Witness OCS – D1

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Rocky Mountain	**)**	**Docket No. 11-035-T10**
Proposed Schedule 94, Energy	**)**	**Direct Testimony of**
Balancing Account (EBA) Pilot	**)**	**Daniel E. Gimble**
Program Tariff	**)**	**For the Office of**
	)	**Consumer Services**

February 23, 2012

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. My business address is 160 E. 300 S. Rm. 201, Salt Lake City, Utah.

Q. PLEASE DISCUSS YOUR EDUCATION AND QUALIFICATIONS.

A. I have a B.A. degree with honors in economics and history from Western Michigan University. I also have an M.A. degree in economics from the same university. I completed course work towards a Ph.D. in economics at the University of Utah. In 1987, I joined the Utah Public Service Commission (Commission) Staff and in 1990 was hired by the Office of Consumer Services (Office). In my time with the Office, I have worked in various capacities and have been a manager since 2003.

Q. HAVE YOU APPEARED AS A WITNESS BEFORE THIS COMMISSION IN PRIOR CASES INVOLVING ROCKY MOUNTAIN POWER AND OTHER UTAH UTILITIES?

A. Yes. Since 1991 I have testified numerous times in major cases involving Rocky Mountain Power (the Company or RMP) and other utilities providing service in Utah. These cases include general rate cases, merger and acquisition dockets, excess net power cost proceedings, avoided cost cases, major plant addition cases, Questar Gas pass-through proceedings, and the sale of Qwest's Dex (Yellow Pages) asset. I prepared and filed testimony supporting the Office's cost-of-service, rate spread and rate design recommendations in the last four RMP general rate cases (GRCs).[1] I also prepared and filed testimony on behalf of the Office in Phases Two and Three of the recent Energy Balancing Account (EBA) proceeding, which addressed market reliance concerns and design issues relating to an EBA.[2]

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[1] Docket Nos. 07-035-93, 08-035-38, 09-035-23 and 10-035-124.

[2] Docket No. 09-035-15.

Q. DID YOU PARTICIPATE IN THE RECENT EBA TECHNICAL CONFERENCES WHERE PARTIES EXAMINED VARIOUS ISSUES IN CONNECTION WITH IMPLEMENTING THE NEW SCHEDULE 94 EBA TARIFF CONSISTENT WITH THE COMMISSION'S MARCH 3, 2011 EBA ORDER AND SEPTEMBER 13, 2011 GRC ORDER?

A. Yes, on behalf of the Office I actively participated in these EBA technical conferences. Specifically, the Office submitted extensive comments on Company drafts of its proposed Schedule 94 EBA Tariff and the Division's proposed EBA Evaluation Plan. The Office also participated in discussions of other EBA implementation issues and circulated a presentation regarding our views on the proper interpretation of the Commission's March 3, 2011 (Corrected) EBA Order, as it pertains to the rate spread of EBA costs among rate schedules.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. The Commission issued a Prehearing Order on January 20, 2012, which identified the scope of issues to be addressed in testimony and at the April 17, 2012 hearing on EBA implementation.

My testimony responds to the following issues identified by the Commission in its Prehearing Order:

- What are the appropriate allocation factors to apply in order to achieve a cost-based spread of EBA costs to rate schedules;
- Whether Utah's share of EBA costs should be calculated based on dynamic or static allocation;
- Whether the proposed tariff adequately details the types of costs that will be recorded in the EBA, consistent with the EBA Order and the September GRC Order; and
- Whether the proposed tariff is consistent with the EBA Order in the manner for which it provides for the finality of rates.

II. SUMMARY OF RECOMMENDATIONS

Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS FOR THE IMPLEMENTATION OF THE EBA.

A. The Office's recommendations are as follows:

- The Composite NPC Allocator should be used to spread EBA costs to rate schedules and special contracts beginning with the Company's March 2012 EBA filing. The Composite NPC Allocator better reflects cost causation than the Total Revenue Requirement Allocator for spreading EBA costs.
- The Composite NPC Allocator should be updated after each general rate case based on a Compliance NPC Study. The Commission should also establish a review process to verify the accuracy of the Compliance NPC Study and Composite NPC Allocator.
- Dynamic allocation principles should guide the allocation of total EBA costs to Utah.
- Dynamic allocation alternatives at the class level should be evaluated over the EBA pilot period.
- Minimum filing requirements should be developed through a rulemaking procedure and applied to the Company's EBA filings to ensure the information submitted is complete, minimize discovery and increase the efficiency of the EBA review process.
- An EBA Manual should be developed that relates to both the EBA Schedule 94 Tariff and EBA Filing Requirements.
- A party should have a minimum of 45 days from the time the Division submits its EBA audit report to prepare a filing that identifies any additional adjustments or concerns. Final EBA rates should not be established until the Commission conducts a hearing and takes evidence on the Division's EBA Report and any other matter raised by the Division, Office or other interested party.

