

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of Rocky Mountain	)	Docket No. 16-035-01
Power’s Application to Decrease the	)	<u>Revised</u> Direct Testimony of
EBA Rate through the 2016 Energy	)	Danny A.C. Martinez
Balancing Account Mechanism	)	For the Office of
	)	Consumer Services

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NONCONFIDENTIAL – REDACTED VERSION

~~August 18~~September 28, 2016

1 **I. INTRODUCTION**

2  
3 **Q. WHAT IS YOUR NAME, YOUR OCCUPATION AND YOUR BUSINESS**  
4 **ADDRESS?**

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

8  
9 **Q. PLEASE DISCUSS YOUR EDUCATION AND QUALIFICATIONS.**

10 A. I have B.S. and M.S. degrees in economics from the University of Utah. I also  
11 have a M.P.A. degree from the University of Utah. My private and public sector  
12 work experience spans over 25 years including ten years in financial services  
13 and ten years teaching economics. In 2010, I was hired by the Office of  
14 Consumer Services. At the Office, I have worked primarily in the areas of cost of  
15 service (“COS”), rate design, and demand side management (“DSM”). I filed  
16 testimony on cost of service and rate design issues in the last Questar Gas  
17 general rate case (Docket 13-057-05). I also filed direct testimony on rate design  
18 issues in Rocky Mountain Power’s past two general rate cases (Dockets 11-035-  
19 200 and 13-035-184). Lastly, I have attended various training opportunities,  
20 including an intensive course on cost of service and rate design issues.

21  
22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS ENERGY**  
23 **BALANCING ACCOUNT (EBA) CASE?**

24 A. My testimony does the following:

- 25 • Introduces the Office’s expert witness in this proceeding;
- 26 • Summarizes the Office’s recommended adjustments to the Company’s  
27 requested recovery of \$18,948,273 for the EBA period, January 1, 2015 –  
28 December 31, 2015;
- 29 • Provides the Office’s EBA rate spread proposal.
- 30 • Discusses the Division of Public Utilities’ (Division) Deer Creek  
31 Amortization adjustment.

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

34 A. The Office retained Mr. Phil Hayet, Vice President of J. Kennedy and Associates,  
35 Inc., as a net power cost expert in this case. In his direct testimony, Mr. Hayet  
36 proposes adjustments pertaining to plant outages, supports certain additional  
37 adjustments proposed by the Division, and makes a recommendation regarding  
38 the Energy Imbalance Market ("EIM").

39

40 **II. RECOMMENDATIONS**

41

42 **Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS FOR THIS**  
43 **PROCEEDING.**

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

- 46 • A disallowance of [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL]  
47 for excess replacement power costs associated with two plant outages; and,
- 48 • A disallowance of [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL]  
49 for out of period adjustments.

50

51 In addition to Mr. Hayet's recommended adjustments, the Office also  
52 recommends that the Commission approve a \$465,312 disallowance for the Deer  
53 Creek carrying charge since the Company violated terms from the Deer Creek  
54 settlement stipulation in Docket 14-035-147, which I discuss in this testimony.

55

56 The Office's recommended adjustments total \$1,326,464 on a Utah basis and  
57 reduce the Company's proposed \$18,948,273 increase to a \$17,621,809  
58 increase.

59

60 The Office further recommends the Company be required to perform a study to  
61 validate the results of the CAISO EIM benefits analysis, and to compare those  
62 results to the original studies performed when PacifiCorp considered joining the

63 CAISO EIM. The analysis should evaluate data assumption values that were  
64 used in the original study and compare those to actual values that occurred,  
65 compare methodologies to ensure that apples-to-apples approaches are used,  
66 and evaluate results to ensure that net benefits from joining the EIM have  
67 materialized. Mr. Hayet discusses this further in his testimony.

68

69 Regarding EBA rate spread, the Commission should continue to use the “NPC  
70 Allocator” method approved in Docket 11-035-T10. The Office agrees with the  
71 Company’s application of the NPC allocator in its application.

72

73 **III. EBA RATE SPREAD**

74

75 **Q. HAS THE COMMISSION PREVIOUSLY DECIDED WHAT ALLOCATION**  
76 **METHOD SHOULD BE USED TO SPREAD EBA COSTS TO THE TARIFFED**  
77 **RATE SCHEDULES AND APPLICABLE SPECIAL CONTRACT**  
78 **CUSTOMERS?**

79 A. Yes. In Docket 11-035-T10, the Commission ordered use of the NPC Allocator  
80 for rate spread purposes, beginning with EBA costs authorized for recovery in the  
81 Company’s 2013 EBA Case and continuing thereafter.<sup>1</sup>

82

83 **Q. DOES THE OFFICE AGREE WITH THE COMPANY’S RECOMMENDED NPC**  
84 **ALLOCATOR IN THIS EBA PROCEEDING?**

85 A. Yes. The Office reviewed NPC allocator used in the deferral period against past  
86 ordered NPC allocations. The current EBA proceeding properly utilized the NPC  
87 Allocators determined in the 2014 General Rate Case (Docket 13-035-084). This  
88 NPC Allocator was used to derive the Company’s rate spread proposal, as  
89 presented in Exhibit RMP (JRS-1), page 2.

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<sup>1</sup> Docket 11-035-T10; Commission’s May 1, 2012 Order, pages 11-12.

