

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

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In the Matter of the Application of Rocky Mountain Power for Approval of its Proposed Energy Cost Adjustment Mechanism) DOCKET NO. 09-035-15
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In the Matter of the Application of Rocky Mountain Power to Increase the Deferred EBA Rate through the Energy Balancing Account Mechanism) DOCKET NO. 14-035-31
) ORDER ON THE EBA PILOT PROGRAM
) PRELIMINARY EVALUATION REPORT
) AND ACKNOWLEDGING A
) STIPULATION COMMITMENT
) FULFILLMENT
)
)

ISSUED: February 19, 2015

SYNOPSIS

The Commission acknowledges the Division of Public Utilities' ("Division") Preliminary Evaluation Report on the Energy Balancing Account ("EBA") pilot program and makes no changes to the EBA pilot program at this time. The Commission acknowledges PacifiCorp has met or is in the process of meeting its commitment to work with the Division on various issues as specified in the stipulation approved in Docket No. 14-035-31, captioned above.

PROCEDURAL HISTORY

Docket No. 09-035-15

On March 2, 2011, the Public Service Commission of Utah ("Commission") approved an Energy Balancing Account pilot program for PacifiCorp, dba in Utah as Rocky Mountain Power in Docket No. 09-035-15, captioned above. In that order, the Commission directed the Division to "file a written preliminary evaluation of the pilot program per item 4, including the identification of issues or concerns with the program, within four months after the conclusion of

the second calendar year of the pilot.”¹ Item 4 contained a minimum list of issues to be evaluated. The Commission also approved a pilot program evaluation plan for the EBA on June 15, 2012, (“Evaluation Plan”). The Division requested, and the Commission granted, an extension of time to file its evaluation report. On May 22, 2014, the Division filed its “Preliminary Evaluation of PacifiCorp’s EBA Pilot Program” (“Report”). Comments and reply comments on the Report were filed by PacifiCorp and the Office of Consumer Services (“Office”).

Docket No. 14-035-31

On October 27, 2014, the Commission issued an order approving the October 6, 2014, settlement stipulation (“Stipulation”) in Docket No. 14-035-31, captioned above. The Stipulation included several commitments by PacifiCorp that were intended to improve the EBA audit process. On January 22, 2015, the Division filed a memorandum (“January Memorandum”) recommending the Commission acknowledge PacifiCorp’s completion or ongoing fulfillment of these commitments.

DISCUSSION

I. Division’s Report

The Division reviewed each of the items identified in the Evaluation Plan, as noted below.

- a) Sharing mechanism
- b) Controllable versus uncontrollable elements in the EBA
- c) Effects of the EBA on planned resource portfolio
- d) Appropriate components of the EBA

¹ *In the Matter of the Application of Rocky Mountain Power for Approval of its Proposed Energy Cost Adjustment Mechanism*, Docket No. 09-035-15 (Report and Order; March 2, 2011, p. 79).

- e) Effect of the EBA on hedging practices and front office transactions
- f) Parties' incremental costs to audit the EBA
- g) Unintended consequences of the EBA
- h) Monthly versus annual accrual differences
- i) Quantitative and qualitative assessments of the effect of EBA monitoring on Division resources
- j) Level of comprehension by the Division and intervenors
- k) Level of dispute among parties during the true-up process
- l) PacifiCorp's progress in smoothing variability of net power cost in addition to the EBA
- m) Changes in company hedging and front office transactions
- n) Swings in PacifiCorp's electricity rates (reduction in rate variability)
- o) Return on equity
- p) Changes to IRP preferred portfolio and action plan
- q) Generation performance baselines
- r) Implicit capacity price
- s) Revenue growth by measuring absolute differences between the base and actual net power cost to assess profitability
- t) Accuracy of GRID² in monthly versus annual forecasting
- u) Quantitative differences and relative advantages of using a static or dynamic composite allocator for allocating EBA accruals to rate schedules

Generally, the Division concludes there is not enough data to determine trends related to most issues. Where the Division identified differences in pre and post EBA periods, the Division concludes attribution of these differences to the existence of the EBA is not possible at this time due to the number of other variables that change (e.g., weather, market prices, fuel costs) and the limited amount of data to date.

With respect to PacifiCorp's primary argument of customer benefit from the EBA, namely that there would be fewer general rate cases, the Division perceives no change. The Division notes its workload has generally increased, i.e., there is no offsetting reduction in workload, and that the Division relies heavily on consultants to perform its job.

² GRID is PacifiCorp's in-house production cost model, "Generation and Regulation Initiative Decision Tool."

The Division identifies what it views as a structural problem with the EBA. Namely, the EBA period extends beyond the test period of the most recent rate case, usually by about six months. Thus the EBA base rates for those months are the previous years' monthly base rates. The Division argues that in a period of generally rising costs, this means that there will likely be an under-collection of net power cost during the EBA period.

