

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	Docket No. 14-035-31
Rocky Mountain Power to Increase)	Direct EBA Testimony of
The Deferred EBA Rate Through)	Danny A.C. Martinez
The Energy Balancing Account)	For the Office of
Mechanism)	Consumer Services
)	

August 28, 2014

1 **I. INTRODUCTION**

2

3 **Q. WHAT IS YOUR NAME, YOUR OCCUPATION AND YOUR BUSINESS**
4 **ADDRESS?**

5 A. My name is Danny A.C. Martinez. I am a utility analyst for the Office of
6 Consumer Services (“Office”). My business address is 160 E. 300 S., Salt Lake
7 City, Utah 84111.

8

9 **Q. PLEASE DISCUSS YOUR EDUCATION AND QUALIFICATIONS.**

10 A. I have B.S. and M.S. degrees in economics from the University of Utah. I also
11 have a MPA degree from the University of Utah. My private and public sector
12 work experience spans over 20 years including ten years in financial services
13 and ten years teaching economics. In 2010, I was hired by the Office of
14 Consumer Services. At the Office, I have worked primarily in the areas of cost of
15 service (“COS”), rate design, and demand side management (“DSM”). I filed
16 testimony on cost of service and rate design issues in the last Questar Gas
17 general rate case (Docket 13-057-05). I also filed direct testimony on rate design
18 issues in Rocky Mountain Power’s past two general rate cases (Dockets 11-035-
19 200 and 13-035-184). Lastly, I have attended various training opportunities,
20 including an intensive course on cost of service and rate design issues.

21

22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS EBA CASE?**

23 A. My testimony does the following:

- 24
- Introduces the Office’s expert witness in this proceeding;
 - Summarizes the Office’s recommended adjustments to the Company’s
26 proposed \$28,339,553 increase in EBA rates for the EBA period, January
27 1, 2013 – December 31, 2013;
 - Provides the Office’s EBA rate spread proposal; and
 - Discusses other issues related to the Division of Public Utilities (“Division”
29 or “DPU”) EBA Audit Report.
- 30

31 **Q. PLEASE IDENTIFY THE EXPERT WITNESS HIRED BY THE OFFICE FOR THIS**
32 **PROCEEDING.**

33 A. The Office retained Mr. Phil Hayet, President of Hayet Power Systems
34 Consulting, as a net power cost expert in this case. In his direct testimony, Mr.
35 Hayet proposes adjustments pertaining to generation unit outages and wholesale
36 wind integration costs.

37

38 **II. RECOMMENDATIONS**

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40 **Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS FOR THIS**
41 **PROCEEDING.**

42 A. As discussed in the direct testimony of Mr. Hayet, the Office recommends that
43 the Commission adopt the following EBA adjustments:

- 44 • A disallowance of \$1,560,892 for excess replacement power costs associated
45 with two plant outages; and
- 46 • A disallowance of \$898,661 for wholesale wind integration costs.

47

48 The Office's recommended adjustments total \$2,459,553 and reduce the
49 Company's proposed \$28,339,553 increase to \$25,880,000. Therefore, the
50 Office supports an EBA increase of \$25,880,000.

51

52 Regarding EBA rate spread, the Commission should continue to use the "NPC
53 Allocator" method approved in Docket 11-035-T10. Since the baseline NPC
54 forecast for the 2013 EBA accrual period was established in the 11-035-200
55 GRC, the Commission should use the NPC Allocator from that proceeding to
56 spread any authorized increase in EBA costs among the tariffed rate schedules
57 and affected contract customers.

58

59 Lastly the Office supports some of the Division's recommendations to improve
60 timeliness and completeness of data request responses to facilitate a more
61 effective EBA audit.

62 **III. EBA RATE SPREAD**

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64 **Q. HAS THE COMMISSION PREVIOUSLY DECIDED WHAT ALLOCATION**
65 **METHOD SHOULD BE USED TO SPREAD EBA COSTS TO THE TARIFFED**
66 **RATE SCHEDULES AND APPLICABLE SPECIAL CONTRACT**
67 **CUSTOMERS?**

68 A. Yes. In Docket 11-035-T10, the Commission ordered use of the NPC Allocator
69 for rate spread purposes, beginning with EBA costs authorized for recovery in the
70 Company's 2013 EBA Case and continuing thereafter.¹ Consequently, this will
71 be the second case in which the NPC Allocator will be used to spread EBA costs
72 to rate schedules and affected contract customers.

73

74 **Q. IN ITS AUDIT REPORT, THE DIVISION PROPOSES TO USE THE NPC**
75 **ALLOCATOR FROM THE MOST RECENT GRC (DOCKET 13-035-184) TO**
76 **SPREAD EBA COSTS IN THIS PROCEEDING. DOES THE OFFICE AGREE**
77 **WITH THE DIVISION'S RECOMMENDED NPC ALLOCATOR?**

78 A. No. The current EBA proceeding reflects EBA costs for the 2013 calendar year.
79 Since the NPC Allocator in the 13-035-184 Docket is based on a July 2014 -
80 June 2015 forecast period, use of this particular NPC Allocator would create a
81 mismatch between the NPC baseline forecast (July 2014 - June 2015) and the
82 2013 EBA accrual period. The appropriate NPC Allocator to use in this EBA
83 proceeding is the one from the 11-035-200 GRC, which properly aligns the NPC
84 forecast with the 2013 EBA accrual period. This NPC Allocator was used to
85 derive the Company's rate spread proposal, as presented in Exhibit RMP__
86 (JRS-1).

