

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

In the matter of the application of Cheyenne)
Light, Fuel and Power company to pass on to its)
Customers, an increase in its wholesale gas supply) Docket No. 30005-109-GP-06
Costs of \$15,071,931 pursuant to Commission rules) Record No. 10761
212,249,250, and the Company's Gas Cost)
Adjustment Tariff)

In the matter of the application of Cheyenne)
Light, Fuel and Power Company to pass-on to its) Docket No. 20003-89-EP-06
Sales Customers, on less than 30 days' notice, a) Record No. 10942
projected annual decrease of \$14,353,601)

In the matter of an out-of-period application of)
Cheyenne Light, Fuel and Power Company to pass) Docket No. 30005-110-GP-7
on a decrease in its wholesale gas supply costs of) Record No. 11020
\$9,025,664)

PRE-FILED DIRECT TESTIMONY OF

Denise Kay Parrish

On Behalf of the Office of Consumer Advocate

PUBLIC VERSION

Filed July 27, 2007
Hearing August 16, 2007

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Denise Kay Parrish and my business address is 2515 Warren Avenue,
3 Suite 304, Cheyenne, Wyoming 82002.

4
5 **Q. WHAT IS YOUR OCCUPATION?**

6 A. I am currently the Deputy Administrator of the Wyoming Office of Consumer
7 Advocate (OCA). In this position, I review and provide input into the
8 recommendations made by the OCA. I review utility applications filed with the
9 Wyoming Public Service Commission (Commission) and provide advice to the
10 Administrator regarding the involvement the OCA should have, if any, in the
11 various cases. I review applications, perform analyses and provide
12 recommendations to the Commission relative to various utility matters, including
13 revenue requirements, tariff language, competitive issues, rules and regulations,
14 and other items. I write and issue press releases, perform special studies, as well
15 as provide information and research to customers, the legislature, the OCA
16 Administrator, and others. I do other assignments and tasks, as needed and as
17 assigned by the OCA Administrator.

18
19 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
20 **BACKGROUND?**

21 A. In 1976, I graduated from Michigan State University with a Bachelor's degree in
22 Accounting. I have spent thirty years as a regulator of public utilities, having
23 been on the staff of four state utility regulatory commissions and two consumer
24 advocate entities. More than fifteen of these years have been spent at the
25 Wyoming Public Service Commission. I have taken classes related to various
26 aspects of public utility regulation, including income taxes, regulatory accounting,
27 capital recovery, cost-of-service, rate design, revenue requirements, separations
28 and allocations, and other specialized topics. I have taught classes on issues of
29 accounting standards, general ratemaking principles, affiliate transactions,
30 regulatory accounting, financial reporting, and other specialized topics to
31 regulatory professionals.

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Since 2002, I have been an instructor at the Michigan State University Institute of Public Utilities (CAMP NARUC). I have also worked with the Nigerian Communications Commission on regulatory accounting and reporting matters and have done work for the International Telecommunications Union as a seminar leader. Furthermore, I have participated as a presenter at several meetings of the Tariff and Pricing Committee of the Energy Regulators Regional Association (ERRA). Finally, I was a presenter at, and participant in a workshop sponsored by the Energy Group of the Institute of International Education (IIE) regarding the development of an Electricity Distribution Indicator Toolkit.

I am the past chair and a current member of the National Association of Regulatory Utility Commissioners' Staff Subcommittee on Accounting and Finance. I am a member of the NARUC Staff Subcommittee on International Relations. I am listed in the current edition of Who's Who of American Women. I am currently a member of the National Association of State Utility Consumer Advocates' (NASUCA) Tax and Accounting Committee. Finally, I am a member of the staff of the Federal-State Joint Board on Universal Service.

Q. DO YOU HAVE EXPERIENCE AS AN EXPERT WITNESS?

A. Yes. I have testified more than one hundred twenty-five times as an expert witness. I have testified before the Michigan Public Service Commission, the Colorado Public Utilities Commission, the Colorado District Court, the Arizona Corporations Commission, the Wyoming Public Service Commission, the Wyoming Legislature Joint Corporations Committee, the Federal Energy Regulatory Commission, and the Federal-State Joint Board on Universal Service. I have testified in telecommunications, water, wastewater, electric, and natural gas cases. The subjects upon which I have testified include revenue requirements, rate design, cost-of-capital, nuclear decommissioning, accounting deferrals, adjustment mechanisms, income taxes, capital recovery, universal service funding, and other specialized topics.

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Q. WHO DO YOU REPRESENT IN THIS PROCEEDING?

A. As a member of the Office of Consumer Advocate, I represent the interests of Wyoming citizens and all classes of utility customers in this public utility matter, as required by W.S. § 37-2-401. It is neither my intent nor my charge to represent the position of any individual, group, municipality, or corporation.

Q. WHAT COURSE OF ACTION IS AVAILABLE TO INDIVIDUAL CONSUMERS OR OTHER INTERESTED PARTIES IF THEY WISH TO PURSUE ISSUES NOT ADDRESSED BY THE OFFICE OF CONSUMER ADVOCATE, OR TAKE A DIFFERENT POSITION FROM THE OFFICE OF CONSUMER ADVOCATE?

A. Consumers and other parties may intervene in the proceedings and raise additional issues not addressed by the Office of Consumer Advocate, and may take different positions than those presented by the OCA. Consumers may also present written or oral comments at the hearing, which then become part of the record in the case and are available to the Commission as it makes its decision on any particular proposal or suggested change. The OCA encourages the participation of the public and all interested parties in cases before the Commission.

Q. ARE YOU SPONSORING ANY EXHIBITS OR SCHEDULES AS PART OF YOUR DIRECT PREFILED TESTIMONY IN THIS PROCEEDING?

A. No, I am not. I have attempted to incorporate all of my data into the body of my testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to discuss the OCA's concerns and recommendations relative to the three Cheyenne Light, Fuel and Power Company (Cheyenne Light) pass on applications that are the subject of this consolidated hearing.

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Docket No. 30005-109-GP-06

Q. PLEASE DESCRIBE THE FIRST OF THE THREE PASS ON APPLICATIONS THAT ARE THE SUBJECT OF THIS CONSOLIDATED HEARING.

A. The first of the three dockets is Docket No. 30005-109-GP-06, a regularly scheduled application to pass on the increased or decreased commodity and commodity related costs relative to the provision of natural gas services. The application was filed on September 1, 2006, and requested an increase in retail natural gas rates of \$15,071,931. This requested change in rates was based on projected increases in wholesale natural gas costs with an offset reflecting an over collection of prior wholesale natural gas costs. This application will hereinafter be referred to as the September Gas Cost Adjustment Application (or the September GCA).

Q. PLEASE PROVIDE A BRIEF PROCEDURAL HISTORY OF THE SEPTEMBER GCA.

A. On September 27, 2006, the OCA filed its *Notice of Intervention*. It very briefly listed a couple of the concerns that it had identified upon its initial review of the application. These concerns included the prudence of the Company's gas procurement practices and the consistency of the application with the Commission's rules.

On September 28, 2006, the September GCA was presented to and deliberated by the Commission at its scheduled open meeting. At that meeting, the OCA appeared and expressed concern about the application, but did not oppose approval of the application with the understanding that it would have time to pursue a number of its concerns and questions. Specifically, the OCA expressed concern about the level of the forecast average gas price in contrast to recent NYMEX pricing and expressed concern about the computations compared to the

1 required computations as described in Cheyenne Light’s tariff. At the close of the
2 discussion, the Commission granted approval of the application on an interim
3 basis effective for usage on and after October 1, 2006.

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5 On October 25, 2006, the OCA issued its first (and only) set of formal Data
6 Requests to Cheyenne Light. Cheyenne Light responded on November 15, 2006.

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8 On November 8, 2006, the Commission issued its *Notice and Order Approving*
9 *Rates on an Interim Basis*. As found in paragraph 10 of the order:

10 Based upon the concerns raised by the OCA and its request for
11 further opportunity to address its concerns and questions through
12 discussions with the Company, the Commission finds that
13 Cheyenne Light’s pass-on application should be approved on an
14 interim basis, effective for usage on and after October 1, 2006.
15 Approval on an interim basis is in the public interest as it will
16 allow the Company to begin recovery of projected wholesale gas
17 costs through its rates and address the over recovered balance in its
18 commodity balancing account. The approval granted herein, is
19 subject however, to notice, protest, possible hearing, refund,
20 further investigation, and further order of the Commission.

21
22 During the next several months, the OCA continued to investigate its concerns
23 with the September GCA. However, the matter was put on hold while the
24 Cheyenne Light gas commodity adjustment tariff was addressed by the
25 Commission. This matter (in Docket No. 30000-111-GT-07) was important to the
26 resolution of the September GCA, as it was a better forum to address the public
27 interest concept of interest on under collected balances and the issue of inclusion
28 of the franchise fees in the GCA computation – issues common to both the tariff
29 and the GCA case. The GCA tariff matter was heard by the Commission on May
30 10 – 11, 2007. The result of the Commission’s deliberations on that matter
31 indicate that Cheyenne Light is not allowed any interest on under collections and
32 the collection of franchise fees are to be removed from the GCA and moved to
33 base rates.¹

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¹ As of the time of the drafting of this testimony, no written order on the GCA tariff matter was available.

