

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 1.0R
THE DEFERRED EBA RATE)	
THROUGH THE ENERGY)	Rebuttal Testimony and Exhibits
BALANCING ACCOUNT)	
MECHANISM.)	Matthew Croft

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

CONFIDENTIAL

Rebuttal Testimony of

Matthew Croft

September 23, 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. Did you previously provide testimony in this docket?**

5 A. Yes. I previously provided direct testimony in this docket.

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

7 A. My purpose is to respond to the testimonies of Rocky Mountain Power (“Company”)
8 witnesses Messrs. Brian Dickman and John A. Apperson, and Office of Consumer Services
9 (“OCS”) witness Mr. Danny Martinez.

10 **Q. Can you please summarize the Division’s rebuttal position with regards to the EBA**
11 **deferral balance?**

12 A. Yes. The Division recommends specific adjustments that result in a \$7.05 million reduction
13 to the original \$28.34 million requested by the Company in its original application. The table
14 on the next page summarizes the individual adjustments proposed by the Division.

15 **TABLE 1**

DPU and La Capra EBA Adjustments

		NPC	UT EBA Deferral Adjustment
Line	ADJUSTED ACTUAL NPC - As Filed		
1	Sales for Resale - 447	(289,215,427)	
2	Purchased Power - 555	645,884,836	
3	Wheeling Expense - 565	139,021,802	
4	Fuel - Coal - 501	781,070,177	
5	Fuel - Natural Gas - 547	338,957,536	
6	Other Generation - 503	3,816,173	
7	Total Adjusted Actual NPC - As Filed	1,619,535,097	
8	DPU & LA CAPRA ADJUSTMENTS		
9	DPU Jim Bridger Aerial Survey Adjustment	1	11,233
10	DPU Deal 1127544 - GF - Trade Purpose	(485,300)	(157,002)
11	DPU Deal 697009 - PF - Trade Purpose	(574,236)	(195,721)
12	DPU Deal 697030 - PF - Trade Purpose	(615,816)	(209,909)
13	DPU Deal 696714 - PF - Trade Purpose	(1,200,832)	(409,308)
14	DPU Deal 697068 - PF - Trade Purpose	(612,736)	(208,858)
15	DPU Deal 697109 - PF - Trade Purpose	(574,236)	(195,721)
16	DPU Deal 697110 - PF - Trade Purpose	(574,236)	(195,721)
17	DPU Deal 674556 - GF - Improper Approval	(1,914,411)	(588,747)
18	DPU Deal 674806 - GF - Improper Approval	(2,520,000)	(859,091)
19	DPU Black Cap Solar - unsupported	(144,799)	(47,663)
20	DPU Buy-throughs - unsupported	(606,986)	(199,590)
21	LCA Deal 1128158 - GF -split deal	(473,000)	(157,349)
22	LCA Deal 1128159 - GF-split deal	(374,600)	(124,433)
23	LCA Deal 674809 - GF -Trade Purpose	(1,962,600)	(635,517)
24	LCA Deal 772398 - GF - Trade Purpose	(3,291,500)	(1,065,826)
25	LCA Deal 1235914 -GP- Trade Purpose	(94,550)	(32,848)
26	LCA Deal 697015 -PF-Trade Purpose	(558,836)	(190,465)
27	LCA Deal 1352677 - PP -Unjustified Damages	(327,604)	(99,630)
28	LCA Craig Unit 1 Outage replacement power	(3,086,810)	(972,915)
29	LCA Chehalis Outages replacement power	(1,863,177)	(570,143)
30	Total DPU and La Capra Adjustments	(21,856,264)	(7,105,224)
31	Scalar/Factor Update		57,241
32	Total DPU and La Capra Adjustments		(7,047,984)

Notes: GF = Gas Financial, GP =Gas Physical, PF = Power Financial, PP = Power Physical. AFR = Additional Filing Requirement. This table is included as a tab in the excel file called "DPU Exhibit 1.7R to 1.9R - DPU Adj Summary and Calculations_CONF." The Scalar/Factor Update includes the impacts of the revised SE and SG factors from Mr. Dickman's response testimony and the Division's NPC adjustments shown in the table above.

17 **Q. What is your general response to the Company's response testimonies?**

18 A. With regard to issues addressed in Mr. Dickman's testimony, most of the supporting
19 documentation issues identified in the Division staff's audit report have been resolved. Each
20 of the specific issues will be addressed below. With regards to Mr. Apperson's testimony, the
21 Division believes the Company has greatly mischaracterized the La Capra and DPU audit
22 reports specifically as it relates to reasons for disallowing certain hedging transactions. The
23 Division also believes the Company's claim that ETP, tenor and notional value limits are
24 unofficial is untrue, at least in the common understanding of the word "unofficial," and could
25 be misleading. I will first address issues discussed in Mr. Dickman's testimony and then I
26 will address issues in Mr. Apperson's testimony.

27 **Q. What issues in Mr. Dickman's testimony will you be responding to?**

28 A. I will address Mr. Dickman's response to the following adjustments that were included in our
29 audit report.

- 30 1. Deal #1226654 invoice discrepancy
- 31 2. Special contract buy-throughs
- 32 3. Black Cap Solar
- 33 4. Double counted pipeline fees
- 34 5. Bridger Coal – Invoice discrepancy/accounting support
- 35 6. Bridger Coal – Royalty accruals
- 36 7. Bridger Coal – Loss on disposal of asset

37 **Deal #1226654 Invoice Discrepancy**

38 **Q. Has the Company resolved your issue with regards to the invoice discrepancy for deal**
39 **# 1226644?**

40 A. Yes. Lines 96-100 of Mr. Dickman's response testimony provided a reconciliation of the
41 invoice amount to the amount included in filing requirement (FR) 6.2. The Division is
42 satisfied with the Company's explanation and therefore withdraws this adjustment.

43 **Special Contract Buy-throughs**

44 **Q. Has the Company resolved your issue with regards to the unsupported buy-through**
45 **dollars?**

46 A. No.

47 **Q. Please explain.**

48 A. Lines 184-189 of Mr. Dickman's response testimony states the following:

49 Data request DPU 20.1 requested customer invoices, and the Company responded that
50 customer invoices cannot be provided without the consent of the customer, but once
51 consent was received the Company would provide invoices. On August 13 and 15,
52 following receipt of customer consent, the Company provided supplemental DR
53 responses that included detailed information supporting the buy-through amounts
54 removed from the EBA.

55
56 On lines 193-195 Mr. Dickman's response testimony further states:

57
58 As indicated above, the Company has now provided the detailed information after
59 receiving consent from the individual customers.

60
61 **Q. What is your response to Mr. Dickman's statements?**

62 A. It appears the Company is attempting to show that since consent has now been received, the
63 "detailed information" has been provided. It appears that the Company is giving a false
64 impression that the Division has been provided with what it needs to verify the buy-through
65 amounts.

66 **Q. Has the Company given you all the information you need to verify the buy-through**
67 **amounts?**

68 A. No. The Company has provided a spreadsheet with numbers that apparently required
69 customer consent but the invoices (which the Company continues to claim also require
70 customer consent) for one of the customers have still not been provided. Curiously, the
71 contracts for the industrial customers have been provided yet the invoices for one of the
72 industrial customers have not been provided. The Company's statement that it has provided
73 "the detailed information after receiving consent" is misleading, especially since the invoices
74 are the key source documents and require customer consent to be provided.

