

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	
Rocky Mountain Power to Increase)	Docket No. 13-035-32
The Deferred EBA Rate Through)	Direct EBA Energy
the Energy Balancing Account)	Testimony of
)	Daniel E. Gimble
)	For the Office of
)	Consumer Services

August 20, 2013

Non-Confidential Version

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, POSITION AND YOUR BUSINESS ADDRESS.

3 A. My name is Daniel E. Gimble. I am a special projects manager with the Office of
4 Consumer Services. My business address is 160 E. 300 S. Rm. 201, Salt Lake
5 City, Utah.

6

7 Q. PLEASE DISCUSS YOUR EDUCATION AND QUALIFICATIONS.

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

15

16 Q. HAVE YOU APPEARED AS A WITNESS BEFORE THIS COMMISSION IN
17 PRIOR ROCKY MOUNTAIN POWER AND OTHER UTILITY CASES?

18 A. Yes. Since 1991 I have testified numerous times in major cases involving Rocky
19 Mountain Power (the Company or RMP) and other utilities providing service in
20 Utah. These cases include general rate cases (GRC), merger and acquisition
21 dockets, power cost proceedings, avoided cost cases, energy balancing account
22 (EBA) proceedings, major plant addition cases and the sale of Qwest's Dex
23 (Yellow Pages) asset. Over the past three years, I have filed testimony on behalf
24 of the Office in three EBA dockets.¹ In those cases, my testimony addressed a
25 variety of EBA issues, including EBA mechanism design, implementation, cost
26 recovery, rate spread, and reporting requirements.

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¹Docket Nos. 09-035-15, 11-035-T10 and 12-035-67.

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

32 A. My testimony addresses the following:

- 33 • The Office's recommendations in this proceeding, including rate spread,
34 for the EBA period, January 1, 2012 – December 31, 2012;
- 35 • The Office's position on the disallowance recommended by the Division of
36 Public Utilities (Division) for certain gas swap transactions; and
- 37 • Issues that require further investigation.

38

39 II. SUMMARY OF THE COMPANY'S FILING

40 Q. WHAT IS THE TOTAL AMOUNT OF 2012 EBA COSTS REQUESTED FOR
41 RECOVERY BY THE COMPANY?

42 A. In its EBA Application, the Company requests recovery of 70% of its calculated
43 2012 EBA deferral of \$24.3 million, which is \$17.0 million plus approximately
44 \$0.4 million in accrued interest for a total of \$17.4 million. Consistent with the
45 stipulation in 11-035-200, the Company proposes to collect the \$17.4 million over
46 a two-year period. Thus, the Company proposes to revise EBA Tariff Schedule
47 94 by adding \$8.7 million to the \$23.9 million in EBA costs that are currently
48 collected in EBA rates, as a result of Commission orders in Dockets 10-035-124
49 and 12-035-67.

50

51 Q. HOW DOES THE COMPANY PROPOSE TO SPREAD EBA COSTS AMONG
52 THE RATE SCHEDULES AND SPECIAL CONTRACT CUSTOMERS?

53 A. The Company proposes to use the Net Power Cost (NPC) Allocator approved by
54 the Commission in RMP's 2012 GRC for rate spread purposes. As discussed
55 later in my testimony, the Company proposes a slight modification to this NPC
56 Allocator to address the spread of EBA costs to Rate Schedules 21 and 31 and
57 Special Contract Customer 3.

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62 II. RECOMMENDATIONS

63 Q. PLEASE PROVIDE THE OFFICE'S EBA RECOMMENDATIONS IN THIS
64 PROCEEDING?

65 A. At this time the Office recommends one adjustment totaling \$ [REDACTED] to the
66 Company's requested \$17.4 million EBA amount. Specifically, the Division
67 proposed that liquidated damage payments (revenue) received by the Company
68 related to generation unit outages should be used to offset replacement power
69 costs. The Office supports the Division's proposal on this issue. In addition, the
70 Division recommended a significant disallowance in this proceeding involving
71 hedging transactions. The Office reserves the right to take a position on this
72 issue in surrebuttal testimony, after reviewing the Company's rebuttal testimony.
73 The Office also discusses two issues that require further investigation. Lastly,
74 the Office supports the Company's EBA spread proposal, including the treatment
75 of Rate Schedules 21 and 31 and Special Contract Customer 3.

