

BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

_____)
IN THE MATTER OF THE)
APPLICATION OF ROCKY)
MOUNTAIN POWER FOR APPROVAL) DOCKET NO. 09-035-15
OF ITS PROPOSED ENERGY COST)
ADJUSTMENT MECHANISM)
_____)

Rebuttal Testimony and Exhibits of

Maurice Brubaker

On behalf of

Utah Industrial Energy Consumers

Project 9124
September 15, 2010



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

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Rebuttal Testimony of Maurice Brubaker

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q ARE YOU THE SAME MAURICE BRUBAKER WHO PROVIDED DIRECT**
5 **TESTIMONY ON AUGUST 4, 2010?**

6 A Yes, I am.

7 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

8 A I am appearing on behalf of the Utah Industrial Energy Consumers (“UIEC”).
9 Members of UIEC purchase substantial quantities of electricity from Rocky Mountain
10 Power Company (“RMP”) in Utah, and are vitally interested in the outcome of this
11 proceeding.

1 **Q WHAT IS CONTAINED IN YOUR REBUTTAL TESTIMONY?**

2 A In this testimony, I comment upon certain proposals made by other parties to the
3 proceeding with respect to the proposed Energy Cost Adjustment Mechanism
4 (“ECAM”). In addition, as indicated in my direct testimony, I will refer to the
5 responses to certain RMP data requests that were pending at the time of filing of my
6 direct testimony, and which are pertinent to the ECAM issues that I address.

7 Among other things, I will address resource procurement issues such as
8 hedging of electricity and natural gas and the appropriate level of Front Office
9 Transactions (“FOT”); the appropriate tracking of deviations in net power costs
10 (“NPC”) from amounts established in rate cases to actual, and their appropriate
11 pattern of recovery; the appropriate treatment of renewable energy credits (“REC”);
12 and a number of other related issues.

13 A number of proposals were made by various parties in their previous
14 testimony. The fact that I do not comment upon certain of them should not be
15 interpreted either as support for, or opposition to, those proposals.

16 **Q PLEASE SUMMARIZE YOUR PRINCIPAL FINDINGS AND RECOMMENDATIONS.**

17 A My findings and recommendations may be summarized as follows:

- 18 1. An ECAM should not be adopted until after the Commission has reviewed and
19 issued guidelines with respect to hedging for both electricity and natural gas.
- 20 2. An ECAM should not be adopted until after the Commission has reviewed and
21 issued guidelines with respect to the use of FOTs.
- 22 3. The Division’s proposal to adopt an ECAM prior to the establishment of clear
23 guidelines for hedging of electricity and natural gas and for FOTs is not
24 appropriate and should not be accepted.
- 25 4. RMP’s tariff sheet which it proposes for the ECAM mechanism is completely
26 devoid of any information necessary to understand how it would be
27 implemented and applied.

