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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
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Matt Croft, Technical Consultant
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Subject: Docket No. 13-035-72. Action Request from the Commission to review and make recommendations. PacifiCorp's Results of Operations Report for the Twelve Months Ended December 31, 2012. In the Matter of PaciCorp's Results of Operations Report for the Utah Jurisdiction for the Twelve Months Ended December 31 2012. Contains A Proprietary Exhibit.

Date: November 15, 2013.

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 30, 2013, Rocky Mountain Power ("Company") filed its December 2012 Results of Operations and a confidential Wind Resources Report for the twelve months ended December 31, 2012 with the Commission. The wind report was provided in compliance with the Commission's final order in Docket No.07-035-93. On May 7, 2013, the Commission issued an

Action Request to the Division requesting it to review of the filing and make recommendations. The Commission asked the Division to report back by June 14, 2013.

Upon initial review of the filing, the Division determined that the review would require it to (1) submit requests for information to Company and (2) to prepare Division in-house modeling of the Company's spreadsheets and review procedures. The Company told the Division that its initial request for a reconciliation of the results to its FERC Form 1 and SEC 10K filings for 2012 would take up four to six weeks. Also, the Company's responses to the Division's additional follow-up data requests would require an additional 30 days. Therefore, the Division requested on May 29, 2013, that the Commission extend the due date of the Division's response to the Action Request to September 15, 2013.

On June 14, 2013, the Commission granted the Division's request for an extension of time to September 15, 2013.

On September 12, 2013 the Division requested an extension of time until November 15, 2013 to file its response to the Action Request. At the time of the September 15, 2013 filing deadline, the Division was awaiting additional information from the Company regarding the Division's review of the December 2012 Results of Operations. On September 24, 2013, the Commission granted the Division's request for the extension of time.

COMMENTS

In late 2010 and early 2011, the Division, Commission, and at times the Office of Consumer Services staff, met on an informal basis to discuss the Company's semi-annual reporting. Prior to the informal meetings, the historical unadjusted information provided by the Company in its filings of Semi-Annual Operations was adjusted using three types of adjustments to arrive at normalized results. Those adjustments were Type 1 adjustments – normalization for out of period and unusual items that occurred during the test period; Type 2 adjustments – annualized changes that occurred during the test period; and Type 3 adjustments – known and measurable items that will occur in a future period. As a result of the informal meetings, there was 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. Except for these adjustment changes the rest of the filings basic format and presentation of information remains the same as in previous filings. The first semi-annual filing using the new Type A and Type B adjustment methodology was the Semi-Annual filed for the year ended December 31, 2011.

The Division's review of the Semi-Annual 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, 2011 Semi-Annual filing to the same information given and adjustments made for the December 31, 2012 Semi-Annual filing. The second procedure was to review a reconciliation provided by the Company that reconciled the year ended December 31, 2012 Semi-Annual filing to the Company's FERC Form1 and its SEC 10K filing for the same period. Third, the Division prepared an in-house modeling of spreadsheets to independently verify the results of the Company filing. The Division audit staff held one informal meeting with Company personnel specifically to review Tabs 10, 11, and 12 of the filing. Those tabs are labeled as follows: Tab 10 – 2010 Protocol with ECD; Tab 11- Reporting and Ratemaking Allocation Factors; and Tab 12 – Normalized Allocation Factors.

Net Power costs are a major operating expense of the Company. For the year ending December 31, 2012, these costs were reviewed by the Division pursuant to an order in another docket, and thus Net Power Cost was not reviewed again for this Action Request. The result of the Division's audit regarding Net Power Costs can be found in Docket No. 13-035-32. However, as stated below, the Division did do a comparison review of Net Power Cost adjustments made to the 2011 and 2012 December 31 filings.

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 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 ending with the last month of the June or December Semi-Annual, whichever is applicable.

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. The following table provides the following summary information for comparative purposes. All numbers are the Utah Allocated normalized results amounts ($000,000).

	December 2012	June 2012	December 2011
Total Operating Revenues	$2,038	$1,985	$1,889
Total O&M Expenses	$1,202	$1,189	$1,160
Depreciation and Amortization	$ 253	$ 243	$ 236
Taxes Other Than Income	$ 56	$ 54	$ 51
Income Taxes	$ 178	$ 106	$ 84
	December 2012	June 2012	December 2011
Total Electric Plant	$10,309	$9,979	$9,623
Total Rate Base Deductions	$ 4,648	$4,460	$4,294
Total Net Rate Base	$ 5,661	$5,519	$ 5,329
Earned Return on Rate Base	7.141%	7.119%	6.718%
Earned Return on Equity	8.707%	8.572%	7.607%

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%. That rate case is silent as to a stipulated authorized an Earned Return on Rate Base. The Division notes that per the last three Semi-Annual filings the Company is earning less than its authorized Return on Equity of 9.80%. 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.

