Utah Division of Public Utilities Audit Report of

Rocky Mountain Power, Energy Balancing Account (EBA)

REDACTED

October 1, 2011 – December 31, 2011
Docket No. 12-035-67

Prepared by Utah Division of Public Utilities
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Report Date: November 13, 2012

PURPOSE

The Division of Public Utilities (Division) has completed an audit[1] of Rocky Mountain Power's (RMP or Company) Energy Balancing Account (EBA). The intent of this audit was to review the prudency and accuracy of the Company's Energy Balancing Account Costs (EBAC)[2] as well as resolve issues identified by the Division in its EBA Initial Comments filed April 27, 2012 (Initial Comments). This audit covers the time period of October 1, 2011 through December 31, 2011. This is the first Division audit of the EBA since its inception.

BACKGROUND

Through Docket No. 09-035-15, an EBA was established by the Utah Public Service Commission (Commission). The EBA has been established to track differences between the Company's base and actual EBAC. These differences are either charged or credited to customers through Schedule 94 rates. The original EBA design included an interim rate process. However, the Commission's August 30, 2012 order established a process whereby rates are established after the Division completes its audit. The Commission ordered the Division to complete its first audit report by November 13, 2012. In future years, the Commission ordered that the Company file their EBA application on or around March 15 followed by the Division's audit report to be filed by July 15.[3] Testimony from intervening parties will then follow and a hearing will be completed by September 15. Rates will then become effective on or before November 1 of the year the application is filed.

The current EBA filing was filed by the Company on March 15, 2012. The Company's initial filing requested an increase in rates of $29.3 million. The $29.3 million consisted of two components. The first component consisted of $9.3 million which represents the difference between actual EBAC and base EBAC for the period October 1, 2011 through December 31, 2011. The second component consisted of $20 million of deferred net power costs approved by the Commission in Docket No. 10-035-124. Two modifications were later made to the $9.3 million component. First, the Company's initial filing had not properly removed dollars associated with buy-through curtailments. Second, the Commission's order in Docket No. 11-035-T10 required the Company to change the SG and SE factors used to calculate Utah's allocated wheeling revenue. Specifically, the Commission ordered the Company to use the SG

[1] In using the term "Audit" the Division notes that it did not conduct an independent audit as defined and conducted under Generally Accepted Auditing Standards as promulgated under the Auditing Standards Board of the American Institute of Certified Public Accountants. In this instance "Audit" is used in a more general sense and refers to the Division's evaluation of the prudency and accuracy of the Company's energy balancing account costs.
[2] Adjusted actual net power costs (NPC) less wheeling revenue.
[3] The Division notes that the page 5 of the Commission's Oct 16, 2012 Order on Request for Rehearing in Docket No. 12-035-67 states "We will treat the Order's schedule milestones as guidelines describing schedule parameters we intent to follow generally. At each scheduling conference to be held shortly after RMP files its EBA application (milestone #4), we will hear from the Division concerning its ability to meet the schedule milestones."

and SE factor values from the previous general rate case (Docket No. 10-035-124). These two changes resulted in a decrease of $393,897 from the initial request of $9,286,005. The table below[4] shows the Company's summary of the EBA account balance after the buy-through and allocation factor revisions.

Table 1: Summary of Requested EBA Deferral Account Balance

Incremental EBA Deferral		
Actual EBA Rate ($/MWh)		23.41
Base EBA Rate ($/MWh)		21.39
$/MWh Differential	$	2.02
Utah Load (MWh)		6,103,728
Total Deferrable	$	12,317,535
EBA Deferral at 70% Sharing	**$**	**8,622,274**
EBA Deferral Account Balance		
Beginning EBA Deferral Balance: Oct 1, 2011		**-**
Incremental EBA Deferral		8,622,274
Interest		50,827
EBA Revenues		-
Ending EBA Deferral Balance: Dec. 31, 2011	**$**	**8,673,101**
Accrued Interest through June 1, 2012		219,007
Stipulated Deferred Net Power Costs Amortization		20,000,000
Requested EBA Recovery	**$**	**28,892,108**

The $20 million deferred net power cost component of the Company's requested increase has already been ruled on by the Commission. The Commission's bench order issued May 14, 2012 allowed the Company to increase rates by $20 million effective June 1, 2012. The subject of this audit report is the $8.9 million increase currently requested by the Company.

DEFINITIONS AND TERMINOLOGY

Certain terms are used in the Division's Audit Report that may need clarification or explanation. These terms are discussed below.

[4] Table 1 on page 6 of Rocky Mountain Power's Comments on the Division of Public Utilities Initial Comments. The Company's comments were filed May 10, 2012.

1. Net Power Cost (NPC): The sum of fuel expenses, wholesale purchase power expenses and wheeling expenses, less wholesale sales revenue.
2. Energy Balancing Account Costs (EBAC): The combination of NPC and wheeling revenue.
3. Actual NPC: The actual total Company unadjusted NPC dollars. These Actual NPC dollars are shown in Mr. Dickman's Workpaper 3.5.
4. Adjusted Actual NPC: These are the Actual NPC dollars adjusted for out-of-period events. Total Company Adjusted Actual NPC dollars flow through the monthly EBA deferral calculations. These Adjusted Actual NPC are shown in Mr. Dickman's Workpaper 3.3.
5. Adjusted EBAC: The combination of Adjusted Actual NPC and Adjusted (if necessary) Wheeling Revenue.
6. EBA Type Costs/Revenues: Costs and revenues that are typically forecasted in the Company's GRID model plus wheeling revenue.
7. EBA Related FERC Accounts/Costs and Revenues: Costs and revenues that are included in FERC accounts 447, 555, 547, 565, 501, 503 regardless of whether or not they are GRID related or Non-GRID related.
8. SAP: The Company's accounting system from which their SEC financial reports are prepared. See DPU Exhibit AR 2: NPC Reporting Diagram.
9. ENDUR: The Company's energy trading system. This system is the source of the trade data (FERC 447, 555, 565) that flows through to the SAP system. It is also the source of the data in Filing Requirement 1. See DPU Exhibit AR 2: NPC Reporting Diagram.
10. GRID: The Company's dispatch model used to forecast NPC in a general rate case.
11. FERC Accounting Data: This data includes all SAP line items in the EBA *related* FERC accounts (447,555, 547, 565,503,501,456.1). Thus, this data includes Non GRID and GRID related costs. The source of this data is Filing Requirement 5-1 and the Company's response to DPU 2.1 (12-035-67)/DPU 1.1 1st Supplemental (11-035-T10). FERC Accounting Data are shown in the "FERC Accounting Data" tab in DPU Exhibit AR 1: EBA Accounting Reconciliations
12. Accounting EBAC: FERC Accounting data adjusted for Non GRID related costs. This data only contains SAP line items/transactions that apply to the EBA in the EBA months of October 2011 to December 2011. Accounting EBAC are shown in the "Accounting EBAC" tab in DPU Exhibit AR 1: EBA Accounting Reconciliations. The NPC portion of Accounting EBAC shown in DPU Exhibit AR 1 tie to the Actual NPC shown in Mr. Dickman's Workpaper 3.5.
13. Stipulation: Either the revenue requirement or cost-of-service stipulation agreed to by various parties and approved by the Commission in Docket 10-035-124.
14. FR-: EBA Filing Requirement
15. Deferral Period: October 1, 2011 through December 31, 2011.
16. Trade Accounts: 447, 555, 565.

