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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

UAE'S INITIAL COMMENTS REGARDING THE COMMISSION'S 2017 REPORT TO THE PUBLIC UTILITIES AND TECHNOLOGY INTERIM COMMITTEE REGARDING THE ENERGY BALANCING ACCOUNT

Pursuant to the Commission's Scheduling Order in this docket dated March 23, 2017, the Utah Association of Energy Users ("UAE") hereby files its initial comments in response to Utah the Public Service Commission's Solicitation for comments regarding "whether allowing an electrical corporation to continue to recover [100% of the electrical corporation's prudently incurred] costs under Subsection (2)(d) [of the EBA statute] is reasonable and in the public interest."

Background on the EBA

The Energy Balancing Account (EBA) was adopted to address the perceived problem that material changes in Net Power Costs (NPC) could affect the financial health of Rocky Mountain Power (RMP) in between rate cases if changes in costs were to go unrecovered.[1] The EBA Pilot Program was approved Pursuant to Utah Code Ann. (UCA) § 54- 7-13.5, effective March 25, 2009, by the Utah Public Service Commission (Commission).

The Commission approved use of the EBA to set rates in Docket No. 09-035-15. The pilot was originally designed to run for a period of "approximately four years beginning October 1, 2011, and ending December 31, 2015". However, the pilot was extended to December 31, 2016, in Commission Order 13-035-184, as agreed upon by parties involved in the Settlement in that case.

The Commission also approved the recommendation of UAE, the Division of Public Utilities, Office of Consumer Services, and Western Resource Advocates to implement a "70%/30% sharing mechanism" to balance some of the power cost risk between the utility and the customers. Through Schedule 94, the Company deferred in the EBA 70% of the difference between Actual Utah NPC and Wheeling Revenues and Base Utah-Allocated NPC and Wheeling Revenues.

Legislative Changes to the EBA

From the inception of the EBA pilot program, the Commission required a sharing mechanism in which deviations from NPC in rates were shared between customers and the Company. However, in March 2016, the Utah Legislature passed Senate Bill 115, the Sustainable Transportation and Energy Plan Act ("SB 115"), which mandated that the sharing

[1] Docket No. 09-035-15, Commission Corrected Report and Order issued March 3, 2011, page 66.

mechanism be eliminated through December 31, 2019, after which it would revert back to the 70/30 sharing mechanism.

SB 115 also requires that "the commission shall report to the Public Utilities and Technology Interim Committee before December 1, 2017 and 2018 regarding whether allowing an electrical corporation to continue to recover costs under Subsection (2)(d) is reasonable and in the public interest."[2]

UAE Recommendations on the EBA Sharing Mechanism

In accordance with the Commission's February 16, 2017, Order in Docket No. 09-035-15, requesting comments from parties on the issue of the EBA, UAE files the following comments.

1. UAE believes that the sharing mechanism has provided a meaningful incentive for the Company to manage its NPC. The 70/30 sharing mechanism originally adopted by the Commission as part of the EBA Pilot struck a reasonable balance between customers and shareholders with respect to the sharing of risks associated with deviations in actual NPC relative to what is established in rates. If any extension of the EBA is permitted beyond December 31, 2019, UAE recommends that the 70/30 sharing mechanism be reinstated (as noted in SB 115).
2. The 70/30 sharing mechanism is a clear, straightforward method to give RMP a material stake in each of the actions and decisions related to power costs, which therefore aligns the interests of the utility with those of the customers. The sharing mechanism gives RMP a strong incentive to perform well in managing costs if it stands to gain or lose from its cost management decisions.

[2] SB 115, Section 54-7-13.5. Energy balancing accounts, lines 601-604

3. Although the Company may not control market prices, this does not mean it is a mere passive bystander when it comes to managing its power costs. It is in the overall management of its resources, as distinct from control over market prices, that incentives matter. Every hour of every day, RMP needs to be managing the dispatch of its system to achieve minimum costs, subject to the reliability constraints under which it operates. This requires a sophisticated approach to managing utility-owned resources, as well as conducting a large volume of transactions – purchases and sales – throughout the year.

