

**-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-**

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IN THE MATTER OF THE APPLICATION OF ROCKY  
MOUNTAIN POWER TO INCREASE THE  
DEFERRED EBA RATE THROUGH THE ENERGY  
BALANCING ACCOUNT MECHANISM

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**DOCKET No. 23-035-01**  
**Exhibit No. DPU 1.0 DIR**  
**Direct Testimony and Exhibits**  
**Gary Smith**

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

Direct Testimony of

Gary Smith

November 7, 2023

**CONTAINS CONFIDENTIAL EXHIBITS - SUBJECT TO UTAH PUBLIC SERVICE  
COMMISSION RULE 746-1-601, 602 & 603**

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1 **INTRODUCTION**

2 **Q. Please state your name, employer, and business address.**

3 **A.** My name is Gary Smith. I am employed by the Utah Division of Public Utilities  
4 (Division), State of Utah. My business address is 160 East 300 South, Salt Lake  
5 City, UT 84114.

6 **Q. Briefly outline your educational background.**

7 **A.** I am a Technical Consultant for the Division and have testified before the Public  
8 Service Commission of Utah (Commission) on energy, telecommunications, and  
9 water related matters. I received a Bachelor of Science degree in Economics from  
10 the University of Utah.

11 **Q. On whose behalf are you testifying?**

12 **A.** The Division.

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

14 **A.** The purpose of my testimony is to summarize the Division's audit findings for Rocky  
15 Mountain Power's (Company) Energy Balancing Account (EBA) for the period  
16 January 1, 2022, through December 31, 2022 (2023 EBA).

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

18 **A:** The Division is sponsoring a total of three witnesses. As part of the review process,  
19 the Division hired outside consultants from Daymark Energy Advisors, Inc  
20 (Daymark). Mr. Philip DiDomenico and Mr. Dan Koehler from Daymark will discuss

21 their review of the filing and the proposed adjustments in their testimony and report. I  
22 will present the Division's audit results, proposed adjustment, and the results of the  
23 proposed Daymark adjustment to the Company's requested EBA recovery.

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

25 **A.** As stated above, the Division contracted with Daymark to review and provide  
26 recommendations and testimony on certain aspects of the Company's EBA filing.  
27 The scope of Daymark's assignment was to ascertain whether the actual costs  
28 included in the EBA filing for calendar year 2022 were incurred pursuant to an in-  
29 place policy or plan, were prudent, and were in the public interest. Daymark  
30 reviewed Actual versus Base Net Power Cost (NPC) and Production Tax Credits  
31 (PTCs); investigated plant outages; evaluated a sample of trading transactions for  
32 accuracy, completeness, and prudence; reviewed the effect of PacifiCorp's  
33 membership in the California Independent System Operator's (CAISO) Energy  
34 Imbalance Market (EIM); and reviewed the Company's risk management policies  
35 and compliance monitoring practices.

36 The Division's in-house staff investigated whether various NPC items were properly  
37 reconciled, booked, and supported. The Division also reviewed the Company's filing  
38 and supporting documentation for completeness and prudence. The Division's  
39 Confidential Audit Report (Confidential DPU Exhibit 1.2) includes its analysis along  
40 with the accompanying Confidential Daymark Audit Report (Confidential DPU Exhibit  
41 2.3).

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

43 **A.** Yes. Four additional Division staff members reviewed and worked on various  
44 aspects of the Company's EBA filing.

45 **REPORT SUMMARY**

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

47 **A.** Yes.

48 1. The Company reported its largest EBA deferral to date; the Utah allocated  
49 2022 EBA deferral totaled \$220.8 million in EBA Cost (EBAC) above the base  
50 set in the 2020 general rate case (2020 GRC). This large differential is more  
51 than double the Company's largest previously requested total deferral recovery  
52 of \$107.6 million for EBA deferral year 2021. After the Company's adjustments  
53 and calculated accrued interest, the net requested EBAC recovery, as filed,  
54 totaled \$175 million, on a Utah allocated basis. The Company is seeking  
55 recovery from Utah ratepayers at 100% due to the removal of the sharing band.  
56 The Company outlined in testimony that extreme weather events and drought  
57 conditions contributed to increased purchased power and natural gas fuel  
58 expenses, resulting in the large requested deferral. The heat waves across the  
59 Company's service area throughout July, August, and September cumulatively  
60 amounted to \$115.7 million of the net power cost differential on a Utah-  
61 allocated basis. In addition, a historic winter cyclone event occurred in  
62 December 2022 impacting market demand and natural gas prices. The  
63 differential in December alone totaled \$64.3 million or 23 percent of the total

64 Utah-allocated variance.

65 Included in the Company's adjustments were 1) a rollover of \$2.0 million from  
66 the 2021 EBA collection true-up and 2) a \$0.6 million credit of the 2022 EBA  
67 final order.

