

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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<b>In the Matter of the Application of Rocky</b>	)	<b>DOCKET NO. 12-035-67</b>
<b>Mountain Power To Increase Rates by</b>	)	<b>Exhibit DPU 2.0 Supp-Dir</b>
<b>\$29.3 million or 1.7 percent through the</b>	)	<b>Testimony and Exhibits</b>
<b>Energy Balancing Account.</b>	)	<b>Richard S. Hahn</b>
	)	
	)	

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

**REDACTED VERSION**

**Supplemental Direct Testimony of  
Richard S. Hahn**

**December 13, 2012**

## TABLE OF CONTENTS

I. Introduction .....	1
II. Executive Summary of Testimony .....	1
III. Issues to be Addressed as of November 13, 2012 .....	2
IV. Power Plant Cost and Output Variance .....	3
V. Explanation of Outages .....	6
VI. Purchases and Sales .....	9
VII. Basis for Certain Power and Natural Gas Transactions .....	9
VIII. Conclusion .....	11

1 **I. Introduction**

2 **Q: Please state your name, business address and title.**

3 A: My name is Richard S. Hahn. I am employed by La Capra Associates, Inc. (“La Capra  
4 Associates”) as a Principal Consultant. My business address is One Washington Mall,  
5 Boston, Massachusetts, 02108.

6 **Q: On whose behalf are you testifying?**

7 A: The Division of Public Utilities of the State of Utah (the “Division”).

8 **Q: Have you previously submitted testimony in this proceeding?**

9 A: On November 13, 2012, my direct testimony was filed on behalf of the Division.

10 **Q: What is the purpose of your supplemental testimony?**

11 A: In my direct testimony filed on November 13, 2012, I presented the results of my review  
12 of the Company’s EBA costs. At the time of this testimony, there were several discovery  
13 questions still outstanding. In that direct testimony, I also identified certain issues about  
14 which further information from the Company was required before a final opinion  
15 regarding the appropriateness of the EBA costs could be rendered. Since that time,  
16 additional discovery responses have been provided. In addition, the Company has  
17 provided some additional information regarding the issues raised in my direct testimony.  
18 The purpose of this supplemental testimony is to update my direct testimony to reflect  
19 that additional information.

20

21 **II. Executive Summary of Testimony**

22 **Q: Can you summarize the current status of your review of the Application in this**  
23 **proceeding?**

24 A: The additional information provided subsequent to my direct testimony is insufficient to  
25 explain or justify the certain plant outages identified therein. These outages have  
26 increased EBA costs by approximately \$3.9 million. This amount of \$3.9 million should  
27 be deducted from the amount that the Company's recovers via the EBA. I have reviewed  
28 the other material provided by the Company, and as discussed in this supplemental  
29 testimony, do not have any other specific changes in EBA costs at this time.

30

31 **III. Issues to be Addressed as of November 13, 2012**

32 **Q: What issues did you identify in your direct testimony of November 13, 2012 for**  
33 **further elaboration?**

34 A: In my direct testimony of November 13, 2012, I identified the following issues for which  
35 additional information would be required before offering a final opinion of the  
36 appropriateness of the EBA costs.

- 37
- Variance in output and costs for coal and natural gas plants.<sup>1</sup>
  - 38 • Justifications and explanations of certain plant outages.<sup>2</sup>
  - 39 • Additional detail to explain the variance between actual and forecasted power  
40 purchases and sales.<sup>3</sup>
  - 41 • Additional detail to explain the purpose of certain power and gas transactions.<sup>4</sup>

42 **Q: Did the Company provide additional information in these topics since November 13,**  
43 **2012?**

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<sup>1</sup> See Hahn direct testimony at lines 278 - 347

<sup>2</sup> See Hahn direct testimony at lines 348 - 369

<sup>3</sup> See Hahn direct testimony at lines 369 - 389

<sup>4</sup> See Hahn direct testimony at lines 390 - 637

44 A: Yes. On Monday December 3, 2012, I received some additional information on these  
45 topics. This additional information came in the form of responses to 15 questions with  
46 attachments. These questions and responses are labeled as DPU Audit 1.1 through 1.15.  
47 I also note that since November 13, 2012, the Company has responded to DPU Data  
48 Requests Sets 26, 27, 28, and 29. In the remaining section of this supplemental  
49 testimony, I will provide my assessment of the impact of this additional information on  
50 EBA costs.

