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Division of Public Utilities
UTAH DEPARTMENT OF COMMERCE

MARGARET W. BUSSE
Executive Director

CHRIS PARKER
Division Director

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
Casey J. Coleman, Utility Technical Consultant
David Fields, Utility Analyst
Savannah Torman, Utility Analyst

Date: December 2, 2025

Re: **Docket No. 25-035-41** Rocky Mountain Power's Semi-Annual Demand-Side Management (DSM) Forecast Report

Recommendation (Acknowledge with Recommendation)

The Division of Public Utilities (DPU or Division) recommends the Public Service Commission (PSC or Commission) acknowledge with recommendation the Utah Demand Side Management (DSM) Semi-Annual account analysis and forecast report, filed by Rocky Mountain Power (RMP or Company), as compliant with the Commission order in Docket No. 09-035-T08. As part of its review, the Division determined that the Company's report may be using an incorrect carrying charge. The Division therefore recommends that the Commission open a Docket to investigate the carrying charge.

Issue

On October 31, 2025, the Company filed its Utah DSM semi-annual deferred account analysis, in compliance with the Commission Order on August 25, 2009, Docket No. 09-035-T08. The Commission issued an Action Request to the Division on October 31, 2025, to review the filing and make recommendations to the Commission by December 1, 2025. The Commission subsequently issued a Notice of Filing and Comment Period on November

7, 2025, providing interested parties with the opportunity to submit comments by December 5, 2025, with reply comments due by December 22, 2025. This memorandum is the Division's response to the Commission's Action Request.

Background

On August 25, 2009, the Commission issued an Order approving the Phase I Stipulation in Docket No. 09-035-T08. The Phase I Stipulation required the Company to file an analysis of the DSM Program semi-annually similar to the report provided by the Company in Advice No. 09-08. The Utah Semi-Annual DSM Forecast Report and account analysis includes historical and projected monthly DSM expenditures, rate recovery and account balances, as well as historical and projected monthly DSM expenditures by program along with Schedule 193 revenue and self-direction credits.

Discussion

In the Phase I Report and Order issued December 29, 2016, the Sustainable Transportation and Energy Plan (STEP) Docket 16-035-36 capitalized and amortized Schedule 193 DSM rates beginning January 1, 2017, and created a DSM regulatory asset. With the creation of a regulatory asset and liability, the balancing account for the DSM reporting structure was no longer accurate nor effective. The updated reporting better reflects information on DSM expenditures and collections, regulatory assets, regulatory liabilities, and thermal plant accelerated depreciation balances.

Accordingly, the accounting analysis reflects actual results through September 2025 and projected results through December 2030. Per the accounting analysis, the Net Regulatory Asset/Liability balance is projected to be over $650m by December 2030 if the Schedule 193 surcharge remains at 3.54 percent. The Company discussed the growing balance at the DSM Steering Committee meeting on October 28, 2025, and stated that it plans to adjust Schedule 193 rates by Mid-2026.

DSM Program Carrying Charge

The analysis provided by RMP included RMP Exhibit A- UT DSM Accounting Analysis (Excel) dated 10-31-2025. As part of its review, the Division looked at the carrying charge used by RMP. In Utah Code 54-7-12.8(2)(b)(iii) the statute allows the Commission to authorize a carrying charge “to the unamortized balance that is equal to the large-scale electric utility’s pretax weighted average cost of capital approved by the commission in the large-scale electric utility’s most recent general rate proceeding.” The Division understands the statute requires a large-scale utility to use the pre-tax weighted average cost of capital (WACC) ordered by the Commission in the most recent general rate case. In Docket No. 24-035-04 RMPs most recent general rate case, the Commission ordered a WACC of 7.06 percent. In the previous general rate case, Docket No. 20-035-04, the Commission ordered a WACC of 7.34 percent. On lines 17 and 25 of the RMP Exhibit A, RMP is using a carrying charge of 8.99 percent and 8.418 percent. The Division questions whether this is the appropriate carrying charge.

