

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp, dba Rocky Mountain Power (the “Company”).**

3 A. My name is Brian S. Dickman. My business address is 825 NE Multnomah St.,
4 Suite 600, Portland, Oregon 97232. My title is Manager, Net Power Costs.

5 **Q. Are you the same Brian Dickman who filed direct, supplemental direct, and**
6 **rebuttal testimony in this proceeding?**

7 A. Yes.

8 **PURPOSE AND SUMMARY OF TESTIMONY**

9 **Q. What is the purpose of your surrebuttal testimony?**

10 A. My surrebuttal testimony responds to the rebuttal testimony of J. Robert Malko of
11 the Utah Industrial Energy Consumers (“UIEC”), specifically related to his
12 discussion of the variance in wholesale sales and purchases and his proposed
13 additional EBA filing requirements.

14 **WHOLESALE SALES AND PURCHASES**

15 **Q. Please summarize your understanding of Dr. Malko’s testimony regarding**
16 **the variance between forecast and actual short term firm sales and**
17 **purchases.**

18 A. Dr. Malko continues to argue that the variance between short term wholesale sales
19 and purchases might be due to speculative “day trading” and therefore should be
20 removed from the EBA balance. Dr. Malko stated in his direct testimony that
21 Division of Public Utilities witness Mr. Richard Hahn identified this variance and
22 did not reach a conclusion regarding the prudence of these transactions. With no
23 supporting evidence, Dr. Malko surmised the Company may be engaging in “day

24 trading.” In Dr. Malko’s rebuttal testimony he argued that, even though Mr. Hahn
25 supplemented his testimony and did not recommend any disallowance for short
26 term purchase and sale transactions, the variance should still be removed because
27 the Company has not explained why it entered into each and every transaction. He
28 reiterated his implication of the Company engaging in speculative trading with no
29 supporting evidence.

30 **Q. What transactions make up the cost categories identified by Mr. Hahn?**

31 A. In Figure 5 CONFIDENTIAL in his direct testimony, Mr. Hahn compared
32 summarized categories of actual net power costs to the corresponding categories
33 of base net power costs from Docket No. 10-035-124.¹ He shaded the amounts
34 for ‘Short Term Firm + Sys Balancing Sales’ and ‘Short Term Firm + System
35 Balancing Purchases’ and stated that he did not have enough detail to complete
36 his analysis of these categories. Table 1 below provides the short term firm
37 purchase and sale information referenced in Mr. Hahn’s Figure 5, but includes the
38 details making up the shaded summary figures. The bold totals in Table 1
39 correspond to the shaded line items identified in Mr. Hahn’s Figure 5
40 CONFIDENTIAL.

¹Mr. Hahn referenced the rebuttal net power costs in Docket No. 10-035-124, prior to application of any settlement adjustment.

Table 1

	Docket No. 10-035-124	Actual	Variance
Wholesale Sales Revenue			
Short Term Firm Sales	\$ 11,963,200	\$ 51,658,627	\$ 39,695,427
GRID System Balancing Sales	\$ 98,235,591		\$ (98,235,591)
Total Short Term Firm + Sys Balance Sales	\$ 110,198,791	\$ 51,658,627	\$ (58,540,164)
Wholesale Purchase Expense			
Short Term Firm Purchases	\$ 6,408,000	\$ 53,658,325	\$ 47,250,325
GRID System Balancing Purchases	\$ 29,377,097		\$ (29,377,097)
Subtotal	\$ 35,785,097	\$ 53,658,325	\$ 17,873,227
Electric Swaps Gain	\$ (28,306,634)	\$ (38,674,748)	\$ (10,368,114)
Total Short Term Firm + Sys Balance Purchases	\$ 7,478,464	\$ 14,983,577	\$ 7,505,113

41 Table 1 shows that Mr. Hahn’s summarized comparison in his Figure 5 includes
 42 short term firm sales and purchases of electricity, GRID system balancing
 43 purchases and sales, as well as the net gain on electric swaps. Dr. Malko’s
 44 proposal to remove the variances identified by Mr. Hahn would not only result in
 45 disallowance of all variances related to short term firm wholesale sales and
 46 purchase transactions, but also the variance in actual gains on electric swaps
 47 compared to the base. Dr. Malko provided no support for his adjustment, and his
 48 approach to remove only the variance from the base net power costs is
 49 inconsistent with his proposed adjustment to disallow 100 percent of the actual
 50 losses on natural gas swaps.

51 **Q. Please explain the difference between GRID system balancing sales and**
 52 **purchases and short term firm sales and purchases.**

53 A. System balancing sales and purchases in GRID are the sales and purchases
 54 generated by the model as it balances the system after all other inputs are

55 provided. When a rate case is compiled and base net power costs are determined
56 the Company has not yet entered into all transactions to balance the system and
57 serve its customers. System balancing purchases and sales are generated by GRID
58 to balance the projected loads and resources in the test period, and these
59 transactions are a proxy for the actual transactions the Company will later execute
60 as it actually balances the system. GRID balances the system with perfect
61 foresight and does not reflect the unpredictable hourly and daily load and resource
62 fluctuations that are reflected in actual NPC. When actual transactions have been
63 executed, they are included in the Short Term Firm Sales and Short Term Firm
64 Purchases for the actual period (shown in the actual column in Table 1).