1 Lastly, on July 11, 2007, a *Procedural Notice and Order Setting Consolidated*
2 *Public Hearing* was issued for the three cases discussed herein. The order
3 established testimony pre-filing dates and hearing dates. It also reiterated that “the
4 rates proposed in these dockets are now in effect on an interim basis, subject to
5 notice, protest, intervention, possible hearing, refund, change, further
6 investigation and further order of the Commission.”
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8 **Q. PLEASE SUMMARIZE THE ISSUES THE OCA HAS IDENTIFIED**
9 **RELATIVE TO THE SEPTEMBER GCA.**

10 A. On a collective basis, the following concerns have been identified by the OCA
11 regarding the September GCA:

- 12 ▪ The forecast of wholesale natural gas prices was overstated and customers
13 would be paying too much for natural gas for the 12-month period
14 following the implementation of the proposed increase in natural gas rates;
- 15 ▪ Cheyenne Light’s procurement practices had not been fully explained or
16 reviewed for their reasonableness;
- 17 ▪ The computations used by Cheyenne Light in computing the proposed
18 GCA rates were inconsistent with the tariff language describing the
19 process that was to be used for computing the GCA rates;
- 20 ▪ The computations included interest on under collected balances of the
21 commodity balancing account, even though Cheyenne Light had not yet
22 provided supporting evidence of why including interest on under collected
23 balances is in the public interest;
- 24 ▪ The monthly over collected balance was computed in a manner that
25 understated the interest that should be applied to it, and thus, understated
26 the total amount of over collection due back to customers;
- 27 ▪ Franchise fees had been included in the costs to be collected as part of the
28 GCA, rather than having all of these costs collected through base rates or
29 additional bill add-ons or surcharges;
- 30 ▪ The earnings information presented was consolidated for the natural gas
31 and electric operations of Cheyenne Light, making it impossible to

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determine whether either of the operations is earning in excess of its authorized rate of return on rate base; and

- Whether the earnings information provided with the filing included appropriate detail and adequate information to satisfy the Commission’s requirement that the utility provide sufficiently detailed, reliable, and supportable documentation that accurately portrays its normalized annual earnings.

Q. THE FIRST CONCERN YOU IDENTIFIED RELATED TO THE GAS PRICE FORECAST USED BY CHEYENNE LIGHT IN ITS SEPTEMBER GCA. PLEASE PROVIDE MORE DETAIL ABOUT THIS CONCERN.

A. In its application, Cheyenne Light projected a natural gas cost for the upcoming 12 month period of \$8.1374 per dekatherm. This forecast, as described on pages 3- 4 of the application, was based on NYMEX futures natural gas prices, adjusted for basis differentials, for the one month period ended August 18, 2007. This appears to be a fairly methodical means of forecasting natural gas prices, but perhaps a method that is somewhat inflexible for a market that often changes quickly and dramatically. Thus, by the time that the application was presented to the Commission in late September, the forecast market prices for natural gas had changed quite dramatically, as shown on the table below.

1 **Begin Confidential**

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Table One—Comparison of Different Forecasts and Actual Results

	Cheyenne Light August Forecast (after basis differences taken into account)	NYMEX Futures September 28, 2006 (before basis differences taken into account) ²	Actual Index Price for the Month at Henry Hub	Actual Index Price for the Month at CIG
November 2006		\$5.550	\$7.16	\$6.00
December 2006		\$7.137	\$8.33	\$5.63
January 2007		\$7.576	\$5.84	\$4.16
February 2007		\$7.640	\$7.32	\$6.44
March 2007		\$7.511	\$7.55	\$6.17
April 2007		\$7.085	\$7.57	\$3.50

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5 **End Confidential**

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Q. WHAT IS YOUR MARKET TREND CONCERN ABOUT THE GAS FORECASTING?

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A. As indicated above, the forecast that was used by Cheyenne Light was six to ten weeks old by the time the rates went into effect. This market can change dramatically in that time frame – and apparently had -- due to significant changes in weather, a natural disaster, storage changes, or numerous other factors. My concern is that if there is a clear market trend that would derive significantly different results from the results of the methodical forecast used by Cheyenne

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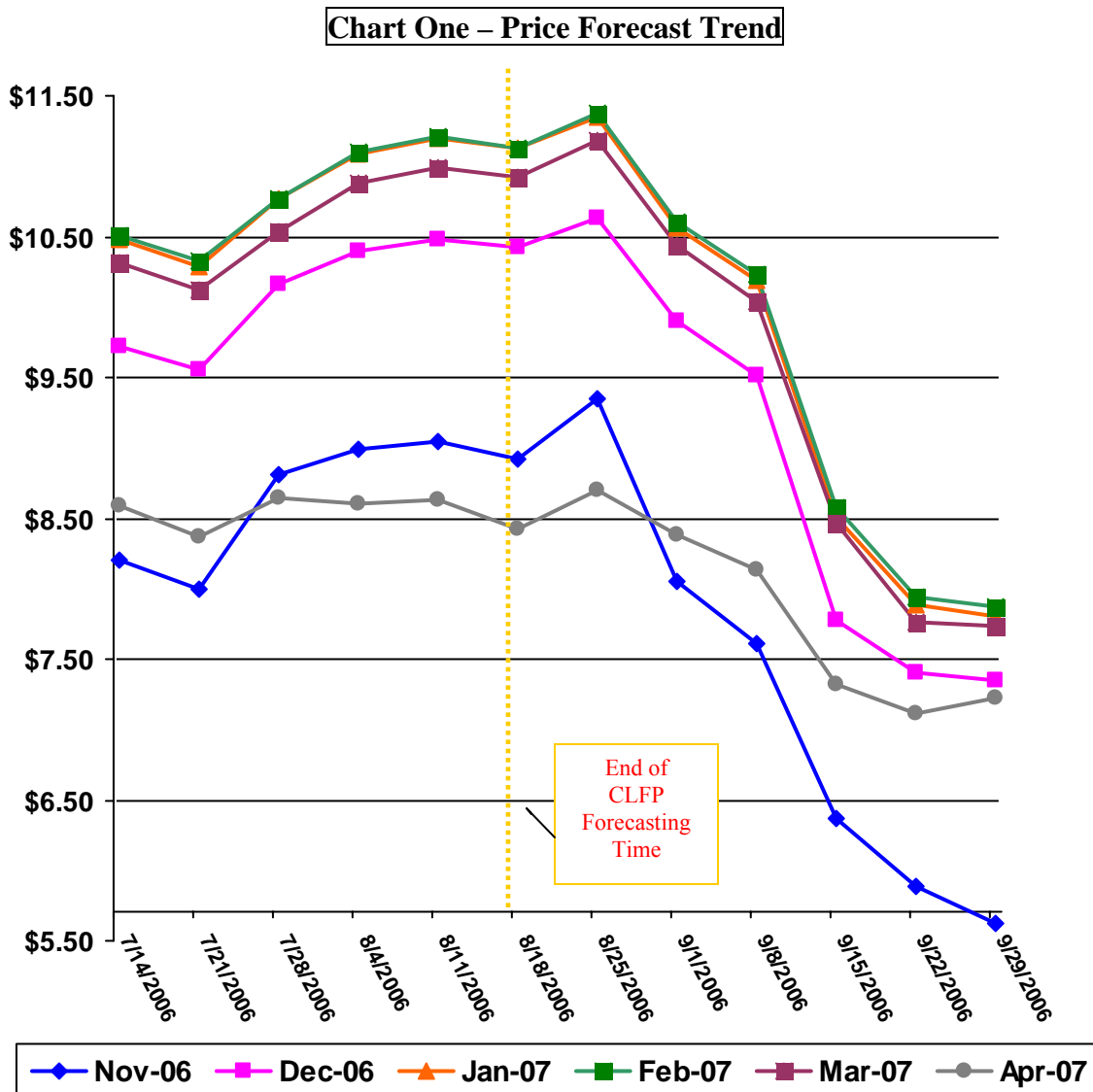
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² Basis differences to reflect delivery of natural gas in Wyoming normally reduce the reported NYMEX price by \$0.50 or more per dekatherm. If these differences were reflected, the spread between the two forecasts would likely be even greater than shown here.

1 Light, then there should be some ability and process available to reflect that
 2 market trend change. Otherwise, if the forecast in the original application is
 3 locked in, without the ability to make changes, customers could overpay (or
 4 underpay) for an entire year, particularly since Cheyenne Light's tariff currently
 5 only requires an annual GCA filing. Chart One shows the change in the NYMEX
 6 Natural Gas Futures price³ from the time that Cheyenne Light began its forecast
 7 to the time the rates were effective:
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³ Data taken from BTU Monthly Index Price Supplement, *BTU Weekly* publication.

