

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 Electric	)	
Utility Service Rates in Utah and For	)	Surrebuttal Testimony
Approval of Its Proposed Electric Service	)	of Seth Schwartz
Schedule and Electric Service	)	On behalf of the
Regulations	)	Office of Consumer Services
	)	

---

July 19, 2011

NON-CONFIDENTIAL

1           **INTRODUCTION**

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

3           A.    My name is Seth Schwartz. I am the President of Energy Ventures  
4           Analysis, Inc. (“EVA”), which is located at 1901 North Moore Street,  
5           Arlington, VA 22209.

6

7           **Q.    HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

8           A.    Yes. I filed direct testimony regarding the Company’s fuel supply and coal  
9           inventory strategy and recommended a reduction in the amount of coal  
10          inventory which should be included in the rate base for the test year.

11

12          **Q.    PLEASE DESCRIBE THE PURPOSE OF YOUR SURREBUTTAL**  
13          **TESTIMONY.**

14          A.    My surrebuttal testimony is filed in response to the rebuttal testimony of  
15          Company witness Ms. Cindy Crane, addressing the following areas:

16                1) The appropriate long-term inventory targets adopted by the  
17                Company for the [REDACTED]

18                2) The amount of short-term inventory which the Company requires to  
19                manage potential risks and should be included in the rate base for  
20                the test year. My surrebuttal testimony responds to the specific  
21                risks and issues identified by Ms. Crane in her rebuttal testimony.

22

23

24 **LONG-TERM INVENTORY TARGETS** [REDACTED]

25 **Q. WHAT WAS THE RECOMMENDATION BY THE COMPANY'S**  
26 [REDACTED], **FOR THE**  
27 **LONG-TERM INVENTORY TARGETS FOR** [REDACTED] **?**

28 A. For [REDACTED], [REDACTED] recommended that the Company adopt long-  
29 term inventory targets of [REDACTED] days of average burn.<sup>1</sup>

30

31 **Q. DID THE COMPANY ADOPT THE LONG-TERM INVENTORY TARGETS**  
32 **FOR** [REDACTED] **?**

33 A. [REDACTED]

34

35 **Q. WHAT LONG-TERM INVENTORY TARGETS DID THE COMPANY**  
36 **ADOPT FOR** [REDACTED] **?**

37 A. The Company adopted long-term inventory targets of [REDACTED] days of  
38 average burn. The Company's targets are [REDACTED] days of average burn  
39 [REDACTED].

40

41 **Q. HAS THE COMPANY EVER PROVIDED A BASIS FOR ADOPTING AN**  
42 **INVENTORY TARGET FOR** [REDACTED]

43 [REDACTED] **?**

44 A. [REDACTED]

---

<sup>1</sup> The average burn [REDACTED]  
[REDACTED] of maximum burn, which is equal  
to [REDACTED] of average burn.

45

46

47 **Q. WHAT LONG-TERM INVENTORY TARGETS DO YOU RECOMMEND**  
48 **FOR [REDACTED]?**

49 A. My recommendation for long-term inventory targets for [REDACTED]  
50 [REDACTED] of average burn.

51

52 **Q. MS. CRANE TESTIFIED THAT YOUR RECOMMENDED RANGE IS**  
53 **[REDACTED]. IS THAT**  
54 **ACCURATE?**

55 A. No. The range which I recommended is [REDACTED]  
56 [REDACTED]. The midpoint of the range which  
57 I recommended is [REDACTED] of average burn, while the midpoint of the  
58 range recommended by [REDACTED] of average burn. The midpoint of  
59 the range adopted by [REDACTED] of average burn, [REDACTED]  
60 [REDACTED]

61

62 **Q. MS. CRANE TESTIFIED THAT THE RANGE WHICH YOU**  
63 **RECOMMENDED IS [REDACTED] AND [REDACTED]**  
64 **[REDACTED] IN THE COMPANY'S COAL DELIVERIES. WHY DO YOU**  
65 **RECOMMEND A [REDACTED] THAN ADOPTED THE**  
66 **COMPANY?**

67 A. The [REDACTED] of target inventories has the effect of [REDACTED]  
68 [REDACTED]  
69 [REDACTED] A [REDACTED] reduces the potential for [REDACTED] of  
70 [REDACTED] and increases the [REDACTED]. The [REDACTED] adopted  
71 by the Company [REDACTED] would allow the  
72 Company to let its inventory [REDACTED] before it took action. It  
73 would also allow the Company to [REDACTED], which has  
74 adverse financial impacts. The [REDACTED] would spur action by the  
75 Company to [REDACTED] or to [REDACTED],  
76 once it was outside the target range.

77

78 **Q. WHAT IS THE FINANCIAL IMPACT OF THE [REDACTED]**  
79 **[REDACTED] ADOPTED BY THE COMPANY FOR ITS LONG-TERM**  
80 **TARGET?**

81 A. At an average burn of [REDACTED] per day, the impact of [REDACTED] of  
82 average burn (the difference between the [REDACTED] of my  
83 recommendation and the Company's target) is [REDACTED] tons of coal. This  
84 difference is equal to about [REDACTED] at the Company's average  
85 cost of inventory.

86

87

88

89

90 **SHORT-TERM INVENTORY TARGETS FOR [REDACTED]**

91 **Q. HAS THE COMPANY ADOPTED NEW SHORT-TERM COAL**  
92 **INVENTORY TARGETS WHICH [REDACTED] FROM THE LONG-TERM**  
93 **TARGETS FOR [REDACTED]?**

94 A. Yes. For only [REDACTED], the Company has adopted a new short-  
95 term inventory target of [REDACTED] of average burn, which is [REDACTED]  
96 the long-term inventory target.

