

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE)	
APPLICATION OF ROCKY)	DOCKET NO. 14-035-31
MOUNTAIN POWER TO INCREASE)	Exhibit DPU 2.0 Dir
THE DEFERRED EBA RATE)	
THROUGH THE ENERGY)	Testimony and Exhibits
BALANCING ACCOUNT)	Richard S. Hahn
MECHANISM.)	
)	

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

**Testimony of
Richard S. Hahn**

July 29, 2014

TABLE OF CONTENTS

I. Introduction 4

II. La Capra Associates' Assignments 6

III. Findings and Recommendations..... 8

IV. Conclusion..... 10

ATTACHMENTS

Exhibit DPU 2.1 Dir, Resume of Richard S. Hahn

Exhibit DPU 2.2 Dir, La Capra Associates 2013 EBA Audit Report – Public Executive
Summary

Confidential Exhibit DPU 2.3 Dir, La Capra Associates 2013 EBA Audit Report

Confidential Exhibit DPU 2.4 Dir, La Capra Associates 2013 EBA Adjustments

Confidential Exhibit DPU 2.5 Dir, La Capra Associates NPV Variance Summary Table

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: Please summarize your educational and professional experience.**

9 A: I received my Bachelor’s in Science, Electrical Engineering, in 1973, and my Masters in
10 Science, Electrical Engineering, in 1974, both from Northeastern University. I received
11 my Masters in Business Administration from Boston College in 1982. Since joining La
12 Capra in 2004, I have worked on many projects related to energy markets, utility resource
13 planning projects, forecasts of wholesale market prices, and asset valuations. Prior to
14 joining La Capra, I was employed by NSTAR Electric & Gas (formerly Boston Edison
15 Company) from 1973 to 2003, where I was responsible for, among other activities, rates,
16 integrated resource planning and procurement of fuel supplies and power supplies via
17 Requests For Proposals (“RFPs”) and bilateral contract negotiations. Throughout my
18 career, I have gained and demonstrated considerable experience and expertise in utility
19 planning and operating activities and electric rates. I am a registered professional
20 electrical engineer in the Commonwealth of Massachusetts. My resume is provided
21 in DPU Exhibit 2.1 Dir.

22 **Q: What is the purpose of your testimony?**

23 A: La Capra Associates was retained by the Division to assist in reviewing the Application
24 of Rocky Mountain Power (“RMP” or the “Company”) seeking approval from the Public
25 Service Commission of Utah (“Commission”) to increase electric rates. The scope of our
26 assignment was to ascertain whether the actual costs included in the Energy Balancing
27 Account (“EBA”) filing were incurred pursuant to an in-place policy or plan, were
28 prudent, and were in the public interest. This direct testimony presents the results of and
29 the conclusions from that review.

30 **Q: Have you previously testified before the Public Service Commission of Utah?**

31 A: Yes. I testified in Docket 12-035-67 regarding an audit of EBA costs for the period
32 October 1, 2011 through December 31, 2011. This testimony presented the results and
33 conclusions of my review of EBA costs in the fourth quarter of 2011. I testified in
34 Docket 13-035-32 regarding an audit of EBA costs for the period January 1, 2012
35 through December 31, 2012. This testimony presented the results and conclusions of my
36 review of EBA costs for the calendar year of 2012. I also testified in Docket 11-035-200
37 and Docket 13-035-184 regarding the applications of RMP to increase its electric rates.
38 The purpose of my testimonies in those dockets was to review the Company’s proposed
39 capital additions for the test year in each rate case. I also testified in Docket No. 10-035-
40 126 regarding the Application of Rocky Mountain Power for Approval of a Significant
41 Energy Resource Decision Resulting from the All Source Request for Proposals. And I
42 testified in Docket No. 10-035-124 regarding the Application of Rocky Mountain Power
43 for Authority to Increase Its Retail Electric Utility Service Rates in Utah and for
44 Approval of Its Proposed Electric Service Schedules and Electric Service Regulations.

45

46 **Q: What Exhibits are you sponsoring?**

47 A: I sponsor five Exhibits. **Exhibit DPU 2.1 Dir, Resume of Richard S. Hahn** is a copy of
48 my resume. **Exhibit DPU 2.2 Dir, La Capra Associates 2012 EBA Audit Report –**
49 **Public Executive Summary** is a summary of our findings and recommendations. This
50 Exhibit does not contain any Confidential or Highly Confidential information, and is
51 publicly available. **Confidential Exhibit DPU 2.3 Dir, La Capra Associates 2013 EBA**
52 **Audit Report** is our full and complete report. This Exhibit contains material, and is
53 based upon information that we received from the Company, that has been identified by
54 the Company as Confidential. **Confidential Exhibit DPU 2.4 Dir, La Capra Associates**
55 **2013 EBA Adjustments** summarizes the changes that we recommend be made to the
56 2013 EBA deferral amount proposed by the Company. **Confidential Exhibit DPU 2.5**
57 **Dir, La Capra Associates NPC Variance Summary** summarizes the system-wide
58 variances between Base and Actual net power costs (“NPC”). Confidential exhibits can
59 be provided to entities that the Company has authorized as being eligible to receive such
60 information through the execution of the Company’s Non-Disclosure Agreement.

