

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	Docket No. 09-035-15
Rocky Mountain Power for Approval)	Surrebuttal Testimony of
of its Proposed Energy Cost)	Danny A.C. Martinez
Balancing Account Mechanism)	For the Office of
)	Consumer Services

December 15, 2016

1 **I. INTRODUCTION**

2
3 **Q. WHAT IS YOUR NAME, YOUR OCCUPATION AND YOUR BUSINESS**
4 **ADDRESS?**

5 A. My name is Danny A.C. Martinez. I am a utility analyst for the Office of
6 Consumer Services (Office). My business address is 160 E. 300 S., Salt Lake
7 City, Utah 84111.

8

9 **Q. DID YOU FILE DIRECT AND REBUTTAL TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. Yes.

12

13 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS**
14 **CASE?**

15 A. The purpose of my surrebuttal testimony is to address points made by witnesses
16 for the Division of Public Utilities (“Division”) and Rocky Mountain Power
17 (“Company”). My surrebuttal testimony will respond to the following issues:

- 18 • the Division’s and Company’s proposed treatment of wheeling
19 revenues,
20 • the deferral period mismatch issue, and
21 • the EBA carrying charge.

22

23 The Office’s other expert witness, Mr. Phil Hayet of J. Kennedy and Associates,
24 Inc. will address the following in his surrebuttal testimony:

- 25 • the extension of time to review the Company’s EBA filing, and
26 • imprudent forced outages

27

28 **II. WHEELING REVENUES**

29 **Q. PLEASE SUMMARIZE MR. WILDING’S RECOMMENDATIONS RELATED TO**
30 **WHEELING REVENUES AND THE USE OF A SEPARATE TRACKER.**

31 A. At lines, 124 – 132 of Mr. Wilding’s rebuttal testimony, Mr. Wilding states that
32 while the Company prefers keeping wheeling revenue in the EBA, the Company
33 would support the Division’s proposal for tracking wheeling revenues in a
34 separate tracker if removed from the EBA. Furthermore, Mr. Wilding states the
35 Company supports use of the same tracker for tracking other variable cost
36 elements such as PTC’s, chemical costs and start up fuel.

37

38 **Q. DO YOU AGREE THAT WITH MR. WILDING’S RECOMMENDATION**
39 **RELATED TO TREATMENT OF WHEELING REVENUES IF THEY ARE**
40 **REMOVED FROM THE EBA?**

41 A. No. The Office opposes the Division’s suggestion of segregating wheeling
42 revenues into a separate tracker and Mr. Wilding’s suggestion of using that same
43 tracker to track other variable costs.

44

45 **Q. WHY DOES THE OFFICE OPPOSE THE USE OF A SEPARATE TRACKER**
46 **FOR WHEELING REVENUES?**

47 A. The Office’s position since the inception of the EBA has been that wheeling
48 revenues should be included in the EBA deferral calculation. Including wheeling
49 revenues in the EBA calculation mitigates the EBA cost impacts to ratepayers as
50 I showed in my direct testimony. As the Division concluded in its EBA Audit
51 Report, the Division perceives no significant benefits to ratepayers as a result of
52 the EBA.¹ Removing wheeling revenues from the EBA deferral calculation
53 removes the only mitigation to EBA costs for ratepayers from a mechanism with
54 no significant benefits to ratepayers. Mr. Wilding’s and Mr. Peterson’s
55 suggestion for creating another tracker to track wheeling revenues and other
56 variable costs merely adds yet another net power cost tracker to the EBA, a net
57 power cost tracker, that exists already. Adding an additional net power cost
58 recovery tracker is redundant and unnecessary. In summary, the Office
59 recommends to the Commission that wheeling revenues should remain in the
60 EBA deferral calculation and not segregated into a separate tracker.

¹ See DPU’s Final Evaluation of the PacifiCorp EBA, May 20, 2016, page 50.

61 **III. EBA DEFERRAL PERIOD MISMATCH ISSUE**

62 **Q. PLEASE DESCRIBE THE PROPOSALS PUT FORTH BY PARTIES TO**
63 **ADDRESS THE MISMATCH ISSUE.**

64 A. The Division proposes that the Company be ordered to file a general rate case at
65 least every three years and, as part of that general rate case, provide a NPC
66 forecast for evaluation and potential adoption covering at least three full calendar
67 years past the estimated rate effective date of the general rate case. NPC
68 forecast rates would go into effect on the rate effective date of the general rate
69 case and subsequent anniversary dates. Forecasts from subsequent general rate
70 cases (which could occur more frequently than every three years) would, of
71 course, supersede the previous NPC forecast.²

72
73 The Company supports setting Base NPC annually in the EBA filing using a
74 forecast that is aligned with the period during which rates will be in effect, i.e. the
75 next calendar year. For instance, in the 2016 EBA filing, the Company would
76 have included a forecast for calendar year 2017 Base NPC to be included in
77 rates, against which the 2017 deferral would be calculated.³

78
79 The UAE proposed that the mismatch issue is not an issue and thus does not
80 need any changes at this time.