87

88 **Q. HOW DOES THE STIPULATION IN DOCKET 13-035-184 AFFECT THE EBA**
89 **RATE SPREAD?**

90 A. Assuming the GRC stipulation in Docket 13-035-184 is approved by the
91 Commission, all EBA deferrals currently being collected in the EBA surcharge

¹ Docket 11-035-T10; Commission's May 1, 2012 Order, pages 11-12.

92 from Dockets 10-035-124, 12-035-67, 13-035-32, and any amount authorized by
93 the Commission in the current EBA docket, will be collected over a one-year
94 period starting November 1, 2014. Special care will be necessary is designing
95 the surcharge to ensure that the remaining EBA deferral amounts are collected in
96 a manner consistent with past Commission orders on rate spread for each
97 portion. The Office understands that this is the Company's intent. After the
98 Commission issues its order in this EBA proceeding, the rate spread will be
99 reviewed in the Company's EBA compliance filing to ensure the spread
100 percentages for each class are consistent with the current and all prior EBA
101 orders.

102
103 **Q. DOES THE OFFICE AGREE WITH THE COMPANY'S PROPOSAL FOR**
104 **SPREADING EBA COSTS TO RATE SCHEDULES 21 AND 31 AND**
105 **CONTRACT CUSTOMER 3?**

106 A. Yes. As discussed in Ms. Steward's direct testimony², customers taking service
107 under Schedules 21 and 31 are more similar to Schedule 9 customers compared
108 to other rate schedules. In addition, Contract Customer 3's terms require that it
109 participate in the EBA and pay the same rate as Schedule 9.

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111 **IV. OTHER ISSUES**

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113 **Q. ARE THERE ANY OTHER ISSUES THAT THE OFFICE HAS CONCERNS**
114 **ABOUT THAT EMERGED FROM THE DIVISION'S AUDIT REPORT?**

115 A. Yes. Two issues emerged from the Division's EBA Audit Report. First, in its
116 current EBA Audit Report, the Division indicates that the Company was both
117 unresponsive and late in responding to data requests. The Office is very
118 concerned about the difficulty the Division has experienced in obtaining
119 information necessary to conduct a thorough EBA audit. Second, the Office is
120 concerned about the percentage of the Company's hedging transactions on
121 which the Division recommended a disallowance.

² Steward Direct, Pg 2-3, lines 40-55.

122 **Q. PLEASE EXPLAIN THE OFFICE'S CONCERNS ABOUT THE COMPANY'S**
123 **HEDGING TRANSACTIONS IN THIS CASE?**

124 A. While the Office did not hire a hedging expert for this proceeding, the Office
125 reviewed the DPU's analysis of hedging transactions. The Office is concerned
126 about the potential implications on the total transactions, if the transactions for
127 which Division recommends disallowances are found to be imprudent. However,
128 the Office would like to review the Company's rebuttal testimony before taking a
129 specific position regarding the Division's recommendations on hedging
130 disallowances.

131

132 **Q. IN ITS CURRENT EBA AUDIT REPORT, DID THE DIVISION MAKE**
133 **RECOMMENDATIONS ON HOW TO ADDRESS ISSUES OF**
134 **UNRESPONSIVENESS AND LATE DATA REQUEST RESPONSES?**

135 A. Yes, the Division recommended the following actions:

- 136 1. Take steps to dramatically improve the level of thoroughness and
137 completeness of the Company's responses and the documentation
138 provided in future proceedings.
- 139 2. Require the Company to document the purpose and reason for executing
140 all future gas physical, gas financial, power physical, and power financial
141 transactions.
- 142 3. Require the Company to document its traders' "best efforts to seek out
143 and at least two competitive bids or offers compared to the next best
144 alternative using good judgment and discretion."³

145

146 **Q. DOES THE OFFICE SUPPORT THE DIVISION'S RECOMMENDATIONS IN**
147 **THIS AREA?**

148 A. The Office generally supports the need for timely and complete responses to
149 data requests issued by the DPU and other intervenors. The Company is
150 responsible for providing sufficient information so that the Division can conduct a
151 thorough audit of EBA accounts to ensure that recorded transactions and entries

³ See Matthew Croft's Direct Testimony at lines 69 – 80.

152 are both accurate and prudent. The Office is hopeful that the Company can work
153 more cooperatively with the Division to facilitate this information transfer in future
154 audits. The Office will wait to comment on the Division's recommendations
155 regarding additional documentation for hedging transactions until after we review
156 the Company's response in this area.

157

158 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

159 A. Yes it does.