

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

)	DOCKET NO. 14-035-31
)	
IN THE MATTER OF THE)	
APPLICATION OF ROCKY)	
MOUNTAIN POWER TO INCREASE)	Exhibit No. DPU 1.0 Dir
THE DEFERRED EBA RATE)	
THROUGH THE ENERGY)	Direct Testimony and Exhibits
BALANCING ACCOUNT)	
MECHANISM.)	Matthew Croft
)	

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

Direct Testimony of

Matthew Croft

July 29, 2014

1 **Q. Please state your name and occupation?**

2 A. My name is Matthew Allen Croft. I am employed by the Utah Division of Public Utilities
3 (“Division”) as a Utility Technical Consultant.

4 **Q. What is your business address?**

5 A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84111.

6 **Q. Please describe your education and work experience.**

7 A. I graduated in December of 2007 from the University of Utah with a Bachelor of Arts degree
8 in Accounting. I completed my Masters of Accounting at the University of Utah in May
9 2010. I began working for the Division in July of 2007. In April 2012 I became a Certified
10 Public Accountant, licensed in the state of Utah.

11 **Q. Have you testified before the Commission previously?**

12 A. Yes. I have testified in several rate case proceedings and other matters before the
13 Commission including the previous EBA Audits in Docket No. 12-035-67 and 13-035-32.

14 **Q. What is the purpose of the testimony that you are now filing?**

15 A. The purpose of my testimony is to summarize the Division’s audit with respect to the
16 Company’s Energy Balancing Account (EBA) for the period January 1, 2013 through
17 December 31, 2013 (2014 EBA).

18 **Q. How did the Division conduct its audit of the EBA?**

19 A. The Division contracted with La Capra Associates to review and provide recommendations
20 and testimony on certain aspects of the Company’s EBA filing. Specifically, La Capra was
21 assigned to ascertain whether the actual costs included in the EBA filing were based upon the
22 Company following its stated policies and procedures, were prudent, and were in the public

23 interest. The investigation of whether or not the various NPC items were properly booked
24 was primarily the responsibility of the Division's in-house staff. The Division also reviewed
25 a sample of trading deals for prudence. The results of La Capra's investigation are presented
26 in the direct testimony of Richard S. Hahn (DPU Exhibit 2.0). The Division's Audit Report
27 includes its own analysis as well as support for the testimony of Mr. Hahn and the
28 accompanying La Capra Audit Report (Confidential DPU Exhibit 2.3). The Division's audit
29 report is included as Confidential DPU Exhibit 1.2.

30 **Q. Did other Division staff participate in the EBA audit?**

31 A. Yes. Including myself, there were ten Division staff members that reviewed various aspects
32 of the Company's EBA filing.

33 **Q. Can you please summarize the Division's findings and recommendations?**

34 A. Yes. The Division's findings and recommendations are as follows:

- 35 1. With one minor exception, the Division believes the costs presented in the EBA are
36 accurate and tie to the supporting schedules and source documents that were provided by
37 the Company. The correction of one minor invoice discrepancy increases Utah's EBA
38 deferral balance by \$4,265.
- 39 2. The Division identified several costs for which supporting documentation was either not
40 provided at all or if provided was insufficient in terms of assumptions used or
41 explanations provided. These issues can be broken down into the following categories:
 - 42 a. Unsupported trade purposes. The Division identified nine trading deals (two gas
43 financial, one gas physical, and six power financial) whose purpose was not

- 44 explained by the Company. Removing these deals from the EBA reduces Utah's
45 EBA deferral by \$1,572,521.
- 46 b. Unsupported trade approvals. The Division identified two trading deals that were
47 not approved by the proper authority. Removing these deals from the EBA
48 reduces Utah's EBA deferral by \$1,448,098.
- 49 c. Unsupported adjustments to actual NPC. The Company did not provide sufficient
50 supporting documentation for the buy-through adjustment or Black Cap Solar
51 adjustment. The Division's adjustment for these two items reduces Utah's EBA
52 deferral balance by \$485,664. Also included in this adjustment is an adjustment to
53 remove double counted pipeline fees.
- 54 d. Unsupported Bridger Coal Company Costs. Bridger Coal Company operating
55 costs flow through to the EBA as coal costs. The Division identified several items
56 whose source documentation (invoices, accounting calculations/entries, etc.) was
57 either not provided at all, or whose assumptions and reasoning were not
58 adequately explained. These issues relate to royalty accruals, loss on disposal of
59 asset, and other miscellaneous Bridger Coal Company costs. Removing these
60 costs reduces Utah's EBA deferral balance by \$705,148.
- 61 e. Corrections. The Division identified two corrections to the Company's filing. The
62 first corrects the scalar value used in the Company's filing. The second correction
63 includes certain fuel cost adjustments that were not carried over into the
64 Company's final EBA calculations. These corrections increase Utah's EBA
65 deferral balance by \$105,904.

