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Division of Public Utilities

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Date: March 31, 2017

Re: Docket No. 17-035-01, In the Matter of the Application of Rocky Mountain Power to Decrease the Deferred EBA Rate Through the Energy Balancing Account Mechanism.

RECOMMENDATION

The Division of Public Utilities (Division) has performed a preliminary review of the Rocky Mountain Power (Company or RMP) Application, as filed, and based on the overall body of information in the Energy Balancing Account (EBA) filing the Division at this time believes the filing does not depart in any material from prior years' filings. The Division found some instances where certain supporting documents from prior filings were not contained in this filing but such missing information had little or no impact on the overall completeness of the filing as compared to prior years. The Division recommends that the Public Service Commission (Commission) acknowledge the Company's filing as being complete and that interim rates, based on the application, be approved effective May 1, 2017 to be amortized through April of 2018.

ISSUE

On March 15, 2014, Rocky Mountain Power filed an application with the Commission for authority to decrease the deferred EBA rate through the Energy Balancing Account Mechanism found in tariff schedule 94. In the Commission's Order dated February 16, 2017, under Docket 09-035-15, one of the EBA procedural matters in the Order was that the Division would conduct a preliminary review of PacifiCorp's EBA applications that are to be filed on or about March 15 of each year. Within 45 days after the EBA application is filed, the Commission will act on the Division's preliminary conclusion. If interim rates are approved they will have an amortization period effective May 1 of the current year through April of the following year.

DISCUSSION

The Company in its current application is requesting a refund to ratepayers of approximately $6.5 million in deferred EBA costs. The Division in this memorandum will not repeat the detailed discussion included in the Company's application explaining the justification for the $6.5 million refund.

The Division has reviewed the current application and compared the supporting information filed to the information included in prior EBA filings. The Division's comparative analysis included material such as filing requirements, worksheets, schedules, tariffs and other materials. The Company's current application and supporting documents provided to the Commission were substantially consistent with prior years.

Attachment I summarizes the Division's comparison of the Company's current application and supporting documents with prior years. Under various bullet point headings, Attachment I lists items provided in previous years' EBA filings. The major categories include the EBA Application; Filing Requirements; Additional Filing Requirements; Workpapers; Cost of Service; and Proposed Tariff Revisions.

This is the first preliminary review of the Company's application as required under Docket No. 09-035-15. The Division determined as part of this preliminary review that it would specifically compare the information from each item as provided by the Company in the current filing to the information from last year's filing as to presentation, scope and attention. A "Yes" on the attachment also indicates that the information in the current filings is consistent with prior years' filings. A N/A means last year's item was not applicable to this year.

A "Yes" or other indication on the attachment does not indicate that the Division has reviewed and/or has formed any opinion to the accuracy or validity of the underlying data. Although the Division has performed the above review procedures for the current filing, the Division makes no judgment regarding the accuracy of the information provided for each item in Attachment I or whether the Division agrees with the accuracy and completeness of the information. The preliminary review is a high level limited scope overview of the filing.

Another component of the Division's review was a spot checking of calculations, arithmetic and functionality of excel workpapers and schedules, and if and how the information flowed to meet the purpose of the schedule or workpaper. Workpapers supporting the Company's Exhibit 1 – Commission Order Method were specifically singled out and spot checked because this Schedule is the basis for the Company's computation of the current year EBA deferral refund amount. Most if not all of the workpapers filed are in excel format so spot checking could be done on cells, excel formulation, rows and column summing, etc. if applicable. Limited checking of data transfer between worksheet tabs or related worksheets was done through cross referencing.

Less spot checking was done for information provided in filing requirements as they are supplemental support for the basic information provided in excel schedules supporting Company Exhibit 1 and other parts of the filing.

The Division did the same type of spot checking and testing for the Cost of Service information provided in the current filing. Nothing came to the Division's attention during its spot checking that indicated there were errors, improper data transfer or problems with calculations, arithmetic or functionality for items reviewed.

In its Cost of Service review the Division made sure that the Cost of Service method used for spreading the refund to rate schedules was based on the last General Rate Case (Docket 13-035-184). The Settlement Stipulation in Docket No. 13-035-184, established the base NPC at $1.496 million for the total Company and $630 million for Utah Jurisdiction beginning September 1,

2014. Beginning September 1, 2015, this Stipulation also established the base NPC at $1,491 million for the total Company and $628 million for Utah Jurisdiction.

The Stipulation in Docket No. 13-035-184 (2014 GRC Stipulation) required the Company to spread the EBA deferral amounts across customer rate schedules consistent with the NPC Allocators which were included in the 2014 GRC Stipulation Exhibit A, page 4 (Exhibit A).

The Company's allocators and spread of the 2017 EBA deferral among the rate schedules is contained in the Exhibit RMP_ (RMM-1) page 2 of the Exhibits and Work Papers accompanying the direct testimony of Mr. Robert M. Meredith of RMP. The Division compared this Exhibit to Exhibit A of the 2014 GRC and determined that the Company's spread calculation of the 2017 EBA deferral amount among the customer classes is in compliance with this Stipulation. It was developed using the Step 2 present revenues and the billing determinants from the 2014 GRC Stipulation approved by the Commission. The results of the 2017 EBA deferral spread based on the NPC Allocator are then proportionally adjusted for all customer classes that were reflected in the NPC allocators to refund a total annual amount of $6.5 million (Exhibit RMP_ (RMM-1)). In addition, Exhibit RMP_ (RMM-1) shows the proposed decrease by rate schedule and applicable contract customers for the Proposed EBA.

