ENERGY BALANCING ACCOUNT AUDIT FOR ROCKY MOUNTAIN POWER FOR CALENDAR YEAR 2013

La Capra Associates

Docket No. 14-035-31

Technical Report

PUBLIC EXECUTIVE SUMMARY

PREPARED FOR

Division of Public Utilities
State of Utah

PREPARED BY

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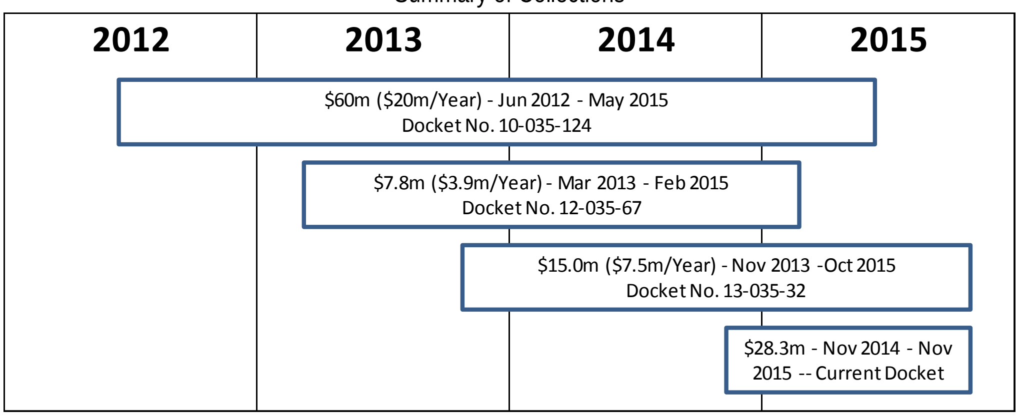
July 29, 2014

I. EXECUTIVE SUMMARY

On March 17, 2014 Rocky Mountain Power, a division of PacifiCorp ("RMP" or the "Company"), filed a request to increase its rates to collect $28.3 million to reflect Energy Balancing Account ("EBA") activity in calendar year 2013. The Company's request represents the differences between EBA costs incurred in calendar year 2013 and Base EBA costs collected in rates during that time, along with interest accrued through October 2014. It also includes a $1.1 million credit for additional wheeling revenues pursuant to a recently concluded FERC rate case. This requested amount to be recovered commencing November 1, 2014 is in addition to other amounts being collected pursuant to Dockets 10-032-14, 12-035-67, and 13-035-32. Figure ES-1 below is an excerpt from the Company's direct testimony showing the amounts being collected. All of these amounts represent the Company's 70% share of the Utah-allocated EBA deferral.

Figure ES-1

Summary of Collections



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 and calendar year 2012 presented in Docket No. 13-035-32. This executive summary does not contain any confidential information. The remainder of this report does contain significant amounts of 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 non-disclosure agreements for receiving material deemed to be confidential by the Company.

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 adjusted 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 there were two plant outages in 2013 that could have and should have been avoided. We recommend that the EBA be adjusted to reflect what costs would have been had these outages not occurred. The total reduction in total system costs for these outages is $9.1 million, resulting in a reduction in the recommended EBA deferral amount of $2.8 million. We recommend no adjustments to EBA costs due to other outages at this time.

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 2013, consisting of power and natural gas financial and physical deals. We developed a sample of 83 broadly-representative transactions and conducted extensive discovery on these transactions. We built on knowledge gained from similar review in previous EBA cases, including a 2013 visit to the Company's trading headquarters in Portland, OR to meet trading staff and witness trading activity. We also met with Company personnel via conference calls to help ensure that our review of this data was accurate and complete.

When La Capra Associates was selected in 2012 to assist the Division in reviewing EBA costs for 2011, 2012, and 2013, one of our objectives was to impart some of our expertise to Division Staff. This would facilitate Staff's reviews of future EBA assessments. We believe that we have made considerable progress on this goal. As a result, we shared the review of our 2013 sample transactions with Staff. Specifically, certain transactions were assigned to Staff for its independent review and analysis, and La Capra Associates reviewed and analyzed the rest of the sample deals. This report summarizes the results of our review of the transactions assigned to La Capra Associates. Division staff will be issuing its own report summarizing the results of its review. Thus, the result contained in this report should be considered as supplementing the work done by Division Staff.

Between 2008 and 2013, the Company engaged in tens of thousands of transactions on a system-wide basis for natural gas and electricity that settled in the 2013 EBA period. The costs or proceeds of these transactions flow through into NPC. Transactions fall into three general categories: hedging, system balancing, and other. Transactions can also be classified as either physical or financial depending on whether physical delivery is involved.

Of the 83 transactions in our sample, 58 were hedging transactions. Division Staff reviewed 27 of these sample hedges, and the review of the remaining 31 sample hedges is covered in this report. Our review focused on verifying that all transactions conform to the corporate governance and risk management policies in effect at the time each trade was executed, and that the transactions are shown to be reasonable and prudent. Our review was subject to settlement stipulations reached by parties in the 2011 GRC (Docket No. 10-035-124) and the 2013 EBA Review (Docket No. 13-035-32).