III. ISSUES IDENTIFIED IN PREHEARING ORDER

EBA Rate Spread

Q. PLEASE DESCRIBE THE EBA RATE SPREAD ISSUE.

A. In its March 3 (Corrected), 2011 EBA Order, the Commission stated:

> "As we noted earlier, collection or refund of any EBA balance must also be based on cost of service. Therefore, we will rely on our most recent general rate case revenue spread and rate design decisions for the spread of the deferred balance to rate schedules and rate elements."[3]

The Commission's EBA rate spread decision requires that the spread of EBA costs must be based on "cost of service." The Company's proposed Schedule 94 EBA Tariff uses the class rate spread percentages from the last GRC to spread EBA costs, or a *Total Revenue Requirement Allocator*. However, much different allocators are used to spread the NPC component of revenue requirement among rate schedules. This methodology can be summarized and described as the *Composite NPC Allocator*. The Composite NPC Allocator appropriately reflects cost of service in that it functionally matches the NPC-related costs that will be spread in the EBA, better tracks the dynamic character of NPC components (energy and demand) over time and is consistent with the Commission's recent decision in the Major Plant Addition (MPA) cases to use a more precise allocator to spread a distinct set of generation and transmission costs. The use of the Composite NPC Allocator is necessary to produce a just and reasonable spread of EBA costs.

Q. IN ITS PREHEARING ORDER IN THIS DOCKET, DID THE COMMISSION CLARIFY WHAT IT MEANT BY "COST-OF-SERVICE" IN ITS EARLIER EBA ORDER AND PROVIDE FURTHER GUIDANCE ON THE ISSUE OF EBA RATE SPREAD?

A. Yes. The Commission stated:

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[3]EBA Order (Corrected), March 3, 2011, pgs. 76-77.

"…we mean we will rely on the revenue requirement spread approved in the general rate case decision, consistent with cost of service principles. *Rate case cost of service analysis identifies cost causation by function. Thus, the spread of deferred EBA amounts to rate schedules must be consistent with the approved spread of the base EBA costs to rate schedules in the general rate case*. We invite parties to provide testimony in this docket on the appropriate factors to apply in achieving a cost-based spread of EBA costs to rate schedules."[4] [Emphasis Added]

Q. HOW ARE BASE EBA (NPC) COSTS ALLOCATED TO RATE SCHEDULES IN THE COMPANY'S COS MODEL?

A. As a preliminary matter, it's important to clarify that the "base EBA costs" referred to in the Commission's Prehearing Order is really the same as "base NPC." The difference between the base level of NPC determined in GRCs and actual NPC is what will be deferred in the EBA and spread to rate schedules. With that clarification in mind, base NPC are allocated to each rate schedule in the Company's COS model using the Composite NPC Allocator.

Q. PLEASE DEFINE THE COMPOSITE NPC ALLOCATOR.

A. The Composite NPC Allocator consists of FERC Accounts 447 (sales for resale revenue), 501(fuel expense), 503 (steam expense), 547 (other fuel expense), 555 (purchased power expense) and 565 (wheeling expense). Specific allocators for fuel, purchased power, wholesale sales, etc. are used to allocate the costs or revenues contained in each FERC account.

Q. IS THERE ANY OTHER ACCOUNT THAT SHOULD BE INCLUDED IN THE COMPOSITE NPC ALLOCATOR?

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[4] January 20, 2012 Prehearing Order, Docket 11-035-T10, Pg. 5

A. Yes. In the EBA Order, the Commission decided that incremental wheeling revenue should be included as a credit against costs in the EBA.[5] Therefore, the Composite NPC Allocator should include wheeling revenue in Account 456.1.

Q. DO YOU HAVE AN EXHIBIT THAT DEPICTS THE COMPOSITE NPC ALLOCATOR?

A. Yes. Exhibit CCS 1.1 (page 1) attached to my testimony sets forth the Composite NPC Allocator. The information underlying the development of this Allocator was taken directly from the Company's COS Study in the last GRC (10-035-124).[6]

Q. PLEASE EXPLAIN EXHIBIT CCS 1.1.

A. Page 1 of this exhibit is a spreadsheet showing the FERC accounts that comprise the Composite NPC Allocator, the costs and revenues by account and the spread of those costs and revenues to each rate schedule. Page 2 of this exhibit compares the spread results from the Total Revenue Requirement and Composite NPC Allocator for each rate schedule.