[1] Docket No. 11-035-200

For the last General Rate Case the Overall Cost of Capital was as follows:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	47.65%	5.37%	2.56%
Preferred Stock	0.30%	5.43%	0.02%
Common Stock Equity	52.10%	9.80%	5.11%
TOTAL	100.00%		7.68%

In this Semi-Annual the calculated five quarter average Overall Cost of Capital is:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	47.10%	5.40%	2.54%
Preferred Stock	0.30%	5.43%	0.02%
Common Stock Equity	52.60%	9.80%	5.16%
TOTAL	100.00%		7.72%

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 less costs to be allocated to Utah. The Earned Returns on Equity for Tab 10 for December 2012, June 2012 and December 2011 are 8.019%, 7.778%, and 6.780%, respectively.

Per the last general rate case, the stipulated Utah base Net Power Costs were $636.0 million on an annual basis. For the December 2012, June 2012, and December 2011 Semi-Annual filings the Utah Net Power Cost were computed to be $640.2, $624.0, and $583.6 million, respectively.

On Page 1.2 of Tab 1 – Summary – there is a note just below line 65 that states the following: “Results do not reflect prepaid and other postretirement welfare plan balances which will be included in the next general rate case filing”. This statement is also applicable to past Semi-Annual filings not just this filing. The Division anticipates that when the balances are included in the next general rate case filing that the Company will provide testimony and support for why these balances should now be in regulatory Results of Operations or why it is now going to put them in Results of Operations. The Division believes that this note is a "heads up" to a proposed change to future Semi-Annual filings.

As noted above the second major review procedure is to have the Company provided a reconciliation of the Semi-Annual results to the Company's FERC Form1 and SEC Form 10K. The Company's Semi-Annul filing to the Commission is based on FERC accounting and FERC accounts. The first reason for this request is to make sure that the unadjusted historical information in the Semi-Annual filing comes from or is consistent with or can be reconciled to the results of operations provided by the Company to the FERC in its Form1. 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.

The second reason for the requested reconciliation is that if the 10-K results can be reconciled to the Semi-Annual then the Division can take into account the external auditor's 10K audit opinion on the results shown in the Company's year-end filing of its Semi-Annual. 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, so to speak, 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 of the Company. The external auditors have issued an opinion on the fair representation of the Company's financial statements according to GAAP for the same period as the Semi-Annual report the Division is reviewing in this response to the Commission's action request; 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 were audited by the External Auditor using Generally Accepted Auditing Procedures as part of its procedures to arrive at its issued opinion.

Third, once the reconciliation is provided, 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 did receive the above requested and explained reconciliation. Specifically, the Company prepared the following reconciliations:

1. Income Statement: 10-K vs. FERC Form1.
2. Income Statement: FERC Form1 vs. Semi-Annual (unadjusted).
3. Balance Sheet: 10-K vs. FERC Form 1.
4. Balance Sheet: FERC Form 1 vs. Semi-Annual (unadjusted, yearend basis).

These reconciliation are provided with this report as DPU Exhibit A. Although these reconciliations explain several of the differences in financial information, there were additional explanations that the Division requested from the Company. These additional explanations were requested in DPU data requests 1.1 to 1.4 and 3.1 to 3.3. For informational purposes, this additional information is provided as DPU Exhibits B through L.

The information provided by the Company has enabled the Division to better understand why particular financial items are different between the three types of reports. 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 DPU Exhibits A through L. 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 if it appears that such a challenge is necessary. 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.

Another review procedure was to compare the adjustments made to the Utah Results of Operations for the year ended December 31, 2012 to the adjustments to the Utah Results of Operations for the year ended December 31, 2011. Both Type A and Type B adjustments were compared. In the 2011 and 2012 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 additional Data Requests to the Company. Another purpose was to have the Division look at the 2012 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.

Based on the Division’s comparison analysis and it review of the adjustments, it would like to note the following.

- Normalizing and Temperature adjustments for 2011 were positive $5,536 and $43,147 and negative $33,344 and $26,530 for 2012. The main difference in normalizing adjustments between 2011 and 2012 is attributable to the approximately $46.3 million from Schedule 40, a MPA tariff rider, which was included as a normalizing adjustment in the 2011 semi-annual report. Schedule 40 was terminated in September 2011. As for the Temperature adjustments, the swing between 2011 and 2012 is due to the fact that the actual temperatures in 2011 were lower than normal, which resulted in a net positive adjustment, while the actual temperature in 2012 was higher than normal, resulting in a net negative adjustment.

