

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky)	
Mountain Power To Increase Rates by)	DOCKET NO. 12-035-67
\$29.3 million or 1.7 percent through the)	Exhibit OCS 2D
Energy Balancing Account.)	Testimony and Exhibits
)	Randall J. Falkenberg

**DIRECT TESTIMONY OF
RANDALL J. FALKENBERG**

**ON BEHALF OF
OFFICE OF CONSUMER SERVICES**

REDACTED VERSION

DECEMBER 13, 2012

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

2 A. Randall J. Falkenberg, PMB 362, 8343 Roswell Road, Sandy Springs, Georgia 30350.

3 **Q. PLEASE STATE YOUR OCCUPATION, EMPLOYMENT, AND ON WHOSE**
4 **BEHALF YOU ARE TESTIFYING.**

5 A. I am a utility regulatory consultant and President of RFI Consulting, Inc. (“RFI”). I am
6 appearing on behalf of the Office of Consumer Services (“OCS”)

7 **Q. WHAT CONSULTING SERVICES ARE PROVIDED BY RFI?**

8 A. RFI provides consulting services related to electric utility system planning, energy cost
9 recovery issues, revenue requirements, cost of service, and rate design.

10 **Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND APPEARANCES.**

11 A. My qualifications and appearances are provided in Exhibit OCS 2.1. I have participated in
12 numerous cases involving PacifiCorp and Rocky Mountain Power (or the “Company”)
13 power costs and other issues over the past ten years.

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

15 A. My testimony describes my proposed adjustments to the Company’s requested EBA
16 increase based on the three months ended December 31, 2011 (the “EBA test period”).

17 **Q. PLEASE DESCRIBE THE COMPANY REQUEST.**

18 A. The Company filed a request for an increase of approximately \$29.3 million or 1.7% to
19 collect deferred EBA costs (“NPC”). This included a request to recover \$20 million of
20 deferred EBA costs already approved by the Commission in Docket No. 10-035-124 and
21 an additional \$9.286 million in deferred EBA costs for the three months ending December
22 31, 2011. The Company subsequently modified its request to correct an error, and to
23 reflect the Commission’s order in Docket No. 10-035-T10, requiring use of the SE and SG
24 factors from Docket No. 10-035-124 for allocation of wheeling revenues to Utah in

25 determination of the deferrals. These two changes reduced the Company's overall request
26 to \$28.892 million. Since the Company is already collecting in EBA rates the \$20 million
27 portion that was stipulated to in Docket No. 10-035-124, my testimony addresses the
28 remaining \$8.9 million relating to the EBA test period.

29 **Q. PLEASE DESCRIBE THE OCS REVIEW OF THE EBA FILING.**

30 A. The OCS review included analysis of PacifiCorp's filing, responses to data requests posed
31 by OCS and other parties and issues raised in prior RMP dockets.¹ In the following
32 testimony I will describe the adjustments I have identified and make recommendations to
33 the Commission.

34 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.**

35 A. Table 1 below summarizes OCS' recommended reductions to the Company request.

36 **My recommended adjustments are listed below:**

- 37 **1. The Centralia Point to Point and DC Intertie transmission contracts were not**
38 **needed by the Company nor were they economic during the EBA test period.**
39 **The Company has not demonstrated the prudence of either contract. I**
40 **recommend the Commission disallow the excess costs of these contracts.**
41
- 42 **2. Actual NPC included improper additional costs because the Company supplied**
43 **wind integration services to Open Access Transmission Tariff ("OATT")**
44 **customers without receiving any compensation from those wholesale customers.**
45 **I recommend these costs be disallowed by the Commission so that retail**
46 **customers do not subsidize wholesale service.**
47
- 48 **3. An extended outage at Huntington Unit 2 occurred due to a contractor's failure**
49 **to perform work according to the agreed upon schedule and resulted in**
50 **additional costs. The Company plans to seek liquidated damages as a result of**
51 **this event. Ratepayers should not be required to pay extra costs associated with**
52 **this event.**
53
- 54 **4. DPU Witness Hahn has identified [REDACTED] which the**
55 **Company has failed to justify. While DPU seeks additional information, the**
56 **Company has the burden of proof and in an instance such as this, prudence**

¹ As the case establishing the NPC baseline was stipulated, it is non-precedential, and therefore parties are free to raise the same issues in this case.

57 should be positively demonstrated by the Company. Accordingly, OCS
 58 recommends a disallowance related to these [REDACTED].

