State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

THOMAS BRADY
Deputy Director

CHRIS PARKER
Director, Division of Public Utilities

GARY HERBERT
Governor

SPENCER J. COX
Lieutenant Governor

ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

Energy Section

Artie Powell, Manager

Abdinasir M. Abdulle, Utility Analyst

Bob Davis, Utility Analyst

Date: April 15, 2016

Re: Docket No. 15-035-51 – Rocky Mountain Power's 2014 Year End Cost of Service Results

RECOMMENDATIONS (Acknowledge)

The Division of Public Utilities ("Division") recommends that the Commission acknowledge Rocky Mountain Power's ("Company") filing with the following recommendations. That the Commission direct the Company to allocate jurisdictional revenue credits first to schedules.

ISSUE

In compliance with the Commission's letter of May 28, 2014, on June 15, 2015, the Company filed with the Commission its Class Cost of Service study based on annual Results of Operations for 2014. The Commission issued an Action Request to the Division to investigate the Company's filing and make recommendations. The Division petitioned the Commission for an extension of the due date of the Action Request to April 15, 2016 and the Commission granted the extension. This memorandum represents the Division's response to the Commission's Action Request.

Discussion

In compliance with the Commission's letter of May 28, 2014, on June 15, 2015, the Company filed with the Commission its Class Cost of Service study based on annual Results of Operations for 2014. The Commission issued an Action Request to the Division to investigate the Company's filing and make recommendations. In its Action Request, the Commission identified three issues for the Division to investigate:

1. Omission of Adjustment 3.6 (REC and NPC accruals);
2. Comparison of the Company's method of allocating jurisdictional revenue credits with an alternative method; and
3. Impact of the use of the jurisdictional average uncollectable rate as compared to class specific uncollectable rates to determine for each class the change in revenue required to achieve an allowed rate of return.

In what follows, the Division will discuss its findings.

Omission Adjustment 3.6 (REC and NPC accruals)

Adjustment 3.6 is an adjustment to revenues reflecting the deferral of the renewable energy credits (REC) and net power costs (NPC) in their respective balancing accounts. In a teleconference with the Division, the Company indicated that the REC and NPC deferrals are collected through separate adjustment schedules and are not part of base revenues. The Company further indicated that this filing is for information purposes and does not normally include Adjustment 3.6. The Division reviewed past cost of service studies filed with the Commission by the Company and identified that only base revenues were used to calculate the class cost of service. The Division is comfortable with the omission of this adjustment in the annual cost of service filings. If, however, the Commission believes it needs to be included, the Division recommends that the Commission direct the Company to include the adjustment in future filings. **Method of Allocating Jurisdictional Revenue Credits**

The Company's cost of service study does not include Schedule 21 and 31 and one of the special contract customers. The costs of serving these three customers are born by the rest of the customers. The revenues collected from these three customers are then credited to the other customers. Hence, the question is, how are these revenues allocated among the other customers?

The Company calculates the jurisdictional revenue credits (RC_j) as the sum of the revenues collected from Schedules 21 and 31 and the special contract customer (Figure 1). It then allocates the jurisdictional credit among the functions based on their relative revenues using the REVREQ allocation factor. For a function, f, the value of REVREQ is calculated as the ratio of the function's total electric operating revenues and the jurisdictional electric operating revenues, which are calculated assuming that all functions earn the jurisdictional rate of return on rate base (Figure 1). However, since there are no revenues collected from the functions (the functional revenues are unknown), the Company imputes functional revenues.

The general business revenue which is a component of the jurisdictional electric operating revenue is calculated iteratively in such a way that all functions earn the jurisdictional rate of return on rate base. This makes both the functional operating revenues for return (total operating revenues – total operating expenses) and functional income taxes reflect equal rate of return on rate base (Figure 1).

The Company further allocates the revenue credits allocated to the functions to the classes using schedule's relative contribution to the total operating expenses and the total return on rate base (F140 factor) (Figure 2). The schedule's return on rate base is calculated using jurisdictional rate of return on rate base. The schedule's operating expenses are also calculated using income taxes calculated using jurisdictional rate of return on rate base.

The results of this allocation method is summarized below.