75 **Q. Do you have additional concerns with the buy-throughs?**

76 A. Yes. The Company has already corrected the buy-through amounts twice, once in DPU data
77 request response 20.1-3 and then again in attachment response DPU 20.1-2 2nd Supplemental.
78 These corrections warrant further concern and increase the need for reviewing the invoices.

79 **Q. If the industrial customer needs to provide consent, why should the Company be held**
80 **responsible?**

81 A. The EBA is the Company's cost recovery mechanism. The Company is aware that it must
82 provide adequate information to the regulators in order to recover costs. It has chosen a claim
83 of confidentiality over the opportunity to recover the associated costs. It is the Company's
84 responsibility to make the appropriate arrangements to provide adequate support for EBA
85 costs and revenues in a timely manner. In short, the Company bears the burden of proving its
86 costs and their prudence. A spreadsheet with numbers apparently representing invoiced

87 amounts is insufficient to do so. Regulators of a regulated utility must have access to
88 underlying documentation; in this case the invoices.

89 **Q. What is your response to the following statement in Mr. Dickman's testimony about the**
90 **buy-through adjustment? He states, (lines 195-198), that:**

91 **Furthermore, the DPU has reviewed the buy-through adjustment**
92 **in previous EBA filings. While similar timing constraints were**
93 **encountered relating to obtaining customer consent to provide**
94 **detailed information, the DPU did not conclude further**
95 **adjustments were required in those filings.**

96
97 A. On page 23 of the Division's EBA Audit report in Docket No. 13-035-32 the Division stated:

98 The Company has only been able to provide the invoices regarding
99 one of those customers. As a result, three of the months in calendar
100 year 2012 cannot be reconciled. Given that the total amount of the
101 buy-through dollars in the EBA are greater than the total of the
102 invoices provided for the one customer, this adjustment seems
103 reasonable. **However, the Division reserves the right to**
104 **challenge this adjustment at a later time if and when the**
105 **missing invoices are provided.** (Emphasis added)

106
107 While the Division's initial response in the previous EBA docket was to not propose an
108 adjustment, the issue was never resolved and the case was settled. To my knowledge, the
109 invoices in that docket were never provided. Regardless of how the Division initially treated
110 this issue in the last EBA case, lines 195-198 of Mr. Dickman's response testimony is a clear
111 recognition of the fact that the Company has known about this issue and has still not resolved
112 it. Not proposing an adjustment in the current EBA filing would only encourage further
113 irresponsiveness to the Division's requests for supporting documentation. The Company has
114 been aware of this issue and apparently took no steps to resolve it until after the expenses
115 were suggested for disallowance. In other words, a known problem was not sufficiently

116 important for the Company to resolve until a disallowance was suggested. This is
117 unacceptable.

118 **Q. How was the 25% figure used to calculate the adjustment adopted?**

119 A. Although the 25% was not adopted through a formula, the Division believes the 25% is a
120 figure that will encourage the Company to be appropriately responsive to future Division
121 requests for information. The Division is not opposed to using a different and better
122 calculation but it is unaware of any at this time.

123 **Q. Have you changed the buy-through adjustment since the invoices for one of the**
124 **customers have been provided?**

125 A. Yes. The 25% is now only applied to the reported buy-through amounts related to the
126 customer for which the invoices have not been provided. This calculation can be seen in the
127 “Attach DPU 20.1-2 2nd SUPP CONF” tab in Confidential DPU Exhibit 1.9R. The
128 Division’s buy-through adjustment reduces total Company NPC by \$606,986 and Utah’s
129 EBA deferral balance by \$199,590.

130 **Black Cap Solar**

131 **Q. What is Mr. Dickman’s response to your Black Cap Solar adjustment?**

132 A. Lines 240-242 of Mr. Dickman’s testimony states, “All necessary information to validate the
133 mark-to-market calculation has been provided. The Company does not agree with the
134 disallowance of the Black Cap solar adjustment.”

135 **Q. Has all necessary information to validate mark-to-market prices been provided?**

136 A. No. The Company has *provided* numbers representing average prices but has not *validated*
137 them with the actual source data or calculations. The prices used in the Black Cap Solar

138 adjustment (Additional Filing Requirement 15) can be tied back to a spreadsheet in Filing

139 Requirement (FR) 6-11. An excerpt from this spreadsheet is shown below.

140 **TABLE 2: FR 6-11 Excerpt**

141

Start Date	1/1/2013	Data Source:	ICE	ICE	ICE	ICE	ICE	ICE
End Date	12/31/2013	Commodity:	ELEC	ELEC	ELEC	ELEC	ELEC	ELEC
		POD:	COB N-S	COB N-S	PV	PV	MID-C	MID-C
			COB		Palo Verde		Mid-Columbia	
			Historical Prices		Historical Prices		Historical Prices	
Start	End	Peak Type:	HLH	LLH	HLH	LLH	HLH	LLH
01/01/13	01/31/13	Jan 2013	\$31.30	\$27.16	\$31.52	\$25.60	\$28.96	\$25.35
02/01/13	02/28/13	Feb 2013	\$31.27	\$29.58	\$31.75	\$27.55	\$28.82	\$27.91
03/01/13	03/31/13	Mar 2013	\$34.91	\$32.28	\$33.38	\$27.89	\$32.56	\$30.33
04/01/13	04/30/13	Apr 2013	\$35.91	\$24.31	\$37.46	\$29.36	\$31.07	\$18.53
05/01/13	05/31/13	May 2013	\$36.55	\$15.86	\$38.03	\$26.37	\$34.00	\$12.17
06/01/13	06/30/13	Jun 2013	\$36.07	\$22.67	\$38.48	\$27.38	\$33.70	\$20.41
07/01/13	07/31/13	Jul 2013	\$49.51	\$22.65	\$48.13	\$27.19	\$45.17	\$20.79
08/01/13	08/31/13	Aug 2013	\$41.38	\$27.50	\$38.36	\$26.11	\$39.02	\$25.78
09/01/13	09/30/13	Sep 2013	\$41.93	\$30.68	\$36.75	\$27.84	\$38.01	\$29.36
10/01/13	10/31/13	Oct 2013	\$38.68	\$30.94	\$34.18	\$28.19	\$36.82	\$30.64
11/01/13	11/30/13	Nov 2013	\$39.91	\$32.00	\$32.72	\$27.87	\$37.37	\$30.29
12/01/13	12/31/13	Dec 2013	\$56.52	\$44.85	\$44.84	\$38.11	\$55.78	\$45.82

142
 143

144 The values in the FR 6-11 spreadsheet are values only, that is, there are no formulas showing
 145 how the numbers are calculated. Further, source data for the underlying prices is not
 146 provided.

147 **Q. Has the Company stated that the numbers in FR 6-11 are calculated rather than simply**
 148 **reported values?**

149 A. Yes. The first supplemental response to DPU 20.2 states, “Monthly historic prices
 150 are Company calculated averages based on daily Intercontinental Exchange (ICE) prices.”

