State of Utah
Department of Commerce
Division of Public Utilities

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MEMORANDUM

To: Utah Public Service Commission

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

Date: May 24, 2007

Ref: Docket No. 07-035-T13. Advice No. 07-13 – Blue Sky Program Optional – Schedule 70, Renewable Energy Rider, Optional – Schedule 72, Renewable Energy Rider, Optional, Bulk Purchase Option.

RECOMMENDATION (Approval)

The Division of Public Utilities (Division) recommends that the Commission approve Rocky Mountain Power's (Company) proposed revisions to Electric Service Schedules 70, Renewable Energy Rider – Optional, and 72, Renewable Energy Rider – Optional _ Bulk Purchase ("Blue Sky" Program). The Division further recommends that:

1. the Company submit a status report of the program at least annually to the Commission and the Division.
2. the Company expand its project review panel to include experts with experience in administration of grants for renewable energy projects.
3. the Company convene this broadened panel to review the adequacy of current project qualification/selection criteria to ensure that projects are feasible, will be completed in a timely fashion, and result in reasonable additions to the supply of renewable energy.

4. where needed, program criteria be strengthened (or made more explicit) to require qualifying participants to submit a detailed project design proposal that clearly demonstrates project feasibility and conformity with program requirements

ISSUE

On March 27, 2007, the Company filed with the Commission its proposed revisions on Electric Service Schedules 70, Renewable Energy Rider – Optional, and 72, Renewable Energy Rider – Optional _ Bulk Purchase ("Blue Sky" Program). The proposed changes reflect Rocky Mountain Power's General Commitment No. 23. In addition, administrative language has been included to provide clarity and consistency across all states. The Company requests an effective date of May 1, 2007.

DISCUSSION

Rocky Mountain Power proposes modifications to Electric Service Schedule Nos. 70, Renewable Energy Rider – Optional, and 72, Renewable Energy Rider – Optional – Bulk Purchase Option, otherwise known as the "Blue Sky" Program. The Original tariffs provided customers with opportunities to purchase newly developed wind, geothermal, and solar power energy for a premium of $1.95 per 100 kWh block per month in Schedule 70 and $0.70 per block per month and $1,500 per year fixed charge in Schedule 72. Schedule 72 requires a minimum annual purchase of 121.2 MWh. This is large amount of energy and customers who receive service in more than one state within the company's six state service territory expressed interest to participate the program if they could be allowed to combine block purchases from multiple states.

The money that was collected from the customers was used to pay for the program administrative cost (13%), customer education and outreach (24%), and to purchase blocks of renewable energy. However, some of the money collected from the customers remained unused after the program costs and the purchased blocks were paid for. This is due the high variability in renewable energy block prices resulting from the lack of a forward price curve for the

Renewable Energy Credits (RECs) market. The cumulative excess amount of money was $245,886 at the end of 2006. The Company proposes to use this surplus money to fund qualifying initiatives (renewable energy development projects) instead of purchasing additional renewable energy blocks. This is expected to provide strong environmental and economic benefits to local communities and customers under these schedules.

The qualifying initiatives include:

1. Locally-owned commercial-scale renewable energy projects that produce less than 10 MW of electricity.
2. Research and development projects encouraging renewable market transformation to accelerate marketability of renewable of renewable technologies.
3. Investment in the above-market costs associated with the construction of renewable energy resources to be competitive with cost-effective resources.

The filing contains a detailed description of how the program is administered. It includes a discussion of the availability of funds and describes what a prospective project sponsor must do to qualify a potential project for funding consideration. The filing also describes how the screening and selection will be handled, and how the projects will be monitored.

The Division believes that the qualifying process needs to be strengthened. Specifically, there needs to be a better, more thorough screening process for project applications. The Company should broaden its project selection panel to include additional representatives from organizations with experience in administering grants for renewable energy projects. The current project guidelines and criteria should also be strengthened to ensure that project proposals will actually lead to the achievement of defined program goals and participant expectations. The Division recommends that the Company convene this broadened panel to review the adequacy of current project qualification/selection criteria to ensure that projects are feasible, will be completed in a timely fashion, and result in reasonable additions to the supply of renewable energy. For example, the filing currently indicates that “funds for projects may be awarded to project sponsors of qualifying initiatives selected through a formal application and review process at least once a year." This is a risky proposal in that it will difficult to collect the money back once granted had the project failed to meet the stated goals in one way or the other. To alleviate this risk, the Division believes that the Company should explore the feasibility of allocating grant monies on a reimbursement basis. This will ensure that projects are complete before funds are allocated.

It is recommended that, where needed, criteria be strengthened (or made more explicit) to require qualifying participants to submit a detailed project design proposal that clearly demonstrates project feasibility and conformity with program requirements. The submissions should also include detailed project schedules, and a defined project cost breakdown. This is critical to help ensure that customers realize actual benefits from their investment into this program.

Once projects are approved, there also needs to be an audit function included to ensure that projects actually contain the specified design elements and actually performs to specified design elements. The Division recommends that the Commission require a report on program status be filed annually. This report should include at least a summary of past year activities, account balances, and a status on current projects.

The current Schedules allow for wind, geothermal and solar technologies. Though the participation rate and block sales increased by 259% and 373%, respectively, between May 2003 and December 2006, the current developments in the green power market indicate a need to provide customers the opportunity to support a more expansive list of renewable energy projects that would appeal to a larger demographic of Rocky Mountain Power's customer base. Consequently, the Company proposed additional resource types to be allowed in these Schedules. These resources include;

1. certified low impact hydroelectric;
2. hydrogen derived from photovoltaic electrolysis or a non-hydrocarbon derivation process;

3. wave or tidal action; and
4. low emissions biomass based on digester methane gas from landfills, sewage treatment plants or animal waste and biomass energy based on solid organic fuels from wood, forest or field residues or dedicated crops that do not include wood pieces that have been treated with chemical preservatives such as creosote, pentachlorophenol or copper chrome arsenic.

The addition of these resources into the list of allows the Company to purchase 100% new renewable energy and preferably from regional energy resources.

The Division concludes that the proposed program revisions with the Division's recommendations are reasonable. Therefore, the Division recommends that the Commission approve the Company's filing with the above Division recommendations effective March 23, 2007.

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