The Division provides an assessment of four EBA jurisdictional allocation methods: 1) the method ordered by the Commission in Docket No. 09-035-15 using the factors approved in 02-035-04³; 2) the scalar method stipulated to by parties in Docket Nos. 10-035-124⁴ and 11-035-200⁵ and used in EBA cost recovery dockets to date;⁶ 3) the A2 method, "Utah Allocation Based on Annual SE and SG Factors"⁷; and 4) the A3 method, "Utah Allocation Based on Monthly SE and SG Factors."⁸

The Division assumes no data is available for Docket No. 12-035-67⁹ on all four methods and therefore does not include this EBA period (October through December 2011) in its analysis

³ See *In the Matter of the Application of PacifiCorp for an Investigation of Inter-Jurisdictional Issues*, Docket No. 02-035-04 (Report and Order; February 3, 2012).

⁴ See *In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket No. 10-035-124 (Report and Order; September 13, 2011.)

⁵ See *In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket No. 11-035-200 (Report and Order; September 19, 2012).

⁶ See *In the Matter of the Application of Rocky Mountain Power to Increase Rates by \$29.3 Million or 1.7 Percent through the Energy Balancing Account; In the Matter of the Application of Rocky Mountain Power to Increase the Deferred EBA Rate through the Energy Balancing Account Mechanism; and In the Matter of the Application of Rocky Mountain Power to Increase the Deferred EBA Rate through the Energy Balancing Account Mechanism*, Docket Nos. 12-035-67, 13-035-32, and 14-035-31, respectively.

⁷ See Docket No. 11-035-200, *supra* note 5, Settlement Stipulation, Exhibit A2, "Utah Allocation Based on Annual SE and SG Factors").

⁸ *Id.* Settlement Stipulation, Exhibit A3, "Utah Allocation Based on Monthly SE and SG Factors."

⁹ See *In the Matter of the Application of Rocky Mountain Power to Increase Rates by \$29.3 Million or 1.7 Percent through the Energy Balancing Account*, Docket No. 12-035-67.

of the differences between the four methods. The Division states the range of differences in results for the methods for 2012 and 2013 in comparison to the scalar method is between -\$1.2 million and \$2.9 million. Based on the assumptions in its analysis, the Division concludes there is no reason to change the scalar method used to calculate the EBA deferral.

The Division recommends no changes to the EBA at this time. Rather, the Division recommends awaiting the completion of the EBA pilot program when additional information and experience is available.

The Division also provides a description of its audit process experience. The Division notes difficulties in determining prudence with in-house staff due to a lack of in-house expertise. The Division identifies three general areas of prudence review: 1) outages; 2) coal/fuel procurement/management; and 3) market purchases/sales transactions.

The Division uses consultants for prudence of outages and to a lesser degree other areas of net power costs. In the future, the Division claims it may be able to determine prudence of outages with in-house staff. However, the Division notes it lacks engineering expertise that it may need on occasion and raises a concern that procurement requirements may present a challenge to the timely hiring of the expertise. The Division states it must rely on consultants for review of coal/fuel procurement/management.

The Division has concerns about determining the prudence of transactions. The Division notes it may be “virtually impossible to meaningfully assess the prudence of daily trading transactions because of a lack of contemporaneous written and verifiable source documentation

supporting and justifying the trades made.”¹⁰ Due to resource constraints, the Division relies on examining a small sample of transactions and on the work of a consultant’s review. The Division states it relies on the 70/30 sharing mechanism to have confidence the Company acts with prudence. The Division concludes it is premature to make changes to the 70/30 sharing mechanism.

II. Comments on the Division’s Report

PacifiCorp

PacifiCorp compliments the Division on its thorough and equitable evaluation of the EBA pilot program. PacifiCorp believes the EBA is functioning generally as expected, is working well mechanically, and should continue.

PacifiCorp disagrees with the Division’s conclusions regarding the sharing mechanism, and agrees with the Division’s assessment of the EBA’s effect on PacifiCorp’s resource portfolio, the components of the EBA, the EBA’s effect on PacifiCorp’s hedging decisions and market reliance, unintended consequences of the EBA, monthly versus annual accrual differences, and effect of the EBA on plant performance.

PacifiCorp argues the EBA pilot program could be improved. PacifiCorp recommends the following improvements: 1) Remove the sharing mechanism, 2) consider unbundling net power costs from base rates, 3) implement a process for expanding the EBA to include other related costs when necessary, 4) use a single EBA calculation/allocation method and eliminate reporting the A2 and A3 allocation methods, 5) do not litigate issues in the EBA proceeding if

¹⁰ Division’s Report at p. 37.

the issues have already been resolved in the general rate case that establishes the base net power costs, 6) remove the EBA SAP accounts from the tariff, and 7) eliminate duplicate and additional filing requirements.

Office of Consumer Services

The Office appreciates the analysis provided by the Division in its Report. The Office concurs with the Division's conclusions on the sharing mechanism, the NPC Allocator (spread of EBA to rate schedules), market reliance, generation plant operation, generation plant maintenance, EIM costs, and annual versus monthly EBA accruals. The Office recommends the Commission make no changes to the EBA through the pilot period.

