

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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	)	<b>DOCKET NO. 12-035-67</b>
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	)	
<b>In the Matter of the Application of Rocky</b>	)	<b>Exhibit No. DPU 1.0 SR</b>
<b>Mountain Power to Increase Rates by</b>	)	
<b>\$29.3 Million or 1.7% through the</b>	)	
<b>Energy Balancing Account</b>	)	<b>Surrebutal Testimony and Exhibits</b>
	)	
	)	<b>Matthew Croft</b>
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**FOR THE DIVISION OF PUBLIC UTILITIES  
DEPARTMENT OF COMMERCE  
STATE OF UTAH**

**Surrebuttal Testimony of**

**Matthew Croft**

**January 17, 2013**

1 **Q. Please state your name and occupation?**

2 A. My name is Matthew Allen Croft. I am employed by the Utah Division of Public Utilities  
3 (“Division”) as a Utility Analyst.

4 **Q. Have you testified previously in this Docket?**

5 A. Yes. I provided direct testimony and supplemental direct testimony in this docket. Attached  
6 with my direct testimony was the Division’s EBA Audit Report for the period October 1,  
7 2011 through December 31, 2011.

8 **Q. What is the purpose of the testimony you are now filing?**

9 A. I will first summarize the Division’s overall position with regards to the EBA deferral  
10 balance. I will then respond to comments made in the rebuttal testimonies of UIEC witness  
11 Dr. J. Robert Malko and Rocky Mountain Power (“Company”) witness Mr. Brian S.  
12 Dickman. Finally, I will address some additional data the Division would like to be part of  
13 the annual EBA filing requirements.

14 **Q. Are other Division witnesses providing surrebuttal testimony?**

15 A. Yes. Mr. Charles Peterson and Mr. Doug Wheelwright will be addressing various issues in  
16 their surrebuttal testimony. Mr. Richard Hahn of La Capra Associates will also be providing  
17 surrebuttal testimony.

18 **Q. Can you please summarize the Division’s recommended EBA deferral balance?**

19 A. Yes. The Division recommends an EBA deferral balance amount of \$6,785,320<sup>1</sup>. The only  
20 difference between this amount and the amount in my direct supplemental testimony  
21 (\$6,487,486) is the increased interest charges through March 1, 2013 as opposed to June 1,

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<sup>1</sup> See the “Exhibit 1 (DPU Surreb)” tab in DPU Exhibit 1.1SR.

22 2012. None of the adjustments proposed by Mr. Hahn in his direct supplemental testimony  
23 have changed.

24 **Q. What specific issues will you be addressing in this testimony?**

25 A. I will first respond to Dr. Malko's concern about whether or not transactions affecting the  
26 EBA period were aligned with PacifiCorp's policies and procedures. I will then address the  
27 comments of Mr. Dickman regarding which actual NPC should or should not be open to  
28 prudence review.

29 **Q. Lines 160 through 161 of Dr. Malko's rebuttal testimony state that "Mr. Hahn did not**  
30 **perform any analysis of whether the Company followed its stated hedging policies and**  
31 **procedures..." Has the Division explicitly stated that the Company has followed its**  
32 **stated hedging policies and procedures?**

33 A. No.

34 **Q. Has Mr. Hahn or the Division completely ignored whether the Company's hedging**  
35 **transactions were appropriate?**

36 A. No. Mr. Hahn has already testified in this docket concerning an analysis of a sample of  
37 hedging transactions. Nothing in his review has "raised a red flag" with regards to the  
38 Company's hedging transactions. In addition, the Division did review certain policies and  
39 procedures and whether or not transactions (including hedging) affecting the EBA period  
40 aligned with those policies and procedures.

41 **Q. Did the Division ask the Company data requests pertaining to its compliance (including**  
42 **hedging) with its policies and procedures?**

43 A. Yes. DPU data request 11.5 asks the following<sup>2</sup>:

44 **Front Office Approvals and Authorizations:** Please refer to section 6.1 of  
45 PacifiCorp's Front Office Procedures and Practices document dated May 22,  
46 2012.

47  
48 (a) Please identify any transactions entered into (that affect the December  
49 31, 2011 EBA Deferral balance or future balances) that:

- 50  
51 i. were with unapproved counterparties or,  
52 ii. were outside the authorized credit limits or,  
53 iii. were outside the authorized risk limits or,  
54 iv. involved unapproved commodities and instruments  
55 or,  
56 v. did not comply with the FERC market behavior  
57 rules or,  
58 vi. did not comply with rules and regulations of the  
59 applicable power market.

60 (b) If there were any unapproved/unauthorized transactions with respect  
61 to the items above, please provide a detailed description of the  
62 transactions, an explanation for why such transactions were entered  
63 into, and what the effect is on the December 31, 2011 EBA balance.