76
77 III. DIVISION EBA ADJUSTMENTS

78 **Unit Outages - Liquidated Damage Payments**

79 Q. PLEASE BRIEFLY EXPLAIN THIS ISSUE.

80 A. Regarding generation unit outages at [REDACTED]
81 [REDACTED], the Company received liquidated damage payments from contractors. The
82 Division proposes to apply a portion of these payments against the replacement
83 power costs that were incurred when these units were unavailable. According to
84 the Division witness Mr. Richard Hahn, these payments were not included in the
85 EBA (Hahn Direct, page 9, lines 129-130). The Division's proposed treatment
86 reduces the EBA deferral amount by \$ [REDACTED].²

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2 [REDACTED]

91 Q. WHAT IS THE OFFICE POSITION ON THIS ISSUE?

92 A. The Office supports the Division's proposal on this issue. Since only a portion of
93 the liquidated damage payments are used for EBA purposes, the residual
94 amount should be addressed in a future general rate case.

95

96 **Gas Swap Disallowance**

97 Q. PLEASE BRIEFLY EXPLAIN THIS ISSUE.

98 A. In direct testimony, Division witness Mr. Richard Hahn, recommends a
99 disallowance of \$8.0 million (Utah basis) to the EBA deferral that relates to non-
100 standard gas swap transactions. Specifically, Mr. Hahn contends these gas
101 swap transactions exceeded the time frame authorized under the
102 contemporaneous Risk Management Policy and therefore should be disallowed.

103

104 Q. WHAT IS THE OFFICE POSITION ON THE DIVISION'S PROPOSED
105 DISALLOWANCE RELATED TO GAS SWAP TRANSACTIONS?

106 A. The Office has separately discussed this issue with the Division and the
107 Company. Experts working for the Office have reviewed testimony and materials
108 provided in connection with the EBA filing and additional documents provided by
109 the Company, which will likely be presented as part of its rebuttal case. At this
110 point in time, the Office plans to review the Company's rebuttal presentation and
111 may take a position on the Division's proposed disallowance in surrebuttal
112 testimony.

113

114 IV. ADDITIONAL ISSUES

115 **A. OATT Charges for Wind Integration Services**

116 Q. PLEASE EXPLAIN THE ISSUE OF OPEN ACCESS TRANSMISSION TARIFF
117 (OATT) CHARGES FOR WIND INTEGRATION SERVICES

118 A. During the 2012 EBA test period, the Company provided wind integration
119 services to four wholesale customers: Campbell; Jolly Hills; Long Hollow; and
120 Horse Butte. The cost and revenue of providing these services to wholesale
121 wind customers are included in the 2012 EBA test period. However, the

122 Company only assesses a reservation (capacity) charge for providing wind
123 integration services to these wholesale customers. Since the Company does not
124 have a variable charge component in its OATT, the total rate fails to produce
125 sufficient revenue for these services. In effect, retail customers currently pay for
126 a portion of integration services the Company provides to wholesale customers.
127

128 Q. SHOULD PACIFICORP'S OATT INCLUDE CHARGES FOR THE VARIABLE
129 COSTS ATTENDANT TO WIND INTEGRATION SERVICES?

130 A. In order for PacifiCorp's OATT rate to be fully compensatory, it should recover
131 both the fixed and the variable costs of providing wind integration services. At
132 this time, however, the FERC only allows utilities to include a reservation charge
133 that covers the capacity component. The issue of whether the OATT should be
134 expanded to include a variable cost component for integration services is
135 apparently under discussion and the FERC may publish a future rulemaking on
136 the matter.
137

