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UTAH DEPARTMENT OF COMMERCE
Division of Public Utilities

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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
Trevor Jones, Utility Analyst

Date: August 29, 2022

Re: **Docket No. 22-035-10,** PacifiCorp's Results of Operations Report for the Utah Jurisdiction for the twelve months ended December 31, 2021.

Recommendation (No Action)

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

Issue

On April 27, 2022, Rocky Mountain Power (Company) filed its December 2021 Results of Operations and its confidential Wind Resources Report for the twelve months ended December 31, 2021. 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 27, 2022, the Commission issued an Action Request requesting the Division review the filing and make recommendations with an initial due date of May 27, 2022.

Upon initial review of the filing, the Division determined that the review would require additional information from the Company, the preparation of Division in-house modeling of spreadsheets, and review procedures. On May 19, 2022, the Division requested the

Commission extend the due date of the Division's response to the Action Request to allow adequate time to make the proper review and recommendations. On May 20, 2022, the Commission granted the Division's request and extended the response date to August 31, 2022. This memorandum represents the Division's response to the Action Request.

Summary Comments

The Division reviewed the Company's filing and responses to its data requests and has performed an independent analysis of the Company's results of operations. The Company's filing appears to be consistent with the Company's most recent rate case filing[1] and past Commission orders.

The Company's filing, which includes results normalized for Utah, indicates an earned return on equity of 10.067% or approximately 41.7 basis points above its allowed return of 9.65%. The Division notes that based on past Company filings, the Company has over-earned on an occasional basis. The Division will continue to monitor the Company's earnings as they are filed semi-annually for over/under earning as compared to its allowed rate of return on equity. Based on the Company's proximity to the allowed return on equity, the Division recommends that the Commission take no action at this time.

Discussion

Actual results are adjusted to arrive at normalized results using two types of adjustments. There are Type A, reporting and ratemaking adjustments, and Type B, normalized adjustments. The filing's basic format and presentation of information remains consistent with previous filings.

The Division's review of the Semi-Annual filing was done using three major review procedures. The first procedure was comparing information given and adjustments made for the year ending December 31, 2021, to the same information for the year ending December 31, 2020. The second procedure was to review a reconciliation provided by the Company that compared the year ended December 31, 2021, Semi-Annual filing to the Company's

[1] Docket No. 20-035-04 Application of 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.

Federal Energy Regulatory Commission (FERC) Form 1 and its Securities and Exchange Commission (SEC) 10-K filing for the same period. Third, the Division used its own interjurisdictional allocation or IJA model to check the Company's results of operations filings independently. The Division had no informal meetings with the Company during its review of the Results of Operations for 2021.

Net Power Costs are a major operating expense of the Company. For the year ending December 31, 2021, these costs are currently under a separate review in the Energy Balancing Account (EBA) Docket No. 22-035-01. The result of the Division's audit regarding Net Power Costs will be filed in that docket. The Division also filed reports on the Renewable Energy Credit (REC) Balancing Account in Docket No. 22-035-07. The Division's reviews of these items were addressed or will be addressed in those Dockets and will not be discussed in this report.

The Excel file "RMP Attachment 1 – UT JAM December 2021 ROO 4-27-2022" was used and will be referred to throughout this response. The tab labeled "Report" in the excel file, provides the Results of Operations. The first section includes user specific information, tax information, and capital structure information. The capital structure information is calculated using a five-quarter average from December 31, 2020, to December 31, 2021, and will be used later.

The second section of the "Report" tab has a one-page summary of actual unadjusted 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. The allocation of total cost to Utah uses the 2020 Protocol and uses a 13-month Average Rate Base. The report also includes a summary of the detail amounts by FERC account. The detail by FERC account shows the business function of the account and the allocation factor or factors used to allocate amounts to Utah. The allocation factors are found in the tab labeled "Variables" and includes 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.

Table 1 below is a comparison of the Utah Normalized Results of Operations for the last three years.

Table 1: Normalized Results of Operations

	Year Ending December		
	2021	**2020**	**2019**
Total Operating Revenues	$2,318	$2,340	$2,139
Total O&M Expenses	$1,264	$1,222	$1,193
Depreciation and Amortization	$434	$557	$330
Taxes Other Than Income	$78	$75	$71
Income Taxes and Deferrals	$(31)	$(12)	$86
Operating Revenue for Return	$572	$496	$460
Total Electric Plant	$13,998	$12,889	$12,745
Total Rate Base Deductions	$6,392	$6,198	$6,512
Total Net Rate Base	$7,606	$6,691	$6,233
Earned Return on Rate Base	7.52%	7.42%	7.38%
Earned Return on Equity	10.067%	9.825%	9.555%
Authorized Return on Equity	9.65%	9.80%	9.80%
Difference (Basis Points)	41.7	2.5	(24.5)

During the most recent general rate case[2] the Commission authorized an Earned Return on Equity of 9.65%. The Division notes the Semi-Annual filing for the year ending December 31, 2021, shows an Earned Return on Equity of 10.067%, which is 0.417% (or 41.7 basis points) higher than the authorized Return on Equity. Table 1 shows the Company earned less than the authorized rate in 2019 and slightly over in 2020. The Division will continue to monitor the actual vs authorized rate of return.

