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Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Division of Public Utilities

Chris Parker, Director
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Lane Mecham, Utility Analyst
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Subject: **Action Request from the Commission to review and make recommendations. Rock Mountain Power's December 2017 Results of Operations. In the Matter of PaciCorp's Financial Reports 2018. Docket No. 18-035-09.**

Date: August 30, 2018.

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 30, 2018, Rocky Mountain Power ("Company") filed its December 2017 Results of Operations and a confidential Wind Resources Report for the twelve months ended December 31, 2017. 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 April 30, 2018, 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 May 30, 2018.

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 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 August 31, 2017. The extension would allow the Division adequate time to make the proper review and recommendations.

On May 8, 2018, the Commission granted the Division's request for an extension of time.

SUMMARY COMMENTS

The Division has reviewed the Company's filing and responses to numerous data requests, and performed independent analysis of the Company's results of operations. The elements of the Company's filing appear to be consistent with the Company's last general rate case filing or past Commission orders.

The Company's filing indicates an earned return on equity of 9.222% or approximately 58 basis points under its allowed return of 9.80%. In the previous 3 years the Company slightly over-earned and the Division noted in those reviews that it would continue to monitor the results of operations as they were filed semi-annually to determine if there was persistent over-earning. Based on the relative closeness to the allowed return on equity over the previous 4 years, including this year, the Division recommends that he Commission take no action.

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 two major review procedures. The first major procedure was comparing information given and adjustments made for the year ended December 31, 2016 Semi-Annual filing to the same information given and adjustments made for the December 31, 2017 Semi-Annual filing. The second procedure was to review a reconciliation provided by the Company that reconciled the year ended December 31, 2017 Semi-Annual filing to the Company's FERC Form 1 and its SEC 10-K filing for the same period. The Division had no informal meetings with Company during its review of the results of operations for 2017.

Net Power costs are a major operating expense of the Company. For the year ending December 31, 2017, these costs are being reviewed by the Division in Docket No. 18-035-01. 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. 18-035-06. 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, 2016 to December 31, 2017. 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. The prepaid pension amounts in rate base are provided for information purposes on page 8.10."

Tab 1 of the Semi-Annual filing is called Summary. This tab starts with unadjusted 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 ($ millions)

	Year Ending December		
	2017	**2016**	**2015**
Total Operating Revenues	$2,151	$2,108	$2,173
Total O&M Expenses	$1,180	$1,122	$1,193
Depreciation and Amortization	$309	$300	$295
Taxes Other Than Income	$69	$66	$66
Income Taxes and Deferrals	$141	$148	$153
Operating Revenue for Return	$450	$471	$466
Total Electric Plant	$12,342	$12,001	$11,929
Total Rate Base Deductions	$6,175	$5,856	$5,749
Total Net Rate Base	$6,167	$6,145	$6,176
Earned Return on Rate Base	7.30%	7.67%	7.56%
Earned Return on Equity	9.222%	9.998%	9.865%
Authorized Return on Equity	9.80%	9.80%	9.80%
Difference (Basis Points)	(57.80)	19.80	6.50
Revenue Requirement Impact (Approx.)	$(29.6)	$10.1	$3.3

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 Semi-Annual filing for the year ending December 31, 2017, shows an earned return on Equity of 9.222%, which is 0.578% (or 57.80 basis points) lower than the authorized Return on Equity of 9.8%. This reverses a trend of overearning by the Company from the 3 preceding years, which the Division noted in those reviews.

A comparison of the numbers for year 2017 to year 2016 above indicates a $43 million increase in Revenues and a $58 million increase in O&M expenses. Operating revenue for return for 2017 decreased $21 million dollars as compared to 2016. Also, the total net rate base increased but the earned return on rate base decreased approximately 0.365%.

[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	48.49%	5.26%	2.551%
Preferred Stock	0.02%	6.75%	0.001%
Common Stock Equity	51.49%	9.80%	5.046%
TOTAL	**100.00%**		**7.598%**

Using the above Semi-Annual amounts and substituting the authorized return on equity percentage with the return on equity from the filing of 9.222% as shown above leads to the following results:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	48.49%	5.26%	2.551%
Preferred Stock	0.02%	6.75%	0.001%
Common Stock Equity	51.49%	9.222%	4.748%
TOTAL	**100.00%**		**7.300%**

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 2017, June 2017, and December 2016 Semi-Annual filings the normalized Utah Net Power Costs were computed to be $668.5, $646.2, and $629.6 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 (see adjustment page 8.10). 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 $259,377,907 and decreases deferred taxes $97,277,161, for a net increase to rate base of $162,100,747.

Again in this filing, the Company has restated generation overhaul and O&M expenses to constant dollars in its normalizing adjustment for generation overhaul expenses (see adjustment page 4.3 in the filing). In this filing the generation overhaul adjustment increased costs by $5,485,413 and the O&M adjustment increased costs by $605,926. In the 2016 results of operations these adjustments were $196,568 and 2,219,819, respectively.

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.

In summary, the Division believes generally that, except for the Postretirement Welfare Plan balances and the Generation Overhaul Expense 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. Reconciling the Semi-Annual filing to the FERC and SEC forms provides some 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, year-end 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 2017 review with the reconciliations provided by the Company for its December 2016 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, change 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 reconciling items related to tax reform, which was passed late in 2017. Due to the consistency of the reconciling material from this year to the last, and no further details on tax reform, 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 2017 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, 2017 to the adjustments to the Utah Results of Operations for the year ended December 31, 2016. 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 2017 and 2016 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 2017 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 2017 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 2.4).

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 2018 once filed. Therefore, the Division recommends that the Commission take no action at this time.

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