138 Q. WHAT DOES THE COMPANY'S CURRENT FERC-APPROVED OATT
139 CONTAIN?

140 A. PacifiCorp's OATT only includes charges for fixed costs of generating units that
141 provide Schedule 3 and 3A regulating margin service to wholesale transmission
142 customers.
143

144 Q. WHAT IS THE OFFICE'S RECOMMENDATION ON THIS ISSUE?

145 A. If a future FERC rulemaking or other policy mandate allows utilities to add a
146 variable cost component to the charge for wind integration services, PacifiCorp
147 should promptly petition the FERC to change its OATT accordingly.
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154 **B. Calculation of 2012 EBA Deferral – Dynamic Scalar and Allocation**

155 Q. PLEASE PROVIDE SOME BACKGROUND ON THIS ISSUE.

156 A. According to Company witness Mr. Brian Dickman's direct testimony (Table 2,
157 page 6), actual NPC exceeded base NPC for the 2012 calendar year by \$18
158 million on a total company basis. However, the various components that underlie
159 the calculation of the 2012 EBA deferral for Utah produce a deficiency of \$24.3
160 million.³ The Utah calculated EBA deferral of \$24.3 million exceeds the \$18
161 million total company amount by approximately \$6.3 million. Thus, the Office is
162 concerned that certain EBA design elements used in calculating the Utah 2012
163 EBA deferral may be having unintended consequences and producing
164 unreasonable results for Utah customers.

165 On pages 8 through 17 of his direct testimony, Mr. Dickman explains the
166 drivers of the NPC variance between base and actual NPC. As shown on lines 4
167 and 5 of his Direct Exhibit RMP (BSD-1), this case includes an EBA design
168 change in that a dynamic scalar is used to calculate the Utah EBA deferral
169 amount.⁴ The change to incorporate both a dynamic scalar and dynamic
170 allocation (discussed later in my testimony) was ordered by the Commission in
171 Docket 11-035-T10 and appear to be significant factors underlying the increase
172 in the amount of the Utah EBA deferral.

173

174 Q. IF A STATIC SCALAR IS USED TO CALCULATE THE BASE AND ACTUAL
175 NPC AS WAS DONE IN THE LAST UTAH EBA CASE, WHAT IS THE IMPACT
176 ON THE EBA DEFERRAL AMOUNT?

177 A. The scalar used in the last EBA case was 1.00014 and was based on the
178 stipulation in docket 10-035-124. As indicated in my Confidential Exhibit OCS
179 1.1, the EBA deferral amount would be lower by [REDACTED] if a static scalar

³The \$24.3 million number is prior to applying the 70-30 sharing, which reduces the Company's request to \$17.4 million (with interest). However, for comparison purposes, it is appropriate to compare the Utah figure of \$24.3 million to the total company figure of \$18 million.

⁴A scalar is required because not all NPC components are allocated on an energy basis (i.e., using the SE factor).

180 had been used in this EBA case. Therefore, the use of a dynamic scalar applied
181 to actual EBA costs results in a higher EBA deferral amount.

182

183 Q. PLEASE EXPLAIN THE OFFICE'S CONCERN WITH THE DYNAMIC
184 ALLOCATION DESIGN ELEMENT.

185 A. Actual Utah loads in the 2012 EBA period were 531 GWh less than the loads
186 used to set the EBA base. This means that the Company's actual sales volume
187 (i.e., revenue) was below the base EBA level. This variance in actual to base
188 loads substantially increased the EBA deferral by approximately \$11.7 million.
189 Compounding this load/revenue variance situation was the fact that Utah's actual
190 system generation (SG) and system energy (SE) factors increased in the 2012
191 EBA period relative to the GRC baselines for 2011 and 2012. This implies that
192 even with lower actual loads in the 2012 EBA period, Utah loads increased
193 relative to loads in other states. Therefore, despite the fact that actual Utah
194 loads were lower in 2012 than the base level, the use of dynamic allocation
195 significantly increases Utah's share of EBA costs in this case.