SCOPE OF THE AUDIT

The scope of the Division's audit included the following tasks:

General Understanding of the EBA

- Obtained understanding of Company's Front Office Procedures and Practices (FOPP) through training and study.
- Obtained understanding of the Company's procedures and practices for hedging and non-hedging activities.
- Obtained understanding of PacifiCorp's internal controls related to EBAC.
- Obtained understanding of the Company's systems that track NPC.
- Obtained understanding of the out-of-period adjustments included in Mr. Dickman's Workpaper 3.4.
- Obtained understanding of Bookouts.

Issues Identified in the Division's Initial Comments

- Evaluated the methodology chosen by the Company to account for EBAC. Specifically, whether estimates should or should not be included in the EBA.
- Evaluated the appropriateness of the out-of-period adjustments included in Mr. Dickman's Workpaper 3.4 (Adjustments).
- Verified that the types of costs included in Actual EBAC are the same types of costs in Base EBAC.
- Evaluated the load differences between Mr. Dickman's Workpaper 6.1 (Jurisdictional Loads) and Workpaper 3.5 (Actual NPC).
- Evaluated the appropriateness of the GP Camas Adjustment.
- Other issues identified in the Division's Initial Comments are part of the "Prudency of EBAC" scope listed below.

Accuracy of EBAC

- Reviewed PacifiCorp Internal Controls.
- Developed or requested reconciliations between various reports, data extracts, data request responses and Accounting EBAC.
- Reviewed the "Check-out Summary Report" from December 2012. This report is used by the Company to verify transaction MWhs and dollars with counterparties.
- Reviewed the invoices, trade verifications and other supporting documentation related to trade data and natural gas transactions. Specifically, the data reviewed consisted of transactions related to power physicals, gas physicals, power swaps and gas swaps.
- Reviewed the schedules used to calculate one month of coal costs for three coal plants.
- Tied the coal supplier and transportation invoices to the schedules used to prepare the coal costs for the sample of plants selected.
- Reviewed the effect of Bookouts on the EBA.

Prudency of EBAC

- Evaluated the validity of Mr. Dickman's explanations for variances between actual and Base EBAC.
- Evaluated the Company's explanations for lower coal and gas generation.
- Reviewed outages and associated causes of plant outages during the EBA filing period.
- Reviewed (at a high level) the Sufco coal contract.
- Reviewed the invoices, trade verifications and other supporting documentation related to trade data. Specifically, the trade data consisted of transactions related to power physicals, gas physicals, power swaps and gas swaps. This supporting documentation was examined to evaluate the reasoning behind why the transactions were executed.
- High Level Review of Wheeling Revenue.

Scope Limitations

- Due to the restrictive time schedule afforded by the Commission, the scope of the Division's audit was limited. In addition to the restrictive time schedule, this is the Division's first audit of the EBA Pilot Program. As such, a considerable amount of time and effort was dedicated just to gain a basic understanding of the Company's operations, systems (accounting and trading) and policies. The following tasks were not included in the scope of the Division's audit but will be addressed in future audits.
    1. Complete evaluation of the prudency of a selection of the Company's coal supplier contracts, including Sufco.
    2. Complete evaluation of the Company's FOPP.
    3. Complete evaluation as to whether or not the Company is following their FOPP.
    4. Verification that issues identified in the Company's Monthly Actual-to-Accrual meetings were resolved prior to the Company's EBA filing.
    5. Review of "nonstandard" trading products.

ISSUES IDENTIFIED IN THE DIVISION'S INITIAL COMMENTS

EBA ACCOUNTING METHODOLOGY

The Division's Initial Comments stated that, "Based on technical conferences held with other parties and the Company, it was the Division's understanding that accounting estimates would be removed from the EBA calculations." Upon further review, the Division discovered that the accounting estimates were still prevalent in several if not all FERC accounts included in the EBA. As part of its audit, the Division evaluated whether these estimates ought to be included in the EBA calculations. Based on the Division's audit, the Division finds the Company's chosen accounting methodology for the EBA to be acceptable.

EBA Accounting Methodology Background

The starting point for evaluating any EBA accounting methodology should begin with the Company's SEC filed financial reports (10K) which are based on US Generally Accepted Accounting Principles (GAAP). GAAP provides accounting rules and principles which must be followed. As such, if a particular line item on PacifiCorp's income statement is based on an estimate, it is still an "actual" cost to the Company as it ultimately affects their bottom line or net income. The Company's 2011 10K states the following:

> *Use of Estimates in Preparation of Financial Statements*
>
> The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates include, but are not limited to, the effects of regulation; certain assumptions made in accounting for pension and other postretirement benefits; asset retirement obligations ("AROs"); income taxes; unbilled revenue; valuation of certain financial assets and liabilities, including derivative contracts; and accounting for contingencies. Actual results may differ from the estimates used in preparing the Consolidated Financial Statements.

For example, pension expense is not simply what the Company paid out to retirees during a particular period. The calculation of pension expense is very complicated and involves several components, some of which are based on estimates.

The Division's initial expectation was that the dollars in the EBA should tie directly to the Company's SEC Form 10-K. For example, if the 10-K[5] showed $20 million in FERC account 555 for October 2011, then the EBA would also show $20 million in FERC 555 for October 2011. Based on this expectation, the Division was somewhat surprised when it discovered that the Company intended to remove estimates from the EBA and that other monthly EBA dollars would tie to amounts in the 10K but in a different month.[6] As such, this issue was brought up in at least one of the technical conferences that were held in conjunction with 11-035-T10. During this technical conference the Company gave explanations for how these monthly estimates and subsequent estimate reversals take place. Although removing estimates seemed contradictory to GAAP accounting, the Division observed the general consensus of the parties was to remove

[5] A 10K is presented using annual data and is not presented by FERC account. This data however can be broken down on a month by month basis by FERC account.
[6] Due to the checkout process and other validation controls, "actuals" for FERC accounts 555, 447, and 565 for any given month are not reflected in the accounting records (SAP) until the next month.

estimates from the EBA. However, what was not clearly stated or explained by the Company was that only some of the estimates would be removed from the FERC Accounting data to arrive at EBAC. It was not until after (or possibly shortly before) the Company made its March 15, 2012 EBA filing that the Division became aware that some estimates would still be included in the EBA.

