ENERGY BALANCING ACCOUNT AUDIT FOR ROCKY MOUNTAIN POWER FOR CALENDAR YEAR 2015 (DOCKET NO. 16-035-01)

PUBLIC EXECUTIVE SUMMARY

PREPARED FOR

Division of Public Utilities

State of Utah

PREPARED BY

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I. EXECUTIVE SUMMARY (PUBLIC)

On March 15, 2016, Rocky Mountain Power ("RMP"), a subsidiary or business unit of PacifiCorp ("PacifiCorp" or the "Company"), filed a request with the Public Service Commission of Utah ("Commission") to collect $18.9 million to reflect Energy Balancing Account ("EBA") activity in calendar year 2015. RMP's request represents the difference between EBA costs incurred in calendar year 2015 and Base EBA costs collected in rates during that time, along with interest accrued through October 2016. It also includes a $2.8 million credit for coal expense savings at the Hunter and Huntington plants related to the Deer Creek mine closure. All of these amounts represent 70% of Utah's share of the EBA deferral, except the $2.8 million credit which is not subject to the sharing band. This requested amount to be recovered commencing November 1, 2016 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, 14-035-31, and 15-035-03).

A subsidiary of Berkshire Hathaway Energy, 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 $18.9 million request represents Utah's share of the difference between forecasted and actual EBA costs.

Daymark Energy Advisors ("Daymark")[1] was retained by the Division of Public Utilities for the State of Utah ("Division" or "DPU") to assist in reviewing RMP'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 Daymark performed for the Division regarding RMP'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

[1] Daymark Energy Advisors is the new name of the firm formerly known as La Capra Associates. The name change occurred November 9, 2015.

Docket No. 13-035-32, calendar year 2013 presented in Docket No. 14-035-31, and calendar year 2014 presented in Docket No 15-035-03. This executive summary does not contain any confidential information. The remainder of this report does contain significant amounts of confidential information provided by RMP, 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 RMP.

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. Outages were not discussed in the testimony or application submitted by RMP in the March 15, 2016 EBA filing. All outage information obtained by Daymark came from the filing requirements or responses to data requests.

Our review of forced outages at the Company's thermal plants during the EBA deferral period yielded five significant outages that appeared to be avoidable and resulted in unnecessary increases to Company-wide NPC. Of these five outages that warranted additional scrutiny, two outages ("Outage B" and "Outage D") were sufficiently avoidable that we recommend reducing EBA costs to reflect replacement power costs and to recover insurance reimbursements related to the outages. We find that a third outage ("Outage C") warrants additional investigation by the Company.

Four of the five outages of concern involved the performance of the Company's contractors. This raises concerns regarding the level of oversight and control the Company exercises over its contractors. Further investigation is warranted into how the Company's process for selecting and working with contractors could be improved to reduce the future likelihood of outages.

We continue to believe that the Company's responsibility to its customers includes liability for the actions of its contractors, particularly when poor contractor performance in one form or another leads directly to ratepayers incurring unnecessary and avoidable replacement power costs.

We recommend a reduction in total Company-wide NPC for these outages of $610,326. The Division's separate report and testimony calculates the impact of our recommended adjustments on RMP's requested EBA recovery amount.

The 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. PacifiCorp has settled tens of thousands of transactions during 2015, consisting of power and natural gas financial and physical deals. We developed a sample of 42 broadly-representative transactions and accounting entry groupings and conducted extensive discovery on these transactions. We built on knowledge gained from similar review in previous EBA cases, including two visits (in 2013 and December 2015) 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.

We were also asked to review certain specific issues related to key drivers of EBA costs. First, we were asked to review the shortfall in wind and hydro production relative to levels forecast for the 2014 general rate case. Second, we were asked to review costs and benefits related to PacifiCorp's first full calendar year of participation in the California Independent System Operator's ("CAISO") Energy Imbalance Market, or EIM.

When Daymark was selected in 2012 to assist the Division in reviewing EBA costs, 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 and 2014 EBA reviews, additional sample transactions were selected and assigned to Staff for its independent review and analysis with some assistance from Daymark. This report summarizes the results of our review of the transactions assigned to Daymark only. 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 complementing the work done by Division Staff.

In reviewing the 2015 EBA information, the Company and the Division continued a process initiated for the 2014 audit 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 2012 and 2015, the Company engaged in tens of thousands of transactions on a system-wide basis for natural gas and electricity that settled in the 2015 EBA period.

The costs or proceeds of these transactions flow through into net power costs. The 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 42 transactions in our sample, 15 were apparent hedging transactions. 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. The settlement stipulation in the 2014 EBA review (Docket No. 15-035-03) did not significantly affect our review in this EBA case.

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 $610,326 due to avoidable plant outages. The Division's separate report and testimony calculates the impact of our recommended adjustments on RMP's requested EBA recovery amount.

In prior EBA audits we have noted concerns about the thoroughness and transparency of the Company's responses to inquiries about its activities and decisions related to net power costs. However, since the 2014 Settlement Stipulation entered in Docket No. 14-035-31 the Company has worked collaboratively with the Division and with Daymark to improve the review process on both ends. We noted progress on this front in our audit report in Docket No. 15-035-03, stating, "We are encouraged by the progress shown in this EBA period." We are once again encouraged by continued progress in the current EBA period. The Company has made significant improvements in the completeness of its responses to data requests and in its contemporaneous documentation of strategic purpose of commercial decisions impacting EBA costs. We note, however, that certain persistent challenges remain, such as the lack of root cause outage data in the case of forced outages of renewable generation resources. These challenges provide areas for continued improvement in future audits.

In reviewing the 2015 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 a result, there were 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. The Company was responsive to requests for conference calls and made appropriate personnel available to explain what was often highly technical issues involving complex issues. In our view these conference calls improve the efficiency of the review process greatly.

We recognize the challenges for the Company to document $1.5 billion in net power costs incurred for operations in a geographic area covering much of the western United States. The Company's participation in CAISO's EIM, though apparently beneficial for customers, adds additional complexity. The increased cooperation and collaboration displayed in the past two EBA cases between the Company and the Division have greatly improved our ability to conduct a reasonably thorough review of net power costs and assure customers that the costs for which recovery is requested have been reasonably incurred.