1 **Q. IS THIS A MOOT POINT SINCE CHEYENNE LIGHT HAS STATED ITS**
2 **INTENTION TO FILE CHANGES TO ITS TARIFF TO IMPLEMENT**
3 **QUARTERLY GCA FILINGS?**

4 A. Yes and no. Quarterly filings will certainly mitigate the impact of any huge
5 swings in the market prices, as there is a more timely process for correcting
6 forecasts that, in hindsight, turn out to be quite different from actual prices.
7 However, Cheyenne Light has been discussing for nearly a year, if not more, the
8 concept of modifying its tariff to reflect more frequent filings. Until such a
9 change is actually filed and approved by the Commission, the process of
10 forecasting for long periods continues.

11
12 Furthermore, even if rates are only to be in effect for three months, the forecasting
13 process should be flexible enough to incorporate any reasonable information that
14 shows that using ten week old data within the forecast may not be useful and the
15 data should be updated. For many customers, much of their annual gas
16 consumption occurs within a three or four month period, and thus, it is still
17 important to make the forecast as accurate as possible at the time that it is made.
18 It is good to have the commodity balancing account as a backstop to the forecasts
19 (i.e., higher than actual price forecasts do not result in the customers being out the
20 money on a permanent basis, but simply on a temporary basis). Yet, it is still
21 important to get the forecast as accurate as possible at the time it is made, if for no
22 other reason than to give customers the best price signal possible at the time the
23 commodity is actually being consumed.

24
25 **Q. WHAT IS THE CONSISTENCY CONCERN YOU HAVE RELATIVE TO**
26 **THE FORECASTING METHOD?**

27 A. The forecasting method relied on absolute price forecasts for a defined period
28 starting six weeks before the filing of the application. When the OCA pointed
29 out, at the September open meeting, that incorporating more recent data into the
30 forecast might be appropriate, Cheyenne Light resisted. Thus, this predefined
31 historical period had to be used and nothing else. Yet, when it came to

1 determining the commodity balancing account ending balance for this case, the
2 Company looked forward, rather than relying on historical, actual data, as is
3 required by the Cheyenne Light tariff.
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5 The result of this lack of consistency (that is, using older data in one instance, but
6 the most currently available data in the other) both resulted in higher rates to
7 customers. As shown in Table One above, if the Cheyenne Light forecast had
8 incorporated forecasted data that was available closer to the time that rates went
9 into effect, then the overall rate would have been reduced. Similarly, if Cheyenne
10 Light had followed its tariff and used an actually available number for its
11 commodity balancing account, rather than projecting that number to the beginning
12 of the rate effective period, the reflected over collections would have been greater
13 than they were in their proposed rates, reducing the overall rate to be billed to
14 customers. One could easily conclude that Cheyenne Light was simply removing
15 any risk of under collection by wanting to forecast higher prices and lower over
16 collections – shifting risk away from shareholders.
17

18 **Q. BASED ON THE CONCERNS EXPRESSED THUS FAR, ARE YOU**
19 **ASKING THE COMMISSION TO DIRECT CHEYENNE LIGHT TO**
20 **RECOMPUTE ITS PRICES CONTAINED WITHIN THE SEPTEMBER**
21 **GCA AND/OR PROVIDE REFUNDS TO CUSTOMERS?**

22 A. No, because the rates from the September GCA filing are no longer in effect and
23 were superseded with revised prices as of March 1, 2007. But, I am setting forth
24 conceptually the concerns I have, as the same forecasting method (of using an
25 average of one month of forecasts adjusted for basis differentials) was used in the
26 out-of-period January GCA. Again, I appreciate a methodical computation, as
27 long as the method is not at the expense of the rationality of the result. Both
28 should be considered. However, we are asking the Commission to direct
29 Cheyenne Light to follow its tariffs and not make arbitrary computations
30 inconsistent with its tariff. This concern is discussed further below.
31

1 **Q. THE NEXT CONCERN YOU LISTED ABOVE WAS THAT CHEYENNE**
2 **LIGHT'S PROCUREMENT PRACTICES HAD NOT BEEN FULLY**
3 **EXPLAINED AND REVIEWED FOR REASONABLENESS. PLEASE**
4 **EXPLAIN.**

5 A. In late 2005, the OCA expressed to Cheyenne Light an interest in better
6 understanding its gas acquisition practices and procurement plans. In a spirit of
7 cooperation, Cheyenne Light approached the OCA with a proposal to work
8 informally together to review some utility gas acquisition strategies, rather than
9 trying to address the matter in a formal proceeding before the Commission. In this
10 vein, Cheyenne Light sent a letter, dated January 24, 2006, to the Administrator of
11 the OCA stating, in part:

12 Black Hills Corporation and Cheyenne Light, Fuel and Power
13 Company welcome the opportunity to form a working group with
14 representatives of the Office of Consumer Advocate and the Staff
15 of the Wyoming Public Service Commission for the purpose of
16 reviewing utility gas acquisition strategies for today's more
17 volatile natural gas market.
18

19 We are currently looking for a consultant to support us in this
20 effort. Once we have had the opportunity to discuss our need with
21 the consultant, we will contact you regarding the process for
22 starting our joint effort.
23

24 We did not meet with Cheyenne Light on the matter of the gas acquisition plan
25 until September 6, 2006, even though we occasionally would inquire about the
26 status of the gas acquisition plan during the intervening months. At the
27 September 6th meeting, we discussed Cheyenne Light's gas procurement plan.
28 This is the same *Commodity Supply Cost Justification and Acquisition Strategy*
29 document that is included in the September GCA application as Exhibit 8. So,
30 before we could meet on the plan, it had already been filed and submitted as part
31 of the justification for the September GCA. It is for this reason that I expressed
32 some concern in September 2006, that we had not yet had the opportunity to
33 review the gas acquisition plan.
34

1 **Q. HAVE YOU SINCE HAD THE OPPORTUNITY TO REVIEW THE GAS**
2 **ACQUISITION PLAN?**

3 A. I have reviewed the submitted document and wish to simply express some
4 potential issues about some of the language in the document. However, it is
5 important to point out that while some of the language in the document may be
6 troubling or confusing, Cheyenne Light's actual gas acquisition practices and
7 purchases, to date, do not raise any particular concerns.

8

9 My comments are focused on the first paragraph, which states:

10 Cheyenne Light's natural gas acquisition strategy is based upon the
11 following guiding principles: (1) provide customers with a reliable
12 gas supply under both normal and peak day conditions; (2) provide
13 customers reasonable prices that reflect market conditions over
14 time; (3) provide customers a measure of price stability; and (4)
15 assure Cheyenne Light cost recovery for all prudently incurred
16 natural gas supply related expenditures. This acquisition strategy
17 provides safe, adequate and reliable service to retail customers.

18

19 On its face, it appears that the second and third principles might conflict, at times.

20 As we have seen in recent years, gas prices have risen dramatically and fallen
21 precipitously in the course of a few weeks or even a few days. In this sort of a
22 market – with both potential and real huge swings – it is difficult to understand
23 how market prices are to be reflected in prices at the same time that there is some
24 stability in the price. Furthermore, it is not clear what “measure” of stability is
25 being sought, how that impacts price signals or what cost is to be associated with
26 the price stability. It appears that some additional definition and clarity of these
27 principles would be helpful. It would also be helpful to have some examples of
28 how the prioritization or balancing of these principles would work with some
29 illustrative examples.

30

31 Additionally, I am concerned about the implications of the inclusion of the fourth
32 principle in the gas acquisition plan. It is understandable that Cheyenne Light
33 would like to have a reasonable assurance of recovery of its prudently incurred
34 expenditures. There is, however, a regulatory process for that recovery, subject to

1 certain rules and regulations. That process and compliance with those rules is
2 what should provide Cheyenne Light reasonable opportunity for recovery – not a
3 statement of principle in a filing in a GCA application. The OCA asks that the
4 Commission exercise caution relative to this statement and clarify that approval of
5 the gas acquisition plan does not carry with it any implicit or explicit rate
6 approval or assurance of recovery of any particular cost.

7
8 **Q. PLEASE EXPLAIN YOUR CONCERN THAT CHEYENNE LIGHT DID**
9 **NOT FOLLOW ITS TARIFF LANGUAGE WHEN COMPUTING ITS**
10 **PROPOSED RATES IN ITS SEPTEMBER GCA FILING.**

11 A. Sheet 37B of Cheyenne Light’s tariff effective at the time of the September GCA
12 filing discusses the timing of the commodity balance to be used when determining
13 the portion of the GCA rate that applies to the amortization of the over or under
14 collected balance of commodity and commodity related costs. It states, in part:

15 The procedure and recordkeeping measures for tracking the
16 difference between the commodity or commodity related revenues
17 collected based on estimated or projected wholesale costs, and
18 actual, prudent commodity or commodity related expenditures
19 incurred by the Company is calculated monthly by subtracting the
20 Recovered Gas Cost from the Actual Gas Cost. The resulting
21 amount, plus interest on all over and under recoveries on an
22 average monthly basis at a rate as prescribed by the Public Service
23 Commission of Wyoming in Section 241 of the General
24 Regulations, ***will be accumulated for the twelve month period***
25 ***ending June of each year and included in the Deferred Gas Cost***
26 ***Adjustment.*** [Emphasis added.]