In Docket No. 24-035-04 RMP’s last general rate case, the Division provided the following WACC formula to the Commission.

$$\text{WACC} = (\%D)r_D + ((\%E)r_E/(1\text{-}t))$$

Where D=Debt
E= Equity
r=Return
t=taxes

This formula was provided to allow parties and the Commission the opportunity to determine the implications of using debt financing versus equity financing. This formula allows parties to see the revenue impacts of decisions made by RMP. If RMP is using equity to finance its capital purchases, then the overall cost of capital will be higher because of the tax implications.

Each participating party in a general rate case recommends a WACC that captures what they believe is the appropriate capital structure, cost of debt, and cost of equity. As the formula below illustrates, the WACC recommended by each party in a general rate case is a pre-tax cost of capital.

$$Pre\text{-}tax\ WACC = (EV \times Re) + (DV \times Rd) + (PV \times Rp)$$

Where:
EV is the percentage of equity used in the capital structure
Re is the cost of equity
DV is the percentage of debt used in the capital structure
Rd is the cost of debt
PV is the percentage of preferred stock
Rp is the Cost of preferred stock

In the final order of a general rate case, the Commission orders a capital structure, cost of debt and return on equity that the Commission finds is just and reasonable. Even though the Commission has never explicitly stated that the WACC ordered in a general rate case is a pre-tax WACC, it is the Division's understanding that the Commission is aware of the tax implications of equity financing and the impacts of debt or equity financing to the revenue requirement. The use of peer utilities' allowed rates of return and the evaluation of market returns in a general rate case seem to suggest that no post hoc adjustment for taxes is required. The implications of taxes are embedded in the rates found in the markets, whether evaluating an authorized rate of return or one actually achieved. The Division concludes the WACC ordered by the Commission is a pre-tax WACC.

Using the inputs from the last general rate case: where EV is 44.42 percent and a cost of equity of 9.375 percent, preferred stock is .01 percent and a cost of preferred stock of 6.75 percent, DV is 55.57 percent and a cost of debt of 5.21 percent, the calculation would be as follows.

$$Pre\text{-}tax\ WACC\ .0706 = (.4442 \times .09375) + (.5557 \times .0521) + (.0001 \text{x} .0675)$$

Thus, the WACC ordered by the Commission in a general rate case is a pre-tax WACC, the Division's analysis indicates that RMP has been using the incorrect carrying charge since the pre-tax cost of capital carrying charge change in 2017. Based on our analysis, the Division recommends that the Commission require RMP to file updated reports reflecting the correct carrying charge. In reviewing the Company's filing and preparing this response, the Division has been unable to find a justification for the higher rate used by the Company.

To understand the carrying charges used by RMP, the Division reviewed a number of Dockets filed by RMP over the last two years where RMP uses a carrying charge. A summary of the carrying charges is attached as Exhibit 1 to this memo. It appears from the analysis done by the Division, that RMP is using the 8.99 percent carrying charge for the DSM report as well as the Electric Vehicle Infrastructure calculations. It clearly believes this is the correct carrying charge but has been unable to demonstrate to the Division's satisfaction why this is the case.

Accordingly, the Division recommends the Commission open up a docket to review the carrying charges used by RMP, especially those using a rate higher than WACC identified in a general rate case. It appears an incorrect application of a pre-tax WACC would apply to the DSM report as well as the Electric Vehicle Infrastructure report. Opening a docket dealing with carrying charges will allow the Division, Commission, and other parties to evaluate the proper carrying charge and determine the overall impact of using an incorrect carrying charge in previous years and the impact to account balances and rates.

As the remaining analysis shows, other than the appropriate carrying charge rate, RMP's Semi-Annual DSM Account Analysis and Forecast Report complies with the Commission Order of August 25, 2009, in Docket No. 09-035-T08 approving the Phase I stipulation.

2026 DSM Program Forecast Savings vs. 2025 IRP Target

The Company categorizes its savings into two distinct classes: Class 1 DSM (Demand Response), which primarily focuses on capacity measured in megawatts (MW), and Class 2 DSM (Energy Efficiency), which emphasizes sustained energy savings measured in megawatt-hours (MWh).