Given this background and context, there are two principal questions that the Division faced in evaluating the Company's chosen EBA accounting methodology.

1) If the Company is going to deviate[7] from GAAP, does the departure make sense and can any corresponding adjustment be performed with relative ease?
2) For the estimates that are included in the EBA, how accurate are those estimates and is there any indication of the Company "gaming" these estimates?

<u>Departures from GAAP (FERC Accounts 447, 555, 565)</u>

As identified previously, the Company's EBA differs from GAAP for two reasons. First, estimates are sometimes removed. Second, the dollar amounts shown in the EBA for FERC accounts 447, 555 and 565 ("Trade" accounts) are one month behind what is shown for GAAP. For example, if the EBA shows $20 million in FERC account 555 for October 2011, GAAP would show the same $20 million but in November 2011.

These two departures are actually related to each other and can be explained. The Company's response to DPU data request 3.1 in Docket No. 12-035-67 states the following:

> For FERC accounts 447, 555 and 565, the system of record is ENDUR (formerly TORIS). Due to the month lag needed to reflect actual amounts from ENDUR (TORIS) in SAP an estimate is booked in SAP to reflect the monthly balance. These related estimate entries are excluded from the EBA calculations because when the EBA calculations are prepared the actual balances from ENDUR (TORIS) are available.
>
> Occasionally estimates are needed to account for specific items in ENDUR (TORIS). These entries are booked directly to ENDUR (TORIS) and are included in the EBA calculations. Out of period adjustments will only be made in the official EBA filing, not the monthly reconciliations.

[7] The Company's EBA accounting methodology deviates from GAAP in that 1) estimates are sometimes removed and 2) amounts recorded in one month for EBA purposes would show up in a different month for GAAP purposes.

> For all other FERC accounts, including FERC 456, 501, 503, and 547, the official system of record is SAP. Estimate/accrual entries are part of the normal process of accounting in SAP, and as such, will be included as part of the EBA calculations.

In addition to the Company's response above, it is important to note a few additional concepts. First, there are specific FERC sub-accounts within the Trade accounts that only track these estimates and, as stated in the response to DPU 3.1, are only recorded in SAP. As such, these estimates are easily identifiable and can easily be removed. A simplistic way to look at this issue is to imagine a stack of ENDUR transactions and a stack of SAP(GAAP) transactions for accounts 447, 555, 565. Assume for this example, that both stacks contain EBA type costs and revenues in the same month. If you put both stacks side by side, they are exactly the same except that the SAP stack has (suppose for purposes of this example) 20 extra transactions. Again these extra 20 transactions are easily identifiable and can easily be removed. Second, the month lag referred to in the Company's response to DPU 3.1 above is just the result of the Company confirming it has the right numbers. The Company's response to UIEC 4.1 states:

> The ENDUR system is the system of original entry of power and natural gas trade data. It is used to schedule power transactions. In order to deliver or receive power to/from a counterparty for a given month, the transaction has to be entered and scheduled to flow to the counterparty using the ENDUR system. In the month following the flow of the electricity, an entry must be made in the SAP general ledger system for accounting purposes to record the sale/purchase. PacifiCorp does not enter trades in the general ledger system simultaneously with the physical flow of electricity. Within the first two business days following a month, an accounting entry called an "accrual" is made in SAP. After the accrual is made, several control processes take place such as calling the counterparty and validating the dollars and volumes of commodities transacted between counterparties (this is called "Checkout") and reconciling the ENDUR system to counterparty, pipeline and transmission provider invoice details. Once these final control procedures are finished a final entry is made into SAP and the accrual is reversed. These "after-the-fact" controls cannot take place until after the month of delivery and thus the booking of the final entries into SAP cannot take place until after the month of delivery. Performing controls to ensure amounts recorded are accurate is not considered an inadequacy of the SAP system that must be overcome.

The Division believes that the two GAAP departures proposed by the Company are reasonable. Removing estimates from the Trade accounts can be done with relative ease since these estimates are specifically tracked in SAP accounts. Further, the data that are left over after removing the estimates is what "actually" occurred[8]. For the Trade accounts, shifting the GAAP dollars back by one month is appropriate since the physical flow of energy relates to the month prior to the

[8] Slight differences may exist as is shown in Table 3 below.

SAP month. This adjustment is also easily made since all the EBA type costs and revenue amounts in the trade accounts are shifted backwards by one month.

Estimates Included in the EBA[9]

As stated above in the Company's response to DPU 3.1, SAP is the official system of record for FERC accounts 501, 503, 547 and 456.1. As such, the GAAP amounts for EBA type of costs and revenues are the same as the EBA amounts. There is no removal of estimates or shifting of GAAP dollars for EBA purposes with the exception of out-of-period adjustments which are discussed later. For the current EBA Deferral period, these accounts contain hundreds (if not more) of estimates and corresponding estimate reversals. An example showing how these estimates are booked and reversed is shown below.

Table 2 : Monthly Estimates in the EBA

Wheeling Revenue Accounting Entry	Oct-11	Nov-11	Net Revenue Included in EBA
Book wheeling revenue estimate for Oct	1,000,000		1,000,000
Reverse wheeling revenue estimate		(1,000,000)	(1,000,000)
Book "actual" October wheeling revenue		990,000	990,000
Total	1,000,000	(10,000)	990,000

As can be seen from Table 2 above, the ultimate amount booked to wheeling revenue is the "actual" amount although there is a difference in *when* the "actual" amount is booked. It is important to note however that in the example above, the net amount booked in October 2011 is very close to the "actual" booked in October 2011. Thus, although an estimate was booked in October 2011, it was close enough to the "actual" that the difference was immaterial. Even though the current structure of the EBA calculation includes monthly interest charges, the difference between the estimate and "actual" shown above would still have an immaterial affect on the EBA deferral balance. In fact, the net difference between estimates and actuals for all the NPC FERC accounts for the month of October 2011 would have to total $6.2 million just to create about a $50,000 impact on the EBA deferral balance. DPU Exhibit AR 3 shows how these amounts were calculated. In short, the Company's estimates would have to be drastically different than actuals in order to have a material effect on the EBA deferral balance.

As part of its audit, the Division investigated whether the differences between actuals and estimates were material. As can be seen in DPU Exhibit AR 9, such an analysis is not easily performed. The underlying data, whether accounting or otherwise, does not lend itself to easily

[9] Primarily FERC Accounts 501, 503, 547, 456.1. Occasionally there are estimates (different than those that are removed) booked to FERC accounts 447, 555, 565.

identifying what is an estimate and what is an “actual” value. In some instances several hundreds if not thousands of line items need to be reviewed. Nevertheless, the Division, in conjunction with Company responses to data requests, was able to prepare the following summary.