Q. WHY IS THE COMPOSITE NPC ALLOCATOR MORE APPROPRIATE FOR SPREADING EBA COSTS THAN THE TOTAL REVENUE REQUIREMENT ALLOCATOR?

A. The Composite NPC Allocator is a precise allocator, specifically targeting the spread of only NPC elements among rate schedules. It is divided into energy and demand NPC components, but is heavily weighted towards energy because the majority of NPC components are allocated on the basis of energy.[7] The relative energy-demand weighting is also dynamic over time because the composition of base NPC changes from one rate case to the next. For example,

[5] EBA Order (Corrected), March 3, 2011, pg. 72.
[6] Source: Docket 10-035-124; Response to OCS 7.1, Company COS Study in Excel Format, G+T+D+R+M Tab.
[7] In the last GRC, the energy-demand weighting was approximately 94.5% energy and 5.5% demand.

the energy-demand weighting will vary depending on the mix of own generation versus wholesale purchases to meet load requirements.

By contrast, the Total Revenue Requirement Allocator is a broad allocator used to spread all revenue requirement elements (capital investment in generation, transmission and distribution plant, NPC, administrative and general expense, facilities maintenance expense, etc.) to rate schedules.

Q. WHAT ARE THE IMPLICATIONS OF USING THE TOTAL REVENUE REQUIREMENT ALLOCATOR TO SPREAD EBA COSTS?

A. The use of the Total Revenue Requirement Allocator significantly overstates EBA cost responsibility for the residential rate schedule and by doing so unfairly benefits the large commercial and industrial rate schedules. The Total Revenue Requirement Allocator has a broad purpose, extending far beyond NPC rate elements. It encompasses the spread of all rate elements to the rate schedules. For example, the Total Revenue Requirement Allocator includes distribution-related costs that have no direct relationship to NPC. The inclusion of distribution costs unrelated to NPC serves to distort cost causal relationships and disparately impacts the spread of EBA costs to rate schedules.

Q. DO YOU HAVE AN EXHIBIT THAT SHOWS THE IMPACTS ON RATE SCHEDULES RESULTING FROM THESE TWO ALLOCATORS?

A. Exhibit CCS 1.1 (page 2) attached to my testimony shows the impacts on all rate schedules and special contract customers resulting from these two allocation methods. Table 1 below illustrates the differences in impacts for the six major retail rate schedules. In particular, Table 1 indicates a material <u>9.3 percentage point difference</u> between the two allocators for a single class of customers, the residential class.

Table 1

Rate Schedules	TRR Allocator (% EBA costs)	Comp. NPC Allocator (% EBA costs)	Difference (%)
Residential – Sch. 1	39.13%	29.83%	(9.30%)
Sm. Comm. – Sch. 23	6.57%	6.20%	(0.37%)
Lg. Comm. – Sch. 6	24.86%	27.26%	2.0%
GS (> 1 MW) – Sch. 8	8.67%	9.56%	0.89%
Large Ind. - Sch. 9	15.63%	18.78%	3.15%
Irrigation – Sch. 10	0.74%	0.80%	0.06%

Q. DOES USE OF THE COMPOSITE NPC ALLOCATOR REMEDY THE UNFAIR SPREAD RESULTS PRODUCED BY THE TOTAL REVENUE REQUIREMENT ALLOCATOR?

A. Yes. By using a cost-based allocator that more appropriately fits the category of costs (NPC) that are included in the EBA, the outcomes for all rate schedules are just and reasonable.

Q. DOES THE USE OF A COMPOSITE NPC ALLOCATOR REQUIRE ADDITIONAL WORK IN FUTURE GRCs?

A. Yes. Future GRC outcomes must include a determination of the Composite NPC Allocator to be used in EBA cases. This involves determining how individual NPC adjustments in the revenue requirement phase of a GRC flow through to the cost-of-service phase. The Commission's decisions on NPC or cost of service issues in future GRCs will need to include the effects on the Composite NPC allocator and will require specific Commission findings in these areas.

Q. WILL THIS REQUIRE A COMPLIANCE NPC ("GRID") STUDY AFTER EACH GRC?

A. The Company should normally be required to submit a Compliance NPC Study after a GRC order is issued to: 1) flow through all ordered NPC adjustments and 2) establish the base level of NPC in general rates.[8] This Compliance GRID study should serve as the basis for updating the each account in the Composite NPC Allocator. A review process also needs to be established to verify the accuracy of the Compliance NPC Study and the associated changes to the Composite NPC Allocator.

