

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE)	
APPLICATION OF ROCKY)	DOCKET NO. 13-035-32
MOUNTAIN POWER TO INCREASE)	Exhibit DPU 2.0 Dir
THE DEFERRED EBA RATE)	
THROUGH THE ENERGY)	Testimony and Exhibits
BALANCING ACCOUNT)	Richard S. Hahn
MECHANISM.)	

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

**Testimony of
Richard S. Hahn**

July 22, 2013

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ATTACHMENTS

Exhibit DPU 2.1 Dir, Resume of Richard S. Hahn

Exhibit DPU 2.2 Dir, La Capra Associates 2012 EBA Audit Report – Public Executive
Summary

Highly Confidential Exhibit DPU 2.3 Dir, La Capra Associates 2012 EBA Audit Report

Exhibit DPU 2.4 Dir, Recommended EBA Deferral Adjustments

Confidential Exhibit DPU 2.5 Dir, NPC Variance Analysis

Confidential Exhibit DPU 2.6 Dir, Root Cause Analysis Report

Confidential Exhibit DPU 2.7, Trade Authorization Email

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: Please summarize your educational and professional experience.**

9 A: I received my Bachelor’s in Science, Electrical Engineering, in 1973, and my Masters in
10 Science, Electrical Engineering, in 1974, both from Northeastern University. I received
11 my Masters in Business Administration from Boston College in 1982. Since joining La
12 Capra in 2004, I have worked on many projects related to energy markets, utility resource
13 planning projects, forecasts of wholesale market prices, and asset valuations. Prior to
14 joining La Capra, I was employed by NSTAR Electric & Gas (formerly Boston Edison
15 Company) from 1973 to 2003, where I was responsible for, among other activities, rates,
16 integrated resource planning and procurement of fuel supplies and power supplies via
17 Requests For Proposals (“RFPs”) and bilateral contract negotiations. Throughout my
18 career, I have gained and demonstrated considerable experience and expertise in utility
19 planning and operating activities and electric rates. I am a registered professional
20 electrical engineer in the Commonwealth of Massachusetts. My resume is provided in
21 DPU Exhibit 2.1 Dir.

22 **Q: What is the purpose of your testimony?**

23 A: La Capra Associates was retained by the Division to assist in reviewing the Application
24 of Rocky Mountain Power (“RMP” or the “Company”) seeking approval from the Public
25 Service Commission of Utah (“Commission”) to increase electric rates. The scope of our
26 assignment was to ascertain whether the actual costs included in the Energy Balancing
27 Account (“EBA”) filing were incurred pursuant to an in-place policy or plan, were
28 prudent, and were in the public interest. This direct testimony presents the results of and
29 the conclusions from that review.

30 **Q: Have you previously testified before the Public Service Commission of Utah?**

31 A: Yes. I testified in Docket 12-035-67 regarding an audit of EBA costs for the period
32 October 1, 2011 through December 31, 2013. This testimony presented the results and
33 conclusions of my review of EBA costs in the fourth quarter of 2011. I also testified in
34 Docket 11-035-200 regarding the Application of RMP to increase its electric rates. The
35 purpose of my testimony in that docket was to review the Company’s proposed capital
36 additions. I also testified in Docket No. 10-035-126 regarding the Application of Rocky
37 Mountain Power for Approval of a Significant Energy Resource Decision Resulting from
38 the All Source Request for Proposals. And I testified in Docket No. 10-035-124
39 regarding the Application of Rocky Mountain Power for Authority to Increase Its Retail
40 Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service
41 Schedules and Electric Service Regulations.