- 1 5. Although RMP represents that its proposed ECAM is seasonal, it actually is not.
2 The reconciliation mechanism for ECAM that RMP has proposed is blind to
3 deviations in costs on a seasonal basis and also completely ignores the varying
4 responsibility of customer classes for consumption in individual months.
- 5 6. RMP's ECAM reconciliation proposal is not cost-reflective, and would not send
6 proper price signals to customers. If an ECAM is adopted, cost deviation should
7 be tracked by rate schedule and contract, and allocated on a monthly basis,
8 with deviations accumulated into the periods of summer, winter and spring/fall,
9 and reconciled in the subsequent corresponding calendar time period.
- 10 7. RMP has not satisfactorily explained how the adoption of an ECAM would not
11 change behavioral incentives to the detriment of customers.
- 12 8. RMP has not included any mechanisms in its proposed ECAM that are
13 designed to maintain or improve its productivity and efficiency.
- 14 9. If an ECAM is adopted, it should not be implemented until the conclusion of
15 RMP's next general rate case. This will permit a clear definition of what is
16 included in ECAM, and will ensure that there is no double-counting.
- 17 10. If an ECAM is adopted, there should be a requirement to file rate cases at least
18 every three years.
- 19 11. If an ECAM is adopted, it should be for a specified period of time, for example
20 three years, with a sunset provision and a requirement to re-justify its continued
21 existence in its then current or modified form.
- 22 12. True-up filings should not be made on December 15 if an ECAM is approved,
23 but rather should occur after the beginning of the calendar year. This avoids the
24 busy holiday season and also accommodates a seasonal reconciliation
25 approach. In addition, the ECAM audit should be conducted by an experienced,
26 independent, third party chosen by the Commission and funded by RMP's
27 stockholders.
- 28 13. RECs are created as a result of investment in renewable energy projects that
29 are supported by customer rates. Customers are entitled to the full benefit of
30 the REC values. It would be appropriate to establish a tracking mechanism for
31 RECs, regardless of whether an ECAM mechanism is adopted.
- 32 14. Changes in the level of revenues from the sale of transmission service should
33 be tracked and deferred outside of an ECAM mechanism in order to prevent the
34 benefits from being lost to customers.
- 35 15. The proposed per kWh tracking of changes in the level of NPC is inconsistent
36 with how many of the elements of NPC are allocated among customer classes.
37 In addition, consideration should be given to whether capacity charges or
38 revenues should be tracked at all through an ECAM.
- 39 16. The load growth adjustments proposed by the parties appear to have the
40 potential to compensate RMP for such things as economic downturns, weather

1 conditions when heating degree days and/or cooling degree days are less than
2 normal, and even for revenues lost as a result of DSM programs. None of these
3 factors should play into any ECAM adjustment factor.

4 **Resource Procurement Issues**

5 **Q HAVE YOU READ THE DIRECT TESTIMONY OF DIVISION WITNESS CHARLES**
6 **PETERSON, FILED AUGUST 4, 2010?**

7 A Yes. In this testimony, Mr. Peterson gives the Utah Division of Public Utilities'
8 ("Division") recommendations. The recommendations include moving forward with an
9 ECAM mechanism prior to establishing policies and guidelines for hedging of natural
10 gas and electricity, and prior to establishing clear objectives and targets for the level
11 of FOT.

12 **Q DO YOU AGREE WITH MR. PETERSON THAT IT WOULD BE APPROPRIATE TO**
13 **MOVE FORWARD TO IMPLEMENT AN ECAM PRIOR TO ESTABLISHING**
14 **POLICIES FOR HEDGING OF NATURAL GAS AND ELECTRICITY?**

15 A No, I do not. The issues surrounding hedging of natural gas and electricity have been
16 major ones in recent rate cases. In addition, the Commission has opened a separate
17 docket on the issue of hedging. The policy issues and the dollars at stake are
18 substantial. Indeed, as Mr. Peterson notes at pages 5 and 6 of his testimony, RMP
19 has been on the wrong side of the hedges to the tune of \$173 million over the last
20 four years. He further indicates that the Division has discomfort with the hedging
21 program because of this and other reasons. Nevertheless, he proposes to allow an
22 ECAM, which would include hedging costs, to proceed prior to having any clear
23 guidance with respect to these transactions.

1 **Q WHAT IS THE PROBLEM IF AN ECAM IS ESTABLISHED WITHOUT CLEAR**
2 **GUIDANCE ON HEDGING PRACTICES?**

3 A Without an ECAM, RMP is at risk for the actions which it takes. Costs incurred above
4 or below the prices set in the preceding rate case are the responsibility of RMP's
5 stockholders, not its customers. Thus, in the interim, the performance of hedging
6 policies does not directly affect customers. If an ECAM is established, then the
7 performance of hedging policies will affect customers because the ECAM will track
8 actual costs as compared to costs established in the preceding rate case. Although
9 there will be an audit of the costs, it is difficult to imagine that a comprehensive audit
10 of all of the hedging policies and all of the other transactions conducted by RMP
11 could be comprehensively evaluated in a short time period.

