; at ten times
294 that deviation, 50 percent, the carrying charge increases to over \$6,800,000. The intermediate
295 deviations are also shown. In each case the total carrying charge approximates 3 percent of
296 the total annual difference between the base and the assumed actual.

297

298 **Q. What are you showing in DPU Exhibit 1.3?**

299 A. Exhibit 1.3 compares the calculated carrying charges under three alternative methods of
300 spreading an annual amount back to the months. Additionally, there are two examples in the
301 bottom section showing the effect of front-loading the deviation and back-loading the
302 deviations, respectively. All of these examples are based upon the Stipulation values and
303 assume an annual deviation of the base to the actual of 20 percent, which will hopefully mark
304 the upper end of what is usually experienced.

305

306 Alternative Scenario 1 simply assumes that the annual NPC is spread evenly to each month.
307 Under this scenario, the total carrying charge is about \$2.5 million compared to \$2.6 million
308 in the Stipulation method. Alternative Scenario 2 assumes that all of the annual deviation
309 occurs at the mid-point of the year to which one-half of the annual interest is applied. This
310 second scenario also arrives at a \$2.5 million carrying charge, is the simplest calculation
311 method, and does not require explicitly allocating monthly values. I will discuss Alternative
312 Scenario 3 in some detail below.

313

314 I have also provided examples showing the effects on the carrying charges if the bulk of the
315 deferral differences occur early in the year (front-loaded) and or at the end of the year (back-
316 loaded, or back-ended). In these, which should be extreme examples, the total carrying
317 charges are about plus or minus \$750,000.

318

319 **Q. So, it appears that the worst case scenario is that, what in some sense is the “true”**
320 **carrying charge calculation, would differ from the Stipulation method by less than \$1**
321 **million, correct?**

322 A. Yes. This should remain true as long as the absolute values of the Utah NPC are in the ball
323 park of the approximately \$630 million that we have been dealing with. Most likely the
324 difference in the carrying charge is much less than that. It should be emphasized that these
325 differences can accrue to either Company or the ratepayers depending on whether the EBA
326 deferral balance is a debit or credit balance.

327

328 **Q. You skipped over what you call “Alternative Scenario 3.” Please describe that scenario.**

329 A. Alternative Scenario 3 (or, simply, Scenario 3), is similar to the Stipulation method except
330 that it makes use of some additional information. The total MWh for the system and for Utah
331 are known for each month. Utah’s relative MWh percentage of the system varies from month
332 to month. Scenario 3 adds an additional weighting factor by multiplying the estimated Utah
333 MWh (per the Stipulation method) by the relative percentage of the Utah monthly MWh to
334 the system MWh. This weighting effectively increases the price per MW when Utah is
335 demanding relatively more than average energy, and decreases it when Utah’s demand is

336 relatively less than average; it makes economic sense that relatively higher demand would
337 result in slightly higher prices (costs) and vice versa.

338

339 The scenario 3 carrying charge is about \$16,000 higher than the carrying charge calculated
340 for the Stipulation method.

341

342 **Q. What do you conclude from your analyses?**

343 A. There are two conclusions. First, as mentioned above, the only practical purpose to the
344 monthly EBA balances, as far as the Company and ratepayers are concerned, is the
345 calculation of the carrying charge.²⁴ The second conclusion is that the most important
346 principle regarding the calculation of the carrying charge is that a method be decided upon
347 and then consistently applied. The simpler calculation methods are not likely to be
348 significantly less accurate than more complex methods.

349

350

351 **IV. FIXED VERSUS DYNAMIC FACTORS**

352

353 **Q. What is your understanding of the fixed versus dynamic factors issue?**

354 A. The issue seems to concern how the values for any EBA adjustment should be calculated.

355 The issue is broken down into two components: the time during the EBA accrual period

²⁴ There is a third purpose, and that is for the benefit of the Division's (and potentially other) auditors. Given the volume documents and the complexity of the EBA audit process, the auditors need to keep on top of the process on a monthly basis. Therefore, monthly filings by the Company remain a necessity.