Our review of hedging transactions yielded a pair of gas financial transactions that were executed on the same day, with the same counterparty, for the same product. The combined value of the deals exceeded the trader's authorized trading limits, and no management authorization was shown. We recommend a disallowance of $847,600 in losses from these deals, resulting in a reduction in the requested EBA deferral amount of $281,832.

In reviewing our sample hedge transactions, we considered a threshold element of demonstrating prudence to be whether the Company could provide a strategic purpose for doing a particular deal at a particular time. There were several "discretionary trades" in our sample for which the Company provided no specific reason or purpose for executing the trade. We define "discretionary trades" as trades that are not required to correct an excursion of a binding policy limit. Four of the discretionary trades for which no specific reason was given resulted in losses totaling $5,907,486. We recommend a disallowance of losses resulting from these trades that have not been shown to be prudent, resulting in a reduction in the requested EBA deferral amount of $1,925,002.

The remaining 25 transactions in our sample were non-hedging transactions including system-balancing and a variety of other types. Division Staff reviewed 7 of these sample deals, and the review of the remaining 16 non-hedging deals is covered in this report. Our review of non-hedging transactions did not always explore the same questions explored in our hedging program review. The review focused on issues that were sometimes unique to each deal.

Our review of non-hedging transactions yielded a number of issues of concern. The Company sought to include payment of damages without adequately demonstrating that the Company acted prudently when it incurred the damages. Furthermore, the payment of damages was made outside the EBA deferral period, and should not be included in the current EBA. We recommend that this damage payment be removed from Actual NPC, resulting in a reduction in the requested EBA deferral amount of $117,392. The Company also failed to adequately support its accounting treatment for transactions involving its use of the Clay Basin Storage facility for 8 months of the year. We recommend an initial disallowance of $6,861 ($2,216 EBA deferral amount) for one apparent discrepancy that was found. We recommend the Company reconcile its accounting for the remaining months or risk further disallowances.

Several issues were raised in our review but did not result in a recommended adjustment to the EBA deferral. We have concerns about the Company's practices of accounting for "take or pay" gas supply contracts in its economic dispatch decision. The Company failed to provide adequate documentation to reconcile some real-time energy transactions with the associated NERC E-Tag. Finally, the Company's practice of not recording best efforts to seek two bids or offers made it impossible for us to judge the prudence of a particular bilateral real-time purchase during very high price ("super peak") hours.

In summary, we believe that system-wide net power costs ("NPC") should be reduced by at least $16.2 million. Utah's approximate share of this reduction is $6.8 million. Based upon the 70% / 30% sharing formula and the monthly interest accrued through October 31, 2014, the amount to be recovered by the Company should be reduced by at least $5.1 million. The Division recommends additional adjustments in its report. The calculation of EBA deferral amounts are shown in Confidential Exhibit DPU 2.4, and summarized in Figure ES-2 below.

Figure ES-2

RECOMMENDED EBA DEFERRAL ADJUSTMENT SUMMARY

Outage	Total Company NPC Reduction	Utah-Allocated NPC Reduction	EBA Deferral Adjustment
Outage A	$ 4,316,152	$ 1,830,720	$ 1,360,629
Outage B	$ 4,750,925	$ 1,967,650	$ 1,453,635
Sub-total - Outages	**$ 9,067,077**	**$ 3,798,370**	**$ 2,814,264**
Hedging Transactions	**$ 6,755,086**	**$ 2,867,510**	**$ 2,206,834**
Non-hedging Transactions	**$ 391,274**	**$ 161,798**	**$ 119,608**
TOTAL	**$ 16,213,437**	**$ 6,827,679**	**$ 5,140,706**

The specific adjustments recommended here should not be interpreted to imply support for the Company's remaining EBA deferral request. This case represents the third audit of EBA filings we have conducted. In the course of successive audits, the Company has displayed a pattern of behavior in its responses to data requests and requests for documentation that causes us to be concerned about the Company's thoroughness and transparency in making appropriate documents and analyses available for review.

La Capra Associates' personnel have extensive experience in participating in regulatory proceedings. In our experience, it is highly unusual for an applicant to decide the level of information to be provided, especially when relevant and requested documentation is clearly available. We have performed this audit to the best of our ability, given the level of thoroughness and completeness of the Company's responses and the documentation provided. However, we believe that it is highly likely that the record remains incomplete. This report makes specific disallowances on the sample of transactions analyzed given the lack of documentation provided. While transactions outside our samples have not been recommended for disallowance, we suspect that similar documentation issues exist for trades not included in the sample. While we cannot make a case for disallowance of trades we have not reviewed, neither can we affirmatively determine the trades were prudent. This problem highlights the difficulties of a backward-looking regulatory mechanism, including whether all trades must be reviewed and concluded to be in the public interest, whether to extrapolate disallowances proportionately from a sample of trades actually reviewed, and how an effective review can occur on the current time schedule given the level of responsiveness of the Company. Therefore, we strongly recommend that the Commission take steps to dramatically improve the level of thoroughness and completeness of the Company's responses and the documentation provided in future proceedings.