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Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

To:	Utah Public Service Commission
From:	Division of Public Utilities Chris Parker, Director Artie Powell, Manager, Energy Section David Thomson, Technical Consultant Lane Mecham, Utility Analyst Abdinasir Abdulle, Utility Analyst
Subject:	Docket No. 17-035-15. Action Request from the Commission to review and make recommendations. Rock Mountain Power's December 2016 Results of Operations. In the Matter of PaciCorp's Financial Reports 2017.
Date:	September 15, 2017.

RECOMMENDATION (No Action)

After a review of the above mentioned report, the Division of Public Utilities (''Division") recommends that the Public Service Commission ("Commission") take no action.

ISSUE

On April 28, 2017, Rocky Mountain Power ("Company") filed its December 2016 Results of Operations and a confidential Wind Resources Report for the twelve months ended December 31, 2016. The wind report was provided in compliance with the Commission's final order in Docket No.07-035-93, and included the name, nameplate capacity, actual generation and actual capacity by month for each wind resource. On May 3, 2017, the Commission issued an Action Request to the Division requesting a review of the filing and recommendations. The Commission asked the Division to report back by June 2, 2017.

On May 10, 2017, the Commission sent a supplemental action request requesting an explanation and a statement of issues outline. The issue the Commission asked the Division to investigate in its supplemental action request had to do with a 2017 Protocol Equalization Adjustment in the Results of Operations (ROO) filing. This request included a report of June 2, 2017.

Upon initial review of the filing, the Division determined that the review would require requests for information from the Company, the preparation of DPU in-house modeling of spreadsheets, and review procedures. In past reviews of annual semi-annual filings the Division has found that making requests of the Company and the work to process the requests, perform its in-house modeling, and write its response to the Action Requests have taken three to four months. Therefore, the Division requested the Commission extend the due date of the Division's response to the original and supplemental action requests to September 15, 2017. The extension would allow the Division adequate time to make the proper review and recommendations.

On May 23, 2016, the Commission granted the Division's request for an extension of time for both action requests to September 15, 2017.

SUMMARY COMMENTS

The Division has reviewed the Company's filing and responses to numerous data requests, and performed independent analysis on the Company's results of operations. With the exception of three adjustments proposed by the Company, the Company's filing appears to be consistent with the Company's last general rate case filing or past Commission orders. The three exceptions are (1) Postretirement Welfare Plan balances; (2) Generation Overhaul Expense; and (3) the MSP Equalization Adjustment. These adjustments are discussed in more detail herein.

The Company's filing indicates an earned return on equity of 9.998% or approximately 20 basis points over its allowed return of 9.80%. If the three adjustments cited here are removed from the Company's results of operations, the earned return increases to 10.276%, approximately 48 basis points (less than one half percent) above the allowed return. The Division notes that the earned returns for 2014 and 2015 were also slightly over the allowed return for those years. While these results indicate that the Company may be slightly overearning, it is not clear at this time to the

Division whether this condition will persist given the Company's future or expected capital needs or other expenses. The Division plans to continue to monitor the Company's earnings and will review the Company's results of operations for the period ending June 2017 once filed by the Company. Therefore, the Division recommends that the Commission take no action at this time.

GENERAL COMMENTS, ANALYSIS AND REVIEW

Actual results are adjusted to arrive at normalized results using two types of adjustments. They are Type A, reporting and ratemaking adjustments, and Type B, normalizing adjustments. The filing's basic format and presentation of information remains the same as in previous filings.

The Division's review of the Semi-Annual filing under this Action Request was done using three major review procedures. The first major procedure was comparing information given and adjustments made for the year ended December 31, 2015 Semi-Annual filing to the same information given and adjustments made for the December 31, 2016 Semi-Annual filing. The second procedure was to review a reconciliation provided by the Company that reconciled the year ended December 31, 2016 Semi-Annual filing to the Company's FERC Form1 and its SEC 10-K filing for the same period. Third, the Division used its own interjurisdictional allocation or IJA model to check the Company results of operations filings independently. The Division had no informal meetings with Company during its review of the results of operations for 2016.