151 (Emphasis added)

152 **Q. Has the Company provided any spreadsheet or other document showing how the**
153 **“Company calculated averages” were made?**

154 A. No.

155 **Q. Even if the Company had provided the calculations in a spreadsheet, would further**
156 **validation be needed for ICE prices?**

157 A. Yes.

158 **Q. Are ICE prices proprietary?**

159 A. According to the Company’s first supplemental response to DPU 20.2, “The daily ICE prices
160 are proprietary information of ICE.” Regardless of their proprietary nature, the Division still
161 believes the Company needs to demonstrate that the daily prices used in the Company’s
162 averaging calculations (which have not been provided) are in fact ICE prices. If the
163 verification cannot be provided in the form of a document, the Company should show
164 Division staff how such information was obtained. The DPU has independent statutory
165 authority to require all regulated utilities to provide information, records, data, and other
166 materials “relevant to matters within the jurisdiction of the Commission.” (Utah Code §54-
167 4a-1) The Commission has similar authority. (Utah Code §54-3-21) While I am not an
168 attorney or legal expert, it seems the Company should not be able to contract away its
169 statutory duties to the Commission and the DPU. As stated previously, the EBA is the
170 Company’s cost recovery mechanism. It is the Company’s responsibility to make the
171 appropriate arrangements to provide adequate support for EBA costs and revenues in a
172 timely manner. If the Company does not do so, it must bear the risk of loss.

173 **Q. Since the market prices have not been adequately validated why have they been relied**
174 **upon in calculating the replacement power cost of plant outages?**

175 A. The market prices that have been provided by the Company were the best information the
176 Division had to calculate replacement power costs. Regardless of the Division staff or La
177 Capra's use of the Company provided market prices in other adjustments or reviews, the
178 Company should not be excused from providing the validating documentation for the prices
179 used in the Black Cap Solar adjustment.

180 **Q. Has the Division been able to verify the daily ICE prices from another source besides**
181 **the Company?**

182 A. Yes. Early in the week prior to the filing of this testimony La Capra Associates was able to
183 obtain historical ICE daily prices from its data provider GlobalView¹ and, with four
184 exceptions, was able to reproduce the same average price values shown in FR6-11. Only one
185 of the four price differences relates to the Black Cap Solar Adjustment. Even if the La Capra
186 calculated price were used in the Black Cap Solar adjustment the resulting cost difference
187 would be immaterial. This effort was undertaken by the Division's consultants, which it
188 employs and pays. Such effort should not be required given the Company's duties to the
189 Commission and the Division.

190 **Q. Since the Division has been able to verify the prices used in the Black Cap Solar**
191 **calculation are you withdrawing the adjustment?**

192 A. No. The Company has had ample opportunity to provide the information needed and still has
193 not done so. The Division will leave for the Commission's decision the question of whether

¹ La Capra Associates has an Excel add-in that pulls the data from GlobalView.

194 otherwise verified expenses should be recoverable when the Company has failed to provide
195 information it is statutorily required to provide upon request. The Company may see this
196 adjustment as a penalty, but the Division is concerned that without such financial imposition,
197 the Company's responsiveness to data requests will not improve. True, many data request
198 responses are not late or incomplete. However, there have been enough issues in recent EBA
199 and general rate cases that the Division now believes an adjustment is warranted in cases
200 where the Company has not provided information in a timely manner, even if the cost or
201 revenue could otherwise be justified. This case is a review of the third EBA year and the
202 Division has had difficulty in each year with the Company's responsiveness to data requests.
203 Despite assurances otherwise and settlement stipulations, problems remain. Given the
204 Division's past indulgences of tardiness and incompleteness, it is evident that the problems
205 will not be solved until the Company is made to bear the cost of its failures. The Division
206 believes this adjustment is warranted despite its verification of information through other
207 sources. The Division therefore maintains its original adjustment which reduces Utah's EBA
208 deferral balance by \$47,663.

209 **Q. Does the Division have recommendations for information received late in an EBA**
210 **docket?**

211 A. Yes, the Division believes that a cut-off date should be established beyond which
212 subsequently provided data or information may be disregarded if the data or information was
213 previously requested. As most parties are aware, Company responses to data requests often
214 lead to clarifying or subsequent requests. Untimely responses shorten available time for
215 follow up questions and impede the Division's ability to adequately evaluate the Company's

216 responses. Given the Company's history of responding with additional data that was the
217 subject of earlier requests only after the Division suggests a disallowance, such an approach
218 may be warranted. It is unfair to the Division, to other parties, and to the Commission's
219 process for the Company to be allowed to complete its data request responses only after it
220 sees if and why an adjustment is suggested by other parties, particularly in an accelerated
221 docket. Whether intentional or not, the Company's failures have required much additional
222 effort from the Division, La Capra and possibly others, shortened the time for analysis, and
223 engendered regulatory skepticism about the Company's motives that is reasonable even if
224 ultimately unwarranted.

225 **Double Counted Pipeline Fees**

226 **Q. Please briefly describe the Division's original adjustment and current position**
227 **regarding double counted pipeline fees.**

228 A. Prior to the audit report filing, the Division was not able to identify the accounting entry that
229 would remove certain known double counted pipeline fees from the EBA. The Division sent
230 a data request to the Company regarding the matter but the response was not due until after
231 the audit report filing. The Division therefore elected to propose an adjustment but stated in
232 its audit report "that should additional information be provided by the Company this
233 adjustment may be removed." In response to DPU 31.1 the Company did explain what the
234 correcting accounting entry was and how it reconciled to the original double counted amount.
235 The Division is satisfied with the Company's explanation and therefore withdraws the
236 adjustment originally included in the Division's audit report.

237 **Bridger Coal – Invoice discrepancy/accounting support**

238 **Q. Please briefly describe the Division's original position and current position regarding**
239 **the Bridger Coal invoice discrepancy/accounting support adjustment.**

240 A. The Division identified several Bridger Coal costs in the Bridger Coal Company (BCC)
241 accounting detail that did not tie to supporting invoices or did not have accounting support.
242 The Division proposed an adjustment but also expanded the scope of BCC costs to review.
243 The expansion of scope was due to the fact that all invoices reviewed did not tie to the
244 accounting detail and the fact that the amounts in the accounting detail were more than the
245 amount on the invoices. On August 5, 2014 the Company issued a second supplemental
246 response to DPU data request 26.1. That response states:

247 The Company is providing this supplemental response to reply to the
248 differences noted by the DPU in information previously supplied in (a),
249 (g), and (h). A majority of the differences are primarily associated in the
250 application of sales tax to the invoices. Bridger Coal Company remits
251 sales tax directly to the State and not to the vendor. As such, the invoices
252 previously submitted were directly from the vendor and did not itemize
253 the tax associated with the purchase. The Company failed to make this
254 distinction in the previous response. Please see Attachment s DPU 26.1 -
255 1 2nd Supplemental and DPU 26.1 -2 2nd Supplemental.

256
257 Based on this response and a review of the second supplemental response attachment, the
258 Division is withdrawing this adjustment. With regard to the expanded scope of costs to
259 review, the Company informed the Division via a phone conference that the original request
260 would involve thousands of line items to review. The Division therefore reduced the scope of
261 the original request significantly. However, even though the scope was reduced, there were
262 still hundreds of line items for which the Company did provide supporting documentation.
263 The Company's fourth supplemental response to DPU 34.1 states "the Company has now
264 supplied over 1,900 pages of documentation specifically for the Mechanical Repairs portion

265 of DPU Set 34 and expended over 90 man-hours.” The Division appreciates the Company’s
266 cooperation and work to provide this documentation. Several Division staff members
267 reviewed documentation provided and found that, with a few minor immaterial exceptions,
268 the documentation ties to the amounts included in the BCC accounting detail. Part of the
269 Company’s response consisted of journal entries related to expenses for items released from
270 inventory. Given the amount of time and resources required, the Division cannot perform a
271 detailed review of the inventory methodology used (ie, LIFO, FIFO, etc). The Division may
272 in future EBA dockets request more supporting inventory calculations but for a smaller scope
273 of costs. As a result of its review, the Division is not proposing any adjustment related to the
274 expanded scope of BCC costs.

