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October 16, 2017

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

In response 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 reply 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,

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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 REPLY COMMENTS REGARDING THE SHARING BANDS IN THE ENERGY BALANCING ACCOUNT

I. INTRODUCTION

The Company respectfully submits these reply comments in accordance with the Public Service Commission of Utah's ("Commission") Courtesy Notice issued March 23, 2017. The comments are intended to help inform the Commission's 2017 report to the Public Utilities and Technology Interim Committee ("PUTIC"), required by Utah Code Ann. 54-7-13.5(6). Specifically, these comments reply to the initial comments filed by the Utah Division of Public Utilities ("DPU") and the Utah Association of Energy Users ("UAE"), dated September 15, 2017, and address the following:

- The energy balancing account ("EBA") is in the public interest because it reflects actual costs of providing safe and reliable energy to customers and results in fair and just compensation for the Company, no more and no less.
- The EBA sharing band does not impact Company operations and therefore should not be reinstated. Using base net power costs ("NPC") set in general rate cases ("GRC") as an operational standard is inappropriate and results in either customers or the Company being penalized for uncontrollable fluctuations in NPC.

- The EBA results in fair and reasonable rates for customers. The EBA is not directly responsible for the rate variations in recent years, but rather the EBA helps mitigate the need for more frequent GRC.
- The sharing band has served its purpose and reached the end of its useful life.
- Company resources have evolved over time and consequently have increased the variability of NPC.
- Adequate economic incentives exist to ensure the Company operates in a prudent manner.
- The Company's authorized return on equity ("ROE") is on par with the utility industry.
- The regulatory structure for NPC is different in each of the Company's six states which makes it difficult to compare directly to Utah. However, the Company has advocated for a full pass through NPC mechanism in all states.

The Office of Consumer Services ("OCS") also submitted initial comments suggesting that "it is premature to determine if the 100 [percent] EBA cost recovery is reasonable and in the public interest."[1] The OCS also recommended the Commission include a historical background of the EBA and Senate Bill 115 in its report to the PUTIC. The Company supports including this information. However, the Company does not agree that it is premature to determine that the EBA without the sharing band is in the public interest.

II. THE EBA IS IN THE PUBLIC INTEREST

The DPU recommends that the EBA be eliminated or, at a minimum, that the sharing band be reinstated based on the DPU's belief that the "EBA is beneficial to the Company with little or no net benefit to ratepayers."[2] However, the question posed by the Commission is whether the elimination of the sharing band is reasonable and in the public interest. The standard for the Commission's determination is not if there is a net benefit to customers at all points in time, but instead if it is reasonable and in the public interest. The DPU's view of the EBA is narrowly focused on the cost recovery aspect and ignores the most recent EBA which refunded customers more than $8 million of NPC and wheeling revenue. The DPU also ignores the fact that public interest is served when customers receive safe and reliable energy at reasonable prices, and fails to address how customers paying the actual costs of the energy they consume is not just and reasonable and in the public interest. The EBA is in the public interest because customers pay the actual cost of safe and reliable energy, and the Company is fairly and justly compensated for its prudently incurred costs.

[1] Docket No. 17-035-01, OCS Initial Comments, dated September 15, 2017, page 2.
[2] Docket No. 17-035-01, DPU Initial Comments, dated September 15, 2017, page 3.

To support its conclusion the DPU states that the EBA without sharing "misaligns the Company's incentives in forecasting, managing [NPC], accounting for [NPC], and overall operational efficiency."[3] The DPU has presented no evidence to support its conclusion. NPC are forecast in a GRC. The NPC set in the 2014 GRC were part of an overall GRC settlement. Logic would suggest that if customers are to pay the actual cost of the energy they consume, all parties would be motivated to set the NPC forecast as accurately as possible since no party would benefit from over or under forecasting. The idea that the absence of a sharing band provides an incentive to manipulate the accounting of NPC is unfounded because the Company's accounting is dictated by generally accepted accounting principles and the Federal Energy Regulatory Commission. The misnomer that the sharing band provides incentive for managing NPC and operational efficiency is addressed in detail below.

III. THE SHARING BAND DOES NOT IMPACT COMPANY OPERATIONS; THUS IT CANNOT SERVE AS AN INCENTIVE TO CONTROL NPC

The DPU in its Final Evaluation Report of PacifiCorp's EBA Pilot Program, filed with the Commission on May 20, 2016, stated multiple times that the EBA did not affect the Company's operations, and included the following examples:

- "The Division has not been able to discern any effect of the EBA on the Company's resource portfolio."[4]
- In reference to an increase in market purchases: "the Company's decisions appear to be market and environmental regulation driven, rather than based on any particular regulatory program."[5]
- In reference to the Company's hedging practices and IRP: "those changes as well as the preferred portfolio outcomes cannot be directly attributed to the EBA."[6]
- "The overall conclusion is that to date there is no evidence of the EBA affecting the plant performance."[7]

If the EBA itself has not had a measurable impact on the operations of the Company, it is illogical to conclude that 30 percent of the EBA would influence operations as suggested by the DPU and UAE.

