

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

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

**Rebuttal Testimony of
Richard S. Hahn**

September 23, 2014

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ATTACHMENTS

Exhibit DPU 2.1 Reb, RMP Calculation from 13-035-12 (CONF)

Exhibit DPU 2.2 Reb, FR 6.5 excerpt (CONF)

Exhibit DPU 2.3 Reb, Excerpt from RMP response to DPU 6.1 (CONF)

Exhibit DPU 2.4 Reb, Response to DPU 38.27

Exhibit DPU 2.5 Reb, Revised Adjustments to the 2013 EBA (CONF)

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 filed testimony in this proceeding?**

9 A: My direct testimony in this proceeding was filed on July 29, 2014.

10 **Q: What is the purpose of your rebuttal testimony?**

11 A: The purpose of my rebuttal testimony is to respond to the response testimony of
12 Company witnesses. I respond to certain issues raised by those witnesses, but a lack of
13 response to any particular issue raised by Company witnesses or other parties should not
14 be construed as agreement on that issue.

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

16 A: I sponsor the following exhibits.

- 17
- Exhibit DPU 2.1 Reb, RMP Calculation from 13-035-12 (CONF)
 - 18 • Exhibit DPU 2.2 Reb, FR 6.5 excerpt (CONF)
 - 19 • Exhibit DPU 2.3 Reb, Excerpt from RMP response to DPU 6.1 (CONF)
 - 20 • Exhibit DPU 2.4 Reb, Response to DPU 38.27
 - 21 • Exhibit DPU 2.5 Reb, Revised Adjustments to the 2013 EBA (CONF)

22

23 **II. Rebuttal to the Dickman Response Testimony**

24 **Q: What issues are raised by the response testimony of Mr. Dickman that you wish to**
25 **respond to?**

26 A: Some the issues raised by Mr. Dickman’s response testimony are directed to DPU Staff,
27 who will respond separately. I will respond to the following issues directed to La Capra
28 Associates’ report raised by Mr. Dickman’s response testimony.

29 [REDACTED]

- 30 • Clay Basin transactions
- 31 • Calculation of replacement power costs
- 32 • Adequacy of Information Provided

33 [REDACTED]

34 **Q: What does the Company’s response testimony state regarding [REDACTED]?**

35 A: [REDACTED]
36 [REDACTED]
37 [REDACTED]
38 [REDACTED]
39 [REDACTED]
40 [REDACTED]
41 [REDACTED]
42 [REDACTED]
43 [REDACTED].

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

45 A: Upon further reflection, I will accept the reduction in the amount to be included in the
46 EBA proposed by the Company as discussed above.

47 *Clay Basin Transactions*

48 **Q: What issues are raised in the Company's response testimony regarding the Clay**
49 **Basin transactions?**

50 A: In the La Capra Associates report, I had recommended adjusting EBA costs for the
51 \$6,861 discrepancy between the documentation provided and the accounting entry
52 included in the EBA for January. I also recommended that the Company provide full
53 documentation of the remaining Clay Basin storage accounting entries, at the same level
54 of detail as already provided for September through December. Mr. Dickman's response
55 testimony provided a reconciliation between the documentation provided and the
56 accounting entry for January 2013.

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

58 A: I accept the Company's reconciliation for January 2013 injection costs (and the January
59 true-up that is entered as February 2013 injection cost) that it provided in its response
60 testimony. I initially requested documentation for all twenty Clay Basin storage
61 accounting entries included in the EBA in DPU Data Request 25.12 on June 27. The
62 Company has now provided documentation to support six of the twenty. The Company
63 has not shown why it is unreasonably burdensome to provide documentation for all
64 twenty entries. Furthermore, I find a contradiction between the Company's response to
65 DPU 25.12 and Mr. Dickman's response testimony.

66 **Q: How are Mr. Dickman's testimony and the Company's response to DPU 25.12**
67 **contradictory?**

68 A: To explain its partial response to DPU 25.12, the Company stated, “The Company
69 believes that the detail contained therein, for the last four months of calendar year 2013,
70 provides sufficient information to gain an understanding of the Company’s accounting
71 methodology...” The accounting methodology appears to differ from the methodology
72 used in January 2013 and described in Mr. Dickman’s response testimony. In response to
73 DPU 39.1, the Company admitted that it began using a new system to account for Clay
74 Basin storage in September 2013. In light of this admission, I find the Company’s earlier
75 response to DPU 25.12 to be of concern because it presented its September to December
76 accounting as representative of the entire year, when the Company knew that wasn’t the
77 case.

