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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
Justin Christensen, Utility Analyst

Subject: Docket No. 16-035-15. Action Request from the Commission to review and make recommendations. Rock Mountain Power's December 2015 Results of Operations. In the Matter of PaciCorp's Financial Reports 2016.

Date: September 29, 2016.

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 April 29, 2016, Rocky Mountain Power ("Company") filed its December 2015 Results of Operations and a confidential Wind Resources Report for the twelve months ended December 31, 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 April 29, 2016, the Commission issued an Action Request to the Division requesting a review of the filing and recommendations. The Commission asked the Division to report back by May 31, 2016.

On May 16, 2016, the Commission sent a supplemental action request to the Division asking the Division to investigate a matter related to the CN allocation factor in the Results of Operations applicable to Docket No. 16-035-15. This supplemental action request was due June 14, 2016.

Upon initial review of the filing, the Division determined that the review would require the Division to submit requests for information to the Company and to independently check the Company's spreadsheets used in its filing to obtain regulatory results of operations for 2015. The Company told the Division that the response to its initial request for a reconciliation of the results to its FERC Form 1 and SEC 10-K filings for 2015, would be within 30 days of the request. Also, the Company indicated its responses to any follow-up data requests would require an additional 30 days. Taking into consideration the time to analyze the data request responses and the report preparation, the Division requested on May 18, 2016, that the Commission extend the due date of the Division's response to the Action Request and the Supplemental Action Request to September 30, 2016.

On May 19, 2016, the Commission granted the Division's request for an extension of time for both action requests to September 30, 2016.

The issue the Commission asked the Division to investigate in its supplemental action requests had to do with customer numbers. On May 19, 2016, the Division sent a data request to the Company regarding this issue. A copy of the request; the Company's response is attached to this report. The request was as follows:

> Customer numbers for Utah, as reported in PacifiCorp's 2015 Results of Operation JAM model filed in this docket and used in the development of the CN allocation factor appear to be different than customer numbers used to develop the same factor in PacifiCorp's JAM models used for ratemaking purposes. For example, PacifiCorp reports 966,815 Utah customers in its 2015 Results of Operation JAM model. In comparison, PacifiCorp reported 850,309 Utah customers in its June 4, 2014, Rebuttal JAM model used in the general rate case in Docket No. 13-035-184. [The Rebuttal JAM model can be found on the Commission's website in Docket No. 13-

> 035-184 at the June 4, 2014 entry entitled “McDougal Rebuttal Work papers - Copy of UT GRC Rebuttal JAM - June 2015 Test Period.”]
>
> Please explain how the customer numbers are determined for the different applications and identify their associated data source(s), broken out by rate schedule. Also, please explain the basis and impacts of the identified methodology or methodologies

On June 2, 2016, the Company responded to the Data request with the following:

> The methodology to calculate the customer number factor is the same for rate case and results of operations reports. The customer number factor in the 2015 Results of Operations JAM inadvertently included a double count for the Company’s CoolKeeper customers which resulted in overstating the number of billings.
>
> Please see attachment DPU 2.1 for the detail used to calculate the customer number factor in Docket No. 13-035-184 and December 2015 Results of Operation. This attachment also includes the corrected CN factor for the December 2015 Results of Operations Report. Correcting the CN Factor increase Utah’s Return on Equity by approximately 3 basis points.

The Division independently reran the Company’s December Utah 2015 results of operations JAM using the corrected actual customer billings for the CN factor calculation to see if it would arrive at the same results. After rerunning the JAM using the corrected numbers, the Utah Return on Equity increased 3.3 basis points (see attached corrected JAM for details). The Division’s results basically agree with the Company’s response of an approximate 3 basis points increase.

When possible, all numbers used in this action request response will come from the corrected Utah results of operations JAM. However, using the originally filed numbers would probably not change significantly what is shown here. The impact of using the correct CN customer numbers is very small. It is just 3 basis points to Return on Equity. Thus the Division concludes that no action needs to be taken in regards to this matter.