61

62 **II. La Capra Associates’ Assignments**

63 **Q: What was the scope of La Capra Associates’ assignment in this proceeding?**

64 A: The first task was to review the variances between EBA actual and forecasted costs to
65 determine that any differences that are reflected in the requested EBA charge are
66 reasonable. Here we compared actual output and variable costs for each generating unit

67 versus the forecasted amounts. We also examined purchases and sales from a similar
68 perspective.

69 The second task was to review and assess actual plant outages to ensure that these
70 outages and their cost impact on the EBA charge is appropriate. We examined the
71 information provided as part of the filing, and conducted additional discovery.

72 The next assignment was to evaluate a sample of trading transactions for accuracy,
73 completeness, and prudence. From a workload perspective, this task constituted the
74 largest component of our audit. The Company has settled tens of thousands of
75 transactions during 2013, consisting of power and natural gas financial and physical
76 deals. We developed a sample of 83 broadly-representative transactions and accounting
77 entries and conducted extensive discovery on these transactions. We built on knowledge
78 gained from similar review in previous EBA cases, including a 2013 visit to the
79 Company's trading headquarters in Portland, OR to meet trading staff and witness trading
80 activity. We also met with Company personnel via conference calls to help ensure that
81 our review of this data was accurate and complete.

82 When La Capra Associates was selected in 2012 to assist the Division in reviewing EBA
83 costs for 2011, 2012, and 2013, one of our objectives was to impart some of our expertise
84 to Division Staff. This would facilitate Staff's reviews of future EBA assessments. We
85 believe that we have made considerable progress on this goal. As a result, we shared the
86 review of our 2013 sample transactions with Staff. Specifically, certain transactions were
87 assigned to Staff for its independent review and analysis, and La Capra Associates
88 reviewed and analyzed the rest of the sample deals. This report summarizes the results of
89 our review of the transactions assigned to La Capra Associates. The Division staff will

90 be issuing its own report summarizing the results of its review. Thus, the result contained
91 in this report should be considered as supplementing the work done by Staff.

92 **III. Findings and Recommendations**

93 **Q: Can you briefly summarize your findings and recommendations in this proceeding?**

94 A: We believe that there were two plant outages in 2013 that could have and should have
95 been avoided. We recommend that the EBA be adjusted to reflect what costs would have
96 been had these outages not occurred. The total reduction in total system costs for these
97 outages is \$9.1 million, resulting in a reduction in the recommended EBA deferral
98 amount of \$2.8 million. We recommend no adjustments to EBA costs due to other
99 outages at this time.

100 Our review of hedging transactions yielded a pair of gas financial transactions that were
101 executed on the same day, with the same counterparty, for the same product. The
102 combined value of the deals exceeded the trader's authorized trading limits, and no
103 management authorization was shown. We recommend a disallowance of \$847,600 in
104 losses from these deals, resulting in a reduction in the requested EBA deferral amount of
105 \$281,832.

106 In reviewing our sample hedge transactions, we considered a threshold element of
107 demonstrating prudence to be whether the Company could provide a strategic purpose for
108 doing a particular deal at a particular time. There were several "discretionary trades" in
109 our sample for which the Company provided no specific reason or purpose for executing
110 the trade. We define "discretionary trades" as trades that are not required to correct an
111 excursion of a binding policy limit. Four of the discretionary trades for which no specific
112 reason was given resulted in losses totaling \$5,907,486. We recommend a disallowance

113 of losses resulting from these trades that have not been shown to be prudent, resulting in
114 a reduction in the requested EBA deferral amount of \$1,925,002.

115 Our review of non-hedging transactions yielded a number of issues of concern. The
116 Company sought to include payment of damages without adequately demonstrating that
117 the Company acted prudently when it incurred the damages. Furthermore, the payment of
118 damages was made outside the EBA deferral period, and should not be included in the
119 current EBA. We recommend that this damage payment be removed from Actual NPC,
120 resulting in a reduction in the requested EBA deferral amount of \$117,392. The
121 Company also failed to adequately support its accounting treatment for transactions
122 involving its use of the Clay Basin Storage facility for 8 months of the year. We
123 recommend an initial disallowance of \$6,861 (\$2,216 EBA deferral amount) for one
124 apparent discrepancy that was found. We recommend the Company reconcile its
125 accounting for the remaining months or risk further disallowances.

126 Several issues were raised in our review but did not result in a recommended adjustment
127 to the EBA deferral. We have concerns about the Company's practices of accounting for
128 "take or pay" gas supply contracts in its economic dispatch decision. The Company
129 failed to provide adequate documentation to reconcile some real-time energy transactions
130 with the associated NERC E-Tag. Finally, the Company's practice of not recording best
131 efforts to seek two bids or offers made it impossible for us to judge the prudence of a
132 particular bilateral real-time purchase during very high price ("super peak") hours.

133 In summary, we believe that system-wide net power costs ("NPC") should be reduced by
134 at least \$16.2 million. Utah's approximate share of this reduction is \$6.8 million. Based
135 upon the 70% / 30% sharing formula and the monthly interest accrued through October

136 31, 2014, the amount to be recovered by the Company should be reduced by at least \$5.1
137 million. The Division recommends additional adjustments in its report. The calculation
138 of EBA deferral amounts are shown in Confidential Exhibit DPU 2.4.

139

140 **IV. Conclusion**

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

142 **A:** At this time, yes, it does. Should additional or new information become available, I will
143 supplement this testimony as appropriate.