



SPENCER J. COX  
Governor

DEIDRE HENDERSON  
Lieutenant Governor

State of Utah  
Department of Commerce  
Division of Public Utilities

MARGARET W. BUSSE  
Executive Director

CHRIS PARKER  
Director, Division of Public Utilities

## Memorandum

**To:** Public Service Commission of Utah

**From:** Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Manager

Doug Wheelwright, Utility Technical Consultant Supervisor

Joni S. Zenger, Utility Technical Consultant

David Williams, Utility Technical Consultant

**Date:** March 30, 2021

**Re:** **Docket No. 21-035-12**, Division's Audit of PacifiCorp's 2020 Fuel Inventory Policies and Practices.

### Recommendation (No Action)

The Utah Division of Public Utilities (Division) has reviewed the 2020 fuel inventory policies and procedures of PacifiCorp (the Company) and finds that the Company is generally in compliance with the Public Service Commission's (Commission) directive in Docket No. 09-035-23. No further action by the Commission is required.

### Issue

This memorandum is in response to the Commission's Report and Order in Docket No. 09-035-23, which directs the Division to "conduct an annual audit of the Company's fuel inventory management policies, procedures, and actual practices and provide a summary of its

audit and associated findings to the Commission by no later than March 31 of each year for the previous year's activity.”<sup>1</sup>

This memorandum does not preclude the Division's analysis of coal inventory levels or any associated net power cost issues in future Energy Balancing Account filings, or in a general rate case, or other regulatory proceedings.

## **Discussion**

In conducting its review, the Division met with the Company's Fuel Resources Department on March 18, 2021 via conference call. At the meeting the Company and the Division discussed the inventories at each of the Company's owned and affiliated coal plants. The Company and the Division also discussed plant deliveries, coal supply, and coal consumption at the Company's coal plants.

After the March 18, 2021 meeting, the Company submitted the following confidential documents to the Division for review:

- PacifiCorp Fuel Stock Balance Review (Summary Inventory Data)
- PacifiCorp Coal Inventory – Confidential Review of 2020 Inventory Levels with the Division of Public Utilities (Confidential 2020 Coal Inventory Review)
- PacifiCorp Coal Inventory – Policies and Procedures - Updated March 18, 2021 (the 2021 Policies and Procedures Manual)
- Redlined PacifiCorp Coal Inventory – Policies and Procedures - Updated March 18, 2021 (redlined 2021 Policies and Procedures Manual)
- Coal Inventory Study for PacifiCorp Coal-Fired Power Plants in Wyoming and Utah – March 2021 (the Confidential 2021 Kaptur Study)

In its 2020 audit of PacifiCorp's 2019 Fuel Inventory Policies and Practices, the Division recommended that the Company contract with a third-party consultant to examine and reevaluate

---

<sup>1</sup> Docket No. 09-035-23, *Report and Order on Revenue Requirement, Cost of Service and Spread of Rates*, February 18, 2010, p. 106 (2010 Order).

the Company's fuel inventory policies and procedures and target inventory levels maintained at each plant.<sup>2</sup> In its 2020 Comments, the Division noted that an update to the third-party review is particularly important in light of the many changes to coal market conditions taking place, such as bankruptcies, changes in coal quality, transportation disruptions, labor disputes, changing generation requirements, and early plant retirements.

In spite of the pandemic,<sup>3</sup> the Company was able to obtain an updated review by Mr. Casey J. Kaptur (formerly with RPM Global). Mr. Kaptur worked as an employee of RPM Global (RPM) and predecessor companies and was involved with previous studies of PacifiCorp's recommended coal inventory levels at Utah and Wyoming plants.<sup>4</sup> Mr. Kaptur submitted his updated review to the Company in March 2021. The Division reviewed the Confidential 2021 Kaptur Study in its audit of PacifiCorp's 2020 fuel inventory policies and practices.

For the review of 2020 inventories, the Company provided the end-of-year inventories at each plant, as well as both the previous year's targets and any new adjusted targets. The Division looked at both historical and average stockpile levels, compared those to the Company's targeted inventory levels, and determined whether the Company met its targeted tonnage levels and days' worth of inventory (days' burn) at each respective coal generating plant. The targeted fuel inventory levels and days' burn are based on recommended target levels that were determined in the analysis contained in the previous report by RPM and, going forward, the Confidential 2021 Kaptur Study. The Division verified that the Company has tracking and monitoring requirements in place that correspond with its policies and procedures. The Fuel Resources Department monitors inventory levels, and aerial surveys are performed quarterly for the Company's operated coal plants to determine the stockpile amounts.

---

<sup>2</sup> Docket No. 20-035-12, *Comments from the Division of Public Utilities*, March 31, 2020 (2020 Comments).

<sup>3</sup> In Docket No. 20-035-12, the Company suggested that a report may have to wait until mid-2021 due to the pandemic and other volatility., *Rocky Mountain Power's Comments on the Division of Public Utilities' Audit Report*, April 27, 2020, p. 1.

<sup>4</sup> Confidential 2021 Kaptur Study, p. 1.

The Commission's Report and Order in Docket No. 09-035-23 states the following goals of the Company's coal inventory policy:

The policy should provide an overall management strategy, flexibility to react to favorable market conditions, documentation requirements for deviations from the policy with an assessment of the costs and benefits associated with deviations, and tracking and monitoring requirements. In response to this policy, the Division should, during the course of its annual auditing, review inventory levels and compliance with inventory policies.<sup>5</sup>

As part of its 2021 audit, the Division reviewed the documents listed at the beginning of this section.