A comparison of the numbers from the year ending 2021 to the year ending 2020 indicates a $22 million decrease in Revenues and a $42 million increase in O&M expenses.

[2] Docket No. 20-035-04 Application of 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.

Operating Revenue for Return for 2021 increased $76 million as compared to 2020. The increased rate of return is due primarily to a decrease in depreciation and tax expense.

The last general rate case had a capital structure and cost of capital authorized as follows[3]:

	Capital Structure	Rate	Weight
Debt	47.49	4.79	2.27
Preferred Stock	0.01	6.75	0.01
Equity	52.5	9.65	5.06
Total			**7.34%**

In the tab "Report" the calculated five quarter average capital structure and cost of capital is:

	Capital Structure	Rate	Weight
Debt	47.69	4.72	2.252
Preferred Stock	0.01	6.75	0.001
Equity	52.3	9.65	5.047
Total			**7.299%**

Using the above amounts from the "Report" tab and substituting the authorized return on equity rate with the return on equity rate from the filing leads to the following results:

	Capital Structure	Rate	Weight
Debt	47.69	4.72	2.252
Preferred Stock	0.01	6.75	0.001
Equity	52.3	10.067	5.265
Total			**7.517%**

In its August 11, 2008, Order[4] and in its February 18, 2010, Order[5], the Commission indicated that historic costs should not be inflated prior to determining the normalized four-year average expense level. In its rate case filings, the Company has restated generation overhaul expense amounts in constant dollars and has written testimony to support it. Division rate case testimony has also provided reasons and analysis regarding why historical costs for generation overhaul expense should be adjusted to constant dollars. In

[3] From the General Rate Case 20-035-04, Confidential Order – 12-31-2020, page 51.
[4] Docket No. 07-035-93
[5] Docket No. 09-035-23

subsequent general rate cases, parties agreed to settlement without addressing the issue specifically. 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 the generation overhaul expense: the appropriate inflation rate or rates used in forecasting and the method of forecasting.

In summary, the Division believes generally that the adjustments in the Results of Operations filing are consistent with the Company's 2020 general rate case filing and 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 assurance the accounting for the Semi-Annual filing is consistent with that provided to other regulators, specifically FERC and the SEC. As a result of the reconciliation with the SEC financial filing, the Division can then rely on the opinion of the filing expressed by the Company's external auditors.

The Company's filing of its 10-K with the SEC is based on historical information from the Company's books and records. The 10-K filing is based on General Accepted Accounting Procedures (GAAP) accounting and the information is the same base information 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 including financial statements and for the FERC Form 1 were audited by the External Auditor using Generally Accepted Auditing Procedures to arrive at its issued opinion.

The Division reviewed the Company's reconciling documents to determine if they include proper additions or eliminations to arrive at a proper basis for unadjusted historical results of operations in the Semi-Annual filing. This basis is then adjusted to arrive at Utah normalized results of operations for regulation purposes.

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 2021 review with the reconciliations provided by the Company in previous years.

The reconciliation format was identical from this year to previous years with the 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 identify differences from year to year.

The reconciliations have 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 the differences. The Division has reviewed the Company's explanations for the differences and 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.

After review of the reconciliations, the December 2021 results of operations on a total Company and unadjusted basis are derived from the same base numbers as those found in the Company's 10-K filing to the SEC and to the FERC Form 1 filing.

Adjustments Comparison Analysis 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, 2021, to the prior year. In the past, the majority of 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 operations filing to another are basically the same. Both Type A and Type B adjustments were compared and can be found on the tab labeled "Adjustments" with a summary of all the adjustments on the next tab labeled "Adj Summary".

There were a few changes to the adjustments section from the December 2020 filing to the December 2021 filing. The "2017 Protocol Adjustment" was removed, "Utah Facebook Transmission" was added, and the "Cholla 4 Retirement" was added.

One purpose of the comparison was to note material differences between the years and to determine if the differences were proper. Another purpose was to have the Division look at the 2021 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 the adjustments were consistent with adjustments the Company makes to its 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 globally, without resolution or agreement concerning those adjustments specifically.

Conclusion

After performing the above procedures and after reviewing the results obtained from those procedures, nothing came to the Division's attention that was of material significance. 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. Therefore, the Division recommends the Commission take no action.

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