- During calendar year 2012, the allocation factor on the REC Deferral account (FERC 4562700) was changed from "OTHER" to "SG". Since this account was allocated using the "OTHER" factor in 2011, the amount did not need to be adjusted in the 2011 report. Since the REC Deferral is now allocated using the "SG" factor, the amount is adjusted in the 2012 results.
- For Page 3.6 Adjustment detail (2), the $17,010,023 (Net Power Cost Accrual – YE December 2012) is subject to audit and a final order of the Commission in Docket No. 13-035-32. The interest amount related to this accrual was not included in the December 2012 Results of Operations Report.
- The Utah's deferred income tax balance for property increased to $1,513,295,001 for 2012 from $1,345,202,770 in 2011. The major factors for the increase in Utah's deferred income tax balance for property was due to calendar year 2012 capital additions for Total Company of approximately $1.2 billion and the associated income tax bonus depreciation available for total Company of approximately $559 million.
- For 2012 there are three new adjustment categories for adjustment page 7.2 – ADIT (accumulated deferred income tax) Balance as compared to 2011. The new categories are 1033 exchange; Other Miscellaneous Adjustment – SO and Other Miscellaneous Adjustment – Other. These items represent reconciling items similar in nature to the repair deduction where certain adjustments need to be made to the PowerTax's (the Company's income tax fixed asset system) ADIT results to reflect the income tax returns as filed. For example, the 1033 exchange in the ADIT balance is a timing difference waiting for the actual retirement to occur in the SAP book accounts before it is

recognized within PowerTax. Thus, this item represents a reconciling adjustment to reflect the income tax return file. These items represent a refinement made in the 2012 Results of Operations that were not previously included.

- The Pension Curtailment and Date Change adjustment was inadvertently omitted from the 2011 Results of Operations. It was made to the 2012 Results of Operations.
- Per UT Docket No.'s 09-035-03, 09-035-23, and 11-035-200 general rate cases, adjustment 7.5 (Repairs Deduction Deferred Accounting) reflects the amortization of the repairs deduction deferred accounting that begins amortization October 12, 2012, and thus this amortization was not available for the 2011 results and is new for the 2012 results.
- In 2012, there was an ADIT Allocation Correction of certain accumulated deferred income tax balances. During the third quarter of 2012, three new ADIT accounts were created with respect to Naughton. These new accounts are reflected in the base data on a system allocation and situs assignment basis and are reassigned to "OTHER" via 2012 adjustment 7.6. As these items are included in a separate recovery mechanism, a reassignment of these accounts to "OTHER" is necessary. Regarding the Oregon Business Energy Tax Credits (BETC) ADIT account, it was discovered that this account contained BETC credits which were purchase with investor funds and were included as system allocated in the base data. This adjustment was made in order to accurately reflect these accounts as non-allocable.
- Our analysis determined that the $81,638 of program administrative costs reported on page 4.7.1 of the Results of Operations reflects $30,327 that was incorrectly categorized as administrative expense. This amount should have been categorized as customer incentive expense. Removing this amount from the reported program administrative expense results in a corrected administrative expense level of $51,310.
- The Division found an error in the Company's Insurance Expense adjustment 4.5. In Docket No. 07-035-93, the Commission ordered the Company to normalize the injuries and damage expense by using a three year average of gross expense net of insurance. Page 4.5 of the December 2012 Results of Operation details the Company's normalizing

adjustment to Insurance Expense per the Commission's Order. In reviewing the Company's adjustment the Division noted that the January to December 2010 Third Party Insurance Claim Proceeds was not consistent with the December 2012 Results of Operation Third Party Insurance Claims Proceeds. On page 4.5.1 of the December 2012 Results of Operation the January to December 2010 Third party Insurance claim Proceeds shows $222,950. This amount is the Semi-Annual July 2009 to June 2010 Third Party Insurance Claim Proceeds and not the January to December 2010 amount. The correct January to December 2010 Third party Insurance Claim Proceeds amount is $2,063,226. It appear that the error began in the December 2011 Results of Operations where the Company used the Semi-Annual July to June Third Party Insurance Claim Proceeds for both 2009 and 2010 instead of the January to December amounts. The correction to the Insurance Expense results in an additional decrease to insurance Expense in the amount of $613,426 Total Company and $263,466 Utah Allocated. See DPU Exhibit M for the Division's workpapers for its computations of the above amounts.

As to the third review procedure, the Division is well underway in developing its own Excel revenue requirement/reporting model. The model will be similar in purpose to the JAM (provided by the Company) or IJA models (provided by the Commission). During the process of developing the model the following questions have arisen:

1. Should the "OTHER" jurisdiction/category be included in Total Company results?
2. Should the interest expense amount used in the calculation of income taxes be the amount booked in FERC account 427 or should it be recalculated within the model based on rate base values?

The Division does not have a position on these items at this time but may at a future date. Other questions may continue to arise as the Division continues to develop the model.

The Division has also reviewed the IJA model provided by Commission staff and it appears that there are a few minor modifications the Commission Staff made to the IJA model in order to arrive at the same results as the Company. These modifications appear in the "Modeling Assumptions" section of the "Vars" tab in the Commission's model. It appears that when these modeling assumptions or corrections are made, the resulting Utah Return on Equity is not materially affected.

CONCLUSION

After performing the above procedures and after reviewing the results obtained from those procedures, nothing came to the Division attention during its review that was of a material significance to indicate any need for modification of the filing or for action to change the Results of Operations as filed.

cc: Michele Beck, Office of Consumer Services
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