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Division of Public Utilities

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SUPPLEMENTAL ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Artie Powell, Manager, Energy Section
David Thomson, Technical Consultant

Subject: Docket No. 14-035-36. Action Request from the Commission to review and make recommendations. PacifiCorp's December 2013 Results of Operations. In the Matter of PacifiCorp's Financial Reports. Supplemental Comments and Revised Recommendation.

Date: October 7, 2014

The Division in its report to the Commission in Docket No. 14-035-36, dated 30 September, 2014, recommended to the Commission that the Company not make adjustments in future filing of results of operations (ROO) that in total or in part are based on past rate case filings by the Company in Utah that have yet to be accepted by Commission order, stipulated agreement or long-running procedure. The Division has met with the Company concerning this recommendation and now files this supplemental memorandum with a revised recommendation concerning the company's ROO filing and related obligations.

The ROO filing is generally prepared in a manner consistent with the last several rate case filings of the Company. However, for varying reasons some items included in the report will not have been specifically authorized by the Commission. This can be because of new additions or changes in the company's business that have not yet been before the Commission. It can also be because of items or issues addressed but not resolved in past regulatory proceedings.

The Division's recommended allowance for inclusion of items of "accepted procedure" in the ROO filing was meant to cover well accepted accounting adjustments for regulatory purposes. These would include those found in the Company's filings for removing certain expenses that should not be included in regulated results, adjustments of situs-assigned expenses, non-recurring or out of period expenses, DSM removal, and similar regulatory adjustments common to Utah. Most of these are determined by the Company in its normalization adjustment tabs and have not been contested in past rate cases. However, even though these are in the ROO filing they may be contested in future filings. Nevertheless, the company expressed concern that the Division's recommendation for what should and should not be included in the ROO filing is too restrictive and would lead to the exclusion of items that ought to be properly included in the filing to present an accurate picture of the company's results. Based on these discussions, the Division revises its recommendation to allow broader leeway in the company's filing so long as the company is responsive to regulators' requests for modifications or information allowing the regulator to construct differing results from different assumptions.

While the Company should generally be given some leeway in how it compiles the ROO filing, it is also critical that regulators be able to work with the filing and analyze the company's earnings using the regulators' assumptions about what items are and are not properly included in calculating results of operations. In short, regulators should be able to use the materials filed and provided in connection with the ROO filing to determine what the company's earnings are using assumptions the regulator believes are appropriate.

With this basic understanding, the Division believes that it has the capability to run the results of operation model with adjustments the Division believes are appropriate for its review purposes. For example in the report just filed with the Commission the Division ran the model taking out two Company adjustments that had yet to be approved by the Commission through order or stipulation despite their contention in past general rate case filings. The results from such changes or modifications to the Company's filed ROO were then analyzed for further follow-up, additional action or appropriateness for reporting to the Commission. Some adjustments may require only minimal amounts of information from the company. Others may require more effort from the company and the Division before their effects can be understood.

Through the data request process or through inquiry to the Company, as was done in this report, the Division believes appropriate review can occur without resorting to the more rigid recommendation of our initial memorandum in this matter. The Company has given the Division assurances that any major changes to past filing adjustments, accounts, or procedures will be noted in future filings. This was done by the Company prior to its including prepaid pension costs in rate base and is an

example of the type of notification the Division believes is necessary. Additionally, the Commission and others should be aware that the Division's review of the ROO filing is not a comprehensive one with detailed review of historical costs or similar review. Rather, the Division's review is intended to provide enough detail to determine the accuracy of the company's filing, comments on the comparative analysis performed and a rough snapshot of the company's earnings, particularly relative to the company's authorized rate of return.

CC Dave Taylor, Rocky Mountain Power
Michele Beck, Office of Consumer Services