97

98 **Q. DID THE COMPANY'S [REDACTED] RECOMMEND A SHORT-**  
99 **TERM INVENTORY TARGET?**

100 A. No.

101

102 **Q. WHAT WAS THE COMPANY'S JUSTIFICATION FOR ADOPTING A**  
103 **[REDACTED] SHORT-TERM INVENTORY TARGET FOR [REDACTED]**  
104 **[REDACTED]?**

105 A. As stated by Ms. Crane in her rebuttal testimony, the short-term inventory  
106 target is necessary [REDACTED]

107 [REDACTED]

108 [REDACTED]

109

110 **Q. DID THE COMPANY PROVIDE ANY QUANTITATIVE ANALYSIS**  
111 **SUPPORTING THE LEVEL OF THE SHORT-TERM INVENTORY**  
112 **TARGETS WHICH IT ADOPTED?**

113 A. No. The Company has provided no basis for selecting the numbers which  
114 it adopted.

115

116 **Q. DID YOU PROVIDE AN ANALYSIS IN SUPPORT OF AN**  
117 **APPROPRIATE SHORT-TERM INVENTORY TARGET TO [REDACTED]**  
118 **[REDACTED]**  
119 **[REDACTED]?**

120 A. Yes. My analysis included the following factors:

- 121 • The coal burn projected by the Company for [REDACTED];
- 122 [REDACTED] The amount of coal which the Company has [REDACTED]  
123 [REDACTED]
- 124 • The minimum amount of inventory needed to [REDACTED]  
125 [REDACTED]; and,
- 126 • The [REDACTED]  
127 [REDACTED].

128

129 **Q. BASED ON YOUR ANALYSIS, WHAT DID YOU CONCLUDE TO BE AN**  
130 **APPROPRIATE AMOUNT OF SHORT-TERM INVENTORY NEEDED**  
131 **FOR THE TEST YEAR TO [REDACTED]**  
132 **[REDACTED]?**

133 A. Based upon the Company's [REDACTED]  
134 [REDACTED]  
135 [REDACTED]

136 [REDACTED], I concluded that the  
137 Company would require [REDACTED] of average burn at the end of the Test  
138 Year.

139

140 **Q. HOW DOES YOUR RECOMMENDED [REDACTED] OF AVERAGE BURN**  
141 **COMPARE TO THE AMOUNT OF INVENTORY WHICH THE COMPANY**  
142 **IS REQUESTING TO INCLUDE IN THE RATE BASE FOR THE TEST**  
143 **YEAR?**

144 A. The Company has requested [REDACTED] of average coal burn at the end of  
145 the Test Year for inclusion in the rate base.

146

147 **Q. ALTHOUGH THE COMPANY DID NOT PROVIDE ITS OWN METHOD**  
148 **FOR CALCULATING THE AMOUNT OF SHORT-TERM INVENTORY**  
149 **WHICH IT REQUIRES, DID THE COMPANY CRITICIZE YOUR**  
150 **APPROACH?**

151 A. Yes. Ms. Crane has two criticisms of the approach which I used to  
152 calculate the appropriate level of inventory:

153 • An inventory level of [REDACTED] of average burn is [REDACTED] as the  
154 Company will be [REDACTED]

155 [REDACTED]; and,

156 • While the Company has coal [REDACTED]  
157 in the amounts which I assumed, there is a risk that [REDACTED]

158 [REDACTED].



159

160 **Q. HOW DO YOU RESPOND TO THE COMPANY'S CRITICISMS OF**  
161 **YOUR APPROACH?**

162 A. The Company makes the mistake of [REDACTED]  
163 [REDACTED] derive a result that is unreasonable. The approach used by  
164 [REDACTED] to calculate normal inventory targets was to consider [REDACTED]  
165 [REDACTED]. To consider the [REDACTED]  
166 [REDACTED] I assume [REDACTED]  
167 [REDACTED] and I assume the [REDACTED]  
168 [REDACTED]. After making these [REDACTED], it is not reasonable to  
169 then consider [REDACTED]  
170 [REDACTED]. It is reasonable to assume that the other [REDACTED]  
171 [REDACTED]. It is not reasonable to assume the [REDACTED]  
172 [REDACTED]  
173 [REDACTED].  
174 Further, it is reasonable to use the minimum [REDACTED] inventory level for the  
175 [REDACTED] as adequate to operate the plants, when  
176 the inventory would be above this level for [REDACTED]  
177 [REDACTED]

178

179 **Q. ARE THER ANY OTHER FACTORS WHICH THE COMPANY DID NOT**  
180 **CONSIDER?**

181 A. Yes. My analysis assumes that the Company will take no action to  
182 [REDACTED]  
183 [REDACTED]. I assume that the Company would take  
184 appropriate action to [REDACTED]  
185 [REDACTED] If there is [REDACTED], this would mean  
186 that I have [REDACTED] the amount of inventory needed by the Company.  
187

188 **RECOMMENDATIONS**

189 **Q. IN RESPONSE TO THE COMPANY'S REBUTTAL TESTIMONY, DO**  
190 **YOU HAVE ANY CHANGES TO YOUR RECOMMENDATIONS**  
191 **REGARDING THE LONG-TERM AND SHORT-TERM INVENTORY**  
192 **TARGETS AND THE AMOUNT OF INVENTORY WHICH SHOULD BE**  
193 **INCLUDED IN THE RATE BASE FOR THE TEST YEAR?**

194 A. No. My recommendations remain as set forth in my direct testimony.  
195

196 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

197 A. Yes.