**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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| **APPLICATION OF ROCKY MOUNTAIN POWER TO INCREASE THE DEFERRED EBA RATE THROUGH THE ENERGY BALANCING ACCOUNT MECHANISM.** | )<br>)<br>)<br>)<br>)<br>)<br>)<br>)<br>)<br>) | **DOCKET NO. 18-035-01**<br><br>**Exhibit No. DPU 1.0 Dir**<br><br>**Direct Testimony and Exhibits**<br>**David Thomson** |

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

**Direct Testimony of**

**David Thomson**

**November 15, 2018**

**Q. Please state your name and occupation?**

**A.** My name is David Thomson. I am employed by the Utah Division of Public Utilities ("Division") as a Utility Technical Consultant.

**Q. What is your business address?**

A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84111.

**Q. Please describe your education and work experience.**

A. I graduated from Brigham Young University with a Bachelor of Science degree in Accounting. I am a Certified Public Accountant, licensed in the state of Utah. I began working for the Division in July of 2004.

**Q. Have you testified before the Commission previously?**

A. Yes. I have testified in many rate case proceedings and other matters before the Commission.

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

A. The purpose of my testimony is to summarize the Division's audit with respect to Rocky Mountain Power's (the Company) Energy Balancing Account (EBA) for the period January 1, 2017 through December 31, 2017 (2018 EBA).

**Q: Please identify the Division's witnesses for this docket.**

A: In addition to myself, the Division is sponsoring two other witnesses: Mr. Philip DiDomenico and Mr. Dan Koehler of Daymark Energy Advisors, Inc. (Daymark). As part of the review process, the Division hired outside consultants from Daymark. Mr. DiDomenico and Mr. Koehler will discuss their review of the filing and their proposed adjustments in their testimony. I will present the Division's audit results, its proposed adjustment, and the results of the proposed Daymark adjustment to the Company's Energy Balancing Account or EBA.

**Q. How did the Division conduct its audit of the EBA?**

A. As stated above, the Division contracted with Daymark to review and provide recommendations and testimony on certain aspects of the Company's EBA filing. The scope of Daymark's assignment was to ascertain whether the actual costs included in the EBA filing were incurred pursuant to an in-place policy or plan, were prudent, and were in the public interest. Daymark reviewed Actual versus Base NPC, investigated plant outages and trades and EIM transactions in its review. In DPU Exhibit 2.0 Dir the results of Daymark's investigation are presented in the joint direct testimony of Mr. DiDomenico and Mr. Koehler.

The investigation of whether or not the various NPC items were properly booked was primarily the responsibility of the Division's in-house staff. The Division's Audit Report includes its own analysis along with the accompanying Daymark Audit Report (Confidential DPU Exhibit 2.3). The Division's audit report is included as Confidential DPU Exhibit 1.2.

**Q. Did other Division staff participate in the EBA audit?**

A. Yes. Including myself, there were five Division staff members that reviewed or worked on various aspects of the Company's EBA filing.

**Q. Can you please summarize the Division's findings and recommendations?**

A. Yes. The Division's findings are as follows:

1. The Division believes the costs presented in the EBA are accurate and tie to the supporting schedules and source documents that were provided by the Company. However, during the audit one error came to the Division's attention. Although minor, the Division proposes to correct the error. The correction increases the adjustment for the Incremental Non-Fuel FAS 106 Savings in the filing. In the original filing to derive the Utah jurisdictional amount for this adjustment the Company used a 2016 SO allocation percentage instead of the proper 2017 SO allocation percentage. The increased savings

reduce the requested recovery amount in the filing by $24,487. This adjustment in turn affects interest computations. The total amount is $25,742 after an interest adjustment of $1,255. The Daymark section below explains Daymark's total Company adjustment amounts and the Utah allocation amounts. The Division's recommendation for additional recovery is based on the Division's and Daymark's adjustments.

2. The Company's level of provided documentation was comparable to that provided in prior filings.

3. The Company was overall timely in its data request responses and provided complete responses. When needed during the audit, phone conferences or phone calls were held, or emails exchanged with the Company's personnel. The Division appreciates the willingness of Company representatives to discuss the subjects of the phone calls, conferences or emails.

4. The Division asked Daymark to review the impact of PacifiCorp's third full calendar year of participation in the EIM. Specifically, the Division asked Daymark to review the Company's support and calculation of a $25.7 million dollar EIM benefit as discussed in its filing. Daymark's report explains the full scope and the results of its EIM review.

5. As with last year's report, Company personnel provided agreed upon documentation to support Trapper Mine operating costs. Results of the Division's review of the Documentation is discussed in 7.3.3 of the Division's audit report.

Daymark also completed an EBA Audit Report. The Division adopts Daymark's recommended EBAC adjustment for imprudent outages. The following are excerpts from, or Division summations of, the findings in the executive summary section of Daymark's report.[1]

1. Actual vs. Base NPC - The general decrease in wholesale sales for resale, coupled with lower average sales prices, resulted in increased Actual NPC. Higher purchases also drove an increase in Actual NPC over Base NPC, though the impact was almost entirely mitigated by lower purchase prices. The variance from Base NPC is generally explained by market condition differences between the Base NPC forecast for the 2014-15 test period and actual conditions during the 2017 deferral period, as well as changes in long-term contracts in effect for the respective periods.

[1] Daymark's full executive summary explaining the following in detail, can be found its report (Daymark Confidential Exhibit 2.3) or its standalone executive summary (Daymark Exhibit 2.2).

2. Outages - Daymark recommends disallowing replacement power costs resulting from seven outages. These outages demonstrated sufficient imprudence that EBA costs should be reduced by the amount of replacement power costs related to the outages. Daymark estimates net replacement power costs associated with these outage on a total Company basis of $1,954,826. The Utah-allocated amount for this adjustment is $840,267.

3. Natural Gas and Power Transactions - Daymark evaluated a sample of trading transactions for accuracy, completeness, and prudence. Based on its review of the sample transactions and the supporting information provide to them, there appears to be no reason to adjust the energy balancing account or net power costs for sample transactions reviewed. However, review of one transaction exposed a weakness in the Company's policies and practices regarding monitoring and reporting potential breaches in individual trader limits. We recommend appropriate policy changes to remedy this weakness.

4. Energy Imbalance Market Participation - Based on our high-level review of public reports produced by CAISO supporting its benefits estimates we have found no reason to challenge CAISO's methodology or its findings that EIM participants benefit significantly from real time imbalance trading facilitated by the market. Daymark performed a more detailed review of PacifiCorp's benefits study, including "spot checks" of the underlying data and calculations for some periods. The methodology employed by the Company is a reasonable estimate of benefits associated with EIM participation. However, the utility of continuing to estimate EIM benefits against a hypothetical alternative is diminishing rapidly.

The combined adjustments for outages on a Utah allocated basis is $886,265. This amount also includes an interest adjustment of $45,998.

The combined adjustments for outages ($886,265) and error correction ($25,742) total $912,007. This amount also includes interest adjustments. The Division's adjustment of $912,007 reduces the Company's proposed recovery of $2,766,676 to $1,854,669.

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

A. Yes.