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December 2, 2015

***VIA ELECTRONIC FILING
AND HAND DELIVERY***

Public Service Commission of Utah
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Gary Widerburg
Commission Secretary

RE: Request for Agency Action to Review the Carrying Charges Applied to Various Rocky Mountain Power Account Balances, Docket No. 15-035-69.

In accordance with the Scheduling Order issued by the Public Service Commission of Utah (the "Commission") on September 2, 2015, Rocky Mountain Power ("Company") submits the following reply comments in response to the comments of the Office of Consumer Services ("OCS") and joint comments of Utah Clean Energy and Southwest Energy Efficiency Project ("UCE/SWEEP") filed on November 19, 2015.

In its initial recommendation in this docket filed on October 27, 2015, the Division of Public Utilities ("DPU") proposed that the Commission replace existing carrying charge rates with the average of the annual Aaa and Baa corporate interest rates for the preceding calendar year as published by the Federal Reserve Board of Governors. This carrying charge rate change would affect the following:

- Utah demand side management ("DSM") tariff rider balancing account
- Renewable Energy Certificate ("REC") Balancing Account ("RBA")
- Energy Balancing Account ("EBA")
- Customer Security Deposits
- Home Energy Lifeline Program ("HELP")
- Utah Solar Incentive Program ("USIP")
- Blue Sky Program
- Customer Overpayments

The DPU proposes that the carrying charges paid on the eight accounts identified above ("the Accounts") be updated March 1 annually, with the first update occurring on March 1, 2016.

SUMMARY OF ROCKY MOUNTAIN POWER RECOMMENDATION

In its comments of November 19, 2015, the Company concurs with the DPU that routinely updating carrying charges in a predictable manner may be beneficial to customers if the carrying charges are not otherwise addressed through stipulations. However, the Company disagrees with the DPU proposal that carrying charges for the Accounts should be based on annual average corporate interest rates. The Company disagrees with the DPU's recommendation for market based carrying charges on the basis that it does not take into account the actual financing practices of the Company, and does not consider the thorough review of the Company's overall cost of capital that is performed in rate case proceedings. Further, the DPU recommendation would subject customers to the volatility and unpredictability of capital markets, and would limit the Commission's ability to ensure that customers are not harmed by fluctuations in markets over which they have no control.

The appropriate carrying charge for the Accounts should be the cost of debt authorized by the Commission in the most recently concluded general rate case, to be updated at the conclusion of each subsequent rate case. The Commission-authorized cost of debt is a reliable and predictable measure of the Company's overall debt costs, and is more suitable than the DPU proposal for use in determining carrying charges applicable to the Accounts.

The Company further recommends that carrying charges for the DSM, the RBA and the Blue Sky Program accounts that have been previously set by stipulation or agreement should remain unmodified until the agreement(s) expire. Carrying charges set by stipulation or agreement reflect the good faith negotiations of parties to the particular proceeding and customers derive benefits associated with those agreements, which may be in lieu of a different carrying charge. After-the-fact modification of individual elements of such agreements, once achieved and approved by the Commission, would set a harmful precedent for negotiation of future stipulations and agreements in which parties expect to negotiate with confidence that, once approved by the Commission, agreements will stand as accepted by the parties. Upon modification in an appropriate future proceeding, the Company agrees with setting uniform carrying charges prospectively.

REPLY COMMENTS TO THE OFFICE OF CONSUMER SERVICES

The OCS states that based on its analysis of the carrying charge issue, the DPU initial recommendation is in line with its own conclusions. The OCS supports its conclusion by stating that the carrying charge should be consistent with the underlying risk of over or under collection in the Accounts. Further the OCS states that the carrying charge should be reflective of the risk of default of a debt.

The Company believes the risk of default of debt is an inappropriate basis upon which to set carrying charges in this docket. The Company's authorized cost of capital is a more appropriate basis to set carrying charges because it appropriately reflects the capital costs utilized by the Company to support Account balances until such funds are collected from customers and it is set

by the Commission considering the Company's overall risk of operations. Further, as with the DPU recommendation, the stated rationale of the OCS is based on the incorrect assumption that the Company finances carrying charges with debt, and more specifically that the Company finances carrying charges with annually updated market based debt. This assumption is simply incorrect. The fact is that the Company finances carrying charges, as it does all aspects of its operations, with capital provided by its overall capital structure. The Company does not, nor has the Commission ever, apportioned its authorized capital structure to specific components of its operations that may be more or less risky than other components. In rate case proceedings the Commission does not authorize a different cost of capital for generation operations than it does for customer service operations, or for distribution operations. Certainly such an approach is unreasonable. Furthermore, it is equally unreasonable to base carrying charges on a small fragment of the Company's debt cost and even more unreasonable, as the DPU recommends, to base such a decision on an assumed market cost that isn't even reflected in the Company's authorized cost of capital.

