Report of the Division of Public Utilities
EBA Pilot Program Evaluation Plan
Docket No. 09-035-15
March 1, 2012

Background

Rocky Mountain Power (the Company) filed an application for an Energy Cost Adjustment Mechanism (ECAM) in March 2009. The Utah Public Service Commission's March 3, 2011 Order created an Energy Balancing Account (EBA) for the Company and directed the implementation of a 4-year pilot program for the EBA. The Order identified the 4-year pilot program to begin on October 1, 2011 and established a schedule for the Division of Public Utilities (Division) to audit and monitor the pilot program and to produce two evaluation reports on the pilot program. An Order on Petition for Clarification and Reconsideration or Rehearing, dated May 9, 2011, clarified the schedule for the 4-year EBA Pilot Program.

In the first report, covering a preliminary evaluation of the program, it is intended that the Division address issues or concerns with the program. The first report is to be completed within four months after the conclusion of the second calendar year of the pilot program (four months after December 31, 2013). A second report is the Division's final evaluation of the pilot program and is to be completed within four months after the conclusion of the third calendar year of the pilot (four months after December 31, 2014).

The Commission's EBA Order directed an EBA working group to consider several issues in preparation for the 4-year EBA pilot program. The EBA working group met on April 12, 2011, and decided on an approach and direction for the Division to consider in developing the 4-year EBA Pilot Program Plan. A preliminary report was filed by the Division on June 29, 2011. Subsequently, due to issues raised by various parties in response to Rocky Mountain Power's application for an EBA tariff (see Docket No. 11-035-T10), completing a final version of the report was held in abeyance by the Division while some of these issues were resolved. Many of the issues in the EBA tariff docket remain unresolved and the Commission in its Prehearing Order dated January 20, 2012 in that docket, suggested that the Division should soon complete its report. This report is the Division's Final Report from the EBA filing requirements work group.

In particular, the Commission's EBA Order, beginning on page 78, directed the Division to do the following:

1. Develop a complete list of data, transaction and other information the Company will be required to file each March 15 to constitute a complete filing.
2. Identify monthly information to be provided to the Division for its ongoing review.
3. Develop a pilot program evaluation plan to:
   a. Identify data and information to be tracked and evaluations to be conducted during the pilot.
   b. Identify training requirements, and conduct training for the work group, including, but not limited to:
      i) The relationship of accounts in the EBA to the net power components in the GRID model;
      ii) The relationship to FERC accounts and how they are booked and reconciled.

Items 1) through 3) above are to be filed with the Commission within 120 days from the date of the EBA Order. This Division report responds to that direction. The EBA Order also identified a fourth item:

4. The pilot program shall evaluate, at a minimum:
   a. The sharing mechanism;
   b. Which net power cost components are controllable and which are uncontrollable and whether the sharing element should be eliminated from the uncontrollable costs in the EBA;
   c. The effect of the EBA on the Company's resource portfolio;
   d. Whether the EBA includes the appropriate net power cost components;
   e. The effect of the EBA on the Company's hedging decisions and level of market reliance on net power cost;
   f. Incremental costs of the parties to audit the balancing account;
   g. Unintended consequences resulting from the EBA; and
   h. Monthly vs. annual accrual difference.

In addition to the Division, the following organizations participated in the work group and otherwise had the opportunity to provide input to the work group process and comment on the various drafts of the Division's Report: Rocky Mountain Power (Company), the Office of Consumer Services (Office), the Utah Association of Energy Users (UAE), a group of industrial companies collectively referred to as Utah Industrial Energy Consumers (UIEC), Western Resource Advocates (WRA), Utah Clean Energy (UCE), and Salt Lake Community Action Program (SLCAP).

While this Division report addresses items 1) through 3) above, its intent is to also anticipate the requirements of item 4) above. The EBA Pilot Program Evaluation Plan developed later in this report provide a foundation for the proposed evaluation outlined in item 4). The intent of the Division's EBA Pilot Program Evaluation Plan is to establish measures and quantifiable outcomes that will provide the basis for an objective and independent assessment of the EBA. The Division's EBA Pilot Program Evaluation Plan is preliminary and subject to change.