64  
65 The Company's response stated that "There were no such transactions."

66 **Q. Was there another Division data request to the Company addressing its compliance**  
67 **(including hedging) with its policies and procedures?**

68 A. Yes. DPU data request 11.6 asks the following:

69 **Front Office Approvals and Authorizations:** Please identify and provide a  
70 detailed description and explanation of any "exceptions" referred to in section  
71 6.1(k) of PacifiCorp's Front Office Procedures and Practices document that affect  
72 the EBA deferral period (Oct 2011 to Dec 2011) of future EBA deferral periods.  
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<sup>2</sup> The Front Office Procedures and Practices document referenced is dated May 22, 2012. However, the six items in part (a) of this data request are also elements of an older Front Office Procedures and Practices document dated July 31, 2008 which would have been in effect during the October 2011 to December 2011 EBA period.

74 The “exceptions” in the data request above refer to exceptions made by Company personnel  
75 to the approval and authorization process contained in the Front Office Procedures and  
76 Practices. The Company’s response states that “There were no exceptions.”

77 **Q. Do you have anything to add at this point?**

78 A. Yes. It should also be noted that even if specific deviations of the Company’s policies and  
79 procedures were found, challenging such deviations may or may not be in violation of the  
80 stipulation from the 2010 general rate case. For example, if it was found that the Company  
81 hedged more than the maximum allowed percentages contained in their hedge volume  
82 targets, challenging such a deviation could be in violation of the stipulation which states that  
83 certain transactions will not be challenged for prudence on the grounds that they “result in  
84 over-hedging of natural gas or power positions.”

85 **Q. In future audits, does the Division plan on conducting a more complete verification of**  
86 **Company claims that “there were no such transactions” that violated certain policies**  
87 **and procedures?**

88 A. Yes.

89 **Q. What issues in Mr. Dickman’s rebuttal testimony do you wish to address?**

90 A. While specifically addressing EBA adjustments proposed by Office of Consumer Services  
91 witness Mr. Falkenberg, Mr. Dickman issues some general comments with regards to the  
92 nature of EBA adjustments. Lines 483 through 490 of his rebuttal testimony state:

93 If the entirety of an issue is again subject to complete review and disallowance in the  
94 EBA after it has been addressed in a general rate case, it would render the determination  
95 of just and reasonable NPC in a general rate case a meaningless exercise. If an issue has  
96 previously been deemed to be reasonably included in base NPC then deviations from the  
97 forecast can and ought to be examined in the EBA, and this annual review of actual NPC  
98 will identify whether the factors that led to the deviation from base NPC were caused by

99 imprudence on the Company's part. If imprudent actions on the part of the Company  
100 result in increases to actual NPC then it would be appropriate to disallow recovery of a  
101 portion of the difference. If not, the Company should be allowed to recover the full  
102 amount of the difference consistent with the structure and purpose of the EBA.  
103

104 From this statement, it appears the Company believes that only the difference between actual  
105 and base NPC can be challenged for prudence.

106 **Q. Do you agree with the Company's position on what can be challenged for prudence?**

107 A. Not exactly. In order to audit EBA costs, all actual components of those costs must be  
108 subject to review in order to pass upon their prudence. However, the varying nature of those  
109 individual components warrants differential treatment based upon the relevant fact of each  
110 component.

111 **Q. Please explain.**

112 A. A prudence determination in an EBA proceeding ought to be, to the extent practicable, a  
113 determination of whether the Company has acted prudently within the EBA period in  
114 question. That is to say that in incurring actual, not forecasted, expenses the Company has  
115 acted prudently. For items included in past, approved general rate cases such as long-term  
116 contracts, the relevant question might be whether the Company prudently managed that  
117 contract, including terminating the contract if appropriate. It would be unfair to the Company  
118 to challenge previously approved items anew unless changed circumstances warranted the  
119 Company taking measures to minimize the negative impacts of a previously prudent deal.  
120 This type of review might also be relevant to items approved in past EBA proceedings in the  
121 absence of an intervening general rate case. The level of allowable prudence review in an  
122 EBA period is a fact-based determination that depends on the type of transaction, the level of  
123 past prudence review, past regulatory treatment, and any other relevant factors.