51

#### 52 **IV. Power Plant Cost and Output Variance**

53 **Q: Please discuss the issue of the variance between actual and forecasted output and**  
54 **costs for coal and natural gas plants.**

55 A: In my direct testimony of November 13, 2012, I stated that the brief explanation offered  
56 by the Company in its direct testimony did not adequately explain why the actual output  
57 and fuel costs for Company-owned coal and natural gas plants were significantly below  
58 forecast. The Company has provided additional data and analyses to attempt to explain  
59 some of those differences. Actual coal plant output was [REDACTED] than  
60 forecast. According to this additional information, about [REDACTED] of that  
61 amount is due to actual planned and forced outages being [REDACTED] than forecasted in the  
62 GRID model. The remaining variance of [REDACTED] is apparently due to market  
63 prices being lower than forecast, while coal fuel costs were stable.

64 I will address the outages in the next section of this testimony. In an attempt to explain  
65 the variance due to market prices, the Company provided a series of graphs comparing  
66 the range of monthly coal prices to a range of hourly market prices. Figure 1-Supp-Dir

67 CONFIDENTIAL below provides a sample of one of these graphs. In the forecast of  
68 EBA costs, this graph shows that all coal plants had fuel costs that are lower than market  
69 prices in virtually all hours. For actual EBA costs, some coal plants had fuel costs that  
70 were higher than market prices in some hours, causing these units to be dispatched less  
71 than forecast. This explanation generally works at an aggregate level, although for  
72 certain plants, it does not explain the variance.

73 Figure 1-Supp-Dir CONFIDENTIAL

74  
75  
76 The Company provided similar hourly data for the Chehalis natural gas plant, from which  
77 I was able to create a similar graph, as shown in Figure 2-Supp-Dir CONFIDENTIAL  
78 below. The Company also separated fixed pipeline costs from the variable fuel costs for  
79 the natural gas plants. Based upon this additional information, I will accept for the  
80 purposes of this preceding the Company's explanation of the non-outage related variance.



95

Figure 3-Supp-Dir CONFIDENTIAL

96

97

98 **V. Explanation of Outages**

99 **Q: What additional information did you seek regarding plant outages?**

100 A: In Figure 7 CONFIDENTIAL at line 314 of my direct testimony, I identified the  
101 following plant outages for which the Company should provide additional information or  
102 justification.

103

[REDACTED]

104

[REDACTED]

105

[REDACTED]

106

[REDACTED]

107

[REDACTED]

108 **Q: What information was provided regarding the [REDACTED]?**

109 A: The Company provided no information on the outage. Instead, it provided

110

documentation of [REDACTED]



111 [REDACTED]. Thus, there is  
112 no available information upon which to assess the appropriateness or prudence of this  
113 outage.

114 **Q: What information was provided regarding the [REDACTED]?**

115 A: No information was provided. The response to DPU Audit 1.2 states that such material  
116 will be forthcoming.

117 **Q: What information was provided regarding the [REDACTED]?**

118 A: No additional information was provided beyond what was available at the time my direct  
119 testimony was prepared.

120 **Q: What information was provided regarding the [REDACTED]?**

121 A: No information was provided.

122 **Q: What information was provided regarding the [REDACTED]?**

123 A: The Company provided several documents that discuss the [REDACTED]  
124 [REDACTED]. While these documents are  
125 informative, they do not explain why [REDACTED] wasn't installed earlier. The  
126 Company knew of the benefits and safety enhancements from these systems for some  
127 time. [REDACTED]

128 [REDACTED]. Based upon  
129 this additional information, I believe that this incident was avoidable and that the outage  
130 caused by this incident was not the result of prudent actions by the Company.

131 **Q: What do you conclude regarding these outages?**

132 A: In my experience, outages and incidents of this magnitude are serious, and would surely  
133 have resulted in internal reports, memoranda, emails, etc. Given the lack of supporting

134 documentation, or in the case of the [REDACTED] a confirmation of the need to  
135 install [REDACTED] which would have avoided this outage, I recommend that the  
136 Company's request for recovery of EBA costs be reduced by the impact of these outages.