Net Power costs are a major operating expense of the Company. For the year ending December 31, 2016, these costs are being reviewed by the Division in Docket No. 17-035-01. The result of the Division's audit regarding Net Power Costs will be filed in that docket after the date of this action request response. The Division also filed reports on the REC Balancing Account in Docket No. 17-035-14. The Division's questions for these items were covered in those Dockets and will not be addressed in this report.

Tab 2 in the Semi-Annual filing is entitled Results of Operations. This section of the filing has a one page summary of actual results for the Total Company and Utah, and normalized results for the Total Company and Utah. The normalized results are obtained by applying the Type A and Type B adjustments. In this Tab the allocation of total cost to Utah is done by using the 2017

Protocol. The summary also uses a 13-month Average Rate Base. Behind the summary are the detail amounts by FERC account. The detail, also by FERC account, shows the business function of the account and the allocation factor or factors used to allocate total FERC account amounts to Utah. The allocation factors are found in Tab 9 – Reporting and Ratemaking Allocation Factors and Tab10 – Normalized Allocation Factors. Each Tab has the allocation factors for all the Company's jurisdictions and how they were computed. Actual loads were used in determining many of the allocation percentages. For its Utah filing the Company used Tab 9 to allocated unadjusted results and Tab 10 to allocate normalized results to obtain Utah results.

Also in Tab 2 is a page that has user specific information, tax information, and capital structure information. The capital structure information is calculated using a five quarter average from December 31, 2015 to December 31, 2016. Under the Other Information heading on this Tab the Company states, "Prepaid pension is included in rate base, consistent with the Company's direct filing Docket No. 13-035-184."

Tab 1 of the Semi-Annual filing is called Summary. This tab starts with actual results for Total Company and Utah allocated, then shows the Type A Total Company and Utah Allocated adjustments to arrive at Total Company and Utah Allocated results. These results are shown under a column with a heading of Reporting and Ratemaking Results. These results are then adjusted for Type B adjustments to arrive at normalized results for Total Company and Utah Allocated. The final normalized results in this Tab agree with those in Tab 2. Tab 2 does not show the Type A and Type B adjustments. This section also has an adjustment summary showing the Utah allocated reconciled actual results of operations, rate base and tax calculations, along with all of the adjustment tabs' line item totals (combining A and B adjustments) to arrive at the Utah Allocated Normalized Results. The table below provides some summary information for comparative purposes from several recent filings. All numbers are the Utah Allocated Normalized Results amounts ($000,000).

Table 1: Summary Results of Operations

	Year Ending December		
	2016	**2015**	**2014**
Total Operating Revenues	$2,108	$2,173	$2,203
Total O&M Expenses	$1,122	$1,193	$1,253
Depreciation and Amortization	$300	$295	$279
Taxes Other Than Income	$66	$66	$59
Income Taxes and Deferrals	$148	$153	$154
Operating Revenue for Return	$471	$466	$457
Total Electric Plant	$12,001	$11,929	$11,360
Total Rate Base Deductions	$5,856	$5,749	$5,354
Total Net Rate Base	$6,145	$6,176	$6,006
Earned Return on Rate Base	7.67%	7.56%	7.60%
Earned Return on Equity	9.9980%	9.8650%	9.8390%
Authorized Return on Equity	9.80%	9.80%	9.80%
Difference (Basis Points)	19.80	6.50	3.90
Revenue Requirement Impact (Approx.)	$10.1	$3.3	$2.0

Through a stipulation approved by the Commission in the Company's last general rate case,[1] the Commission authorized an Earned Return on Equity amount of 9.80%. The Division notes that the Semi-Annual filing for the year ending December 31, 2016, shows an earned return on Equity of 9.998%, which is 0.198% (or 19.8 basis points) greater than the authorized Return on Equity of 9.8%. As shown above for the Semi-Annual filings for the years ending December 2014 and 2015, the Company is also earning slightly more than its authorized Return on Equity of 9.80%. .