Table 3: Actual vs. Estimate Analysis Summary

Source:DPU Exhibit AR 9

FERC Acct	Notes	Oct-11	Nov-11	Dec-11	Total
Differences Between TORIS Accounting and TORIS Operations					
447 (Sales For Resale)	1	1,655	1,243	(2,898)	(0)
555 (Purchased Power)	1	(72,564)	530,138	(457,573)	0
565 (Wheeling Costs)	1	(92,139)	(32,315)	124,455	(0)
Differences Between Accruals/Estimates and Actuals/Amounts Invoiced					
456.1 (Wheeling Revenue)	2	215,670	(184,918)	(11,757)	18,996
547 (Natural Gas Consumed)	3	61,903	10	5,856	67,768
True-ups/Adjustments Booked in EBA Months					
501 (Coal Consumed)	4	(502,092)	(1,045,599)	(515,712)	(2,063,403)
547 (Natural Gas Consumed)	5	(259,114)	(61,687)	(171,390)	(492,191)

[redacted]

2) Differences between what was initially booked in an EBA month and what was billed the next month.

[redacted]

5) Gas consumed adjustments for Gasdby, Lakeside, Hermiston, Chehalis, Currant Creek booked in the EBA months shown above.

As can be seen from Table 3, the differences between actuals and estimates do not even come close to the $6.2 million difference needed just to yield a $50,000 adjustment to the EBA deferral balance. Attempting to remove estimates and shifting actuals to the correct month would add an additional level of complexity to an already complex EBA and yield minimal benefits in terms of EBA deferral balance accuracy. Again, the Division emphasizes that the estimates that are removed from the Trade accounts can be easily identified since the estimates are specifically tracked. For the rest of the estimates in the EBA, thousands of line items would have to be examined as there are no specific SAP accounts or subaccounts that only track estimates. Additionally, adjustments made to original accruals would have to be "pulled back" to the correct month. In some instances these adjustments come several months after the initial accrual. However, as noted in Table 3, the differences between actuals and estimates are very small. While the Company does normally prepare accrual-to-actual comparisons for the trade accounts, there are no regular reports that are created for wheeling revenue, coal costs and natural gas costs. Furthermore, with the exception of "occasional" estimates being booked to the trade accounts, estimates are already removed from these accounts. Undoubtedly the most complex category of costs to "get exactly right" would be coal consumed. A quick review of the Company's workpapers[10] used to calculate out-of-period adjustments for coal consumed will show the intense amount of effort required just to move adjustments and true-ups to the correct month. The Division has not found any evidence of the Company attempting to "game" the estimates in their favor. GAAP was not created to give a utility an unfair advantage in accounting for an EBA mechanism. In fact, reversing estimates and shifting actuals to the correct month could in fact favor the Company or the rate payer.

In summary, the Division accepts the Company's accounting methodology for the EBA. Although there are two departures from GAAP, these departures result in adjustments from GAAP that can be easily made and are done to more accurately reflect what actually occurred in a given month. The estimates that are left in the EBA are not easily tracked and removing them and shifting actuals to the correct month would add complexity to the already complicated EBA and yield very minimal benefits in terms of EBA deferral balance accuracy.

OUT-OF-PERIOD ADJUSTMENTS

The Division's Initial Comments identified out-of-period adjustments as an issue that would require further understanding. As part of its audit the Division reviewed data request responses regarding these out of period adjustments. The Company's response to DPU data request 5.1 in this docket states:

> The $862,261 reduction in actual NPC consisted of three components: out of period adjustments, buy-through adjustments, and coal cost adjustments.
>
> Out of period adjustments reduced actual net power costs by approximately $401,796 in the Deferral Period. These adjustments represent transactions accounted for in the Deferral Period but that related to operations prior to the existence of the EBA mechanism. Please refer to Confidential Attachment DPU 5.1 -1 for a list of the prior period adjustments included in the deferral period.

[10] See DPU Exhibit AR 11.

> The buy-through adjustment reduced actual net power costs by approximately $876,281 in the Deferral Period. This represents the cost of procuring replacement energy that is passed-through to special contract customers such as Monsanto and US Magnesium Corporation under a curtailment provision in their contracts. This adjustment was recently provided to parties as a modification to the Company's initial filing.
>
> Coal cost adjustments increased actual net power costs by $415,816. These represent the impact of aerial survey adjustments that related to prior periods, the removal of fines, penalties and associated legal fees, and the removal of other out of period adjustments related to coal. Please refer to Confidential Attachment DPU 5.1 -2 for the list of coal cost adjustments included in the deferral period.

Essentially, the Company attempted to identify dollars booked in the EBA deferral period that were related to operations prior to the EBA deferral period. These adjustments are necessary to get a "clean start" to the EBA [redacted] The Division verified these amounts in DPU Exhibit AR 1.[11] Based on the Company's descriptions of individual coal items in the Company's response to DPU 5.1[12] it appears these items are related to prior periods or are related to fines and penalties. The aerial survey adjustment comes from a coal pile flyovers/aerial [redacted]

Based on the Company's response to DPU 5.1 in this docket, it appeared that the Company had not performed an analysis related to out-of-period adjustments for accounts 547, 503 and 456.1. The Division requested such an analysis in DPU data request 24.1. The Company's response to that data request states:

> Due to the nature of the accrual accounting in accounts 503, 547, and 456.1, material prior period entries were not expected and a detailed review was not performed.

[11] See rows 87-130 in the "Reconciliations" tab.
[12] See "DPU 5.1 Out-Of-Period Fuel Cost" tab in DPU Exhibit AR 1.

> The Company's response to DPU Data Request 5.1 included all of the out of period adjustments identified by the Company in its initial filing. Furthermore, in DPU Data Request 24.2, the Company has identified two credit entries in account 547 that should be removed as prior period entries. Please refer to Confidential Attachment DPU 24.1 for prior period entries identified in account 456.1. The Company is not aware of any prior period adjustments in account 503 for the EBA deferral period.

Based on the response above and conversations with Company personnel, the Company appears to be drawing a line between "normal accounting" out-of-period events and "unusual" out-of-period events. In some (wheeling revenue) cases, the Company would not remove the true-up from October even though that amount related to an event prior to the EBA. In other cases (Trading accounts) the Company does appear to remove September 2011 operations that were booked in October 2011. Additionally, it does appear that if a true-up booked in October 2011 (or any EBA month) is related to an event several months before the start of the EBA, the Company would remove that amount from October 2011. In general, the Division believes the Company is not consistently applying the basic principle behind an out-of-period adjustment.

