

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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)	DOCKET NO. 09-035-15
In the Matter of the Application)	Exhibit No. DPU 5.0 DIR
of Rocky Mountain Power for)	
Approval of its Proposed Energy)	Direct Testimony of
Cost Adjustment Mechanism)	Charles E. Peterson
)	
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**THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH**

**Direct Testimony of
Charles E. Peterson**

September 21, 2016

**Confidential exhibit included with this testimony is provided subject to Utah PSC
Rule 746-100-16.**

1 **Direct Testimony of Charles E. Peterson**

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

4 A. My name is Charles E. Peterson. My business address is 160 East 300 South, Salt Lake City,
5 Utah 84114. I am a Technical Consultant in the Utah Division of Public Utilities (Division,
6 or DPU).

7
8 **Q. On whose behalf are you testifying?**

9 A. The Division.

10
11 **Q. Would you summarize your background for the record?**

12 A. I am currently a Technical Consultant for the Division. I have been employed by the Division
13 for 11 years, during which time I have filed testimony and memoranda with the Public
14 Service Commission of Utah (Commission) involving a variety of economic, financial, and
15 policy topics. I have an M.S. in Economics and Master of Statistics degree, both from the
16 University of Utah. My resume is attached as DPU Exhibit 5.4 DIR.

17
18 **Q. Have you previously testified in this docket?**

19 A. Yes. I filed direct, rebuttal, and surrebuttal testimony under DPU Exhibits 1, 3, and 4 in the
20 various preceding phases of this docket in 2009 and 2010. I also testified at the hearings held
21 by the Commission regarding the topics covered by previous testimony.

24 **Q. What is the purpose of your testimony?**

25 A. I review and comment on the recommendations made in the Division’s “Final Evaluation
26 Report of PacifiCorp’s EBA Pilot Program” (Final Report) that was filed with the
27 Commission on May 20, 2016. I then reiterate the recommendations the Division believes are
28 relevant for the Commission to take up at this time. For convenience, I have attached the
29 Final Report as confidential exhibit DPU 5.1 DIR.

30

31 **Q. Were you the principal author of the Final Report?**

32 A. While I sought and received input from others, I was the principal author of the report.

33

34 **Q. What were the recommendations made by the Division in the Final Report?**

35 A. The Division made the following recommendations:¹

- 36 • As the EBA pilot program nears its end in 2019, a full evidentiary
37 docket should be established by the Commission to consider changes
38 to, or elimination of, the EBA.
- 39 • The mismatch issue should be resolved. The Division outlines a couple
40 of possible remedies below. With a third possibility to simply not
41 worry about it.
- 42 • The time period for the Division’s audits should be extended to one
43 year and interim rates should be established until the Division can
44 complete its audit.
- 45 • Wheeling revenues are an inappropriate part of the EBA and should be
46 eliminated.

¹ See Final Report, pages 7-8.

- 47 • The carrying charge in the EBA should be reset to follow the process
48 the Commission ordered in Docket No. 15-035-69, at a minimum.
49 However, since the 100 percent sharing band may give the Company
50 an incentive to under-forecast net power costs for general rate cases
51 when it can earn an out-sized carrying charge from the EBA, the
52 Division believes it would be appropriate to reduce the carrying charge
53 to a short-term rate, or eliminate it altogether.
- 54 • The Commission should set a schedule for a process in the appropriate
55 dockets, or in a new docket, in order for the Commission to consider
56 these recommendations and allow interested parties to weigh in on the
57 Division’s proposals, or recommend their own changes to the EBA.

58 **Q. The Commission has already followed up on the last recommendation, correct?**

59 A. That is correct. A scheduling conference was held on June 15, 2016 in this docket. The
60 Commission issued a Scheduling Order dated June 22, 2016 specifying, among other things,
61 that direct testimony would be filed on September 21, 2016, “by all parties intending to
62 propose changes to the EBA.”

63

64 **Q. The first recommendation is premature, is it not?**

65 A. Yes. The Division would hope, though, that the Commission would establish the
66 recommended docket and set a schedule in late 2018 or early 2019.

67

68 **Q. What about the remaining recommendations?**

69 A. The Division asks the Commission to amend the EBA program based upon the remaining
70 recommendations. Specifically the Division recommends that

71 1. The mismatch issue should be resolved.

- 72 2. The time period for the Division's audits should be extended and interim rates
73 should be established until the Division completes its audit and final rates are
74 established by the Commission.
- 75 3. Wheeling revenues are an inappropriate part of the EBA and should be
76 eliminated.
- 77 4. The carrying charge in the EBA should be reset to follow the process the
78 Commission ordered in Docket No. 15-035-69, at a minimum. Alternatively,
79 the carrying charge could be set at a short-term interest rate, or eliminated.

80 Since the sharing bands have been legislatively eliminated, at least through 2019, item 3 is
81 more of a philosophical issue for the Division than a practical one. In any case, wheeling
82 revenues are not a net power cost, but rather rents paid to PacifiCorp by third parties for the
83 use of PacifiCorp's transmission system.