81
82 **Q. WHAT IS THE OFFICE'S RECOMMENDATION GIVEN THESE PROPOSALS?**

83 A. The Office supports the Division's proposal of requiring the Company to file a
84 general rate case every three years with an updated NPC forecast. Further, if
85 the Commission approves the Company's proposal, the Office recommends that
86 the Commission include a requirement that the Company to file general rate
87 cases at a minimum of every three years starting July 2017. The requirement for
88 regular rate cases has been used with Questar Gas Company as a condition of

² See Prefiled Rebuttal Testimony of Charles Peterson in Docket 09-035-15 dated November 16, 2016, lines 143 – 150.

³See Prefiled Rebuttal Testimony of Michael Wilding in Docket 09-035-15 dated September 21, 2016, lines 64 - 68

89 its Infrastructure Replacement Tracker.⁴ It is reasonable to require the Company
90 to file a general rate case every three years to evaluate the EBA in similar
91 fashion as Questar does for its Infrastructure Replacement Tracker.

92

93 **IV. EBA CARRYING CHARGE**

94 **Q. DO YOU AGREE WITH MR WILDING'S ASSESSMENT THAT THE OFFICE**
95 **AGREED THAT THE EBA CARRYING CHARGE SHOULD REMAIN**
96 **UNCHANGED UNTIL THE NEXT GRC?**

97 A. Yes, in the stipulation executed in Docket 14-035-147 the Office, along with other
98 signing parties, agreed to keep the EBA carrying charge at 6% until the next
99 general rate case.

100

101 **Q. DOES MR. WILDING'S ASSERTION CALL INTO QUESTION WHAT YOU**
102 **PROPOSED IN YOUR DIRECT TESTIMONY?**

103 A. No. I indicated in direct testimony that subsequent to docket to Docket 14-035-
104 147, the Commission opened Docket 15-035-69 to review carrying charges for
105 various Company accounts including the EBA. I quoted the Commission's order
106 from Docket 15-035-69 that the EBA carrying charge should be evaluated during
107 the EBA evaluation in 2016. Thus, this current Docket is the appropriate venue
108 for evaluating the EBA carrying charge as ordered by the Commission in Docket
109 15-035-69.

110

111 My direct testimony provided an evaluation of the EBA carrying charge currently
112 in place with a recommendation for it to be changed. The Office's carrying
113 charge recommendation, if accepted by the Commission, would presumably be
114 implemented in the next general rate case, which is entirely consistent with the
115 stipulation cited by Mr. Wilding.

116

⁴ See Commission order in Docket 09-057-16 dated June 10, 2010, page 22, paragraph 19.

117 **Q. PLEASE DESCRIBE THE DIVISION'S RESPONSE TO THE OFFICE'S**
118 **RECOMMENDATION FOR USING SHORT TERM BOND RATES FOR THE**
119 **CARRYING CHARGE.**

120 A. At lines 44 - 50 of his rebuttal testimony, Mr. Peterson states,

121

122 As I mentioned in my direct testimony, the Division primarily
123 supports treating the EBA carrying charge the same as other
124 carrying charges are treated, i.e. based upon long-term corporate
125 bonds. But I also previously testified that a short-term rate could be
126 justified and that the Division was not opposed to the use of some
127 short-term rate.⁵ The Office should specify the rate it is proposing
128 (e.g. the average 1-year U.S. T-Bill rate for the preceding calendar
129 year, a two-year LIBOR rate, etc.) and the source where the rate
130 can be reliably determined.

131

132 **Q. DO YOU HAVE A RECOMMENDATION FOR THE SHORT TERM BOND RATE**
133 **SHOULD BE USED IN DEVELOPING THE EBA CARRYING CHARGE?**

134 A. Yes. The Office recommends that the EBA carrying charge should be set at the
135 12-month LIBOR interest rate in effect at the end of the EBA deferral period.
136 This rate would reflect the annual nature of the EBA deferral period. The interest
137 rate information is updated with a month lag, providing sufficient time for the
138 Company to include in its March EBA filing. This data is available in readily
139 available online sources, such as the Wall Street Journal.

140

141 **Q. DO YOU AGREE WITH MR. WILDING'S ASSESSMENT THAT SHORT-TERM**
142 **RATES SHOULD NOT BE USED?**

143 A. No. Mr. Wilding supports his position by stating the definition of short term as
144 less than one year.⁶ I would argue that the short-term represents an asset or

⁵ Direct Testimony of Charles E. Peterson, September 21, 2016, lines 222-227.

⁶ Rebuttal Testimony of Michael Wilding in Docket 09-035-15 dated September 21, 2016, lines 159 – 160.

145 liability lasting for a year or less.⁷ The EBA deferral period is defined as the
146 calendar year prior to the EBA filing date. Hence, short term rates would be
147 applicable to the EBA's deferral period and an appropriate carrying charge. The
148 carrying charge should reflect the rate earned at the time of the EBA deferral
149 occurred. Further, utilities typically do not use long term financing to finance
150 short term expenses such as fuel costs. Typically short term interest rates are
151 less than long term interest rates. Using long term financing for short term
152 expenses creates unnecessary additional finance costs.

153

154 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

155 A. Yes.

⁷ See Farlex Financial Dictionary. © 2012 Farlex, Inc. , <http://financial-dictionary.thefreedictionary.com/short-term>