

Gary A. Dodge (0897)
Phillip J. Russell (10445)
HATCH, JAMES & DODGE, P.C.
10 West Broadway, Suite 400
Salt Lake City, Utah 84101
Telephone: (801) 363-6363
Facsimile: (801) 363-6666
Email: gdodge@hjdllaw.com
prussell@hjdllaw.com

Counsel for Utah Association of Energy Users

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky
Mountain Power to Decrease the Deferred EBA
Rate through the Energy Balancing Account
Mechanism

Docket No. 17-035-01

PREFILED DIRECT TESTIMONY OF NEAL TOWNSEND

The Utah Association of Energy Users (“UAE”) hereby submits the Prefiled Direct
Testimony of Neal M. Townsend in this docket.

DATED this 19th day of December 2017.

HATCH, JAMES & DODGE

/s/ Phillip J. Russell

Gary A. Dodge

Phillip J. Russell

Attorneys for the Utah Association of Energy Users

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 19th day of December 2017 on the following:

Public Service Commission: psc@utah.gov

Rocky Mountain Power:

R. Jeff Richards	robert.richards@pacificorp.com
Yvonne R. Hogle	yvonne.hogle@pacificorp.com
Bob Lively	bob.lively@pacificorp.com
Paul Clements	paul.clements@pacificorp.com

Division of Public Utilities:

Patricia Schmid	pschmid@utah.gov
Justin Jetter	jjetter@utah.gov
Chris Parker	chrisparker@utah.gov
William Powell	wpowell@utah.gov
Charles Peterson	chpeterson@utah.gov

Utah Industrial Energy Consumers

William J. Evans	bevans@parsonsbehle.com
Vicki M. Baldwin	vbaldwin@parsonsbehle.com
Chad C. Baker	cbaker@pasrsonsbehle.com

Office of Consumer Services:

Rex Olsen	rolsen@utah.gov
Michele Beck	mbeck@utah.gov
Bela Vastag	bvastag@utah.gov

/s/ Phillip J. Russell

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In the Matter of the Application of Rocky Mountain Power to Decrease the Deferred EBA Rate through the Energy Balancing Account Mechanism)
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) Docket No. 17-035-01
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REDACTED

Direct Testimony of Neal Townsend

On Behalf of the

Utah Association of Energy Users

December 19, 2017

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I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. My name is Neal Townsend. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. On whose behalf are you testifying in this proceeding?

A. My testimony is being sponsored by the Utah Association of Energy Users (“UAE”).

Q. Please describe your educational background.

A. I received an MBA from the University of New Mexico in 1996. I also earned a B.S. degree in Mechanical Engineering from the University of Texas at Austin in 1984.

Q. Please describe your professional experience and background.

A. I have provided regulatory and technical support on a variety of energy projects at Energy Strategies since I joined the firm in 2001. Prior to my employment at Energy Strategies, I was employed by the Utah Division of Public Utilities as a Rate Analyst from 1998 to 2001. I have also worked in the aerospace, oil and natural gas industries.

Q. Have you previously filed testimony before this Commission?

23 A. Yes. Since 1997, I have testified in 16 dockets before the Utah Public
24 Service Commission on electricity and natural gas matters.

25 **Q. Have you testified before utility regulatory commissions in other states?**

26 A. Yes. I have testified in utility regulatory proceedings before the Arkansas
27 Public Service Commission, the Illinois Commerce Commission, the Indiana
28 Utility Regulatory Commission, the Kentucky Public Service Commission, the
29 Michigan Public Service Commission, the New Mexico Public Regulation
30 Commission, the Public Utilities Commission of Ohio, the Public Utility
31 Commission of Oregon, the Public Utility Commission of Texas, the Virginia
32 Corporation Commission, the Public Service Commission of West Virginia, and
33 the Washington Utilities and Transportation Commission.

