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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

MICHELE BECK
Director

To: The Public Service Commission

From: The Office of Consumer Services
Michele Beck, Director
Gavin Mangelson, Utility Analyst
Danny Martinez, Utility Analyst

Date: November 19, 2015

Subject: Docket 15-035-36

Request for Agency Action to Review the Carrying Charges Applied to Various Rocky Mountain Power Account Balances

Background

On August 11, 2015 the Division of Public Utilities, (Division) made a Request for Agency Action to review the carrying charges applied to various Rocky Mountain Power (Company) account balances. On September 2, 2015 the Public Service Commission (Commission) held a scheduling conference setting October 27, 2015 as the date for the Division's initial recommendation in this docket. The Commission also scheduled a technical conference that was held on September 29, 2015. The Company made a presentation discussing the history of each account's carrying charge. The Division subsequently filed its initial recommendation (Recommendation) to the Commission.

Discussion

Prior to the Division's Request and Recommendation the Office also conducted internal analysis on the issue of carrying charges. In reviewing the Division's recommendation, the Office found the arguments and recommendation to be in line with the Office's own conclusions. First, the Office asserts that the carrying charge should be consistent with the underlying risk the Company or ratepayers incur resulting from over-collection or under-collection in the accounts outlined in the Division's Recommendation. Second, the Office would like to ensure that carrying charges are set appropriately to provide incentive for the Company to maintain zero or near zero balances when feasible.

The Carrying Charge and Investment Risk

The Company uses a carrying charge for the following account types:

1. Demand-Side Management (DSM)
2. Renewable Energy Credits Balancing Accounts (RBA)
3. Energy Balancing Accounts
4. Customer Security Deposits
5. Home Energy Lifeline
6. Solar Incentive
7. Blue Sky
8. Customer Overpayments

The current rates of the carrying charge for these different accounts have been established independent of one another through separate Commission Orders addressing each one.

As carrying charges are essentially a form of interest, they should therefore follow similar principles as those used by markets to determine interest rates. Appropriate carrying charges should be commensurate with a realistic determination of the risk of default of a debt. The Division’s recommendation for using an average of Aaa and Baa corporate rates for the preceding calendar year is reasonable. This composite rate reflects the blending of varying risk factors within the Company’s different accounts. Adjusting these rates annually approximates market conditions for similar borrowing conditions. While it could be argued that these accounts have different risk features and one carrying charge may not fit each account exactly, keeping the carrying charge consistent across these accounts maintains stability and ease of calculation and administration.

Opportunities to “Game” the Carrying Charge

An incorrectly determined carrying charge serves as an incentive for the Company to run a balance on accounts that should otherwise be at or near zero. Conversely, upward pressure on account balances does not provide proper incentives for utility companies to adjust rates to maintain near zero balances in a timely manner. The DPU’s recommended carrying charge proposal allows the carrying charge to remain in line with current market rates for like assets.

As noted by the Division, a high carrying charge on over collections and a low carrying charge on under collections would be an effective incentive for the Company to maintain zero or near zero balances. However, the Office agrees with the Division that regularly reassessing the rate of the carrying charge will itself mitigate the potential incentive to "game the system" by removing the "fixed rate" dependability of debt that is present when carrying charges do not change over long periods. There is also inherent value in the simplicity of using the same rate for over and under collections. Therefore, the Office agrees that determining the carrying charge annually based on market rates is an appropriate incentive for maintaining account balances at or near zero where feasible.

Recommendation

The Office recommends that the Commission approves the Division's Recommendation to set the carrying charge at the average of the Aaa and Baa corporate rate, adjusted annually.

Copies To: Rocky Mountain Power
Robert Lively, Manager, Regulatory Affairs

Division of Public Utilities
Chris Parker, Director
Artie Powell, Energy Section Manager