GENERAL COMMENTS, ANALYSIS AND REVIEW

As a result of past informal meetings, which the Division discussed in previous reports on the Company's annual results of operations, there was a change regarding how the unadjusted information would be adjusted to arrive at normalized results. Now actual results are adjusted to arrive at normalized results using two types of adjustments. They are Type A, – reporting and ratemaking adjustments, and Type B, – normalizing adjustments. Future period adjustments have been discontinued. The first Semi-annual filing using the new Type A and Type B adjustment method was the Semi-Annual filing filed for the year ended December 31, 2011. Except for these adjustment changes, the rest of the filing's basic format and presentation of information remains the same as in previous filings

The Division's review of the Semi-Annual filing under this Action Request was done using three major review procedures. The first major procedure was comparing information given and adjustments made for the year ended December 31, 2014 Semi-Annual filing to the same information given and adjustments made for the December 31, 2015 Semi-Annual filing. The second procedure was to review a reconciliation provided by the Company that reconciled the year ended December 31, 2015 Semi-Annual filing to the Company's FERC Form1 and its SEC 10-K filing for the same period. Third, the Division used the IJA model provided by the Commission to check the Company results of operations filings independently. The Division had no informal meetings with Company during its review of the results of operations for 2015.

Net Power costs are a major operating expense of the Company. For the year ending December 31, 2015, these costs were reviewed by the Division in Docket No. 16-035-01. The result of the Division's audit regarding Net Power Costs can be found in that docket. The Division also filed reports on the REC Balancing Account in Docket No. 16-035-10. The Division's questions for these items were covered in the above Docket and will not be addressed in this report.

The Division did do a comparison review of Net Power Cost and REC Balancing account adjustments made to the 2014 and 2015 December 31 filings. For the results of that review, see the Net Power Adjustment Section under the Adjustment Comparison Analysis and Review report heading that follows.

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 cost 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 the 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 December 31, 2014 to December 31, 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).

	December 2015	June 2015	December 2014
Total Operating Revenues	$2,173	$2,170	$2,203
Total O&M Expenses	$1,192	$1,216	$1,253
Depreciation and Amortization	$ 295	$ 287	$ 279
Taxes Other Than Income	$ 66	$ 63	$ 59
Income Taxes and Deferrals	$ 153	$ 151	$ 155
Operating Revenue for Return	$ 467	$ 453	$ 457
Total Electric Plant	$11,925	$11,645	$11,360
Total Rate Base Deductions	$ 5,749	$ 5,563	$ 5,354
Total Net Rate Base	$ 6,176	$ 6,082	$ 6,006
Earned Return on Rate Base	7.564%	7.456%	7.602%
Earned Return on Equity	9.865%	9.630%	9.839%

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 December 31, 2015 shows an earned return on Equity of 9.865% which is .065% greater 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 also earning more than its authorized Return on Equity of 9.80%. The Division will continue to monitor the return on

[1] Docket No. 13-035-184

equity percentage in future Semi-Annual filings to see if the return on equity continues to creep up above the 9.8%.

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 year 2015 to year 2014 above indicates a $30 million decrease in Revenues and a $61 million decrease in O&M expenses. Operating revenue for return for 2015 increased $10 million dollars as compared to 2014. Also, the total net rate base is increasing but the earned return on rate base decreased .038%. Depreciation is also increasing due to the increase in Total Electric Plant.

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%

In this Semi-Annual filing the calculated five quarter average overall capital structure and cost of capital is:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	48.81%	5.15%	2.514%
Preferred Stock	0.01%	6.75%	0.001%
Common Stock Equity	51.18%	9.80%	5.016%
TOTAL	100.00%		7.531%

Using the above Semi-Annual amounts and substituting the authorized return on equity percentage with the return on equity from the filing of 9.865% as shown above leads to the following results:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	48.81%	5.15%	2.514%
Preferred Stock	0.01%	6.75%	0.001%
Common Stock Equity	51.18%	9.865%	5.049%
TOTAL	100.00%		7.563%

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 December 2015, June 2015 and December 2014 are 9.594%, 9.411%, and 9.600%, respectively.

Per the last general rate case, the stipulated Utah base Net Power Costs were $630.0 million on an annual basis. For the December 2015, June 2015, and December 2014 Semi-Annual filings the Utah Net Power Cost were computed to be $654.1, $663.9, and $689.8 million, respectively.