To accurately reflect actual monthly NPC, the Division believes that if an amount is booked in the EBA period, but related to an event prior to the EBA, it should be removed. Specifically, it appears to the Division that the Company did not adjust all prior period events for wheeling revenue (456.1) and coal consumed (501). The Division removed the "normal accounting" out-of-period adjustments from these two accounts. As noted previously, making prior period adjustments to coal consumed can be extremely complicated. It appears the Company has already accounted for the more complicated coal consumed out-of-period adjustments. However, in addition to the Company's adjustments, it is the Division's understanding that some "normal" coal true-up adjustments are volumetric based (tons of coal) and should also be removed from the EBA. The effect of the Division's adjustments to wheeling revenue and coal consumed as well as the two new adjustments identified by the Company in response to DPU 24.1 are shown in Table 4 below.

Table 4: Additional Out-of-Period Adjustments - CONFIDENTIAL

Identified by RMP in DPU 24 - (Dec to EBAC)/Inc to EBAC

FERC Acct	Note	Oct-11	Nov-11	Dec-11	Total
456.1	1	326,325	(67,219)	(266,804)	(7,698)
547	2	148,141			148,141
547	3	187,562			187,562
Total		662,027	(67,219)	(266,804)	328,005
Impact on UT EBA Deferral Balance					100,754

Identified by DPU - (Dec to EBAC)/Inc to EBAC

FERC Acct	Note	Oct-11	Nov-11	Dec-11	Total
456.1	4	188,232	(20,350)	(23)	167,859
501	5	538,542			538,542
Total		726,775	(20,350)	(23)	706,402
Impact on UT EBA Deferral Balance					216,841

Notes
1) Various
[redacted]
4) Various
5) Prior month coal consumed adjustment for all plants

The source of the values in Table 4 above can be found in DPU Exhibit AR 4. The wheeling revenue adjustments identified by the Division are mainly attributed to netting September 2011 estimate/accrual reversals and September 2011 actuals which were both included in the October 2011 EBAC. These adjustments increase the December 2011 EBA deferral balance by $317,595. The calculations for calculating this impact are shown in DPU Exhibit AR 6: EBA Calculations Summary. It should be noted that while the estimate/accrual reversals in account 456.1 are fairly simple to identify, the Division did have to make an assumption about how to identify the September actuals booked in the EBA deferral period. [redacted]

The Division notes that these out-of-period adjustments are probably better characterized as "prior to the EBA" adjustments. The Division is not concerned with removing estimates, estimate reversals and shifting actuals to the correct month on a going forward basis[13] (starting with October 1, 2011) since ultimately the effect on the EBA deferral balance will be related to interest charges. These charges are expected to be minimal and are not expected to specially favor either the rate payer or the Company in the long run.[14] While still relatively small, "prior to the EBA" adjustments do have a more material affect as can be seen in Table 4 . The Division also notes that if the EBA is discontinued at a future date, similar types of adjustments will need to be made to the last EBA month since post-EBA months will likely contain true-ups or accrual reversals and bookings of actuals related to operations or events during the EBA period.

TYPES OF COSTS INCLUDED IN ACTUAL EBAC

In order to insure the types of costs and revenues included in actual EBAC are the same types of costs included in the general rate case filings GOLD report or GRID, the Division examined the EBA accounting data as provided in FR 5-1. The preferred review method would be to examine a large sample from the population of the actual EBA accounting data. However, given the time constraints afforded the Division in this review, a limited judgmental sample was reviewed. The Division developed a basic understanding of the types of costs included in the Company's NPC forecast or GRID model and tied these costs back to the EBA accounting data. Overall, the Division was able to verify that the sampled cost types included in the EBA accounting data match the types of costs included in the Company's NPC forecast. At this time we feel that an appropriate review has been conducted given the time and scope limitations.

LOAD DIFFERENCES

During the initial review process, the Division became aware of load differences within the Company's filing. In Mr. Dickman's work papers, the actual MWh identified in tab 3.5 and the actual MWh identified in tab 6.1 are different for each month under review. While the values are different, there is no impact to the final EBA calculation. The Company has provided an explanation for the variation between the two reports and the Division is satisfied that the cost per MWh value used to calculate the EBA is consistent with the calculation used to establish the base cost per MWh.

The cost and MWh information included in tab 3.5 comes from the Net Power Cost (NPC) report[15] which is provided approximately 45 days after each month. This report includes the greatest amount of detail concerning the MWh attributable to each individual contract; however, the MWh portion of this report includes both metered and scheduled load information. The

[13] Except for those already discussed previously in accounts 447, 555 and 565 that are booked directly into SAP.
[14] See previous discussion regarding the use of estimates in the EBA.
[15] This report is formatted similar to the "GOLD" reports provided in general rate cases.

Company has explained that as part of the system balancing process, there are "inadvertent differences" between the scheduled load amounts and the actual metered loads with some months being higher and others lower. These inadvertent differences are regularly monitored and follow specific FERC guidelines. Adjustments to the GRID format of NPC dollar and MWh values are identified in tab 3.4. After adjustments, the total MWh value in tab 3.5 was 23,789 lower than the metered amount used in the EBA calculation.

The MWh information presented in tab 6.1 is a summary of the monthly energy and coincident peak information for each state and is based on metered jurisdictional loads at input.[16] Information for this report does not provide the individual contract detail and this load information is not available until approximately 60 days after month end. The EBA calculation uses the metered load information from 6.1 to calculate the actual cost per MWh. The same load data is used to calculate the Utah jurisdictional loads and in calculating the SE and SG allocations factors. A forecast of the same jurisdictional load was used to establish the base price per MWh when the EBA was initiated.[17]

The Division's original comments in the EBA included Confidential DPU Exhibit 4 (Revised Dickman Workpapers). After discussions with the Company, it was determined that the calculations are correct however the titles and descriptions in the Load Differences tab should be corrected. A corrected version of this exhibit has been included in DPU Exhibit AR 12:Revision to Load Differences Tab.

GP CAMAS ADJUSTMENT

In the EBA filing the Company has made an adjustment to FERC Account 555 to include purchased power expenses in the Accounting EBAC for GP Camas or James River Paper Company. This adjustment to Accounting EBAC dollars is needed since the GP Camas expenses are included in base NPC amounts. PacifiCorp receives rental revenues from GP Camas based upon the Company's lease of the generating plant at the mill site to GP Camas. The revenues associated with GP Camas or James River are not included in Base NPC but they

[16]Response to DPU DR 25.2 - The data in tab 6.1 comes from the Jurisdictional Load System (JLS). In the JLS calculation, the load is a calculation of interchanges, borderlines, generation, and scheduled losses. Each interchange point is added into the calculation. An interchange point is a metered point between two control areas. Power moving into the control area adds to the load; power moving out of the control area subtracts from the load. Each borderline point adds to the calculation. A borderline can be inside or outside the control area. Inside our control area, a borderline consists of a third party load (UAMPS, UMPA, etc). Outside our control area, a borderline consists of PacifiCorp load in another control area. Borderline meters outside our control area are added to the load; borderline meters inside our control area are subtracted from the load. All generation is metered and adds to the load calculation. Losses that are scheduled to other control areas to cover PacifiCorp losses outside PacifiCorp's control area are added to the load. Losses that are scheduled to PacifiCorp to cover others' losses on PacifiCorp's system are subtracted from the load.
[17] Docket 10-035-124, Testimony of Steven R. McDougal, SRM-2R, page 11.17

are included in general rate case filings.[18] Since these revenues are not included in Base NPC it would not be appropriate to include them in Actual NPC.
Furthermore, the treatment of these rents in NPC is consistent with the Division's view on wheeling revenues.[19] Wheeling revenues are rents the Company receives on its transmission system. The Division believes the Company has accounted for the expenses and revenues for the GP Camas contract correctly and does not believe that the definition of NPC should be expanded to include rents on facilities. Even if the definition of NPC were to be expanded, it would have to take place in a general rate case since that's where Base NPC are set.