[3] Docket No. 17-035-01, DPU Initial Comments, dated September 15, 2017, page 4.
[4] Docket No. 09-035-15, Final Evaluation Report of PacifiCorp's EBA Pilot Program, May 20, 2016, page 20.
[5] Id. Page 23.
[6] Id. Page 32.
[7] Id. Page 33.

In addition, base NPC is a baseline used for setting rates, not a baseline or target for operations. For the sharing band to be an effective tool in managing NPC, base NPC would have to be viewed as an operational standard, meaning base NPC could be achieved in actual operations and would be an acceptable outcome. In Utah, since base NPC is set in a GRC this would mean that the Company's operating target would be to ensure NPC are in line with those that were set in the GRC using an end of June 2015 test period. However, this is not the case as the operational standard is serving load in the least cost manner. For example, if the Company were in a position where it needed additional energy and it could choose between dispatching a thermal resource at $25/MWh and purchasing on the market at $23/MWh the Company would purchase on the market. The DPU's and UAE's position is that without the sharing band the Company might simply dispatch the thermal resource as it would be impartial to how the system is run. The Company's track record speaks for itself and the Company's initial comments give multiple examples on the Company's commitment to serving customers in the least cost manner.

Expanding the example above, if in base NPC the market price forecast was $20/MWh, the $3 variance between forecasted and actual market prices would be shared between the Company and customers under an EBA with a sharing band. In this example the system was operated prudently in a least cost manner. However, the sharing band holds the Company to an unattainable standard as it supposedly incentivizes the Company to acquire energy at the forecasted purchase of $20/MWh. In this example the sharing band penalizes the Company for something outside of its control, i.e. for not transacting at a lower price that was unavailable in the market. Notably, under the scenario where the forecasted purchase price is higher than actuals, customers would be penalized.

UAE uses the example of scheduling outages to show how Company operations might change without a sharing band stating, "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."[8] The UAE's insinuation that the Company would be impartial to controllable costs because the sharing band has been eliminated is

[8] Docket No. 17-035-01, UAE Initial Comments, dated September 15, 2017, page 5.

simply not true because the least cost standard would not change.[9] Aside from its baseless hypothecial example, the UAE offers no evidence to support its contention that the absence of a sharing band inappropriately impacts Company operations. In addition, the Company has no doubt the DPU or another party would challenge the prudency of such an outage.

UAE notes that the Company is not a "passive bystander" and that the Company plays a large role in managing its NPC. This is true; however, the Company disputes that the sharing band somehow changes the Company's management of its NPC. UAE states:

> 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.[10]

What UAE fails to recognize is 1) the decisions do not lie solely with the Company and 2) the threat of imprudence and increased competition provides greater economic incentive than the sharing band. The current hedging policies were implemented after a collaborative effort with stakeholders, a process in which Utah participated. The Company also files semi-annual hedging reports as a result of this process. The elimination of the sharing band has not absolved the Company from its hedging policies. In addition, the DPU routinely selects and reviews a sample of hedging transactions as part of its audit of the EBA. If the Company were to transact outside of its policies this would call the prudence of the transaction into question.

IV. THE SHARING BAND HAS SERVED ITS PURPOSE

At the inception of the EBA, the Commission stated "[t]his sharing component will serve to provide a gradual change from current ratemaking practices".[11] The sharing band has been in place for nearly five years and the continued evolution of the EBA to remove the sharing band complies with the principle of gradualism. In addition, the sharing band was implemented to share the risks of uncontrollable costs between the Company and customers. Adequate assurance that load is served in the least cost manner and that NPC variability risks are properly managed is provided by operational

[9] The Company's response to DPU Data Request 20.18 in Docket No. 17-035-01 explains that the Company considers all costs when scheduling a planned outage to help inform when best to schedule the outage.
[10] Docket No. 17-035-01, UAE Initial Comments, dated September 15, 2017, page 4.
[11] Docket No. 09-035-15, Corrected Report and Order Issued March 3, 2011.

changes, such as updates to the hedging policy and Energy Imbalance Market, and the controls in place that have been implemented since the inception of the EBA. The sharing band has served its purpose of providing a gradual change in ratemaking practices and is no longer necessary.

V. THE EBA RESULTS IN FAIR AND REASONABLE RATES

The DPU argues the volatility of customers' bills have increased significantly since the creation of the EBA.[12] The DPU compares the average annual rate increase pre-EBA (a period of 18 years) of 1.50 percent to the average annual rate increase post-EBA of 4.39 percent. However, the DPU admits that "the pre- and post- EBA periods had different characteristics that required difference rate response from PacifiCorp."[13] The higher rate increase is not a result of the EBA. When the period of January 1, 2016 through August 1, 2017 is added to the analysis the post-EBA average annual rate increase drops to 2.68 percent.[14] The fact that the average annual rate increase is beginning to smooth out is a direct benefit of the EBA as it allows the Company to better manage its controllable costs and mitigates the need for more frequent GRCs.

The EBA itself has had a very small impact to rates. Since inception of the EBA, the EBA has changed rates by less than one percent annually both increasing and decreasing rates, with the exception of the first EBA which raised rates by 1.13 percent. This amounts to the average rate change caused by the EBA of 0.0014 percent or an average monthly impact to the average residential bill of one cent.

