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DEPARTMENT OF COMMERCE
Office of Consumer Services

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Date: May 10, 2012

Subject: Docket No. 12-035-67; Office of Consumer Services' Initial Comments on Rocky Mountain Power's EBA Application

Background

On March 15, 2012, Rocky Mountain Power (the Company) filed a request to recover EBA costs totaling $29.3 million. On April 27, 2012, the Division of Public Utilities (Division) filed a memo with the Commission recommending interim approval of a corrected deferral amount of approximately $29.0 million. Based on our review of the Company's EBA filing and Division's memo, the Office has a number of initial comments on the Company's EBA request. We intend to conduct a more in-depth review of the Company's EBA filing, adhering to the process set forth in the Commission's March 3, 2011 and May 1, 2012 EBA Orders. Accordingly, the Office will raise any additional EBA-related issues within 45 days after the Division files its EBA Report and participate in Commission hearings to set final EBA rates.

Comments

Re-optimization of Resources

The Company's testimony states that the decline in wholesale electricity and natural gas market prices during the fourth quarter of 2011 were key drivers underlying the $22.1 million increase (total company) in Actual NPC over the Base NPC approved in

10-035-124.[1] According to the Company's Application, these price declines resulted in a "re-optimization of the Company's supply portfolio."[2] The Company's testimony also mentions that settled gains and losses on electric and natural gas swaps were included in the EBA deferral calculation.[3] However, the Company does not describe in any detail how these swaps affected either the re-optimization of the supply portfolio or the calculated EBA balance. Given the significance of issues pertaining to swaps in recent general rate cases, the Office believes it is important for the Company to present evidence in its EBA filing that shows the impact of swaps on actual net power costs and the calculated EBA balance.

The prudence of the Company's decisions involving a "re-optimization of the supply portfolio" in response to falling market and natural gas prices is a major issue that the Office plans to investigate as part of the EBA review process.

Accounting Estimates

On page 17 of its memo, the Division indicates that accounting estimates remain in the EBA for certain FERC accounts. At this point, the Division is unable to determine what the Company's rationale is for including certain accounting estimates and excluding others. Lastly, the Division states that it will continue to investigate this issue in its EBA audit.

This particular issue raises a red flag because the Company may be selectively including or excluding accounting estimates in an EBA mechanism, whose primary purpose is to true-up forecasted NPC elements to actual levels. Accounting estimates should normally not be included in a reconciliation mechanism. The Office intends to investigate this issue and may have additional comments at the conclusion of the EBA review process.

Out-of-Period Adjustments

On page 19 of its memo, the Division indicates NPC amounts flowing through the EBA calculations are adjusted for out-of-period events. The Division has issued a data request relating to the derivation of these adjustments and states it will continue to explore this issue during its EBA audit.

The Office also intends to investigate how the Company defines items as out-of period and the approach the Company uses to make an adjustment. We may have additional comments on this issue at the conclusion of the EBA review process.

[1]Dickman Direct, pages 6-9, lines 100-167.
[2]March 15, 2012 EBA Application, Paragraph 10, pg. 5
[3]Dickman Direct, pages 9-10, lines 171-173.

GP Camus Contract

On page 19 of its memo, the Division states that the Accounting NPC dollars were adjusted upwards to actual for purchased power expense (Account 555), as it pertains to the “GP Camas” contract. This adjustment totals $2,016,414 over the three-month EBA deferral period. The GP Camas contract also has a revenue component (included in Account 456), which apparently was not adjusted.[4]

The Office has discussed this contract with the Division and understands that this adjustment appears to have been necessary to reconcile the Accounting NPC expense, which ties to the SAP Accounts, to Actual NPC expense. The Office may have additional comments on this issue as part of our EBA review.

Rate Spread

In its May 1, 2011 Implementation Order, the Commission adopted the Composite NPC Allocator as the long-term method for spreading future EBA deferrals. However, for purposes of spreading the $9.0 million deferral amount in the current EBA filing, the Commission adopted the settlement spread from the last general rate case (10-035-124). As discussed in the DPU’s memo on Pages 14-16, the Company’s proposed rate spread generally conforms to the aforementioned EBA Order. The Company slightly adjusted the stipulated GRC rate spread to account for the following items:

- EBA deferrals are not allocated to Contract Customer 4, per the terms of that individual contract. This change results in a re-allocation of approximately $190,000 of EBA costs among the tariffed rate schedules (see DPU Memo, Table 4, pg. 15).
- The University of Utah has migrated from Schedule 9 to Schedule 31, thereby resulting in Schedule 31 having a somewhat higher share of EBA costs.

The Company’s modification to the Commission-ordered EBA spread to set interim EBA rates appears to be reasonable. The Office may have additional comments on EBA rate spread at a later point in the review process.

Billing Determinants

Company witness Griffith’s Exhibits WRG 1 and 2 attached to his EBA testimony indicate that the Company proposes to use the same billing determinants for EBA rates as proposed in the current general rate case (11-035-200). Mr. Griffith’s testimony does not explain the reasons for using these billing determinants.

[4]While revenues in Account 456 are not included in the EBA, the GP Camus contract raises an issue of expense-revenue matching in the EBA. If the expense attendant to a contract is adjusted to actual, is it appropriate to make a corresponding adjustment to the revenue component of the contract? This is an issue that merits further consideration over the EBA pilot period.

Since the Commission ordered that the stipulated revenue spread from the last general rate case (10-035-124) be used as a proxy to allocate current EBA deferral amounts, the Office recommends using the billing determinants associated with that revenue spread. This maintains consistency between the ordered EBA spread method and the static scalar and static allocation factors discussed on Page 18 (Para. 2) of the Commission's May 1, 2012 EBA Order, and the billing determinants set in 10-035-124.

In future EBA filings, the Commission has directed the Company to spread EBA deferrals based on the Composite NPC Allocator and rely on a dynamic scalar and dynamic allocation factors. Consequently, it may be appropriate to use forecasted billing determinants in future EBA filings to set interim EBA rates. These forecasted billing determinants could be updated to be consistent with either the billing determinants that are used in implementing a concurrent Commission general rate case order or the actual class loads at the time final EBA rates are established. This is an issue that merits further consideration over the EBA pilot period.

<u>Other Issues</u>
At the conclusion of its EBA review, the Office may identify other issues that require resolution as part of establishing final EBA rates. We will raise these issues at the proper time in accordance with the Commission's scheduling orders in this docket.

Initial Recommendation

The Commission should direct the Company to use the billing determinants in 10-035-124 to set pass-through rates in this EBA docket. This will ensure consistency between the Commission's ordered EBA rate spread, which is based on the stipulated revenue spread from the last general rate case, and the billing determinants in that same case. In future EBA filings it may be appropriate to use forecasted billing determinants.