65 **Q. Why did Mr. Hahn say in his direct testimony he was unable to complete his**
66 **analysis of short term firm purchase and sale transactions?**

67 A. Mr. Hahn indicated he had requested additional information related to the short
68 term firm sales and purchases in discovery and was awaiting a response.

69 **Q. Was the requested information provided?**

70 A. Yes. I described in my rebuttal testimony that the Company responded to Mr.
71 Hahn's request by providing a summary of the short term firm sales and
72 purchases by wholesale market hub and by participating in conference calls to
73 describe the nature of these transactions, which is to balance the Company's
74 system as it meets customer load. Mr. Hahn commented in his supplemental direct
75 testimony that he had gained a better understanding of the purpose of certain
76 power and gas transactions and will continue to explore them in the future.

77 **Q. Did Mr. Hahn recommend disallowance of the sample of transactions he**
78 **reviewed or the variance between base and actual costs?**

79 A. No.

80 **Q. Did you already provide testimony describing the driver of the changes in**
81 **short term firm wholesale sales and purchases?**

82 A. Yes. Table 2 in my direct testimony identified that a decline in wholesale sales
83 revenue and an increase in purchase power expense resulted in an increase in
84 actual net power costs compared to the base net power costs set in the general rate
85 case. I specifically described that the principle driver of the difference was the
86 decline in wholesale electricity and natural gas market prices as compared to the
87 prices reflected in the 2011 Stipulation. The change to wholesale market prices
88 resulted in a rebalancing of the Company's supply portfolio relative to the GRID
89 run used in the general rate case, including a reduction to wholesale sales and an
90 increase to purchased power volumes. This rebalancing of the Company's system
91 is manifest in the variance between short term firm and system balancing sales
92 and purchases shown in Table 1 above.

93 **Q. Dr. Malko continues to insist that the Company may be engaging in**
94 **speculative "day trading." Does the Company engage in this type of activity?**

95 A. No. In his rebuttal testimony, Company witness Mr. Stefan A. Bird, Senior Vice
96 President Commercial & Trading, testified that the Company does not engage in
97 speculative trading including "day trading."

98 **Q. Has Dr. Malko presented any evidence to support his claim?**

99 A. No. He only surmises that the balancing activities may include speculative trading

100 activities. Dr. Malko states that the Company engaged in speculative trading in
101 the past, and quotes Company testimony filed by Verl R. Topham in May 1990²
102 that he implies supports his statement. When read in context, however, the quote
103 has nothing to do with speculative trading. Rather, Mr. Topham was describing a
104 hypothetical situation related to cost recovery of new generating facilities and the
105 impact of an EBA. He explained that, if the existing EBA remained in place, the
106 Company may acquire new generation facilities and would pass back wholesale
107 sales margins through the EBA even though the investment was not included in
108 rate base. If the EBA were done away with, the Company could “make off system
109 sales from the generation of this facility and use the margin from those sales to
110 support the Company’s investment until such time as the facility was included in
111 rate base.”

112 **Q. Is it practical to require the Company separately explain every individual**
113 **system balancing transaction that settled during the EBA as recommended**
114 **by Dr. Malko?**

115 A. No. The Company executes these transactions to balance its system while meeting
116 customer load and it operates within its risk management policy. For example, at
117 any given time the Company’s loads and resources for a future period are not in
118 balance. As time moves forward the Company enters into transactions to reduce
119 the net open position (difference between load and resources) at various points
120 across its system. Thousands of deals are executed on a forward through real-time
121 basis in order to manage risk and enable the Company to meet its actual load

²Prefiled Direct Testimony of Verl R. Topham, Docket No. 90-035-06 at 15.

122 obligation as it materializes. As projections of load and available resources
123 change over time, the Company enters into purchase and sale transactions to
124 continually reduce the net open position. To accomplish this for the EBA deferral
125 period from October through December 2011, the Company entered into almost
126 12,000 short term physical power transactions. Approximately 34,000 similar
127 transactions settled during the calendar year 2012. These transactions may at
128 times appear to be duplicative, but are generally the result of dynamic projections
129 of load and resources. While the Company does not annotate every deal with an
130 explanation of why it was done, the Company provided a detailed ledger of each
131 of these transactions in the filing requirements and supplied invoices and other
132 supporting documentation for specific transactions as requested through
133 discovery.

134 **Q. Does the transaction level data support Dr. Malko's claim that the Company**
135 **is engaging in speculative "day trading"?**

136 A. No.

137 **Q. Did the Division's review of the short term power transactions support Dr.**
138 **Malko's claim?**

139 A. No. In his direct testimony Mr. Hahn describes that the Division reviewed a
140 sample of 50 power physical transactions (out of the thousands of transactions
141 that settled during the EBA deferral period). Mr. Hahn initially questioned certain
142 transactions where it appeared the Company had entered into simultaneous buys
143 and sells and suggested the Company should explain why the transactions were
144 made. The Company reviewed each of the transactions identified by Mr. Hahn

145 and provided supporting information in DPU Audit Request 1.8 detailing that
146 none of the deals were simultaneous buys and sells (aka back to back
147 transactions), but were transactions used to physically balance the Company's
148 open positions at various locations and times of delivery.