59
 60 5. The Company included legal fees at Company owned coal mines related to
 61 employee matters that occurred prior to the EBA test period. The costs of such
 62 events should be removed from the EBA as out of period expenses.

63
 64 6. Finally, I recommend additional filing requirements be implemented for future
 65 EBA cases. These requirements will add little additional burden to the Company
 66 and should help to streamline future EBA cases.
 67
 68

Adjustment	Total PacifiCorp Before Sharing	Utah
1 Centralia PTP	1,846,377	554,984
2 DC Intertie Transmission Contract	1,191,600	358,171
3 OATT customer wind integration costs	758,903	228,111
4 Huntington Unit 2 Contractor Delay (Prudence)	1,140,789	342,898
5 [REDACTED]	[REDACTED]	[REDACTED]
6 Bridger Coal & Energy West Legal Expenses	203,126	61,056
Total	[REDACTED]	[REDACTED]

69
 70 **Adjustments 1 and 2: DC Intertie and Centralia Point to Point Contracts**

71 **Q. WHAT WAS THE PURPOSE OF THE DC INTERTIE CONTRACT DURING THE**
 72 **EBA TEST PERIOD?**

73 A. This contract provides 200 MW of transfer capacity to import purchases from the Nevada
 74 Oregon Border to West Main.² During the EBA test period, the contract was scarcely
 75 used. It facilitated delivery of only [REDACTED] transactions, averaging less than [REDACTED] MW each.
 76 Total deliveries were only [REDACTED] MWH.³ All of the transactions made in the EBA test
 77 period appear to be one day trades arranged on the same day as delivery began.⁴ The

² WUTC Docket No. UE-100749, Response to ICNU DR 1.33

³ WIEC 1.28, Wyoming Docket No. 20000-410-EP-12, provided in response to OCS 2.1

⁴ Id. A few of the transactions were dated a day or two after deliveries were made, suggesting the paperwork was not completed until later.

78 Company states such transactions are not normally made on a forward basis.⁵ The
79 Company has stated elsewhere that those transactions are typically the last resources used
80 by the Company owing to their high cost and that under normal circumstances they would
81 not likely be used at all.⁶ The average energy cost of these deliveries was \$■■■■ MWH, but
82 considering the fixed costs of the DC Intertie contract, during the EBA test period, these
83 deliveries had an average cost of ■■■■/MWH.

84 **Q. WHAT WAS THE ORIGINAL PURPOSE OF THIS CONTRACT?**

85 A. Originally the DC Intertie could be used to deliver power to serve the Southern Cal Edison
86 (“SCE”) contract. However, that contract expired long ago, and the Company has not
87 undertaken any steps to determine if there are options available to renegotiate, modify,
88 terminate or buy out of the contract.⁷

89 **Q. EXPLAIN THE PURPOSE OF THE CENTRALIA POINT TO POINT**
90 **CONTRACTS.**

91 A. The original purpose of this contract was to wheel power from the Centralia power station
92 to PacifiCorp load centers. Since the termination of the Centralia buyback contract with
93 TransAlta, usage for serving native load has been negligible. During the PCAM period an
94 exchange with TranAlta (a transaction that did nothing more than move power for the
95 counterparty) was the only significant utilization of the contract. Aside from that exchange
96 and a resale of the contract rights to other parties, the Company’s use of the contract is
97 typically quite limited. The total cost of the contract during the EBA period was
98 approximately ■■■■ million.

⁵ Wyoming Docket 20000-384-ER-10, WIEC 1.72

⁶ WUTC Docket No. UE-100749, Response to ICNU DR 10.3.

⁷ Wyoming Docket 20000-384-ER-10 WIEC 1.73

99 **Q. HAS THE COMPANY ATTEMPTED TO SELL THE RIGHTS OR FIND OTHER**
100 **USES FOR EITHER OF THESE CONTRACTS?**

101 A. Yes. According to discovery responses, the Company has attempted to sell the rights to
102 the Centralia Point to Point contract since July 2009.⁸ During the EBA period, the
103 Company sold some of the contract rights [REDACTED] This clearly demonstrates
104 the capacity is simply not needed. The Company has also [REDACTED]
105 [REDACTED] No such efforts have
106 been made relative to the DC Intertie contract.⁹