84

85 As for the other three items, there is a detailed discussion of each of them in the Final Report.
86 However, I will briefly outline the Division's view of each issue with a citation to the Final
87 Report.

88

89 **Q. Is the Division asking the Commission for other issues to be decided in this docket**
90 **beyond those recommendations made in the Final Report?**

91 A. Yes. Based upon the Division's experience in the EBA, the Division is asking for the
92 Commission to set a policy regarding plant forced outages that are caused by the Company's
93 agents, whether they are contractors or outside plant operators. Additionally, in the most
94 recent EBA filing, the Company included prior period adjustments for which it sought
95 recovery. The Division viewed these prior period adjustments as problematic for a number of
96 reasons. Division witness David Thomson is providing testimony regarding these issues and

97 requests that the Commission support the Division’s recommendations regarding these
98 issues.

99

100 **Q. Please briefly explain what the mismatch issue is.**

101 A. What the Division refers to as the mismatch issue relates to the EBA filing periods extending
102 beyond the test year set in the most recent rate case. In a rate case, net power costs (NPC) are
103 set as the baseline for subsequent use in an EBA. Heretofore, this NPC baseline has not been
104 set past the test year of the general rate case. When an EBA period extends beyond the test
105 year, the practice has been to match the relevant baseline month with the month in the EBA
106 so that, at least, seasonal effects are accounted for. Obviously, as more time passes, the NPC
107 baseline used for subsequent EBAs will become increasingly out of date without a new
108 general rate case, or some other mechanism, to reset the NPC baseline. This issue is
109 discussed in detail in the Final Report in items “g” and “t” on pages 24 to 25 and 35 to 40,
110 respectively.

111

112 **Q. Please briefly describe the options to resolve the mismatch issue that are discussed in**
113 **the Final Report.**

114 A. Besides annual rate cases, the Division suggested two possible, though related, solutions. The
115 first solution is to forecast NPC in a general rate case for several years and have the forecast
116 implemented each year as multi-step rate adjustments stemming from the general rate case.
117 This multi-year NPC forecast would be used as the baseline in the EBA until the next general
118 rate case supersedes it.

119

120 The second possibility would be to have the Company file concurrently with its EBA filing a
121 new forecast NPC baseline that would go into effect at the beginning of the subsequent
122 calendar year; i.e. rates would be adjusted at the beginning of each year. For example, with
123 its 2016 EBA application dealing with its 2015 NPC, the Company would have filed a 2017
124 NPC forecast. Once approved by the Commission sometime in late 2016, the 2017 NPC
125 forecast would go into effect in rates at the beginning of 2017 and would be used as the base
126 NPC in the 2018 EBA filing. This proposal would complicate the annual EBA process by
127 requiring the Division and other interested parties to evaluate the new NPC forecast at the
128 same time it is evaluating the EBA. This is yet another reason the EBA process should be
129 changed to allow more review time. This second suggestion may have legal questions
130 associated with it.

131

132 There could be other solutions that the Company or other parties might propose that the
133 Division would be interested in considering. Of course, a third solution is to not worry about
134 this issue and continue with the status quo, knowing that the base NPC will become
135 increasingly out of date as time passes.

136

137 **Q. What is the Division's recommendation regarding the mismatch issue?**

138 A. At this time the Division wants to see what comments other parties make, if any, regarding
139 the Division's two (or three) solutions. Or, to consider alternatives that other parties might
140 propose. The Division expects to make a definite recommendation later in this docket.

141

142 **Q. In its Final Report the Division recommended that its audit program be allowed to**
143 **continue for up to twelve months after the Company's EBA filing. Is this still the**
144 **Division's recommendation? Please explain.**

145 A. The Division has always believed that the four months provided to do its audit is too
146 compressed to adequately do even the spot checking that the Division attempts to do.²
147 Additionally, the issue of prior period adjustments that came up in the Division's most recent
148 audit in Docket No. 16-035-01 highlights the need for additional time before EBA
149 adjustments are made permanent. As explained below, Division witness David Thomson will
150 be discussing this issue in more detail.

151
152 After further review the Division believes that continuing its annual EBA audit for twelve
153 months or longer is not in the public interest. This would result in overlapping annual EBA
154 dockets that might be continued even longer than twelve months. Consequently this would
155 result in a lack of finality and would extend the collection of interest on the deferred EBA
156 balances that would either burden the Company or ratepayers especially if the carrying
157 charge remains relatively high. Having overlapping EBA audits would also strain the
158 Division's resources further. However, the Division does seek some relief from the current
159 four month audit period as follows: (1) have the Company continue to make its EBA filing
160 on March 15, and (2) after a preliminary review and comment by the Division regarding the
161 adequacy of the filing and a preliminary conclusion by the Division that the EBA filing
162 appears to not make departures from previous years' filings, interim rates could go into effect
163 on May 1 with an amortization period through April 30 of the following year. If the Division

² This issue is discussed on page 5 of the Final Report and references the Commission's August 30, 2012 decision.