A comparison of the numbers for year 2016 to year 2015 above indicates a $65 million decrease in Revenues and a $71 million decrease in O&M expenses. Operating revenue for return for 2016 increased $5 million dollars as compared to 2015. Also, the total net rate base is decreasing but the earned return on rate base increased approximately 0.11%. Depreciation is also increasing due to the increase in Total Electric Plant.

[1] Docket No. 13-035-184

For the last General Rate Case the overall capital structure and cost of capital was stipulated as follows:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	48.55%	5.20%	2.53%
Preferred Stock	0.02%	6.75%	0.00%
Common Stock Equity	51.43%	9.80%	5.04%
TOTAL	100.00%		7.57%

In this Semi-Annual filing the calculated five quarter average overall capital structure and cost of capital is:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	48.61%	5.20%	2.529%
Preferred Stock	0.02%	6.75%	0.001%
Common Stock Equity	51.37%	9.80%	5.034%
TOTAL	100.00%		7.565%

Using the above Semi-Annual amounts and substituting the authorized return on equity percentage with the return on equity from the filing of 9.998% as shown above leads to the following results:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	48.61%	5.20%	2.529%
Preferred Stock	0.02%	6.75%	0.001%
Common Stock Equity	51.37%	9.998%	5.136%
TOTAL	100.00%		7.664%

Tab 10 normalized allocation factors uses temperature normalized loads to derive its allocation factors. Overall, this method causes fewer costs to be allocated to Utah.

Per the last general rate case, the stipulated Utah base Net Power Costs were $630.0 million on an annual basis. For the December 2016, June 2016, and December 2015 Semi-Annual filings the normalized Utah Net Power Costs were computed to be $629.6, $640.6, and $654.1 million, respectively.

As with last year's filing the Company has chosen to include postretirement welfare plan balances in its December 2016 results of operations These balances were included in the last general rate case filing, Docket No. 13-035-184. The Company's rate case testimony explained why it believed these balances were (or should be) included in rate base. Whether or not the Commission will accept these balances in rate base was not determined in the last rate case. There is no Commission order supporting the use of this adjustment to obtain Utah normalized results of operations for the Semi-annual filing. This adjustment increases rate base by $245,086,213 and decreases deferred taxes $91,854,081.

Again in this filing, the Company has restated generation overhaul expenses to constant dollars in its normalizing adjustment for generation overhaul expenses (see adjustment page 4.3 in the filing). Starting with the June 2016 Results of Operations semi-annual filing the Company started to restate steam generation O&M expense to constant dollars as part of its 4.3 generation expense normalization adjustment. In this filing the overhaul adjustment increased costs by $456,641 and the O&M adjustment increased costs by $5,617,130.

In its August 11, 2008 Order issued in Docket No. 07-035-93 and in its February 18, 2010 Order issued in Docket No. 09-035-23 the Commission directed that historic costs should not be inflated prior to determining the normalized four-year average expense level. As stated above, the Company in its rate case filings subsequent to the above orders has restated overhaul expense amounts in constant dollars. In past rate cases the Company has written testimony to support it doing so. The Division in recent rate case testimony has also provided reasons and analysis why historical costs for Generation Overhaul Expense should be adjusted to constant dollars. However, all of the rate cases subsequent to the above Orders on this matter have been settled with this issue not addressed in the stipulated settlements.