Schedule for the EBA 4-Year Pilot Program

The Company's 2010 general rate case in Docket No. 10-035-124 concluded with a Commission Order on September 13, 2011, and the 4-year EBA pilot program began on October 1, 2011. As part of the 4-year EBA Pilot Program the Company will provide monthly data and other information to the Division from October 2011 through December 2015. This information will be used by the Division primarily for EBA review, auditing, and monitoring purposes. In particular, the Company will provide five filings by March in each year from 2012 through 2016.[1] After the Company's March filing each year, the Division then has 45 days to complete its review of the Company's annual filing.

The Division anticipates receiving monthly data and information from the Company approximately 45 days after the reporting month (as an example, the Division would receive December 2011 monthly data in mid-month February 2012). This will provide for a timely review and ongoing audit on a monthly basis by the Division.

[1] Technically the pilot program is for four and one-quarter years. The first filing in March 2012 covers the final three months of 2011. The subsequent four filing in March 2013-2016 are annual filings.

Required Information that the Company should file for the EBA 4-Year Pilot Program

Monthly Filings by the Company

The monthly data and information filing requirement is necessary for two ongoing Division EBA activities: 1) EBA auditing; and 2) EBA review, tracking, and monitoring. The second data and information item identified on page 78 of the Commission's EBA Order is: identify monthly information to be provided to the Division for its ongoing review.

Monthly Data for EBA Auditing and Monitoring by the Division

The Company should file with the Division actual (or historical) NPC compared with the base (or forecast) NPC on a regular monthly basis. It is expected that the actual NPC data are available approximately 45 days after the reporting month.

Specifically, the Company should provide a "Utah EBA" Excel file, with formulae intact, consisting of the worksheets outlined below. An example of how the various worksheets should flow together, along with examples, is included in Attachment 1. The Excel file should include data from the current deferral period for the following:

<u>Detail Worksheets.</u> There should be a worksheet for each FERC account (FERC accounts 447, 456.1, 501, 503, 547, 555, 565) in the Utah EBA Excel file. Each worksheet will provide the line item detail of that particular account including a column to indicate whether an item is, or is not, included in the EBA calculations. Each FERC account worksheet should include the data for the first EBA deferral period (October 1, 2011 to December 31, 2011). Once the second deferral period begins, the detailed FERC account worksheets in the "Utah EBA" Excel file will only need to include the data for the second deferral period.

<u>"Net Power Cost Report (NPC Report)."</u> This worksheet should provide the NPC information (starting with October 2011), in the same format as what is typically provided as the "GOLD" report in general rate cases.

<u>"Net Power Cost System Accounts (NPCS Accounts)[2]."</u> This worksheet reconciles the "accounting" NPC related expenses (as shown in the "Detail Worksheets" or semiannual report) to the EBA expenses (as shown in the "NPC Report"). The accounts included in this worksheet are FERC accounts 447, 555 and 565.

[2] The NPCS accounts were formally referred to as "TORRIS" accounts. The TORRIS system however has been or is in the process of being replaced by a new system.

“Fuel Accounts.” This worksheet reconciles the “accounting” NPC-related expenses (as shown in the “Detail Worksheets” or semiannual report) to the EBA expenses (as shown in the “NPC Report”). The accounts included in this worksheet are FERC accounts 501, 503 and 547.

“Wheeling Revenue.” This worksheet should provide a reconciliation of the “accounting” Wheeling Revenues to the EBA. Both FERC subaccounts and SAP accounts should be identified.

“EBA Calculation-Stipulated Scalar.” This worksheet should show the monthly EBA deferral calculations, based on the stipulated scalar approach.[3] The NPC, Wheeling Revenue and load data values used for the deferral calculations should be linked (through formulae) to the “NPCS Accounts,” “Fuel Accounts,” “Wheeling Revenue,” and “NPC Report” worksheets.

“EBA Calculation-Dynamic Allocation Factor (sometimes called the ‘Jim Logan method’).” This worksheet should show the monthly EBA deferral calculations, based on the dynamic scalar approach (“allocation equation”) as described on pages 3 through 4 of the Utah Public Service Commission’s January 20, 2012 order in Docket No. 11-035-T10. The NPC, Wheeling Revenue and load data values used for the deferral calculations should be linked (through formulae) to the “NPCS Accounts,” “Fuel Accounts,” “Wheeling Revenue,” and “NPC Report” worksheets. As a note, inclusion of this worksheet is only for reporting purposes.

