ROCKY MOUNTAIN POWER
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September 15, 2017

VIA ELECTRONIC FILING

Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Gary Widerburg
Commission Secretary

RE: Docket No. 17-035-01
Application to Decrease the Deferred EBA Rate through the Energy Balancing Account Mechanism

Pursuant to the Courtesy Notice of the Utah Public Service Commission ("Commission") dated March 23, 2017, Rocky Mountain Power hereby submits for electronic filing in the above referenced matter its comments pursuant to the Commission's February 16, 2017 Order in Docket No. 09-035-15 relating to the Commission's 2017 report to the Technology Interim Committee of the Utah State Legislature.

Rocky Mountain Power respectfully requests that all formal correspondence and requests for additional information regarding this filing be addressed to the following:

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Sincerely,

Jeffrey K. Larsen
Vice President, Regulation

cc: Service List – Docket No. 17-035-01

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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

ROCKY MOUNTAIN POWER'S COMMENTS REGARDING THE SHARING BANDS IN THE ENERGY BALANCING ACCOUNT

I. INTRODUCTION

The Company respectfully submits these comments in response to the Courtesy Notice issued by the Public Service Commission of Utah ("Commission") on March 23, 2017, requesting comments on "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." The comments are intended to help inform the Commission's 2017 report to the Public Utilities and Technology Interim Committee, required by Utah Code Ann. 54-7-13.5(6).

The sharing band in PacifiCorp's ("Company") energy balancing account ("EBA") was eliminated effective June 1, 2016, in accordance with the Sustainable Transportation and

Energy Plan Act (Senate Bill 115, 2016 General Session), codified at Utah Code Ann. 54-7-13.5(2)(d). Docket No. 17-035-01 ("2017 EBA")[1] was the first EBA to include periods without the sharing band. The elimination of the EBA sharing band allows a full pass through of variable production or net power costs ("NPC"). For the reasons discussed below, elimination of the sharing band on a permanent basis is in the public interest. Specifically, these comments address: (1) the benefits of eliminating the sharing band to Utah customers; (2) how NPC are treated in other states; (3) the Company's commitment to serving load in the least-cost manner; and (4) the sharing bands ineffectiveness in reducing NPC and managing risk.

II. ELIMINATING THE EBA SHARING BAND BENEFITS UTAH CUSTOMERS

The EBA trues-up the NPC in base rates to the actual NPC prudently incurred to safely and reliably serve load, ensuring that customers pay the actual costs for the energy they consume, no more and no less. Truing up the actual NPC to the NPC level in base rates each calendar year keeps the NPC component of rates just, reasonable, and in the public interest.

NPC are largely influenced by variables that are generally outside of the Company's control and system operations are coordinated largely in response to these outside influences. A utility must respond operationally to the real-time variables influencing NPC, such as customer loads, weather events that affect both loads and generation from all resources, the output of qualifying facilities that the Company is obligated to purchase, and the price of natural gas and electricity as determined by wholesale markets.

In a general rate case ("GRC"), the Company produces a normalized NPC forecast that is used in setting base rates. The forecast uses inputs such as weather normalized loads, normal wind and hydro conditions, and the Company's best outlook of market prices for both natural

[1] Docket No. 17-035-01 is referred to as the "2017 EBA" in reference to the year filed. The 2017 EBA deferral period was January through December 2016.

gas and electricity. In reality, actual NPC will vary from the forecast because weather will affect loads and generation, actual wind and hydro conditions will not be normal, and market prices will be different than predicted. When the variance between actual NPC and base rates passes through the EBA without sharing bands it keeps rates just, reasonable and in the public interest because neither the Company nor customers benefit at the expense of the other. Customers simply pay the actual costs of the energy they consume, and the EBA sends customers an accurate price signal upon which they can base their consumption decisions.

NPC is a significant component of the Company's revenue requirement and the recovery of NPC through the EBA helps maintain overall customer rate stability by mitigating the need for more frequent GRCs. For example, the Company has not filed a GRC in California or Idaho, states served by the Company with minimal or no sharing bands, since 2009[2] and 2011, respectively. Additionally, the Company has not filed a GRC in Utah since 2014. The EBA provides an efficient and effective mechanism in which the Company can recover uncontrollable NPC, avoiding the need to reset base NPC on a more regular basis in an attempt to align base rates with constantly changing variables. The EBA is also an efficient mechanism to capture known changes such as new or expiring energy and/or fuel supply contracts.