The Company's currently authorized pre-tax cost of capital is 10.65%. This Commission authorized rate of 10.65% would not be an unreasonable carrying charge rate since it better matches the Company's actual financing of rate base; however the Company has proposed for carrying charges that are not subject to terms of stipulations the Commission authorized cost of debt from the most recently completed general rate case. This rate is currently 5.2% and would be updated with each subsequent rate case.

The OCS stated its interest in setting carrying charges at a level that motivates the Company to maintain Account balances at or near zero. The OCS supports the DPU recommendation that annual average of corporate interest rates is the appropriate level for carrying charges, however there is no evidence or discussion provided that supports why the annual average of corporate interest rates would encourage the Company to maintain Account balances at or near zero better than any another carrying charge rate.

In fact, the incentive that the Company has to maintain Account balances at appropriate levels, and the assurance that regulators have that appropriate Account balances be maintained, is based on strict administration of the Accounts in compliance with the applicable rules and tariffs. No party in the docket has presented any evidence or discussion suggesting that the Company has maintained inappropriate Account balance levels. The Company's administration of each Account is subject to thorough evaluation and review by the OCS and the DPU. As stated in the Company's November 19, 2015 comments, such thorough review by regulators renders the improbable circumstance that the Company would manipulate Account balances to inappropriate levels virtually impossible.

UCE/SWEEP concurs with the recommendation of the DPU that updating carrying charges will keep them in line with market rates and current economic conditions. Specifically with regard to DSM programs UCE/SWEEP suggests that since the Company bears little risk in recovering its DSM program costs on a contemporaneous basis that a low interest rate is appropriate for the DSM account and, further, that the same low interest rate should be used as the discount rate for evaluation of DSM program cost effectiveness analysis.

As with the recommendations of the DPU and OCS, UCE/SWEEP ignores the fact that the Company does not finance carrying charges with annually updated market based interest rates. Carrying charges are financed with capital provided by the Company's overall capital structure, not with a selected portion of the cost of debt included in its capital structure, and certainly not with annually updated market based funding which isn't even reflected in the Company's capital structure.

The UCE/SWEEP suggests that a low rate is appropriate for the DSM account because of a low risk of recovery of DSM costs by the Company. As a general observation the Company notes that while the UCE/SWEEP recommends a low interest rate for the DSM account where recovery of program costs is considered low, a higher interest rate is not recommended for the EBA account where recovery of prudently incurred costs is not only a risk but is also a reality due to the sharing band. The risk of recovery, as suggested by UCE/SWEEP, is an inappropriate basis for carrying charges under consideration in this docket because the Company does not act, and is not regulated, as a lending institution that would set a loan rate based on the credit worthiness of a borrower. In rate case proceedings the Commission sets the cost of capital considering the risk of the Company's overall operations. In this proceeding, the Company seeks a cost of capital based carrying charge rate that provides compensation for its cost of capital utilized to support Account balances until the funds are recovered from customers.

Further, while market based debt rates may be currently low, there is no guarantee that they will remain low as a result of capital market volatility and/or actions resulting from Federal monetary policy. For reasons of market uncertainty, and other reasons as stated, the Company has recommended the use of the Commission authorized cost of debt for the carrying charge in Accounts which are not otherwise set by agreement or stipulation.

Finally, the UCE/SWEEP recommendation that the same low carrying charge rate should be used for DSM program cost effectiveness analysis is clearly beyond the scope of issues addressed in this docket and should therefore not be considered by the Commission in this proceeding.

SUMMARY

The Company reaffirms its recommendation that, absent a stipulation or agreement justifying a different rate, the carrying charge applied to the Accounts should be the Commission authorized cost of debt from the Company's most recently concluded general rate case, to be updated following the conclusion of each subsequent general rate case. The Company's authorized cost of debt is a reliable and predictable measure of the Company's debt costs and is more suitable than other proposals for determining carrying charges applicable to the Accounts.

The Company's recommendation offers a reasonable solution to the issue of updating carrying charges and does so in a routine and predictable basis with minimal impact on customers and the Company, both during implementation and going forward. The Company respectfully requests that the Commission approve as just, reasonable and prudent the Company's recommendation for the carrying charge for each of the Accounts as presented in detail in its November 19, 2015 comments.

Very Truly Yours,

Jeffrey K. Larsen
Vice President, Regulation
Rocky Mountain Power

CC: DPU and OCS