356 (typically the twelve calendar months), and the time of the EBA filing which is expected to
357 occur each March 15th for the preceding year ending December 31st.

358

359 But first, I would like to make it clear what I mean by the term “factor.” By the term “factor”
360 I understand to mean the formula that was approved in an allocation method. These formulae
361 should be fixed between rate cases; indeed, the formulae usually do not change from rate
362 case to rate case. In this regard, the Division is recommending fixed factors, or formulae, be
363 used in an EBA calculation based upon the most recent rate case.

364

365

366 A. PRE-FILING CALENDAR YEAR ACCRUALS.

367

368 **Q. How does the Division expect the monthly EBA accruals to be calculated?**

369 A. The Division anticipates that the Company will estimate the actual monthly Utah NPC by
370 first computing the dollar per MWh rate by dividing system NPC for a given month by that
371 month’s system load in MWh. That dollar per MWh figure will then be multiplied by the
372 scalar value determined in the most recent rate case to estimate a Utah dollar per MWh
373 figure. The base Utah dollar per MWh amount for that month is subtracted from the
374 estimated actual Utah dollar per MWh figure; the EBA deferral will then be determined by
375 applying the rest of Commission’s formula from page 75 of its ECAM Order.²⁵

376

377

378

²⁵ This formula is duplicated in the RMP’s proposed tariff.

379 **Q. The Division anticipates that the values of the scalar or any other factors used in**
380 **determining the monthly Utah NPC amounts will be fixed, is that correct?**

381 A. Yes, they will be fixed at the values determined in the most recent rate case.

382

383 **Q. Why should they be fixed during the accrual period?**

384 A. The reason they should be fixed is twofold. First, and most importantly, the Company does
385 not have final MSP allocation factors available except after it files its Results of Operations.
386 The annual factors are the ones used for MSP allocations. The second reason is simply to
387 track the EBA accruals based upon the general rate case values in order to understand how
388 the EBA is affected by the initial values and how it differs when the values are updated.

389

390

391 B. THE MARCH 15TH FILING AND TRUE-UP.

392

393 **Q. What does the Division expect and recommend regarding the calculation of actual**
394 **values when the Company makes its annual EBA filing?**

395 A. As defined above, “factor” refers to a formula that is fixed, at least between rate cases and
396 the values are fixed during the EBA accrual period; however, the Division believes that it is a
397 different matter for determining the actual Utah NPC in an annual filing. The Division
398 believes that the actual Utah dollar per MWh figures in the monthly calculations should be
399 revised to reflect the calendar year-end updates of the Utah allocation factor values and
400 consequently the scalar (or any similar adjustment device). In other words, the Division
401 recommends that the factor values for determining Utah actual amounts should going
402 forward be dynamic and should reflect the best information available at the time.

403

404 However, in Attachment B of the Stipulation, footnote five explains that the scalar is

405 “calculated to make Utah base NPC equal the base NPC in the
406 stipulation. This adjustment is necessary because not all costs use an
407 SE factor. **This same scalar will be used in calculating Utah actual
408 NPC for the EBA.” (emphasis added)**

409

410 This statement could be interpreted as meaning that the value of the scalar would be used to
411 calculate the actual Utah monthly NPC for purposes of the annual filing. Therefore, for the
412 first March 15th expected this year, the Division would not oppose the application to actual
413 Utah NPC of the same scalar value approved in the Stipulation. Otherwise, assuming the
414 Stipulation, or related, method is used, the monthly Utah NPC will be based upon the
415 updated estimates of the monthly Utah jurisdictional percentage values. These “actual”
416 monthly and annual values will then be used to estimate the differences from the base
417 amounts and calculate the carrying charge.

