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MEMORANDUM

To: Public Service Commission

From: Division of Public Utilities
Phil Powlick, Director
Energy Section
Abdinasir Abdulle, Technical Consultant
Jamie Dalton, Utility Analyst II
Artie Powell, Manager

Date: May 5, 2008

Ref: Docket No. 00-035-T01. Annual Report of Blue Sky Program

RECOMMENDATION

The Division recommends that the Commission order the Company to file a new report with the recommended changes discussed herein. Specifically, the Division recommends that the Company provide details explaining why certain reported costs are negative in some months. Where reported costs are reclassified, the Company also needs to explain why the costs were reclassified and provide enough detail to show what costs were moved, where they were moved to, and in which time periods were they moved. The Division also recommends that the last pages of the report be formatted to make the printed versions of the report legible.

In addition, the Division recommends the Company should take actions to meet the Commission's requirements to work with the Division and other interested parties regarding the process of selecting and funding Blue Sky sponsored projects.

DISCUSSION

The Order in Docket No. 00-035-T01 directed the Company to provide an annual report on the Blue Sky program. In compliance with this Order, on March 31, 2008, the Company filed with the Commission its Annual Report of the Blue Sky Program covering the period from January 1, 2007 through December 31, 2007. On April 10, 2008, the Commission issued an Action Request to the Division requesting a response by May 1, 2008 which was later extended to May 5, 2008 because the Division was waiting for a response to its data request to the Company. This action request required the Division to review and evaluate the Annual Report per the requirements of Docket Nos. 00-035-T01 and 07-035-T13 and report on its findings.

Report's Compliance with the Commission Orders

The Order in Docket No. 00-035-T01, dated April 17, 2000, directed the Company to provide an annual report of the Blue Sky program. Specifically, this order required the report to "account for all revenues received, blocks purchased, blocks generated or contracted for and other program costs." Further, in its Order in Docket No. 07-035-T14, dated September 6, 2007, the Commission stated:

> *We direct the Company to work with the Division, the Committee and other interested parties in the development of the annual report to address their concerns including the contents, timing, distribution, notification and other aspects of this report. The exception is the annual report must include the ratemaking treatment of the funds received, cost of purchases including RECs, and interest earned on the balance of funds.*

This Order also states:

> *We therefore direct the Company to work with the Division, and other parties as well, to address comments regarding the process of selecting and funding projects.*[1]

The Division reviewed the content and the format of the Annual Report. The report consisted of a spreadsheet, which summarized the program activities for Utah and for the Company as a whole. The spreadsheet summaries contain information about customer

[1] See Public Service Commission Order, September 6, 2007, Docket No. 07-035-T14, "Order Approving Tariff Revisions with Certain Conditions," p.10-11.

participation, blocks purchased and sold, source and time of the renewable purchases used to meet sales requirements, and the available funds balance at the end of the reporting period. The spreadsheet also contained additional tabs for program cost definitions, and for community project standards and evaluation criteria. The Company responded to the Division's earlier recommendations regarding report format and timing. However, the Division is concerned about some of the reported numbers and balances. Specifically, the Division cannot reconcile current reported balances without input and guidance from the Company.

The Division had many questions requiring Company assistance. For example, it was observed that the first eight months of this report overlaps with the last eight months of the Company's annual report filed on December 31, 2007 (previous report). The Division checked the numbers in this report for these months against those reported in the previous report for the same months. The Division found that, for these months, the reported Renewable Energy Credit (shown as "TAG")[2] costs and the MWhs of purchased TAGs for Utah are different between the two reports for those overlapping months. In a teleconference with the Division, the Company later explained that the Utah share for the purchased blocks was based on a different share factor (52%) for the period covered by the previous report. This factor increased to 53% for the current report. For example, the report shows that the total program MWh of attestation purchased or generated by Horseshoe Bend is 25,000 MWh. Applying the earlier reported 52% factor results in 13,000 MWh representing Utah's share. Applying the current 53% factor, results in a share of 13,250 MWh. Multiplying these by the reported cost per Renewable Energy Credit (REC) results in total REC costs of about $63,900 and $65,200, respectively, explaining the disparity between the numbers reported in the two reports.

The previous report covered the period between September 2006 and August 2007. The Division and the other interested parties asked the Company to use calendar year for the subsequent reports. To do this, the Company had to recalculate Utah's share of total blocks purchased for the period that this report covers and use that number for all the months covered in

[2] The acronym "TAG" is derived from the Company's definition of "Green Tags" which are also referred to as "RECs" in this report.

the report. This is reasonable since the Company purchases large quantities of RECs in one month, maintaining a balance which is sold during the subsequent months. When this REC balance gets too small or even negative (a resulting purchase obligation for a given month), the Company buys more. This arrangement allows the Company to calculate and use Utah average monthly shares of the total blocks. Therefore, the Company is justified in calculating and using Utah's annual share of the total blocks purchased.

The Division also observed that the report contained some negative program costs. For example, there are negative customer costs for the months of February and April 2007 and negative administrative costs for the months of January, March, June, October and November 2007. In a response to an informal data request, the Company indicated that the negative values were reported because some of the costs originally identified as generic administrative costs were later reclassified to more appropriate cost categories within the program. It is difficult if not impossible to determine, without a complete audit, how costs are moved from category to category. In order for the report to be understandable as a stand alone summary, the Division recommends the Company appropriately reference the report using footnotes, or some other appropriate means, to better explain why certain costs are negative in some months. Similar referencing must be provided to give a clear understanding of how and why reported costs are reclassified.

Regarding the total Company program activities summary spreadsheet tab, the Division observed discrepancies in the revenue balances for some of the overlapping months (January and June through August) between the two reports. In an informal data response, the Company indicated that for January it incorrectly reported revenues in the previous report, and made these corrections in the current report. To account for the revenue discrepancies shown in the period June through August 2007, the Company indicated that the revenue in the previous report for these months included the interest payments from liability balances whereas in the current report revenue and interest are shown separately. The sum of the revenues and interests in the current report equals the revenues in the previous report thus explaining the discrepancy in the revenue balances between the two reports.

Other Concerns

As was indicated above, the Commission required the Company to work with the Division, and other interested parties, to address comments regarding the process of selecting and funding projects. Thus far, the Company has not taken concrete steps to address this requirement. Therefore, the Division believes that Company did not fulfill this aspect of the Commission's Order and recommends that, going forward, the Company should include these parties in this process.

Conclusion

With the changes recommended herein, The Division believes that the Company will have addressed the specific questions raised in this Action Request.

CC: Rea Petersen, DPU
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