78 **Q: Has other information been made available on the Clay Basin storage accounting**
79 **entries for March through August of 2013?**

80 A: The Company’s response to DPU Set 39 was received by La Capra Associates on
81 September 17, 2014. The Company provided Confidential Attachment DPU 39.1 -1 with
82 a table showing accrued and actual injection cost for each month in 2013. The values in
83 this table correspond to the Clay Basin injection accounting entries in the FR 6-4 trade
84 database. The Company also provided Confidential Attachment DPU 39.1 -3 with
85 supporting documentation for the Clay Basin accounting for January through August
86 2013.

87 **Q: Does the Company’s response to DPU Set 39 resolve your concerns regarding the**
88 **Clay Basin transaction accounting entries for March through August?**

89 A: No, it does not. My ability to review the documentation is limited because of the
90 extremely short time frame and lack of any formulas in the supporting worksheet

91 showing how the values in the table were derived. Nevertheless, to the extent I have been
92 able to “reverse engineer” some of the calculations contained in the worksheets, I have
93 found numerous apparent discrepancies that require further explanation. [REDACTED]

94 [REDACTED]
95 [REDACTED]
96 [REDACTED]. The Company failed to provide documentation on which gas
97 supply was nominated for storage in these months, making verification of injection
98 values impossible with the information provided. Further, I should not be required to
99 attempt to replicate the Company’s calculations. They should have been provided
100 pursuant to the Company’s obligations to the Commission and the Division.

101 **Q: What is your recommendation?**

102 A: The Company has explained the discrepancy in the January 2013 Clay Basin figures, so I
103 will eliminate the related adjustment proposed in my original report. At this time I do not
104 have sufficient information to recommend a specific adjustment related to the remaining
105 Clay Basin entries. To date the Company has provided inadequate, inconsistent and at
106 times contradictory supporting information that does not allow for a full and thorough
107 review. The Company should explain the change in accounting methodology in
108 September 2013, including why the change was necessary. The Company should further
109 provide verifiable documentation for Clay Basin injection and withdrawal accounting
110 entries for March through August. The Company should provide supporting
111 documentation for Attachment DPU 39.1-1 that includes formulas leading to the exact
112 values in the table.

113 *Replacement Power Cost Estimates*

114 **Q: What issues are raised in Company's response testimony regarding the calculation**
115 **of replacement power costs?**

116 A: Mr. Dickman's response testimony states that, if the impact of a certain outage is to be
117 excluded from the EBA, La Capra Associates has miscalculated the replacement costs
118 that estimate that impact.

119 **Q: How did you calculate the replacement power costs due to a unit outage?**

120 A: For each unit outage during 2013, the Company provided the duration of the outage in
121 hours and an estimate of the lost MWH. To determine the net cost impact of an outage
122 on customers, I multiplied those lost MWH by the difference between that unit's fuel cost
123 and the market price of replacement power.

124 **Q: Why did you use this methodology?**

125 A: In Docket No. 13-035-12, La Capra Associates audited the Company's EBA for calendar
126 year 2012. In data request DPU 22.1 in that docket, we asked the Company to estimate
127 the cost impact of a particular outage. In its response to DPU 22.1, the Company
128 multiplied its estimate of the lost MWHs by the difference between that unit's fuel cost
129 and the market price of replacement power. Exhibit DPU 2.1 Reb, RMP Calculation
130 from 13-035-12 (CONF) provides a copy of that response, including an attachment
131 showing the actual calculation. Thus, in this proceeding, I used a methodology that the
132 Company itself has used in a prior proceeding.

133 **Q: What does the Company now say about that methodology?**

134 A: The Dickman response testimony now claims that its methodology overstates the impact
135 of a unit outage because the value of lost MWH should be adjusted for the expected

136 monthly capacity factors. The Company also states that certain estimates of the market
137 prices used in my calculation are not correct.

