ENERGY BALANCING ACCOUNT AUDIT FOR ROCKY MOUNTAIN POWER FOR CALENDAR YEAR 2012

La Capra Associates

Docket No. 13-035-32

Technical Report

PUBLIC EXECUTIVE SUMMARY

PREPARED FOR

Division of Public Utilities
State of Utah

PREPARED BY

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I. EXECUTIVE SUMMARY

On March 15, 2013, Rocky Mountain Power ("RMP" or the "Company") filed a request to increase its rates to collect $17.4 million to reflect Energy Balancing Account ("EBA") activity in calendar year 2012. The Company's request represents the differences between EBA costs incurred in calendar year 2012 and Base EBA costs in effect during that time. This requested amount to be recovered is in addition to the $60 million to be collected over three years starting in June 2012, covering EBA activities through September 30, 2011 and the $7.8 million to be collected over two years starting in March 2013, covering EBA activities in the fourth quarter of 2011. All of these amounts represent the Company's 70% of Utah's share of the EBA deferral.

La Capra Associates was retained by the Division of Public Utilities for the State of Utah ("Division" or "DPU") to assist in reviewing the Company's application. The scope of our assignment was to ascertain whether the actual costs included in the EBA filing were incurred pursuant to an in-place policy or plan, were prudent, and were in the public interest. This report presents the results of and the conclusions from that review. This review was similar to that performed for the Company's application to increase rates through the EBA for EBA costs incurred at the end of 2011 presented in Docket No. 12-035-67. This executive summary does not contain any Confidential or Highly Confidential information. The remainder of this report does contain significant amounts of Confidential and Highly Confidential information provided by the Company, and it explains the basis for our conclusions. The full report can be provided to parties that have signed the appropriate confidentiality agreements for receiving Highly Confidential material.

Our first task was to review the variances between EBA actual and forecasted costs to determine that any differences that are reflected in the requested EBA charge are reasonable. Here we compared actual output and variable costs for each generating unit versus the forecasted amounts. We also examined purchases and sales from a similar perspective.

We reviewed the material provided by the Company to explain the variances between actual and Base EBA costs. We find these explanations to be reasonable, and recommend no adjustment to EBA costs because of these variances.

The second task was to review and assess actual plant outages to ensure that these outages and their cost impact on the EBA charge is appropriate. We examined the information provided as part of the filing, and conducted additional discovery.

Regarding plant outages, we believe that one outage was avoidable, and recommend that the replacement costs associated with this outage be removed from the EBA. Other outages resulted in the Company receiving damage payments from contractors that have not been included in the EBA. We recommend these damage payments be used to offset replacement power costs incurred when these units were out of service. The total reduction in total system costs for these outages is $1,474,004, resulting in a reduction in the recommended EBA deferral amount of $449,930. We recommend no adjustments to EBA costs due to other outages.

The next assignment was to evaluate a sample of trading transactions for accuracy, completeness, and prudence. From a workload perspective, this task constituted the largest component of our audit. The Company has settled tens of thousands of transactions during 2012, consisting of power and natural gas financial and physical deals. We developed a sample of 110 broadly-representative transactions and conducted extensive discovery on these transactions. We also met with Company personnel in person and via conference calls to help ensure that our review of this data was accurate and complete. We did visit the Company's trading headquarters in Portland, OR to meet trading staff and witness how specific transactions were consummated.

Our review of power financial transactions yielded one small transaction that exceeded the trader's limits under the Company's governance policies. We recommend a disallowance of $33,635 in total Company EBA costs resulting from this transaction, resulting in a reduction in the recommended EBA deferral amount of $10,012. Despite this recommended disallowance, we note that it may have been more if not for some relatively rare and exemplary documentation for some of the more recent trades. Such documentation is to be expected for any significant hedging transactions but seems to be relatively rare for transactions settling in the EBA period.

In our review of gas swap transaction, we identified certain deals that were not properly authorized under the Risk Management Policies in effect at the time. Based upon this analysis, we recommend that 2012 actual EBA costs be reduced by Utah's share of trading losses associated with non-standard transactions that extended beyond the time frame allowed by the contemporaneous Risk Management Policy. Though system-wide losses associated with transactions in violation of this policy could range from $9.3 million to $84.0 million, depending on interpretation of the policies, we recommend disallowance of $25.5 million in natural gas swap losses. Utah share of this $25.5 million loss is approximately $11.2 million, and the 70% Company share of this, plus interest, is $8.0. Thus, we recommend that the 2012 EBA deferral amount be reduced by $8.0 million.

Our review of gas and power physical transactions yielded no recommended adjustments to EBA costs.

DPU staff requested that we evaluate a sample of coal contracts. After discussion with Staff, it was decided that the SUFCO coal contract would be reviewed. We reviewed the contract language, conducted discovery, and analyzed cost data provided by the Company and publicly available data. Based upon our review, we find no basis upon which to adjust the requested 2012 EBA amount requested due to the SUFCO coal contract.

Our final task was to evaluate reasonableness of Policies, Procedures, and Practices, and the Company's adherence to these Policies, Procedures, and Practices. Our focus for this task was to review these documents as they affected the trading transactions described above.

Overall, we find the Company's current Policy and FOPP to be reasonable. These documents reflect the input of external stakeholders provided to the Company through a collaborative process. They contain the core provisions necessary to help ensure that trading activities are carried out in a manner that complies with codes of conduct and maintains the risk exposure to the Company at acceptable levels. In our audit, we did identify certain transactions that we believed were not in compliance with the then-effective Policies and FOPPs. These are described in detail in this report. While relatively small in number compared to the total volume of deals the settled during 2012, there were significant impacts on EBA costs. We recommend adjustments, as discussed below, to 2012 EBA costs because of these instances of non-compliance. In implementing future hedging programs, such instances of non-compliance should be minimized or eliminated.

In summary, we believe that system-wide EBA costs should be reduced by $27.0 million. Utah's approximate share of this reduction in $11.8 million. Based upon the 70% / 30% sharing formula and the monthly interest accrued through December 31, 2012, the amount to be recovered by the Company should be reduced by $8.5. We recommend that the Commission approve $8.9 million of the total $17.4 million EBA recovery requested by the Company. The calculation of EBA deferral amounts are shown in Confidential Exhibit DPU 2.4, and summarized in Figure ES-1 below.

Figure ES-1 [1]

RECOMMENDED EBA DEFERRAL ADJUSTMENT SUMMARY

Outage	Total Company NPC Reduction	Utah-Allocated NPC Reduction	EBA Deferral Adjustment
Outage A	$ 227,000	$ 94,521	$ 69,723
Outage B	$ 278,210	$ 125,232	$ 90,551
Outage C	$ 163,946	$ 69,196	$ 48,801
Outage D	$ 804,558	$ 339,814	$ 240,855
Sub-total - Outages	**$ 1,473,714**	**$ 628,763**	**$ 449,930**
Power Financial Transactions	**$ 33,635**	**$ 14,196**	**$ 10,012**
Natural Gas Financial Transactions	**$ 25,532,300**	**$ 11,160,235**	**$ 8,037,120**
TOTAL	**$ 27,039,649**	**$ 11,803,194**	**$ 8,497,062**

1 Confidential Hahn Workpaper 10.