27
28 Relevant to the OCA concern about compliance with the tariff is the specific
29 provision that indicates that the accumulated over or under collection is to be for
30 the period ending June of each year.

31
32 Sheet 37C of Cheyenne Light’s then effective tariff also discusses the period over
33 which the net deferred balance is to be accumulated, stating in part:

1 The time period for amortizing the balance of any *over or under*
2 *recovery in the Commodity Balancing account of the Deferred*
3 *Gas Cost at the end of July of each year*, including any amounts
4 relating to the true-up of the Incentive Adjustment, will be divided
5 by the estimated sales volumes for the twelve month period in
6 which the Deferred Gas Cost Adjustment is to be effective in
7 accordance with the following formula...[Emphasis added.]
8

9 This provision appears, in its own awkwardly worded way, to indicate that the
10 accumulated commodity balance to be used is the balance as of the end of July.
11 While these two cited provisions of the same tariff are inconsistent⁴, that is not the
12 OCA's specific concern. Instead, we are troubled by the fact that the projected
13 balance as of the end of September was used rather than either the June actual
14 balance or the July actual balance.
15

16 **Q. DID CHEYENNE LIGHT EXPLAIN ITS USE OF THE PROJECTED**
17 **SEPTEMBER BALANCE RATHER THAN USING EITHER THE JUNE**
18 **OR JULY BALANCE?**

19 A. Yes, at page 6 of its September GCA application:

20 To provide a more timely reflection of the status of the Commodity
21 Balancing Account, Applicant proposes to utilize the estimated
22 September 30, 2006, rather than the June 30, 2006 balance. The
23 difference between the June 30 and September 30 balances is a
24 decrease in the deferred gas cost over-collection of \$395,393. By
25 using the estimated September 30, 2006 balance in the Commodity
26 Balancing Account as the starting point, Cheyenne Light is
27 deriving the deferred gas cost with numbers reflecting the market
28 conditions when the proposed GCA would be implemented
29 October 1, 2006, if approved by the Commission.
30

31 Later, at the September open meeting, Cheyenne Light further explained that the
32 use of the September balance would benefit customers – clearly a mistake since
33 there is less over collection with the September balance than with either the June
34 or July balances. Each of these balances is shown on confidential item 3 within
35 the package of provided workpapers.
36

⁴ In May, 2007, the Commission approved revisions to Cheyenne Light's tariff which removed the inconsistent language.

1 **Q. DID CHEYENNE LIGHT REQUEST A WAIVER OF ITS RULES,**
2 **ASSUMING THAT A WAIVER IS EVEN PERMISSIBLE, SINCE NO**
3 **EXCEPTIONS ARE EXPLICITLY DISCUSSED WITHIN THE TARIFF**
4 **LANGUAGE?**

5 A. No, Cheyenne Light did not request the waiver or explain why such a waiver of
6 its then-existing tariff would be in the public interest. In fact, page 2 of the
7 application states, “Applicant, by this application, requests authority to revise its
8 present GCA in accordance with Applicant’s GCA tariff provisions.”
9

10 **Q. WHAT WOULD HAVE BEEN THE IMPACT ON THE SEPTEMBER**
11 **GCA RATE IF THE JUNE BALANCE HAD BEEN USED RATHER THAN**
12 **THE SEPTEMBER BALANCE?**

13 A. Cheyenne Light’s Exhibit 4, attached to its application, shows its computation
14 using the September projected balance and sales for the twelve months ended
15 September 30, 2006. In Table Two below, I perform the same computation using
16 the June 2006 commodity balance:
17

18 **Table Two – Comparison of September and June 2006 Deferred Balances**

	Cheyenne Light’s use of September Deferred Balance	OCA use of June Deferred Balance
Deferred Balance	(\$2,564,729)	(\$2,924,726)
12 months Estimated Sales	4,580,514	4,580,541
Proposed CBA Rate	\$0.5599	\$0.6385

19
20 For a residential customer with average usage of 7 dekatherms per month, use of
21 the June balance would have resulted in a reduction of \$6.60 per year. For a small
22 commercial customer using an average of 40 dekatherm per month, the use of the
23 June balance rather than the September balance would have been a reduction of
24 \$37.79. This is about 29 percent of the proposed total for the average customer.
25

1 **Q. ARE YOU ASKING THE COMMISSION TO MODIFY THE LEVEL OF**
2 **THE APPROVED RATE TO REFLECT THE USE OF THE PROPER**
3 **BALANCE PURSUANT TO CHEYENNE LIGHT'S TARIFF?**

4 A. No. The rates that resulted from the use of the inappropriate CBA are no longer
5 in effect, as they were replaced with the rates that resulted from the January GCA.

6

7 Yet, it should be made very clear to Cheyenne Light that it is not permitted to
8 arbitrarily decide which balance it will use in its computation. It must follow the
9 formula set forth in its tariffs. It is particularly offensive when the failure to
10 follow the tariff formula results in a larger increase in rates than would otherwise
11 occur.

12

13 **Q. ARE CUSTOMERS SIMPLY OUT THE \$395,393 DIFFERENCE**
14 **BETWEEN THE SEPTEMBER AND THE JUNE BALANCES?**

15 A. No. The commodity balancing account is a self correcting mechanism, in that it
16 continues to build on itself. Thus, if the lower rate had been billed to customers in
17 September, the overall commodity balancing account would be less today than it
18 otherwise is. Thus, future rates would be higher going forward than they would
19 be otherwise. The difference is the time value of money, customers would have
20 retained more of their funds themselves (paid less to the company) if the June
21 balance had been used, rather than the September balance. However, a proper
22 computation of interest on over collections would mitigate the time value of
23 money issue. Unfortunately, one of our concerns is that the interest on the over
24 collected balances has been improperly calculated.

25

26 **Q. BEFORE GETTING TO THE OCA'S CONCERN ABOUT THE**
27 **INTEREST COMPUTATION, IS THERE ONE OTHER CONCERN THAT**
28 **THE OCA HAS REGARDING NON-CONFORMANCE WITH THE**
29 **APPROVED TARIFFS?**

30 A. We are concerned that Cheyenne Light's tariff – both its then existing tariff and
31 its current tariff – failed to list as includable costs the costs associated with

1 Account 858, Transmission and Compression of Gas by Others. Technically, one
2 could argue that the cost of transporting its gas over the transmission lines of third
3 parties should be excluded from the GCA calculations since the tariff specifically
4 lists what is in and what is out of the calculation. The tariff specifically states the
5 accounts whose costs are allowed in the computation to the exclusion of all
6 others. Since Account 858 is not one of the explicitly listed accounts, one could
7 easily argue that its costs are not appropriate to collect through the GCA.

8
9 **Q. WHY ARE YOU CERTAIN THAT THIS IS THE PROPER ACCOUNT**
10 **FOR RECORDING TRANSMISSION COSTS?**

11 A. It is fairly clear from a reading of the account description as set out by FERC (and
12 adopted by the Commission) that “This account shall include amounts paid to
13 others for the transmission and compression of gas of the utility.”

14
15 Furthermore, due to some controversy that occurred about this matter back in
16 May, I contacted the FERC accounting staff and had the following e-mail
17 exchange:

18 My name is Denise Parrish and I am with the Wyoming Office of
19 Consumer Advocate at the Wyoming Public Service Commission.
20 I have a question that I have been struggling with as I review the
21 Natural Gas USOA. I am trying to figure out into which account
22 transmission expenses paid to a third party would be booked. That
23 is, if a distribution company purchases gas from a producer and
24 then transports that gas over an unrelated third party’s transmission
25 lines, there is a cost for transmission service. Into which account
26 would the cost of that transmission service be booked on the
27 distribution company’s records.

28
29 **(Response from Scott Maloney):** The proper account would be
30 Account 858, Transmission and Compression of Gas by Others.
31 The text of this account in 18 CFR, Part 201, provides for the
32 inclusion of amounts paid to others for the transmission and
33 compressions of gas of the utility.
34
35

1 **Q. ARE YOU RECOMMENDING THAT THE TRANSMISSION COSTS BE**
2 **DISALLOWED FROM THE GCA AND THAT RATES BE**
3 **RECOMPUTED?**

4 A. No, although that position would be a reasonable one to take. Instead, I
5 recommend that the Company file for modifications to its tariff to correct the list
6 of commodity, commodity related, and transportation accounts. I encouraged
7 such a correction earlier this year, when the Commission specifically addressed
8 Cheyenne Light's GCA tariff language, but I was unsuccessful in getting this
9 correction into the tariff.