124 Thus, the Company is incorrect if it is implying that there can be no review of individual  
125 components that have been included in the base NPC figure set in a previous general rate  
126 case. However, it is also inaccurate to say that individual, previously approved components  
127 of the base NPC figure can be reviewed afresh for prudence. Rather, the review should  
128 generally be centered on the Company's management of individual components during the  
129 EBA period as the facts of each component warrants. The Division recognizes the idea that  
130 continuously re-addressing issues pertaining to a NPC component that have been addressed  
131 in testimony may render the determination of just and reasonable NPC in such a rate case  
132 meaningless. However, a settlement that does not call out individual NPC components for  
133 adjustment can render impossible the task of evaluating what items were included and  
134 implicitly approved or excluded and implicitly disallowed. As such, the Division believes  
135 prudence review challenges of specific NPC components should be addressed on a case by  
136 case basis with the general principle that items once determined prudent ought not to be  
137 challenged for prudence in the absence of changed circumstances.

138 **Q. Are there other reasons to compare actual individual NPC components to the**  
139 **forecasted NPC components contained in the Company's direct, rebuttal, or surrebuttal**  
140 **GRC testimony?**

141 A. Yes. Such a comparison can be helpful in determining the difference between actual NPC  
142 and the Company *expected forecasted* NPC. This type of analysis, such as the one performed  
143 by Mr. Hahn, can be helpful in determining what NPC components should be investigated  
144 further.

145 **Q. What additional filing requirements does the Division propose should be included in the**  
146 **Company's annual EBA filing?**

147 A. In his surrebuttal testimony, Mr. Hahn addresses Mr. Dickman's concerns regarding the  
148 Division's additional filing requirements proposed in previous rounds of testimony. After  
149 reviewing some of the reconciliation and sample development issues that occurred during the  
150 Division's audit, the Division believes there are additional filing requirements that will assist  
151 in accelerating the audit work. These items are listed below.

- 152 1. A spreadsheet similar to the format of FR 1-1 and FR 1-2 that shows the "original"  
153 deal volumes (MMBtu, MWh) that were entered into Endur.<sup>3</sup>
- 154 2. Gas Physical Reconciliation (See confidential DPU Exhibit 1.2 SR which is the RMP  
155 Excel attachment response to DPU 15.1, Docket No. 12-035-67).<sup>4</sup>
- 156 3. Reconciliation of TORIS reports and actual NPC included in the EBA (See  
157 confidential DPU Exhibit 1.4 SR which is the RMP Excel attachment response to  
158 DPU 12.1, Docket No. 12-035-67). This excel file should include the same types of  
159 tabs shown in the response to DPU 12.1.<sup>4</sup>
- 160 4. Work papers used to develop the out-of-period fuel cost adjustments (See confidential  
161 DPU Exhibit 1.3 SR which is the RMP Excel attachment response to DPU 5.1(2) 1st  
162 Supplemental, Docket No. 12-035-67).

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<sup>3</sup> This spreadsheet would be separate from FR 1-1 or FR 1-2 which shows the "scheduled" volumes.

<sup>4</sup> The Division understands that the Company is working on developing a report similar to FR 1-1 that reconciles the gas physical data and or other data with the TORIS system data/reports. The Division is not opposed to such a report and would accept such a report as long as it includes the same type of reconciliations in items 2 and 3 shown above.



- 163 5. Explanation of out-of-period adjustments (See DPU Exhibit 1.5.0 SR and confidential  
164 DPU exhibit 1.5.1 SR which are the RMP written response to DPU 5.1 and the Excel  
165 attachment response DPU 5.1(1), Docket No. 12-035-67).
- 166 6. Coal Consumed Worksheets (See DPU Exhibit 1.6 SR which is the RMP Excel  
167 attachment response to DPU 18.3(3) Docket No. 12-035-67).
- 168 7. The Accounting Detail tabs (447, 555, 565 etc.) and the "C&T Database Accounts"  
169 tab in FR5-1 should include data from the January after the EBA period under review.  
170 (See confidential DPU Exhibit 1.7 SR which is the RMP response to DPU 2.1(12-  
171 035-67)/DPU 1.1 1st Supplemental (11-035-T10))
- 172 8. December Checkout Report (See the "December. Completed" tab in confidential  
173 DPU Exhibit 1.8 SR which is the RMP response to DPU data request 18.2 in Docket  
174 No. 12-035-67).
- 175 9. PacifiCorp 10K/Semiannual/EBA Reconciliation (See DPU Exhibit 1.9 SR which is  
176 the RMP Excel attachment response to DPU 10.1, Docket No. 12-035-67). Given the  
177 timing of the March 15 EBA filings and the release of the Company's 10K and  
178 Semiannual report, the Division recognizes that this reconciliation may need to be  
179 provided after the March 15 filing. The Division requests that this reconciliation be  
180 provided as soon as available.
- 181 10. Provide actual quantity of natural gas consumed (MMBtu) for each generation  
182 location (See confidential DPU Exhibit 1.10 SR which is the RMP response to DPU  
183 data request 8.3, Docket No. 12-035-67).

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

185 A. Yes.