State of Utah
Department of Commerce
Division of Public Utilities

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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. 15-035-51. Action Request to review and make recommendations. Rocky Mountain Power's Results of Operations Report for the Twelve Months Ended June 30, 2015. In the Matter of PaciCorp's Financial Reports 2015.

Date: November 24, 2015.

RECOMMENDATION (No Action)

After a review of the above mentioned report, the Division of Public Utilities ("Division") recommends that the Public Service Commission ("Commission") take no action.

ISSUE

On October 30, 2015, Rocky Mountain Power ("Company") filed its Results of Operations and a confidential Wind Resources Report for the twelve months ended June 30, 2015 with the Commission. The wind report was provided in compliance with the Commission's final order in Docket No.07-035-93, and included the name, nameplate capacity, actual generation and actual capacity by month for each wind resource. On October 30, 2015, the Commission issued an Action Request to the Division requesting a review of the filing and make recommendations. The Commission asked the Division to report back by November 30, 2015.

GENERAL COMMENTS, ANALYSIS AND REVIEW

The filing's basic format and presentation of information remains the same as in previous filings.

Net Power costs are a major operating expense of the Company. For the year ending December 31, 2014, these costs were reviewed by the Division in another docket, Docket No. 15-035-03. The result of the Division's audit regarding Net Power Costs can be found in that docket. Since this filing is not a calendar year based filing, the first six months of Net Power costs were reviewed in the above docket but the last six months were not. However, they will be reviewed in the next EBA calendar filing for the twelve months ended December 31, 2015. Thus, those costs will not be addressed in this report. The same applies to REC costs that will most likely be covered in other filings by the Division.

Tab 2 in the Semi-Annual filing is entitled Results of Operations. This section of the filing has a one page summary of actual results for the Total Company and Utah, and normalized results for the Total Company and Utah. The normalized results are obtained by applying the Type A and Type B adjustments. In this Tab the allocation of total costs to Utah is done by using the 2010 MSP Protocol without the ECD (Embedded Cost Differential). The summary also uses a 13-month Average Rate Base. Behind the summary are the detail amounts by FERC account. The detail, also by FERC account, shows the business function of the account and the allocation factor or factors used to allocate total FERC account amounts to Utah. The allocation factors are found in Tab 11 – Reporting and Ratemaking Allocation Factors. Tab 11 has the allocation factors for all Company's jurisdictions and how they were computed. Actual loads were used in determining many of the allocation percentages. For its Utah filing the Company used only the Utah allocation percentages from Tab 11. Also in Tab 2 is a page that has user specific information, tax information, and capital structure information. The capital structure information is calculated using a five quarter average from June 30, 2014 to June 30, 2015.

Tab 1 of the Semi-Annual filing is called Summary. This tab starts with actual results for Total Company and Utah allocated, then shows the Type A adjustments for Total Company and Utah Allocated to arrive at amounts for Total Company and Utah Allocated after adjustments. These results are shown under a column with a heading of Reporting and Ratemaking Results. These results are then adjusted for Type B adjustments to arrive at normalized results for Total Company and Utah Allocated. The final normalized results in this Tab agree with those in Tab 2. Tab 2 does not show the Type A and Type B adjustments. This section also has an adjustment summary whereby the Utah allocated reconciled actual results of operations, rate base and tax calculations are shown along with all of the adjustment tabs line item totals (combining A and B adjustments) to arrive at the Utah Allocated Normalized Results. The table below provides some summary information for comparative purposes from the latest filings. All numbers are the Utah Allocated normalized results amounts ($000,000).

	June 2015	December 2014	June 2014
Total Operating Revenues	$2,170	$2,203	$ 2,159
Total O&M Expenses	$1,216	$1,253	$ 1,268
Depreciation and Amortization	$ 287	$ 279	$ 271
Taxes Other than Income	$ 63	$ 59	$ 58
Income Taxes and Deferrals	$ 151	$ 155	$ 137
Operating Revenue for Return	$ 453	$ 457	$ 425
Total Electric Plant	$11,645	$11,360	$11,123
Total Rate Base Deductions	$ 5,563	$ 5,354	$ 5,249
Total Net Rate Base	$ 6,082	$ 5,606	$ 5,874
Earned Return on Rate Base	7.456%	7.602%	7.2309%
Earned Return on Equity	9.630%	9.839%	9.094%

Through a stipulation approved by the Commission in the Company's last general rate case[1] the Commission authorized an Earned Return on Equity amount of 9.80%. The Division notes that the Semi-Annual filing for the year ending June 30, 2015 shows an Earned Return on Equity of 9.630% which is .017% less than the authorized Return on Equity of 9.8%. As shown above for the Semi-Annual filings for the years ending December 2014, the Company is earning more than its authorized Return on Equity of 9.80% (.039% more). For the year ended June 30, 2014 the Company was earning 9.094% (.706% less). The Division notes that the Earned Return on Equity is fluctuating around its authorized amount of 9.8% and the Division will continue to monitor the return on equity percentage in future Semi-Annual filings to see if it exceeds 9.8% on a regular basis. To date it has not.

Tab 9 of the filing is labeled Rolled-in. The amounts and the results of operation in this Tab are exactly the same as Tab 2.