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

139 A: Based upon a review of the workpapers provided by Mr. Dickman in this proceeding, I
140 agree with him on this issue. Based upon the Company's response to DPU 22.1 from
141 Docket No. 13-035-12, I had assumed that the Company's lost MWH values already
142 reflected an adjustment for expected capacity factor. It is now clear to me that they do
143 not reflect such an adjustment. Accordingly, I will reduce my estimate of the cost impact
144 of the outages that I recommend be excluded from the EBA. In a later section of this
145 testimony in my rebuttal to the Ralston response testimony, I explain why I still maintain
146 that certain outages should be excluded from the EBA.

147 *Adequacy of Information Provided*

148 **Q: What issues are raised by the Company response testimony regarding provision of**
149 **adequate information?**

150 A: Mr. Dickman's response testimony states that "[b]oth DPU and La Capra repeatedly
151 suggest the Company has intentionally failed to provide sufficient information and/or
152 delayed responses to DRs."

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

154 A: In La Capra Associates' report in this proceeding, I provided factual examples of
155 instances where we have found out about key documentation much later than we should
156 have. Let me be very clear about my position on this issue. The documentation that I
157 identified as not being provided earlier are not obscure emails or calculations that may be
158 difficult to locate in the Company's records. These are key reports used by the Company

159 in its trading activities. In responding to data requests, the Company cannot claim that it
160 did not know about these reports, nor can it claim that they are not relevant. The
161 following is a list of reports that were provided for the first time in the Company's
162 supplemental response to DPU 6.2, received July 14, 2014: TEVaR Stress Test Report,
163 Trade Activities/Trade BuySell Report, Weekly Planned Transaction Report, End of Day
164 Endur Email, Natural Gas Percent Hedged Reports, and Trade Purpose Report. La Capra
165 Associates first began auditing the Company's EBA in 2012. This type of information
166 should have been provided in response to data requests in each EBA docket. The July 14,
167 2014 supplemental report was their first appearance in EBA proceedings. In my opinion,
168 there is no reason why we did not receive these key reports until July 2014, given our
169 repeated requests for documentation showing why particular trades were made.

170 In the La Capra Report, I provide another factual example, this one regarding a 2013
171 situation where relevant information to our audit of the 2012 EBA was not provided until
172 2014. As explained in the La Capra Report, an employee came to La Capra Associates'
173 office to allow us to review information claimed by the Company to be highly
174 confidential. This employee agreed to give us certain files and had other files that were
175 relevant to the trades being reviewed, but did not provide them because we did not
176 specifically ask for those files. I submit that it is rather impossible for me, or anyone
177 else, to ask about specific files whose existence has not been disclosed.

178 The Company does not dispute any of these facts in its response testimony. Rather, the
179 Company expresses concern that our report suggests that the Company is intentionally
180 withholding information. I leave the facts as stated in our report, and let each reader of

181 our report reach his or her own conclusions about the intentionality or not of the
182 omissions.

183 I appreciate the complexity of the Company's system and its trading activities. I also
184 appreciate the fact that the Company has provided a lot of information and has been
185 willing to participate in teleconferences to discuss these matters. However, the Company
186 needs to appreciate that the Division and its agent, La Capra Associates, have been asked
187 to perform a very difficult task, namely to audit the Company's activities and review on
188 an after-the-fact basis the prudence of thousands of transactions worth hundreds of
189 millions of dollars. The best way to do this is to review documentation that existed at the
190 date and time that a transaction was consummated. We value our reputation, integrity,
191 and the quality of our work. We performed this task to the best of our ability, and have
192 done as good a job as could have been done, given the available information. I simply
193 believe that the availability of key information could be improved. It is not possible to
194 relive history. But, I do recommend and continue to recommend that the Commission
195 take steps to improve the level of the Company's responses and the documentation
196 provided in future proceedings. Mr. Dickman's response testimony seems to imply that
197 the Company is willing to work with the DPU. To the extent that La Capra Associates is
198 involved in future EBA audits, we look forward to working with the Commission, DPU
199 Staff, and the Company in improving the audit process.

200

201 **III. Rebuttal to the Apperson Response Testimony**

202 **Q: What issues are raised by the response testimony of Mr. Apperson regarding La**
203 **Capra Associates' report?**

204 A: Mr. Apperson's response testimony raises the following issues regarding the La Capra
205 Report: an undue focus on out-of-the-money transactions, intentional withholding of
206 information and transaction documentation, split transactions, and discretionary trades.

