



## Public Service Commission

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*Commissioner*

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*Commissioner*

## State of Utah

GARY R. HERBERT  
*Governor*

SPENCER J. COX  
*Lieutenant Governor*

May 27, 2015

Robert C. Lively  
Rocky Mountain Power  
201 South Main Street, Suite 2300  
Salt Lake City, UT 84111

Re: Docket No. 15-035-39, "In the Matter of the Division's Audit of PacifiCorp's 2014 Fuel Inventory Policies and Practices"

Dear Mr. Lively:

On March 26, 2015, the Division of Public Utilities ("Division") filed a memorandum with the Public Service Commission of Utah ("Commission") regarding its audit of PacifiCorp's 2014 Fuel Inventory Policies and Practices ("2014 Audit"). The memorandum was filed in compliance with the Commission's February 18, 2010, Report and Order on Revenue Requirement, Cost of Service and Spread of Rates in Docket No. 09-035-23 ("2010 Order").<sup>1</sup>

In its memorandum, the Division notes it met with PacifiCorp's Fuel Resources Department on March 9, 2015, at which time the fuel inventory for each of PacifiCorp's owned and affiliated plants was discussed. The Division also reviewed PacifiCorp's Coal Inventory Policies and Procedures Manual dated January 2, 2014, ("Manual"), confidential documents, both historic and average stockpile levels, and compared this information to PacifiCorp's targeted inventory levels. Based on its review, the Division concludes PacifiCorp is in compliance with its policies and procedures or has plans to be in compliance in the near future.

A summary of the Division's findings of the 2014 Audit include:

1. PacifiCorp has formal coal inventory policies and procedures in place that are based on PacifiCorp's goal and commitment to provide low cost power to its customers while considering other factors such as coal quality, reliability of supply, risk, transportation and flexibility.

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<sup>1</sup> 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. 09-035-23, (Report and Order on Revenue Requirement, Cost of Service and Spread of Rates; February 18, 2010, pp. 105-106).

2. Several factors affected the 2014 fuel inventory levels including: personnel changes, lower natural gas prices, decreased burn requirements, coal quality degradation, transportation issues, geologically complex mines, and the changing dynamics of the coal industry.
3. Stockpile levels at the Utah plants decreased in 2014 and are expected to continue to decline during 2015 as a result of the closure of the Deer Creek mine. New inventory target levels will be implemented in 2015.
4. Currently, PacifiCorp is slightly below its short/intermediate term inventory target levels for its Southwest Wyoming plants due to problems with mining equipment.
5. Powder River Basin plants continue to be below targeted levels due to coal consumption exceeding budget and ongoing interruptions associated with rail transportation out of the Powder River Basin.
6. Inventory levels at PacifiCorp's joint-owned plants were above target levels due to unexpected outages and decreased coal consumption. As a minority owner, PacifiCorp has limited influence over the inventory levels at those plants.

In its 2013 audit report to the Commission, the Division noted a need for an updated audit and third-party review of the coal inventory policies for PacifiCorp's coal-fired power plants in Utah and Wyoming. Pincock Allen and Holt ("PAH") previously conducted an audit in the 2009-2010 timeframe and PacifiCorp's current coal inventory policies and procedures are based on that audit. At the March 9, 2015, meeting, PacifiCorp indicated it has contracted with PAH to perform another audit of its fuel inventory levels and expects the audit to be completed the summer of 2015. The Division requests PacifiCorp provide a copy of the PAH audit report to the Division as soon as it becomes available and before March 1, 2016, for inclusion in next year's audit.

The Commission finds, based on the recommendation of the Division, PacifiCorp is in compliance with its fuel inventory policies and procedures or has plans to be in compliance in the near future.

The Commission directs PacifiCorp to provide a revised copy of the Manual, in red-line format such that changes are easily identified, to the Division within 60 days of any updates. The Commission also directs PacifiCorp to provide a copy of the 2015 PAH audit report to the Division as soon as it becomes available, and before March 1, 2016.

Sincerely,

/s/ Gary L. Widerburg  
Commission Secretary

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