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Subject: Implementation of RMP's Proposed EBA Tariff 94; Docket 11-035-T10. Office of Consumer Services Proposed List of Issues.

1 Background

After a lengthy process involving multiple phases[1], the Utah Public Service Commission (Commission) issued an order on March 2, 2011approving an energy balancing account (EBA) for Rocky Mountain Power (RMP or the Company) to be implemented at the conclusion of the current general rate case (GRC).[2] On September 13, 2011the Commission approved a comprehensive stipulation resolving the revenue requirement issues in that GRC, including some issues pertinent to the implementation of the new EBA. On October 12, 2011 the Company filed a tariff request to implement the new EBA. Due to the complexity of the issues, the Commission suspended the typical thirty-day implementation time frame to facilitate analysis, discussion and potential agreement among the parties regarding certain reporting requirements and interpretation of the Commission orders as they relate to the tariff language.

The Commission held three technical conferences to work through the relevant issues. Further, the parties provided comments regarding the tariff language to the Company, many of which were incorporated in subsequent drafts. However, it became clear that due to the complexity of implementing a new tariff and different views on particular issues among the parties, consensus would not be reached on all issues. Consequently, the Commission held a scheduling conference to address a limited set of unresolved issues. Pursuant to the Commission's December 6, 2011 Scheduling Conference[3] in Docket 11-

[1] See EBA Docket, No. 09-035-15.
[2] The general rate case was filed on January 20, 2011 with an. See Docket No. 10-013-124.

035-T10, the Office of Consumer Services (Office) submits its proposed list of issues for consideration.

2 List of Issues

The following issues need to be addressed further before the EBA can be implemented in a manner that results in just and reasonable rates:

- The proper method for spreading EBA costs among rate schedules.
- The development of an EBA Manual to indicate costs and revenues included in the EBA and the determination of specific mechanics for reporting purposes.
- The establishment of reporting requirements for EBA filings.
- The details underlying dynamic allocation need to be further developed.
- An examination of the appropriate application of carrying costs.

The Office will briefly discuss each of these issues below, including why additional analysis and evaluation is necessary prior to EBA implementation.

EBA Rate Spread

The rate spread for EBA costs requires additional evaluation for three reasons. First, the Commission's order does not clearly indicate the precise method of implementation and is subject to interpretation, especially as it relates to use of a cost-based method. Second, the evidentiary record in the EBA case is inadequate for determining a fair and cost-based method for spreading EBA costs among customer classes. Third, it is important to note that different allocation methods have significantly different impacts on customer classes.

In its March 2, 2011 EBA Order (Docket 09-035-15), the Commission rejected the Company's proposal[4] to spread EBA balances on the basis of a simple energy allocator, stating that"collection or refund of any EBA balance must also be based on cost of service."[5] Instead, the Commission ordered the class rate spread from the prior general rate case (GRC) be used to allocate EBA deferrals among affected customer classes. The Company interpreted this to mean the settled rate spread used by the parties to allocate the increase in revenue requirement resulting from the rate case. Because of the EBA order's emphasis on cost of service, the Office had assumed that an allocator reflecting a more precisely defined cost of service associated with EBA-related costs would be used.

Despite twice referencing[6] the need to base the collection of an EBA on cost of service, the Commission did not thoroughly examine alternative allocation methods to determine a

[4]Griffith Direct, page 3, lines 45-51.
[5] March 2, 2011 EBA Order, page 75.
[6]March 3, 2011 Corrected EBA Order, pages 75 and 76.

cost-based approach for allocating net power costs (NPC) included in the EBA. On this critical ratemaking issue of how future EBA balances should be spread among customer classes, RMP was the only party to put forward an allocation method for consideration. No other party in a very long and complex EBA case, including the Division, Office, UAE and UIEC, submitted a recommendation on EBA rate spread.[7] This is understandable because EBA rate spread was never explicitly identified by the Commission as a salient issue that needed to be addressed in any of the three phases (i.e., threshold, market reliance, design) of the EBA Case.[8] The focus of the evidence presented to the Commission after it made the threshold decision to proceed was whether an EBA could be designed in way to satisfy public interest concerns.[9] Thus, the evidentiary record needs to be augmented so that the Commission will have sufficient evidence for determining the appropriate methodology to implement its order that the EBA be collected on a cost-of-service basis.

Another reason why it is important for the Commission to receive additional evidence on the issue of rate spread is the potentially large dollar impacts of using an inappropriate method. Attachment A is a comparison of impacts on customer classes resulting from three different methods for spreading EBA balances: the Total Revenue Requirement Allocator (ordered by the Commission), a Composite NPC Allocator and a simple Energy Allocator.[10] This analysis clearly illustrates that the monetary impacts on customer classes resulting from these three EBA spread methods are rather divergent and pronounced. In particular, the use of the Total RR allocator spreads significantly more power costs to the residential class compared to either the composite NPC allocator (9.17 percentage points) or a simple energy NPC allocator (9.29 percentage points). Assuming

[7]UAE took a position on a rate design issue (as distinct from rate spread), agreeing with the Company that the ECAM charge should be adjusted by voltage of service and time-of-day, as applicable. (UAE Brief, pg. 17) However, this issue was not specifically addressed in the Commission's EBA Order. UIEC proposed to account for the EBA balance by rate schedule to address the seasonality of the EBA rate, which was rebutted by the Company. (Griffith Surrebuttal, October 13, 2010, pg. 2) The Commission declined to adopt UIEC's proposal. (EBA Order, pg. 80) Thus, the only rate spread proposal in the evidentiary record was (and remains) the Company's proposal to use an equal cents per kWh energy allocator, after adjusting for voltage level losses.