68 2. The Division provided Daymark with a scope of work to perform. The results of  
69 its review are provided in Daymark's separately issued Testimony, Executive  
70 Summary, and 2023 EBA Audit Report.<sup>1</sup>

71 Based on its report, Daymark recommends a \$7.3 million reduction, including  
72 accrued interest, to the Company's requested deferral on a Utah allocated  
73 basis, incorporating:

74 a) \$.8 million decrease to EBAC, including interest, for replacement power  
75 losses from 3 avoidable outages at the Craig and Dave Johnson plants.

76 b) \$6.5 million decrease to EBAC, including interest, for losses associated with  
77 power physical trades that were deemed to be imprudent due to the nature  
78 of the transactions and the Company's insufficient analysis to support the  
79 trade purpose.

80 3. The Company's witness Jack Painter informed in direct testimony of a  
81 proposed FERC accounting change that if approved would cause the Company  
82 to include FERC 509 (Allowances) in the EBA Electric Service Schedule 94

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<sup>1</sup> Daymark Exhibits 2.0, 2.2, and Confidential Exhibit 2.3.

83 (EBA Schedule 94) list of approved accounts. The Company advised that it  
84 currently does not utilize FERC 509. Upon inquiry, the Division learned that  
85 EBA Schedule 94 contained unclear and inactive FERC accounts.<sup>2</sup> The  
86 Division recommends for clarity that the Company indicate the included  
87 accounts as (include) and the excluded accounts as (exclude) as this is  
88 inconsistently utilized. It is also recommended to remove or indicate the  
89 (inactive) accounts. The Division requests that the Company provide an update  
90 in the approval of FERC 509 and make the clarifications to the EBA Schedule  
91 94 accounts in its 2024 EBA filing.

92 4. The Company included PTCs from approved wind resources as allowed by  
93 Commission order in the 2020 GRC, Docket No. 20-035-04. Actual generation  
94 from PTC-eligible generation wind facilities was less than expected in 2022,  
95 resulting in an approximately \$10 million increase in the Company's requested  
96 deferral as detailed in Daymark's report.<sup>3</sup> This is the second EBA audit year  
97 that the Company reported unrealized generation from PTC-eligible wind  
98 facilities. The Division is not requesting an adjustment for this increase to the  
99 Company's deferral from the unrealized generation.

100 The Company's requested 2022 deferral recovery calculates an EBAC  
101 reduction of \$4.7 million from the inclusion of PTCs. This decrease resulted  
102 from 1) the actual SG allocation percent difference from the EBA deferral year

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<sup>2</sup> Docket No. 23-035-01, Data Request 4.3

<sup>3</sup> Docket No. 23-035-01, Daymark Exhibits Confidential Exhibit 2.3, Page 4

103 and the 2020 GRC base, and 2) an increase in the federal PTC rate of \$.01 per  
104 kWh of reported eligible wind plant generation.

105 5. The Company outlined in testimony that extreme weather events and drought  
106 conditions that contributed to the increased purchased power and natural gas  
107 fuel expenses in the deferral year.<sup>4</sup> The Division found that during these  
108 weather events, the Company did not economically dispatch its coal facilities to  
109 displace more extremely high purchase power and natural gas prices. In  
110 response to the Division's request for information the Company detailed that  
111 coal supply and coal reserve challenges limited the Company's ability to utilize  
112 its lower cost coal plants fully to reduce these high costs that contributed to the  
113 large EBA deferral.<sup>5</sup> Prudence has not yet been shown for expenses incurred  
114 as a result of this decreased coal generation.

