State of Utah

Department of Commerce
Division of Public Utilities

MARGARET W. BUSSE
Executive Director

CHRIS PARKER
Director, Division of Public Utilities

SPENCER J. COX
Governor

DEIDRE HENDERSON
Lieutenant Governor

Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Manager

Brenda Salter, Utility Technical Consultant Supervisor

Michael Doxey, Utility Analyst

Scott Abbott, DPU Intern

Date: July 8, 2021

Re: **Docket No. 21-035-20,** PacifiCorp's Results of Operations Report for the Utah Jurisdiction for the twelve months ended December 31, 2020.

Recommendation (No Action)

After a review of the above-mentioned report, the Division of Public Utilities (Division or DPU) recommends the Public Service Commission (Commission) take no action.

Issue

On April 30, 2021, Rocky Mountain Power (Company) filed its December 2020 Results of Operations and its confidential Wind Resources Report for the twelve months ended December 31, 2020. The wind report is provided in compliance with the Commission's final order in Docket No. 07-035-93, and includes the name, nameplate capacity, actual generation, and actual capacity by month for each wind resource. On April 30, 2021, the Commission issued an Action Request to the Division requesting a review of the filing and make recommendations. The Commission asked the Division to report back by June 1, 2021.

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 action request to August 31, 2021. The extension would allow the Division adequate time to make the proper review and recommendations.

On May 26, 2021, the Commission granted the Division's request for an extension of time for the action requests to August 31, 2021.

SUMMARY COMMENTS

The Division has reviewed the Company's filing and responses to its data requests, and performed independent analysis on the Company's results of operations. With the exception of Generation Overhaul Expense adjustment proposed by the Company, and the Postretirement Welfare Plan addition of assets, the Company's filing appears to be consistent with the Company's 2014 general rate case filing[1] or past Commission orders.

The Company's filing, which includes results normalized for Utah, indicates an earned return on equity of 9.825% or approximately 2.5 basis points over its allowed return of 9.80%. The Division notes that based on past Company filings, the Company has slightly over-earned on an occasional basis. The Division plans to continue to monitor the Company's earnings as they are filed semi-annually for over and under earning as compared to its allowed rate of return on equity. Based on the Company's relative proximity to the allowed return on equity this year, the Division recommends that the Commission take no action at this time.

[1] Docket 13-035-184 - Rocky Mountain Power for Authority To Increase its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations, Filed January 6, 2014

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, 2020 Semi-Annual filing to the same information given and adjustments made for the December 31, 2019 Semi-Annual filing. The second procedure was to review a reconciliation provided by the Company that reconciled the year ended December 31, 2020 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 2020.

Net Power costs are a major operating expense of the Company. For the year ending December 31, 2020, these costs are being reviewed by the Division in Docket No. 21-035-01. 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. 21-035-05. The Division's reviews of these items were covered or will be 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 2020 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 Factors and Tab 10

– Normalized 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 allocate unadjusted results and Tab 10 to allocate normalized results for Utah.

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, 2019 to December 31, 2020.

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 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		
	2020	**2019**	**2018**
Total Operating Revenues	$2,340	$2,139	$2,152
Total O&M Expenses	$1,222	$1,193	$1,208
Depreciation and Amortization	$557	$330	$494
Taxes Other Than Income	$75	$71	$72
Income Taxes and Deferrals	$(12)	$86	$(93)
Operating Revenue for Return	$496	$460	$471
Total Electric Plant	$12,889	$12,745	$12,601
Total Rate Base Deductions	$6,198	$6,512	$6,362
Total Net Rate Base	$6,691	$6,233	$6,240
Earned Return on Rate Base	7.42%	7.38%	7.55%
Earned Return on Equity	9.825%	9.555%	9.644%
Authorized Return on Equity	9.80%	9.80%	9.80%
Difference (Basis Points)	2.5	(24.5)	(15.6)
Revenue Requirement Impact (Approx.)	$1.14	$(10.45)	$(6.72)

Through a stipulation approved by the Commission in the Company's 2014 general rate case, the Commission authorized an Earned Return on Equity amount of 9.80%. The Division notes that the Authorized Return on Equity in the recently completed 2020 general rate case[2] does not go into effect until January 1, 2021 and therefore does not apply to this analysis. The Division notes that the Semi-Annual filing for the year ending December 31, 2020, shows an earned Return on Equity of 9.825%, which is 0.025% (or 2.5 basis points) higher than the authorized Return on Equity of 9.80%. This has a revenue requirement impact of approximately $1.14 million more than its authorized return. As shown above for the Semi-Annual filings for the years ending December 2019 and 2018, the Company earned less than its authorized return with a revenue requirement impact of approximately $(10.45) million and approximately $(6.72) million, respectively.

