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## Memorandum

**To:** Public Service Commission

**From:** Chris Parker, Director  
Artie Powell, Energy Section Manager  
David Thomson, Technical Consultant  
Jeff Einfeldt, Utility Analyst  
Abdinasir Abdulle, Utility Analyst

**Date:** April 5, 2018

**Re:** Docket No. 18-035-01, In the Matter of the Application of Rocky Mountain Power to Increase the Deferred EBA Rate Through the Energy Balancing Account Mechanism. (Also filed in Docket No. 17-035-69 (tax reform docket)).

### RECOMMENDATION

The Division of Public Utilities (Division) has performed a preliminary review of Rocky Mountain Power's (Company or RMP) Application, as filed. Based on that review and the totality of information in the Energy Balancing Account (EBA) filing, the filing appears to not depart substantially from prior years' filings.

The Division recommends that the Public Service Commission (Commission) acknowledge the Company's filing as being complete and that interim EBA rates be approved effective May 1, 2018, with a \$2.8 million deferral to be amortized through April of 2019. The Division recommends the benefits of federal tax reform that are already known (\$76.2 million) be included as a separate credit to customer rates beginning May 1, 2018. That recommendation is

noted here but will be more fully explained in the upcoming comments in Docket No. 17-035-69, the tax reform docket. This recommendation precludes the Company's suggested alternative treatment of the Deer Creek costs and the use of a portion of tax benefits as a direct offset of those costs.

## **ISSUE**

In an order dated February 16, 2017, in Docket No. 09-035-15, the Commission ordered the Division to 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 said, it will act on the Division's preliminary conclusion. If interim rates are approved they will have an amortization period of May 1 of the current year through April of the following year. This memorandum is the product of the Division's preliminary review.

## **DISCUSSION**

The Company's current application requests ratepayers pay approximately \$2.8 million in deferred EBA costs or a 0.1 percent increase. The Division will not repeat the detailed discussions included in the Company's application explaining the justification for the \$2.8 million increase or its standard Deer Creek mine amortization adjustment. However, in this year's filing, the Company offers an alternative plan for Deer Creek costs that have been included with past EBA collections:

Alternately, the Company is proposing a change in the accounting treatment for recovery of the Deer Creek mine amortization expense to continue providing the Company recovery of the already-approved expense but without an increase in customer rates. Specifically, the Company proposes to offset the Deer Creek mine amortization expense for 2017 against the regulatory liability established in Docket No. 17-035-69, Investigation of Revenue Requirement Impacts of the New Federal Tax Legislation Titled: "An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution of the budget for fiscal year 2018. This alternative treatment would result in a refund in the 2018 EBA of \$6.5 million, or 0.3 percent.<sup>1</sup>

The Division has reviewed the current application and has compared its supporting information to information included in prior EBA filings. The Division's comparative analysis included

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<sup>1</sup> See Company Application for Docket No. 18-035-01 page 2, first paragraph, starting third line.

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 that provided in prior years, but also included new workpapers and new cost of service information, of which approximately half were related to the Company's recommended alternative treatment of Deer Creek mine amortization expense.

The Division found some instances where certain supporting documents from prior filings were not contained in this filing. The missing information had little or no impact on the overall completeness of this filing. The 2018 filing includes new adjustments and a non-generation agreement - that added or modified workpapers. These new line item adjustments were not in prior filings (see Company Exhibit 1) but are included in the filing due to Commission approved settlements in other dockets impacting the EBA and appear to be required in this filing.

New workpapers and new cost of service exhibits were also presented in the filing related to the Company's proposed change in the accounting treatment for recovery of the Deer Creek mine amortization. These new workpapers and new cost of service additions are required to understand the impact of the Company's proposed accounting change for the Deer Creek amortization. All are explained in greater detail in the Company's filing.

Attachment 1 summarizes the Division's comparison of the Company's current application and supporting documents with prior years. Under various bullet point headings, Attachment 1 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 second preliminary review of the Company's application as required under Docket No. 09-035-15. As with its first review, the Division determined that as part of this preliminary review 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. Items not applicable two years in a row were deleted from the schedule. "New" items are so designated in the Attachment.

Approximately half of all items designated “New” are related to the Company’s alternative treatment of the Deer Creek mine amortization. The supporting information provided for this alternative treatment is consistent with prior EBA filings. It is also consistent with filing and additional filing requirements. In Attachment 1, the Division labels the alternative treatment “New” because in prior EBA filings the Company has not proposed to offset a deferral increase with a specific regulatory liability amount (in this case the Deer Creek amortization). In this case, the regulatory liability used for offset is generated by the change in corporate tax rates due to federal tax changes, effective January 1, 2018.

Taking the Deer Creek amortization expense out of the EBA filing creates a refund or decrease of \$6.5 million if treated as the Company proposes. New worksheets and cost of service schedules were generated by the Company to show how the refund was computed and to illustrate the results of the refund to rate schedules.

A “Yes” or “New” 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 procedures for its preliminary review of the current filing, the Division makes no judgment regarding the accuracy of the information provided for each item in Attachment 1 or whether the Division agrees with the accuracy and completeness of the information. It also expresses no opinion about the expenses’ prudence. The preliminary review is a high level, limited scope overview of the filing.