34 **Q. What is the purpose of your testimony?**

35 A. My testimony addresses the request by Rocky Mountain Power, a division
36 of PacifiCorp (“RMP” or the “Company”) for approval to refund approximately
37 \$6.5 million in deferred Energy Balancing Account (“EBA”) Costs (“EBAC”).
38 The \$6.5 million includes (1) the difference between the Actual EBAC and the
39 Base EBAC in current base rates for the period from January 1, 2016 to
40 December 31, 2016 (“Deferral Period”) of approximately \$11.3 million, (2) a
41 credit of approximately \$2.9 million for savings related to the Retiree Medical
42 Obligation (not subject to sharing band), (3) a credit of approximately \$0.7
43 million in coal fuel expense savings at the Hunter and Huntington plants related to
44 the Deer Creek mine closure (not subject to sharing band), (4) a credit of

45 approximately \$0.5 million of accrued interest, (5) a credit of approximately \$0.2
46 million related to a special contract customer adjustment, and (6) approximately
47 \$9.1 million in costs for the Utah-allocated Deer Creek mine amortization
48 expense.¹ My testimony also addresses the finding of the Division of Public
49 Utilities (“DPU”) that RMP was imprudent in managing the Bridger Mine with
50 respect to its recovery efforts and ultimate abandonment of the Joy Longwall.

51 **Q. Please summarize your primary conclusions and recommendations**
52 **concerning RMP’s proposed EBA rate adjustment.**

53 A. I recommend that the Commission adopt the DPU’s finding that RMP was
54 imprudent in its management of the Bridger Mine, which imprudence led to
55 unsuccessful recovery efforts and ultimate abandonment of the Joy Longwall. I
56 also agree with the DPU that the Commission disallow recovery for the entire cost
57 of the Joy Longwall abandonment expense of \$12.5 million and the recovery cost
58 of \$7.6 million, for a total of \$20.1 million on a total Company NPC basis. The
59 Utah allocated amount for this adjustment is \$8,420,710.² This adjustment can be
60 incorporated into the final EBA rates for 2016 to be amortized over the next 12-
61 month EBA period. Alternatively, instead of returning these funds to Utah
62 customers in a single year through the EBA, this disallowance could potentially
63 be used to offset Utah’s share of Energy Imbalance Market (“EIM”) costs that are
64 accruing and will continue to accrue until they can be included in Utah rates.

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1 RMP Application, pp. 1-2.

2 DPU Exhibit 1.2 EBA Audit Report, pp. 5.

66 **II. JOY LONGWALL ABANDONMENT AND RECOVERY COSTS**

67 **Q. Please describe the costs included in the EBA filing associated with the Joy**
68 **Longwall.**

69 A. During mining operations at the Bridger Underground Mine in December
70 2015, a section of panels in the Joy Longwall became stuck in soft claystone. A
71 series of recovery efforts were initiated, but ultimately were unsuccessful and
72 resulted in the decision to abandon the equipment due to unsafe working
73 conditions. RMP's share of the abandonment costs, which include the book value
74 of the asset, construction work in progress, material and supply inventory items
75 and deferred longwall costs, total \$12.5 million. RMP's share of the recovery
76 efforts total \$7.6 million. These costs contributed to the increase in total coal fuel
77 expense at the Jim Bridger plant.³

78 **Q. Who was responsible for the operation of the Joy Longwall at the Bridger**
79 **Mine?**

80 A. The Bridger Mine is operated by Bridger Coal Company ("BCC"). BCC
81 is a joint venture of PacifiCorp and Idaho Power Company.⁴ All costs referred to
82 in my testimony refer to PacifiCorp's share only.

83 **Q. What does the DPU recommend with regards the Bridger Mine Joy**
84 **Longwall abandonment and recovery efforts?**

85 A. The DPU contracted with Daymark Energy Advisors, Inc. ("Daymark") to
86 review and provide recommendations on certain aspects of the Company's EBA

3 Direct Testimony of Michael G. Wilding, pp. 19.

4 DPU Exhibit 2.3 Daymark 2016 EBA Audit Report, pp. 35.

87 filing, which included a review of the events leading up to the abandonment of the
88 Joy Longwall. [REDACTED]
89 [REDACTED] the
90 Company was imprudent in its management of the Bridger Mine in the first place,
91 which ultimately led to those unsuccessful recovery efforts and the abandonment
92 of the Joy Longwall. Therefore, Daymark recommended that the EBA deferral
93 request should be adjusted to remove the \$12.5 million Joy Longwall
94 abandonment expense and \$7.6 million in recovery cost on a Company-wide NPC
95 basis.⁵ The Utah allocated amount for this adjustment is \$8,420,710.