ACCURACY OF ACTUAL EBAC

As part of its audit, the Division desired to gain reasonable assurance that the costs and revenues presented in the EBA were in fact complete, in existence, and accurate. The process used to obtain this assurance consisted of four principle tasks:

1. Gain an understanding of and perform a review of PacifiCorp's Internal Controls.
2. Produce or request reconciliations between Accounting EBAC and other NPC reports or data extracts.
3. Review PacifiCorp's "Check-out Summary" Reports.
4. Review of Supporting Documentation for a Sample of Transactions.

While performance of these tasks lead to an assurance that EBAC for the deferral period are presented fairly (accurately) there are still some outstanding questions that need to be answered particularly with regards to task number 4 above.

Internal Controls

Purpose of Internal Control Review and Risk Assessment

The Division obtained a sufficient understanding of internal control so that it could assess the risk of material misstatement of the financial information in the EBA, due to error or fraud and to assist in designing the nature and extent of further EBA review procedures. It was deemed unnecessary to determine if all controls were being used as documented and designed because to do so would be time prohibitive. Rather, the Division focused on those key controls that were most relevant to the EBA review and that were highlighted in RMP internal control documentation.

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[18] RMP General Rate Case Docket 11-035-200, McDougal Exhibit SRM-3, page 5.2
[19] RMP ECAM Docket 09-035-15, Peterson Exhibit 3.0SR (Confidential), October 13, 2010, page21, lines 454 - 463

Based on a review of internal controls, the risk of material misstatement can be determined to be low, moderate or high. This determination is important because as the risk of material misstatement increases the quantity and quality of necessary review evidence from substantive procedures also increases. The higher the assessment of risk, the more reliable and relevant review evidence from substantive testing procedures needs to be. Substantive procedures can include procedures such as confirmations, inspection of documents (those that support recorded transactions or amounts and also tracing source documents to the amounts in the accounting records), recalculation and inquiry.

<u>Internal Control Review Procedures</u>

The internal controls for the EBA were reviewed to determine that such controls had been established and are operating effectively.

The Division met with Company personnel and spent a day reviewing their internal control procedures specifically relating to the EBA class of transactions. The EBA has three major transaction classes or cycles. They are Fuel, including fuel cost related to 100% owned or partially owned coal mines, Commercial and Trading or Energy Trading (C&T), and Wheeling or Transmission revenue. At the meeting, the Company provided a confidential binder containing their internal control narratives for Fuel and C&T. Transmission revenue internal control narratives were obtained later on in the review process. The Divisions was also given copies of the self assessment process for Fuel/Mines and C&T.

The Division was also given for review highly confidential RMP policy and procedure manuals for Pacific Minerals, Inc. Purchasing & Materials Management; Energy West Mining Company Purchasing and Material Management; Corporate Governance and Approvals Process and Pacific Energy Commercial & Trading Risk Management Policy.

The Division reviewed, at the RMP offices, highly confidential RMP internal auditor reports on their review of key internal control procedures. The internal auditors work was done to make sure that internal control procedures were implemented and being followed. The internal audit testing reviewed by the DPU covered all key internal control procedures for Energy Trading numbering [redacted] and coal inventory numbering [redacted]

[redacted]

As stated above, due to time constraints, only the key controls were reviewed for implementation and if they were being followed. Wheeling or transmission revenue had no key controls and thus no internal audit work for verification of implementation and use were performed in this transaction class or cycle.

The Division has read all the internal control procedures narratives provided by the Company related to the EBA and the documentation supporting the internal auditor reports on its audit of key controls as explained above. The quality of the support and documentation in the internal auditor's work papers was such that the Division could rely on their work to derive an opinion on whether or not controls had been established and were operating effectively.

Internal Control Review Conclusions

Based on the review of the Company's Internal Control, the Division has determined that internal controls have been established for the EBA and are operating effectively. Given this assessment, in conjunction with the external auditor's and management's opinions expressed on internal control in the Company's latest 10K report, the Division was able to assess the risk of material misstatement due to error or fraud. The Division concluded that the risk of material misstatement is low. The risk assessment did not show or indicate the need for a detailed substantive testing of any specific EBA transactions in any area would be necessary due to a determined high risk of error or misstatement. Although this review of internal control did not "raise any flags" as to where risks of misstatements may exist, the Divisions still conducted various substantive procedures to assess whether the amounts presented in the EBA are correct.

Reconciliations

One of the substantive procedures performed consisted of several reconciliations between various reports, data request responses, filing requirement data and EBAC Accounting data. These reconciliations were deemed necessary in order to verify that transactions contemplated in these data did in fact flow through to the EBA properly. A second reason for these reconciliations was to gain a better understanding about how the various NPC systems relate to each other. A third reason for performing these reconciliations was to understand the population of transactions from which to select a sample for further testing. The following reconciliations were performed and are shown in DPU Exhibit AR 1 (EBA Accounting Reconciliations)[20] as well as DPU Exhibit AR 5 (Actual vs Accrual Report) and DPU Exhibit AR 13 (10K and Semiannual Reconciliations)

1. FR 1-1 Revised (Gas Physicals) vs Accounting EBAC (FR5-1/DPU 2.1)
2. FR 1-1 Revised (Gas Swaps) vs Accounting EBAC (FR5-1/DPU 2.1)

[20] Reconciliation items 1-9 can be found in the "Reconciliations" tab in DPU Exhibit AR 1. Items 10-11 can be found in DPU Exhibit AR 13. Reconciliation item 12 can be found in DPU Exhibit AR 5.