418

419 **Q. Will the same rate spread and rate design be used to estimate the EBA adjustment to be
420 billed or credited to customers?**

421 A. The Commission stated in its March 2011 EBA order that the rate spread approved in the
422 latest general rate case will applied to any customer surcharge or surcredit. The Commission
423 also noted the need for simplicity, at least in the initial pilot program, by declining to order
424 the compilation of EBA balances by rate schedule.²⁶ The Division believes that the
425 Commission does not intend to order a new cost of service study to be provided and debated
426 in each EBA filing and process.

²⁶ EBA Order, pp. 76-77.

427

428 However, as discussed below, the Division believes that the Office will recommend a change
429 in the rate spread that the Commission might consider adopting.

430

431 **Q. Please summarize the Division's conclusions in this section.**

432 A. The Division believes that the formulae used for determining Utah allocations are fixed in the
433 most recent rate case. The base Utah NPC values are fixed in the most recent general rate
434 case; likewise the rate spread and rate design formulae and values are also fixed. During the
435 EBA accrual period, the factor values necessarily remain fixed. When the Company makes
436 its EBA filing, the values to update the Utah inter-jurisdictional factors are appropriately the
437 latest ones available, i.e. as of the December 31 prior to the Company's EBA filing, to
438 calculate the actual Utah NPC for comparison with the base Utah NPC.²⁷

439

440

441

V. OTHER ISSUES

442

443

444 **A. ADDITIONS TO FERC ACCOUNTS IN TARIFF**

445

446 **Q. Earlier you mentioned the testimony of Mr. Croft, what is the Division**
447 **recommending with respect to his testimony?**

²⁷ Except, as noted herein, for the first filing anticipated in March 2012.

448 A. The Division recommends that the tariff be modified by replacing the current listing of the
449 FERC accounts with Mr. Croft's "medium" view of the FERC accounts. Please refer to Mr.
450 Croft's testimony for further details.

451

452

453 B. EBA RATE SPREAD

454

455 **Q. For discussion at the November 2, 2011 technical conference, the Office of Consumer**
456 **Services distributed a power point presentation to interested parties that discussed a**
457 **suggested change in the EBA rate spread calculations. Do you have any comments on**
458 **this suggestion by the Office?**

459 A. Yes. While this rate spread proposal was not formally discussed at the technical conference,
460 the Division anticipates that the Office will present this, or similar, proposal again in
461 testimony in this docket. The Division has reviewed the power point presentation and
462 believes that the proposal has merit. Possible implementation could take place with the
463 Company's EBA filing in March 2012. The Division will wait to see what the Office actually
464 proposes in this docket and then respond in rebuttal.

465

466 **Q. Other interveners have raised rate spread issues in this docket, do you have any**
467 **additional comments regarding rate spread, and by extension, cost of service issues**
468 **generally?**

469 A. As implied above, the Division believes that there may be merit to changing the rate spread
470 methodology as it relates to the EBA. There may be other recommended changes by the

471 Office or other intervenors. The Division will review and comment on any specific proposals
472 filed in this docket.

473

474 **Q. Has the Commission already, with sufficient clarity, decided the rate spread and rate
475 design issues for the anticipated March 15, 2012 EBA filing?**

476 A. At this time the Division believes that the Commission has in its order in Docket No. 09-035-
477 15 (see pages 74-77). However, the Commission made clarifying statements in its Pre-
478 hearing Order that imply that the Commission will consider adjustments that are brought
479 forward to it.²⁸

480

481

482 **C. OTHER SUGGESTED CHANGES TO THE TARIFF LANGUAGE**

483

484 **Q. Does the Division have some additional recommendations to change the tariff language?**

485 A. Yes. The Division recommends the following minor changes which it believes adds clarity to
486 some of the statements:

487 **EBA Deferral Account Balance:** The EBA Deferral Account
488 Balance from the previous month plus the monthly EBA Accrual
489 less the current monthly EBA Revenue ~~authorized by the~~
490 ~~Commission from the previous~~ based on the approved EBA rate
491 plus the monthly Carrying Charge.²⁹

492

493 **EBA RATE DETERMINATION:** Annually, on the EBA Filing
494 Date, Rocky Mountain Power shall file with the Commission an
495 application for establishment of an EBA rate to become effective
496 on the EBA Rate Effective Date of that year. The EBA Deferral
497 Account Balance as of December 31 shall be allocated to all retail

²⁸See Pre-hearing Order, pp. 4-5.