275 **Bridger Coal – Royalty accruals**

276 **Q. Please briefly describe the Division’s original adjustment regarding BCC royalty**
277 **accruals?**

278 A. The Division proposed an adjustment to reduce the royalty accrual amount based on what
279 appeared to be abnormally high \$/ton coal costs that were not adequately supported.

280 **Q. What was the Company’s response to this adjustment?**

281 A. The Company disagrees with the adjustment and states on lines 68-70 of Mr. Dickman’s
282 testimony that “The Company has provided the necessary information for the DPU to
283 validate the Bridger Coal Company invoices and royalty calculations.”

284 **Q. Do you agree that all necessary information was provided to validate the royalty**
285 **calculations?**

286 A. No. While some important calculations had been provided, a key input to those calculations
287 was a \$/ton cost figure for the surface and underground mine. As of the time the Company
288 filed its response testimony, not a single document had been provided to validate the \$/ton
289 figures even though the issue had been specifically identified in the Division's audit report
290 (See page 23). While I disagree that the Company had, as of the time of its response
291 testimony, provided necessary information to validate the royalty accrual calculations, the
292 Division is withdrawing its adjustment based on the combination of information provided in
293 Mr. Dickman's testimony, the accounting nature of the royalty accrual, and information
294 provided in response to DPU data request set 37 and the third and fourth supplemental
295 responses to DPU data request 26.1. The third and fourth supplemental responses to DPU
296 26.1 as well as the response to DPU 37.1 demonstrated how the estimated coal cost (in \$/ton)
297 was estimated at the beginning of the year and how it was used every month until September
298 2013 when a new estimate was calculated. In addition, accounting adjusting/true-up entries
299 were made in September 2013 that offset the over accruals made previously during the year.
300 The Company also provided royalty payment confirmations and other documents
301 demonstrating how the accrual and adjusting journal entries reconciled with the actual
302 royalty payments. Based on the information provided the Division is withdrawing this
303 adjustment.

304 **Bridger Coal – Loss on Disposal of Asset**

305 **Q. Please briefly describe the Division's original adjustment regarding the BCC loss on**
306 **disposal of asset?**

307 A. The Division originally proposed an adjustment to remove a loss on disposal of asset related
308 to a mine roof collapse at the Bridger Mine. The Division believed the Company should have
309 explained the circumstances surrounding the mine roof collapse to demonstrate that it was
310 not at fault.

311 **Q. What was the Company's response to this adjustment?**

312 A. The Company disagrees with the adjustment. Mr. Dickman's testimony refers to root cause
313 analysis and reviews by the U.S Department of Labor, Mine Safety and Health
314 Administration ("MSHA") that did not find fault with the Company. The Division has
315 reviewed the MSHA and other mine roof collapse documents provided in DPU data request
316 32. Based on this review it does not appear that the Company is at fault for the roof collapse.
317 The Division is therefore withdrawing this adjustment.

318 **Q. What issues in Mr. Apperson's testimony will you be responding to?**

319 A. I will be addressing the following issues:

- 320 1. Mischaracterization of the Division staff's audit report regarding reasons for
321 disallowing certain trades.
- 322 2. Unsupported trades
- 323 3. Trade approvals
- 324 4. Risk policy standards and guidelines

325 **Q. Which statements from Mr. Apperson's testimony mischaracterize the Division and La**
326 **Capra's audit reports?**

327 A. At a minimum, the following list of statements from Mr. Apperson's testimony
328 mischaracterize the Division and La Capra's audit reports and testimony. The statements

329 below are in reference to the adjustments shown in DPU Exhibit 1.4, lines 14-20 and lines
330 29-32 which was filed with the Division's audit report. Collectively I will refer to the trades
331 associated with these adjustments as "Unsupported Trades."

332 1. "The DPU's recommendation is based on whether the Company guessed correctly on
333 prices going up or down which is not the appropriate basis for disallowance" (lines
334 138-140)

335 2. "Is it reasonable for the Company to be judged and penalized by the DPU, i.e., base
336 the disallowance of certain transactions, on its ability to predict future prices?" (lines
337 243-245)

338 3. "Therefore, a measure based on perfect hindsight of market prices, as the DPU is
339 essentially employing, is not reasonable." (lines 248-249)

340 4. "This statement shows that the DPU's recommended disallowance of so-called
341 "discretionary trades" is not based on whether they were prudent at the time they
342 were made, but whether in hindsight they are "in the money" or "out of the money."
343 (lines 271-273)

344 **Q. Is the Division's recommendation based on a) if the Company guessed correctly on**
345 **prices going up or down, b) the Company's ability to predict future prices, c) a measure**
346 **based on perfect hindsight of market prices or d) whether the deals were "in the**
347 **money" or "out of the money?"**

348 A. No. Simply put, the Division recommended the Unsupported Trades for disallowance
349 because the Company had not adequately stated *why* such trades were made or what their
350 purpose was. Where Unsupported Trades settled with a gain the Division did not suggest

351 disallowance because to do so would be to allow the Company to profit from trades it has not
352 shown to be prudent when asked to do so.

353 **Q. Did the Division ask the Company why these trades were made or what their purpose**
354 **was?**

355 A. Yes. As stated on pages 34 and 35 of the DPU audit report, the Division asked why the trades
356 were made in DPU data request 6.1 (g) and 6.2(a), which was sent to the Company on May 7,
357 2014. The exact data requests are stated here again. DPU 6.1 stated:

358 **Hedging Transaction Sample**

359 For each transaction listed in the attached spreadsheet, "Hedge
360 Transactions Sample List.xlsx", please provide the following
361 information and documentation:
362
363

- 364
- 365 (a) Provide the transaction confirmation, including instant message
 - 366 logs for any transactions completed via instant messaging;
 - 367 (b) Provide any receipts or invoices related to the trade;
 - 368 (c) Identify the trader by position and trading authority level
 - 369 (maximum notional value, tenor, effective trading period, etc.);
 - 370 (d) Does the transaction exceed the trader's authority level? If so,
 - 371 provide documentation of all management approvals for the
 - 372 trade;
 - 373 (e) Provide the forward price curves for the market locations
 - 374 relevant to each transaction for the prior day and the current
 - 375 day;
 - 376 (f) Does the Company consider this transaction to be a hedging
 - 377 transaction? Please explain in detail why or why not.
 - 378 (g) Was this transaction mandated by the currently-effective Risk
 - 379 Management Policy to alleviate a limit excursion? If so,
 - 380 describe the applicable limit excursion. **If not, explain why**
 - 381 **this trade was made? What was the strategic purpose of**
 - 382 **hedging the particular position at the particular time the**
 - 383 **trade was made?** [Emphasis added]
 - 384 (h) Is the trade strategically linked to any other transactions in the
 - 385 EBA (e.g. a buy and a sell paired to hedge some basis
 - 386 differential)? If so, identify the other transaction(s) and the
 - 387 purpose of making the trades together.