3. FR 1-1 Revised (Power Swaps) vs Accounting EBAC (FR5-1/DPU 2.1)
4. FR 1-2 (Power Physicals) vs Accounting EBAC (FR5-1/DPU 2.1)
5. Actual NPC (Dickman 3.5) vs Accounting EBAC (FR5-1/DPU 2.1)
6. Adjusted EBAC in Dickman's Revised Exhibit 1 vs Accounting EBAC (FR5-1/DPU 2.1)
7. Bookout Details (UIEC 7.10) vs Accounting EBAC (FR5-1/DPU 2.1)
8. TORIS Reports (DPU 12) vs Actual NP (Dickman 3.5)/Accounting EBAC
9. Fuel Data by Plant (DPU 12) vs Actual NPC (Dickman 3.5)/Accounting EBAC
10. PacifiCorp 10-K vs Accounting EBAC
11. PacifiCorp 10-K vs Semiannual Report
12. Accrual to Actual Report vs Accounting EBAC

With two small exceptions, the Division found that the various documents referred to in the list above did reconcile with the Accounting EBAC. During this reconciliation process, the Company identified a variance between the power physical data in FR1-2 and the power physical data from TORIS contained in DPU data request 12.1. Since the source of both documents is ENDUR, the data should be the same. [redacted]

The second reconciliation issue more involves O&M costs at a high level rather than directly with the EBA. As noted in the list above, the Division sought to reconcile the Company's EBA filing with the Company's December 31, 2011 SEC Form 10-K (10-K) and also the annual results in the Company's Semi-Annual Report to the Commission of the same date (Semi-Annual). In response to a Division data request[21] the Company provided a detailed list of transactions that it referred to as "GAAP Detail," and detailed spreadsheets that reconciled the FERC accounts used in the EBA to the Semi-Annual.

The GAAP Detail transactions included FERC account numbers, dollar amounts, a brief description of the transaction, and whether or not it was classified as "revenue," "energy costs," "O&M," of "other." The "other" transactions netted out to zero, and appear to be balancing transactions primarily with BPA. The GAAP Detail tied exactly to the 10-K for revenue and energy costs, but gave an amount that was approximately $1 million higher for O&M than is shown on the 10-K. This discrepancy in the O&M costs is not considered material for the purposes of this EBA audit since it is not related to NPC; but it is something that the Division plans to investigate further.

[21] Data Request Set 10. (See DPU Exhibit AR 13)

The Company provided transaction detail that reconciled FERC fuel accounts to the Semi-Annual. The FERC accounts in this detail are 501, 503, and 547. The Division examined the relationship of the GAAP Detail transactions to the transactions provided in this fuel accounts detail. The Division had no difficulty reconciling FERC accounts 503 and 547 to the GAAP Detail. However, the Division encountered problems with account 501. First there was a difference of approximately $49 thousand in the NPC Subtotal between the GAAP Detail and the Company's reconciliation schedule. As with the O&M issue described above, this exception is considered non-material, but is something the Division will look into further. The Division was not able to reconcile the "Non-GRID FERC Accounts" adjustment with the GAAP Detail. Although, perhaps, not important from strictly an EBA perspective, the Non-GRID FERC Accounts adjustment for Account 501 differed from the GAAP Detail along two dimensions. First, the GAAP Detail suggested that this adjustment should amount to about $16.24 million compared to the actual Non-GRID FERC Accounts adjustment of $20.98 million—a difference of $4.74 million. The Division considers this difference to be material. Second, while the Division could match up a number of the transactions in the detail for the Non-GRID FERC Accounts adjustment with the GAAP Detail, the majority of the transactions did not match. This difference does not result in an EBA adjustment at this time, but the Division intends to continue its investigation in order to understand why these differences are occurring.

The Division believes that these two reconciliation issues, one of which is not directly related to the EBA, do not warrant an EBA adjustment at this time. The Division is seeking further clarification on the TORIS classification issue mentioned previously. The Division plans to comment on these issues later on in rebuttal testimony.

<u>Checkout Summary Report</u>

During the Division's review of PacifiCorp's internal controls, the Division became aware of a Company report that is produced monthly and relates to the verification of "buys" and "sales" with other counterparties. This report is in an Excel format and shows the purchases and sales reported by PacifiCorp and the respective counterparties. The purchase and sales amounts are compared and any differences are identified. PacifiCorp personnel go through each counterparty line item and initial each line once the checkout is complete. This Excel file shows differences between PacifiCorp and the counterparty. If differences exist, they are investigated by the Company. The Division reviewed the December 2011 End of Month Checkout summary to see if there were any material differences between PacifiCorp and the counterparties. [redacted]

<u>Review of Supporting Documentation Related to Trade Data and Natural Gas Transactions</u>

The Division selected a sample of transactions for review from the trade data provided in FR1-1 and FR1-2. FR 1-1 and FR1-2 provide trade data related to four types of costs; power physicals, power swaps, gas physicals and gas swaps. The sample was developed by randomly selecting a manageable number of transactions. For each transaction type, the random sample was chosen by using the Microsoft Excel random number generator function to assign a number code to each unique deal number corresponding to post-July 28, 2011 transactions. The Division selected a pre-determined number of deal numbers in each category (gas and power physicals) by choosing deal numbers with (arbitrarily) the highest randomly-assigned number code. All transactions associated with those deal numbers became the Division's sample. Table 5 below provides the selected sample of transactions that were reviewed in further detail. This is the same sample discussed in the testimony of Mr. Richard Hahn.

Table 5: Sample of Transactions

[redacted]

Materials relevant to our review were found in the 20th set of Discovery Responses from the Division to the Company. The results of the Division's review are shown in the matrix below.

Table 6: Supporting Documentation Matrix

	Gas Swaps	Gas Physicals	Power Swaps	Power Physicals
1) Were transaction confirmations provided for all the selected transactions?	Yes	No (1)	Yes	No (2)
2) If confirmations were provided, do the amounts shown on the confirmrations tie to FR1-1 and FR 1-2?	Yes	N/A	Yes	N/A
3) Were invoices provided for all of the selected transactions?	Yes	Yes	No (3)	No
4) If invoices were provided, do the amounts shown on the invoice tie to FR1-1 and FR1-2?	Yes	No (4)	Yes	No
5) Were base agreements provided in support of all the selected transactions?	Yes	Yes	Yes	Yes

Notes:
1) The Company's response to DPU 20.9 states "The 25 gas physical transactions referenced above in the DPU's request are daily trades. The Company does not generate transaction confirmations for daily trades."
2) The Company's resposne to DPU 20.11 states, "The 50 power physical transactions referenced above in the DPU's request are daily trades. The Company does not generate transaction confirmations for daily trades."
3) It appears the supporting documentation for one of the line items was inadvertantly duplicated and made to represent one of the other transactions.
[redacted]

As shown in the matrix above, the majority of the transactions selected by the Division did have sufficient supporting documentation. However, there were significant issues with the power physical supporting data. Of the 50 power physical transactions selected, 11 did not have supporting invoices. Of the 39 transactions that did have invoices, 17 had deficiencies regarding information that tied back to FR 1-2. Deficiencies included but were not necessarily limited to the following:

1) PacifiCorp invoices not matching counterparty invoices.

2) No invoice numbers (start time, end time, transaction date, MWh, dollars etc) match the transaction numbers shown in FR 1-2.