Q. IS THERE A RECENT COMMISSION DECISION THAT LENDS SUPPORT TO THE OFFICE'S RECOMMENDATION TO USE THE COMPOSITE NPC ALLOCTOR?

A. The rate spread stipulation approved by the Commission in recent MPA Dockets 10-035-13 and 10-035-89 provides support, at a conceptual level, for using the Composite NPC Allocator for EBA spread purposes. In the MPA cases, the Commission, based on a settlement, relied on the specific F-10 plant allocator, instead of the broad GRC rate spread from the prior GRC (Docket 09-035-23), to allocate a distinct set of generation and transmission costs among rate schedules. The Commission and parties recognized that the F-10 allocator better matched the generation and transmission plant costs at issue in the MPA dockets.[9]

[8] In the last GRC, Office witness Falkenberg recommended that a Compliance GRID study be prepared by the Company to ensure the accuracy of the baseline NPC result, when all Commission-approved NPC adjustments are combined and run in the GRID model. (Falkenberg Direct, Docket 10-035-124, pg. 60, lines 1364 – 1375.) I would note the Revenue Requirement Settlement (Stipulation) in Docket 10-035-124 does not expressly require that such a Compliance GRID Study be performed by the Company. However, the importance and necessity of the Company preparing a Compliance GRID Study was recently discussed at a recent EBA meeting (February 3, 2012) on the Division's proposed EBA Evaluation Plan. At the meeting, the Company appeared amenable to preparing such a Study.

[9] The MPA settlement involved two parts: 1) use of the F-10 allocator to better match the generation and transmission plant investment at issue in the MPA proceedings; and 2) a 50-50 compromise between the positions of the Company and the Office related to the F-10 plant allocator. The Company had recommended using the updated F-10 allocator from its rebuttal case in Docket 09-035-23 and the Office had recommended using the F-10 allocator from the Company's direct case in the same docket.

Q. WOULD YOU AGREE THAT THE MPA PROCEEDINGS PROVIDE AN IMPORTANT GUIDELINE FOR EVALUATING THE MERITS OF EBA SPREAD PROPOSALS?

A. Yes. There is a fundamental cost-of-service principle that threads through these MPA and EBA cases as the Company's overall rate structure is partially separated into alternative processes. This fundamental principle is cost causation – rates should be cost-based. In making its decision on the proper allocator to spread EBA costs, the Commission should ensure that the allocator selected corresponds closely to the type or category of costs at issue in the EBA. To do otherwise will not serve the public interest.

Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS ON THE APPROPRIATE ALLOCATION METHOD FOR SPREADING EBA COSTS TO RATE SCHEDULES?

A. The Office recommends the following:

- The Composite NPC Allocator should be used to spread EBA costs to rate schedules and affected special contracts beginning with the Company's March 2012 EBA filing. The Composite NPC Allocator better reflects cost causation and represents a fair and reasonable method for spreading EBA costs.
- The Composite NPC Allocator should be determined in each GRC, which normally will require the use of a Compliance NPC Study. The Commission should also establish a review process to verify the accuracy of the Compliance NPC Study and Composite NPC Allocator.

Dynamic versus Static Allocation

Q. PLEASE DESCRIBE THE ISSUE OF DYNAMIC VERSUS STATIC ALLOCATION.

A. The crux of this issue is whether Utah's share of actual EBA costs, relative to other jurisdictions, should be calculated based on dynamic or static load conditions. In other words, should the allocation factors (e.g., SG, SE, etc.) be determined based on the test year load ("static") determined in the last GRC or Utah's load relative to other states in the EBA period ("dynamic"). Under dynamic allocation, an increase in Utah load and a concurrent decrease in Washington and Oregon loads would increase Utah's share of EBA costs.

Q. IN ITS PREHEARING ORDER, DID THE COMMISSION PROVIDE CLARIFICATION ON THIS ISSUE?

A. Yes. The Commission stated the following:

"…approved allocation factors and *their rate case values* will be used to determine Utah's share of the *base* power-related expenses and revenues approved for balancing account treatment, and the approved allocation factors calculated using *actual company load conditions* during the period of balancing account accrual will be used to determine Utah's share of the Company's *actual* power-related expenses and revenues eligible for the EBA."[10] (Emphasis in Original)

Q. WHAT IS THE OFFICE'S POSITION ON DYNAMIC VERSUS STATIC ALLOCATION?

A. From the standpoint of cost causation, updating allocation factors based on actual state load conditions and applying those dynamic factors to actual EBA costs is a sensible approach to ensuring that Utah pays only its fair share of EBA costs. The Office, therefore, supports the Commission's preference for the dynamic approach for inter-jurisdictional allocation of EBA costs.

