ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

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October 16, 2018

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. 18-035-01**
Application to Increase the Deferred Rate through the Energy Balancing Account Mechanism
Reply Comments

In accordance with the Scheduling Order, Notice of Hearing, and Tariff Status issued by the Public Service Commission of Utah ("Commission") on March 29, 2018, in this docket, PacifiCorp ("Rocky Mountain Power") respectfully submits these reply comments. These reply comments respond to the comments submitted by parties on September 18, 2018 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 reply comments are intended to help inform the Commission's 2018 report to the Public Utilities and Technology Interim Committee, required by Utah Code Ann. § 54-7-13.5(6).

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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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER TO INCREASE THE DEFERRED EBA RATE THROUGH THE ENERGY BALANCING ACCOUNT MECHANISM	**DOCKET 18-035-01** ROCKY MOUNTAIN POWER REPLY COMMENTS REGARDING THE SHARING BANDS IN THE EBA

I. INTRODUCTION

Rocky Mountain Power ("Company") respectfully submits these comments in response to the Scheduling Order issued by the Public Service Commission of Utah ("Commission") March 29, 2018, 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 2018 report to the Public Utilities and Technology Interim Committee, 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"), the Utah Association of Energy Users ("UAE"), and Utah Industrial Energy Consumer ("UIEC") dated September 18, 2018. As the DPU, UAE, and UIEC all noted, their position on the Energy Balancing Account ("EBA") and the sharing band have not materially changed. As such, many of the parties' comments have been made before. The Company supports the continuation of the EBA as currently constructed and believes that the sharing band has served its purpose of providing a gradual change in ratemaking practices and is no longer necessary. As no new evidence is presented, the Company's position is adequately documented in its initial comments in this docket as well as in its initial and reply comments[1] that informed the 2017 Commission Report.[2] For the present filing, the Company's comments respond as follows:

- The 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.
- 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.

II. THE EBA IS IN THE PUBLIC INTEREST

The DPU and UIEC recommend that the EBA be eliminated or, at a minimum, that the sharing band be reinstated. The DPU believes that the "EBA is beneficial to the Company with little or no net benefit to ratepayers."[3] The DPU made the same assertion in comments filed last year;[4] however, neither the DPU nor UIEC has provided evidence why elimination of the sharing band is not in the public interest. The public interest is served when customers receive safe and reliable energy at reasonable prices. The DPU's and UIEC's proposals fail to address how

[1] The Company's initial and reply comments on the EBA sharing band from Docket No. 17-035-01 are attached to the Company's initial comments in this report.

[2] The 2017 Report from Public Service Commission of Utah ("PSC") under Utah Code Ann. § 54-7-13.5(6)

[3] Docket No 18-035-01, DPU Initial Comments, September 18, 2018, page 4.

[4] Docket No. 17-035-01, DPU Initial Comments, September 15, 2017, page 3.

customers paying the actual, prudently-incurred, costs of the energy they consume is not just and reasonable and in the public interest. In fact, in recent testimony the DPU reiterated that it "believes that rates should be based on costs."[5] The EBA is in the public interest because customers pay the actual cost of safe and reliable energy, and the Company receives fair and just recovery of its prudently incurred costs.

Customers have certainly benefited in recent years from the Company participating in the energy imbalance market ("EIM"), low electric and natural gas market prices, and higher than normal hydro generation, all of which have resulted in lower NPC. Customers have or will have received a refund of approximately $18.5 million of NPC and wheeling revenues from the 2017 and 2018 EBAs. Without the EBA this amount would have been retained by the Company. Notably, actual NPC were higher than base NPC and the EBA resulted in a surcharge to customers in some years. However, absent the sharing band both customers and the Company are held harmless, regardless of whether the EBA is a credit or surcharge, because customers pay the actual cost of the energy they consume, no more and no less. To support its conclusion the DPU retreads the following statement:

> "By effectively guaranteeing the Utility 100 [percent] recovery of its [NPC], the EBA as now implemented misaligns the Company's incentives in forecasting, managing [NPC], accounting for [NPC], and overall operational efficiency."[6]

Again the DPU has never addressed the Company's response, let alone present any evidence to support this statement. The Company disagrees with this statement for multiple reasons. First, the EBA does not guarantee 100 percent recovery of NPC, rather the EBA allows for the recovery of *prudently incurred* NPC. The NPC included in the EBA are subject to the scrutiny of the DPU and

[5] Docket No. 17-035-69, Direct Testimony of Lane Mecham, August 18, 2018, line 158.