164 believes a filing is a departure from past filings, the Division will describe the departure and
165 petition the Commission to suspend the date interim rates go into effect. (3) The Division
166 would file its audit report on November 15. The Commission would schedule comments and
167 reply comments and hold a hearing on or about February 1 of the following year. Any true-
168 ups to the interim rates would go into effect on March 1 and be amortized through April 30.
169 While true-ups to date have been modest, this short period may be burdensome in the event
170 that a large true-up amount is authorized. In this case the Commission might consider
171 extending the true-up period.

172

173 If the Commission believes that additional statutory authority is necessary to implement
174 interim rates in the EBA, the Division suggests that the Commission pursue legislation that
175 would clearly enable EBA adjustments to be initially set as interim rates.

176

177 **Q. Please discuss the wholesale wheeling issue.**

178 A. Philosophically, it has always been the Division's contention that wheeling revenues not be
179 part of the EBA because, simply put, they are not NPC. Wheeling revenues result when a
180 third party contracts to use part of the PacifiCorp transmission system to transmit, or wheel,
181 its own electric energy. The payments made by third parties for the use of the transmission
182 system are simply rental payments for the use of PacifiCorp's property. Since in Utah
183 ratemaking it is assumed that retail ratepayers have paid for the entire transmission system
184 and the Company's return on capital is determined based upon that assumption, the
185 additional revenues from this wholesale wheeling are credited to ratepayers, traditionally as a

186 reduction to net power costs in rate cases. However, these wheeling revenues are not
187 otherwise associated with the costs the Company incurs to deliver power to retail customers.

188
189 The Division believes that some parties supported including wheeling revenues in the EBA,
190 at least in part, because they wanted to capture a portion of a hoped-for incremental increase
191 in wheeling revenues for ratepayers between rate cases. While sharing bands were in place in
192 the EBA, ratepayers would only gain, or lose, from a portion of the changes in the wheeling
193 revenues. With the elimination of the sharing bands, ratepayers take on all of the risk of
194 changes in wheeling revenues.

195
196 DPU Exhibit 5.2 sets forth forecast and actual in-rates wheeling revenues for the EBA
197 periods since the EBA's inception beginning October 2011 to 2015. As can be seen for the
198 "stub" year 2011 and 2015, the Company reaped a small benefit when wheeling revenues
199 were less than the forecast in-rates wheeling revenues. For the years 2012 through 2014
200 customers benefitted from actual wheeling revenues that were higher than the in-rates
201 forecast wheeling revenues. DPU Exhibit 5.3 shows the estimated incremental wheeling
202 revenue contribution to the Company's after-tax return--positive and negative--on Utah
203 allocated transmission property plant and equipment. The contributions are small and if they
204 were applied to the total Company Utah rate base, the incremental contributions would be
205 much smaller.

206
207 From this the Division concludes that to date ratepayers have, on average, received a net
208 benefit from the inclusion of wheeling revenues in the EBA. This net benefit

209 notwithstanding, the Division believes that it remains inappropriate to include wheeling
210 revenues in the EBA for reasons explained above.

211

212 If parties wish to have recovery of wheeling revenues between rate cases, they can apply to
213 the Commission to have a wheeling revenue tracker set up. While the Division generally
214 opposes the proliferation of tracking mechanisms and believes that the Company should be
215 responsible for managing itself between rate cases, the Division likely would support a
216 wheeling revenue tracker.

217

218 **Q. Your fourth item pertains to the carrying charge in the EBA. What comments do you**
219 **have respecting this issue?**

220 A. The Division raised this issue before in Docket No. 15-035-69. While accepting the
221 Division's other recommendations in that docket, the Commission declined to change the
222 carrying charge in the EBA at that time. The Division asks the Commission to reconsider
223 changing the carrying charge in the EBA to reflect changes in market interest rates as set
224 forth in Docket No. 15-035-69, i.e. to annually modify the carrying charge based upon the
225 preceding year's average corporate bond rates. The Division would not oppose changing the
226 carrying charge to a short-term rate since EBA rate adjustments are designed to amortize the
227 EBA balances over a twelve month period.

228

229 **Q. What are your recommendations?**

230 A. The Division recommends that the Commission change the length of time the Division has to
231 perform its review of the Company's annual EBA filing and to consider setting interim rates

232 in the meantime; to eliminate wheeling revenues from the EBA; and to tie the carrying
233 charge in the EBA to current market rates. The Division recommends that in this Docket the
234 mismatch issue be resolved. The Division also asks the Commission adopt the Division's
235 recommendations regarding the issues discussed in David Thomson's testimony.

236

237 **Q. Does that complete your testimony?**

238 A. Yes.

FINAL EVALUATION REPORT OF PACIFICORP'S EBA
PILOT PROGRAM

Confidential exhibit is provided subject to Utah PSC Rule 746-100-16.