10

11 If the correction is not made, the Commission should consider removing pipeline
12 transport costs from future GCA computations of Cheyenne Light.

13

14 **Q. IS INTEREST ON OVER COLLECTED DEFERRED BALANCES BEING**
15 **PROPERLY COMPUTED AND INCORPORATED INTO THE GCA**
16 **RATE?**

17 A. No. Cheyenne Light is performing its interest calculation in a manner different
18 than any of the other utilities for whom I am aware of their specific computations
19 – including Montana Dakota Utilities, Source Gas, and Questar Gas. Essentially,
20 Cheyenne Light does not incorporate the interest that it is required to pay on over
21 collections into its rolling monthly average of deferred commodity costs, and
22 thus, it does not apply interest to the previously computed interest. This means
23 that the interest that it pays is simple interest rather than allowing that interest to
24 be compounded through its incorporation into the deferred commodity balance.

25

26 This is explained simply by a Cheyenne Light response to OCA's data request
27 1.21:

28 Q. Does Cheyenne Light compound its interest on over or
29 under collected balances throughout the year? Please
30 explain.

31 A: Cheyenne Light does not compound interest on interest.
32 Interest is calculated each month on the average balance of
33 the deferred principal balance only.

1 **Q. HAS THE COMMISSION RECENTLY ADDRESSED THE ISSUE OF**
2 **WHETHER COMPOUND INTEREST SHOULD BE APPLIED TO**
3 **DEFERRED COMMODITY BALANCES?**

4 A. Yes. The Commission recently addressed the issue of compound interest in a
5 Wyoming Gas pass-on case (Docket No. 30009-41-GP-05), at paragraph 57 of the
6 October 31, 2006 *Memorandum Opinion, Findings and Order*:

7 Among the issues presented for Commission consideration was
8 whether Wyoming Gas should be required to compound interest on
9 over-collections in the commodity balancing account. Mr.
10 Neumann testified the Company had previously compounded
11 interest on over-collections on a monthly basis. Mr. Neumann
12 testified the Commission staff noted in a memorandum in Docket
13 No. 30009-GP-01-36 that the Company's tariffs specified interest
14 was to be calculated on a simple interest rate, and therefore
15 recalculated the interest based on a simple interest basis.
16 Thereafter, the Company calculated interest on over-collections on
17 a simple interest basis, consistent with the Company's tariffs,
18 Commission staff's recommendations, and the Commission's
19 action in approving the pass-on filing in Docket No. 30009-GP-01-
20 36... The Commission finds the Company, based on Commission
21 staff's recommendations in the Sub 36 filing, acted in good faith
22 and began to calculate the interest on over-collections based on a
23 simple interest calculation... Therefore, the Commission will not
24 direct Wyoming Gas to recalculate its commodity balancing
25 account on a retrospective basis back to April 2001. *However, the*
26 *Commission finds and directs Wyoming Gas to calculate the*
27 *interest on over-collections in the commodity balancing account*
28 *on a compounded monthly basis, on a prospective basis, and file*
29 *revised tariffs reflecting this treatment.* [Emphasis added.]
30

31 **Q. DO THE COMMISSION'S RULES PROVIDE ANY GUIDANCE ON THE**
32 **MATTER OF COMPOUNDING INTEREST IN THE BALANCING**
33 **ACCOUNT?**

34 A. Yes. Commission rule 250(c) requires the utility's tariff to address and describe,
35 in detail, the major components of a Commodity Balancing Account, including
36 "the procedure for calculating and paying interest on any over-collected balance."
37

38 **Q. WHAT DOES CHEYENNE LIGHT'S TARIFF SAY ABOUT THE**
39 **MATTER?**

1 A. Turning to the tariffs that were in place at the time the September GCA was filed,
2 Sheet 37B(1) describes the Deferred Gas Cost:

3 The procedure and recordkeeping measures for tracking the
4 difference between the commodity or commodity related revenues
5 collected based on estimated or projected wholesale costs, and
6 actual, prudent commodity or commodity related expenditures
7 incurred by the Company is calculated monthly by subtracting the
8 Recovered Gas Cost from the Actual Gas Cost. *The resulting*
9 *amount, plus interest on all over and under recoveries on an*
10 *average monthly basis* at a rate as prescribed by the Public Service
11 Commission of Wyoming in Section 241 of the General
12 Regulations, *will be accumulated* for the twelve month period
13 ending June of each year *and included in the Deferred Gas Cost*
14 *Adjustment.* [Emphasis added.]
15

16 It appears from the tariff language that the Deferred Gas Cost is made up of both
17 over or under recovered commodity and commodity related costs (i.e., the CBA’s
18 principle) and interest.
19

20 Then turning back to the Commission’s rules at 250(e), it is stated, “Interest will
21 be paid on any over-collected balance.” It does not direct that the interest be paid
22 only on the principle part of the over collected balance.
23

24 The OCA is asking the Commission to direct Cheyenne Light to recompute its
25 deferred commodity balances reflected in the September GCA, and recompute
26 them to include both interest and principle. Interest should then be applied to
27 each of those monthly balances that includes both over recovered commodity
28 costs and interest. The results from this new computation should then be
29 compared to the computation reflected in the filed application and any difference
30 should be reflected as an adjustment to the commodity balancing account.
31

32 **Q. DOES INTEREST ON UNDER COLLECTED BALANCES CONTINUE**
33 **TO BE A CONCERN FOR THE OCA?**

34 A. No, not since the issue was decided by the Commission in Cheyenne Light’s GCA
35 tariff case in May 2007. The Commission determined that interest on under

1 collected balances should not be permitted by Cheyenne Light, as it had not
2 supported why allowing interest on under collected balances was in the public
3 interest.

4
5 As a result of the Commission's conceptual decision in the tariff case, Cheyenne
6 Light made a compliance filing removing the interest on the under collected
7 balances from its computations and making a cumulative adjustment to its
8 balancing account. Thus, this issue has been resolved both on an ongoing basis
9 and in regard to the specific applications being heard in this proceeding.

10
11 **Q. DO YOU CONTINUE TO HAVE CONCERNS ABOUT THE INCLUSION**
12 **OF FRANCHISE FEES IN THE GAS COST ADJUSTMENT?**

13 A. No. This issue was also resolved as part of the GCA tariff proceeding heard by
14 the Commission in May, 2007. The issue of the appropriateness of including the
15 franchise fee expense was addressed in that earlier proceeding, and the
16 Commission determined that these costs should not be recovered through the
17 GCA mechanism. It was also agreed to by the parties, and ultimately the
18 Commission, that the portion of the franchise fees that have been collected
19 through the GCA should continue to be collected in that manner until the rates
20 from the pending rate proceeding become effective. It is anticipated that the rates
21 resulting from the rate case will incorporate the franchise fees expenses currently
22 being recovered through the GCA. I am not aware of the need to make any
23 further adjustments to reflect the franchise fee decision at this time.

24
25 **Q. WHAT IS THE LAST GENERAL AREA OF CONCERN THAT YOU**
26 **HAVE RELATIVE TO THE SEPTEMBER GCA?**

27 A. The last area of concern relates to the financial information presented by
28 Cheyenne Light. The OCA has two concerns relative to the presented financial
29 data. First, we are concerned about the lack of separation of the natural gas
30 operations financial data from the electric operations financial data. Second, we
31 question whether the level of financial detail provided with the application meets

1 the expectations of the Commission as described in its Procedural Rules and
2 Special Regulations (Commission rules), Sections 249 and 250.

3
4 The issue of the separation of the financial data between electric and natural gas
5 operations is critical to the determination of whether Cheyenne Light is earning at
6 or below its most recently authorized return on rate base. This requirement is
7 found at Section 249 of the Commission's rules, Section 249(a)(ii):

8 That the pass-on only includes actual or projected increases in
9 commodity or commodity related costs and will not result in the
10 public utility's normalized rate of return on rate base exceeding
11 that last authorized by the Commission...

12
13 The Commission has for many years required that the financial showing in
14 Cheyenne Light's pass-ons be separated into its electric operations and natural gas
15 operations. Without this separation, the total set of financial data could easily
16 mask one operation earning more than its authorized return, while the other
17 operation is earning less than its authorized. Since not all of Cheyenne Light's
18 gas customers are also electric customers, it is important to make sure that each of
19 the operations stands on its own. Yet, in the September GCA, Cheyenne Light
20 submitted one combined financial statement without the required separation
21 between gas and electric. This document is found as Exhibit 5 attached to
22 Cheyenne Light's application. The combined financial statement appears to be in
23 clear contradiction of the Commission's rules.