137 **Q: How do you estimate the reduction in EBA costs?**

138 A: Figure 4-Supp-Dir CONFIDENTIAL provides a calculation of this estimate. The outages  
139 discussed in this section have increased the EBA costs by approximately \$3.9 million. I  
140 exclude the [REDACTED]  
141 [REDACTED]  
142 [REDACTED]. This reduction of \$3.9 million should be reflected in the amount that the  
143 Company's recovers.

144 Figure 4-Supp-Dir CONFIDENTIAL

145  
146

147 **Q: How does Utah's \$3.9 million share of the above cost reductions factor into the EBA**  
148 **deferral calculation?**

149 A: The amount by which this reduction in EBA costs would reduce the amount to be  
150 recovered would be determined through the application of the sharing mechanism, the  
151 scalar methodology, and the application of monthly interest charges. The supplemental  
152 direct testimony of Mr. Croft being filed contemporaneously with this testimony provides  
153 that calculation.

154

155 **VI. Purchases and Sales**

156 **Q: What additional information did you seek on purchases and sales?**

157 A: In analyzing the variance between actual purchases and sales and forecasted purchases  
158 and sales in my direct testimony, the Company had not provided any detailed breakdown  
159 of these transactions. Therefore, in my direct testimony, I was unable to adequately  
160 explain this variance.

161 **Q: What additional information has the Company provided since your direct testimony  
162 was filed?**

163 A: In response to DPU Audit 1.6., the Company did provide a breakdown of actual short-  
164 term purchases and sales by pricing hub, such as COB, MIDC, etc. However, this data is  
165 apparently before book-outs were done, so a comparison of this detailed actual data to  
166 forecast is still not feasible. Given the filing schedule in this docket, I make no  
167 recommendation regarding the impact of this variance at this time. In future EBA filings,  
168 the Company should develop procedures to forecast its purchases and sales and record  
169 actual purchases and sales on a comparable basis.

170

171 **VII. Basis for Certain Power and Natural Gas Transactions**

172 **Q: What additional information did you seek regarding power and Natural gas  
173 transactions?**

174 A: In my direct testimony, I describe how I developed a sample of each type of transaction -  
175 power and gas - physical and swaps. I noted that the Company generally has not  
176 documented nor explained why each of these transactions was entered into. I also

177 identified certain of these transactions in Figure 12 CONFIDENTIAL<sup>5</sup> and Figure 13  
178 CONFIDENTIAL<sup>6</sup> that should be explained further.

179 **Q: Did the Company provide any additional information?**

180 A: Yes. For example, in response to DPU 29.1, the Company states that [REDACTED]  
181 [REDACTED]  
182 [REDACTED]. In response to DPU Audit 1.7, the  
183 Company states that [REDACTED]  
184 [REDACTED]  
185 [REDACTED]. However, in Attach DPU\_Audit 1.7 CONF.xlsx,  
186 the Company did provide a sample position report for a recent day in early December.  
187 In the response to DPU Audit 1.8, the Company explained the physical power  
188 transactions identified in Figure 12 CONFIDENTIAL of my direct testimony. Generally,  
189 the reason offered for these transactions was that the transactions were needed to [REDACTED]  
190 [REDACTED].  
191 Lastly, the response to DPU Audit 1.9 provides information regarding certain power and  
192 gas swaps that were identified in Figure 13 CONFIDENTIAL.

193 **Q: What is your assessment of this additional information?**

194 A: The information provided on power and gas transactions has been helpful in achieving a  
195 greater understanding of them. I do have some additional questions regarding this  
196 material and will continue to analyze this material. Any additional knowledge gained as  
197 the result of further reviews and analyses of this information can be applied later in this  
198 proceeding or in future EBA proceedings. Each transaction that was in my sample was

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<sup>5</sup> See Hahn direct testimony at line 541.

<sup>6</sup> See Hahn direct testimony at line 634.

199 generally for a short term and individually the impact on EBA costs was relatively small.  
200 Therefore, at this time I make no recommendations to change the requested EBA costs. I  
201 do recommend that the Company [REDACTED] to facilitate  
202 documentation of the reason for such transactions in the future.

203

204 **VIII. Conclusion**

205 **Q: Does this conclude your testimony?**

206 A: At this time, yes, it does. Should additional or new information become available, I will  
207 supplement this testimony as appropriate.