12 If guidelines for hedging are established prior to the approval of any ECAM
13 mechanism, then at least there are some parameters within which to judge the
14 propriety of RMP's actions, and a basis to disallow costs that are the result of
15 pursuing policies not consistent with these general guidelines.

16 **Q PLEASE ADDRESS THE ISSUE CONCERNING FOTs.**

17 A FOTs are short-term, usually one-year (but sometimes up to three years), purchases
18 from other entities in the wholesale market to satisfy RMP's resource shortfalls. The
19 reliance upon FOTs has been an issue recently, particularly for the Division and the
20 Office of Consumer Services ("Office"). The concern has been RMP's over-reliance
21 on FOTs and the consequent additional risk to which customers are exposed if
22 market prices escalate. The alternative to this reliance on FOTs would be owned
23 capacity or contracted capacity from a third party on a fixed-price, or at least a
24 defined price, basis.

1 **Q DESPITE ITS CONCERNS, DOES THE DIVISION PROPOSE TO HAVE THE**
2 **COMMISSION ESTABLISH SPECIFIC GUIDELINES FOR FOTs PRIOR TO THE**
3 **IMPLEMENTATION OF AN ECAM?**

4 A No. At pages 14 and 15 of his testimony, Mr. Peterson discusses this issue and
5 recites information from RMP's IRP filing concerning the anticipated level of FOTs.
6 He reports that RMP projects that they will decline from 7% of system peak in 2015 to
7 6.5% of system peak in 2019. He uses these RMP percentages to develop the target
8 ratios he incorporates in his recommendation concerning changes in sharing
9 percentages in the ECAM mechanism. Interestingly, as is revealed in Footnote 11 on
10 page 15 of Mr. Peterson's testimony, the decline from 7% to 6.5% is not the result of
11 a reduction in the megawatts of FOTs, but rather is the result of an increase in the
12 system peak over this period of time. In other words, the megawatts of FOTs don't
13 change but they become a slightly smaller percentage of system peak as system
14 peak grows. The reliance on FOTs actually would not decline.

15 **Q DO THESE PERCENTAGES NECESSARILY REPRESENT THE APPROPRIATE**
16 **TARGETS?**

17 A No. These percentages, and Mr. Peterson's 5.5% in 2020, are not the product of any
18 analysis which would suggest the appropriate level of FOTs.

19 **Q WHAT IS THE POTENTIAL CONSEQUENCE OF MOVING FORWARD WITH AN**
20 **ECAM PRIOR TO HAVING ESTABLISHED GOALS OR TARGETS FOR FOTs?**

21 A Without clear targets that have been developed on some analytical basis, RMP would
22 be able to increase its reliance on FOTs, even if it were not appropriate to do so, and
23 could pass these costs on to customers through the ECAM mechanism, subject only

1 to an abbreviated audit. In my view, this shifts risk to the customers, and should not
2 be permitted. Rather, prior to considering the establishment of any ECAM
3 mechanism, I believe it would be appropriate for FOT guidelines to be established.

4 **Q HOW DOES MR. PETERSON EXPLAIN PERMITTING AN ECAM TO GO**
5 **FORWARD WITHOUT ESTABLISHING GUIDELINES FOR HEDGING AND FOR**
6 **FOTs WHEN THE DIVISION HAS CONCERNS ABOUT BOTH OF THESE**
7 **ISSUES?**

8 A Mr. Peterson's approach is to adopt an ECAM structured with cost sharing, with the
9 percentage of costs to be absorbed by RMP to decrease after a hedging plan has
10 been approved and after RMP would meet certain FOT targets.