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For Detail deals in the Division’s sample, the Division further requested the following in DPU 6.2:

Hedging Transaction Sample

For each transaction listed with “Detail” in the third column (column C) in the attached spreadsheet, “Hedge Transactions Sample List.xlsx”, please provide the following additional information and documentation:

- (a) Provide supporting documentation showing why this transaction was executed. Documentation may include emails or memos between traders and management; hedging strategy documents, market studies, etc. [Emphasis added]
- (b) Provide Daily Management reports similar to those provided in the previous EBA docket in response to On-Site Audit Request 2.1. Documents responsive to this request might include, but are not limited to: Prior day and current day position reports; position limit reports; HVaR/TEVaR reports, Percent Hedged Reports.
- (c) Credit exposure reports published by credit risk management demonstrating that this transaction with this counterparty at this time was permitted.

Q. What was the response to DPU 6.1(g)?

A. The Company’s response states:

For gas physical / gas financial transactions, please refer to Confidential Attachment DPU 6.1 -8; specifically the file entitled “_Summary Gas CONF”, the worksheets entitled “GasFinancial” and “GasPhysical”, columns AH and AI. For documentation, where applicable, please refer to the Company’s response to subpart (d) above. For power physical / power financial transactions, please refer to Confidential Attachment DPU 6.1 -9; specifically the file entitled “_Summary Power CONF”, the worksheets entitled “PowerFinancial” and “PowerPhysical”, columns AH and AI. For documentation, where applicable, please refer to the Company’s response to subpart (d) above.

The worksheets referred to in the statement above included a column header that stated

“6.1(g)”. Under this column, for deals that were not limit exceedences, the worksheet simply

429 stated “none.” The Company response quoted above also references documentation in
430 subpart (d) of DPU 6.1. Subpart (d) included several approval email chains. Some of the
431 emails provided reasoning for why a trader wanted to execute a particular trade. These
432 explanations were quoted in the Division’s audit report. There were many deals however for
433 which there was no reasoning provided for why the trades were made.

434 **Q. What was the response to DPU 6.2(a)?**

435 A. The response simply stated “Please refer to the documentation provided with the Company’s
436 response to DPU Data Request 6.1.” As discussed previously DPU 6.1 included some
437 documentation explaining the reasoning for some of the trades but not all of them.

438 **Q. For clarification, was the Division’s audit report recommending disallowance for trades**
439 **on the basis that they are “discretionary”?**

440 A. No. Regardless of how one defines “discretionary,” the intent of using this word was to
441 describe a characteristic of the trades disallowed but not the basis for disallowance.
442 Furthermore, using the word “discretionary” was not intended to mean or imply speculation.
443 As stated previously, the purpose of the recommended disallowance was that the Company
444 has not adequately explained what the Unsupported Trades’ purpose was or why they were
445 made.

446 **Q. For clarification, did the Division disallow the Unsupported Trades because they violate**
447 **Company policy?**

448 A. No.

449 **Q. If there was not a policy violation why should the Unsupported Trades be disallowed?**

450 A. The policies in place give the traders a wide latitude of possible actions that could be taken.
451 Should a trader wait to execute a trade rather than at the current moment? Should a trader
452 average in several hedging transactions over time as opposed to a single hedge at the current
453 time? How much volume should a trader hedge? What is the trader's price view at the
454 moment? While the Company may be acting within its policies, the Division believes it is
455 still the Company's responsibility to show why it executed the trades that it did. Merely
456 remaining within the hedging policy's position limits does not mean all trades completed
457 were prudent. The Division is called on in this EBA proceeding to determine whether
458 specific expenses were prudently incurred. Where the Company has not demonstrated
459 prudence, the Division cannot simultaneously discharge its duty to the public interest and
460 ignore the Company's failure to explain certain expenses.

461 **Q. If the Division were disallowing trades simply on the basis that they were "out of the**
462 **money" would the Division have proposed many other disallowances for other trades?**

463 A. Yes. However, trades settling "out of the money" was not the basis for our recommended
464 disallowance.

465 **Q. Were there any "out of the money" trades reviewed by the Division staff for which an**
466 **adjustment was NOT recommended?**

467 A. Yes. There were four deals that were "out of the money" that were not recommended for
468 disallowance because the Company provided emails that demonstrated why the trader wanted
469 to execute the trades.

470 **Q. Were there any "in the money trades" in the Division staff's sample whose purpose was**
471 **not adequately explained?**

472 A. Yes. Table 4 of the audit report shows one trade that resulted in a \$49,662 gain.

473 **Q. Since this deal was unexplained, did the Division propose to disallow the gain, thus**
474 **resulting in an increase to NPC and to Utah's EBA deferral balance?**

475 A. No. As stated on page 47 of the Division staff's audit report:

476 As stated, this deal resulted in a gain. However, the Division believes
477 ratepayers should not be liable for under-supported hedging transactions.
478 Therefore, we find no reason to increase EBA costs for removing this
479 transaction.

480
481 The La Capra audit report mentions a similar situation with an "in the money" deal that was
482 not supported. At the end of discussing this particular deal, La Capra's audit report states on
483 page 48, "Since ratepayers should not be liable for under-supported hedging transactions, we
484 find no reason to adjust the EBA cost for this transaction."

485 **Unsupported Trades**

486 **Q. Since the Division filed its audit report has the Company provided an explanation for**
487 **why the Unsupported Trades were executed, and if so, is it sufficient?**

488 A. Mr. Apperson's response testimony addresses the Unsupported Trades and states on lines
489 176-177,

490 That is, these transactions were executed to reduce the Company's fixed-
491 price exposure to future unfavorable wholesale prices. They were executed
492 to maintain open energy positions within the Company's risk limits.

493
494 Lines 193-196 further state:

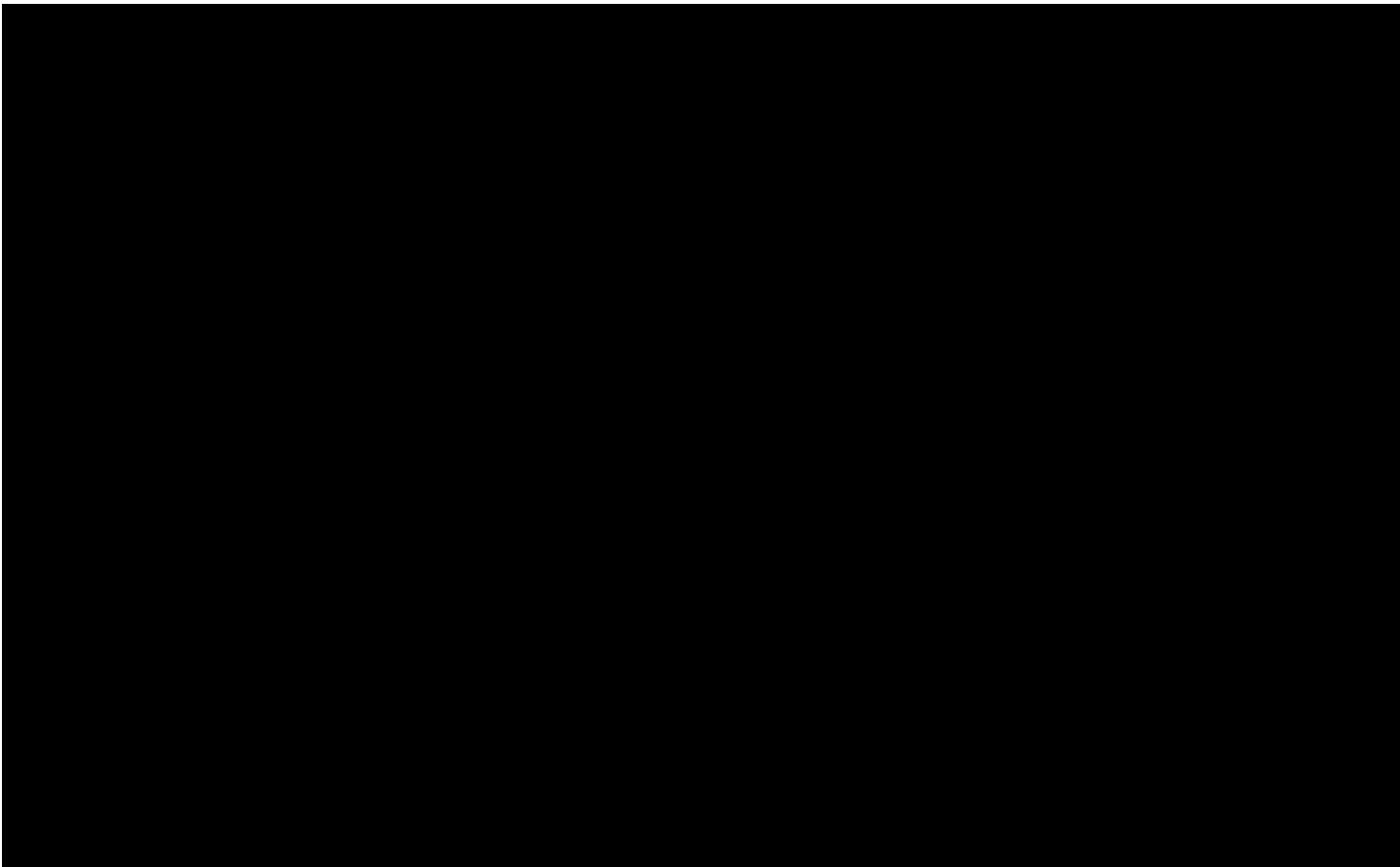
495 In every case, the transaction resulted in the Company being more hedged,
496 which means that every transaction reduced the Company's price risk. This
497 demonstrates the purpose of each transaction was to hedge the Company's
498 open energy position.
499

500 Regarding why these trades were executed on particular days, Mr. Apperson's testimony
501 states on lines 212-214:

502 The Company's traders executed the hedge transactions to stay within
503 applicable Company policy risk limits based on a view of how wholesale
504 market prices would change from then-current prices.

505
506 Without intending to mischaracterize Mr. Apperson's testimony, it appears the Company's
507 explanation for the Unsupported Trades is that they were executed to hedge the Company's
508 open energy position, maintain the open energy position within Company limits and were
509 executed at a certain time based on a trader's price view. This view of Mr. Apperson's
510 testimony is supported by the Company's fourth supplemental response to DPU data request
511 6.1, which was received on Wednesday, September 17, more than four months after it was
512 initially sent to the Company. The supplemental response purports to finally explain the
513 reason for the trades that were not made to correct a limit exceedance. The response provides
514 a revised version of a spreadsheet provided in DPU 6.1(8). The revised version is included as
515 Confidential DPU Exhibit 1.6R. The written response to the fourth supplemental response to
516 DPU 6.1 is also included as DPU Exhibit 1.5R. An excerpt from the revised spreadsheet in
517 the fourth supplemental response to DPU 6.1 is shown on the next page.

518 **TABLE 3**



519
520 As can be seen in Table 5, under the “Purpose of Transaction” column, the Company has
521 inserted the word “Hedging” for each deal. The Company’s written response included in the
522 fourth supplemental response to DPU 6.1 also states:

523 The Company believes this information should reverse DPU’s disallowances of the
524 following transactions:

- 525 **772398**
- 526 **674809**
- 527 **1127544**
- 528 **1302341**

529 The Division does not understand how this explanation could possibly be considered
530 sufficient for explaining the purpose of any specific trade or what the trader's reasoning was
531 at the time the trade was made. The Division is further confused why the Company appears
532 to be stating that the "hedging" explanation is sufficient for only some of the deals that were
533 recommended for disallowance. The Company's September 17th response is exceedingly late
534 and insufficient. Far from robust, the Company's response does nothing at this late date to
535 give the Division a meaningful opportunity to evaluate the information relied on by the
536 Company in choosing the transactions for which it now seeks recovery. If the Company's
537 response was robust, its tardiness would still not leave a meaningful opportunity for
538 evaluation in advance of filing deadlines.

539 **Q. Why does the Division accept the "limit exceedance" reason as an acceptable purpose**
540 **but not "hedging?"**

541 A. A limit exceedance explains why a hedge was made: to get the Company's position back
542 within limits. The limit exceedance is the driving force behind why a trader executed the
543 deal. Given the Company's policy requiring a narrow period of time² for bringing the

² Per Section 9 of the Risk Management Policies (1/13/10 and prior) applicable to the gas deals included in the Division's sample, the Company had position limits and value-at-risk limits

For the single power deal in the Division's sample that exceeded a limit the applicable Risk Management Policy (5/22/12) required management to

544 Company's position back within policy limits, there is much less room for Company and
545 trader discretion in timing, pricing, and other terms of trades made to return to compliance. If
546 the Company is already within limits, the question is why was the deal made? The response
547 "to hedge" or "hedging" does not answer much of anything. A trader could in theory not
548 execute any transaction and still maintain an open energy position. Likewise, a trader could
549 hedge at a tenor of 18 months instead of 12 months and still maintain an open energy
550 position. The key issue is not whether a transaction is or is not a hedge but why did it hedge
551 at the time and in the manner it did if the Company was already within limits. The Division is
552 not saying it is necessarily wrong to hedge if the Company is already within its limits, we just
553 want to know why it hedged in the manner it did or what the trader's reasoning was.
554 The Division's standard for deal explanation is not set too high. The Division has accepted
555 many emails as sufficient explanation for many deals despite the often short reasoning
556 provided. For example, the following email explanation was provided for deal 1164419.

557 [REDACTED]
558 [REDACTED]
559 [REDACTED]
560 [REDACTED]
561 [REDACTED]
562 [REDACTED]
563 [REDACTED]
564 [REDACTED]
565 [REDACTED]
566 [REDACTED]
567 [REDACTED]
568 [REDACTED]
569 [REDACTED]
570 [REDACTED]
571 [REDACTED]
572 [REDACTED]
573 [REDACTED]
574 [REDACTED]

575
576 This explanation provides specific positions at specific locations for specific months. It also
577 provides the trader's price view and why the trader had that specific view. A second example
578 from the Division's report is for deal 1158801. The approval email for this deal states

579 [REDACTED]
580 [REDACTED]
581 [REDACTED]

582
583 This example is less descriptive than the first but it at least gives reference to a PIRA price
584 forecast and references year-to-date demand and a weekly planned transaction report. These
585 are all references specific to deal 1158801. This email gives insight into the reasoning used
586 by the trader to execute the deal.