²⁹ Schedule 94, filed December 12, 2011, p. 94.2

498 tariff rate schedules and applicable special contracts based on the
499 rate spread approved by the Commission in the most recent general
500 rate case. The new EBA rate will be determined by dividing the
501 EBA Deferral Account Balance allocated to each rate schedule and
502 applicable contract by the schedule or contract forecasted Power
503 Charge and Energy Charge revenues for the EBA Rate Effective
504 Period. The EBA rate will be a percentage increase or decrease
505 applied to the monthly Power Charges and Energy Charges of the
506 Customer's applicable schedule or contract as set forth in the
507 schedule. **The following example demonstrates this calculation**
508 **and the line item that will show on a customer's bill:**

509
510 [INSERT EXAMPLE]
511
512

513 D. REDESIGN OF THE EBA TARIFF
514

515 **Q. Does the Division have overall recommendations for the EBA program and tariff?**

516 A. Yes. Based upon the information gained since the Commission issued its EBA order in
517 March 2011 through the present, the Division believes that some relatively minor changes
518 should be made that would simplify and clarify issues that have been brought forward.

519

520 **Q. Please outline these recommended changes.**

521 A. The following list is a brief summary of three changes the Division recommends:

522 1. The EBA actual amounts should begin with the "trued-up" allocated annual Utah total
523 NPC.

524 2. The interstate allocation factors for determining the annual actual Utah NPC should be
525 updated using the latest information as of the calendar year-end before the March 15
526 filing date.

527 3. The Commission will determine the appropriate method to allocate the Utah annual NPC
528 back to each month for the determination of the carrying charge (alternatively we could
529 begin with the difference between the base annual NPC and the actual annual NPC and

530 then allocate the difference back to the months). The Division recommends that a
531 relatively simple, easily understood monthly allocation method be consistently used,
532 noting that it is only the carrying charge that need be based on monthly allocation. The
533 Stipulation method or the related and slightly more complex Scenario 3 would fit the bill.
534 (If the simple “Alternative Scenario 2” method is used, then monthly allocations are not
535 really necessary).

536

537 **Q. Do you view these three changes as material changes to the EBA program?**

538 A. No. The essential program as originally ordered by the Commission remains intact. The
539 three recommendations change the EBA deferral focus somewhat from monthly deferral
540 balances to the annual true-up.

541

542

543 **VI. CONCLUSIONS AND RECOMMENDATIONS**

544

545

546 **Q. What are your conclusions?**

547 A. The Division believes that the proposed tariff generally complies with the orders of the
548 Commission. The Division believes that certain changes will improve and clarify the tariff.

549

550 The Division further concludes that for the Company and ratepayers, the practical use of
551 monthly EBA deferrals and balances is for the calculation of the carrying charge. The
552 carrying charge is unlikely to vary significantly due to how it is calculated, and that a method
553 should be selected and then consistently adhered to.

554

555 **Q. What are the Division's recommendations?**

556 A. The Division recommends the adoption of the minor language changes and the replacement
557 of the FERC accounts listing with Mr. Croft's "medium" list.

558

559 The Division recommends that the Commission adopt a relatively simple method to calculate
560 the carrying charge for any given calendar year. The Division believes that either the
561 Stipulation method or the Scenario 3 method should work satisfactorily.

562

563 The Division believes that going forward the EBA program and tariff should be modified to
564 reflect that the annual true-up of the Utah NPC is of primary importance and that the monthly
565 balance additions, or subtractions, are primarily for the purpose of calculating the carrying
566 charge.

567

568 **Q. Does this conclude your testimony?**

569 A. Yes.