

ENERGY BALANCING ACCOUNT
AUDIT FOR ROCKY MOUNTAIN
POWER FOR CALENDAR YEAR 2014

La Capra Associates

Docket No. 15-035-03

PUBLIC EXECUTIVE SUMMARY

PREPARED FOR

Division of Public Utilities
State of Utah

PREPARED BY

La Capra Associates, Inc.
One Washington Mall, 9th Floor
Boston, MA 02108

Technical Report

July 15, 2015

(Revised July 30, 2015)

I. EXECUTIVE SUMMARY

On March 16, 2015, Rocky Mountain Power (“RMP”), a subsidiary or business unit of PacifiCorp (“PacifiCorp” or the “Company”), filed a request to collect \$30.5 million to reflect Energy Balancing Account (“EBA”) activity in calendar year 2014. RMP’s request represents the difference between EBA costs incurred in calendar year 2014 and Base EBA costs collected in rates during that time, along with interest accrued through October 2015. It also includes a \$1.2 million credit in August 2014 for additional wheeling revenues pursuant to a FERC rate case settlement (ER11-3643). This requested amount to be recovered commencing November 1, 2015 is less than the amount that was being collected under current rates pursuant to past EBA cases (Docket Nos. 10-032-14, 12-035-67, 13-035-32 and 14-035-31.)

PacifiCorp consists of three business units: (1) Pacific Power, which delivers electricity to customers in Oregon, Washington and California, is headquartered in Portland, Oregon; (2) RMP, which delivers electricity to customers in Utah, Wyoming and Idaho, is headquartered in Salt Lake City, Utah; and (3) PacifiCorp Transmission, which includes transmission operations, Energy Gateway expansion projects and transmission services for the company. PacifiCorp is headquartered in Portland, Oregon. PacifiCorp operates a fleet of generators and trades and hedges power and natural gas on behalf of Pacific Power and RMP. System costs are then allocated to each state in which PacifiCorp subsidiaries, such as RMP, serves retail customers. RMP’s \$30.5 million request represents Utah’s share of the difference between forecasted and actual EBA costs.

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 which we performed for the Division regarding 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, calendar year 2012 presented in Docket No. 13-035-32, and calendar year 2013 presented in Docket No. 14-035-31. 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 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.

Technical Report: Energy Balancing Account Audit for Rocky Mountain Power for Calendar Year 2014

Regarding plant outages, we believe that one outage was avoidable but did not incur additional replacement power costs impacting 2014 NPC that would warrant an adjustment to the EBA deferral. A second outage was avoidable, in that it was caused by not following proper procedures. We estimate net replacement power costs associated with this outage to be \$1,187,242. A third outage, this one at a peaking plant, was made longer in duration by lack of advance planning and thereby considered partially avoidable as well. We accept the Company's estimate of \$25,808 in replacement power costs associated with the loss of this unit. The total reduction in total system costs for these outages is \$1,213,050. The impact of this adjustment on the EBA deferral adjustment is calculated by the Division. We recommend no adjustments to EBA costs due to other outages at this time.

Our 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 2014, consisting of power and natural gas financial and physical deals. We developed a sample of 115 broadly-representative transactions and accounting entries 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, Oregon, 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 in order to facilitate Staff's reviews of future EBA assessments. Continuing our practice from the 2013 EBA review, we shared the review of our 2014 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.

In reviewing the 2014 EBA information, the Company and the Division instituted a process which attempted to resolve any concerns that were identified in our review prior to the filing of our report, to the extent possible. As the result of this process, we had several conference calls where issues that arose during our review were discussed with the Company. This approach afforded the Company the opportunity to respond to those identified concerns and provide any additional documentation or supporting information. This approach was largely successful in resolving identified issues, which minimized the number of recommended adjustments to the filed request.

Between 2010 and 2014, the Company engaged in tens of thousands of transactions on a system-wide basis for natural gas and electricity that settled in the 2014 EBA period. The

Technical Report: Energy Balancing Account Audit for Rocky Mountain Power for Calendar Year 2014

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 115 transactions in our sample, 51 were apparent hedging transactions. Division Staff reviewed 26 of these sample hedges, and the review of the remaining 25 sample hedges is covered in this report. Our review focused on verifying that all transactions conform to the Company's 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 2012 (Docket No. 13-035-32) and 2013 (Docket No. 14-035-31) EBA Reviews.

Although some deals had insufficient documentation of trade purpose and traders did not always document competitive bids or offers as required in the Company's Front Office Procedures and Practices policy, we did not recommend disallowance for these transactions because of a stipulated agreement between the Company and the Division for a mutually-agreeable procedure moving forward on these points commencing at the very end of the 2014 EBA deferral period. Based on our review of the sample transactions and the supporting information provided to us, we find no reason at this time to adjust energy balancing account or net power costs for sample transactions reviewed.

In summary, we believe that system-wide net power costs ("NPC") should be reduced by at least \$1,213,050.

In our audit report for the prior EBA case (Docket No. 14-035-31) we noted our concerns about, "the Company's thoroughness and transparency in maintaining documents and analyses of activity or making appropriate documents and analyses available for review." In the resolution of the prior EBA case through to the current case, the Company and the Division have both worked collaboratively to address these concerns and to improve the process of requesting and providing the documentation necessary to conduct a reasonably thorough audit of the net power costs underlying the Company's EBA request. We appreciate the Company's efforts to be cooperative in providing requested documentation and explanations supporting actual net power costs, including through numerous phone conference calls in which Company personnel were made available to clarify documentation received, provide additional insight into Commercial and Trading ("C&T") policies and procedures, and to tailor requests for further information.

Challenges remain for future EBA proceedings. We are concerned with the historical quality of the Company's Commercial Objective Reports ("CORs"), but the Company has already taken steps to address our concerns moving forward. It may be advisable to improve the memorialization of phone conference calls to avoid misunderstandings and to provide a path for other parties to follow the audit process. In order to better evaluate physical balancing

Technical Report: Energy Balancing Account Audit for Rocky Mountain Power for Calendar Year 2014

transactions, we suggest that the Company find a way to memorialize its physical position outlook for future EBA periods.

Despite the continuing challenges identified here, we are encouraged by the progress shown in this EBA period. That progress is demonstrated by the lack of any recommended disallowances related to transactions in our sample. We suggest that the Company continue working with the Division to improve transparency for future audits.