107 **Q. HAS THE PRUDENCE OF THESE CONTRACTS BEEN ADDRESSED IN PRIOR**
108 **CASES?**

109 A. Yes. The issue of the prudence of these contracts was raised by OCS in the 2010 GRC¹⁰
110 which established the NPC baseline in this case and in the most recently completed case.¹¹
111 UIEC witness, Mr. Mark Widmer also supported a disallowance of the Centralia Point to
112 Point and DC Interties costs in the 2010 GRC,¹² while in the 2011 GRC, DPU witness Mr.
113 George Evans proposed adjustments to remove the costs of these contracts from the test
114 year.¹³

115 The Company responded to these above prudence challenges in its rebuttal
116 testimony.¹⁴ With respect to the DC Intertie contract, Mr. Duvall argued the contract was
117 prudent when originally negotiated and that it continues to be used to transfer energy from
118 summer peaking California to the winter peaking northwest. He asserted, but did not

⁸ Utah Docket No. 10-035-124, UIEC 14.,3, UIEC 14.4

⁹ Utah Docket No. 10-035-124, UIEC 14.7

¹⁰ Docket No. 10-035-124

¹¹ Docket No. 11-035-200

¹² Docket No. 10-035-124, Direct Testimony of Mark Widmer, page 3.

¹³ Docket No. 11-035-200, Direct Testimony of George Evans, pages 15-16.

¹⁴ Docket No. 10-035-124, Rebuttal Testimony of Gregory Duvall, pages 51-57. Mr. Duvall made similar arguments in other cases, including Docket No. 11-035-200.

119 document, capacity benefits are also provided by the contract. Mr. Duvall's arguments
120 also seemed to contradict the discovery responses cited above, which described the
121 purchases made available via the DC Intertie as high cost resources. Further, the EBA
122 period includes cold weather months, yet total energy obtained by the contract was only
123 [REDACTED] MWH, undermining the contention the contract is needed for winter peaking
124 purposes. The fact remains that in the EBA period, the contract provided less than [REDACTED]¹⁵
125 of power for ratepayers, and the Company has presented no justification for the contract
126 during the EBA test period. Further, the Company has produced no documents supporting
127 the original prudence of the contract¹⁶ or its subsequent management of the contract.¹⁷
128 Finally, the Company acknowledges that short-term firm transmission is available for the
129 same path and that it has used these resources from time to time.¹⁸

130 **Q. HAVE REGULATORS IN OTHER STATES ADDRESSED THE RATE**
131 **TREATMENT OF THE DC INTERTIE CONTRACT?**

132 A. Yes. In WUTC Docket UE-100749, the Washington Commission disallowed the costs of
133 the DC Intertie contract on the basis that:

134
135 PacifiCorp's evidence and arguments focus on whether the contract was prudent
136 when it was executed. However, we do not need to answer that question in this
137 Order. Even if we assume that the contract was prudent at its inception the
138 Company has an ongoing obligation to manage the resource under contract to
139 provide a benefit to the Company and its ratepayers. PacifiCorp has failed to
140 demonstrate that it does so.¹⁹
141

142 ** *

¹⁵ [REDACTED] divided by 2208 hours in the EBA test period.

¹⁶ Wyoming PSC Docket No. 20000-389-EP-10. WIEC 1.46, 1.47 and 1.49.

¹⁷ Id. also Docket 20000-384-ER-10 WIEC 1.73

¹⁸ Wyoming PSC Docket No. 20000-389-EP-10. WIEC 12.15

¹⁹ WUTC Docket No. UE-100749, Order No. 6, paragraph 148, page 55. Note that the Centralia contract was not at issue in Washington.

143 If the contract is not being used by the Company, it has an obligation to market its
144 available transmission capacity in an effort to recover some of its costs. The
145 Company proffers no testimony along this line. For these reasons, we conclude that
146 PacifiCorp failed to demonstrate that the DC intertie contract would provide
147 benefits to Washington ratepayers during the rate year. Therefore, we adopt the
148 adjustments presented by Staff and ICNU and reduce NPC expense by
149 \$1,057,130.²⁰

150 **Q. HOW DID MR. DUVALL TRY TO JUSTIFY THE CENTRALIA POINT TO**
151 **POINT CONTRACT IN THE 2010 GRC?**

152 A. Mr. Duvall contended the contract was prudent. Mr. Duvall attempted to justify the
153 contract on the basis of an analysis conducted in 2007. Mr. Duvall cites an assumed
154 benefit of [REDACTED] million related to avoiding unmet energy costs as one of the justifications
155 for the contract. However, this amount is highly questionable and overstated because it
156 assumed very unlikely contingencies would occur 100% of the time for a seven-year
157 period that extended two years beyond the actual termination date of the contract. Finally,
158 the Company itself has, in a recent case, disputed that unmet energy is a reasonable basis
159 for resource selection, and even stated that unmet energy should be eliminated from
160 consideration.²¹

161 **Q. WHAT IS YOUR RECOMMENDATION?**

162 A. These contracts should be removed from the EBA test period. They were not necessary or
163 economical. Further, the prudence of the Company's inaction related to these contracts is
164 highly questionable. In calculating the Centralia Point to Point disallowance, I included
165 the revenues obtained from the TransAlta exchange and the reassignment of the contract to
166 other paths as an offset to my recommended adjustment.