The Division notes that Schedule 21, Schedule 31, and Contract Customer 1 that are included in this filing were not included in the Company's cost of service study in 2014 GRC. For these customer classes, the Company proposes applying the same percent change as Schedule 9 (Exhibit RMP_ (RMM-1)) because Schedules 21 and 31 are most similar to Schedule 9 than any other Schedule. The contract terms for Contract Customer 1 requires the 2017 EBA revenue allocation for contractor 1 be based on the overall 2017 EBA percent change.

The EBA Rate Determination provision in Schedule 94, states that "…The new EBA rate will be determined by dividing the EBA Deferral Account Balance allocated to each rate schedule and applicable contract by the schedule or contract forecasted Power Charge and Energy Charge revenues. The EBA rate will be a percentage increase or decrease applied to the monthly Power Charge and Energy Charge of the Customer's applicable schedule or contract as set forth in the schedule." In this filing the new EBA rate is calculated in Exhibit RMP_ (RMM-2). The Division determined that this calculation is in accordance with the above rate determination provision in Schedule 94.

Finally, the Division tested the rate spread amounts for all schedules to verify the transition from the EBA rate percentage in the current tariff to the EBA rate percentages in the proposed tariff. Based on this test the Division concludes that the present EBA amount has been properly transitioned to the proposed EBA amount. Furthermore, the Division verified that the billing determinants used in the EBA are consistent with the billing determinants of the Step 2 of the 2014 GRC Stipulation.

Therefore, the Division believes that the Company's proposed rate spread, rate design, and billing determinants are consistent with the Commission approved Stipulations and prior filings.

As part of its review the Division has performed an analysis of the effects of returning approximately $6.5 million to ratepayers on PacifiCorp's financial position.

Attachment II compares the historical calendar year 2016 financial results as reported on the Company's SEC Form 10K with *pro forma* results assuming that the EBA refund is run through the 2016 financial results. Attachment III compares the Utah semi-annual results of operations for the 12 months ended June 30, 2016 and compares them with *pro forma* results that were based upon the adjustments calculated in Attachment II. Since all of the adjustments in the Attachment II pro forma are applicable to Utah operations, it is appropriate to match them directly with the Utah results of operations.

In preparing the *pro forma* results for total Company based upon its SEC filing, the following adjustments were made:

- Cash was reduced by $6.543 million.
- Revenues were reduced by $6.136 million.
- Interest income was reduced by $407 thousand, the amount of accrued interest through the end of 2016 in the Company's EBA filing.

- Incremental income taxes were calculated at the 37.951 percent rate used by the Company in its June 30, 2016 results of operations.

An iterative process was applied to the Sec 10K *pro forma* results that resulted in changes to the following accounts:

- "Surplus cash" was added back to the balance sheet, primarily due to the income tax benefit from a reduction in operating income.
- "Surplus cash" was assumed to earn interest at a rate of 0.75 percent (i.e. much less than the 6.0 percent it would earn as part of the EBA).
- The net reduction in net income was calculated to be about $4.05 million.
- Retained earnings on the *pro forma* balance sheet were reduced by $3.05 million.

These *pro forma* results were transferred directly to the pro forma results on the June 30, 2016 semi-annual results of operations as can be seen on Attachment III.

As set forth on page 5 of Schedule II (SEC 10K), the return of $6.5 million to ratepayers has the effect of lowering the Company's return on equity for 2016 from about 10.25 percent to 10.20 percent or approximately 5 basis points.[1] As set forth on Attachment III (Semi-annual), RMP's return on rate base is reduced by about 6.5 basis points from 7.656 percent to 7.591 percent. RMP's return on equity is reduced from 10.044 percent to 9.916 percent, or 12.8 basis points.

While the return on equity is measurably reduced, based upon the June 30, 2016 semi-annual report of operations, RMP would continue to earn above its allowed rate of return. On a Company-wide basis, the effect is, of course, smaller. The Company-wide effects would be of interest to the broader financial community.

As part of its filing under Cost of Service, the Company provided proposed revisions to tariff sheets for Schedule 94 in both redline and non-redline format. The Division has reviewed those proposed revisions. The major revisions to the tariff were for inclusion of the seven procedural items adopted by the Commission its February 16, 2017 Order under Docket No 09-035-15; the

[1] In finance, a basis point is 1/100 of a percentage point, or .0001.

addition or deletion of specific EBA related FERC/SAP accounts; and the updating of rates due to the refund as shown on tariff sheet No. 94.11. It appears to the Division that the proposed revisions are consistent with the current filing and Docket No. 09-035-15.

Finally, the Division notes that the current tariff specifies that discovery is initially on a 14 day turn around after filing. The Company's proposed tariff revisions in the current filing did not change that provision of the tariff. However, the Commission's scheduling order sets turn around initially as "best efforts' until April 19, 2017, and then 21 days until November 15, 2017. The different turnaround times recognizes the modified schedule for the current filing including interim rate review period and the increased review time of four months provided to the Division under Docket No. 09-035-15. The Division will provide further comments on this section of the tariff with its initial audit report due on November 15, 2017.

Due to the fact that the Division review was preliminary and subject to time constraints, the Division was only able to perform the procedures as outlined and explained above. However, the Division believes that through its efforts it was able to conclude, subject to the scope of its review, that the Company's 2017 EBA filing appears to not depart from prior years' filings.

CC Bob Lively, Rocky Mountain Power
Michele Beck, Office of Consumer Services