

Utah Division of Public Utilities Audit of

Rocky Mountain Power's Energy Balancing Account

January 1, 2013 – December 31, 2013

Docket No. 14-035-31

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1. EXECUTIVE SUMMARY

The Utah Division of Public Utilities (Division) and its outside consultants La Capra Associates have completed an audit of Rocky Mountain Power's (Company) Energy Balancing Account (EBA) for calendar year 2013. Due to the high volume of confidential information in the Division's Audit Report (Confidential DPU Exhibit 1.2) the Division has prepared this public executive Summary. The Division recommends the Commission disallow recovery of \$9.24 million of the original \$28.34 million requested by the Company. The individual recommendations specifically addressed in this report are as follows:

1. With one minor exception, the Division believes the costs presented in the EBA are accurate and tie to the supporting schedules and source documents that were provided by the Company. The correction of one minor invoice discrepancy increases Utah's EBA deferral balance by \$4,265.
2. The Division identified several costs for which supporting documentation was either not provided at all or if provided was insufficient in terms of assumptions used or explanations provided. These issues can be broken down into the following categories:
 - a. Unsupported trade purposes. The Division identified nine trading deals (two gas financial, one gas physical, and six power financial) whose purpose was not explained by the Company. Removing these deals from the EBA reduces Utah's EBA deferral by \$1,572,521.
 - b. Unsupported trade approvals. The Division identified two trading deals that were not approved by the proper authority. Removing these deals from the EBA reduces Utah's EBA deferral by \$1,448,098.
 - c. Unsupported adjustments to actual NPC. The Company did not provide sufficient supporting documentation for the buy-through adjustment or Black Cap Solar adjustment. The Division's adjustment for these two items reduces Utah's EBA deferral balance by \$485,664. Also included in this adjustment is an adjustment to remove double counted pipeline fees.
 - d. Unsupported Bridger Coal Company Costs. Bridger Coal Company operating costs flow through to the EBA as coal costs. The Division identified several items whose source documentation (invoices, accounting calculations/entries, etc.) was either not provided at all, or whose assumptions and reasoning were not adequately explained. These issues relate to royalty accruals, loss on disposal of asset, and other miscellaneous Bridger Coal Company costs. Removing these costs reduces Utah's EBA deferral balance by \$705,148.
 - e. Corrections. The Division identified two corrections to the Company's filing. The first corrects the scalar value used in the Company's filing. The second correction includes certain fuel cost adjustments that were not carried over into the

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Company's final EBA calculations. These corrections increase Utah's EBA deferral balance by \$105,904.

3. Given the ongoing concerns with documentation of reasons for trades, seeking of competitive bids, and the lack of responsiveness to data requests in this, the third year of the EBA pilot program, the Division recommends the Commission do the following.
 - a. Take steps to dramatically improve the level of thoroughness and completeness of the Company's responses and the documentation provided in future proceedings. Among the effective steps would be refusing to consider as evidence data provided after due dates or data that should have been provided in response to earlier data requests.
 - b. Require the Company to document the purpose and reason for executing all future gas physical, gas financial, power physical, and power financial transactions. Such documentation should explain why the deal was made when it was made and why with the specific counterparty at the specific location.
 - c. Require the Company to document its traders' "best efforts to seek out at least two competitive bids or offers compared to the next best alternative using good judgment and discretion."
4. With regards to the Company's risk management policies, the Division recommends the cumulative Mark-to-Market thresholds should be established and reported and additional information on the use of TEVaR and HVaR should be provided to the Commission. Since the TEVaR metric is one of the key components used to determine the timing of future gas and electric transactions, the Company should provide information relating to how the current standards have been determined and how changes in the commodity price and volatility can impact future purchase decisions. The Company should inform the Commission, the Division and other interested parties when it makes modifications to its policy. Not only should the changes be identified but the Company should explain in detail why the changes were made.

La Capra Associates have also completed an EBA Audit Report. Their recommendations, which the Division adopts as part of its recommendations to the Commission, are outlined below.

5. Two plant outages in 2013 could have and should have been avoided. The EBA should be adjusted to reflect what costs would have been had these outages not occurred. The total reduction in total system costs for these outages is \$9.1 million, resulting in a reduction in the recommended EBA deferral amount of \$2.8 million.
6. A pair of gas financial transactions were identified to have been executed on the same day, with the same counterparty, for the same product. The combined value of the deals exceeded the trader's authorized trading limits, and no management authorization was shown. The disallowance of \$847,600 in losses from these deals, results in a reduction in the requested EBA deferral amount of \$281,832.

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7. La Capra's sample of transactions, identified several "discretionary trades" for which the Company provided no specific reason or purpose for executing the trade. Removing these trades from the EBA reduces Utah's EBA deferral balance by \$1,925,002.
8. With regard to non-hedging transactions, the Company sought to include payment of damages without adequately demonstrating that the Company acted prudently when it incurred the damages. Furthermore, the payment of damages was made outside the EBA deferral period, and should not be included in the current EBA. Removing these damages reduces Utah's EBA deferral amount by \$117,392.
9. The Company failed to adequately support its accounting treatment for transactions involving its use of the Clay Basin Storage facility for 8 months of the year. The recommended initial disallowance of \$6,861 (\$2,216 EBA deferral amount) is for one apparent discrepancy that was found. The Division recommends the Company reconcile its accounting for the remaining months or risk further disallowances.
10. Several issues were raised that did not result in a recommended adjustment to the EBA deferral. These concerns include the Company's practices of accounting for "take or pay" gas supply contracts in its economic dispatch decision, the Company failing to provide adequate documentation to reconcile some real-time energy transactions with the associated NERC E-Tag and the Company's practice of not recording best efforts to seek two bids or offers.
11. Similar to the Division's report, La Capra's report identifies transparency issues with regards to the Company's handling of EBA information. La Capra strongly recommends that the Commission take steps to dramatically improve the level of thoroughness and completeness of the Company's responses to data requests and the documentation provided in future proceedings.

The Division's audit report is included as DPU Confidential Exhibit 1.2. The La Capra audit report is included as DPU Confidential Exhibit 2.3.