## **Findings**

The Company's Coal Inventory Policies and Procedures Manual (Policies and Procedures Manual) is updated each year. This year's Manual, the 2021 Policy and Procedures Manual, is dated March 18, 2021.

In its review, the Division considered issues that currently affect the Company's fuel inventory levels and its procurement practices. These issues include the following:

- A decline in coal-fired generation and correspondingly lower average capacity factors;
- The risk profile of geologically complex mines and mine sources;
- The dynamics of the coal industry, including transportation issues, bankruptcies, and future plant closures;
- Contract specifics (such as the specific term lengths of contracts, take-or-pay contracts, contracts which allow purchasing flexibility, etc.); and
- Environmental laws and regulations, including the uncertainty of current environmental policies and regulations.

The Company employs a diversified coal supply strategy, planning for and managing a multitude of factors, including a decrease in coal production, the shrinking number of coal suppliers, the

---

<sup>5</sup> 2010 Order, p. 105.

need to blend lower-quality coal with higher-quality coal in order to get optimized fuel burn, temporary planned and unplanned plant outages, the possibility of permanent plant outages or closures, fluctuating rail rates, and complex third-party coal contracts.

The Division determined that the Company is managing inventories by considering appropriate factors in near-term and longer-term analyses and planning. The Company's fuel procurement policies and practices provide some flexibility in order for the Company to react to changing market conditions and to take advantage of contract advantages when present.

Recent plant closures, as well as upcoming coal plant retirements announced in the Company's 2019 Integrated Resource Plan (IRP),<sup>6</sup> make it even more difficult to optimize delivered fuel supplies and costs while ensuring an adequate and reliable supply at the lowest cost practicable. In 2020 the Company's Fuel Resources Department did a commendable balancing act accomplishing these objectives, resulting in savings to Utah ratepayers. In addition, with the changing dynamics in the industry, it is appropriate that the Company commissioned a third-party study update to determine whether the Company's Policies and Procedures and/or target levels at each plant need to be updated. This will help the Company continue to manage fuel supply risk at least cost.

## **Coal Inventories**

Taking all plants as a whole, and accounting for the Company's share of inventory at each of its jointly-owned plants, the Company's coal inventory at the end of 2020 was higher than the target range recommended in the 2021 Kaptur Study. If inventories for each month are averaged for the whole year, the Company was just barely over its target for the year.

The fuel inventory of all plants combined increased during the year from January 2020 to December 2020. With respect to individual plants, most plants were within their target ranges at the end of year 2020. The Company provided a rationale for the plants that were outside the target range, and this rationale fits in with the Commission's goals for inventory management as stated in Docket No. 09-035-23 (quoted earlier). For example, temporary planned and unplanned

---

<sup>6</sup> Docket No. 19-035-02, *PacifiCorp's 2019 IRP, Volume I*, October 18, 2019, p. 13.

outages can affect coal inventories, causing inventories to rise in certain months while repairs are performed. At other plants, lower inventories may be appropriate to provide the flexibility leading up to plant closures or divestitures of PacifiCorp's contractual interests. Inventory may exceed target levels in some cases in order to take advantage of expected price fluctuations or contract opportunities.

At the Company's Jim Bridger plant, the Company has a sharing arrangement with Idaho Power that provides flexibility for each company to use the other company's coal supply. This allows the Company to control costs by maintaining flexibility of monthly and year-end supply. This is particularly useful in mitigating the increased supply risk associated with underground mining, as is the case at Bridger. The Company faces a trend that has continued since 2017, where Idaho Power's generation at the plant has declined substantially. In this case, the total plant inventory is a better measure of the plant's inventory status than PacifiCorp's share.

For most plants, end-of-year coal inventories are within the target ranges. However, for three plants the inventories were outside the target ranges. The Division notes that with respect to jointly-owned plants, inventory levels may not be fully under the Company's control. To the extent that the Company has control over inventories, inventories may deliberately be outside the target ranges for either operational considerations or to take advantage of contract options, which can minimize overall fuel costs. The Division believes that Company acted prudently with regard to the plant inventories that are outside the target range.

The Company updated its 2021 Policies and Procedures based on the analysis in the March 18, 2021 Kaptur report and based on operational and contract expectations at the various plants. The Division has reviewed the Policies and Procedures, dated March 18, 2021. The Division finds that the Company is in compliance with the Commission's directive in its 2009 Report and Order with respect to the Company's fuel inventory policies and procurement practices. The Company provided the end-of-year inventories at each plant, as well as both the previous year's targets and the new adjusted targets. While overall end-of-2020 levels were outside of the targeted levels, the average monthly inventory levels were very close to the targeted range, and the Company

expects to be within its target by mid-2021.

## **Conclusion**

The Division has reviewed the 2021 Policies and Procedures and has evaluated the target levels versus actual inventory of coal at the Company's generation plants. The Division determined that the Company is generally in compliance with its policies and procedures and has prudent business reasons for plants that are outside the fuel inventory target ranges. Where inventories are outside of the targeted levels, the Company has plans in place to bring the inventory stock into targeted levels as appropriate. The Division determined that the Company is managing inventories by considering appropriate factors in its longer-term analyses and planning.

The Division concludes that: (1) the Company has formal policies and procedures in place for its fuel procurement and coal inventory levels; (2) the Company has generally adhered to its policies and procedures in 2020, and as amended with an effective date of March 18, 2021; and (3) the Company's policies provide flexibility for the Company to react to the changes in the market that the industry faced this past year. No action is required by the Commission.

Cc: Jana Saba, Rocky Mountain Power  
Michele Beck, Offices of Consumer Services