²⁰ Id, paragraph 152, page 56.

²¹ Utah Docket No. 10-035-126, non-confidential testimony of Richard S. Hahn, March 24, 2011, page 10. Mr. Hahn testified that the Company proposed removing unmet energy from its analysis of a resource option it did not end up selecting.

167 **Adjustment 3: OATT Customer Wind Integration Costs**

168 **Q. DOES PACIFICORP'S OATT INCLUDE ANY CHARGES FOR WIND**
169 **INTEGRATION SERVICES?**

170 A. No. While the OATT does provide for charges for reserves for transmission customers, it
171 does not provide any charges for wind integration services. However, during the EBA test
172 period, the Company provided integration services to at least four wind farms: Campbell,
173 Jolly Hills, Long Hollow, and the Stateline project. The costs related to providing wind
174 integration for these customers are embedded in the actual costs that occurred during the
175 EBA period. The Company has frequently claimed that actual wind integration costs
176 cannot be determined. In effect, the Company seeks to have retail customers pay for
177 services it provides to wholesale customers. Consequently, I recommend disallowing the
178 related expenses from the EBA test period.

179 **Q. DO OTHER TRANSMISSION PROVIDERS INCLUDE WIND INTEGRATION**
180 **CHARGES IN THEIR TRANSMISSION TARIFFS?**

181 A. Yes. BPA includes such charges in its transmission tariff, and PacifiCorp pays BPA for
182 wind integration services. In fact, the Company included the BPA charges in the NPC
183 baseline. There is no reason why the Company should not have already sought approval to
184 include such charges in its own OATT or by some other mechanism. Until then, the
185 Company should not be allowed to charge retail customers for the cost of providing
186 wholesale services to non-retail customers.

187 **Q. COULD THE COMPANY HAVE ALREADY MADE A FILING AT THE FERC TO**
188 **RECOVER WHOLESALE WIND INTEGRATION COSTS?**

189 A. Certainly. The Company has claimed since at least its 2004 IRP that it would experience
190 substantial costs for wind integration. Its 2004 IRP supported a value of \$4.64/MWH.²²
191 By October 1, 2011, the Company will have had more than six years to have filed at the
192 FERC to recover wind integration costs from its non-retail transmission customers. The
193 Company's lack of diligence is no excuse to charge Utah customers such costs. Regulators
194 in both Idaho and Washington recently denied recovery of these costs in base rates.²³
195 Regulators in Idaho have further stated they will not allow wind integration costs related to
196 serving these wholesale customers to be recovered from retail customers. This would
197 presumably apply to the Idaho ECAM, a mechanism similar to the Utah EBA.

198 **Q. HOW DID YOU DETERMINE THE COST FOR PROVIDING WIND**
199 **INTEGRATION SERVICES TO OATT CUSTOMERS?**

200 A. The cost is based on the calculation of wind integration costs of \$6.34/MWH included by
201 the Company in the test year in Docket No. 10-035-124, as adjusted downward per the
202 Office's \$2.32 MWH recommendation in that case. While \$2.32/MWH is much lower
203 than the Company's requested wind integration charges in that case, it approximates
204 preliminary estimates recently reported to the IRP Stakeholders by the Company in its
205 latest, 2012 wind integration study.

206 **Adjustment 4: Huntington Unit 2 Contractor Delay**

207 **Q. PROVIDE BACKGROUND INFORMATION CONCERNING ADJUSTMENT 4.**

208 A. A planned outage in November, 2011 was extended for ten days because a contractor
209 failed to complete the scheduled work on time.²⁴ The Company acknowledges that it is

²² Utah Public Service Commission Docket No. 03-035-14, Report and Order, October, 2005, page 23.

²³ Idaho Public Utilities Commission Docket No. PAC-E-10-07, Order 32196, Page 30. Washington Utilities and Transportation Commission ("WUTC") Docket No. UE-100749, Order No. 6, paragraph 125, page 48.