For 2026, the overall DSM forecast for total peak capacity savings is robust. Class 1 DSM is projected to yield 505 MW, thereby exceeding the 2025 Integrated Resource Plan (IRP) target of 459 MW. This surplus is driven by the Air Conditioner Load Control program, with a forecast of 394 MW against a 340 MW target, and the Commercial & Industrial (C&I) Load Control Program, forecasting 50 MW against a 47 MW target. Conversely, the Wattsmart Batteries Program is anticipated to contribute 45 MW, falling short of its 50 MW IRP target.

Class 2 DSM is forecasted to marginally surpass its IRP targets, with projected energy savings of 308,506 MWh against a 300,920 MWh target, and capacity savings of 58.15 MW against a 56.72 MW target. Table 1 provides a comparison of the two classes and the comparison between their 2026 savings forecast and the IRP target.

Table 1. Class 1 and Class 2 DSM Savings

Program / Class	Savings Metric	2026 Program Forecast	2025 Integrated Resource Plan Target
Total Class 1	MW	505	459
Total Class 2 (MW)	MW	58.15	56.72

DSM Program Expenditures and Budget Forecast

The Company's Total DSM Program budget for 2025 was $98,929,177. The 2026 budget forecast for all DSM programs is established at $110,139,177, signifying an increase exceeding $11 million.

The predominant budgeted programs for 2026 are situated within the Commercial and Industrial sector, specifically Wattsmart Business Commercial/Industrial at $42,500,000. The Wattsmart Batteries Program is allocated a projected 2026 budget of $15,000,000, which is a slight increase from its 2025 budget of $12,500,000; the Company notes that potential battery storage initiatives could result in expenditures surpassing the estimated 2026 budget, which would necessitate an updated financial forecast. Table 2 provides the 2025[1] budget forecast versus the 2026 budget forecast by program.

[1] RMP Exhibit A – UT DSM Accounting Analysis, July 1, 2025 Forecast.

Table 2. 2025 vs 2026 Budget by Program

DSM Program Expenditures	**2025 Budget Forecast**	**2026 Budget Forecast**
Residential Programs		
A/C Load Control Program (Sch. 114)	$ 11,000,000	$ 17,000,000
Wattsmart Batteries Program (Sch. 114)	$ 12,500,000	$ 15,000,000
EV Charging Demand Response (Sch. 114)	$ 265,000	$ 440,000
Low Income (Sch. 118)	$ 250,000	$ 250,000
Home Energy Reports (Sch. N/A)	$ 1,700,000	$ 1,900,000
Wattsmart Homes Program (Sch. 111)	$ 25,065,000	$ 25,000,000
	$ 50,780,000	$ 59,590,000
Commercial & Industrial Sector Programs		
Wattsmart Business Commercial (Sch. 140) Wattsmart Business Industrial (Sch. 140)	$ 42,500,000	$ 42,500,000
Industrial Irrigation Load Control (Sch. N/A)	$ 500,000	$ 500,000
C&I Load Control Program (Sch. 114)	$ 2,600,000	$ 5,000,000
	$ 45,600,000	$ 48,000,000
Outreach and Communications	$ 1,600,000	$ 1,600,000
Portfolio (TRL, DSM Central, Training)	$ 250,000	$ 250,000
Program Evaluation Cost - C&I	$ 510,597	$ 510,597
Program Evaluation Cost - Res	$ 111,080	$ 111,080
Potential Study	$ 77,500	$ 77,500
Total DSM Program Expenditures	$ 98,929,177	$110,139,177

Conclusion

Based on its review of the Company's filing, the Division concludes that the Company's Semi-Annual DSM Account Analysis and Forecast Report complies with the Commission Order in Docket No. 09-035-T08. However, the Division's analysis indicates that RMP is likely using an incorrect carrying charge. The Division recommends the Commission acknowledge the filing as compliant with the Order but require RMP to file updated information reflecting the correct carrying charge. In addition, since the Company has likely been using the wrong carrying change since 2017, the Division recommends that the Commission open a Docket to discuss the impact of the incorrect carrying charge on balances and rates.

cc: Michael Snow, RMP
Michele Beck, OCS
Service List