New to this filing was a 2017 Protocol Equalization Adjustment (MSP Adjustment) in the amount of $4,400,000.[2] The Division sent a data request to the Company regarding this issue. The Division's request was as follows:

> In the above referenced report, the Company includes a 2017 Protocol Equalization Adjustment (Adjustment), as shown in tab 2, page 2.9, lines 529-532 of the hard copy of the Report. According to the terms of the 2017 Protocol, approved by the Utah Public Service Commission on June 23, 2016 in Docket No. 15-035-86, the 2010 Protocol expires at midnight on December 31, 2016.[3] Please explain whether this Adjustment is appropriate. If not, please identify the effect of the removal of the Adjustment on the results provided in the Company's Report.

On June 14, 2017, the Company responded to the data request with the following:

> The 2017 Protocol Equalization Adjustment for use in the Company's December 31, 2016 results of operations report is appropriate based on the 2017 Protocol and the 2010 Protocol allocation methodologies.

[2] See Exhibit JKL-1to the Direct Testimony of Jeffery K. Larsen line 16 table, page 13, in Docket No. 15-035-86.

[3] *See in the Matter of the Application of Rocky Mountain Power for Approval of the 2017 Protocol* (Order, issued June 23, 2016), Docket No. 15-035-86. *See also id.* (Direct Testimony of Jeffery K. Larsen, Exhibit RMP_JKL-1 at 2, line 10, filed December 31, 2015).

> Section II of the 2017 Protocol states, "The Parties agree to support Commission adoption or use of the 2017 Protocol in all PacifiCorp rate proceedings filed after December 31, 2016." This is also consistent with the 2010 Protocol as approved by the Commission in Docket No. 02-35-04. On Paragraph 8 of Page 5, the Stipulation states, "Such use of the 2010 Protocol shall begin with Docket No. 10-03-124 and remain in effect for all Company filings made on or before December 31, 2016."
>
> The use of the 2017 Protocol Equalization adjustment is appropriate because it was filed after December 31, 2016. Therefore it is the appropriate allocation methodology for the Company's December 31, 2016 results of operations report.

The Division agrees that the 2010 Protocol expired on December 31, 2016, and that for "rate proceedings" after that date, the 2017 Protocol would apply. The Division notes that for purposes of allocating costs to Utah, except for the MSP Adjustment, both the 2010 and 2017 Protocols are fully rolled end methods using the same allocation factors and, therefore, should provide the same results for Utah. However, the Division disagrees with the Company's inclusion of the MSP Adjustment in the results for the calendar year 2016. First, according to the 2017 Protocol, accrual of the MSP Adjustment began on January 1, 2017. Thus, the MSP Adjustment recording this future payment in 2016 would be categorized as a pro forma adjustment. Pro forma adjustments were discontinued starting with the ROO filing for the year ended December 31, 2011. To be consistent with filings since 2011 would require that this adjustment be removed in the 2016 ROO and be accounted for in future ROO filings when paid.

Second, reviewing the Company's ROO of operations is technically not a "rate proceeding" that will lead directly to setting rates or effect the Company's cost recovery. The 2017 Protocol states:

> The 2017 Protocol describes inter-jurisdictional allocation policies and procedures, which, if applied by each of the States for **rate proceedings** filed after December 31, 2016, or as otherwise agreed to in Section XIV, are intended to better afford, than would otherwise be the case, PacifiCorp a reasonable opportunity to meet the goal of recovering its prudently incurred cost of service. . . . The Parties agree to support Commission adoption or use of the 2017 Protocol in all PacifiCorp **rate proceedings** filed after December 31, 2016, or as otherwise agreed to by Parties in Section XIV, up to and including December 31, 2018. (2017 Protocol, page 2, lines 9-13; page 4, lines 7-10; emphasis added).

The Division points out that but for the Company adding the MSP Equalization Adjustment, the Generation Overhaul Expense adjustment, and the postretirement welfare plan adjustment to its results of operations for 2016, the return on rate base and equity percentages would be higher. Without these adjustments, the return on rate base would increase from 7.666% to 7.809%, approximately 0.14% or 14 basis points. The return on equity would increase from 9.998% to 10.276%, approximately 0.28% or 28 basis points. The impact of each adjustment is depicted in the following Table.

