

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky)	DOCKET NO. 12-035-67
Mountain Power To Increase Rates by)	Exhibit DPU 2.0 SR
\$29.3 million or 1.7 percent through the)	Testimony and Exhibits
Energy Balancing Account.)	Richard S. Hahn
)	
)	

**FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH**

REDACTED VERSION

Surrebuttal Testimony of

Richard S. Hahn

January 17, 2013

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1 **I. Introduction**

2 **Q: Please state your name, business address and title.**

3 A: My name is Richard S. Hahn. I am employed by La Capra Associates, Inc. (“La Capra
4 Associates”) as a Principal Consultant. My business address is One Washington Mall,
5 Boston, Massachusetts, 02108.

6 **Q: On whose behalf are you testifying?**

7 A: The Division of Public Utilities of the State of Utah (the “Division”).

8 **Q: Have you previously submitted testimony in this proceeding?**

9 A: On November 13, 2012, my direct testimony was filed on behalf of the Division. On
10 December 13, 2013, my supplemental direct testimony was filed on behalf of the
11 Division. And, on January 8, 2013, my rebuttal testimony was filed on behalf of the
12 Division.

13 **Q: What is the purpose of your Surrebuttal testimony?**

14 A: The purpose of this surrebuttal testimony is to respond to the rebuttal testimony of Dr.
15 Malko on behalf of the Utah Industrial Energy Consumers (“UIEC”) and to the rebuttal
16 testimony of Company witnesses Brian Dickman and Dana Ralston.

17

18 **II. Executive Summary of Testimony**

19 **Q: Can you summarize the current status of your review of the Application in this**
20 **proceeding?**

21 A: Nothing in the rebuttal testimony of UIEC or Company witnesses has caused me to alter
22 any conclusions or recommendations from my direct or supplemental direct testimony. I
23 continue to believe that the costs attributable to certain plant outages should not be

24 included in actual EBA costs, as the Company has not provided adequate justification or
25 documentation for these outages. This reduces the amount that the Company should
26 recover from Utah ratepayers by \$2.7 million. Regarding the variance between forecast
27 and actual plant cost and output, the Company has provided adequate information that
28 explains this variance, so I do not recommend any reduction in the level of recovered
29 EBA costs for that reason. Furthermore, the Company has offered additional
30 explanations for the physical and financial transactions that settled in the fourth quarter of
31 2011. As I stated in my supplemental testimony, I have found these additional
32 explanations to be adequate and do not recommend any reductions in recovered amounts
33 for these reasons.

34

35 **III. Response to the UIEC Rebuttal Testimony**

36 **Q: What issues are raised in the rebuttal testimony of Dr. Malko on behalf of UIEC?**

37 A: In his rebuttal testimony, Dr. Malko is critical of my direct and supplemental testimony.
38 He states that I did not analyze whether the costs incurred by the Company were prudent.
39 He also implies that a finding of prudence is not possible because I identify additional
40 information that the Company should provide in the future that would be helpful in
41 reviewing EBA costs. Dr. Malko recommends that all losses associated with natural gas
42 swaps that settled in Q4 of 2011 should not be recovered by the Company. On this basis,
43 Dr. Malko would reduce RMP's rates by [REDACTED].

44 **Q: How do you respond?**

45 A: I disagree with Dr. Malko's characterization of my testimony. I have performed a very
46 thorough, detailed assessment of the Company's proposed actual EBA costs. I have

47 identified issues and posed questions to the Company, seeking greater justification for
48 these costs. For example, I questioned the Company's stated basis for the variance
49 between forecasted plant outputs and costs. The Company did provide sufficient detailed
50 information that adequately explained this variance, so I did not recommend any
51 reductions in recovered EBA costs for this reason. Similarly, I posed detailed questions
52 regarding the basis for certain physical and financial transactions that settled in Q4 of
53 2011. The verbal and written explanations provided by the Company have convinced me
54 that these transactions are reasonable and are consistent with how electric utilities
55 implement such transactions. While I do recommend that the Company provide
56 additional information in the future, I do not find the Company to be imprudent for not
57 having this information available at this time. The characteristics of these transactions
58 are consistent with the Company's explanations. Lastly, I investigated the reasons for
59 certain plant outages. For such events, the Company has provided very little justification
60 or explanation. I would normally expect an electric utility to have such information and
61 documentation available. Because the Company did not have such information and could
62 not provide adequate documentation for these outages, I found that the Company was
63 imprudent and should not recover the costs associated with these outages, and
64 recommended a reduction in EBA costs of \$2.7 million.