149 **Q. Has the Company performed any additional analysis to show that it does not**
150 **engage in speculative “day trading”?**

151 A. Yes. The Company examined all day-ahead³ transactions that settled during the
152 EBA deferral period summarized by product type, date of delivery, and point of
153 receipt/delivery. If the Company was engaging in speculative “day trading” one
154 would expect to see a significant volume of these purchase and sale transactions
155 at the same point on the same delivery day. The analysis shows that, out of the
156 approximately 2.0 million megawatt hours of day-ahead transactions settling
157 during the EBA deferral period, approximately 99,000 megawatt hours, or 5.0
158 percent of the total, are related to overlapping transactions (i.e., purchase and sale
159 transactions on the same delivery day at the same point of delivery). I have
160 provided the supporting detail in the workpapers accompanying my testimony.

161 **Q. What is the explanation for the purchase and sale transactions occurring at**
162 **the same point on the same delivery day?**

163 A. The three main reasons for both a purchase and a sale at the same location for the
164 same delivery day are (1) initial balancing transactions at a liquid point were
165 followed by subsequent “spread transactions” to a more favorable location as
166 liquidity developed within the same day of delivery, (2) a sudden large change in

³The Company examined transactions of standard market products with deliveries spanning 6 or fewer days.

167 the Company's available resources or a large change in the Company's load
168 forecast caused the Company to enter into additional transactions to rebalance the
169 system and (3) risk-free arbitrage transactions consisting of buying and selling the
170 same product at the same point.

171 **Q. Please explain the spread transactions.**

172 A. There were times when the Company was surplus (or deficit) and then sold at a
173 liquid point such as Palo Verde due to its high level of liquidity. Subsequently
174 during the same day, the Company optimized the location of its sales by buying
175 power at Palo Verde and selling at other locations with more favorable prices
176 such as Four Corners, Mead, or Westwing. The Company used its transmission
177 rights to facilitate the spread transactions. This activity reduced net power costs
178 and was not speculative.

179 **Q. Please explain the transactions done in response to a large change in
180 resources or loads.**

181 A. There were times when the Company was surplus (or deficit), then sometime later
182 became deficit (or surplus). Changes to resource availability (e.g. due to a
183 generating unit trip) or to load forecasts (e.g. due to a temperature forecast
184 change) during the day-ahead trading period changed a surplus position to a
185 deficit position (or vice versa) resulting in the need to "reverse course" by
186 purchasing when the Company had previously sold (or vice versa) earlier in the
187 day. This activity was done to balance the Company's loads and resources with its
188 most up-to-date information and was not speculative trading.

189 **Q. Please explain the arbitrage transactions.**

190 A. There were times when the Company, in the course of monitoring the various
191 market locations, observed that it could purchase a product at a location at a price
192 lower than it could sell the same product at the same location. The Company
193 completed such transactions to lower net power costs. These transactions were not
194 speculative because the Company did not increase its market price risk; rather, it
195 consummated both the purchase and sale on the same day.

196 **Q. In summary, does the variance between short term power transactions**
197 **included in base NPC and actuals indicate any imprudence by the Company?**

198 A. No. On the contrary, such a variance is to be expected because the Company's
199 actual resource availability and load requirements will always be different from
200 the projections used to determine base NPC. Variances in short term power
201 transactions compared to the base NPC result from the Company's prudent
202 actions to balance its actual load on a daily and hourly basis. The purpose of the
203 EBA is to allow the Company to recover these prudently incurred costs.

204 **ADDITIONAL FILING REQUIREMENTS**

205 **Q. Dr. Malko provided a list of six additional filing requirements with multiple**
206 **subparts that he recommends be adopted in future filings. Do you agree?**

207 A. No. As I stated in my rebuttal testimony, the Company recognizes the Utah EBA
208 is a pilot program that will continue to evolve as it is implemented, and the
209 Company is willing to work with parties to determine what information would be
210 useful to provide with its EBA filings. However, additional information must be
211 relevant to Utah's EBA and available to be provided. Some of the requirements

212 proposed by Dr. Malko are either already part of the Commission-approved filing
213 requirements, not clear, or seeking information that is not readily available.

214 Specific examples include the following:

- 215 • Proposed requirements 1(d) through 1(g) are already included or can be
216 derived with the trade data.
- 217 • Proposed requirements 3(a) and 6 are not clear in describing exactly what
218 data would be required.
- 219 • Proposed requirement 3(b) seeks information regarding market-related and
220 other unforced reduction of generation. The Company tracks reductions in
221 generation at its plants but reductions are caused by multiple factors and
222 there is no clear way to parse every event and attribute specific amounts of
223 energy not generated to individual causes.

224 **Q. Does this conclude your surrebuttal testimony?**

225 A. Yes.