196 In this EBA proceeding, the composite 2011-2012 baseline is equivalent to
197 a Utah SE allocation factor of ██████%.⁵ In contrast, the actual allocation of
198 NPC to Utah for the 2012 EBA period is ██████% due to the use of the dynamic
199 SE allocator. There is about a ██████% increase in the actual SE factor
200 compared to the weighted 2011-2012 baseline SE factor. When applied to total
201 company NPC, an additional \$█████ million is allocated to Utah compared to
202 relying on a static SE allocation factor. Therefore, the use of the dynamic scalar
203 and dynamic allocation results in an increase to the Utah 2012 EBA deferral of
204 \$█████ million.

205

206 Q. WHAT IS THE OFFICE'S CONCERN REGARDING THE CHANGE TO THE
207 DYNAMIC SCALAR AND DYNAMIC ALLOCATION IN THIS CASE?

⁵The 42.73% reflects the ratio of the composite Utah allocated NPC to the composite total Company NPC for the blended 2011-2012 baseline.

208 A. The Office is concerned that the change to a dynamic scalar and dynamic
209 allocation appear to be one set of factors resulting in the extraordinarily high
210 \$24.3 million Utah EBA deferral amount, when compared to the \$18 million total
211 company difference between base and actual NPC for 2012. The EBA design
212 elements are currently in a test or pilot phase and the Commission must ensure
213 that customers are only required to pay cost-based EBA rates that can be found
214 to be just and reasonable. If problems or concerns with the EBA design are
215 identified, they must be addressed and solutions must be found to protect Utah
216 customers.

217

218 Q. ARE DYNAMIC ALLOCATION ELEMENTS USED THROUGHOUT ALL
219 ASPECTS OF THE EBA DESIGN?

220 A. No. For example, the “Class” NPC Allocator used for spreading EBA deferrals
221 among Utah rate schedules and contract customers is based on a static
222 allocation format. Specifically, the EBA percentages for each rate class are
223 derived from the NPC Allocator approved by the Commission in the most recent
224 GRC. There is no attempt to “dynamically” modify these class relationships
225 based on changes in relative class loads that occur in the EBA period.

226

227 Q. WHAT SHOULD THE COMMISSION CONCLUDE REGARDING THIS ISSUE?

228 A. The use of a dynamic scalar and dynamic SG and SE allocation factors in the
229 EBA Design may be overstating Utah’s 2012 EBA deferral when compared to the
230 total company 2012 NPC shortfall. A calculated EBA deferral of \$24.3 million for
231 Utah, which comprises only 42% of the system, does not appear to be a
232 reasonable number when the total company NPC differential (actual minus base)
233 is only \$18 million.⁶ While a dynamic scalar and a dynamic allocation method
234 appeared to be conceptually sound EBA design elements for calculating the EBA
235 deferral when approved by the Commission in the 11-035-T10 Docket, the real

⁶The Office also notes that the Company has filed for ECAM increases of \$18.1 million in Wyoming and \$15.9 million in Idaho for essentially the same 2012 calendar-year EBA period. Thus, the Company has requested recovery of approximately \$58.3 million in total EBA-type costs (for the 2012 EBA period) in Idaho, Utah and Wyoming. While the EBA/ECAM design and GRC baselines may differ among these three states, the reported total company NPC actual versus base difference for 2012 is only \$18 million.

236 world application of these dynamic design elements appears to be
237 inappropriately distorting the amount of the EBA deferral.

238

239 Q. WHAT IS THE OFFICE'S RECOMMENDATION?

240 A. The Commission should order an investigation into whether certain EBA design
241 elements, including the use of a dynamic scalar and dynamic allocation factors,
242 are resulting in an EBA deferral that overstates Utah's proper share of net power
243 costs. Ultimately, the Commission must ensure that the EBA calculation
244 methodology results in Utah customers paying a fair, cost-based share of net
245 power costs included in EBA deferrals.