- 66 3. Given the ongoing concerns with documentation of reasons for trades, seeking of
67 competitive bids, and the lack of responsiveness to data requests in this, the third year of
68 the EBA pilot program, the Division recommends the Commission do the following.
- 69 a. Take steps to dramatically improve the level of thoroughness and completeness of
70 the Company's responses and the documentation provided in future proceedings.
71 Among the effective steps would be refusing to consider as evidence data provided
72 after due dates or data that should have been provided in response to earlier data
73 requests.
- 74 b. Require the Company to document the purpose and reason for executing all future
75 gas physical, gas financial, power physical, and power financial transactions.
76 Such documentation should explain why the deal was made when it was made
77 with the specific counterparty at a specific location.
- 78 c. Require the Company to document its traders' "best efforts to seek out at least
79 two competitive bids or offers compared to the next best alternative using good
80 judgment and discretion."

81 La Capra Associates have also completed an EBA Audit Report. Their recommendations, which
82 the Division adopts as part of its recommendations to the Commission, are outlined below.

- 83 1. Two plant outages in 2013 could have and should have been avoided. The EBA should be
84 adjusted to reflect what costs would have been had these outages not occurred. The total
85 reduction in total system costs for these outages is \$9.1 million, resulting in a reduction in
86 the recommended EBA deferral amount of \$2.8 million.

- 87 2. A pair of gas financial transactions were identified to have been executed on the same
88 day, with the same counterparty, for the same product. The combined value of the deals
89 exceeded the trader's authorized trading limits, and no management authorization was
90 shown. The disallowance of \$847,600 in losses from these deals, results in a reduction in
91 the requested EBA deferral amount of \$281,832.
- 92 3. La Capra's sample of transactions, identified several "discretionary trades" for which the
93 Company provided no specific reason or purpose for executing the trade. Removing these
94 trades from the EBA reduces Utah's EBA deferral balance by \$1,925,002.
- 95 4. With regard to non-hedging transactions, the Company sought to include payment of
96 damages without adequately demonstrating that the Company acted prudently when it
97 incurred the damages. Furthermore, the payment of damages was made outside the EBA
98 deferral period, and should not be included in the current EBA. Removing these damages
99 reduces Utah's EBA deferral amount by \$117,392.
- 100 5. The Company failed to adequately support its accounting treatment for transactions
101 involving its use of the Clay Basin Storage facility for 8 months of the year. The
102 recommended initial disallowance of \$6,861 (\$2,216 EBA deferral amount) is for one
103 apparent discrepancy that was found. The Division recommends the Company reconcile
104 its accounting for the remaining months or risk further disallowances.

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106 6. Several issues were raised that did not result in a recommended adjustment to the EBA
107 deferral. These concerns include the Company's practices of accounting for "take or
108 pay" gas supply contracts in its economic dispatch decision, the Company failing to
109 provide adequate documentation to reconcile some real-time energy transactions with the
110 associated NERC E-Tag and the Company's practice of not recording best efforts to seek
111 two bids or offers.

112 7. Similar to the Division's report, La Capra's report identifies transparency issues with
113 regards to the Company's handling of EBA information. La Capra strongly recommends
114 that the Commission take steps to dramatically improve the level of thoroughness and
115 completeness of the Company's responses to data requests and the documentation
116 provided in future proceedings.

117 **Q. Based on the adjustments explained above, what is the Division's recommended EBA**
118 **deferral balance recovery?**

119 A. The Division specifically recommends a \$9.24 million reduction to the original \$28.34
120 million requested by the Company.

121 **Q. Does this conclude your testimony?**

122 A. Yes.