[6] Docket No 18-035-01, DPU Initial Comments, September 18, 2018, page 4.

any other party who intervenes. In fact, the Company agreed to extend the DPU schedule to allow it more time to perform its audit of the EBA and NPC. The intensity and focus of the audit and prudence review is within the control of the DPU. UIEC takes issue with the prudence review performed by the DPU stating that it is "insufficient to meaningfully assess the accuracy or the prudence of those power costs." UIEC has the opportunity to more fully participate in the EBA and conduct its own review, it can work with the DPU to address its concerns, or both. Second, NPC are forecast in a GRC, and one could conclude that if customers are to pay the actual cost of the energy they consume regardless of the forecast, all parties would be motivated to set the NPC forecast as accurately as possible since no party would benefit from over- or under-forecasting. Third, 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. Further, the Company's books and records are routinely audited by an independent auditor who issues an opinion. It is common practice in the audit industry to rely on the work of another qualified auditor.[7] Finally, the misnomer that the sharing band provides incentive for managing NPC and operational efficiency is addressed in detail below.

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[7] Docket No. 18-035-01, UIEC Initial Comments, September 18, 2018, page 5 footnote 12. UIEC references the Report and Order, Docket No. 09-035-15 at 4 (Feb. 16, 2017) (quoting Hr'g Transcript at 13:9-11). "The Division stated it has no evidence to reasonably believe that reported net power costs are materially inaccurate (*id.*), but neither could it confirm accuracy. In short, it is unknown whether the Company's reported net power costs are accurate." The Company's external independent auditor, Deloitte & Touche, LLP, has issued an Unqualified Opinion of the company's financial statements every year since 2006, when they became the Company's auditor. The Report of Independent Registered Public Accounting Firm in the Company's 2017 10-K report filed with the Securities and Exchange Commission states "In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America." The Public Company Accounting Oversight Board allows for one auditor to rely on the work of another qualified auditor. Parties and the Commission should be reasonably assured that NPC are accurate. The DPU review correctly focuses on prudence.

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

UAE notes, as it has in the past, that the Company is not a "passive bystander" and that it plays a large role in managing its NPC. Although this is true, the Company disagrees with the belief that the sharing band somehow changes the Company's management of its NPC. In 2017, the Company either generated or purchased a total of approximately 66,500 gigawatt hours ("GWh") to serve load requirements for customers in the least cost manner. The costs and revenues associated with approximately 30.4 percent of that energy are market transactions and natural gas generation which are directly impacted by electric and natural gas market prices. Approximately 11.5 percent of the energy came from *weather dependent* Company-owned wind and hydro resources, and approximately 7.5 percent of the energy came from qualifying facilities ("QF"), of which both the pricing and generation are out of the Company's control. The Company acknowledges it must be prudent in its system dispatch and balancing, but a significant portion of the NPC are outside of the Company's control.

For a sharing band to be an effective incentive mechanism for the Company to achieve optimal operations, then, logically, base NPC would represent an operational standard. However, base NPC are set in rates after being highly scrutinized by parties who have an incentive to set them as low as possible, using a one-year forecast with normalization assumptions for weather, generation output, and load requirements. In addition, the variability of weather and load will cause the actuals to inevitably differ from the forecast. For example, in 2017 actual hydro generation was 526 GWh higher than the normalized hydro generation assumed in the forecast and wind generation was 268 GWh lower than the normalized wind generation assumed in the forecast. This variance from zero-fuel-cost resources results in both upward and downward pressure to NPC but is uncontrollable as it is a function of weather.