11 **Q DO YOU BELIEVE THIS IS SATISFACTORY?**

12 A No. First, the goals that Mr. Peterson refers to for FOTs are not goals that have been
13 analytically developed and agreed to by the parties or endorsed by the Commission.
14 Second, the goal pertaining to hedging, as I understand it, is nothing more than the
15 adoption of a hedging plan. In the meantime, I think the absence of guidance with
16 respect to both issues places undue risk on RMP's customers. It is my
17 recommendation that an ECAM mechanism not be adopted until after we have clear
18 policy guidance with respect both to hedging of natural gas and electricity, and the
19 level of FOT transactions.

1 **Q DO YOU BELIEVE THAT SHARING PERCENTAGES, STANDING ALONE, ARE**
2 **SUFFICIENT TO MITIGATE THE RISKS THAT ARE SHIFTED TO CUSTOMERS IN**
3 **THE PRESENCE OF AN ECAM?**

4 A No. While sharing percentages in an ECAM are preferable to an ECAM without
5 sharing percentages, there are limitations. For example, sharing percentages
6 operate both directions from the base NPC, and are generally blind to the reasons for
7 the departures. Unless audits detect imprudent behavior and result in disallowances,
8 customers have no other protection. At a minimum, if there is an ECAM, the sharing
9 percentages should be coupled with some kind of performance standards, where the
10 utility has to explicitly justify any performance that is sub-standard with respect to the
11 parameters specified in the performance standards, such as the output of coal units,
12 performance of wind resources and the output of coal mines as discussed in my
13 direct testimony.

14 **Q DO YOU AGREE WITH OTHER PARTIES IN THE PROCEEDING THAT**
15 **ADOPTION OF ROLLED-IN COSTING FOR UTAH IS A PREREQUISITE TO**
16 **ADOPTION OF ANY ECAM?**

17 A Yes, because of the undue risk that would be placed on Utah customers with hydro
18 variations under a system-wide ECAM but with the current costing procedure. The
19 jurisdictional allocation approach must first be moved to a rolled-in basis. It is my
20 understanding that this likely will be favorably resolved.

1 **Cost of Service and Price Signal Issues**

2 **Q WHERE DOES RMP DISCUSS ITS PROPOSED ECAM SCHEDULE 94?**

3 A Schedule 94 is attached to the testimony of William Griffith, and his testimony
4 contains a very sketchy explanation of how the ECAM is intended to work.

5 The tariff sheet itself is completely devoid of any useful information about how
6 ECAM charges would be calculated and applied. We learn from Mr. Griffith's
7 testimony that the intent is for the ECAM charges applicable to each rate schedule to
8 be the same per kWh, after adjusting for losses. He also indicates that there would
9 be some shaping within time-of-use ("TOU") tariffs to reflect seasonal and on-
10 peak/off-peak differences.

11 **Q DID UIEC SUBMIT DATA REQUESTS IN AN ATTEMPT TO OBTAIN MORE**
12 **DETAILED INFORMATION ABOUT RMP'S PROPOSAL FOR ECAM RATE**
13 **STRUCTURE?**

14 A Yes. UIEC asked a number of data requests on this issue, most of which were in
15 UIEC Data Request Set No. 14. The answers to these requests were provided on
16 August 9, 2010.

17 According to RMP's response to UIEC Data Request No. 14.5, a monthly
18 comparison will be made between base NPC and actually incurred NPC. These
19 differences will be multiplied by actual Utah load in that month, and the product
20 deferred in the balancing account. This process would be repeated throughout the
21 entire accumulation period, and the balance would earn a carrying charge.