The Company has recently provided a confidential response to a Division data request that includes the worksheets listed above as well as others relating to loads, allocation factor development, and a split of total Company NPC dollars between demand and energy. While specific calculation methodologies may change depending on the outcome of Docket No. 11-035-T10, the Division expects the Company to file monthly information in the same manner as was provided in response to the confidential data request.

Annual Filing by the Company on March 15 of Each Year

An annual filing requirement for the Company is the first data and information item identified in the Commission’s EBA Order: develop a complete list of data, transaction and other information the Company will be required to file each March 15 to constitute a complete filing.

The Company should file an Excel file similar to the monthly “Utah EBA” Excel file, described above. In addition to the Utah EBA worksheets described above, additional worksheets (with formulae intact) should be added that show how the December 31 EBA balance is to be spread to the various classes. These additional spreadsheets should contain a formula (or formulae if

[3] The Division understands that there may be further changes based upon the Commission’s final order in Docket No. 11-035-T10.

necessary) that link back to the December 31 EBA balance shown in the "EBA Calculation-Stipulated Scalar" worksheet.

The Company has committed to filing on a semi-annual basis a report, including a detailed listing of its transactions, of its hedging program (a Hedging Collaborative Report is expected to be filed about the end of March 2012 that will contain details regarding the Company's filing commitment). The Division expects that the information in the hedging report will be updated to the latest available information and filed as part of the Company's EBA filing. After further consultation with the Company, the Division expects the Company to file the following additional information with its March 15 filing:

1. Trade data. The Company is willing provide a list of electricity and natural gas trades that were settled during the EBA deferral period. This will include both financial (i.e. swaps) and physical transactions. At a minimum the trade data will include the following fields:

    a. Deal Number
    b. Instrument Type
    c. Buy / Sell
    d. Month
    e. Year
    f. Delivery Start
    g. Delivery End
    h. Done Date
    i. Point of Receipt
    j. Point of Delivery
    k. Fixed Price
    l. Floating Price
    m. Index

2. Outage logs. The Company is willing to provide a list of all outages that occurred during the EBA period. The detail will be provided in the form customarily received by parties in the Company's proceedings, including at a minimum the name of the plant where the outage occurred, the duration of the outage, and the MWh impact of the outage.

3. Plant performance data. The company is willing to provide a report summarizing plant performance over the EBA deferral period. The detail will be provided in the form customarily received by parties in the Company's other proceedings, including at a minimum for each plant capacity factor, equivalent forced outage rate, forced outage MWh, planned outage MWh, and maintenance outage MWh.

4. Generation logs. The Company is willing to provide hourly generation logs for all owned generation resources on the Company system during the EBA deferral period. This will be provided in the form customary received by parties in the Company's general rate cases.

These data are to be filed by the Company with the Commission on March 15 of each year. The Division then has 45 days to complete its review of the Company's annual filing.

Accompanying the Company's annual filing, whether in testimony or otherwise, should be a description of the principal drivers that cause actual EBA NPC to be different from the Base EBA NPC. Descriptions of such drivers could include, but not be limited to, timing differences between the base and actual periods, the Company's resource portfolio and market prices.

The Commission has determined to hear additional testimony regarding interstate allocation, cost of service and rate spread issues in a hearing set for April 2012 in Docket No. 11-035-T10. Should the eventual Commission order require the filing of additional on-going information (monthly or annually) from the Company, the Division will notify the Company of the expected additional information requirements.

The Division notes that in future general rate cases, the Company will have to file the information related to the EBA in the rate case. Furthermore, in any stipulation settling net power costs or rate spread and design, the methodology and values involved with the EBA will necessarily have to be specifically called out. Likewise the Division believes the Commission in any general rate case order will necessarily have to specify the methodology and values involved with the EBA.

To the extent that the information supplied by the Company for its annual EBA filing is not included in a general rate case filing by the Company as part of the master data request, this information will be added as a supplement to the Company's master data request information.

The Division notes again, that as this is a pilot program, the Division reserves the right to modify its request for information to be filed with the annual EBA filing. The Division will discuss any revised filing requirements with the Company and other interested parties on an on-going basis, as appropriate, with the intent that the Company and parties will know of any revised filing requirements by the end of each calendar year.

