To: The Public Service Commission

From: The Office of Consumer Services
Michele Beck, Director
Gavin Mangelson, Utility Analyst

Date: December 2, 2015

Subject: **Reply Comments**, Docket 15-035-69

Request for Agency Action to Review the Carrying Charges Applied to Various Rocky Mountain Power Account Balances

Background

On August 11, 2015 the Division of Public Utilities, (Division) made a Request for Agency Action to review the carrying charges applied to various Rocky Mountain Power (Company) account balances. The Division filed its initial recommendation (Recommendation) to the Commission on October 27, 2015. Comments from interested parties were filed on November 19, 2015. The Office of Consumer Services (Office) filed Comments supporting the Division's recommendation. Comments submitted by the Company indicated that they do not agree with the Division's recommendation, and included a counter proposal for some of the accounts.

Discussion

Long-Term Cost of Debt

On page 3 of the Company's Comments, the Company outlines reasons why the Commission approved long-term cost of debt would be a better alternative for the carrying charge applied to certain accounts (those accounts for which the carrying charge rate was not set by stipulation or agreement). Among the reasons, the Company states that:

> "*the Commission authorized cost of debt provides a carrying charge that is consistent with the rate of return and related capital structure upon which rates are set in a general rate case*."

The Office asserts that these carrying charges are applied to accounts with balances that should fluctuate on the short term. Therefore, there is little commonality between the short term debt represented in these balances and an established rate of return on capital investment. In the absence of such commonality, a carrying charge should not therefore be “consistent with the rate of return…”

The Company also asserts that the Division’s recommendation to use the average Aaa and Baa rates would expose ratepayers to:

> *“unpredictable volatility in financial markets and/or Federal monetary policy actions.”*

The Office challenges this assertion primarily because the Division’s recommendation proposes only an annual determination of carrying charges, not a monthly or daily change as may be inferred from the Company’s description of market volatility. Furthermore, the recommendation is to use bond rates which are generally more stable than other potential metrics for the cost of debt. In this way the recommendation provides carrying charges with greater commonality to market rates, while still affording adequate insulation to general market fluctuations.

The Office also disagrees with the Company’s assumption that any insulation provided to ratepayers by the Company’s proposal, is of sufficient value to justify ratepayers funding short term debt at rates that have little or no relation to market rates for similar debt.

Settlements and Stipulations

The Company also argues that a change to any carrying charge established as part of a stipulation could compromise future negotiations. The Office does not agree. Generally, parties to settlement stipulations understand that the Commission has authority to accept or reject settlements; and that it may consider subsequent review to previous findings or existing orders. Further, rates established in settlements do not remain in place in perpetuity; the rates are always subject to change in the next relevant case. This current docket is such a case. All parties to any previous settlement had the opportunity to participate fully in this docket to argue in favor of any carrying charge that was previously established via a settlement.

Recommendation

The Office recommends that the Commission approve the Division's Recommendation to set the carrying charge at the average of the Aaa and Baa corporate rate, adjusted annually.

Copies To: Rocky Mountain Power
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