²⁴ See OCS 1.2

210 seeking liquidated damage for this delay.²⁵ According to the Company, this delay resulted
211 in 74,198 MWH of lost generation.²⁶ Because Huntington fuel cost less than market
212 purchases in that time frame, this resulted in additional costs being included in the EBA.
213 Table 1 shows the impact of this delay on the deferral.

214 **Q. WHY SHOULD THESE COSTS BE REMOVED FROM THE EBA TEST PERIOD?**

215 A. This is a case where the Company acknowledges that the contractor failed to perform
216 according to the contractual agreement. The Company is seeking compensation from the
217 contractor. As a result, imprudence is not arguable. Ratepayers should not be responsible
218 for costs resulting from poor contractor performance.

219 **Q. IN THIS SORT OF SITUATION IS THE COMPANY AT RISK EVEN IF IT**
220 **PRUDENTLY MANAGED THE RELATIONSHIP WITH THE CONTRACTOR?**

221 A. Yes. The question here is who should be the guarantor of a contractors' performance – the
222 Company or ratepayers? Of the two parties, the Company is the one who hires the
223 contractor, oversees their work and pays them. Ratepayers have no ability to influence
224 outcomes related to the contractors work. Consequently, the Company, not customers
225 should bear the risk of contractors it hires.

226 **Adjustment 5:** [REDACTED]

227 **Q. DPU WITNESS HAHN HAS IDENTIFIED** [REDACTED]
228 [REDACTED]
229 [REDACTED]
230 [REDACTED]

²⁵ Id.
²⁶ Id.

231 A. [REDACTED]
232 [REDACTED]
233 [REDACTED]
234 [REDACTED]
235 [REDACTED]
236 [REDACTED]
237 [REDACTED]
238 [REDACTED]

239 Q. [REDACTED]
240 [REDACTED]

241 A. [REDACTED]
242 [REDACTED]
243 [REDACTED]
244 [REDACTED]
245 [REDACTED]

246 Q. ARE YOU SUGGESTING THE COMPANY SHOULD NOT HAVE THE
247 OPPORTUNITY TO PRESENT ADDITIONAL INFORMATION?

248 A. Not at all. In the rebuttal phase of this case the Company would be free to present
249 whatever information it desires, as it has the burden of proof. Having so far failed to meet
250 it, a disallowance is warranted. As with all issues in such cases, parties can change their
251 positions in response to new evidence. If parties continue to disagree, the Commission will
252 ultimately decide any issues that remain in dispute.

253 **Adjustment 6: Out of Period Legal Fees**

254 Q. EXPLAIN ADJUSTMENT 6.

255 A. In this adjustment I have removed legal fees included as part of expenses for Company
256 owned coal mines that were related to events that took place prior to the test period. These
257 legal fees were for employee-related matters and stem from events that took place many
258 months or even years before the EBA test period. As the EBA is not intended to recover
259 costs that occurred outside of the EBA test period, such costs should be removed.

260 **Q. PLEASE DESCRIBE EXHIBIT OCS 2.2**

261 A. This exhibit contains copies of the non-confidential and non-voluminous data responses I
262 referenced in this testimony. I provide them for the convenience of the Commission.

263 **Additional Filing Requirements**

264 **Q. MR. HAHN RECOMMENDS THAT A NUMBER OF ADDITIONAL**
265 **DOCUMENTS BE PROVIDED IN FUTURE EBA FILINGS. DO YOU AGREE?**

266 A. Yes. The information he lists (including additional information relating to long-term
267 contracts) would help in the evaluation of trading activities undertaken by the Company.

268 **Q. ARE THERE ADDITIONAL FILING REQUIREMENTS YOU BELIEVE SHOULD**
269 **BE IMPLEMENTED IN FUTURE CASES?**

270 A. Yes. Exhibit OCS 2.3 is list of the additional requirements I recommend. All but one of
271 these items, Root Cause Analysis (“RCA”) reports related to outage events are required
272 by the Wyoming Public Service Commission for the Company’s Power Cost Adjustment
273 Mechanism (“PCAM”). The PCAM and EBA mechanisms deal with most of the same
274 costs and are structured similarly, and in future years will evaluate the same test periods.
275 Consequently, there will be very little effort required by the Company to provide these
276 documents in both states. The Wyoming requirements provide useful additional
277 information that will help in the processing of these cases. The RCA reports would be
278 directly applicable to [REDACTED] in this case.

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

280 A. Yes.