Witness OCS 2D– Wielgus

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Voluntary	**)**	**Docket No. 12-035-102**
Request of Rocky Mountain Power	**)**	**Confidential Direct Testimony**
For Approval of Resource Decision	**)**	**Paul Wielgus**
To Acquire Natural Gas Resources	**)**	**For the Office of**
Of Up to [redacted] MMBtu/day	**)**	**Consumer Services**

March 5, 2013

Direct Testimony on Issues Relating to Resource Decision
To Acquire Natural Gas Resources

.

REDACTED

INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS?

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.

Q. PLEASE DESCRIBE YOUR FIRM.

A. GDS is multi service consulting firm focused primarily on energy and utility related matters. Our main office is in Marietta, GA. We have over 150 employees and have clients across the U.S.

Q. HAVE YOU PREPARED A SUMMARY OF YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix 1, which is a summary of my experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. GDS was retained by the Utah Office of Consumer Services ("OCS") for this Docket. Accordingly, I am appearing on behalf of the OCS.

Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?

A. Yes. I have prepared Confidential Exhibit OCS___(PJW-1) and Confidential Exhibit OCS___(PJW-2), both of which are attached to this testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to summarize my analysis and the findings of my review of the Company's 2012 Gas Request for Proposal ("RFP") and filing. I have reviewed the Company's recommendations and provided my recommendations.

Q. WHAT IS THE COMPANY RECOMMENDING?

A. Based on the RFP's results, the Company is recommending execution of the [redacted] from each of the [redacted] transaction groups contained in their final shortlist and as summarized in Table 1 below. The Company's recommendations assume that updated pricing meets certain parameters, as discussed later in my testimony.

Table 1

[redacted]

[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

Q. WHAT ARE YOU RECOMMENDING?

A. I summarize my recommendations in Table 2 below.

Table 2

[redacted]

[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

I am recommending that the Company enter into [redacted] transactions with counterparties on the final shortlist, having the same aggregate daily contract volume of [redacted] as proposed by the Company but [redacted] transaction of which [redacted]

[redacted]

Q. PLEASE DESCRIBE THE COMPANY'S RFP.

A. As described in the Direct Testimony of Stacey J. Kusters in this docket, the Company issued the RFP in May 2012. The RFP was for up to [redacted] MMBtu/day of firm [redacted] natural gas products. The RFP sought proposals for these firm natural gas products for terms of up to [redacted] years with a minimum transaction volume of [redacted]. MMBtu/day. A bidder workshop was held shortly after the RFP was issued and bids were due June 28, 2012.

Q. PLEASE DISCUSS THE MARKET'S RESPONSE TO THE COMPANY'S RFP.

A. The Company received a total of [redacted] bids in response to the RFP. Not all of the bids were analyzed by the Company because some of the bids were deemed to be non-conforming with the RFP, which is a common occurrence in energy supply RFP processes.

Q. DO YOU AGREE WITH THE COMPANY THAT THERE WAS A ROBUST RESPONSE TO THE RFP?

A. Yes.

Q. WHAT TYPES OF BIDS WERE RECEIVED?

A. A wide range of gas hedging proposals and products were received in a number of different transaction groups, including [redacted]

Q. CAN YOU DESCRIBE THE TYPES OF PRODUCTS IN EACH OF THE [redacted] MAIN TRANSACTION GROUPS?

A. Yes. [redacted]

[redacted]

Q. DO YOU BELIEVE THE PROPOSALS RECEIVED IN RESPONSE TO THE RFP WERE ADEQUATE FOR THE COMPANY TO MOVE FORWARD IN EVALUATING AND DECIDING WHETHER TO ACCEPT SOME OF THE PROPOSALS?

A. Yes.

Q. DID THE COMPANY MOVE FORWARD IN EVALUATING AND DECIDING WHETHER TO ACCEPT SOME OF THE PROPOSALS?

A. Yes. The Company did move forward in evaluating the bids and further narrowed the number of conforming bids to develop the initial shortlist. The initial shortlist contained [redacted] bids as per Confidential Exhibit RMP_(SJK-4). Most of the initial shortlist bids were [redacted] bids. The initial shortlist was subsequently narrowed down to a final shortlist.