207 *Undue focus on out-of-the-money transactions*

208 **Q: On page 2 of Mr. Apperson's response testimony, he states that La Capra Associates**
209 **is unduly influenced by whether hedges settled out of the money. How do you**
210 **respond?**

211 A: I disagree with this characterization of our work. The process that we follow has been
212 clear from the start of our first audit of the EBA for the last three months of 2011, which
213 was performed in 2012. We develop a sample of transactions to be analyzed at a high
214 level of detail to minimize the burden on the Company, we evaluate compliance with the
215 Company's policies and procedures, we examine whether appropriate approvals have
216 been obtained, and we assess the reason for the transactions. If as a result of our review,
217 we find transactions that we believe are in violation of Company's policies and practices,
218 are not properly documented and approved, or should not be included in the EBA, we
219 will recommend that the cost impact of that transaction be removed from the EBA if it
220 lost money.

221 **Q: If you discovered a transactions that you believe shouldn't be included in the EBA**
222 **that made money, why don't you remove the impact of those transactions from the**
223 **EBA?**

224 A: Such an action would allow the Company to profit from inappropriate or imprudent
225 trades. For example, suppose the Company made a trade that was clearly in violation of
226 its own policies and imprudent, but it resulted in a gain. Removing this type of

227 transaction from the EBA would allow the Company to keep 100% of the gain at the
228 expense of ratepayers, in effect rewarding the Company for imprudently violating its own
229 policies. I do not believe that there should be a reward for inappropriate behavior.

230 *Intentional Withholding of Information and Transaction Documentation*

231 **Q: On page 2 of Mr. Apperson's response testimony, he states that the La Capra**
232 **Associates report suggests that the Company is withholding information. Please**
233 **respond.**

234 A: I have already addressed this issue in a prior section of this testimony that provided a
235 rebuttal to Mr. Dickman's response testimony, and I will not repeat that rebuttal here. I
236 do note that Mr. Apperson states that the Company agrees with most of the DPU
237 recommendation, but notes that it is already complying with them. As I stated in my
238 response to the Dickman response testimony, to the extent that La Capra Associates is
239 involved in future EBA audits, we would welcome the opportunity to work with the
240 Company and the DPU in improving the flow of information.

241 **Q: Just to be clear, could you briefly summarize the recommendations you make**
242 **regarding improving the flow of information?**

243 A: I recommend that the Company provide copies of all reports that are used in
244 implementing and documenting its trades in a timely manner. We should not have to
245 wait until two weeks before our third audit report is due to discover the existence of
246 relevant documentation for the current and prior years. And I do recommend that the
247 Company document why each transaction is done. This is a change from current practice
248 but will improve the ability of anyone, including the DPU or La Capra Associates, to
249 conduct future audits. To the extent Mr. Apperson agrees with the DPU and La Capra

250 Associates on this recommendation, La Capra Associates appreciates the change and
251 looks forward to having a better record of the reasons for individual trades going forward.

252 **Q: Are your recommendations unduly onerous or burdensome to the Company?**

253 A: No. In the first instance, we are simply asking for important documentation that already
254 exists. In the second instance, I am recommending that the Company perform one more,
255 very small task for each transaction. That additional task is for each trader to complete
256 the following statement after transaction consummation: “I did this trade because
257 _____”. Each trader goes through a thought process before making a
258 trade. It shouldn’t be random or spontaneous. The trader should look at the Company’s
259 current position or needs, review market prices and trends, identify real opportunities
260 with actual counterparties, and execute a transaction. After each trade, the trader could
261 use one of the existing company systems, such as the Instant Messenger logs that confirm
262 actual trades with third parties or the self-archiving email system described in Mr.
263 Apperson’s response testimony to document the reasons for the trade. This is simply
264 contemporaneously recording the thought process and supporting documentation that the
265 trader actually used in deciding to do the deal. It will greatly facilitate future EBA audits,
266 enhance the Company’s chances of cost recovery, avoid the need for Mr. Apperson to
267 spend time determining why a trade was made years ago, and make it easier for the
268 Company to evaluate the performance of its traders for internal purposes. I see lots of
269 benefits and no downside to creating additional documentation of individual trades.