Q. IS THERE A SIMILAR "DYNAMIC VERSUS STATIC" ALLOCATION ISSUE AT THE CLASS LEVEL?

A. Yes. While the discussion of this issue at the Commission's technical conferences focused entirely on the inter-jurisdictional ramifications of dynamic

[10]Docket 11-035-T01, Prehearing Order, pg. 4.

versus static allocation, this issue seems to translate to the class level. Specifically, situations could occur where actual class loads in the EBA period could sharply differ from forecasted test year load levels.

Q. PLEASE EXPLAIN.

A. In situations where load forecast error is high for an individual class or classes, a static allocation at the class level could possibly produce very unfair results. For example, if the forecasted loads established for industrial classes in a GRC are undercut by an economic recession that has relatively greater load destruction for those classes compared to other customer classes, then industrial customers would potentially be over-allocated EBA costs. Under conditions where an abnormally wet spring-summer period substantially reduces pumping needs, the irrigation class could be over-allocated EBA costs. The foregoing examples are applicable to any customer class – the simple fact of the matter is load forecasts are at times going to significantly miss the mark.

Q. WHAT IS THE OFFICE’S RECOMMENDATION REGARDING STATIC OR DYNAMIC ALLOCATION AT THE CLASS LEVEL?

A. The possible alternatives for developing dynamic allocation at the class level vary from simple to complex. The Office recommends this issue be studied during the EBA pilot period and included as part of the Division’s Reports on the EBA. At a minimum, a comparison should be made between what classes would have been allocated using a simple monthly energy allocator versus the method ordered by the Commission in this proceeding. This comparison would allow the Commission to evaluate whether a simple monthly energy allocator provides an outcome that better matches actual load conditions during the EBA period without sacrificing cost of service principles.

Costs Recorded in EBA

Q. PLEASE DESCRIBE THE ISSUE OF COSTS RECORDED IN THE EBA.

A. There are actually two related issues with respect to recording costs in the EBA. First, there is the issue of developing rules to guide EBA filing requirements. Second, there is the related issue of creating an EBA Manual that identifies the costs and revenue to be included in the EBA, where and how certain items will be recorded, key data sources and so forth.

Q. WHAT IS THE OFFICE'S RECOMMENDATION REGARDING EBA FILING REQUIREMENTS?

A. Rules governing filing requirements for the new EBA should be completed and in force prior to the Company's second EBA filing in March 2013. These rules should center on completeness of information contained in EBA filing to minimize discovery and increase the efficacy of the EBA review process. Examples of information that should be included are workable versions of models and spreadsheets used to prepare EBA filings, power cost data at the account and sub-account level, relevant audit reports and supporting work-papers, and swap transaction summaries and supporting documentation.

Q. WHAT IS THE OFFICE'S RECOMMENDATION REGARDING AN EBA MANUAL?

A. In connection with EBA filing requirements, an EBA Manual needs to be developed on a similar time line as rules concerning filing requirements. The EBA Manual should specify the NPC elements included in the EBA, how each NPC element is defined for EBA purposes (e.g., incremental wheeling revenue, sales for resale, etc.), where EBA costs and revenues will be recorded (account, sub-account and line item levels). The EBA Manual should also address the separate tracking of gas and electric swap transactions in Account 555, the process by which EBA costs can be transferred into deferral accounts, and requirements for prior period accounting entries.

Finality of EBA Rates

Q. PLEASE DESCRIBE THE ISSUE OF FINALITY OF EBA RATES.

A. This issue pertains to when interim EBA rates are deemed to be final. In its EBA Order the Commission briefly addressed this issue as follows:

> "We adopt a review process with hearing to set 'interim rates.' We direct the Company to file annually, on March 15, to collect or refund the calendar-year deferred balance. Following the Division's audit and a prudence review, we will set final rates."[11]

Q. WHAT IS THE OFFICE'S POSITION REGARDING THIS ISSUE?

A. There is a critical policy aspect involving adequate time for regulators and interested parties to review the Company's EBA filing, submit discovery, analyze information and make a decision whether to challenge the accuracy or prudence of costs included in the filing. Since the Division will audit the EBA filing and submit a report detailing its analysis and recommendations, parties should be allowed sufficient time to review the Division audit report before having to identify concerns with the EBA Application. A party should have a minimum of 45 days from the time the Division submits its EBA audit report to prepare a filing that identifies any additional adjustments or concerns. Final EBA rates should not be established until the Commission conducts a hearing and takes evidence on the Division's EBA Report and any other matter raised by the Division, Office or other interested party.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes it does.

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[11] EBA Order (Corrected), March 3, 2011, pg. 77.