Q. WHAT ANALYSIS DID THE COMPANY RELY ON IN DEVELOPING THE INITIAL SHORTLIST?

A. After eliminating some of the conforming bids for certain reasons discussed below, the Company primarily relied on a comparison of the total bid cost to the total bid market value for each bid. The Company divided the total bid cost by the total bid market value to determine the Market Ratio for each bid. All of the initial shortlist bids had a Market Ratio of [redacted]

Q. WHAT REASONS DID THE COMPANY GIVE FOR ELIMINATING SOME OF THE CONFORMING BIDS?

A. The Company cited two primary reasons. First, the Company believes [redacted] Because of this, the Company believed that the bid evaluation results as summarized in the associated Market Ratios may have been [redacted] Second, the Company excluded [redacted] because it questioned the [redacted]

[redacted]

[redacted]

Q. DO YOU FIND THE COMPANY'S REASONS FOR ELIMINATING SOME OF THE CONFORMING BIDS APPROPRIATE?

A. The reasons relied upon by the Company are appropriate based on its risk management policies, but from a ratepayer perspective these reasons should be revisited prior to any next round similar RFP(s), which the Company appears to anticipate based on its Confidential Response to OCS DR 3.5.[1] Because of the metrics required by the policies and procedures the Company has in place to manage its energy hedging, it is understandable that the Company concluded its modeling data was not sufficient [redacted] However, that does not necessarily mean that *from the ratepayers' perspective* the [redacted] prices offered by certain bidders are not sufficiently attractive such that at least some of those bids should be allowed to be added to the initial shortlist. Confidential Exhibit OCS_(PJW-1) shows all conforming bids arranged first by term and then by price within each term. It can be seen in this exhibit that there are a

[1] Copies of all referenced data responses are provided in Confidential Appendix 2.

number of [redacted] that offer favorable pricing relative to the [redacted] bids recommended by the Company.

Q. WHAT DID THE COMPANY DO TO FURTHER NARROW THE INITIAL SHORTLIST?

A. The Company further evaluated the initial shortlist to take into account the credit cost associated with each shortlist bid. The Company used credit as the narrowing factor. Until this point, the Market Ratio of each bid on the initial shortlist was calculated without any credit considerations. Based on the Company's subsequent credit analysis, the Company then reduced the value of each bid by the cost of credit per MMBtu associated with that bid, assuming a contract volume of [redacted] for each bid. The Company then subtracted the calculated cost of credit per MMBtu for each bid from the total market value of that bid and calculated a resulting new but less favorable Market Ratio After Credit for each bid. The resultant Market Ratio After Credit values were then used to construct the final shortlist. The final shortlist initially included only [redacted]

[redacted] included on the final shortlist.

Q. DO YOU FIND THE COMPANY ADJUSTING THE BID PRICES FOR THE COST OF CREDIT TO BE APPROPRIATE?

A. Yes, the cost of credit in energy hedging is a measure of counterparty risk that must be evaluated and considered, and it is a cost of transacting.

Q. DO YOU FIND THE METHOD THE COMPANY USED TO DEVELOP THE ASSOCIATED COST OF CREDIT TO BE REASONABLE?

A. Generally, but the assumptions underlying the method used by the Company should be revisited prior to any next round similar RFP(s). [redacted][2]

[2] Confidential Response to OCS DR 3.13.

[redacted][3]

Q. DOES THE COMPANY RECOMMEND EXECUTING ANY OF THE TRANSACTIONS CONTAINED IN THE FINAL SHORTLIST?

A. Yes. The Company recommends executing the [redacted] from each of the [redacted] transaction groups included on the final shortlist, assuming that the updated pricing meets certain price parameters.