270 *Split transactions*

271 **Q: What does Mr. Apperson’s response testimony state regarding split transactions?**

272 A: In my direct testimony and the La Capra Associates' report, I recommended that the
273 losses from transactions 1128158 and 1128159 be excluded from the EBA because these
274 transactions appeared to be a single transaction that was split into two transactions in
275 order to avoid governance approvals. Mr. Apperson's response testimony states that
276 these transaction do not constitute split transactions because the first transaction was
277 consummated before the release of an EIA report while the second transaction was
278 consummated after the release of that report. Mr. Apperson's response testimony asserts
279 that the second transaction was entered into separately because of the market's reaction to
280 the release of the EIA report.

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

282 A: According to the filing requirements, the trade date and time for transactions 1128159
283 and 1128159 were November 29, 2012 at 10:21:57 am and 10:23:59 am respectively, or 2
284 minutes and 2 seconds apart. Exhibit DPU 2.2 Reb, FR 6.5 excerpt (CONF) provides an
285 excerpt from filing requirement 6.5 that shows the "trade datetime" for these transactions
286 showing these times. Mr. Apperson's response testimony states that these trades were
287 done at 7:29:23 am and 7:45:19 am. I reviewed the Instant Messenger logs for these
288 trades, which showed that the trades were made at 5:29:23 am and 5:45:19 am. Exhibit
289 DPU 2.3 Reb, Excerpt from RMP response to DPU 6.1 (CONF) provides copies of the
290 instant messenger logs showing these times. These discrepancies were not noted in Mr.
291 Apperson's testimony.

292 **Q: Has the Company explained the difference between the various times cited above?**

293 A: In DPU 38.27, we asked the Company explain these differences. In its response, the
294 Company stated that the date and time listed in the filing requirements is the time the

295 transaction was entered into the trade capture system, not the time the trade was
296 consummated. The Company further states that the times in the Instant Messenger logs
297 are two hours behind Pacific Prevailing Time (“PPT”) due to some sort of flaw in the
298 Instant Messenger recording system, and that the Company “makes accurate assumptions
299 about the difference between the IM log timestamp and PPT by reviewing IM logs in the
300 context of when the Company’s trader arrives for work and when day-ahead trading
301 activity and related conversations take place.” Exhibit DPU 2.4 Reb, Response to DPU
302 38 27 provides a copy of the Company’s response to DPU 38.27.

303 **Q: What is your reaction to the Company’s explanation?**

304 A: I am concerned to find out at this late stage of a three year audit that the dates and times
305 listed in the filing requirements are not what they are labeled to be. I am also concerned
306 that this is the first time that we have been told that the data in the Instant Messenger logs
307 is not accurate. The Company apparently applies judgment to correct the inaccuracies in
308 the documentation of its trades. It is not possible to verify the application of that
309 judgment, and therefore perform an audit of these transactions. Based upon this inability
310 to perform an appropriate audit of these two transactions, I continue to recommend that
311 the losses associated with these two transactions be removed from the EBA.

312 *Discretionary trades*

313 **Q: On page 8 of Mr. Apperson’s response testimony he objects to the use of the term**
314 **“discretionary trade” in the DPU and La Capra Reports. Please respond.**

315 A: Our definition and subsequent use of the term “discretionary trade” was not intended to
316 carry any pejorative connotation, nor do I recommend disallowance of any trade simply
317 because it is classified as such. We simply used the term as shorthand for the trades

318 labeled in Mr. Apperson's testimony as "hedges transacted when the open energy
319 position has not exceeded a risk limit." With that understanding, I will continue to use
320 the term "discretionary trades" in my testimony. I believe it is appropriate as these trades
321 were not compulsory.

322 **Q: Is it your position that the Company should avoid discretionary trades by waiting**
323 **until a risk limit has been exceeded before hedging?**

324 A: No. Mr. Apperson's implication that our disallowance recommendations amount to an
325 endorsement of such an approach indicates a fundamental misreading of my reports. In
326 La Capra EBA Audit reports for each of the past two years I have specifically stated,
327 "Given the complexity of the Company's system and the volatility of the markets in
328 which it operates, exercising judgment may be superior to [a more regimented hedging
329 policy such as] dollar cost averaging." (La Capra Report, 92) I simply expect the
330 Company to provide some explanation and documentation for the judgment it exercises if
331 it requests cost recovery from ratepayers for the results of that judgment.