587 **Q. If the Commission were to accept such a simplified trade purpose as "hedging" what**
588 **would be the effective result?**

589 A. Accepting such an explanation would effectively provide a blanket approval (with regards to
590 the sufficiency of a trade purpose explanation) of all non-limit exceedance related hedging
591 transactions in not only this EBA docket but all future EBA dockets. Under such a
592 Commission ruling, a trader could, in theory, enter into a hedge transaction without any
593 reason whatsoever and it would it still be acceptable because the trade was a hedge. In short,
594 the Company is effectively arguing for a presumption of prudence when it operates within its
595 policies. However, such a standard is not in the public interest. Given the latitude the
596 policy/limits provide, it is entirely in the realm of possibilities for a trader to execute a trade
597 that is compliant with policy yet consists of attributes that are not prudent. The Division
598 believes the Company's explanation is not adequate. The Division maintains its original

599 adjustments for the Unsupported trades. The Division staff's Unsupported Trade adjustments
600 reduce total Company NPC by \$4,637,392 and Utah's EBA deferral balance by \$1,572,239.

601 **Trade Approvals**

602 **Q. Please briefly describe the Division's original adjustment regarding unsupported trade**
603 **approvals?**

604 A. The Division identified two deals that required, per Company provided information, the
605 authorization of Mr. Stefan Bird because of their ETP value. The Company provided
606 authorizations from Mr. Apperson but no authorizations have been provided from Mr. Bird.

607 **Q. What is the Company's response to these adjustments?**

608 A. It appears the Company disagrees with the adjustment on the basis that the ETP authorization
609 levels relied on by the Division are "unofficial"³ and not stated in the Company's Risk
610 Management Policy or Corporate Governance and Approvals Process⁴. The Company also
611 appears to believe that the issue regarding approval for ETP limits was resolved in prior EBA
612 settlements.

613 **Q. Do you agree that the ETP limits relied on by the Division are "unofficial" or "not a**
614 **policy obligation"**⁵?

615 A. Absolutely not. The Company's Front Office Procedures and Practices (FOPP) document
616 requires traders and trader management to abide by certain authorization levels. [REDACTED]

617 [REDACTED]

618 [REDACTED]

³ See lines 386-396 of Mr. Apperson's response testimony.

⁴ See lines 331-378 of Mr. Apperson's response testimony.

⁵ See line 394 of Mr. Apperson's response testimony.

619 [REDACTED]

620 [REDACTED]

621 [REDACTED] are enough to

622 show its official status, DPU data request 38.12 asked the Company if it considers the FOPP

623 to be unofficial. The Company's response stated "No."

624 **Q. What section of the FOPP addresses authorization levels?**

625 A. Section 6.1 addresses authorization issues. The introductory paragraph under Section 6 as

626 well as Section 6.1 of the 2008 FOPP are stated below in its entirety.

627 [REDACTED]
628 [REDACTED]
629 [REDACTED]
630 [REDACTED]

631 [REDACTED]
632 [REDACTED]
633 [REDACTED]
634 [REDACTED]
635 [REDACTED]
636 [REDACTED]
637 [REDACTED]
638 [REDACTED]
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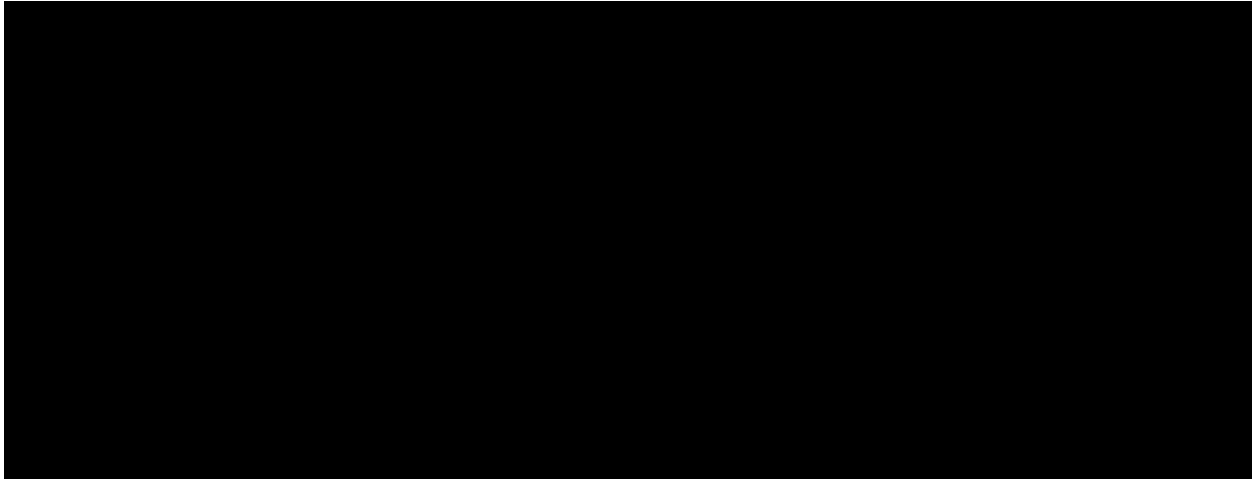
[REDACTED]

Q. Did the Company provide you with the authorized signing levels maintained in SAP?

A. Yes. The Company’s attachment response to DPU 6.1(8) and 6.1(9)⁶ provided Excel worksheets with tabs entitled “SAP Governance.” This tab specifies the authorization levels. The data in the SAP Governance tabs for gas and power transactions are shown below.

TABLE 4

⁶ See DPU Exhibit 1.3R and 1.4R.



689

690 **Q. When were these authorization limits implemented?**

691 A. According to the Company’s response to DPU data request 38.29, “Maximum tenor and
692 maximum effective transaction period (ETP) were added to SAP in late 2013.” Mr. Apperson
693 also makes a similar statement on lines 406-411 of his response testimony.

694 **Q. Why does the Company state that the limits were not added to SAP until late 2013 when
695 clearly the SAP authority levels were referenced in Exhibit 3 of the July 2008 FOPP?**

696 A. I don’t know. It is clear from the 2008 FOPP that the signing authority levels existed well
697 before 2013 and that they were in SAP. Furthermore, it is the Company that provided the
698 Division with the spreadsheets⁷ that identified the specific max notional value, max tenor and
699 max ETP limits for each deal (regardless of trade date time) included in DPU data request
700 6.1. The spreadsheets also calculated the actual tenor and ETP value for each deal. An
701 excerpt from those spreadsheets for the two deals in question is shown below in Table 5.

702 **TABLE 5**

⁷ See DPU Exhibit 1.3R and 1.4R

[REDACTED]

703

704

Q. Does the Corporate Governance and Approvals Process (CGAP) document further

705

support your position?

706

A. Yes. While Mr. Apperson uses the CGAP to further his position I believe it does the

707

opposite. Page 4 states the following:

708

[REDACTED]

709

[REDACTED]

710

711

712

[REDACTED]

713

[REDACTED]

714

715

[REDACTED]

716

Page 4 further states that,

718

[REDACTED]

719

720

[REDACTED]

721

[REDACTED]

722

[REDACTED]

723

Footnote 1 from the statement above states,

725

[REDACTED]

726

[REDACTED]

727

[REDACTED]

728

[REDACTED]

729

[REDACTED]

730

731 These statements from the CGAP clearly recognize approval levels other than those stated in
732 Appendix 1 of the CGAP. The CGAP referred to in the statements above⁸ [REDACTED]
733 [REDACTED]
734 [REDACTED]
735 [REDACTED]
736 [REDACTED]
737 [REDACTED]

738 [REDACTED] Thus, it appears that approval limits other
739 than the ones referred to in Appendix 1 of the CGAP have been in place since at least
740 November 2007.