91 **Q. DOES THE OFFICE AGREE WITH THE COMPANY'S PROPOSAL FOR**  
92 **SPREADING EBA COSTS TO RATE SCHEDULES 21, 31 AND CONTRACT**  
93 **CUSTOMERS 1 & 3?**

94 A. Yes. As discussed in Ms. Steward's direct testimony<sup>2</sup>, customers taking service  
95 under Schedules 21 and 31 are more similar to Schedule 9 customers compared  
96 to other rate schedules. In addition, Contract Customer 3's terms require that it  
97 participate in the EBA and pay the same rate as Schedule 9. Contract Customer  
98 1's contract terms, as approved in Docket 15-035-81, dictates that the 2016 EBA  
99 allocation is based on the overall 2016 percentage to tariff customers in Utah.

100

101 **IV. DEER CREEK AMORTIZATION ADJUSTMENT**

102

103 **Q. DID THE OFFICE INITIALLY OPPOSE REVISING EBA CALCULATIONS AS A**  
104 **MEANS TO AMORTIZE THE DEER CREEK REGULATORY ASSET?**

105 A. Yes. OCS witness Donna Ramas stated in her direct testimony in Docket 14-  
106 035-147 that the Company had not demonstrated that it is technically possible or  
107 even allowable to alter the EBA mid-stream to include the amortization of a  
108 regulatory asset. Furthermore, in order to keep the EBA "pure" and avoid  
109 tampering with the EBA methodology and calculations, the Office recommended  
110 that the amortization of the regulatory assets being established not begin until  
111 rates are reset in the next general rate case.<sup>3</sup>

112

113 **Q. ALTHOUGH THE OFFICE OPPOSED THE USE OF THE EBA FOR THE DEER**  
114 **CREEK REGULATORY ASSET AMORTIZATION, DID THE OFFICE SUPPORT**  
115 **THE SETTLEMENT STIPULATION IN DOCKET 14-035-147?**

116 A. Yes. The Office supported the conditions for using the EBA as outlined in the  
117 Settlement Agreement in Docket 14-035-147. In particular, paragraph 17 states  
118 the conditions that the EBA can be used as follows:

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<sup>2</sup> Steward Direct, Pg 3-4, lines 60-74.

<sup>3</sup> See Direct Testimony of Donna Ramas in Docket 14-035-147, lines 793 – 826.

120 17. The Parties agree that the Commission should enter an  
121 order authorizing a onetime, non-precedential exception to  
122 be made to the 70/30 Energy Balance Account (“EBA”)  
123 sharing band for the following items, to be recovered by  
124 flowing them through the EBA at 100% without applying the  
125 sharing band until the rate effective date of the next general  
126 rate case:

- 127 a. unrecovered Deer Creek Mine investment  
128 amortization, at the current level of depreciation  
129 expense in rates, and the amortization of the loss  
130 related to the Mining Assets at the current rate of  
131 depreciation as described in the Application; and  
132 b. actual Utah fueling cost for the Hunter and  
133 Huntington plants, including:  
134 i. lower replacement coal costs;  
135 ii. Prep Plant operational savings;  
136 iii. pension timing savings; and  
137 iv. savings on Energy West retiree medical  
138 benefits as a result of the settlement of the  
139 Retiree Medical Obligation.

140 The Parties agree that the sharing band waiver is non-  
141 precedential, *and the Company agrees to not request any*  
142 *change or elimination of the EBA sharing band to be*  
143 *effective prior to the end of the EBA pilot.* (Italics added.)  
144

145 **Q. DID THE COMPANY VIOLATE THE TERMS OUTLINED IN PARAGRAPH 17**  
146 **OF THE SETTLEMENT AGREEMENT IN DOCKET 14-035-147?**

147 A. Yes. The Company clearly promoted and supported the passage of Senate Bill  
148 115 (SB 115) in the 2016 legislative session. The final version of that legislation  
149 eliminated the EBA sharing bands starting June 1, 2016, which is prior to the end

150 of pilot period and thus violates the terms of paragraph 17 of the Settlement  
151 Stipulation in Docket 14-035-147.

152

153 **Q. WHAT DOES THE OFFICE PROPOSE FOR THE DEER CREEK CARRYING**  
154 **CHARGE ADJUSTMENT?**

155 A. Since the Company violated the terms of the settlement agreement in Docket 14-  
156 035-147, the Office supports the Division's Deer Creek carrying charge  
157 adjustment of \$465,312.<sup>4</sup> This amount reflects the Deer Creek carrying charge  
158 proposed for recovery in this case. Furthermore, the Office supports the  
159 Division's recommendation that no further carrying charges should be allowed for  
160 any unrecovered Deer Creek unamortized balances.

161

162 ~~Q. THE DIVISION ALSO INDICATED THAT ITS CONFIDENCE IN FUTURE~~  
163 ~~SETTLEMENTS WITH THE COMPANY IS ERODED.<sup>5</sup> DO YOU HAVE ANY~~  
164 ~~RESPONSE?~~

165 ~~A. Yes. Since the Company's actions violated the Deer Creek settlement, the~~  
166 ~~Office's confidence has similarly eroded.~~

167

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

169 A. Yes it does.

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<sup>4</sup> See Prefiled Direct Testimony of Dr. Artie Powell in this Docket, 16-035-01, at lines 17 – 28.

~~<sup>5</sup> Ibid. at lines 135 – 141.~~