24
25 **Q. IS THERE A SIMPLE WAY TO REMEDY THE FAILURE TO FILE THE**
26 **PROPER FINANCIAL DOCUMENTATION IN THIS CASE?**

27 A. Yes. Cheyenne Light should be directed to file separated financial information in
28 this docket. Clearly, Cheyenne Light has the information available since it has a
29 complete rate case with enormous amounts of financial data pending before the
30 Commission. The appropriate summaries and documentation could be copied
31 from the rate case and placed into the September GCA file to address the
32 deficiency in the application.

1 It is, frankly, a mystery to me why Cheyenne Light has not already supplemented
2 the application with this additional information. Instead, Mr. White simply
3 indicates that the detailed information can be found in the rate case file.
4

5 **Q. IF YOU ARE AWARE OF THE AVAILABILITY OF THE DATA AND**
6 **HAVE EXAMINED IT, WHY IS IT IMPORTANT TO HAVE IT**
7 **AVAILABLE IN THE FILE FOR THIS PARTICULAR DOCKET?**

8 A. There are several reasons Cheyenne Light should comply with this requirement of
9 the Commission's pass-on rules. First and foremost, it is a rule that is not
10 discretionary. If the Commission fails to enforce its rules, there is a risk that
11 chaos will ensue, thereby setting precedent for utilities to pick and choose which
12 rules with which they will comply. If it is important enough to be in a rule –
13 which has the same effect as being in a law – it is important enough to ensure
14 compliance.
15

16 Second, I these files are very likely to be examined well into the future, and
17 possibly by folks who did not originally work directly on this matter. For them, it
18 is important to have a complete file that supports the application and provides all
19 of the appropriate documentation.
20

21 Third, the pass-on is an expedited rate procedure that has tended to benefit
22 shareholders as much as, if not more than, customers. It is a process that was
23 established to address true risks of the utilities, and provides a means for
24 reasonable recovery of costs that are volatile and significant. It provides an
25 opportunity for utilities to limit some of the risk (e.g., regulatory lag) that comes
26 with traditional ratemaking processes. In exchange for that benefit of risk shifting
27 and expedited treatment, the utility has an obligation to provide appropriate
28 support and documentation, and to show that the process is not providing harm to
29 customers in the form of excessive earnings. Yet, we continue to fight with the
30 utility to assure that it meets its obligation in exchange for the opportunity it has
31 been given. If the utility is not required to meet its obligations, soon it may view

1 the expedited rate opportunity it has been given as a right or entitlement, rather
2 than as a privilege. Utilities must hold up their end of the regulatory bargain, and
3 in this case, it means following the rules. The Commission must require Cheyenne
4 Light to file the appropriate, unseparated financial data in this proceeding.
5

6 **Q. PLEASE DESCRIBE YOUR SECOND CONCERN REGARDING THE**
7 **FINANCIAL DATA.**

8 A. The financial data that Cheyenne Light filed in the September GCA is, again,
9 found at Exhibit 5 to the application. This does appear to meet the stated
10 requirement of the Commission’s rules that the financial data reflect “normalized
11 annual earnings.”⁵ But, it is not clear that it meets muster relative to the
12 requirement wherein “The public utility shall be responsible for providing
13 sufficiently detailed, reliable, and supportable documentation that accurately
14 portrays its earnings.”⁶ For example, Cheyenne Light’s Exhibit 5, page 2 of 2,
15 line 18 shows an adjustment to increase expenses of nearly \$1 million. Yet, the
16 entire explanation is “Include adjustment for Service Company allocations.” I
17 herein simply raise the question of whether that is a sufficient and appropriate
18 level of documentation that satisfies the Commission. This is far less detail on the
19 adjustments than Cheyenne Light provided for many years under the ownership of
20 Public Service Company of Colorado.
21

22 **Docket No. 30005-110-GP-7**
23

24 **Q. PLEASE DESCRIBE THE SECOND OF THE THREE PASS ON**
25 **APPLICATIONS THAT ARE THE SUBJECT OF THIS CONSOLIDATED**
26 **HEARING.**

27 A. The second of the three dockets is Docket No. 30005-110-GP-7, an out-of-period
28 application to pass on the increased or decreased commodity and commodity
29 related costs relative to the provision of natural gas services. The application was

⁵ Section 249(b)(i) of the Commission’s rules.

⁶ Section 349(b)(ii) of the Commission’s rules.

1 filed on January 31, 2007, and requested a decrease of \$9,025,664 per annum.
2 This proposed rate decrease was the result of decreases in expected gas costs and
3 over collections in the commodity balancing account. This application will
4 hereinafter be referred to as the January Gas Cost Adjustment Application (or the
5 January GCA).

6
7 **Q. PLEASE PROVIDE A BRIEF PROCEDURAL HISTORY OF THE**
8 **JANUARY GCA.**

9 A. On February 15, 2007, the January GCA was presented to and deliberated by the
10 Commission at its scheduled open meeting. According to the Commission's
11 March 6, 2007, *Notice and Order Approving Rates on an Interim Basis and*
12 *Granting Petition for Confidential Treatment*, at paragraphs 8 and 10:

13 ...Don Biedermann, Commission Advisory Staff stated the
14 Company's application is in compliance with Commission Rules
15 249 and 250 but the Company did not have tariffs on file that
16 comply with rules 249 and 250. Mr. Kaysen stated the Company
17 filed its GCA tariffs on February 1, 2007, and these are pending
18 Commission action. Mr. Biedermann recommended approval, for
19 usage on and after March 1, 2007, on an interim basis pending
20 Commission approval of Cheyenne Light's tariffs. Mr. Kaysen
21 indicated the Company has no disagreement with Commission
22 staff's recommendation of an interim approval.

23
24 ...

25
26 Based upon the recommendations of Commission staff, the
27 Commission finds that Cheyenne Light's pass-on application
28 should be approved on an interim basis, effective for usage on and
29 after March 1, 2007. Approval on an interim basis is in the public
30 interest as it will allow the Company to begin recovery of
31 projected wholesale gas costs through its rates and address the
32 overrecovered balance in its commodity balancing account. The
33 approval granted herein, is subject however, to notice, protest,
34 possible hearing, refund, further investigation, and further order of
35 the Commission.

36
37
38 The OCA's *Notice of Intervention and Request for Hearing* was filed February
39 27, 2007. This pleading contained a brief listing of our concerns, including: the

1 inclusion of net interest on under and over collected commodity account balances
2 and whether the proper public showing had been made; the projection of more
3 than \$1 million remaining in the commodity balancing account as of the end of
4 September 2007; the inclusion of franchise fees in the commodity and commodity
5 related costs; whether Cheyenne Light is following its approved tariffs regarding
6 its gas cost adjustment computations; and whether an appropriate showing of
7 earnings has been made.

8
9 As indicated for the September GCA, the January GCA was also subject to pause
10 while the Commission and interested parties addressed several concerns common
11 to both the actual pass-on applications and the GCA tariff language. The May
12 2007 hearing on the GCA tariff resolved several of the initial concerns, as will be
13 described below.

14
15 Lastly, as described in more depth earlier, on July 11, 2007, a *Procedural Notice*
16 *and Order Setting Consolidated Public Hearing* was issued for the three cases
17 discussed herein. The order established testimony pre-filing dates and hearing
18 dates and reiterated that the rates from these three cases are in effect on an interim
19 basis.

20
21 **Q. PLEASE SUMMARIZE THE ISSUES THE OCA HAS IDENTIFIED**
22 **RELATIVE TO THE JANUARY GCA.**

23 A. Several of the issues that the OCA has identified as concerns about the January
24 GCA are the same or similar concerns as those described above for the September
25 GCA. The total list of concerns, including those that duplicate those described
26 earlier, are:

- 27 ▫ Interest on under collected commodity balancing accounts was included
28 without a proper showing of how doing so was in the public interest;
- 29 ▫ Whether interest and the monthly balances had been properly computed so
30 that customers were receiving the full amount of interest to which they are
31 entitled pursuant to the Commission's rules;

- 1 ▫ A projection of more than \$1 million remaining in the commodity
2 balancing account as of September 2007, even though the application
3 indicated that the commodity balancing account was computed to be
4 completely returned to customers based on projected sales for the period
5 ending September 2007;
- 6 ▫ Franchise Fees were included in the commodity balancing account costs to
7 be included in the proposed GCA rates;
- 8 ▫ Cheyenne Light did not appear to be abiding by its tariff language when
9 making the computations contained within the application; and
- 10 ▫ Whether an appropriate showing of earnings had been made and whether
11 that showing of earnings conformed to the requirements of the
12 Commission's rules.

13

14 **Q. YOUR FIRST LISTED CONCERN RELATES TO INTEREST ON UNDER**
15 **COLLECTIONS. DOES THIS CONTINUE AS A CONCERN IN THIS**
16 **PROCEEDING?**

17 A. No. As explained above relative to the September GCA, the Commission has
18 ruled on the matter of interest on under collections for Cheyenne Light, and such
19 interest will no longer be permitted. And again, as explained above, an
20 adjustment was computed and submitted to the Commission as a compliance
21 filing in the GCA tariff docket (30005-111-GT-07) removing interest on under
22 collections that had been included in the deferred balance computations.

