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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

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Date: August 2, 2013

Subject: In the Matter of the Application of Rocky Mountain Power for Authority to Revise Rates in Tariff Schedule 98, Renewable Energy Credits Balancing Account. Docket No. 13-035-33

Background

In Docket No. 10-035-124 the Commission approved Tariff Schedule 98, which tracks the difference between Renewable Energy Credits (REC) revenues in rates and actual REC revenues received by the Company through the sale of RECs. Variances between the REC revenues in rates and actual REC revenues are calculated and deferred each month for one calendar year. Each year on March 15, the Company is required to file a Renewable Balancing Account (RBA) application to “true up” the account and adjust Tariff Schedule 98. The result may be either a credit or a charge to customers.

The deferral period for this Application is January 1, 2012 through December 31, 2012. The Company calculated that a deferral balance of $3.3 million should be credited to customers.

The Commission’s scheduling order of April 8, 2013, established July 12, 2013 for the Division to file its Audit Report and August 2, 2013 for parties to file comments on the Company’s filing and/or the Division’s Audit Report.

Interim Rates

On May 16, 2013, the Commission held a hearing to determine if interim rates should be set while the Division of Public Utilities completed an audit of the Company's filing. Based on our initial review of the Company's filing the Office supported approval of an adjustment to Schedule 98 on an interim basis. No party appeared in opposition to interim rates and on May 29, 2013, the Commission approved interim rates in the amount of $3,263,532 effective June 1, 2013, subject to refund or surcharge following the completion of the Division's audit.

Division's Audit Report

On July 12, 2013, the Division filed its Audit Report of Rocky Mountain Power, Renewable Energy Credits Balancing Account (RBA). The purpose of the audit as stated by the Division 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 98." The Scope of the Division's audit of the Company's 2012 RBA included a review of revenues, disbursements/expenses and regulatory and reporting requirements. The Division noted that no corrective actions were required based on the procedures performed.

The Division recommends that the Commission approve the interim rates as final.

Office Response

The Office engaged the services of Consultant Donna Ramas to assist in this review. She has participated on behalf of the Office in a number of past cases related to the Company's REC sales and allocation issues. Below is a summary of the Office's review and analysis.

Materials Reviewed
In its evaluation and analysis, the Office reviewed the following relevant information:

- Application of Rocky Mountain Power, including testimonies and exhibits provided in support of its Application;
- Corrections to confidential exhibits provided by the Company;
- Discovery responses, including corrections and updates to the discovery responses filed by the Company;
- July 12, 2013 Rocky Mountain Power RBA Audit Report filed by the Division of Public Utilities;
- Division responses to data requests from the Office; settlement agreement in prior rate case (Docket No. 11-035-200) related to the REC amounts incorporated in current base rates;
- Rate spread among the customer classes from both the last rate case (Docket 11-035-200) and the last REC proceeding (Docket 11-035-68); and
- Other relevant data from the prior general rate case.

In addition the Office discussed the audit's sample size and selection with the Division auditor.

Analysis
The Office tracked the REC sales in volumes and dollars per REC as identified in Confidential Exhibits RMP__SJK-2 and RMP__SJK-2.5 to ensure they tied into the REC revenues for 2012 contained in Exhibit RMP__SJK-1. Although the Company filed corrected versions of these exhibits, the nature of the correction did not impact the volume of sales, sales price, or the total revenue amounts. The revision did not impact the allocation to Utah.

The Division Audit Report indicates at page 4 that "Approximately 5 percent of REC revenue transactions and documents for the 2012 calendar year were reviewed for accuracy and reporting compliance." In evaluating the sample size it is important to note that a [redacted]

Given the relatively small sample size, the Office conducted a further review of the 2012 sales and revenues to gain a higher level of comfort with the revenues reported in the confidential exhibits provided with the testimony of Stacey J. Kusters. As part of this review, all of the REC prices identified in Confidential Exhibits RMP__SJK-2 and RMP__SJK-2.5 were traced to the confidential contracts provided in response to Division data request 2.11 and no discrepancies were found. The REC volumes identified in each of the contracts were reviewed and the volumes for the contracts entered into during 2012 were consistent with the volumes, vintage periods and sources identified in the confidential exhibits with only very minor exceptions for which the impact of the volume discrepancy was immaterial. The volumes on three large contracts were not confirmed due to the nature of those agreements, but the price per REC in 2012 was confirmed.

Allocation

The Company used the System Generation (SG) factor to allocate REC revenues among the states. However, Utah receives an allocation that exceeds the SG factor as a result of the renewable portfolio standard (RPS) requirements in California, Oregon and Washington. The revenues that would go to each of these states are re-distributed to the remaining states that do not have RPS requirements, including Utah. This methodology is consistent with how the REC revenues have been spread in past rate cases and in the last REC case. The Office notes that the SG factor was calculated based on calendar year 2012 data, which results in a higher percentage of the revenues going to Utah as compared to the last rate case which was based on projected data.

In her testimony Company witness Joelle R. Steward proposed that the allocation of REC revenues be spread across the customer classes consistent with the Step 1 rate spread approved by the Commission in the last rate case (Docket 11-035-200) with one modification to account for the fact that Schedules 7, 11, 12 and 15 received none of the rate increase.

Based on the Office's review of the proposed allocation across customer classes, including the proposed modification, the Office concludes that the allocation is fair and reasonable.

Conclusion

The Office found no errors, discrepancies or issues of concern in its review and analysis.

However, the Office notes that areas of concern may be present in the next review of the REC balancing account. Key changes that may be at issue in the next review include:

- Three large REC contracts expired at the end of 2012;
- Base rates contain a lower level of REC revenues as compared to the 2012 period – the stipulation in Docket No. 11-035-200 included $25M in current base rates and declines to $10 million effective September 1, 2013;
- The REC sharing mechanism agreed to in the last rate case will apply to some of the results. Based on the terms of the stipulation, the Company is able to retain a certain percentage of the revenues associated with amounts in excess of the amount currently in base rates and incremental revenues received under contracts entered into after July 1, 2012.

In particular, the REC sharing mechanism provisions warrant a closer examination in the next review and a higher percentage of REC transactions to be audited.

Recommendation

The Office recommends that the Commission approve the interim Schedule 98 rates as final.