Summary of the Allocation of the Jurisdictional Revenue Credits Using the Company Method

Function	Utah Jurisdiction Normalized	Residential Sch 1	General Large Dist. Sch 6	General +1 MW Sch 8	Street & Area Lighting Sch. 7,11,12	General Trans Sch 9	Irrigation Sch 10	Traffic Signals Sch 15	Outdoor Lighting Sch 15	General Small Dist. Sch 23	Industrial Cust 1	Industrial Cust 2
Generation	40,806,359	12,920,777	11,371,392	3,652,230	92,897	7,699,662	389,644	10,792	22,187	2,633,069	906,585	1,107,125
Transmission	8,408,358	2,810,267	2,400,149	735,550	14,307	1,459,957	73,985	2,089	3,234	569,659	164,862	174,299
Distribution	8,342,865	4,886,828	1,901,174	498,453	160,399	19,264	96,400	4,620	3,545	767,978	2,472	1,734
Retail	1,180,790	1,016,364	68,590	1,624	10,185	5,422	3,516	2,877	597	65,832	2,812	2,971
Miscelaneous	253,844	101,049	67,510	20,320	1,193	34,466	2,439	79	84	18,433	4,074	4,195
Total	**58,992,215**	**21,735,285**	**15,808,815**	**4,908,177**	**278,981**	**9,218,770**	**565,985**	**20,456**	**29,647**	**4,054,971**	**1,080,804**	**1,290,324**

Since there are no revenues collected from any function, an alternative allocation method, where jurisdictional revenues are first allocated directly to the schedules, then from the schedules to the functions, and, finally, summing the schedule's functional revenue credits, could be devised.

In this alternative allocation method, the jurisdictional revenue credits are first allocated to the schedules based on each schedule's revenues relative to jurisdictional revenues (Figure 3). The revenues assigned to schedules (sales to ultimate customers) is known and need not be imputed as was the case in Company's allocation method.

These schedule revenue credits are then allocated among the functions where each function's revenue credit is the product of schedule's revenue credit relative to its total electric operating revenues and the cost of service calculated based on schedule's rate of return on rate base and an income tax which is also based on schedule's rate of return on rate base. Finally, these schedule's functional revenue credits are summed up over the functions (Figure 3).

The results of the alternative allocation method is summarized below.

Summary of the Allocation of the Jurisdictional Revenue Credits Using the Alternative Method

	Utah Jurisdiction Normalized	Residential Sch 1	General Large Dist. Sch 6	General +1 MW Sch 8	Street & Area Lighting Sch. 7,11,12	General Trans Sch 9	Irrigation Sch 10	Traffic Signals Sch 15	Outdoor Lighting Sch 15	General Small Dist. Sch 23	Industrial Cust 1	Industrial Cust 2
Generation	40,643,788	12,916,871	11,560,434	3,665,572	103,760	7,394,520	387,436	11,353	26,770	2,679,773	830,071	1,067,227
Transmission	8,322,039	2,803,752	2,481,198	740,272	18,546	1,320,887	72,886	2,317	4,840	589,666	130,389	157,287
Distribution	8,599,800	4,951,408	2,001,086	509,799	196,811	20,293	96,323	5,211	5,620	808,838	2,459	1,952
Retail	1,228,474	1,057,501	72,209	1,481	11,016	5,525	3,689	3,014	630	68,039	2,500	2,870
Miscelaneous	253,958	101,206	68,201	20,396	1,273	33,688	2,436	81	101	18,617	3,872	4,088
Total	**59,048,059**	**21,830,738**	**16,183,128**	**4,937,521**	**331,405**	**8,774,913**	**562,770**	**21,976**	**37,961**	**4,164,933**	**969,290**	**1,233,423**

The impact of the Company's allocation method is that it over allocates revenue credits to those classes that were earning below the jurisdictional rate of return and under allocates revenue credits to those classes that were earning above the jurisdictional rate of return. Therefore, the Division recommends the Commission direct the Company to consider the alternative allocate method described herein.

Use of Jurisdictional Average Versus Class Specific Uncollectible Rates

In calculating the change in revenues required to achieve an allowed rate of return for each class, the Company uses the jurisdictional average uncollectable rate. As the Commission mentioned in its Action Request, this is equivalent to assuming that all classes receive an equal percent change in assigned revenues. The question is whether a class specific uncollectable rates be used if the classes do not receive an equal percent change in assigned revenues.

The Division believes that while uncollectable expense is allocated to each class in the cost of service study based upon actual uncollectible expense incurred by revenue class code, the uncollectible expense associated with a price change is not differentiated by class, because it is not known how that price change may alter uncollectible expense among the classes. Therefore, the Division believes that a class specific uncollectable should not be used.

CONCLUSION

Based on the Division review of the Company's filing, the Division is comfortable with the current treatment of adjustment 6.3 but recognizes that the Commission may want to direct the Company to include the adjustment in future filings.

In addition, since whether jurisdictional revenue credits are allocated first to the functions or the schedules has an impact on how much is allocated to each schedule, the Division recommends that the Company consider the alternative method described herein that allocates revenue credits first to the schedules.

Finally, because it is not known how a price change may alter uncollectible expense among the classes, the Division believes that a jurisdictional average uncollectible rather than class specific uncollectable should be used.

CC: Bob Lively, RMP
Michele Beck, OCS