42
43 **Q: What Exhibits are you sponsoring?**

44 A: I sponsor seven Exhibits. **Exhibit DPU 2.1 Dir, Resume of Richard S. Hahn** is a copy
45 of my resume. **Exhibit DPU 2.2 Dir, La Capra Associates 2012 EBA Audit Report –**

46 **Public Executive Summary** is a summary of our findings and recommendations. This
47 Exhibit does not contain any Confidential or Highly Confidential information. **Highly**
48 **Confidential Exhibit DPU 2.3 Dir, La Capra Associates 2012 EBA Audit Report** is
49 our full and complete report. This Exhibit contains Confidential and Highly Confidential
50 material. **Exhibit DPU 2.4 Dir, Recommended EBA Deferral Adjustments**,
51 summarizes my recommendations for disallowances and estimates the impact on the
52 Company's requested EBA deferral amount. **Confidential Exhibit DPU 2.5, NPC**
53 **Variance Analysis**, summarizes my analysis of the differences between base and actual
54 net power costs ("NPC") driving the EBA deferral request. This Exhibit contains
55 Confidential material. **Confidential Exhibit DPU 2.6, Root Cause Analysis Report**,
56 reproduces a report provided in response to a data request on a particular outage. This
57 Exhibit has been designated Confidential. Finally, **Confidential Exhibit DPU 2.7,**
58 **Trade Authorization Email**, is the reproduction of a trade authorization email provided
59 in response to a data request. This Exhibit contains Confidential material.

60

61 **II. La Capra Associates' Assignments**

62 **Q: What was the scope of La Capra Associates' assignment in this proceeding?**

63 A: Our first task was to review the variances between EBA actual and forecasted costs to
64 determine that any differences that are reflected in the requested EBA charge are
65 reasonable. We compared actual output and variable costs for each generating unit
66 versus the forecasted amounts. We also examined purchases and sales from a similar
67 perspective.

68 The second task was to review and assess actual plant outages to ensure that these
69 outages and their cost impact on the EBA charge is appropriate. We examined the
70 information provided as part of the filing, and conducted additional discovery.
71 The next assignment was to evaluate a sample of trading transactions for accuracy,
72 completeness, and prudence. From a workload perspective, this task constituted the
73 largest component of our audit. The Company has settled tens of thousands transactions
74 during 2012, consisting of power and natural gas financial and physical deals. We
75 conducted extensive discovery on our sample of transactions. We also met with
76 Company personnel in person and via conference calls to help ensure that our review of
77 this data was accurate and complete. We did visit the Company's trading headquarters in
78 Portland, OR to meet trading staff and witness how specific transactions were
79 consummated.

80 DPU staff requested that we evaluate a sample of coal contracts. After discussion, it was
81 agreed that we would review the coal contract with Arch Coal for the SUFCO mine. We
82 reviewed the contract language, conducted discovery, and analyzed cost data provided by
83 the Company and publicly available data.

84 Our final task was to evaluate reasonableness of Policies, Procedures, and Practices, and
85 the Company's adherence to these Policies, Procedures, and Practices. Our focus for this
86 task was to review these documents as they affected the trading transactions described
87 above.

88

89 **III. Findings and Recommendations**

90 **Q: Can you briefly summarize your findings and recommendations in this proceeding?**

91 A: Overall, we find the Company's current Policy and Front Office Procedures and Practices
92 (FOPP) to be reasonable. These documents reflect the input of external stakeholders
93 provided to the Company through a collaborative process. They contain the core
94 provisions necessary to help ensure that trading activities are carried out in a manner that
95 complies with codes of conduct and maintains the risk exposure to the Company at
96 acceptable levels. In our audit, we did identify certain transactions that we believe were
97 not in compliance with the then-effective Policies and FOPPs. These are described in
98 detail in this report. While relatively small in number compared to the total volume of
99 deals settled during 2012, there were significant impacts on EBA costs. We recommend
100 adjustments, as discussed below, to 2012 EBA costs because of these instances of non-
101 compliance. In implementing future hedging programs, such instances of non-
102 compliance should be minimized or eliminated.