Comments by Other Parties regarding the Division Report

The Division has received written comments on its final draft of its report only from UIEC. The Division appreciates UIEC taking the time to file detailed comments. The Division believes that some of the UIEC comments have merit. Specifically, as described above, the Division has requested updated hedging and certain other information was to be provided with the annual EBA filing. However, other UIEC comments appear to reflect a misconception about the 45-day review period following the Company's annual EBA filing. This review report is a high-level report in which the Division will recommend whether *interim rates* should or should not be established. This report will focus on, but not necessarily be limited to, things such as whether the Company met the EBA filing requirements, whether the EBA formula was implemented correctly, whether the correct FERC accounts, subaccounts and sub-subaccounts were used in the EBA deferral calculations, overall mathematical accuracy, a review of Company explanations for deviations between actual and base EBA costs, proper implementation of the Commission-approved rate spread, and a review of the forecasted loads for the EBA Rate Effective Period.

The Division does not anticipate completing its audit within the 45-day period, but rather expects its audit of the filing to be a lengthy process. In other words, the 45-day review report and the audit report are two separate reports that will be provided by the Division. Therefore, the Division believes that much of the additional information indicated by UIEC would be better part of data requests as the Division feels it needs the data. In the alternative, an intervening party may file its own data requests. The Division is supportive that a period of time should be given to parties to review and comment on the Division's audit report to the Commission prior to the Commission holding a hearing to consider final EBA rates. The intervening parties will also have the opportunity to review and comment on the Company's annual filing and the Division's initial comments (45-day review report) on that filing before interim rates are ordered.

EBA Pilot Program Evaluation Plan

The development of the EBA pilot program evaluation plan is found on page 79 of the Commission's EBA Order. It directed the Division to: develop a pilot program evaluation plan to identify data and information to be tracked and evaluations to be conducted during the pilot.

The Division proposes several EBA Pilot Program Evaluation Plan issues or criteria. These include an evaluation of auditing, monitoring, and assessing the EBA; EBA agreement or disagreement by the Division and interveners; NPC variability; electric rate variability; effect on Company ROE; Company plant and power usage and performance; and other issues. At the current time, the Division is focusing on the following list of EBA issues or criteria. The Division's evaluation criteria issues are listed below and include a brief description of each.

Are both the Company and customers better or worse off? Is one better off and not the other?

The following evaluation plan criteria attempt to measure and quantitatively assess whether the Company and its customers are better or worse off. This will require the development of several performance metrics.

Evaluate the Division's available resources vs. demands of EBA auditing, monitoring, and reporting.

Division staff and management will track the proportion of time used for EBA activities to all other duties. Quantitative and qualitative assessments of the effect of the EBA on DPU resources will be included in the DPU's quarterly report, which is discussed below.

Evaluate the level of comprehension by the Division (and interveners).

As the DPU monitors the EBA and conducts an audit and review of the monthly NPC components, some assistance from the Company will be required. Some initial Company assistance will be inevitable; it is anticipated that this assistance will decline over time, as the DPU learns the process. The DPU will request Company assistance through telephone and meeting contacts, as well as consult with the Company through other forums. The rate of assistance will be reported in the DPU's quarterly report as described below. A judgment will be made as to whether the need for assistance is declining at a satisfactory rate in each quarterly report. If the need for assistance is determined to be remaining at a high level, the Division will work with the Company to identify the problem areas and develop remedies.

Evaluate the level of contentiousness/disagreement/interpretation raised at the true-up process and other forums.

The Division will observe and monitor the process and comment on whether it is, or is not, becoming more routine over time.

Evaluate Company progress in smoothing variability of NPC in addition to EBA.

One reason for the sharing band was to encourage the Company to continue to seek improvements and efficiencies in the way it manages its NPC. The Division will monitor, evaluate and report on the Company's efforts in its management of hourly load fluctuations and longer-term efforts to reduce NPC volatility and costs. Although, smoothing the variability of NPC is a reason the Company put forth for the necessity of an EBA, the Company should be making effort at smoothing the NPC variability in addition to the EBA. NPC components will be monitored by the DPU and their variability assessed with standard statistical measures. The Division will assess whether the Company has lost an incentive for smoothing NPC variability.