246

247 V. EBA RATE SPREAD

248 Q. HAS THE COMMISSION PREVIOUSLY DECIDED WHAT ALLOCATION
249 METHOD SHOULD BE USED TO SPREAD EBA COSTS TO THE TARIFFED
250 RATE SCHEDULES AND APPLICABLE SPECIAL CONTRACT CUSTOMERS
251 IN THE CURRENT 2013 EBA CASE AND FUTURE EBA PROCEEDINGS?

252 A. In Docket 11-035-T10, the Commission ordered use of the Composite NPC
253 Allocator, beginning with EBA costs authorized for recovery in the Company's
254 2013 EBA Case and continuing thereafter.⁷ However, the EBA amount of \$23.9
255 currently being collected from customers in EBA rates has been allocated to the
256 rate schedules according to the stipulated rate spread in Docket 10-035-124 and
257 will continue to be spread that way until those amounts expire.⁸

258

259 Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY AND EXHIBITS OF
260 COMPANY WITNESS JOELLE R. STEWARD, WHO ADDRESSES THE
261 SPREAD AND COLLECTION OF THE COMPANY'S REQUESTED \$8.7
262 MILLION EBA AMOUNT IN THIS PROCEEDING?

263 A. Yes, I have reviewed her direct testimony and exhibits.

⁷Docket 11-035-T10; Commission's May 1, 2012 Order, pages 11-12.

⁸The \$23.9 million in current EBA rates reflects: 1) the \$60 million from Docket10-035-124, which is being collected from customers in \$20 million increments over three years; and 2) the \$7.8 million from Docket 12-035-67, which is being collected from customers in \$3.9 million increments over two years.

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265 Q. DOES THE EBA RATE SPREAD METHOD PROPOSED BY THE COMPANY
266 ACCURATELY REFLECT THE COMMISSION'S DECISION IN DOCKET 10-
267 035-T10?

268 A. Yes. The Company uses what it calls the "NPC Allocator" for spreading its
269 requested \$8.7 million EBA amount. The NPC Allocator is consistent with the
270 way NPC costs were allocated to the rate schedules and applicable special
271 contract customers in the Company's last GRC, Docket 11-035-200. In the last
272 GRC, the Commission approved a comprehensive revenue requirement
273 stipulation that included the NPC Allocator.

274

275 Q. PLEASE EXPLAIN THE SLIGHT MODIFICATION TO THE NPC ALLOCATOR
276 PROPOSED BY THE COMPANY TO ADDRESS THE SPREAD OF EBA
277 COSTS TO CERTAIN RATE SCHEDULES AND ONE CONTRACT
278 CUSTOMER.

279 A. The Company did not include Rate Schedules 21 and 31 and Contract Customer
280 No. 3 in its COS Study for the 2012 GRC. Consequently, they were excluded
281 from the NPC Allocator. For EBA spread purposes, the Company proposes
282 allocating a share of EBA accruals to Rate Schedule 21 and 31 customers and
283 Contract Customer 3 based on the EBA spread percentage for Schedule 9.

284

285 Q. DO YOU AGREE WITH THE COMPANY'S SPREAD PROPOSAL FOR THESE
286 RATE SCHEDULES AND CONTRACT CUSTOMER?

287 A. Yes. As discussed in Ms. Stewart's direct testimony, customers taking service
288 under Schedules 21 and 31 are more similar to Schedule 9 customers compared
289 to other rate schedules. In addition, Contract Customer 3's terms require that it
290 participate in the EBA and pay the same rate as Schedule 9.

291

292 Q. REGARDING SPECIAL CONTRACT CUSTOMERS, SHOULD THE
293 COMMISSION CONTINUE TO ENSURE THAT ALL NEW OR AMENDED

294 SPECIAL CONTRACTS INCLUDE TERMS THAT REQUIRE EACH CONTRACT
295 TO BE ALLOCATED AN APPROPRIATE SHARE OF EBA DEFERRALS?

296 A. As a general policy, any new or amended special contracts should include
297 provisions that require each special contract customer to bear a proper, cost-
298 based share of EBA deferrals.

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300 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

301 A. Yes it does.

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