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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
Brenda Salter, Assistant Director
Abdinasir Abdulle, Utility Technical Consultant Supervisor
Jeff Einfeldt, Utility Technical Consultant
Trevor Jones, Technical Consultant

Date: July 26, 2023

Re: **Docket No. 23-035-12,** PacifiCorp's Results of Operations Report for the Utah Jurisdiction for the twelve months ended December 31, 2022.

Recommendation (No Action)

After a review of PacifiCorp's Results of Operations Report for the twelve months ended December 31, 2022, the Division of Public Utilities ("Division") recommends the Public Service Commission ("Commission") take no action.

Issue

On April 26, 2023, Rocky Mountain Power ("RMP" or "Company") filed its December 2022 Results of Operations ("ROO") and its confidential Wind Resources Report for the twelve months ended December 31, 2022. 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, 2023, the Commission issued an Action Request for the Division to review the filing and make recommendations with an initial due date of May 26, 2023.

Upon initial review of the filing, the Division determined the review would require additional information from the Company, preparation of Division in-house modeling spreadsheets, and a review of procedures. On May 23, 2023, the Division requested the Commission extend the due date of the Division's response to the Action Request to allow adequate time to complete the review. On May 24, 2023, the Commission granted the Division's request and extended the response date to August 31, 2023. 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 6.974% or approximately 267.6 basis points below its allowed return of 9.65%. 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. Since the Company's earnings are below the allowed return on equity, the Division recommends the Commission take no action at this time.

Discussion

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

The Division's review of the 2022 ROO was done using three major review procedures. The first procedure was a comparison of the information given and adjustments made for the 2022 ROO and the 2021 ROO. The second procedure was a review and reconciliation

[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.

provided by the Company comparing the 2022 ROO to the Company's Federal Energy Regulatory Commission ("FERC") Form 1, and its Securities and Exchange Commission ("SEC") 10-K filing for the same period. Third, the Division tested certain calculations in the ROO and supporting schedules on a judgmental basis. The Division had no informal meetings with the Company during its review of the Results of Operations for 2022.

Net Power Costs are a major operating expense of the Company. For the year ending December 31, 2022, these costs are currently under a separate review in the Energy Balancing Account (EBA) Docket No. 23-035-01. 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. 23-035-15. 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 2022 ROO 4-26-2023" was reviewed and will be referenced throughout this response. The tab labeled "Report" provides key information contained in the ROO. The first section includes user-specific, tax, and capital structure information. The capital structure is calculated using a five-quarter average from December 31, 2021, through December 31, 2022.

The second section of the "Report" tab has a one-page summary of actual unadjusted results for the Total Company and Utah, and also includes 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 ROO also includes a summary of the detailed 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		
	2022	**2021**	**2020**
Total Operating Revenues	$2,425	$2,318	$2,340
Total O&M Expenses	$1,472	$1,264	$1,222
Depreciation and Amortization	$451	$434	$557
Taxes Other Than Income	$80	$78	$75
Income Taxes and Deferrals	$(36)	$(31)	$(12)
Operating Revenue for Return	$456	$572	$496
Total Electric Plant	$14,534	$13,998	$12,889
Total Rate Base Deductions	$6,823	$6,392	$6,198
Total Net Rate Base	$7,711	$7,606	$6,691
Earned Return on Rate Base	5.91%	7.52%	7.42%
Earned Return on Equity	6.97%	10.07%	9.83%
Authorized Return on Equity	9.65%	9.65%	9.80%
Difference	(2.68%)	0.42%	0.03%

During the most recent general rate case[2] the Commission authorized an Earned Return on Equity of 9.650%. The Division notes the year end 2022 ROO lists an Earned Return on Equity of 6.974%, which is significantly below the authorized rate (-2.68%). Table 1 shows the Company earned slightly over the authorized rate in 2020 and 2021. The Division will continue to monitor the actual vs authorized rate of return in the future.

A comparison of the numbers from the year ending 2022 to the year ending 2021 indicates a $180 million increase in Other Power Supply expenses (O&M), and an increase of net rate base of $105 million.

[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.

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

	Capital Structure	Rate	Weight
Debt	47.49	4.79	2.275
Preferred Stock	0.01	6.75	0.007
Equity	52.5	9.65	5.066
Total			**7.348%**

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

	Capital Structure	Rate	Weight
Debt	46.69	4.70	2.194
Preferred Stock	0.01	6.75	0.001
Equity	53.3	9.65	5.143
Total			**7.338%**

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	46.69	4.70	2.194
Preferred Stock	0.01	6.75	0.001
Equity	53.3	6.974	3.717
Total			**5.912%**

In its August 11, 2008, Order[4] and in its February 18, 2010, Order[5], the Commission indicated historic costs should not be inflated prior to determining the normalized four-year average expense level. In its rate case filings, the Company restated generation overhaul expense amounts in constant dollars and provided testimony in support. Division rate case testimony also provided argument and analysis regarding 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 specifically. In the 2020 general

[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

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, the adjustments in the 2022 ROO are consistent with the Company's 2020 general rate case and past Commission orders.

Reconciliation Analysis and Review

As noted above, one of the Division's primary review procedures is a review of the Company's reconciliation of the 2022 ROO to the FERC Form 1 and SEC Form 10-K filing. The Company's 2022 year-end ROO filed with the Commission is consistent with FERC accounting and FERC accounts. Reconciling the ROO with the FERC and SEC financial information provides assurance the accounting and financial information for the ROO is consistent with the information reported to other regulators, specifically FERC and the SEC. As a result of the reconciliation with the FERC and SEC filings, the Division gains additional confidence in the 2002 ROO based on the opinion expressed by the Company's independent external auditors.

The Company's filing of its 10-K with the SEC is based on historical information from the Company's accounting records. The 10-K filing is based on Generally Accepted Accounting Principles ("GAAP") and the information is consistent with that used in the FERC Form 1 and the ROO filing. The financial information forming the basis of the SEC filing is audited by independent external auditors hired by the Company. The independent auditors expressed an unqualified opinion on the Company's financial statements for the same period as the ROO. The audit performed by the Company's independent auditors was conducted in accordance with Generally Accepted Auditing Standards ("GAAS"), giving the Division confidence the information used for the reporting requirements is consistent.

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 reported in the ROO. 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, year-end basis).

As part of its review procedures, the Division compared the reconciliations provided by the Company for its December 2022 review with the reconciliations provided by the Company in previous years.

The reconciliation format was similar to prior 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 2022 results of operations on a total Company and unadjusted basis appear to be consistent with the financial information reported in the Company's 10-K filing to the SEC and the FERC Form 1 filing.

Adjustments Comparison Analysis and General Review

The Division reviewed the adjustments to the ROO and compared the type of adjustments with the prior year. The adjustments can be found on the "Adjustments" tab and the "Adj Summary" tab of the RMP Attachment 1 excel workbook, and appear consistent from year to year.

The Division checked the accuracy of calculations and summary totals on a test basis, and traced detailed report totals to summary reports to determine the amounts were properly carried forward on a test basis. No exceptions were noted.

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 2023. Therefore, the Division recommends the Commission take no action.

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