332 **Q: Do you agree that any hedges which are compliant with the Company's risk policies**
333 **should be accepted by the Commission as prudent without further scrutiny?**

334 A: No. This issue is discussed in detail in section XII of the La Capra Report.
335

336 **IV. Rebuttal to the Ralston Response Testimony**

337 **Q: What issues are raised in the Ralston response testimony that you wish to respond**
338 **to?**

339 A: In my direct testimony, I recommend that the net cost of two generating plant outages -
340 one at Chehalis and one at Craig - be removed from the EBA. The response testimony of

341 Mr. Ralston disagrees with those recommendations. The Ralston responsive testimony
342 further states that outages should be evaluated based upon the performance of the entire
343 generation fleet, rather than individual outages.

344 *Individual Outage versus Fleet Performance*

345 **Q: Please respond to the issue of individual outages versus fleet performance.**

346 A: I disagree with the Ralston response testimony when it states that it is inappropriate to
347 focus on individual plant outages. Just because the Company's generating fleet has a
348 higher Equivalent Availability Factor ("EAF") than the NERC industry averages, this
349 does not demonstrate that all outage-related expenses were prudent. Mr. Ralston raised
350 this same issue in Docket No. 13-035-32. I disagreed with that approach in that
351 proceeding and I continue to disagree with it in this proceeding. While NERC industry
352 averages are useful benchmarks to assess performance of a fleet of generating units at a
353 high level, they are not dispositive determinants of the prudence of specific outages and
354 their associated costs. For example, a plant could experience an outage that was the
355 result of gross negligence and imprudence, and be part of a fleet that has a higher EAF
356 than the industry average. Mr. Ralston believes that customers should pay for the
357 replacement cost of this type of outage. I do not concur.

358 In addition, if Mr. Ralston's approach of having all EAF performance that is above
359 industry average is deemed prudent without an analysis is adopted, then the converse
360 must also apply. This is to say, any performance that is below industry average must be
361 automatically deemed to be imprudent, regardless of the cause. If an outage occurred that
362 was not the result of Company imprudence but caused a unit's EAF to fall below industry

363 average, then the cost of that outage would be borne by the Company and not ratepayers
364 under Mr. Ralston's approach.

365 Furthermore, NERC industry averages are determined for large categories of plants, such
366 as all coal plants within a certain nameplate rating range. Within these categories, there
367 are many differences in the design and operation of individual generating units that could
368 cause outages that are not captured in the industry average statistics.

369 Lastly, Mr. Ralston appears to advocate for a "result oriented" standard when it comes to
370 unit performance. In other words, if the results are above some industry benchmark, then
371 all such performance would be deemed to be prudent, regardless of the cause or
372 underlying process. I find it interesting that in the case of outages, the Company argues
373 for a results standard, but in its hedging program argues for a "process oriented" standard.
374 If a result oriented standard were to be applied to the Company's hedging program, the
375 Company would be required to absorb - and customers would avoid paying - hundreds of
376 millions of dollars. I do not believe that this is an outcome that the Company would
377 support, nor is this an outcome I recommend.

378 For these reasons, I believe it is appropriate to review each individual outage and assess if
379 this outage was prudent or not. Under this approach, the Company can explain the cause
380 of each outage and document the reasons for it, and a fair judgment can be made to
381 determine whether that outage was prudent or not. I stand by my original analysis of
382 individual outages.

383 *Craig Outage*

384 **Q: How do you respond to the Company's response testimony on the Craig outage?**