Table 2: Division Calculated Earnings

	RORB	ROE
Division Calculated Return	7.809%	10.276%
Generation Overhaul Expense	-0.05%	-0.05%
Post Retirement Welfare Plan	-0.07%	-0.14%
MSP Equalization Adjustment	-0.02%	-0.09%
Return As Filed	7.666%	9.998%

The higher return, 10.276%, is approximately 48 basis points greater than the Company's allowed return of 9.80%. According to the Company's IJA model, the revenue requirement impact of 48 basis points is approximately $24 million.

In summary, the Division believes generally that, except for the Postretirement Welfare Plan balances, the Generation Overhaul Expense adjustment, and the MSP Equalization Adjustment, the adjustments in the Results of Operations are consistent with the Company's last GRC filing or past Commission orders.

RECONCILIATION ANALYSIS AND REVIEW

As noted above, one of our major review procedures was to have the Company provide a reconciliation of the Semi-Annual results to the Company's FERC Form 1 and SEC Form 10-K. The Company's Semi-Annual filing to the Commission is based on FERC accounting and FERC accounts. Through the reconciliation of the Semi-Annual filing, the Division can get assurance that the form and the accounting for the Semi-Annual filing are the same as that provided to another outside regulator, in this case the FERC.

Also, if the 10-K results are reconcilable, then the Division can take into account the external auditor's 10-K audit opinion on the results shown in the Company's year-end filing of its Semi-Annual report. The Division can look to this audit to obtain assurance as to accounting correctness and accuracy for Semi-Annual base unadjusted historical information under this review.

The Company's filing of its 10-K with the Securities and Exchange would be based on historical information from the Company's books and records. The 10-K filing is based on GAAP accounting (General Accepted Accounting Procedures) but the information for that accounting also is the same base information that is used in the FERC Form 1 and the Semi-Annual filing. The SEC filing's historical information is audited by independent external auditors hired by the Company. The external auditors have expressed a positive opinion on the fairness of the Company's representations on its financial statements according to GAAP for the same period as the Semi-Annual report the Division is reviewing in this memorandum; the opinion issued by the external auditor was what is sometimes termed a "clean" opinion. The Company's books and records providing the account amounts for the financial statements and for the FERC Form 1 and the Semi-Annual filing were audited by the External Auditor using Generally Accepted Auditing Procedures to arrive at its issued opinion.

Third, the Division can review the reconciled items to see if they make sense and are proper additions or eliminations to arrive at a proper base for unadjusted historical results of operations in the Semi-Annual filing. This proper base is then adjusted to arrive at Utah normalized results of operations for regulation purposes.

The Division received the above requested and explained reconciliation. Specifically, the Company prepared the following reconciliations:

1. Income Statement: 10-K to FERC Form 1.
2. Income Statement: FERC Form 1 to Results of Operations (unadjusted).
3. Balance Sheet: 10-K to FERC Form 1.

4. Balance Sheet: FERC Form 1 to Results of Operations (unadjusted, yearend basis).

These reconciliations are provided with this report. As part of its review procedures, the Division compared the reconciliations provided by the Company for its December 2016 review with the reconciliations provided by the Company for its December 2015 review.

The reconciliation format was identical from this year to last year with the vast majority of the reconciliation items from year to year being consistent. This was expected because the base accounting and the chart of accounts from year to year follows GAAP and FERC rules and regulations that are highly consistent, with little if any changes from year to year. This consistency provides comparisons that quickly show differences from year to year in format and reconciling items. One noted difference was this year in the reconciliation the Company provided tabs with additional reconciliation items. The Division found this helpful. Due to the consistency of the reconciling material from this year to the last, no data requests having to do with the reconciliations for December 2016 were required.