22 In response to UIEC Data Request No. 14.7, which addressed whether or not
23 the ECAM adjustments would reflect seasonality of costs, RMP responds that
24 seasonality will be reflected in only those schedules that have TOU rates, namely 6A,

1 8, 9 and 9A. This obviously means that there is no reflection of seasonal differences
2 between rate schedules. A similar response is provided to UIEC Data Request
3 No. 14.15. [RMP's responses to UIEC Data Request Nos. 14.5, 14.7 and 14.15 are
4 attached as Exhibit ____ (UIEC-4), Exhibit ____ (UIEC-5) and Exhibit ____ (UIEC-6),
5 respectively.]¹

6 **Q DOES RMP'S ECAM PROPOSAL PROPERLY REFLECT SEASONALITY OF**
7 **COSTS?**

8 A No, it does not. Differences in cost between base NPC and actual NPC for each
9 month are added together, and the overall total is converted into a single annual
10 amount per kWh, and adjusted only for losses. This has the effect of smearing all
11 deviations, regardless of the month in which those deviations occurred, and
12 regardless of the direction of the deviations (above and below the base NPC amount)
13 together into a single annual adjustment factor that is blind to those important
14 distinctions.

15 **Q WHY IS THIS NOT A PROPER REFLECTION OF COSTS?**

16 A The pattern of consumption across customer classes is quite diverse. Some
17 customer classes have a much greater percentage of their total consumption
18 occurring during the summer months than during other months. Other customers
19 have a much greater percentage of their total consumption occurring during the
20 winter months than during the summer months. While the underlying base rates may
21 reflect these differences to some extent, smearing together all deviations from base

¹Please note that Exhibit ____ (UIEC-1), Exhibit ____ (UIEC-2) and Exhibit ____ (UIEC-3) are attached to my direct testimony.

1 NPC in the guise of a simplified ECAM ignores these important cost-related
2 differences and does not properly charge customers.

3 **Q HOW COULD THIS PROBLEM BE ADDRESSED?**

4 A One way to address the problem would be to break the year into three segments:
5 summer, winter, and spring/fall. Deviations from base NPC would be accumulated by
6 season, and the reconciliation of these costs would then be accomplished by season
7 during the period when the true-up between actual and base NPC takes place. Not
8 only would this approach be more cost-based, but it would give more appropriate
9 price signals to customers by putting the price adjustments into the appropriate time
10 period.

11 **Q WITHIN TOU RATE SCHEDULES RMP HAS SAID THAT IT WOULD SHAPE
12 ADJUSTMENTS TO FOLLOW THE SEASONAL AND ON-PEAK AND OFF-PEAK
13 PATTERN OF RATES. WOULD THIS BE APPROPRIATE?**

14 A Yes. However, RMP has not explained how this would be accomplished. And, of
15 course, under RMP's proposed inter-class adjustment approach, the dollars
16 distributed to rate schedules are blind to seasonality, as I noted above.

17 **Q DOES RMP'S RATE DESIGN PROPOSAL PROVIDE APPROPRIATE PRICE
18 SIGNALS?**

19 A No. Under RMP's proposal, upward deviations in price occurring during the summer
20 months would be collected throughout the entire year, during both on-peak and
21 off-peak months, and during on-peak and off-peak hours in each month. Thus the
22 price signal that should be sent to customers would be diluted. To the extent that

1 customers respond to prices, they would not be responding to cost-based price
2 signals and their responses would not be efficient.

3 **Q DOES RMP EXPLAIN HOW ONE-OFF TYPES OF COSTS (I.E., COSTS**
4 **OCCURRING ONE-TIME, OR NOT REGULARLY) WOULD BE TREATED IN**
5 **COMPARING ACTUAL NPC TO BASE NPC?**

6 **A** No, it does not. Some costs may be out of period, may reflect penalties or otherwise
7 be inappropriate for charging to customers. This issue has not been addressed.

8 RMP was asked about this in the context of a specific transaction in UIEC
9 Data Request 16.5. The request and RMP's response is provided below with the
10 policy part of the question and the response in bold.

11 **"UIEC Data Request 16.5**

12 Please provide copies of all contracts and other documents showing
13 the a) date of the transaction, b) power involved, and c) the reason for
14 the payment in February. **If the payment was a one-off payment,**
15 **please explain PacifiCorp's policy for amortizing such payments**
16 **and how such one-off payments will be amortized in any**
17 **proposed ECAM.**

18 **Response to UIEC Data Request 16.5**

19 The Company assumes this request refers to the purchase contract
20 cited in UIEC 16.4. Please refer to Confidential Attachment UIEC 16.5
21 for the requested contract, which specifies the date of the transaction
22 and the power involved. Confidential information is provided subject to
23 the terms and conditions of the protective order in this proceeding.