115 The Idaho Public Utilities Commission (Idaho Commission) annually reviews  
116 Idaho's equivalent to Utah's EBA account, the Company's Energy Cost  
117 Adjustment Mechanism (ECAM). On May 31, 2023, the Idaho Commission  
118 issued its final order in its review and approval of the Company's ECAM 2022  
119 results. At the recommendation of Commission Staff, to ensure that the  
120 Company was dispatching its coal fleet on a least cost, efficient basis, the  
121 Idaho Commission directed the Company to investigate and prepare a report  
122 on the issues causing the extraordinarily high NPC. The Company's report is

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<sup>4</sup> Docket No. 23-035-01, Direct Testimony of Jack Painter, Page 15

<sup>5</sup> Docket No. 23-035-01, Data Request 17.2



123 due at the end of calendar year 2023, the Idaho Commission reserved its  
124 prudence determination and its ability to adjust the 2022 ECAM NPC during its  
125 next ECAM review period.<sup>6</sup>

126 Due to the size of the requested recovery and complexity of the 2022 deferral  
127 year, the Division requests the opportunity to review the forthcoming Company  
128 report on the issues causing the extraordinarily high NPC requested by the  
129 Idaho Commission with the ability to make any recommendations and  
130 adjustments related to this report during the 2024 EBA audit. The additional  
131 time will allow for a better evaluation of the prudence of related expenses and  
132 their quantification.

133 **CONCLUSION**

134 **Q. Can you please summarize the Division's recommended total deferral?**

135 **A.** Yes. The Division adopts Daymark's total of \$7.3 million in Utah allocated  
136 adjustments and accrued interest.

137 The Division recommends reducing the Company's proposed recovery of \$175  
138 million by \$7.3 million, resulting in a Division recommended adjusted total of \$167.8  
139 million, as follows:

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<sup>6</sup> DPU Exhibit 1.7 - Idaho Public Utilities Commission, Case No. PAC-E-23-09, Order No. 35801

<u>May 2023 Requested Deferral</u>	<u>\$175,029,815</u>
Total Outage Adjustment	(\$753,447)
Total Outage Adjustment - Accrued Interest	(25,235)
Total Hedging Trade Adjustment	(\$6,284,307)
Total Hedging Trade Adjustment - Accrued Interest	(201,386)
Net Adjustment	<u>(\$7,264,376)</u>
<b>Net Adjusted DPU Total Recommended Recovery</b>	<b><u>\$167,765,439</u></b>

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141 **Q. Can you please summarize the Division’s additional recommendations?**

142 **A.** Yes. The Company informed the Division of a proposed FERC accounting change  
143 that if approved would cause the Company to include FERC 509 (Allowances) in the  
144 EBA Schedule 94 list of approved accounts. The Division recommends for clarity  
145 that the Company indicate the included accounts in EBA Schedule 94 as (include)  
146 and excluded (exclude) as this is inconsistently utilized. Also, it is recommended to  
147 remove or indicate the (inactive) accounts. The Division requests that the Company  
148 provide an update in the approval of FERC 509 and make the clarifications to EBA  
149 Schedule 94 accounts no later than its 2024 EBA filing.

150 This is the second EBA audit year in which the Division noted unrealized generation  
151 from PTC-eligible wind facilities. Wind plant generation performance should continue  
152 to be monitored and evaluated for overstatement of generation and accompanying  
153 PTC benefits. Continued under-performance of the inherently variable wind facilities  
154 could demonstrate an overreliance on forecast PTCs expected to offset capital

155 costs. If the condition persists, other planning and forecasting processes should  
156 adapt to reflect the fact.

157 Due to the size of the requested recovery and complexity of the 2022 deferral year,  
158 the Division requests the opportunity to review the forthcoming Company report on  
159 the issues causing the extraordinarily high NPC requested by the Idaho Commission  
160 with the ability to make any recommendations and adjustments related to this report  
161 during the 2024 EBA audit.

162 To assist in the Division's understanding of the Company's Coal generation and  
163 related issues, the Division requests the following be included in the Company's  
164 Utah 2023 EBA filing, anticipated to be filed in May 2024.

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166 1) Company presented workshops to discuss the modeling, inputs, and forecasting  
167 of the following topics, including how these topics are modeled in Aurora:

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- a. Coal contracting;
- b. Coal dispatch;
- c. Day-ahead and Real-time (DA/RT) Adjustment;
- d. Wind forecasting;
- e. Short-term transmission; and
- f. Extended Day-Ahead Market/EIM.

176 2) Forecasted and actual generation at each coal plant.

177 3) Details on coal consumed per plant, and price of coal consumed for the month at  
178 each plant with an explanation for variances in forecasted generation greater  
179 than 10 percent from the forecast on a monthly and annual basis.

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

182 **A. Yes.**