3) No transaction dates on invoices.

DPU Exhibit AR 8 includes a full description of the deficiencies found. If there is a way to reconcile the differences observed by the Division the Company has not provided it. While the Division is not proposing a specific adjustment at this time, the Company should provide explanations for the deficiencies observed.

Coal Costs

In addition to requesting supporting documentation for trade data, the Division also requested documentation to support a selection of coal costs. The following coal costs were selected for testing:

1) Hunter Plant (October 2011)
2) Jim Bridger Plant (December 2011)
3) Carbon (December 2011)

The Hunter plant was selected for a few reasons. First, the coal cost calculations for this plant are probably the most complex given the use of the prep plant and several coal suppliers. Second, Hunter coal costs were approximately 20% of the total coal costs during the EBA period. The Jim Bridger Plant was selected because the coal costs are calculated differently from most other plants due to the Bridger Mine being partially owned by the Company. The Carbon plant was a random selection. The specific months chosen for these plants was also randomly selected.

The Division requested the supporting schedules and invoices used to calculate the coal cost figures included in the EBA. The Division also arranged a meeting in which the Company explained how various numbers flow through the supporting schedules and into the EBA. The schedules provided are fairly complex and the Division's review was limited to the following tasks:

1) Gain a general understanding for how coal consumed costs are calculated
2) Trace the dollar amounts on the provided invoices to the "true-up" worksheets provided by the Company. These worksheets show the coal received amounts and transportation costs originally booked (estimated). The actuals (based on the invoices) are then compared to the estimates and if needed a "true-up" adjustment is made in the current month.
3) For the Bridger plant, tie the Bridger Coal Company coal received dollars through to the revenues shown on the Bridger Coal Company income statement
4) The monthly estimated coal consumed figures were traced through the supporting spreadsheets.

While this process is very detailed and complex, the Division was able to follow the supporting documentation and match the invoice and adjustment amounts with the values represented in the EBA. For the December 2011 Bridger coal costs, the Division was able to trace the Bridger Coal Company coal received dollars back to the revenues shown on the Bridger Coal Company operating statement.

Bookouts

During the audit, the Division became aware of Accounting EBAC line items called “Bookouts.” The Company’s response to UIEC 6.15b states:

> During the prescheduling process, transactions eligible to be booked out are identified. These are transactions at the same point of delivery, with the same delivery time and consist of a purchase and a sale with the same counterparty or group of counterparties. Agreement is reached with the counterparties to book out the matching transactions.

With regards to how Bookouts affect the EBA, the Company’s response to DPU 18.1 states:

> It is important to note, however, that the bookout netting entries have zero impact on net power costs. The bookout netting entries just reclassify some purchase and exchange transactions from account 555 to account 447 or visa versa and thus have no net impact on the total of the two accounts. The entry is done to avoid grossing up revenues and expense on the income statement for transactions that do not go to physical delivery. The impact on gross margin and net power costs is zero. If these bookout netting entries were to be removed from the rate case filings it would have zero impact on net power costs.

The Division verified that bookouts do have a net impact of zero on the EBA. This verification can be seen in the “Reconciliations” tab of DPU Exhibit AR 1: EBA Accounting Reconciliations.

PRUDENCY OF EBAC

The Division contracted with La Capra Associates to review and provide recommendations and testimony on certain aspects of the Company’s EBA filing. Specifically, La Capra was assigned to ascertain whether the actual costs included in the EBA filing were based upon the Company following its stated policies and procedures, were prudent, and were in the public interest. The investigation of whether or not the various NPC items were properly booked was primarily the responsibility of the Division’s in-house staff. The results of La Capra’s investigation are reported to the Division through the direct testimony of Richard S. Hahn. Mr. Hahn’s testimony is included in this audit report by reference.

La Capra's investigation focused on determining the prudence of the Company's purchases and sales of natural gas, electric power, wheeling revenue and wheeling expenses. Because of the Stipulation entered into by the parties in the general rate case Docket No. 10-035-124, La Capra's review of natural gas and electricity swaps was limited.[22]

The primary conclusion reached by La Capra is that PacifiCorp has not provided sufficient supporting documentation and explanation regarding the purposes of the NPC transactions it entered into that resulted in the variance between the base NPC and the actual NPC. Therefore, La Capra states that it could not determine the prudence of the transactions from the documentation provided. Mr. Hahn summarizes his testimony as follows:

- **<u>Based upon the concerns identified below and later in this testimony, I cannot yet recommend that the Commission allow the requested recovery of the EBA deferral amount. The Company should be afforded the opportunity to address the issues identified in this testimony. My recommendation regarding the appropriate amount to be included in rates will be developed after review of the Company's response.</u>**
- The explanation provided in the Company's direct testimony regarding the variance between actual and forecasted net power costs does not adequately explain the reasons for actual net power costs being higher than forecast.
- Based upon the status of my review to date, I cannot agree that these costs underlying the variance were prudently incurred. The Company should provide greater in-depth analysis of this variance that addresses the issues raised in this testimony.
- The Company should also provide more information regarding certain plant outages that were in effect during Q4 2011. Additional review and analysis should be performed to determine whether these outages were the result of prudent actions.
- I reviewed a sample of the four types of transactions for which data were provided in the filing requirements: physical purchases/sales and financial swaps for both power and gas. The review was limited because the Company did not provide the specific reasons for entering into these transactions. Later in this testimony, I identify certain additional information or justification that should be provided for some of these transactions.
- Based upon my review thus far of wheeling revenues or costs, I have not identified any concerns that would cause me at this time to propose any changes in the EBA deferral amount due to lower than expected wheeling revenues or costs.
- Lastly, I identify additional information that should be provided in future EBA filings. Having this additional information at the time of filing will greatly facilitate future reviews and assessments.

[22] Generally, in the Stipulation the parties agreed that swaps entered into prior to July 28, 2011 would not be subject to prudence reviews (see paragraph 54 of the Stipulation).

The Division also notes that while the Sufco contract was generally reviewed at a high level, a more detailed review of this contract is needed to facilitate an opinion on whether or not the contract was negotiated prudently by the Company. The Division anticipates a more in depth review of coal contracts in the next audit.

CONCLUSION

Based on the Division's audit there a few small changes that should be made to the EBA deferral balance. These small adjustments relate to the out-of-period events discussed previously. These adjustments increase the EBA deferral balance by $317,595. If the Company cannot explain the variance between FR1-2 and the TORIS data an additional adjustment may be warranted. From an EBAC accuracy perspective, the Division believes additional documentation needs to be provided to support the power physical transactions.

The Division agrees with and supports Mr. Hahn's conclusions and recommendations. The Division believes that the Company should be afforded a specific time frame in which to remedy its EBA filing with the additional supporting data recommended and required by the Division and its consultant, La Capra, before a final determination of any rate adjustments through the EBA is made by the Commission in this docket.