A comparison of the numbers for years above indicates a gradual increase in Revenues for June 2015 as compared to June 2014. The June 2015 revenue is less than the December 2014 revenue by $33 million. O&M is decreasing from year to year with a significant decrease of $37 million from December 2014 to June 2015. For June 2015, the decrease in revenue was in conjunction with a decrease in expenses so the operating revenue for return was comparable to December 2014. The total net rate base is increasing from year to year. The Earned Return on Rate Base is fluctuating the same as Earned Return on equity as explained above. Depreciation is also increasing due to the increase in Total Electric Plant.

[1] Docket No. 13-035-184

For the last General Rate Case the Overall Capital Structure and Cost of Capital was stipulated as follows:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	48.55%	5.20%	2.53%
Preferred Stock	0.02%	6.75%	0.00%
Common Stock Equity	51.43%	9.80%	5.04%
TOTAL	100.00%		7.57%

As shown in this Semi-Annual the calculated five quarter average Overall Capital Structure and Cost of Capital is:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	48.61%	5.16%	2.508%
Preferred Stock	0.02%	6.75%	0.001%
Common Stock Equity	51.37%	9.80%	5.034%
TOTAL	100.00%		7.544%

Using the above Semi-Annual amounts and substituting the authorized return on equity percentage with the return on equity from the filing of 9.63% as shown above you get the following results:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	48.61%	5.16%	2.508%
Preferred Stock	0.02%	6.75%	0.001%
Common Stock Equity	51.37%	9.63%	4.945%
TOTAL	100.00%		7.454%

The filing has a Tab 10 that is labeled 2010 Protocol With ECD. This Tab uses normalized allocation factors from Tab 12 to allocate Total Company normalized results to Utah. Tab 12 uses temperature normalized loads to derive its allocation factors. Overall, this method causes fewer costs to be allocated to Utah. The Earned Returns on Equity for Tab 10 for June 2015, December 2014, and June 2014 are 9.411%, 9.600%, and 8.831%, respectively.

Per the last general rate case, the stipulated Utah base Net Power Costs were $630.0 million on an annual basis. For the June 2015, December 2014, and June 2014 Semi-Annual filings the Utah Net Power Cost were computed to be $663.9, $689.8, and $696.4 million, respectively. As can be seen from these numbers Net Power Costs have been constantly decreasing over time as compared to the stipulated amount. This is probably an indication that the estimated future Net Power Costs agreed to in the past rate case settlement was overstated using historical costs as a baseline.

Past reports to the Commission on Results of Operations for Calendar years have included reconciliations provided by the Company of FERC amounts and financial amounts to the regulatory amounts in the filing. No exceptions have been noted. Due to this fact, and the fact that it would be very difficult and time consuming for the Company to provide such reconciliations on a non-calendar year basis (fiscal years ending June instead of December), the Division has does not provide such reconciliations in this report.

The Division compared the computation, structure, organization, and presentation of results of operations in this filing with past filings and found it to be the same with no differences in overall form and function of reporting the operation results.

The Division compared the Type A and B adjustments for consistency in methodology with an eye for new or major adjustment types and changes. All adjustments were consistent with past filings, except for the following items. For adjustment 3.5 – Wheeling revenues, there were no adjustments for imbalance penalties and revenues because those items are no longer paid or received after November 2014 due to the Company's participation in the Energy Imbalance Market. Page 3.1.6 of the Temperature Normalization adjustment added cross referencing to column totals. The Division appreciates cross referencing additions because they are helpful to its review of the Company's filing. For adjustment 8.2 – Trapper Mine Rate Base the Company added the final reclamation liability to this adjustment. The unrecovered plant of the Deer Creek Mine closure is being amortized to non-power cost fuel expense at the previously authorized depreciation rates. In the Deer Creek Mine Closure – Adjustment 8.9, an adjustment was made to correct the account and allocation of that fuel expense. The UMWA post-retirement settlement was charged to a regulatory asset. This adjustment also corrects the allocation to that regulatory asset.

There are two new rate base adjustments in this filing. First, adjustment 8.10 – Miscellaneous Asset Sales is an adjustment for the removal of the Fountain Green hydroelectric plant, that was approved in Docket No. 14-035-144. Second is adjustment number 8.11 and is entitled the Eagle Mountain Adjustment. On March 4, 2015, the Company purchased the transmission and distribution system of Eagle Mountain City, Utah, in order to provide service to the city. The transaction was booked to FERC account 102, Electric Plant Purchase or Sold, and will be reallocated to the appropriate accounts when FERC approves the transaction. This adjustment reflects the anticipated classification that will take place after the approval. This adjustment is consistent with the notice of acquisition of electrical systems and related assets filed by the Company on January 21, 2015, Docket Nol. 15-035-08.

Again, for this filing the Company has included pension and postretirement benefit asset in rate base and has restated generation overhaul expenses to constant dollars when normalizing those expenses. For this report, the Division did not analyze the impact of these two adjustments.

As in the past the Division will use the IJA model provided by Commission staff to model results for the filing year and compare it to the results of operations provided by the Company in this Docket. This modeling has yet to be done by the date of filing of this response to the action request and thus will not be reported on at this time. However, due to past results of comparisons done in past reports to the Commission, the Division anticipates only minor differences, if any.

CONCLUSION

After performing the review, nothing came to the Division's attention that was of material significance suggesting modification of the filing or action to change or challenge the Results of Operations as filed. Therefore, the Division recommends that the Commission take no action at this time.

cc: Michele Beck, Office of Consumer Services
Bob Lively, Rocky Mountain Power