

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	
Rocky Mountain Power for)	Docket No. 10-035-124
Authority to Increase Its Retail)	Rebuttal Testimony
Electric Utility Service Rates in Utah)	Lori Smith Schell
And for Approval of Its Proposed)	For the Office of
Electric Service Schedules and)	Consumer Services
Electric Service Regulations)	

June 30, 2011

Rebuttal Testimony on Issues Relating to Hedging
In Connection with Rocky Mountain Power’s General Rate Case

REDACTED

1 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

2 A. My name is Lori Smith Schell. I am the founder and President of
3 Empowered Energy, which has its business address at 174 North Elk Run,
4 Durango, Colorado, 81303.

5
6 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS DOCKET?**

7 A. Yes. I provided direct testimony in this docket on May 26, 2011, that
8 examined both the volumes and the hedging gains and losses associated
9 with the natural gas and power swaps included in the Test Period Net
10 Power Costs (“NPC”) study. Exhibit OCS-5.1 Schell CONFIDENTIAL in
11 my direct testimony “bucketed” PacifiCorp’s hedging gains and losses
12 based on how far in advance of the first settlement month the underlying
13 swaps were executed. Exhibit OCS-5.1 Schell CONFIDENTIAL showed
14 clearly that the Company’s Test Period natural gas hedging [REDACTED]
15 increased significantly the farther out in time the first settlement month
16 was compared to the swap execution date. Exhibit OCS-5.3 Schell
17 CONFIDENTIAL in my direct testimony “bucketed” the associated swap
18 volumes in the same manner and showed that the natural gas swap
19 volumes also increased for each subsequent 12-month bucket. Based on
20 my analysis, I concluded that the Company’s policy of hedging its natural
21 gas and power price exposure up to [REDACTED] months in advance is not justified.

22

Redacted

23 **Q. HAVE YOU PREPARED ANY NEW EXHIBITS IN SUPPORT OF YOUR**
24 **TESTIMONY?**

25 A. Yes, I have prepared Exhibit OCS-5.1R Schell CONFIDENTIAL that
26 compares the “bucketed” natural gas swap volumes and natural gas
27 hedging gains and losses from my Exhibit OCS-5.3 Schell
28 CONFIDENTIAL and Exhibit OCS-5.1 Schell CONFIDENTIAL,
29 respectively, with related results “bucketed” by hedge execution date and
30 presented in Exhibit UIEC__(JRM-6) of the direct testimony of UIEC
31 witness Dr. J. Robert Malko.

32

33 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

34 A. The purpose of my testimony is to provide a comparison and reconciliation
35 of the results presented in my direct testimony with the results presented
36 in the direct testimony of Dr. Malko. This comparison is important to show
37 the similarities between the two analyses and to ensure that the
38 significance of how far in advance of the first settlement month the
39 Company executes its natural gas swaps is not inadvertently lost due to
40 differences in presentation.

41

42 **Q. CAN YOU BRIEFLY DESCRIBE DR. MALKO’S PRESENTATION OF**
43 **THE TEST PERIOD IMPACT OF THE COMPANY’S FINANCIAL**
44 **NATURAL GAS SWAPS?**

Redacted

45 A. Yes. Dr. Malko in Exhibit UIEC__(JRM-6) “buckets” the Test Period
46 natural gas swap volumes and associated hedging █████ based solely on
47 the calendar year in which the underlying financial swap was executed. In
48 doing so, Dr. Malko inadvertently loses some of the richness of the data
49 by not taking into consideration the number of months between the
50 execution date of each natural gas swap and its first settlement month
51 (“time to first settlement month”). This is the additional detail that I
52 captured in my direct testimony in Exhibit OCS-5.3 Schell CONFIDENTIAL
53 and Exhibit OCS-5.1 Schell CONFIDENTIAL and that I used to question
54 how far into the future the Company should be entering into financial
55 swaps.

56

57 **Q. HAVE YOU COMPARED THE RESULTS OF DR. MALKO’S**
58 **CALENDAR YEAR “BUCKETING” WITH THE RESULTS OF YOUR**
59 **TIME-TO-FIRST-SETTLEMENT-MONTH “BUCKETING”?**

60 A. Yes. The upper half of Exhibit OCS-5.1R Schell CONFIDENTIAL shows
61 the Test Period natural gas hedging █████ by hedge execution year as
62 presented by Dr. Malko, and then adds the time-to-first-settlement-month
63 “bucketing” for the Test Period natural gas swaps executed in each hedge
64 execution year. As in my direct testimony, the time-to-first-settlement-
65 month “bucketing” is based on data provided by the Company in
66 Confidential Filing Requirement R746-700-23-C.8. The lower half of

Redacted

67 Exhibit OCS-5.1R Schell CONFIDENTIAL provides the same comparison
68 for the Test Period hedged volumes.

69

70 **Q. WHAT IS THE SIGNIFICANCE OF THE COMPARISON PROVIDED IN**
71 **EXHIBIT OCS-5.1R SCHELL CONFIDENTIAL?**

72 A. The comparison provided in Exhibit OCS-5.1R Schell CONFIDENTIAL
73 demonstrates the importance of looking at both the hedge execution date
74 and the time to first settlement month for each financial swap. [REDACTED]

75 [REDACTED]

76 [REDACTED]

77 [REDACTED]

78 [REDACTED]

79 [REDACTED]

80 [REDACTED]

81 [REDACTED]

82 [REDACTED]

83 [REDACTED]

84 [REDACTED]

85 [REDACTED]

86 [REDACTED]

87 [REDACTED]

88 [REDACTED]

89

90 **Q. ARE THERE ANY OTHER INSIGHTS TO BE GAINED FROM THE**
91 **COMPARISON OF RESULTS IN EXHIBIT OCS 5-1.R SCHELL**
92 **CONFIDENTIAL?**

93 A. Yes. Exhibit OCS 5-1R Schell CONFIDENTIAL indicates an apparent
94 change in hedge execution strategy in 2009 with respect to the volumes
95 associated with the Company's Test Period natural gas swaps. [REDACTED]

96 [REDACTED]
97 [REDACTED]
98 [REDACTED]
99 [REDACTED]
100 [REDACTED]
101 [REDACTED]

102
103 **Q. WHAT DO YOU CONCLUDE?**

104 A. I conclude that there is no substantive difference between the natural gas
105 hedging results presented in my direct testimony and the results
106 presented in the direct testimony of Dr. Malko in this proceeding. The
107 comparison of results presented in Exhibit OCS 5-1.R Schell
108 CONFIDENTIAL as described in this rebuttal testimony demonstrates the
109 importance of preserving the richness of detail found in "bucketing" the
110 financial swap results not only by hedge execution date but also by time to
111 first settlement month. Indeed, combining results has shown an apparent
112 change in the Company's natural gas hedging strategy over the past

113 several years [REDACTED]

114 [REDACTED]

115

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

117 A. Yes.

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