During a GRC, a full pass through EBA encourages an accurate reflection of NPC as a component of the revenue requirement. A sharing band can sometimes be misconstrued as an acceptable variance level that incents parties to shift the NPC component in their favor by either artificially increasing or decreasing the NPC forecast. Eliminating the sharing band removes the potential gamesmanship in setting rates based on the forecasted NPC.

[2] The Company is planning on filing a California GRC in January 2018. The Company is required by statute to file a GRC every three years, but had been granted a waiver of the filing requirement by the California Commission. The last waiver indicated that the Company must file a GRC with a 2019 test year.

In addition, the EBA calculation adjusts for the change between base Utah retail sales and actual Utah retail sales, meaning that any over-collection or under-collection of Base NPC resulting from a change in Utah retail sales is also accounted for in the EBA. Customer demand is outside of the Company's control and a sharing band unjustly amplifies the potential over- and under-collections.

Despite claims that removing the sharing band would negatively impact customers, Utah customers actually have or will receive a $4.7 million refund of NPC and wheeling revenue as the direct result of eliminating the sharing band in the EBA. In the 2017 EBA, the elimination of the sharing band resulted in a refund to customers of NPC and wheeling revenue of approximately $2.4 million that would not have been refunded under the previous sharing band. Additionally, the second quarter update for the 2018 EBA[3] shows a refund that is $2.3 million greater than would have been refunded under the sharing band. Furthermore, for the months of January through May 2016, the period in which the sharing band was still in place, the Company would have refunded an additional $1.4 million to customers had there been no sharing band.

The Company must plan to provide a least-cost, least-risk portfolio of resources, and it must operate its resources in a prudent manner. An EBA variance does not indicate the Company has fallen short of or neglected these standards, rather an EBA variance is the result of changing and uncontrollable variables between actual NPC and the NPC in base rates. Therefore, there is no justification to share the fluctuations in NPC.

III. FULL PASS THROUGH OF NPC IS THE INDUSTRY NORM

Only seven states (with non-restructured power markets)—Wyoming, Idaho, Oregon,

[3] The 2018 EBA will be filed in March 2018 for the period of January to December 2017. The Company provides quarterly EBA updates leading up to the annual filing date.

Washington, Missouri, Montana, and Vermont—have sharing mechanisms built into their respective power cost true-up mechanisms. Of those seven states, only Oregon, Washington, and Wyoming have sharing mechanisms less than 90 percent.[4] Additionally, in Utah, Dominion Energy (formerly, Questar Gas Company) has a balancing account similar to the EBA, the 191 account, which compares the revenue collected from customers to the actual costs to serve customer. The 191 account does not have a sharing band.

IV. THE COMPANY IS COMMITTED TO SERVING LOAD IN THE LEAST COST MANNER

The Company has been an industry leader in finding innovative ways to manage NPC. First, the Company began participation in the Energy Imbalance Market ("EIM") with the California Independent System Operator ("CAISO"), which provides benefits to customers in the form of reduced actual NPC. The benefits of participating in the EIM include intra-regional dispatch savings (optimizing the resources in PacifiCorp's two balancing authority areas ("BAA")), inter-regional dispatch savings (transacting with other EIM participants), reduced renewable energy curtailment and flexibility reserve savings (reduced reserves due to diversity across the EIM footprint). Since EIM inception in November 2014, CAISO has estimated over $95 million in benefits to PacifiCorp customers.

Though many factors that influence NPC are uncontrollable, the Company does have control over certain aspects of NPC, such as plant dispatch. The Company has modified its dispatch and operations of its coal-fired generation plants due to the increased penetration of renewable resources on the system, resulting in lower NPC. Coal plant minimum operating

[4] NERA, "ECAC Cost Sharing: A Supplement to NERA's Report on Power Cost Adjustments and Act 162 Compliance," filed with the Hawaiian Public Utilities Commission on behalf of Hawaiian Electric Utilities, September 2014. Subsequent to the issuance of this report, Utah changed its NPC deferral mechanism to eliminate sharing.

levels have been lowered and ramp rates increased allowing the coal generation to be displaced by zero-fuel-cost renewable energy, while at the same time maximizing the benefit to the system by providing increased flexibility. This increased flexibility aids in the integration of renewable resources on the Company's system and allows for greater EIM transfers (inter-regional benefits).