23

24 **Q. IS THE COMPOUND INTEREST ISSUE FOR THE JANUARY GCA THE**
25 **SAME AS THAT DESCRIBED ABOVE FOR THE SEPTEMBER GCA?**

26 A. Yes. In this application, Cheyenne Light continues to differentiate between the
27 principle in the deferred commodity account balance and the interest, applying
28 interest only to the rolling, cumulative principle balance, and not the total balance
29 of both principle and interest. Again, this is not consistent with the Company's
30 then approved tariff, the Cheyenne Light tariff, or the Commission rules. The
31 Commission should direct Cheyenne Light to recompute its commodity balancing

1 account in a manner that incorporates interest on the interest, eliminating the need
2 to track the principle and interest amounts in two separate computations.

3
4 **Q. PLEASE EXPLAIN YOUR NEXT CONCERN.**

5 A. The OCA was concerned that Cheyenne Light's computation of its deferred
6 commodity balance amortization was different than the description of that
7 amortization in the application. Specifically, the application states, at paragraph
8 9:

9 The forecasted over-collected amount of \$4,879,701 will be
10 credited with interest to customers over a seven month period,
11 March 1, 2007 through September 30, 2007, which reflects a credit
12 of \$2.69 per Dth.

13
14 This is an appropriate manner to pass back the large over collection. However, in
15 reviewing some of the workpapers, it appeared as if there was a remaining
16 balance of approximately \$1 million at the end of September. Upon further
17 discussion with Cheyenne Light representatives, I no longer have this concern, as
18 the workpaper reflecting the \$1 million balance is not used in the computation of
19 the January GCA rates, and reflects a computation different from the plain (but
20 correct) amortization based on the estimated sales for the period.

21
22 **Q. HAS THE FRANCHISE FEE ISSUE BEEN RESOLVED?**

23 A. Yes. The franchise fee issue was addressed in the GCA tariff case held in May
24 2007. As a result, as part of the development of the rates resulting from the rate
25 case, the recovery of the franchise fees will be moved from the GCA rates to base
26 rates. This is described further above in the discussion of the September GCA.

27
28 **Q. DO YOU CONTINUE TO HAVE CONCERNS THAT CHEYENNE
29 LIGHT'S COMPUTATION OF THE GCA IS INCONSISTENT WITH ITS
30 TARIFF LANGUAGE?**

31 A. Yes. The discussion about the list of accounts and whether pipeline transportation
32 costs are adequately reflected in the accounts listed in the tariff – or whether those

1 costs are being misbooked is as applicable to the January GCA as it is to the
2 September GCA.

3
4 Additionally, I simply note that the language in the tariff that was in effect at the
5 time of the January filing is not at all conducive to the concept of out-of-period
6 filings. The tariff is very specific about the proposed effective dates of filings,
7 and those dates are for routine annual filings, not for out-of-period applications.
8 Similar language occurs for the dates of balances to be used in the computations –
9 dates that do not fit with applications filed at a different time than reflected with
10 the planned schedule.

11
12 The OCA is not objecting to the nonconformity of the tariff dates with the
13 computations reflected in the out-of-period January GCA. I simply point this out
14 hoping that Cheyenne Light will take this problem into account when and if
15 additional revisions are made to the GCA tariff.

16
17 **Q. WHAT CONCERN DO YOU HAVE REGARDING THE FINANCIAL**
18 **SHOWING THAT CHEYENNE LIGHT MADE IN THE JANUARY GCA?**

19 A. In this application, Cheyenne Light did submit financial information that is not
20 consolidated, but instead, reflects only the gas operations. This information is
21 reflected on Exhibit 5 attached to Cheyenne Light's application. However, the
22 financial showing is quite bare-boned and it is unclear whether the return reflected
23 is an actual earned return (unadjusted) or is the result of not shown adjustments.
24 The application is not much more help, as it simply states at paragraph 10: "In
25 addition, based on the analysis and information provided in Applicant's Exhibit 5,
26 Applicant notes that its actual annual rate of return on rate base as of December
27 31, 2006, is 3.33 percent."

28
29 It is clear that at the rate of 3.33 percent, Cheyenne Light is not earning above its
30 last authorized return. However, this bare-boned presentation does not appear to
31 meet the Commission's requirement, at Commission rule 249(b)(i) that the

1 utility's documentation include a showing of "normalized annual earnings".
2 Actual earnings are rarely the same as normalized earnings.

3
4 Furthermore, Commission rule 249(b)(ii) indicates that the "appropriate form and
5 level of detail of the required supporting documentation shall be determined by
6 the Commission on a case-by-case basis, in consideration of the public utility's
7 size, complexity, nature of operations, corporate structure, and other relevant
8 factors." I must question whether a presentation of earnings where it is not even
9 clear if normalizing adjustments have been included is an appropriate presentation
10 of earnings for a company the size and breadth of Cheyenne Light.

11
12 The OCA asks that the Commission find that this level of bare boned, unclear
13 presentation of earnings by Cheyenne Light is not acceptable on an going-forward
14 basis. The OCA is not looking to pursue the issue of earnings levels in the
15 January GCA, as we will be able to do that in the pending rate case. However, we
16 anticipate that there will not always be the same opportunity to examine base rates
17 in a rate case simultaneous with each (or even many) pass-ons. It would be very
18 helpful if the Commission further defined, for Cheyenne Light, some of the wide
19 discretion regarding financial presentations that is found in the Commission's
20 rules.

21 **Docket No. 20003-89-EP-06**

22
23 **Q. PLEASE DESCRIBE THE THIRD OF THE THREE PASS ON**
24 **APPLICATIONS THAT ARE THE SUBJECT OF THIS CONSOLIDATED**
25 **HEARING.**

26 A. The third of the three dockets is Docket No. 20003-89-EP-06, a regularly
27 scheduled application to pass on the increased or decreased commodity and
28 commodity-related costs relative to the provision of electricity to retail customers.
29 The application was filed on December 4, 2006, and requested a decrease of
30 \$14,353,601 in annual revenues. A significant factor supporting the proposed
31 reduction in rates was the change from an approximate \$3 million under

1 collection in the commodity balancing account as of the end of 2005 compared to
2 an over collection of more than \$6.6 million as of the end of 2006. The
3 application will hereinafter be referred to as the December Electric Cost
4 Adjustment Application (or the December ECA).

5
6 **Q. PLEASE PROVIDE A BRIEF PROCEDURAL HISTORY OF THE**
7 **DECEMBER ECA.**

8 A. On December 19, 2006, the December ECA was presented to and deliberated by
9 the Commission at its scheduled open meeting. I appeared at this open meeting
10 and raised a number of concerns regarding the application, as is recounted in the
11 Commission's April 13, 2007, *Notice and Order Authorizing Implementation of*
12 *Interim Rates and Requiring Report of Progress on Separation of Financial*
13 *Information for Electric and Gas Operations*, at paragraph 10:

14 Denise Parrish appeared on behalf of the Wyoming Office of
15 Consumer Advocate (OCA) and objected to the allowance of
16 interest on under-collections in Cheyenne Light's CBA. She noted
17 Cheyenne Light did not have an approved pass-on tariff on file
18 with the Commission, and its application included combined
19 financial information for its electric and gas operations. The OCA
20 asserted the combined financial information could impair the
21 Commission's ability to determine compliance with § 249 of the
22 Commission's rules. Ms. Parrish noted this is different than the
23 way the Company has filed its pass-on application from previous
24 pass-ons filings. Ms. Parrish further noted the Commission's new
25 rules require a showing of public interest. OCA argued that
26 Cheyenne Light's application does not make a sufficient public
27 interest showing and should not be allowed until a public interest
28 showing is made and Commission approves the pass-on
29 application...

30
31 Ms. Norby of the Commission advisory staff also raised an issue at the December
32 19, 2006, open meeting, specifically the issue of interest on under collections that
33 Cheyenne Light had included as part of its demand costs. In response to the
34 presentations and concerns about the application, and consistent with the
35 recommendation of Ms. Norby, the Commission approved the application on an
36 interim basis, with a Notice and Order, effective for usage on and after January 1,

1 2007. The Commission further denied the request for interest on under
2 collections in the amount of \$29,473.

3
4 As already noted, the Commission’s action was followed with a written decision
5 dated April 13, 2007. In this written *Notice and Order*, the Commission approved
6 the application on an interim basis, without the inclusion of the interest on the
7 demand component of the request. Furthermore, the Commission found and
8 concluded, at paragraph 14, “Cheyenne Light should report back to the
9 Commission on its progress of separation of the financial information for its
10 electric and gas operations to better allow the Commission to make a
11 determination the Company is in compliance with Commission Rules.”