24 **The Company is unclear as to what is meant by a "one-off**
25 **payment". The payment was associated with a power purchase. It**
26 **is impossible to know if any individual cost would survive intact**
27 **in the deferral balance and thus be amortized in the ECAM. The**
28 **Company's proposal. is that if net power costs *in total* exceed the**
29 **baseline in any given month, the difference would be deferred**
30 **and amortization would occur via a Schedule 94 ECAM rate**
31 **calculated based on projected Utah sales for the 12 month ECAM**
32 **recovery period."**

1 Obviously, RMP is not concerned about keeping track of appropriate charges
2 by month, but only cares about annual totals under its broad average approach to
3 ECAM.

4 Further, when appropriate seasonal differences are taken into account, there
5 will be a need to adjust items between months if costs or revenues that pertain to
6 service during one month actually wind up being charged or credited in other months.

7 **Productivity and Efficiency**

8 **Q HAVE ANY PARTIES OFFERED MECHANISMS SPECIFICALLY DESIGNED TO**
9 **MAINTAIN OR IMPROVE PRODUCTIVITY AND EFFICIENCY?**

10 A No. While RMP asserts that it would behave in the same way with an ECAM as
11 without an ECAM, it has not provided any detailed explanation of how this could be
12 assured. As I addressed in my direct testimony in this phase of the proceeding, the
13 incentives and the consequences of inappropriate activity change when an
14 adjustment clause such as ECAM is adopted. An example of RMP's approach to this
15 issue is well illustrated by its response to UIEC Data Request No. 14.9:

16 **“UIEC Data Request 14.9**

17 Please explain the incentives to increase productivity, including in
18 Rocky Mountain Power's ECAM proposal.

19 **Response to UIEC Data Request 14.9**

20 Rocky Mountain Power has the same incentive to increase productivity
21 with or without an ECAM. The Company has both a customer service
22 commitment and statutory responsibility to provide safe and reliable
23 service at a reasonable price. If Rocky Mountain Power is not acting
24 prudently or does not act in accordance with its statutory responsibility,
25 then the Commission will take this into account when deciding on cost
26 recovery whether through base rates or through an ECAM.”

27 While the response may sound good, it does not address the question of the
28 change in incentives and the change in risk that results when an adjustment like an

1 ECAM is adopted. Obviously, an ECAM mechanism insulates RMP from much of the
2 risk that it would face in the absence of an ECAM, and because it is less responsible
3 for the consequences of its actions, the incentives present under the current
4 regulatory paradigm are reduced.

5 **Timing**

6 **Q IF AN ECAM IS ADOPTED, WHEN SHOULD IT BE IMPLEMENTED?**

7 A If an ECAM is adopted, it should not be implemented until the conclusion of RMP's
8 next general rate case. The rate case would provide an opportunity to detail the
9 costs to be included in such a mechanism and to flesh out the specific details of how
10 an ECAM would work, details which are woefully lacking in the Company's current
11 filing. Implementation at the conclusion of the future general rate case will also
12 ensure that there is no double-counting of any of the costs to be tracked.

13 **Q IF AN ECAM IS ADOPTED, SHOULD THERE BE REQUIREMENTS FOR**
14 **PERIODIC FILING OF RATE CASES?**

15 A Yes. If an ECAM is adopted, it is important that there be a process in place for
16 periodically conducting a comprehensive review of all of RMP's revenues and
17 expenses. This is important because it is RMP that is in charge of the timing of rate
18 case filings. If it has an ECAM and is earning in excess of its authorized rate of
19 return, it will be unlikely to voluntarily file a rate adjustment with the Commission. On
20 the other hand, if it is not earning its authorized rate of return, it has the right to make
21 a filing to increase rates, and likely will do so.