[2] Docket No. 20-035-04

A comparison of the numbers from the year ending 2020 to the year ending 2019 above indicates a $201 million increase in Revenues and a $29 million increase in O&M expenses. Operating revenue for return for 2020 increased $36 million dollars as compared to 2019. Also, the total net rate base is increasing and the earned return on rate base increased approximately 0.04%. Depreciation is also increasing due to the increase in Total Electric Plant.

For the year ending December 31, 2020, expenses related to pensions increased approximately $10M. These expenditures are currently under review by the Division in Docket No. 21-035-14, which aims to create a balancing account for uncertainty created by variable interest rates, employees choosing a 'Lump Sum Pensions Withdrawal', and variations in retirement date. The Division's questions for these items were covered in that Docket and will not be addressed in this report.

Shifting norms about work due to COVID-19 created a different structure of sales for the Company. This is evident in the 14% increase of residential sales, as compared to a 7% increase in commercial, industrial, and public sales. Due to the diminishing effects of COVID-19, this number faces the possibility of rapid change, which could diminish profits for the Company. As the current pandemic situation subsides, the Division will continue to monitor the situation for potential changes.

For the 2014 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%	4.87%	2.359%
Preferred Stock	0.01%	6.75%	0.001%
Common Stock Equity	51.50%	9.80%	5.047%
TOTAL	100.00%		7.407%

Using the above Semi-Annual amounts and substituting the authorized return on equity percentage with the return on equity from the filing of 9.825% as shown above leads to the following results:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	48.49%	4.87%	2.359%
Preferred Stock	0.01%	6.75%	0.001%
Common Stock Equity	51.50%	9.83%	5.060%
TOTAL	100.00%		7.420%

Per the 2014 general rate case, the stipulated Utah base Net Power Costs were $630.0 million on an annual basis. For the December 2020, June 2020, and December 2019 Semi-Annual filings the normalized Utah Net Power Costs were computed to be $695.3, $688.3, and $699.9 million, 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. In subsequent general rate cases, parties agreed to settlement without addressing the issue. In the 2020 general rate case, the Commission approved the Office of Consumer Services Generation Overhaul adjustment maintaining that historic costs should not be inflated prior to determining the normalized four-year average expense level. Two separate but related issues are at play in forecasting Generation Overhaul Expense: the appropriate inflate rate or rates used in forecasting and the method of forecasting. The Division continues to support the Company's method as a more accurate method of forecasting Generation Overhaul Expense.

Despite a tab in the report entitled, "2020 Protocol Adj", the 2020 Protocol is not included as any adjustment. The Division agrees with this exclusion, as the 2020 Protocol Adjustments will only come into effect in 2021.

In summary, the Division believes generally that the adjustments in the Results of Operations are consistent with the Company's 2014 general rate case 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 other outside regulators, in this case the FERC and SEC.

Also, if the 10-K results are reconcilable, then the Division can consider 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 an unmodified opinion on the Company's representations of 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.

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).

As part of its review procedures, the Division compared the reconciliations provided by the Company for its December 2020 review with the reconciliations provided by the Company in previous years.

The reconciliation format was identical from this year to previous years 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. Due to the consistency of the reconciling material from this year to previous years, with only minor differences, no data requests having to do with the reconciliations for December 2020 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 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 2020 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, 2020 to the adjustments to the Utah Results of Operations for the year ended December 31, 2019. In the past, 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. Both Type A and Type B adjustments were compared. In the 2020 and 2019 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.

From the 2019-2020 FY, categories of adjustments in both Type A and Type B changed. Within Type A, "AFUDC – Equity" was dropped while the category "Prepaid Pension Asset Removal" was added. Within Type 2, "SO2 Emission Allowances" was dropped. Prepaid Pension Asset Removal was discussed in Docket No. 20-035-04, and the Commission Order issued on 12-30-2020, states "We find that it would not be just and reasonable to allow RMP to change the treatment of these assets now that doing so would favor RMP, as opposed to customers". This adjustment, affecting the Total Base Rate by $117.1 million, would drastically change the revenue earned in 2020.

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 2020 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.

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 2021 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