The information provided by the Company in its reconciliations has enabled the Division to better understand why particular financial items are different between the three types of reports (Form 10-K, FERC Form 1 and Utah Results of Operations). Due to the large number of differences between the reports and the detail involved, this report will not attempt to explain all of the differences. The explanations for the differences are, however, shown in the attached reconciliations. The Division has reviewed the Company's explanations for the differences and at this time the Division does not have any reconciliation concerns. However, the Division reserves the right to challenge certain reconciliation treatments or methodologies that may get carried over to future Results of Operation reports or other proceedings if the Division concludes challenges are appropriate. For example, the Division may at a future date determine that an item that is currently considered "regulatory" should in fact be "non-regulatory" and should not be included in the Results of Operations.

It appears to the Division, after review of the reconciliations, that the December 2016 results of operations on a total Company and unadjusted basis is derived from the same base numbers as those found in the Company's 10K filing to the Securities and Exchange Commission and to the FERC Form 1 filing with the Federal Energy Regulatory Commission.

ADJUSTMENTS COMPARISON ANAYLSIS AND REVIEW

Another review procedure the Division used was to compare the adjustments made to the Utah Results of Operations for the year ended December 31, 2016 to the adjustments to the Utah Results of Operations for the year ended December 31, 2015. In the past ten years, the majority of the rate cases in Utah have been settled. Thus, during this period the adjustments to arrive at Utah regulated results of operations have been consistent, with very little change. Generally, the Commission's orders and regulatory precedents used to arrive at Utah regulatory results of operations have been generated many years before so the regulatory adjustments from one semi-annual results of operation filing to another are basically the same. However, as noted in previous filings by the Division, future period or Type 3 adjustments have been discontinued. Both Type A and Type B adjustments were compared. In the 2016 and 2015 filings, the adjustments are summarized and explained in detail by various categories, which are broken out by Tab Sections in the filing. The adjustment Tabs in the filing are numbered and are as follows: Tab 3 - Revenue Adjustments; Tab 4 - O&M Adjustments; Tab 5 - Net Power Cost Adjustments; Tab 6 - Depreciation and Amortization Adjustments; Tab 7 - Tax Adjustments; and Tab 8 - Rate Base Adjustments.

One purpose of the comparison was to note material differences between the years and to determine if the differences were proper. Accordingly, the Division submitted comparison questions through data requests to the Company. Another purpose was to have the Division look at the 2016 adjustments to determine if the presentation, explanations, and balances were consistent and accurate and that the assumptions and the computation of the adjustments seemed to be proper and accurate. The Division noted that the adjustments in the adjustment tabs were consistent with adjustments that the Company makes to results of operations in its General Rate Case filings. Some of those adjustments, as explained above, do not follow Commission orders or were contested by parties during rate cases that were settled without resolution or agreement concerning those adjustments or were new to 2016 filings.

As part of the Division's comparison analysis and review of the Company's adjustments, the Division submitted questions to the Company. These questions and the Company's responses to the questions is attached to this action request response and are referenced as the DPUs 2nd data request set. (DR numbers 2.1 to 2.10).

Along with the request for responses to the comparisons done by the Division were additional requests for the status of the Carbon Plant demolition, the Klamath River Dam removal, and the Deer Creek closure (Data requests Numbers 2.8; 2.9; and 2.10). Even though these requests were not directly related to the Results of Operations, the Division appreciates the Company providing status information. The Division found the information to be helpful and informative.

The Division notes that at this time some or most of the costs associated with the Carbon Plant demolition and the Deer Creek closure are being deferred for cost recovery until the next general rate case. These costs are shown in the above referenced data requests.

CONCLUSION

After performing the above procedures and after reviewing the results obtained from those procedures, nothing came to the Division's attention during its review that was of material significance suggesting modification of the filing or action to change the Results of Operations as filed. The Division will continue to monitor the Company's earnings and will review the Company's results of operations for the period ending June 2017 once filed. Therefore, the Division recommends that the Commission take no action at this time.

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