Evaluate changes, if any, in Company hedging and Front-Office Transactions.

The Division will track and monitor the Company's hedging policy. The Division will continue to track, assess, and monitor the Company's Front-Office Transactions. An important determination is whether the Company changes its Front-Office Transactions performance and operations that can be attributed to the EBA. The Company's purchasing practices as a result of the EBA, and any change in these practices, will need to be addressed.

Evaluate swings in the Company's rates.

Historical and going-forward electric rates will be monitored by the Division to determine the variability of rate changes. The expectation is that an EBA will result in a decrease in rate variability.

Evaluate the Company's ROE.

During the course of the EBA pilot program the Division intends to track quarterly the Company's returns on common equity. This tracking will correspond to the Company's SEC 10-K and 10-Q filings with a comparison made to the ROE the Company computes in its Semi-Annual reports. An evaluation of the ROE in the Semi-Annual reports will be compared in the same quarter that the SEC data are available. The expectation is that the EBA will move the Company's return on equity closer to the average authorized return(s). Currently the Company's achieved ROE is running about 2 percentage points below the Company's average authorized return.

Evaluate changes in the Company's IRP.

The Division intends to compare the Company's pre-EBA IRP preferred portfolio (i.e. baseline portfolio) with the changes that occur in the preferred portfolios in subsequent IRPs and IRP updates during the course of the EBA Pilot Program. The changes in subsequent IRPs from the baseline portfolio will be evaluated for evidence of influence on the updated preferred portfolios by the EBA. One of the assumptions has been that the establishment of the EBA would not affect the Company's efforts to establish a least cost/least risk generation portfolio.

Evaluate changes in the Company's plant usage and performance.

As part of its review of monthly NPC, the Division will track and monitor Company plant usage and performance. An important determination is whether, due to the EBA, the Company uses its plants differently.

Commission suggested need to evaluate the implicit capacity price or charge.

This would be related to how the Company uses its generation and front office transactions. For example, is the Company buying more or less short-term and peak power? What effect does that have on needed capacity? Is the IRP tending to reduce Company owned acquisitions? Is the Company operating more efficiently? What are the implications for capacity or demand charges?

Evaluate growth in revenue (if load growth occurs).

This could be measured in part by the absolute difference between the base NPC and actual NPC. A growing or shrinking margin could suggest that the Company is either earning excess profits or suffering excess losses, this may or may not suggest changes to the program formulae.

Production and Power Cost Dispatch Model Validation.

At the October 12, 2011 technical conference within Docket No. 11-035-T10, the Commission staff advised the Division that it wanted the Division to re-evaluate the validity of the Company's GRID model, in particular to compare the GRID model's accuracy with respect to monthly and annual forecasts. "GRID" is the name of the Company's current production dispatch and power cost model. The Division understands that PacifiCorp may be migrating to a new production and power dispatch model. The Division will work with the Company, and any interested interveners, to develop a new test of the GRID model (or subsequent model) and initially plans to report the results of such a test at its required evaluation report to the Commission in early 2014.

Training Requirements for the EBA Pilot Program

Training requirements for the EBA pilot program were identified in the Commission EBA Order on page 79 under item 3):

- Develop a pilot program evaluation plan to:
  - Identify training requirements, and conduct training for the work group, including, but not limited to:
    - The relationship of accounts in the EBA to the net power components in the GRID model;
    - The relationship to FERC accounts and how they are booked and reconciled.

The Division does not identify specific training requirements for the EBA pilot program. The Division, however, requests that the Company be available on an on-going basis to assist the Division and other parties with training as the need develops.

Conclusion

The Division presents this report regarding its pre-EBA plans and information requirements. In particular, the Division's EBA Pilot Program Evaluation Plan is a pilot program and subject to change due to, for example, evolving information requirements and perspectives. As reported in testimony in this Docket, the Division remains concerned that the demands of this program may be greater than the Division's available resources, but only time will tell whether this concern is well-founded or not. The Division's plans and proposed evaluations appear to be reasonably achievable. As the Division, the Company, and others gain experience operating the EBA, it is to be expected that the plans outlined here will be modified based upon that experience.