As with last year's filing the Company has chosen to include postretirement welfare plan balances in its December 2015 results of operations These balances were included in the last general rate case filing Docket No. 13-035-184. The Company's rate case testimony explained why it believed these balances were (or should be) included in rate base. Whether or not the Commission will accept these balances in rate base was not determined in the last rate case. There is no Commission order supporting the use of this adjustment to obtain Utah normalized results of operations for the Semi-annual filing.

For analysis purposes the Division has run the JAM without the postretirement welfare plan balances, generating a new results of operations summary. The amounts used to back out the balances from the JAM were provided by the Company. We then compared the new results of operations summary we produced to the Company's original results of operations summary with the postretirement welfare plan balances as filed with the Commission. The pertinent results for not including postretirement welfare plan balances is as follows: not including increased operating taxes, decreased rate base, and decreased rate base deductions. Not including postretirement welfare plan balances also increased return on rate base from 7.548% to 7.623% (plus 0.105%); and increased return on equity from 9.833% to 9.980% (plus 0.147%).

As in past filings, the Company has restated generation overhaul expenses to constant dollars in its normalizing adjustment for generation overhaul expenses (see adjustment page 4.5.1 in the filing).

In its August 11, 2008 Order issued in Docket No. 07-035-93 and in its February 18, 2010 Order issued in Docket No. 09-035-23 the Commission directed that historic costs should not be inflated prior to determining the normalized four-year average expense level. As stated above, the Company in its rate case filings subsequent to the above orders has restated overhaul expense amounts in constant dollars. In past rate cases the Company has written testimony to support it doing so. The Division in recent rate case testimony has also provided reasons and analysis why historical costs should be adjusted to constant dollars. However, all of the rate cases subsequent to the above Orders on this matter have been settled with this restating to constant dollars not addressed in the stipulated settlements. In past filing the Division has analyzed the impact of using historical dollars instead of constant dollars. This year the Division has foregone this analysis. In past analysis, the results have been that using historical dollars has had less than a $500,000 decrease to filed total operating costs. It likewise has caused a very small (hundredths of one decimal point) increase to return of rate base and return of equity.

The Division notes that all adjustments in the Results of Operations are consistent with the Company's last GRC filing, unless specific adjustments were called out in the settlement stipulation or Commission Order. New adjustments appear to be consistent with Commission Orders under Dockets subsequent to the last GRC that would impact ROO, such as the Deer Creek adjustment.

RECONCILIATION ANALYSIS AND REVIEW

As noted above, one of our major review procedures was to have the Company provide a reconciliation of the Semi-Annual results to the Company's FERC Form 1 and SEC Form 10-K. The Company's Semi-Annul filing to the Commission is based on FERC accounting and FERC accounts. Through the reconciliation of the Semi-Annual filing, the Division can get assurance that the form and the accounting for the Semi-Annual filing are the same as that provided to another outside regulator, in this case the FERC.

Also, if the 10-K results are reconcilable, then the Division can take into account the external auditor's 10-K audit opinion on the results shown in the Company's year-end filing of its Semi-Annual report. The Division can look to this audit to obtain assurance as to accounting correctness and accuracy for Semi-Annual base unadjusted historical information under this review.

The Company's filing of its 10-K with the Securities and Exchange would be based on historical information from the Company's books and records. The 10-K filing is based on GAAP accounting (General Accepted Accounting Procedures) but the information for that accounting also is the same base information that is used in the FERC Form 1 and the Semi-Annual filing. The SEC filing's historical information is audited by independent external auditors hired by the Company. The external auditors have expressed a positive opinion on the fairness of the Company's representations on its financial statements according to GAAP for the same period as the Semi-Annual report the Division is reviewing in this memorandum; the opinion issued by the external auditor was what is sometimes termed a "clean" opinion. The Company's books and records providing the account amounts for the financial statements and for the FERC Form 1 and the Semi-Annual filing were audited by the External Auditor using Generally Accepted Auditing Procedures as part of its procedures to arrive at its issued opinion.

Third, the Division can review the reconciled items to see if they make sense and are proper additions or eliminations to arrive at a proper base or proper starting point for unadjusted historical results of operations in the Semi-Annual filing. This proper base is then adjusted to arrive at Utah normalized results of operations for regulation purposes.