65 **Q: How do you respond to Dr. Malko's recommendation to reduce the amount of**
66 **recovered EBA costs by [REDACTED]?**

67 A: I do not agree with that recommendation. Based upon the information provided in the
68 filing requirements, the Company had [REDACTED] natural gas swap transactions, including both
69 buys and sells that settled in Q4 2011 and resulted in a net loss of approximately [REDACTED]

70 [REDACTED]. It appears that Dr. Malko has determined that Utah's share of this loss is [REDACTED]
71 [REDACTED] and that he recommends that none of this cost be recovered. I have several
72 concerns with that approach. Dr. Malko has been selective in focusing only on the losses
73 due to financial swaps. He ignores the gain from power swaps of [REDACTED]. In
74 addition, Dr. Malko appears to ignore the impact of the settlement stipulation. The vast
75 majority of the natural gas and power swap losses were associated with transactions that
76 were entered into prior to July 28, 2011, when the Company was following a different
77 hedging policy. The settlement stipulation placed limits on the ability to challenge the
78 prudence of pre-July 28, 2011 transactions. My review of the pre-July 28, 2011
79 transactions indicated that they would be covered by the restrictions agreed to in the
80 settlement stipulation, and therefore would not be challenged on the basis outlined in the
81 settlement stipulation. When post-July 28, 2011 transactions are considered, natural gas
82 swaps produced a net gain of about [REDACTED] and power swaps produced a net loss of
83 about [REDACTED]. The net result of both power and natural gas swaps is a loss of
84 [REDACTED]. Utah's share of this amount is approximately [REDACTED].¹ The impact of the
85 financial transactions that are challengeable on a prudence basis is far less than espoused
86 by Dr. Malko. Based upon my review of these transactions, I found that the Company
87 acted prudently. Therefore, I recommend that the Company be allowed to recover the net
88 costs associated with these transactions.

89

¹ Please refer to CONFIDENTIAL Figure 9 on page 25 of my direct testimony for the source of the data in this paragraph.

90 **IV. Response to Company's Rebuttal Testimony**

91 **Q: What issues are raised by the rebuttal testimony of Company witness Ralston that**
92 **you wish to respond to?**

93 A: The rebuttal testimony of Ms. Dana Ralston attempts to respond to the concerns that I
94 raise regarding certain outages of thermal generation. These outages are the Huntington
95 Unit 1 transformer fire, the Huntington Unit 2 coal mill explosion, the Lake Side
96 combustion turbine damage, and the Wyodak ID fan repairs. The Ralston rebuttal
97 testimony offers a brief amount of verbal explanation for these outages.

98 **Q: Did the Company provide any additional documentation to support these outages?**

99 A: No.

100 **Q: Would you expect that a utility experiencing such outage would have greater**
101 **documentation of such outages?**

102 A: Yes. These are serious events, and I would expect a utility that experienced them to have
103 adequate documentation analyzing the cause of these outages and implementing measures
104 to prevent them from recurring. The limited documentation that the Company did
105 provide was, and continues to be, inadequate.

106 **Q: The Ralston testimony states that, since 1992, the Company had been considering a**
107 **steam inerting system at Huntington that would have prevented the coal mill**
108 **explosion, but could not implement it.² How do you respond?**

109 A: I note that the Company has not provided any documentation to support that assertion.
110 The explanation offered by the Company is that such an inerting system could not be
111 installed earlier because the Company could not find a reliable means of converting high

² See lines 91 to 104 of the Ralston rebuttal testimony.

112 pressure, high temperature steam to the low pressure, low volume steam required by the
113 inerting system. I find this explanation to be inconsistent with my experience with other
114 steam applications. The vast majority of cogeneration systems successfully and reliably
115 convert high pressure, high temperature steam to supply low pressure, low volume uses.
116 Furthermore, the Company could have installed a small packaged boiler that was
117 designed to supply steam to the inerting system at the proper temperature, pressure, and
118 volume. The Ralston rebuttal testimony confirms this approach. At lines 94 to 97, its
119 states as follows:

120 *“Original Equipment Manufacturers” (OEMs), have historically provided steam*
121 *inerting systems supplied from a low pressure steam source as part of the original*
122 *coal mill equipment. Such a provision was not originally provided by the*
123 *Huntington OEMs.*
124

125 The Company offers no reason why such a low pressure steam source could not have
126 been added after the unit was placed in-service. Thus, based upon the Company’s
127 rebuttal testimony, I am even more convinced that this coal mill explosion and the
128 associated outage were avoidable. The costs of this outage should not be recovered from
129 Utah ratepayers.