In response to PacifiCorp's comments, the Office recommends the Commission schedule a technical conference by January 30, 2015, to address: 1) Whether to drop the A2 and A3 allocation methods and the accuracy of the scalar method, 2) consolidation of EBA filing requirements, and 3) a process for expanding or contracting the accounts included in the EBA and the evidence required from a party proposing such change.

III. Division's January Memorandum in Docket No. 14-035-31

The Stipulation approved in Docket No. 14-035-31 included several commitments from PacifiCorp that were intended to improve the EBA audit process. The Division states that within 90 days of the Stipulation approval PacifiCorp was required to: 1) Provide the Division with a comprehensive list of trading reports and documents; and 2) establish a process, with the Division, for capturing trade purposes. In its January Memorandum, the Division states PacifiCorp met these commitments.

The Division states the Stipulation also required PacifiCorp to begin documenting competitive prices for non-brokered transactions by November 1, 2014. The Division represents that PacifiCorp has established an official bidding policy to address this commitment and the Division claims it will be able to determine final compliance with this commitment after it completes its audit. The Division also represents that PacifiCorp has begun to report its trade data in the format specified in the Stipulation.

The Division reports that the other commitments in the Stipulation are ongoing; while the logistics and details of these commitments have been discussed, they will not be considered complete until the Division conducts its audit. The Division observes that PacifiCorp has made and is making good faith efforts to comply with the Stipulation commitments. The Division recommends the Commission acknowledge PacifiCorp's completion or ongoing completion of certain commitments in the Stipulation.

FINDINGS AND CONCLUSIONS

Based on the comments received and our own review, we find the Division's Report informative and comprehensive. We appreciate the detailed review of each item listed in the EBA Evaluation Plan. We conclude the Division's report comports with our March 2, 2011, and June 15, 2012, orders in Docket No. 09-035-15.¹¹

We understand it is premature to draw definitive conclusions on many of the items evaluated because limited data is available due to the short time the EBA has been in effect. Therefore, we concur with the conclusions of the Division and the Office and find that it is

¹¹ See Report and Order, and Report and Order on EBA Filing Requirements and Pilot Program Evaluation Plan, respectively.

premature to make structural changes to the EBA until more definitive information and experience with the EBA is gained.

While we appreciate the Division's preliminary review of the alternative jurisdictional EBA allocation methods, we request the Division include the following in its final EBA evaluation report. First, we observe Docket No. 12-035-67 includes the necessary data showing the EBA deferral under the four methods so this part of the EBA pilot program can be included in the analysis.¹² Second, we request a direct comparison of the method approved in Docket No. 09-035-15 with the scalar method, for each EBA period and cumulatively. We note the A2 and A3 methods were established by parties in the stipulation. To the extent parties continue to find these methods important to track, report, and evaluate, the Division should include these methods in its analysis in the final EBA evaluation report. However, we are primarily interested in comparing the EBA results using the jurisdictional allocation factor calculations approved in Docket No. 02-035-04 with the EBA results using the factors created in the scalar method which parties have stipulated to use in EBA proceedings to date. Finally, we request the Division explain the rationale underlying the jurisdictional allocation factors used in each method and describe which method is most appropriate going forward and why.

We find merit in discussing some of the pilot program procedural improvements recommended by PacifiCorp. Specifically, we agree with the Office's recommendations to discuss certain issues in a technical conference. Given PacifiCorp will be filing its 2015 EBA application in mid-March, we will schedule a technical conference in that docket to discuss the

¹² See Docket No. 12-035-67, *supra* note 9, documents filed by PacifiCorp on December 11, 2013.

issues related to: 1) Whether to drop the A2 and A3 allocation methods and the accuracy of the scalar method, and 2) consolidation of EBA filing requirements.

Finally, based on the Division's January Memorandum, we acknowledge PacifiCorp's completion and ongoing fulfillment of certain Stipulation commitments.

ORDER

1. The Division's Preliminary EBA Evaluation Report complies with our prior relevant orders issued in Docket No. 09-035-15.
2. We request the Division expand its analysis of EBA jurisdictional allocation factors in its final EBA evaluation report as discussed herein.
3. We will issue a notice of technical conference in Docket No. 15-035-03¹³ to discuss the issues described herein.
4. We acknowledge PacifiCorp's completion or ongoing fulfillment of certain stipulation commitments in Docket No. 14-035-31.

¹³ See *In the Matter of Rocky Mountain Power's Energy Balancing Account*.

DOCKET NOS. 09-035-15 AND 14-035-31

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DATED at Salt Lake City, Utah, this 19th day of February, 2015.

/s/ Ron Allen, Chairman

/s/ David R. Clark, Commissioner

/s/ Thad LeVar, Commissioner

Attest:

/s/ Gary L. Widerburg
Commission Secretary
DW#263833

Notice of Opportunity for Agency Review or Rehearing

Pursuant to §§ 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the Commission within 30 days after the issuance of this Order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission does not grant a request for review or rehearing within 20 days after the filing of the request, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a petition for review with the Utah Supreme Court within 30 days after final agency action. Any petition for review must comply with the requirements of §§ 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on the 19th day of February, 2015, a true and correct copy of the foregoing was served upon the following as indicated below:

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