12
13 The OCA filed its *Notice of Intervention and Request for Hearing* March 2, 2007.
14 As part of this pleading, the OCA listed several of the concerns that it had
15 identified regarding the December ECA, including: the inclusion of interest on
16 under collected commodity balancing account balances; the lack of detail relative
17 to the earnings computation shown and some of the items included in that
18 computation; and the inclusion of franchise fees as an element of the costs to be
19 included in the computations.

20
21
22 As was the case for the September GCA and the January GCA, the December
23 ECA was also put on hold while the Commission addressed the appropriateness of
24 Cheyenne Light’s proposed commodity balancing account tariff. As with the
25 natural gas cases, there were some common concerns of the OCA between the
26 December ECA and the proposed ECA tariffs (in Docket No. 20003-88-ET-06).
27 And, again, the May 2007 consolidated hearing on the electric and natural gas
28 tariffs resolved several of the initial concerns, as will be described below.

29
30 Lastly, as described in more depth earlier, on July 11, 2007, a *Procedural Notice*
31 *and Order Setting Consolidated Public Hearing* was issued for the three cases
32 discussed herein. The order established testimony pre-filing dates and hearing

1 dates and reiterated that the rates from these three cases are in effect on an interim
2 basis.

3
4 **Q. PLEASE SUMMARIZE THE ISSUES THE OCA HAS IDENTIFIED**
5 **RELATIVE TO THE DECEMBER ECA.**

6 A. Several of the OCA's identified concerns are similar to those identified above
7 regarding the natural gas issues. The collective list of issues relative to the
8 December ECA the OCA has identified are:

- 9 ▪ The inclusion on interest on under collected balances reflected in the
10 commodity balancing accounts
- 11 ▪ Whether interest and monthly commodity balancing account balances had
12 been properly computed such that customers were receiving the full
13 amount of interest on over collected balances to which they are entitled;
- 14 ▪ The reporting of combined natural gas and electric financial data so that it
15 is difficult or impossible to determine the actual normalized earnings for
16 Cheyenne Light's electric operations and whether the normalized return
17 exceeds the most recently authorized return on rate base;
- 18 ▪ Whether the financial information was provided in sufficient detail and
19 with adequate supporting information as to conform to the Commission's
20 rules;
- 21 ▪ The inclusion of franchise fees as a commodity or commodity related cost
22 to be included in the ECA rather than being collected through base rates or
23 as a bill surcharge; and
- 24 ▪ Whether Cheyenne Light's ECA computations were consistent and in
25 conformance with the description of the computations as found in its tariff.

26
27 **Q. HAS YOUR CONCERN ABOUT INTEREST ON UNDER COLLECTED**
28 **BALANCES BEEN RESOLVED IN AN EARLIER CHEYENNE LIGHT**
29 **CASE?**

30 A. Yes. In May, 2007, the Commission heard a consolidated case involving both the
31 GCA tariff and the ECA tariff (Docket 20003-88-ET-06). In that case, there was

1 a resolution of the issue of interest on under collections and, as described above
2 for the gas operations, there was a compliance filing made that spelled out an
3 adjustment to the commodity balancing account to reflect the removal of interest
4 on under collections that had been previously recorded. This satisfies the OCA's
5 concern that was raised in the December ECA.
6

7 **Q. IS THE COMPOUND INTEREST ISSUE FOR THE DECEMBER ECA**
8 **THE SAME BASIC SITUATION AS THAT DESCRIBED ABOVE FOR**
9 **THE SEPTEMBER ECA?**

10 A. Yes. It is again a situation where the over or under recovered balance for the
11 commodity and commodity related costs is tracked separately from the interest
12 that is computed on the over collected balance. Thus, one can think of the direct
13 costs as the principle portion of the commodity balancing account with the
14 interest set out separately. By tracking these two items separately, the result is the
15 lack of interest on interest, or in other words, a lack of the compounding of the
16 interest.
17

18 **Q. DO YOU FIND ANY REFERENCE IN THE CHEYENNE LIGHT TARIFF**
19 **TO TWO SEPARATE DEFERRED COST BALANCES?**

20 A. No. Sheet 42B of the Cheyenne Light electric tariff that was in effect at the time
21 of the December ECA filing discusses only one balancing account and states,
22 "Interest on the Deferred Electric Costs average monthly balances...shall be
23 calculated and paid monthly..." It does not state that the interest will be paid only
24 on the remaining balance without the cumulative interest.
25

26 **Q. DO YOU FIND ANY REFERENCE TO EXCLUDING INTEREST FROM**
27 **THE BALANCE UPON WHICH INTEREST IS TO BE PAID IN THE**
28 **COMMISSION'S RULES 249 OR 250?**

29 A. No.
30

1 **Q. ARE YOU RECOMMENDING SIMILAR ACTIONS TO THOSE**
2 **RECOMMENDED ABOVE REGARDING THIS INTEREST ISSUE?**

3 A. Yes. I recommend that the Commission direct Cheyenne Light to recompute its
4 interest on the monthly balances reflected in the December ECA application and
5 adjust the commodity balancing account to be carried into future periods by the
6 difference between the original filing interest and the recomputed interest.

7
8 The Commission should also make clear to Cheyenne Light that it will be
9 required on an on-going basis to compute and record interest on the entire over
10 recovered balance including computing interest on the interest.

11
12 **Q. ARE YOU STILL CONCERNED ABOUT THE FINANCIAL**
13 **PRESENTATION THAT WAS MADE IN THE DECEMBER ECA?**

14 A. Yes. As the Commission is aware from the history recounted above, Cheyenne
15 Light filed a combined set of financial data without separating the electric and the
16 gas earnings presentation. The Commission is also aware that the Commission
17 reflected this concern in its April 13, 2007, *Interim Order*, directing Cheyenne
18 Light to “report back to the Commission on its progress of separation of the
19 financial information.” As indicated by Mr. White in his testimony, Cheyenne
20 Light has reported back. But, the report is disappointing, in that there was no
21 actual presentation of separated financial data. Instead, there was a reference to
22 separated data that was available in another docket. As described above relative
23 to the GCA applications, there is no reason that Cheyenne Light could not have
24 actually submitted that data in this docket, rather than simply referring to another
25 matter. And, as stated above, there are many reasons why it is appropriate to
26 require the filing of the actual data in the file for this proceeding.

27
28
29
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31

1 **Q. ARE YOUR COMMENTS AND SUGGESTIONS OFFERED ABOVE IN**
2 **YOUR DISCUSSION OF THE SEPTEMBER AND JANUARY GCA**
3 **CASES ALSO RELEVANT TO THE DECEMBER ECA CASE IN**
4 **REGARD TO THE DEPTH AND QUALITY OF THE FINANCIAL DATA**
5 **PRESENTED?**

6 A. Yes. It would be helpful to the OCA to better understand what the Commission is
7 looking for in regard to the earnings presentation required at least annually for
8 utilities who file pass-ons.
9

10 **Q. HAS THE FRANCHISE FEE CONCERN BEEN RESOLVED FOR THE**
11 **DECEMBER ECA IN A MANNER SIMILAR TO ITS RESOLUTION IN**
12 **THE GCA CASES DESCRIBED ABOVE?**

13 A. Yes. The consolidated May 2007 hearing on the ECA tariff addressed the pass on
14 concern and a resolution was adopted. Essentially, the plan is to move the
15 franchise fee costs currently recovered through the ECA into base rates. The
16 intention of the OCA is to make this part of the development of the rates in the
17 pending Cheyenne Light general rate proceeding.
18

19 **Q. FINALLY, YOU EXPRESS SOME CONCERN THAT THE**
20 **COMPUTATIONS IN THE APPLICATION WERE INCONSISTENT**
21 **WITH THE THEN-APPROVED TARIFF. PLEASE EXPLAIN.**

22 A. Generally, this concern was used as a placeholder while we examined whether
23 there were tariff and application computational inconsistencies such as those we
24 found for the natural gas operations. Those same problems were not found,
25 although it does appear that Cheyenne Light's simple interest interpretation of
26 their tariffs may be different than my reading of the tariff language.
27

28 **Q. WERE THE TARIFFS ON FILE AT THE TIME OF THE APPLICATION**
29 **CONSISTENT WITH THE COMMISSION'S REVISED PASS ON**
30 **RULES?**

1 A. At the time of the application, Cheyenne Light did not have an approved tariff
2 that conformed to the latest revisions of the Commission's pass on rules. For
3 instance, the then filed tariff still required that interest on the commodity
4 balancing account be computed "based on the actual cost of short term debt
5 incurred by Black Hills Corporation, the Company's parent company" whereas
6 the Commission's rules require interest to be computed "at the rate specified in
7 Section 241" of its rules. This concern is now moot, as Cheyenne Light filed a
8 revised tariff in May 2007, in compliance with the directives it received from the
9 consolidated hearing on the ECA and GCA tariff issues.

10

11 **Q. DOES THAT COMPLETE YOUR DIRECT, PRE-FILED TESTIMONY?**

12 A. Yes, it does.