In the spring of 2016 and 2017 the Company was able to economically shutdown certain coal-fired generation units due to market conditions, resulting in lower NPC. Historically low natural gas prices in 2016 and above average hydro conditions in the northwest, low loads, and an influx of solar generation in 2017 allowed the Company to safely and reliably displace coal and take advantage of lower cost energy from other sources.

V. THE SHARING BAND IS AN INEFFECTIVE INCENTIVE TO REDUCE NPC

The 2017 EBA resulted in a refund to customers for the first time and was the first EBA without a sharing band.[5] If the sharing band was effective at reducing actual NPC relative to NPC in rates, the EBA would have resulted in a customer refund more frequently.

On the surface, sharing bands may seem effective because they appear to cause the utility to have some "skin in the game", but the reality is that sharing bands have no effect on the operations of the Company. The Company is required to provide safe and reliable energy in a least-cost manner when demanded by customers regardless of the regulatory structure of future cost recovery.

The real "skin in the game" is that the Company always faces the possibility that an action or decision could be deemed imprudent resulting in 100 percent of the cost being absorbed by shareholders. The true economic incentives to the Company are the opportunity

[5] The sharing band was eliminated as of June 1, 2016.

to earn its authorized rate of return and the prospect of a disallowance due to imprudent actions, not the opportunity to retain a percentage of the variance between actual NPC and forecasted NPC. A full pass through EBA allows the Company the opportunity to recover prudent NPC and earn a fair return on investment especially considering that adequate, safe, and reliable electricity services have already been provided.

The Company's accountability to the Commission, its customers, and its shareholders, along with the potential competition of self-generation and direct access (available in portions of the Company's six-state service territory), provide an effective incentive to minimize NPC.

VI. THE SHARING BAND IS AN INEFFECTIVE MECHANISM TO MANAGE RISK

A sharing band is sometimes justified using the rationale that it shares risk between the Company and customers. The risk being shared is forecast risk, or the risk that the NPC forecast in a GRC will be different than actual NPC. Actual NPC will always be different than the NPC forecast because it is impossible to forecast with 100 percent accuracy, and the Company has an obligation to serve its load in a cost-effective manner. It is reasonable for customers to bear the variations of actual and forecast NPC because (1) customers determine the load that the Company must serve (and customers receive the benefit of having that load reliably served upon demand) and (2) the current regulatory structure in which rates are set provides sufficient protection to customers.

The NPC risk, or the exposure to the uncontrollable components of NPC, is more effectively mitigated by managing the risk rather than sharing the variances from the forecast. Sufficient internal and external controls exist and are in place to appropriately manage the NPC risk, including the Company's Risk Management Policy, Governance and Approvals Process, and Front Office Procedures and Practices. These policies and procedures outline the internal controls the Company has implemented and the measures taken to protect the interests of its customers and shareholders. Internal controls include hedging limits and documented management approval of hedge transactions consistent with governance requirements, system controls (logic in the natural gas and power transactions trade capture system), contract reviews and documented management approval of new contracts consistent with governance requirements. External controls also exist to mitigate the NPC risk, including regulatory review of actual NPC in EBA filings. The checks and balances in place effectively manage the NPC process and mitigate customer exposure to factors outside the Company's control such as weather, market prices, QF generation, intermittent resource generation, and load. Sharing the forecast risk does nothing to control NPC.

VII. CONCLUSION

The elimination of the sharing band positively impacts customers because it: (1) ensures that customers pay the actual costs for the energy they consume, no more and no less; (2) keeps the NPC component of rates just, reasonable, and in the public interest; (3) helps to maintain overall customer rate stability by mitigating the need for more frequent general rate cases; and (4) helps ensure customers are served by a financially healthy utility. The Company supports the permanent elimination of the EBA sharing band allowing a full pass through of its NPC.

DATED this 15th day of September 2017.

Respectfully submitted,

ROCKY MOUNTAIN POWER

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CERTIFICATE OF SERVICE

Docket No. 17-035-01

I hereby certify that on September 15, 2017, a true and correct copy of the foregoing was served by electronic mail and/or overnight delivery to the following:

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