96 **Q. What are the primary reasons that Daymark provides for its**
97 **recommendation?**

98 A. Daymark reviewed the BCC's Joy Longwall 14th Right Investigation
99 report to evaluate the events surrounding the abandonment of the Joy Longwall.
100 In particular, it focused its review on the Root Cause Analysis ("RCA").
101 Daymark cites twelve separate passages from the RCA that raise concern
102 regarding the prudence of the mining operations involving the Joy Longwall.
103 These excerpts include references [REDACTED]
104 [REDACTED]
105 [REDACTED]
106 [REDACTED]. The excerpts also refer to a
107 chain reaction of events such as [REDACTED]
108 [REDACTED]

5 DPU Exhibit 2.3 Daymark 2016 EBA Audit Report, pp. 35-39.

109 [REDACTED]
110 [REDACTED]
111 [REDACTED].⁶

112 Daymark also focused on the “Methods to Prevent Reoccurrence” cited in
113 the report. These methods include [REDACTED]
114 [REDACTED]
115 [REDACTED]
116 Daymark concluded that these fundamentals are critical to any prudent
117 operational environment and that the lack of these fundamentals likely was a
118 major contributor to the events that led to the abandonment of the Joy Longwall.⁷

119 Daymark offered the following observations to support its conclusion:

- 120 ■ [REDACTED]
- 121 [REDACTED]
- 122 [REDACTED]
- 123 ■ [REDACTED]
- 124 [REDACTED]
- 125 ■ [REDACTED]
- 126 [REDACTED].
- 127 ■ [REDACTED]
- 128 [REDACTED]

6 *Id.*, pp. 36-37.

7 DPU Exhibit 2.3 Daymark 2016 EBA Audit Report, pp. 37-38.

8 *Id.*, pp. 38-39.

129 **Q. Do you agree with Daymark’s recommendation to disallow recovery of the**
130 **\$12.5 million Joy Longwall abandonment expense and the \$7.6 million in**
131 **recovery cost (total Company)?**

132 A. Yes, I do. I agree that the Company was imprudent in its failure to

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134

135 [REDACTED] Had the Company been prudent in
136 management of its operations with respect to the Joy Longwall, the abandonment
137 and subsequent recovery efforts likely could have been avoided. The Company
138 can no longer provide the intended operational benefits of the Joy Longwall and
139 the Commission should not allow RMP to pass along these costs that resulted
140 from imprudent management of BCC mining operations to Utah ratepayers.

141 **Q. How did BCC acquire the Joy Longwall?**

142 A. The Company sold the Joy Longwall to BCC at the time of the Deer Creek
143 mine closure, in September 2015, for its appraised value.

144 **Q. Is there anything noteworthy about the timing of this acquisition?**

145 A. Yes, the Company’s sale of the Joy Longwall to BCC occurred in
146 September 2015, only about three months prior to the Joy Longwall becoming
147 stuck in December, and subsequently abandoned. From the time the Joy
148 Longwall was acquired by BCC, it was used and useful for less than 4 months.
149 The fact that it was abandoned so soon after it was acquired further indicates that
150 the Company’s planning and operation with respect to longwall operations was

151 imprudent. The Company should not be allowed to pass on to ratepayers \$20.1
152 million of costs for abandonment and recovery efforts for a piece of equipment
153 that was used and useful at the Bridger mine for less than four months after it was
154 acquired by BCC, given that its abandonment resulted from inadequate
155 procedures and practices.

156 **Q. How should the Commission direct RMP to account for the adjustment to the**
157 **EBA deferral balance for the Joy Longwall abandonment and recovery**
158 **costs?**

159 A. The DPU did not specifically address how its recommended adjustment
160 for the Joy Longwall abandonment and recovery costs should be accounted. One
161 obvious option is to decrease the final EBA rates to amortize this adjustment over
162 the next 12-month EBA period. Another possibility would be to use this
163 adjustment to offset another deferred account or regulatory liability that is
164 accruing interest, such as Utah's share of the EIM deferral account that was
165 approved in the Commission's order in RMP's 2014 General Rate Case.⁹ The
166 EIM deferral is still subject to future prudence review, but the company indicated
167 in a data request from the DPU that the total Utah EIM deferral amount from
168 September 1, 2014 to June 2017 is [REDACTED]. The accrual is increasing by
169 approximately [REDACTED] per year.¹⁰ Either of these alternatives might be a
170 reasonable method to account for disallowance of the Joy Longwall abandonment
171 and recovery costs.

⁹ Docket No. 13-035-184 Report and Order issued August 29, 2014.

¹⁰ DPU Exhibit 1.2 EBA Audit Report, pp. 33.

172 **Q. Does this conclude your Direct testimony?**

173 A. Yes, it does.