VI. NPC RESOURCES HAVE CHANGED OVER TIME

In the Company application for the EBA it stated "the Company's [NPC]… are now subject to a much higher degree of volatility than they were in the past."[15] This continues to be true today. At the time of the application for the EBA[16] the Company's owned-wind fleet capacity was approximately 240 megawatts ("MW") compared to over 1000 MW today. In addition, the Company has added approximately 900 MW of natural gas since the EBA application. The Company has also seen

[12] Docket No. 17-035-01, DPU Initial Comments, dated September 15, 2017, page 3.
[13] Docket No. 09-035-15, DPU Evaluation Report, dated May 20, 2016, page 29.
[14] https://pscdocs.utah.gov/electric/RateChanges/RateChngUpdateAug2017.pdf.
[15] Docket No. 09-035-15, Application for Energy Cost Adjustment Mechanism of Rocky Mountain Power, ¶ 3.
[16] The Company application for the EBA was filed March 15, 2009. Capacity numbers provided are as of December 31, 2008.

substantial growth in qualifying facilities ("QF"), from which the Company is obligated to purchase energy at a price and duration set by the state commissions. At the time of the EBA application the Company had 137 MW of QFs on its system compared to approximately 1900 MW today. Without the EBA the Company would have to file a GRC to recover the costs associated with QFs. These changes increase the variability of NPC which are outside control of the Company. In fact, such variability reinforces the need for the EBA as a regulatory mechanism to limit the frequency of GRCs and to help mitigate the volatility of customer pricing.

VII. ADEQUATE ECONOMIC INCENTIVE EXISTS WITHOUT THE SHARING BAND

All NPC are subject to a prudence determination, and imprudent costs are not recoverable at any level. The Company supported the DPU's recommendation to extend the EBA schedule by four months to allow for a more thorough review. The DPU concluded that an extended review period will increase the DPU's confidence in audit findings, alleviate some reservations expressed in prior conclusions, and increase the comfort level of other parties who rely on the DPU audit report.[17] Increased scrutiny and a more thorough prudence review is an appropriate external control to ensure the Company serves load in a least cost manner.

The UAE argues that it is far 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.[18] The Company has shown that the sharing mechanism is an ineffective regulatory tool to both incentivize prudent actions and minimize risk. The sharing band essentially assumes that if actual NPC are greater than base NPC those costs must be, to a certain degree, imprudent and therefore the Company should absorb a portion of the variance. If actual NPC are less than base NPC the sharing band assumes the Company was beyond prudent and therefore the Company should retain a portion of the savings. The reality is that there could have been a multitude of changes from the base NPC such as changes in the energy and natural gas market prices, hydro conditions, wind and solar generation, QF generation, and new QFs.

[17] Docket No. 09-035-15, Order, dated February 16, 2017, page 17.
[18] Docket No. 17-035-01, UAE Initial Comments, dated September 15, 2017, page 4 - 5.

In addition, the Company has shown it has an economic self-interest in minimizing NPC even without artificially mimicking the self-interest with a sharing band. The Company is highly motivated to earn a fair return for its shareholders and faces competition from self-generation and direct access. These forces were not present at the time the EBA was approved.

VIII. RETURN ON EQUITY IN THE UTILITY INDUSTRY

Lastly, the DPU highlights the fact that the Company's authorized ROE was not adjusted to compensate for the elimination of the sharing band.[19] First, to reduce the authorized ROE in this manner would suggest that the Company's current ROE includes a premium to compensate the Company for the fact that it may not recover all of its NPC. Given the fact that the Company ROE in the 2014 GRC was set below the industry average[20] and that most utilities are not subject to similar sharing mechanisms does not suggest a premium was built into the Company's authorized ROE. Notably, Dominion Energy (formerly, Questar Gas Company), a similarly situated company in Utah with a full-pass through of variable costs, has an authorized ROE of 9.85 percent.

IX. NPC RECOVERY IN OREGON AND WASHINGTON

UAE highlights that all other states in the Company's jurisdiction except California have a sharing mechanism in place.[21] While Oregon and Washington do have deadbands and sharing bands, the Company resets base rates annually in Oregon through the transition adjustment mechanism and the Company has the ability to file a power cost only rate case in Washington. Notably, the Company has advocated for a full pass-through mechanism in each of its states.

X. CONCLUSION

The EBA without a sharing band results in reasonable and fair rates for customers and is in the public interest.

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[19] Docket No. 17-035-01, DPU Initial Comments, dated September 15, 2017, page 4.
[20] Docket No. 13-035-184, Direct Testimony of Dr. Samuel C. Hadaway, Exhibit RMP___(SCH-3), dated January 3, 2014, Page 1.
[21] Docket No. 17-035-01, UAE Initial Comments, dated September 15, 2017, page 5.

DATED this 16th day of October, 2017.

Respectfully submitted,

ROCKY MOUNTAIN POWER

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CERTIFICATE OF SERVICE

Docket No. 17-035-01

I hereby certify that on October 16, 2017, a true and correct copy of the foregoing was served by electronic mail to the following:

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