1 In order to protect customers against over-earnings, it is important that there
2 be periodic rate case filings. The Division's suggestion of rate cases every three
3 years is reasonable.

4 **Q IF AN ECAM IS ADOPTED, SHOULD ITS TERM BE UNLIMITED?**

5 A No. Since this is essentially a new rate mechanism in Utah, it would be appropriate to
6 have a "sunset" provision. In other words, there should be a period of time during
7 which the ECAM can be in effect (absent a Commission finding that RMP's behavior
8 was such that one is no longer warranted), and then a requirement to re-justify the
9 continued existence of an ECAM in its then current, or modified, form.

10 **Q THERE HAS BEEN A SUGGESTION THAT TRUE-UP FILINGS OCCUR ON**
11 **DECEMBER 15. DO YOU AGREE WITH THIS?**

12 A No, this would put the review over the very busy holiday season. I believe it would be
13 more appropriate to make the filing shortly after the beginning of the calendar year so
14 that parties would have a more reasonable opportunity to conduct the review. And,
15 as the Division suggests, to the extent that ECAM adjustments go into effect, they
16 should do so on an interim basis pending final completion of audits and any prudence
17 hearings. This schedule would also accommodate a seasonal approach to
18 adjustments whereby seasonal deviations are trued-up during the subsequent
19 corresponding summer, winter and spring/fall periods.

20 **Q HOW SHOULD THE REVIEW AND AUDIT PROCESS BE CONDUCTED?**

21 A A comprehensive audit of costs incurred under ECAM would include not only an
22 analysis and confirmation of the specific transactions, but also a review of the policies

1 (such as hedging and FOTs) and procedures that are supposed to be followed, and a
2 determination of whether or not they were. In addition, appropriate adjustments need
3 to be determined if problems are found. Auditing an ECAM would also be a new task
4 for the Division.

5 To aid in this process, it is my recommendation that the Commission hire an
6 independent third-party auditor to conduct the ECAM audit. The Commission would
7 select the auditors, and as part of the consideration for the entitlement to have an
8 ECAM (if one is permitted), RMP stockholders should bear the cost of the audit.

9 **RECs**

10 **Q WHAT ARE RECs?**

11 A RECs are created as a result of investment in renewable energy projects. These
12 projects are supported by customer rates, and customers are entitled to receive the
13 benefits of the RECs, whether it be from use in compliance with portfolio standards,
14 or from sale of the RECs in the marketplace.

15 **Q WHAT POSITIONS HAVE THE PARTIES TAKEN ON ACCOUNTING FOR RECs?**

16 A The Division opposes inclusion of RECs in ECAM, RMP is agreeable to including
17 RECs in ECAM so long as there is an ECAM mechanism, and the Utah Association of
18 Energy Users ("UAE") takes the position that customers should receive the benefit of
19 RECs whether or not there is an ECAM.

20 **Q WHAT IS YOUR RECOMMENDATION?**

21 A I agree with UAE. RECs are different from fuel and purchased power expenses.
22 They are assets that are created as a result of investment in the renewable projects.

1 RECs are inextricably linked to renewable resource projects that have been justified
2 using REC values as an offset to costs and have been supported by customer rates.
3 Variations in fuel and market power prices, on the other hand, are simply changes in
4 input prices.

5 The value of RECs can fluctuate appreciably, as the recent history recited in
6 the testimony of Mr. Higgins has demonstrated. It would be appropriate to capture
7 these variations for the benefit of customers, whether or not there is an ECAM. This
8 could be done by establishing a tracking mechanism that specifically is for REC
9 values.

