

Division Audit Report of

Rocky Mountain Power, Renewable Energy Credits Balancing Account (RBA)

January 1, 2012 – December 31, 2012

Docket No. 13-035-33

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PURPOSE

The Division of Public Utilities (Division) has completed an audit¹ of Rocky Mountain Power's (RMP or Company) Renewable Energy Credits Balancing Account (RBA) as it relates to the Renewable Energy Credits (REC) program. The intent of this audit was to review the REC revenue rate and the actual REC revenue received by the Company for the period January 1, 2012 through December 31, 2012 and test compliance of the RBA to the Utah Public Service Commission (Commission) Orders and to Tariff Schedule 98².

BACKGROUND

The RBA tracks the difference between REC revenues included in base rates and actual REC revenues collected from the sale of RECs by the Company. The variances between REC revenues included in rates and actual REC revenues collected are identified and deferred each month for one full calendar year by the Company. Annually on March 15, an RBA application is filed by the Company to present the variances, including applicable carrying charges, with a 100 percent true-up for the difference between the amounts in rates and actual sales occurring through Tariff Schedule 98. The collection or credit under Tariff Schedule 98 is to be made annually, effective June 1. Most of the compliance work was completed and reported to the Commission by the Division in Initial Comments filed on April 18, 2013.

The Commission approved the Company's application to revise rates in Tariff Schedule 98 on May 29, 2013, subject to further review following an audit by the Division. As agreed upon by parties in the Scheduling Conference held on April 4, 2013, the Division would file its final audit report by July 12, 2013. This report meets this requirement.

¹ In using the term "Audit" the Division notes that it did not conduct an independent audit as defined and conducted under Generally Accepted Auditing Standards as promulgated under the Auditing Standards Board of the American Institute of Certified Public Accountants. In this instance "Audit" means compliance review.

² Tariff Schedule 98, as set in Docket Nos. 10-035-89 (MPA Stipulation), and 10-035-124 (2011 Stipulation)

SCOPE OF THE AUDIT

The Division performed the following compliance review in the Company's 2012 RBA program:

Revenues

- In order to get an understanding of the RBA process and to trace REC revenue, revenue recording procedures were reviewed and discussed with appropriate RMP personnel.
- Compared revenues to prior years and reviewed month-to-month trends in order to determine abnormal or specific areas that required additional review.
- Reviewed revenue accounts and compared balances with expected revenue calculations. Note material forecasting differences if found.
- Reviewed several revenue entries (including offsetting entries) and applicable supporting documentation. This is a general review to understand and to ensure revenue was accurately reported.

Disbursements/Expenses

- The RBA is a revenue balancing account and does not contain disbursements or expenses.

Regulatory and Reporting Requirements

- Reviewed RBA results from the 2012 year for reporting completeness and accuracy as outlined in the RBA Tariff Schedule 98 and Commission Orders.
- Traced the most recent RBA Tariff rates in the 2012 period for compliance to Commission-approved rates.
- Reviewed revenue accounts for propriety and proper regulatory reporting.

AUDIT FINDINGS

Information was provided to the Division through the data request process. The Company was responsive in supplying the Division with the requested documentation of the RBA.

The Company does not have a policies and procedures manual for the RBA as it is a balancing account. REC policies and procedures are found in PacifiCorp Energy's confidential Commercial and Trading Front Office Procedures and Practices (July 2008) Exhibits 9 and 10 and PacifiCorp Energy's Commercial and Trading Risk Management Policy confidential Appendices B and H.³ In May 2012 the Company deleted the REC policies and procedures Exhibits 9 and 10 from the C&T Front Office Procedures and Practices. The Division has reviewed the Company's standard policies and procedures in place for the 2012 period. If followed, the policies and procedures correctly place the Company at a reduced risk for errors.

RMPs REC sales have resulted in millions of dollars of revenue. This revenue was the result of relatively few contract transactions compared to the actual dollars received. The scale of transactions reviewed was commensurate to the size and complexity of the REC program, which the Division felt was relatively small compared to other RMP programs.

RMP explained that Company assets or lease contracts were not assigned to the REC program, therefore no review of plant, equipment, depreciation or leasehold agreements was required for this review.

Revenues

REC revenues of \$81.3 million were collected primarily from three contracts the Company entered into through an RFP process initiated in 2009 and 2010. In 2012 the Company entered into multiple contracts for the sale of RECs but approximately 97 percent of the 2012 REC revenues came from the three RFP contracts. These three RFP contracts expired December 2012.

In an effort to sell RECs in 2012 the Company bid into nine third-party RFPs⁴, issued four reverse RFPs to the market⁵, and engaged in bilateral discussions on a continuing basis with market participants regarding interests in REC purchase and sale transactions. The Company's REC sale transactions completed in 2012 were all completed after bilateral discussions, and none were completed as a direct result of the RFPs⁶.

³ DPU Data Request 2.12

⁴ DPU Data Request 2.6

⁵ DPU Data Request 2.8

⁶ DPU Data Request 2.7

In reviewing the Company's response to DPU DR 2.9, 1st Revised Confidential Attachment, the Company generated or purchased about "*****" RECs. Of this amount the Company held approximately 19 percent for compliance with California, Oregon, and Washington RPS standards and sold approximately 34 percent. UIEC DR 1.7, 1st Revised Confidential Attachment, in the 2011 RBA⁷ showed 2011 REC sales were approximately 23 percent of the "*****" RECs generated. The Company sold "*****" more RECs in 2012 than in 2011.

Approximately 5 percent of REC revenue transactions and documents for the 2012 calendar year were reviewed for accuracy and reporting compliance. Nothing came to our attention to cause the interim rates per the filing as accepted by the Commission to change or be modified. After completing the audit the Division concludes that the REC revenues rates and actual revenue appear to be properly stated.

Disbursements/Expenses

The RBA is a revenue balancing account and does not contain disbursements or expenses.

Regulatory and Reporting Requirements

Based on a review of the associated 2012 REC tariff, Schedule 98, and related 2012 filings with the Utah Public Service Commission, the Company appears to be in compliance with regulatory and reporting requirements and the interim rate should be final.

Corrective Actions

The work performed followed the outline in the scope section of this report and no corrective actions were required based on the procedures performed.

⁷ Docket No. 12-035-68