Another component of the Division’s review was spot checking calculations, arithmetic, and functionality in Excel workpapers and schedules. This included evaluating how the information met 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 the information provided to meet filing requirements. Filing requirement information offers supplemental support for the basic information provided in the Excel schedules supporting Company Exhibit 1 and other parts of the filing.

In the 2017 EBA, there was no deferral amount to be amortized between May 2017 and March 2018 and therefore no rates to be collected and refunded during this period. However, in the 2018 EBA, the Company is proposing to recover a balance of \$2.8 million from its customers.

Pursuant to the Commission Order in Docket No. 09-035-15, dated February 16, 2017, the Company proposes recovering a balance of \$2.8 million from its customers over one year with interim rates beginning May 1, 2018. Any difference between 2018 EBA credits and the final amount approved by the Commission beginning May 1, 2019 would be included with next year's interim filing. The Stipulation in Docket No. 13-035-184 (2014 GRC Stipulation) requires 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 Meredith Exhibits and Work Papers accompanying the direct testimony of Mr. Robert M. Meredith of RMP. The Division compared this Exhibit to Exhibit A and determined that the Company's spread calculation of the 2018 EBA deferral amount among the customer classes complies 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. As is required by Special Condition 15 of Schedule 73, the billing determinants are adjusted for revenues enrolled in the Subscriber Solar Program that are no longer subject to the EBA tariff. The results of the 2018 EBA deferral spread based on the NPC Allocator are then proportionally adjusted for all customer classes that were reflected in the NPC allocators to collect a total annual amount of \$2.8 million (Exhibit RMP\_ (RMM-1)). In addition, Exhibit RMP\_ (RMM-1) shows the proposed increase 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 more similar to Schedule 9 than any other Schedule. The contract terms for Contract Customer 1 require the 2018 EBA revenue allocation be based on the overall EBA 2018 percent change. The Division believes that this proposal is reasonable.

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 accords 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 is 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 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. The Commission can use the Company's rate spread and rate calculation methods for interim rates if so approved.

## **Alternative Deer Creek Treatment**

The Company has proposed two alternatives, one represents the status quo and the other a unique, one-time mechanism taking advantage of tax reform benefits. The first alternative is the computation of the 2018 EBA as it has been done in the past. This leads to an EBA deferral increase of approximately \$2.8 million. The second alternative proposes that a part of the tax reform benefit in Docket 17-035-69 be applied to the EBA Exhibit 1 line item-Deer Creek amortization, which is approximately \$9.0 million. Removing the Deer Creek amortization from the EBA and paying it from tax reform benefits owed to customers would result in an EBA credit of approximately \$6.5 million.

The Company's second alternative requires the Commission to approve the Company's proposal for using a portion of the federal income tax savings before determinations are made in the tax reform docket. The Division notes that this is the Company's second proposal to use part of the tax regulatory liability to reduce other costs. The first proposal was to use the deferral to offset the cost of additional recovery from ratepayers despite a proposed cap in the Company's proposed Wind Repowering RTM (Docket No. 17-035-39).

The Commission has an open tax reform docket where it is yet to be determined how the initial deferral of approximately \$76.2 million in tax benefits will be treated. A hearing for this matter is scheduled April 18, 2018. The tax reform docket includes a June 15, 2018, Company supplemental tariff filing to evaluate the final impact calculations of the tax act. On June 21, 2018, a scheduling conference will take place regarding this supplemental filing. Due to the open tax reform docket, it is premature to approve use of a portion of those benefits in this matter.

Additionally, the Division notes that in the 2018 EBA filing there are six adjustments to the EBA deferral amount not including interest rate computations. The Division is concerned that the EBA has become a device to recover various items between general rate cases. The EBA was not intended to supplant a general rate case as a venue for determining appropriate costs and rates. It was intended to recover actual prudent net power costs. Therefore, the Division recommends that another adjustment to the EBA (not required by Commission approved stipulations from other dockets) not be approved at this time.

The Division recommends that the EBA deferral be computed as it has normally been computed in the past. In other words, a \$2.8 million deferral amortized into rates for the twelve months following May 1, 2018. As to the alternative proposal, the Division will propose in the tax docket, Docket No. 17-035-69 to begin refunding to ratepayers the approximate \$76.2 million using a line item on their bills as soon as possible. Additionally, the Division will recommend other amounts filed in the June, 2018 supplemental filing in that docket be refunded to ratepayers as appropriate. This proposal gets the full benefit of the tax rate change refund into the hands of ratepayers in a simple and transparent manner, avoiding conflation with the EBA and other items.

## **Conclusion**

The Division concludes, subject to the limited scope of its review, that the Company's 2018 EBA filing does not substantially depart from prior years' filings. New adjustment line items not in prior filings (see Company Exhibit 1) are included due to Commission approved settlements from other Dockets relating to the EBA and appear to be required for inclusion in this filing. Other items support the Company's request for alternative treatment of the Deer Creek costs and tax reform regulatory liability.

The above recommendation by the Division to compute the EBA deferral as has normally been computed and to refund the approximate \$76.2 million from tax reform as soon as possible is simple. Under the Division's recommendation, ratepayers will see the full burdens and benefits of the EBA and tax reform on their bills, denominated separately. This recommendation is a clearer way for ratepayers to see the impact of the EBA and the impact of the new tax act on their monthly billing.

CC Jana Saba, Rocky Mountain Power  
Michele Beck, Office of Consumer Services