Admittedly, the Company is responsible for prudently managing hydro schedules, wind integration, and system balancing around intermittent resources. But a sharing band does not affect operational decisions. For example, if the Company were in a position where it needed one additional megawatt of energy and it could choose between dispatching a thermal resource at $25/megawatt hour ("MWh") and purchasing on the market at $23/MWh, the Company would purchase on the market because it is least cost. The parties' 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 and attachments give multiple examples on the Company's commitment to serving customers in the least cost manner.

Expanding the example, if in base NPC the market price forecasted was $20/MWh, under an EBA with a sharing band, the $3 variance between forecasted and actual market prices would be shared between the Company and customers despite the system being 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. Again, parties' provide no evidence as to how holding the Company to an unattainable standard incentivizes optimal operations.

UAE reuses the example of scheduling outages to show how Company operations might change without a sharing band stating, "[a]bsent 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 Company offers the same response as it has in the past which no party has ever addressed. The UAE's insinuation that the Company would be impartial to controllable costs because the sharing band has been eliminated is simply not true because the least cost standard would not change.[9] Aside from its baseless hypothetical 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, UAE, or another party would challenge the prudency of such an outage.

Finally, 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."[10]
- 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."[11]
- 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."[12]
- "The overall conclusion is that to date there is no evidence of the EBA affecting the plant performance."[13]

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[8] Docket No. 18-035-01, UAE Initial Comments, September 18, 2018, page 5.
[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. 09-035-15, Final Evaluation Report of PacifiCorp's EBA Pilot Program, May 20, 2016, page 20.
[11] Id. Page 23.
[12] Id. Page 32.
[13] Id. Page 33.

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. The Company made this same argument last year but parties have yet to reconcile how the sharing band is an effective incentive to control NPC when the DPU has found no evidence that the EBA impacts Company operations.

IV. 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.[14] Increased scrutiny and a more thorough prudence review is an appropriate external control to ensure the Company serves load in a least cost manner. UIEC argues that "[r]atepayers, have no means to control any of that risk".[15] Customers are not a silent participant in NPC. Customer groups like UIEC are able to fully participate in the EBA and perform their own review of NPC. Additionally, groups like UIEC can be involved in other filings that impact NPC like the collaborative effort with stakeholders that resulted in the Company's current hedging policies.

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.[16] 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

[14] Docket No. 09-035-15, Order, February 16, 2017, page 17.
[15] Docket No. 18-035-01, UIEC Initial Comments, September 18, 2018, page 5.
[16] Docket No. 18-035-01, UAE Initial Comments, September 18, 2018, page 5.

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.

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 keep rates low in light of emerging competition from self-generation. This competitive force was not as prevalent at the time the EBA was approved.

V. RETURN ON EQUITY IN THE UTILITY INDUSTRY

Lastly, the DPU and UIEC highlight the fact that the Company's authorized ROE was not adjusted to compensate for the elimination of the sharing band.[17] 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[18] 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.

[17] Docket No. 18-035-01, DPU Initial Comments, September 18, 2018, page 4.
[18] Docket No. 13-035-184, Direct Testimony of Dr. Samuel C. Hadaway, Exhibit RMP___(SCH-3), January 3, 2014, page 1.

VI. 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.[19] While Oregon and Washington 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.

VII. CONCLUSION

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

RESPECTFULLY SUBMITTED this 16th of October, 2018.

ROCKY MOUNTAIN POWER

Yvonne R. Hogle

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Assistant General Counsel

[19] Docket No. 18-035-01, UAE Initial Comments, September 18, 2018, page 6-7.

CERTIFICATE OF SERVICE

Docket No. 18-035-01

I hereby certify that on October 16, 2018, a true and correct copy of the foregoing was served by electronic mail to the following:

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