103 Our review of power financial transactions yielded one small transaction that exceeded
104 the trader's limits under the Company's governance policies. We recommend a
105 disallowance of \$33,635 in total Company EBA costs resulting from this transaction,
106 resulting in a reduction in the recommended EBA deferral amount of \$10,012. Despite
107 this recommended disallowance, we note that it may have been more if not for some
108 improved documentation for some of the more recent trades. Such documentation is to
109 be expected for any significant hedging transactions. We recommend that the Company
110 improve the documentation and explanation for its transactions.

111 In our review of gas swap transaction, we identified certain deals that were not properly
112 authorized under the Risk Management Policies in effect at the time these deals were
113 made. Based upon this analysis, we recommend that 2012 actual EBA costs be reduced

114 by Utah's share of trading losses associated with non-standard transactions that extended
115 beyond the time frame allowed by the contemporaneous Risk Management Policy.

116 Though system-wide losses associated with transactions in violation of these policies
117 could range from \$9.3 million to \$84.0 million, depending on interpretation of the
118 policies, we recommend disallowance of \$25.5 million in system-wide natural gas swap
119 losses. Utah share of this \$25.5 million loss is approximately \$11.2 million, and the 70%
120 Company share of this amount is \$8.0 including interest. Thus, we recommend that the
121 2012 EBA deferral amount be reduced by \$8.0 million for these transactions.

122 Our review of gas and power physical transactions yielded no recommended adjustments
123 to EBA costs.

124 We reviewed the material provided by the Company to explain the variances between
125 actual and Base EBA costs. We find these explanations to be reasonable, and
126 recommend no adjustment to EBA costs because of these variances.

127 Regarding plant outages, we believe that one outage was avoidable, and recommend that
128 the replacement costs associated with this outage be removed from the EBA. Other
129 outages resulted in the Company receiving damage payments from contractors that have
130 not been included in the EBA. We recommend these damage payments be used to offset
131 replacement power costs incurred when these units were out of service. The total
132 reduction in total system costs for these outages is \$1,474,004, resulting in a reduction in
133 the recommended EBA deferral amount of \$449,930. We recommend no adjustments to
134 EBA costs due to other outages.

135 DPU Staff requested that La Capra review a sample of coal contracts. After discussion
136 with Staff, it was decided that the SUFCO coal contract would be reviewed. Based upon

137 our review, we find no basis upon which to adjust the requested 2012 EBA amount
138 requested due to the SUFCO coal contract.

139 In summary, we believe that system-wide EBA costs should be reduced by \$27.0 million.
140 Utah's approximate share of this reduction is \$11.8 million. Based upon the 70% / 30%
141 sharing formula and the monthly interest accrued through December 31, 2012, the
142 amount to be recovered by the Company should be reduced by \$8.5. The calculation of
143 EBA deferral amounts are shown in Confidential Exhibit DPU 2.4, and summarized in
144 Figure ES-1 below.

145 We find that \$8.9 million of the total \$17.4 million EBA recovery requested by the
146 Company to be prudent and in the public interest. We recommend that the Commission
147 approve this amount.

148

149

Figure ES-1¹

RECOMMENDED EBA DEFERRAL ADJUSTMENT SUMMARY			
Outage	Total Company NPC Reduction	Utah-Allocated NPC Reduction	EBA Deferral Adjustment
Outage A	\$ 227,000	\$ 94,521	\$ 69,723
Outage B	\$ 278,210	\$ 125,232	\$ 90,551
Outage C	\$ 163,946	\$ 69,196	\$ 48,801
Outage D	\$ 804,558	\$ 339,814	\$ 240,855
Sub-total - Outages	\$ 1,473,714	\$ 628,763	\$ 449,930
Power Financial Transactions	\$ 33,635	\$ 14,196	\$ 10,012
Natural Gas Financial Transactions	\$ 25,532,300	\$ 11,160,235	\$ 8,037,120
TOTAL	\$ 27,039,649	\$ 11,803,194	\$ 8,497,062

150
151

152 **IV. Conclusion**

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

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

¹ Confidential Hahn Workpaper 10.