130 **Q: What issues are raised by the rebuttal testimony of Company witness Dickman that**
131 **you wish to respond to?**

132 A: Mr. Dickman’s rebuttal testimony discusses the additional filing requirements proposed
133 by the Division. The additional information sought included: explanations of why
134 specific transactions were made; detail on trading strategies, objectives, and instructions
135 given to its traders; discussion of the interaction between trading strategies and policies;
136 detailed breakdown of actual purchases and sales; details on long-term purchases.

137 Q: Does Mr. Dickman agree with the need to provide additional information as part of the
138 filing requirements?

139 A: Mr. Dickman opposes any such additional filing requirements. He states that:

140 All but two of the issues listed in Mr. Hahn's testimony are
141 not requests for data. Many are requests for explanations
142 regarding the nature of the Company's business. Since the
143 filing of his direct testimony where he recommended the
144 list of additional information, the Company has provided
145 explanations regarding these types of issues (e.g. why
146 certain trades are made) and explained to Mr. Hahn the
147 type of informational archives that are available. For these
148 types of issues it would be more appropriate to obtain
149 additional information as needed (i.e. for samples of
150 transactions) in future filings through the discovery
151 process. The remaining two items – a detailed breakdown
152 of actual purchases and sales and details on long term
153 purchases – were provided in this case, either in discovery
154 or with the original filing. Details on long-term firm
155 purchases and sales are best obtained through the individual
156 contracts, and new or modified contracts of this nature are
157 provided under Wyoming ECAM filing requirement 4.³

158
159 **Q: How do you respond?**

160 A. I do not object to seeking such additional information through the discovery process,
161 rather than having it provided as part of the filing requirements. This approach will be
162 efficient if the actual EBA costs are based upon a very large number of transactions, and
163 subsets or samples are reviewed in detail. However, in some cases, the Company does
164 not currently record or retain the information that would be requested. In order to
165 facilitate future EBA audits, the Company should record and retain the additional
166 information, so that when it is requested through the discovery process, the Company can
167 provide written documentation and not rely upon verbal explanations that cannot be
168 verified.

³ See lines 524 to 536 of Mr. Dickman's rebuttal testimony.

169 **Q: Can you provide specific examples of the type of additional information that the**
170 **Company should record and retain?**

171 A: Yes. The Company has stated that it uses certain daily “position reports” that show a
172 surplus or a deficiency in the amount of power that is needed on a short-term day-ahead
173 basis. Assuming a deficiency exists, traders seeking to balance the system use such
174 reports to determine the volume to be purchased. The Company has the option to either
175 buy at market rates or increase the output of its own generators. The Company can
176 canvass the market for available power at certain prices, and compare that against the
177 cost of producing additional output from its own generators. Complete documentation
178 for such a transaction would include the stated purpose of the transaction (i.e., the need to
179 balance the system), the position report that shows the amount of the imbalance, the
180 available volume and cost of purchased power, the available incremental output and cost
181 of the Company’s own generation, and the comparison that led to the appropriate choice.
182 Having this information available will create a complete “paper trail” that can be audited.
183 It is my understanding that, while all of this information exists at the time the transaction
184 is consummated, the Company does not presently record and retain this information. I
185 believe that the Company should do so.

186
187 Consider another example involving natural gas hedging. Hypothetically assume that the
188 Company has a policy to hedge between 30% and 50% of its expected natural gas
189 requirements three years in advance. Looking out three years, the Company finds that it
190 has hedged only 25% of its requirements. In this case, the Company will seek to
191 implement additional financial swaps to achieve compliance with the policy. But the

192 Company does not currently record the reason for its gas swaps. The Company should
193 keep records that state the reason for such transactions, the documentation that shows the
194 amounts needed, comparisons of any available alternatives, and the basis for selecting the
195 consummated transaction. As in the example above, recording and retaining this
196 information will create a complete set of documentation that can be audited. Comparable
197 levels of documentation should be established for all physical and financial transactions,
198 and should be provided when requested through the discovery process.

199

200 **V. Conclusion**

201 **Q: Does this conclude your testimony?**

202 A: At this time, yes, it does. Should additional or new information become available, I will
203 supplement or update this testimony as appropriate.