741 **Q. Is recommending disallowance for these two deals in violation of past stipulations as**
742 **alleged by the Company?**

743 A. No.

744 **Q. What part of the stipulation does the Company appear to be referring to?**

745 A. The Company does not specify which or what part of past stipulations the Division has
746 violated. Lines 46-49 of Mr. Apperson’s testimony simply states:

747 In addition, the issue raised by the DPU Reports regarding trades that
748 allegedly exceed ETP limits is the same issue raised in the prior Energy
749 Balancing Account (“EBA”) reviews, which the Company believes had
750 been resolved in prior settlements.

751 However, based on the Company’s fourth supplemental response to DPU 6.1 which was
752 received on September 17th, it appears the Company believes the Division is in violation of
753 the stipulation in Docket No. 13-035-32. Exhibit A of that stipulation included a list of
754

⁸ See Mr. Apperson’s Confidential Exhibit JAA_2AR.

755 hedging deals with ETP periods greater than 48 months. These deals are referred to and
756 described in paragraph 5 of the stipulation. Paragraph 6 of the stipulation states:

757 The Parties agree that, given these representations, they will not challenge
758 any of the transactions identified in Paragraph 5 above for prudence based,
759 in whole or in part, on the grounds that they (a) **violate the Company's**
760 **policy** or require a policy exception **due to their effective transaction**
761 **periods** or because they are considered seasonal products, or (b) violate
762 the Company's policies for governance for "splitting" the transactions to
763 avoid such governance. (Emphasis added)
764

765 **Q. Is the Division advocating that the two deals in question have ETPs that violate**
766 **Company policy?**

767 A. No. The Division is NOT stating that the ETP for these two deals is what is violating policy
768 or that the ETP requires a policy exception. The core issue in the previous case was the belief
769 that the ETPs greater than 48 months were in and of themselves violations of Company
770 policy and that such policy violations required a policy exception from the president of
771 PacifiCorp Energy. The Division makes no claim that the beyond 48 month ETP nature for
772 the two deals in question violates company policy and requires a policy exception. The fact
773 that these two deals require Mr. Bird's approval is simply a requirement of the policy and not
774 a requirement to obtain a policy exception. If the two deals in question were gas deals with
775 ETPs of 37 months and only had the trader's (Bruce Evans) authorization, they would have
776 been recommended for disallowance because Mr. Apperson's (or Mr. Bird's) approval is
777 needed for deals with ETPs over 36 months. Again, the fact that such a deal would be over
778 36 months is not a policy violation but the policy does require a higher authorization. In
779 short, disallowance is suggested because of a failure to obtain appropriate approvals, not
780 because of the underlying character of the deal.

781 **Q. Table 3 above appears to show that the Company has recalculated the ETP values that**
782 **were previously provided in response to DPU 6.1(8). Is this true?**

783 A. Yes. However, given the lateness of the September 17th response the Division does not have
784 the time to verify if the Company's revised calculations are consistent with its policies and
785 procedures or with ETPs that may have been calculated in previous EBA filings.
786 Furthermore, the Company's ETP revisions just add to other reliability issues of Company
787 provided information namely: multiple buy-through corrections; IM log trade date times; and
788 FR trade date times⁹.

789 **Q. Can you please summarize your trade approvals adjustment?**

790 A. Yes. The Company has official policies in place regarding transaction authorizations. It is
791 clear that these policies were not followed. The Division is not challenging these deals
792 because the length of their ETP violates policy or requires a policy exception. Therefore, the
793 stipulation in Docket No. 13-035-32 does not prevent the Division from proposing this
794 adjustment. The adjustments for the two trades in question reduces total Company NPC by
795 \$4,434,411 and reduces Utah's EBA deferral balance by \$1,447,838.

796 **Risk Policy Standards and Guidelines**

797 **Q. Do you have any response to Mr. Apperson's testimony regarding risk policy current**
798 **standards and guidelines?**

799 A. Yes. The Division appreciates the Company's willingness to continue to be responsive to
800 data requests regarding TEVaR. The Division also appreciates the Company's willingness to
801 inform the Commission, DPU and other interested parties when it makes changes to its

⁹ See the rebuttal testimony of Mr. Hahn in this docket for a discussion of the trade date times.

802 policy as well as why such changes are being made. It is still unclear to the Division why the
803 Company suspended its stop loss limits and or guidelines in 2011 and has still not reinstated
804 such limits or guidelines. This suspension was NOT made at the direction of the hedging
805 collaborative. The Division understands the Company is not a speculative trading Company.
806 However, if it was important to the Company to have stop loss limits/guidelines previously
807 (when it was presumably not a speculative trading Company) it stands to reason that such
808 limits might also be important now. The Company has still not adequately explained why
809 such limits or guidelines have been suspended for so long. However, while a stop loss limit,
810 guideline or cumulative mark-to-market threshold is not currently in use, the Company states
811 on lines 557-560 that,

812 management has visibility to changes in value of its hedges and open positions through
813 net power cost modeling as well as daily monitoring of exposures with counterparties
814 which are heavily influenced by the mark-to-market value of hedges.
815

816 Mr. Apperson's testimony also states on lines 560-563 that,

817 The Company plans to implement logic in the new energy trading system to provide
818 detailed profit and loss data as part of the upgrade to the energy trading system, currently
819 scheduled for early 2015.
820

821 The Division will continue to monitor the Company's progress towards new "cumulative
822 mark-to-market thresholds" and may address the issue of these thresholds or stop loss limits
823 in future dockets.

824 **Rate Spread**

825 **Q. What is the OCS position with regards to rate spread?**

826 A. Lines 82-86 of Mr. Martinez's testimony states:

827 The appropriate NPC Allocator to use in this EBA proceeding is the one from the 11-035-
828 200 GRC, which properly aligns the NPC forecast with the 2013 EBA accrual period. This

829 NPC Allocator was used to derive the Company's rate spread proposal, as presented in
830 Exhibit RMP__ (JRS-1).

831
832 **Q. Do you agree with the OCS position?**

833 A. Yes. After reviewing the issue with the Office staff the Division believes the appropriate
834 NPC Allocator to use in this proceeding is the one from Docket No. 11-035-200.

835 **Q. Can you please summarize your testimony?**

836 A. With the exception of the Black Cap Solar Adjustment and part of the original buy-through
837 adjustment, the Company has resolved the Division staff adjustments addressed in Mr.
838 Dickman's testimony. With regards to Mr. Apperson's testimony, the Division maintains that
839 the Unsupported Trades are still insufficiently supported. The Division also believes the ETP
840 limits are official limits and that there are two trades for which adequate approval was not
841 obtained based on information provided to the Division with adequate time for review. The
842 total of these adjustments plus the Jim Bridger Aerial Survey Adjustment (which was
843 accepted by the Company) reduce Utah's EBA deferral by \$3,256,098. Including the La
844 Capra adjustments and the scalar/factor update, the Division recommends specific
845 adjustments resulting in a \$7,047,984 reduction to the original \$28,339,553 requested by the
846 Company.

847 **Q. Does this conclude your rebuttal testimony?**

848 A. Yes.