Q. WHAT DOES THE COMPANY MEAN BY UPDATED PRICING?

[3] Confidential Exhibit RMP__(SJK-2). [redacted]

A. It is typical in proposals submitted in response to RFPs for both short-term and long-term energy price hedges that the fixed prices quoted are only firm for a very short time period, often only a day or so and sometimes less, and that these prices must therefore be updated prior to final contract execution. Updated prices, which may be the same as those previously quoted or more likely may be different, will need to be obtained by the Company.

Q. DO YOU AGREE WITH THE COMPANY'S RECOMMENDATION?

A. Not totally. I recommend that different pricing parameters be used for the acceptability of any updated pricing and that a different set of transactions be executed if they meet these pricing parameters.

Q. WHAT SET OF TRANSACTIONS DO YOU RECOMMEND THE COMPANY EXECUTE?

A. In an attempt to achieve the [redacted] from the ratepayer perspective, I do not believe it is necessary to execute [redacted] Similar to relying on a comparison to the forward price curve as does the Market Ratio analysis the Company used, when [redacted] it is clear that different terms have different average market values. Therefore, instead of [redacted]

there is value that can be captured for the ratepayer when comparing the average bid values by term [redacted] Based on Confidential Exhibit OCS___(PJW-2), [redacted]. When comparing the [redacted] However, the [redacted] As described earlier, the potential advantage of entering into [redacted]. can be seen in Confidential Exhibit OCS__(PJW-1), which shows bids on the initial shortlist as well as [redacted] sorted by term and by price. I would consequently recommend [redacted] listed on the second page of Confidential Exhibit OCS__(PJW-2), based on the lowest updated pricing for each pair of bids and provided the updated pricing for each bid meets

the pricing parameters discussed below. My recommended bids are highlighted in both of my exhibits.

Q. WHAT PRICING PARAMETERS DO YOU RECOMMEND?

A. I recommend the pricing parameters for the updated pricing be transparent and straightforward. For the [redacted] These pricing parameters are approximately [redacted] This is a more straight-forward metric than the [redacted] comparison with the [redacted] Official Forward Price Curve proposed by the Company.

Q. IS THERE ADDITIONAL SUPPORT FOR THE COMPANY TO EXECUTE YOUR RECOMMENDED TRANSACTIONS?

A. Yes. The additional support for the Company to execute the transactions that I recommend is based on the current and expected fundamentals in the natural gas market. As shown by the Company, representative forward natural gas prices have fallen by about 50% since 2008. Because of this, natural gas prices on a per MMBtu basis are heavily discounted to oil prices. In addition, many argue that the fully allocated natural gas replacement cost is near the current market, in effect establishing a floor to longer term prices by providing little incentive for producers to drill for natural gas and for investors to invest in natural gas drilling programs. Some large natural gas purchasers have entered into natural gas development efforts to offset these fundamentals and to serve as a long-term hedge. For these reasons and because increased industrial demand for natural gas is expected, liquefied natural gas export expansion is being pursued, and no other feasible base load generation additions other than natural gas fired are anticipated in the near to mid-term, there is foreseeable upside pressure on long-term natural gas prices.

Q. HOW ELSE MIGHT THIS ADDITIONAL SUPPORT BE USED BY THE COMPANY TO BENEFIT THE RATEPAYER?

A. As mentioned earlier in my testimony, the Company's strict reliance on its modeling in driving its decision making can create limitations that may negate longer term opportunities that in the view of the ratepayers are

desirable. Taking a longer term, more fundamental view instead of a strict model based view can provide additional support to supplement long-term transaction decision making. Supplementing the model-supported decision making for longer-term decisions is a reasonable approach just as the Company did when it proposed executing the [redacted]. on the final shortlist. That proposal to include [redacted] on the final shortlist was not strictly model based.

Q. IS THERE A POSSIBILITY THAT THE TRANSACTIONS THAT YOU RECOMMEND COULD RESULT IN RATEPAYERS LOCKING IN NATURAL GAS PRICES THAT ARE HIGHER THAN FUTURE MARKET PRICES?