[8]In reviewing the Commission's summary of party issues lists in its June 18, 2009 Procedural Order, the Office notes it was the only party that identified "rate spread and allocation to customers" (Order, pg. 5) on its issues list for Phase I of the EBA Case. However, in its Procedural Order the Commission did not explicitly specify "rate spread or allocation to customers" as a Phase I issue (see Order at pgs. 9-10). Furthermore, the rate spread of EBA deferrals was not identified by the Commission in its February 8, 2010 Order as an issue to be addressed in either the Market Reliance or EBA Design phases of the EBA Case.

[9]See the Commission's Feb. 8, 2010 Order in Docket 09-035-15; in particular, the bottom of page 1 and top of page 2.

[10] The *Total Revenue Requirement (RR) Allocator* is the Company's interpretation of the Commission order, which broadly reflects all revenue requirement elements comprising a GRC. The *Composite NPC Allocator* is a more narrowly specified, composite NPC allocator from the Company's class COS model. It reflects both energy and demand elements contained in NPC. The *Energy Allocator* is a simple ($/MWh) energy allocator similar to what was proposed in the Company's initial EBA testimony and currently relied on by the Idaho Commission to spread RMP's EBA-type balances among rate schedules.

a $50 million EBA balance in Utah, the use of the GRC allocator rather than the composite NPC allocator results in an additional $4.6 million spread to the residential class. Thus, inter-class fairness represents another compelling reason why the Commission should use a rate spread method that is consistent with sound COS principles.

Establishing sound regulatory policy requires that the Commission make an informed decision on the critical issue of EBA rate spread and take evidence from parties on alternative methods in the process of implementing the EBA Tariff. The Office has identified three EBA rate spread methods and there may be additional approaches proposed by parties for the Commission to evaluate. The Office submits that either a composite NPC allocator or a simple energy allocator appear to be superior to the GRC method because they better fit the distinct set of net power costs that will be at issue in EBA proceedings. These methods also send clearer and more accurate price signals to customers regarding the net power cost component of rates and energy usage.

<u>EBA Filing Requirements</u>

Rules need to be developed to guide filing requirements for the new EBA, similar to those in place applicable to filing requirements for general rate cases.[11] These rules should strive to ensure completeness of information contained in EBA filings. Examples of items that should be addressed in EBA rules include: workable versions of models and spreadsheets used in preparing each EBA filing; power cost information at the account and sub-account levels, applicable audit reports and associated work-papers, and swap transactions and summary of impacts for the EBA period. Developing filing requirements in advance will minimize necessary discovery and associated disputes as well as increasing the efficiency of the EBA review process.

<u>EBA Manual</u>

An EBA Manual (taxonomy and mechanics) needs to be developed that clearly indicates the costs and revenues included in the EBA, along with other items such as underlying data sources and when, where and how certain items will be recorded. Examples include:

- What constitutes incremental wheeling revenue and what are the appropriate sources for tracking and reporting incremental wheeling revenue;
- Separate tracking of gas and electric swap transactions is needed in Account 555 – Purchased Power to facilitate transparency;
- What specific on-system wholesale transactions are excluded and the reasons for exclusion;

[11]These rules applicable to the Company's general rate case applications include R746-700-20, R746-700-21, R746-700-22 and R746-700-23.

- Prior period accounting entries and NPC adjustments ordered by the Commission. These entries and adjustments should be provided with each EBA Application, accompanied by a full explanation of the reason for each entry/adjustment and resulting impact on EBA rates.
- Transfer to Deferral Accounts. Language should either be added to the EBA Tariff or a provision included in the EBA Manual that purchased power items can only be excluded from Account 555 if there is a standing Commission order authorizing the transfer and deferral.

This explanatory information must be developed and filed with the Commission prior to the implementation of the EBA to ensure that parties have a forum for resolving differences regarding these implementation details.

Dynamic vs. Fixed Allocation Method for Determining Utah EBA Balance

At the last EBA technical conference, it appeared that most if not all parties supported the concept of dynamic allocation. However, the details underlying a dynamic approach may need to be further developed.

Application of Carrying Charges

UIEC submitted comments on a recent draft of the EBA Tariff suggesting that interest should not be assessed on costs included in the EBA until the Company reimburses suppliers/contractors for products/services received. This appears to be a legitimate concern that requires further investigation.

3 Process

In its Scheduling Order, the Commission requested that parties address whether a testimony or comment format should be used to resolve remaining EBA issues. The Office asserts that in order for the Commission to receive the necessary additional evidence, there should be three rounds of comments/testimony (i.e. comments, responsive comments and reply comments or direct, rebuttal and sur-rebuttal testimony.) The Office does not have a strong preference between comments and testimony. However, if the Commission schedules comments, it should include a deadline in advance of the hearing by which parties identify witnesses that will be supporting the comments at the hearing. The Office believes that a hearing will be necessary in order for the Commission to receive additional evidence on which to base its decisions.

4 Recommendations

The Commission should order that the following issues require additional consideration as part of implementing the EBA Tariff:

- EBA Rate Spread;
- EBA Manual;
- EBA Filing Requirements;

- Dynamic versus Fixed Allocation;
- Application of Carrying Charges.