10 **Other Issues**

11 **Q VARIOUS PARTIES HAVE ADDRESSED WHEELING REVENUES. IN**
12 **SUPPLEMENTAL TESTIMONY, RMP WITNESS DUVALL EXPRESSES A**
13 **WILLINGNESS TO INCLUDE THESE REVENUES IN AN ECAM, DIVISION**
14 **WITNESS PETERSON OPPOSES THEIR INCLUSION, AND OFFICE WITNESS**
15 **GIMBLE PROPOSES TO TRACK THESE REVENUES THROUGH AN ECAM.**
16 **WHAT IS YOUR VIEW?**

17 **A** As noted by Mr. Gimble at page 13 of his August 4, 2010 testimony, RMP is making
18 large investments in the Gateway Transmission Project, which will greatly expand its
19 ability to sell wheeling service to other parties. RMP is filing single-issue rate cases
20 to capture the revenue requirement increases associated with segments of the
21 Gateway expansion.

22 Because of the difficulty of forecasting the amount of additional third-party
23 wheeling revenues that may be created, I believe it is important to track these
24 wheeling revenues. However, it is not necessary to do so through an ECAM. These

1 revenues could be deferred outside of an ECAM, in recognition of the difficulty of
2 forecasting their level, and in light of the fact that RMP's customers are being asked
3 to support the revenue requirement associated with transmission expansion through
4 the single-issue ratemaking process. Failure to track and defer these revenues would
5 result in a loss of these benefits to customers.

6 **Q IN ADDITION TO THE SEASONAL AND OTHER MISMATCHES THAT YOU**
7 **ADDRESSED EARLIER, ARE THERE OTHER ISSUES ASSOCIATED WITH**
8 **TRACKING COST CHANGES THROUGH THE PROPOSED ECAM?**

9 A Yes. In addition to the issues I have discussed previously, the proposed recovery of
10 changes in NPC on a loss-adjusted per kWh basis does not track with the allocation
11 of all the costs that are proposed to be included in the ECAM. For example, while
12 fuel costs are substantially allocated on a kWh basis, power purchases, power sales
13 and wheeling expense are allocated on a 75% demand/25% energy basis. As a
14 result, tracking changes in the level of these costs on a per kWh basis would not be
15 consistent with the underlying allocation of these costs to rate classes in the first
16 instance. The failure to address this problem is another reason why adoption of an
17 ECAM at this point in time would be premature.

18 A related issue is whether it is appropriate to track the demand charge
19 component of power transactions (whether explicit or implicit) through an ECAM.
20 Demand charges tend to be much more stable, that is less volatile, than fuel costs
21 and purchased power energy charges. This issue also should be considered prior to
22 adopting any ECAM mechanism.

1 **Q HAVE YOU REVIEWED THE PROPOSALS FOR A LOAD GROWTH**
2 **ADJUSTMENT?**

3 A Yes. Both Division witness Peterson and UAE witness Higgins have proposed a load
4 growth adjustment. A potential problem with the load growth adjustments proposed
5 by both parties is what would happen if sales actually declined following a test year.
6 If we have an economic downturn (which we just have had) it would appear that the
7 proposals of both parties would cause ratepayers to compensate RMP for reductions
8 in revenues resulting from the economic downturn. The same considerations would
9 apply in the event that following the test year the weather is below normal in terms of
10 heating degree days and/or cooling degree days. I do not believe it is reasonable to
11 allow this type of compensation to occur through an ECAM.

12 Accordingly, if an ECAM is adopted, any load growth adjustment should only
13 work to offset increases in costs tracked through ECAM and should not become a
14 mechanism for compensating the utility for variations in economic conditions,
15 variations in weather conditions, or lost revenue as an offset to the effects of RMP's
16 DSM program. An alternative approach would be to require a showing of the return
17 earned on equity (adjusted for normal ratemaking type adjustments) and permit
18 positive ECAM values to be collected from customers only in the event that RMP
19 demonstrated that it was not earning its authorized rate of return during the period of
20 time that the additional ECAM costs were incurred.

21 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 A Yes, it does.