The Division received the above requested and explained reconciliation. Specifically, the Company prepared the following reconciliations:

1. Income Statement: 10-K to FERC Form 1.
2. Income Statement: FERC Form 1 to Results of Operations (unadjusted).
3. Balance Sheet: 10-K to FERC Form 1.
4. Balance Sheet: FERC Form 1 to Results of Operations (unadjusted, yearend basis).

These reconciliations are provided with this report. As part of its review procedures, the Division compared the reconciliations provided by the Company for its December 2015 review with the reconciliations provided by the Company for its December 2014 review.

The reconciliation format was identical from this year to last year with the vast majority of the reconciliation items from year to year being the same. This was expected since the base accounting and the chart of accounts from year to year follows GAAP and FERC rules and regulations that are highly consistent, with little if any changes from year to year. This consistency provides comparisons that quickly point out differences from year to year in format and reconciling items. One noted difference was this year in the reconciliation the Company provided copies of FERC Form 1 pages supporting reconciling numbers. The Division found this very helpful. Due to the consistency of the reconciling material from this year to the last, no data requests having to do with the reconciliations for December 2015 were required.

The information provided by the Company in its reconciliations has enabled the Division to better understand why particular financial items are different between the three types of reports (Form 10-K, FERC Form 1 and Utah Results of Operations). Due to the large number of differences between the reports and the detail involved, this report will not attempt to explain all of the differences. The explanations for the differences are, however, shown in the attached reconciliations. The Division has reviewed the Company's explanations for the differences and at this time the Division does not have any reconciliation concerns. However, the Division reserves the right to challenge certain reconciliation treatments or methodologies that may get carried over to future Results of Operation reports or other proceedings if the Division concludes challenges are appropriate. For example, the Division may at a future date determine that an item that is currently considered "regulatory" should in fact be "non-regulatory" and should not be included in the Results of Operations.

It appears to the Division, after review of the reconciliations, that the December 2015 results of operations on a total Company and unadjusted basis is derived from the same base numbers as those found in the Company's 10K filing to the Securities and Exchange Commission and to the FERC Form 1 filing with the Federal Energy Regulatory Commission.

ADJUSTMENTS COMPARISON ANAYLSIS AND REVIEW

Another review procedure the Division used was to compare the adjustments made to the Utah Results of Operations for the year ended December 31, 2015 to the adjustments to the Utah Results of Operations for the year ended December 31, 2014. In the past ten years, the majority of the rate cases in Utah have been settled. Thus, during this period the adjustments to arrive at Utah regulated results of operations have been consistent, with very little change. Generally, the Commission's orders and regulatory precedents used to arrive at Utah regulatory results of operations have been generated many years before so the regulatory adjustments from one Semi-annual results of operation filing to another are basically the same. However, as noted in previous filings by the Division, future period or Type 3 adjustments have been discontinued.

Both Type A and Type B adjustments were compared. In the 2015 and 2014 filings, the adjustments are summarized and explained in detail by various categories, which are broken out by Tab Sections in the filing. The adjustment Tabs in the filing are numbered and are as follows: Tab 3 - Revenue Adjustments; Tab 4 - O&M Adjustments; Tab 5 - Net Power Cost Adjustments; Tab 6 - Depreciation and Amortization Adjustments; Tab 7 - Tax Adjustments; and Tab 8 - Rate Base Adjustments.

One purpose of the comparison was to note material differences between the years and to determine if the differences were proper. Accordingly, the Division submitted comparison questions through data requests to the Company. Another purpose was to have the Division look at the 2015 adjustments to determine if the presentation, explanations, and balances were consistent and accurate and that the assumptions and the computation of the adjustments seemed to be proper and accurate. The Division noted that the adjustments in the adjustment tabs were consistent with adjustments that the Company makes to results of operations in its General Rate Case filings. Some of those adjustments do not follow Commission orders or were contested by parties during rate cases that were settled without resolution or agreement concerning those adjustments.

As part of the Divisions comparison analysis and review of the Company's adjustments, the Division submitted questions to the Company. These questions and the Company's responses to the questions is attached to this action request response and is entitled RMPs Response to DPUs 4th set referring to the Divisions Data Request No. 4.

CONCLUSION

After performing the above procedures and after reviewing the results obtained from those procedures, nothing came to the Division's attention during its review that was of material significance suggesting modification of the filing or action to change 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