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To: Public Service Commission

From: Division of Public Utilities
Philip Powlick, Director
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Date: August 19, 2010

Subject: Docket 10-035-38: RMP Application For An Accounting Order Regarding Post-Retirement Prescription Drug Coverage Tax Benefits

RECOMMENDATION:

The Division recommends that the Commission adopt an alternative proposal ("Proposal") that has been put forth by Rocky Mountain Power ("Company") since their original and revised filing. The basic terms of the Proposal state that the Company will set up a Utah regulatory asset for $6.284 million, amortize the asset over four years starting on October 1, 2010, and will not receive a return on rate base for the unamortized portion of the asset.

BACKGROUND:

On April 1st 2010, the Company filed an application for deferred accounting treatment for the write-off of the deferred tax asset associated with Post Retirement Prescription Drug Coverage costs. In a July 28th memo to the Commission, the Division recommended that the Company's requested regulatory asset of approximately $6.5 million be reduced to approximately $4.7 million. This recommendation was based on the fact that the Company had not included the full capitalization effects in their calculations of the regulatory asset. There were two time periods in which the proper capitalization was not reflected. The first time period was for the period April 1, 2004 through December 31, 2006. The second time period was for the first three months of

2010. The undercapitalization (for tax purposes) in these two time periods resulted in a higher regulatory asset for which the Company was seeking recovery.

If the Commission adopted the Division's recommendation, assuming a four-year amortization beginning January 1, 2011, and that the outstanding balance was given rate base treatment, the Company would collect from ratepayers approximately $5 million over the life of the regulatory asset. However, prior and subsequent to the Division's memo of July 28th, the Company issued an alternative proposal, the outcome of which is approximately equal to $5 million.

ALTERNATIVE PROPOSAL:

As part of the Proposal, the Company agrees to incorporate the capitalization effects for the first three months of 2010, as recommended by the Division in its July 28th memo. The Company also agrees to incorporate the SO factor filed in the previous rate case, Docket No. 09-035-23. These two changes reduced the Utah allocated regulatory asset from approximately $6.5 million to $6.284 million. Although this amount is still significantly higher than the Division's initial proposal of $4.7 million, the other terms of the Proposal reduce the recoverable amount of the regulatory asset.

First, under the Proposal, the Company agrees to a four-year amortization beginning October 1, 2010, three months prior to the starting date requested in its application. By moving the amortization period back three months to October 1st of 2010, the total recoverable amount of the regulatory asset is reduced. Second, it is possible that rates set from a future test period could carry on past the ending date of the anticipated amortization period. Therefore, under the Proposal the Company agrees to adjust its general or single item rate case anticipated to be filed in 2014 so as to remove the amortization. Third, under the Proposal, the Company agrees to forgo rate base treatment of any outstanding balance, thus, reducing the revenue requirement needed for recovery.

Under the Proposal, the recoverable amortized expense over the life of the regulatory asset is estimated to be approximately $5.1 million.[1] This amount only includes the amortized expense

[1] See DPU Exhibit 1 and 2 for the specific calculations

expected to be recovered through the rate effective periods associated with the next several general or single item rate cases. The Division's July 28th memo did not specifically address the amortization start date or the length of the amortization period. Had the Division assumed the Company's original amortization start date of January 1, 2011, amortization period, and the initially proposed regulatory asset of $4.7 million, the estimated recoverable amount would have been approximately $5 million[2]. The Division considers the $5.1 million under the Proposal to be a reasonable resolution of the issues in this case. The Division believes the Proposal is in the public interest and, therefore, recommends that the Commission accept the Proposal. The Division is aware that the Office of Consumer Services (Office) has been presented with the same Proposal by the Company and that, at this time, it is in the process of determining whether or not it believes the Proposal to be reasonable and in the public interest.

[2] See DPU Exhibit 1 and 3 for the specific calculations