4. For example, in 2016, the Company made more than 12.4 million MWh of long-term and short-term firm sales, which is an average of 1,419 MW each hour of the year. These sales were conducted with 69 counterparties.[3] The Company also transacted for more than 11.8 million MWh of long-term, intermediate-term, and short-term firm purchases, and approximately 6 million MWh of exchanges, consummated with 94 counterparties.[4]

5. The depth and breadth of the Company's around-the-clock dispatch and balancing requirement is clearly extensive. It is critical that RMP have the proper incentives for these transactions, as well as in the management of its fuel procurement, to produce the greatest possible net benefit to customers. This incentive is most efficiently implemented by a regime in which RMP significantly shares in the benefits and risks of its decisions. To ensure sound utility cost-management performance, it is far

[3] According to PacifiCorp's 2016 FERC Form 1 data, as compiled by SNL Financial. Excludes Requirements Service (RQ), Out-of-Period adjustments (AD), Service from designated generating units (LU), and Other service (OS).
[4] According to PacifiCorp's 2016 FERC Form 1 data, as compiled by SNL Financial. Excludes Requirements Service (RQ), Out-of-Period adjustments (AD), Service from designated generating units (LU and IU), and Other service (OS).

preferable to harness the natural economic self-interest of the Company than to rely on after-the-fact prudence audits to review the reasonableness of past actions.

6. Under a sharing mechanism, RMP also shares in the economic consequences in respect to the Company's own operations. For example, if forced outages are less frequent than had reasonably been projected, the Company shares in its superior performance. Absent a sharing mechanism, RMP would be economically indifferent between scheduling a maintenance outage during a time when power replacement is relatively high versus during a period when prices are low.
7. All other states in PacifiCorp's jurisdiction except California, which represents the lowest share of PacifiCorp's load, have a version of a sharing mechanism in place, thereby recognizing the importance of financial incentives and the appropriateness of risk sharing. Wyoming requires a 70/30 sharing mechanism that is very similar to the sharing mechanism that had been in place in Utah, while Idaho has a 90/10 sharing mechanism, but also generally uses historical test years to set rates.
8. Oregon and Washington have mechanisms that are subject to material "deadbands." The Oregon mechanism, called the Power Cost Adjustment Mechanism ("PCAM"), was adopted in December 2012.[5] Oregon has an asymmetrical deadband ranging from negative $15 million to positive $30 million on an Oregon-allocated basis. Outside the deadband, a 90/10 sharing mechanism is applied, with customers absorbing 90% of incremental costs above the deadband and receiving 90% of the benefits below the deadband. In addition, PCAM recovery is subject to an earnings test, with zero recovery or refund if the Company's actual return on equity ("ROE")

[5] Oregon Docket No. UE-246, Order No. 12-493 (December 20, 2012).

is within 100 basis points of its authorized level.

9. The Washington Power Cost Adjustment Mechanism ("PCAM") was implemented in May 2015. The Washington PCAM has a deadband of +/- $4 million on a Washington-allocated basis.[6] Outside the deadband, PCAM recovery is governed by three tiered sharing bands:

    - 50/50 sharing for positive NPC variances between $4 million and $10 million.
    - 75% customer / 25% Company sharing for negative NPC variances between -$4 million and -$10 million, i.e., customers receive a refund of 75% in this range.
    - Symmetrical 90% customer / 10% Company sharing for NPC variances outside +/- $10 million.

10. If any extension of the EBA is permitted beyond December 31, 2019, I strongly recommend that the 70-30 sharing mechanism be reinstated. The 70-30 sharing mechanism will provide a critical incentive for the Company to manage its costs and will strike a reasonable balance between customers and shareholders with respect to the sharing of risks associated with deviations in NPC relative to what is established in rates.

Submitted this 15th day of September 2017.

HATCH, JAMES & DODGE

/s/ ___________________________
Gary A. Dodge
Attorney for UAE

[6] Washington Docket No. UE-140617 et al., PCAM Settlement Stipulation. Approved May 26, 2015.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 15th day of September 2017 on the following:

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