385 A: The Company does not dispute my direct testimony that a failure to following operating
386 procedures caused the Craig outage, and that had those procedures been followed, this
387 outage would have been avoided.¹ Rather, the Company asserts that because the Craig
388 plant is operated by Tri-State Generation and Transmission Association, it is
389 unreasonable to penalize PacifiCorp for a third party's performance when PacifiCorp has
390 no contractual ability to seek recourse from that third party.² I disagree. PacifiCorp
391 owns a 19.29% share of Craig units 1 and 2. This minority ownership is just like the
392 100% ownership in PacifiCorp's other plants, such as Lake Side. PacifiCorp recovers the
393 cost of its investment in Craig, and earns a return or profit on that investment. As an
394 owner, PacifiCorp is responsible for the performance of that asset, and cannot and does
395 not absolve itself of that responsible simply because it has delegated the operation of that
396 asset to another entity. Certainly, as between PacifiCorp and its ratepayers, PacifiCorp is
397 in a much better position to influence the operation of plants where it is not the operator.
398 Most operating agreements that I am familiar with contain provisions that require the
399 chosen operator to follow Good Utility Practice or otherwise perform its duties prudently.
400 Failure to follow one's own operating procedures does not comport with that standard. If
401 PacifiCorp entered into a contractual arrangement that provided it with no recourse for
402 negligent acts, so be it. Such a contract provision is imprudent. Ratepayers should not be
403 required to absorb the costs of negligent operation or imprudent contracting. I continue
404 to recommend that the net cost of the Craig outage be removed from the 2013 EBA.

405 *Chehalis Outage*

¹ See Ralston rebuttal testimony, line 119.

² See Ralston rebuttal testimony at lines 120 to 130.

406 **Q: Please respond to the Company’s response testimony on the Chehalis outage.**

407 A: In our report, I recommended that the net cost of outages at Chehalis units 1, 2, and 3 due
408 to a catastrophic failure of the unit 3 step-up transformer be removed from the EBA. The
409 Ralston testimony states that the Company did all that it could in responding to earlier
410 failures in 2006 and 2011 and that the 2013 outage was unavoidable. I disagree. In fact,
411 the Ralston response testimony actually confirms my position. After similar failures in
412 2006 and 2011, Mr. Ralston states that *“because there was no root cause identified and
413 the transformer and bushing manufacturers each asserted their design was sound,
414 PacifiCorp had two options: install additional monitoring equipment to see if a failure
415 mode and imminent failure could be identified, or replace both remaining transformers at
416 a cost of over eight million dollars, not including the associated outage time required to
417 procure and install the transformers.”* Later on that same page, the Company states that
418 after the 2013 failure, it installed new bushings on the remaining transformer that hadn’t
419 yet failed. There is no indication that a root cause had been determined at that time.
420 Therefore, the statement that there were only two options after the 2011 failure is
421 incorrect. There was a third option, namely to change the bushings on the transformers
422 after the 2011 failure. If this was an option in 2013, it was also an option in 2011. I
423 continue to recommend that the cost impact of the Chehalis outages due to a transformer
424 failure be excluded from the EBA.

425 **Q: On page 5 at lines 109 to 113, Mr. Ralston makes reference to a Chehalis outage**
426 **related to “2B transformer overheating”. He states that such an outage did not**
427 **occur in 2013. Please respond.**

428 A: On page 32 of our report, the following text appears in the third paragraph.

429 “ [REDACTED]
430 [REDACTED]
431 [REDACTED]
432 [REDACTED]
433 [REDACTED]
434 [REDACTED]
435 [REDACTED]
436 [REDACTED]
437 [REDACTED]

438 *(emphasis added).*

439 Mr. Ralston is correct. The reference to a Craig unit 2 outage due to transformer
440 overheating was originally made in our report on last year’s 2012 EBA Audit and was
441 inadvertently left in this year’s report. The underlined phrase above should be deleted
442 from this year’s report, such that paragraph 3 on page 32 should read as follows.

443 “ [REDACTED]
444 [REDACTED]
445 [REDACTED]
446 [REDACTED]
447 [REDACTED]
448 [REDACTED]
449 [REDACTED]
450 [REDACTED]
451 [REDACTED].

452 This change has no impact on the rest of the report, nor on my recommendations
453 regarding the 2013 EBA.

454

455 **V. Revised Adjustments to the EBA**

456 **Q: Based upon your review of the Company's response testimony and your rebuttal**
457 **testimony, what adjustments do you now propose to the 2013 EBA?**

458 A; Based upon the discussion above, I revise my recommended adjustments to the 2013
459 EBA to be approximately \$3.85 million. Exhibit DPU 2.5 Reb, Revised Adjustments to
460 the 2013 EBA (CONF) provides a summary of those revised adjustments. It should be
461 noted that my deferral calculation is intended to be approximate and does not take into
462 account changes in the scalar due to other DPU-recommended adjustments. My
463 recommended adjustments are included in the total adjustment calculated by Mr. Croft
464 for the Division.

465

466 **VI. Conclusion**

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

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