A. Yes, this is always a possibility when entering into any sort of price hedging transaction. However, based on my description of potential future market forces above and on the goal of reducing natural gas price volatility for ratepayers, I believe it is appropriate to take advantage of the current low natural gas forward prices by locking some of these prices in for the next [redacted]

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. In response to the Company's RFP, a wide range of gas hedging proposals and products were received in a number of different transaction groups, including [redacted] Over [redacted] bids were received, with many of the bids conforming to the RFP and from creditworthy bidders. Based on the RFP results and my review of these results, I recommend that the Commission approve the Company's request after making the following modifications:

- Instead of transacting [redacted] transaction groups as recommend by the Company, the Company should transact in [redacted].
- Instead of using the Company's parameters for accepting updated pricing, for the [redacted]

In addition, I recommend considering the following process changes prior to the Company's next RFP:

- [redacted]
- [redacted] simply because of the uncertainty regarding [redacted] Recovery of call option premiums for cap prices deemed cost effective is an issue that the Commission should address, as such call options would allow ratepayers to benefit fully if market prices were to fall.
- The Company should supplement its model-supported decision making with its fundamental outlook for making longer-term decisions.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Appendices

EDUCATION:

Juris Doctorate, 1996, licensed in Texas
South Texas College of Law, Houston, Texas

MBA, 1985, graduated with Honors, presented thesis on electric utility marketing to the IAEE North American Conference.
Lamar University, Beaumont, Texas

MS, MINERAL ECONOMICS, 1979, awarded Federal Mining Fellowship. Thesis analyzed coal transportation pricing and structures.
West Virginia University, Morgantown, West Virginia

BS, ECONOMICS, 1977, energy economics concentration.
West Virginia University, Morgantown, West Virginia

EXECUTIVE PROFILE:

As a senior executive in the energy industry, was engaged in the development and implementation of strategic business plans, directed the start up of multiple business units for top tier industry players in the power industry, and provided the strategic, commercial and risk management experience required in formulating the direction needed for the approval and closure of large energy related transactions and capital projects. Currently advise clients in most aspects of power project development including fuel planning, contracting, and price hedging.

PROFESSIONAL EXPERIENCE:

GDS ASSOCIATES, INC, Atlanta, Georgia 2008 - Present
Managing Director
Report to Vice President. Practice areas include energy project development and management, asset evaluation, fuels, risk management, and regulatory and expert witness testimony.

NRG Energy, New Roads, Louisiana 2006-2008
Vice President – Development
Reported to Regional President. Developed and implemented project development and commercial marketing plans for a 700 MW pulverized coal unit and a 200 MW pet coke, coal, and biomass fueled CFB repowering unit.

GDS ASSOCIATES, INC, Atlanta, Georgia 2002-2006
Managing Director
Reported to founding partner. Developed a comprehensive power asset risk management service targeted to electric cooperatives and municipals. Practice areas included energy assets, supply, fuels, risk management, regulatory, and expert witness testimony.

ENTERGY WHOLESALE OPERATIONS (EWO), Houston, Texas 1999-2002
Senior Vice President - Business Management
Reported to COO. Selected to head up newly created and expanded Business Management function responsible for the P&L and operations of asset fleet.

Senior Vice President - Business Development
Developed and implemented a strategic business plan for the start up of a regional IPP asset development program targeted at a 10 state market.

AMERICAN ELECTRIC POWER (AEP), Columbus, Ohio and Houston, Texas 1997-1999
Vice President - Project Development - North America
Reported to Executive Vice President. Developed and implemented a strategic business plan for the North American market.

ENRON CAPITAL AND TRADE (ECT), Houston, Texas 1991-1997
Director
Reported to Vice President. Developed and implemented a wide range of commercial business strategies focused on growth opportunities.

PEPSICO (FRITO-LAY), Plano, Texas 1987-1991
Manager
Developed and implemented a national business plan that transitioned the company's 40+ manufacturing facilities from regulated utility service to the then emerging unregulated direct purchase energy market and price hedging including cogeneration.

Continuous record of prior professional experience provided upon request.