



Utah STEP Pilot Program Instructions

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Purpose

This document describes how costs will be tracked for the Utah STEP pilot (“STEP”) program. The instructions are intended to allow departments involved with STEP to follow their existing project management procedures to the extent possible, while still tracking costs to meet potential regulatory reporting requirements. Each department, depending on preferences or needs, may choose whether to use internal orders or Work Breakdown Structure (WBS) elements to process STEP expenditures. However, to properly account for and track STEP project costs it is important to ensure that all related SAP internal orders and WBS elements are set up properly and only authorized spend is charged to the projects.

Fund Category

STEP projects are assigned to a funding category in order to properly track the \$10 million annual expenditures mandated by the STEP legislation. Funding is allocated in the following manner:

- \$2 million annually for the electric vehicle incentive program
- \$1 million annual average for clean coal technology research
- \$3.4 million annual average for innovative utility programs such as economic development, solar generation, battery storage or other innovative grid projects, commercial line extensions, plant emissions curtailment, additional electric vehicle programs, additional clean coal programs, or any other technology program
- \$2.6 million for unrecovered costs from the Utah Solar Incentive Program (“USIP”).

- \$1.0 million for other conservation, efficiency, or new technology programs the commission determines are cost-effective and in the public interest.

Accounting Treatment

Accounting treatment is determined by the nature of the costs. Based on currently planned programs costs fit into one of three categories:

1. Standard program expenses
2. Capital projects
3. Gadsby curtailment

Standard Program Expense

STEP project expenses result when PacifiCorp pays out funds without establishing a capitalizable asset, and if not related to Gadsby curtailment the costs are deemed standard program expenses. STEP project costs will be expensed as incurred in accordance with regulatory balance accounting. STEP project examples likely to be expensed as incurred include incentive payments towards customer-owned electric vehicle charging stations, payment to R&D entities for research grants or services, Gadsby curtailment, and certain clean coal technology projects.

Capital Projects

STEP capital projects will be set up in SAP to initially settle to Construction Work In Progress (CWIP), similar to standard capital projects. A monthly accounting reconciliation will identify STEP capital projects that have incurred costs and journal entries will be prepared to charge the STEP balancing account (including the corresponding STEP WBS element) and reduce CWIP as Contributions In Aid of Construction (CIAC).

Costs are considered capitalizable when the following criteria are met:

1. Asset must be used in the company's operations (otherwise classify as non-utility property) or provide benefit to the company.
2. Asset must have an expected useful life of one year or greater.
3. Asset must be identifiable as a property retirement unit (PRU), as determined by asset accounting PRU catalogs.

Examples of projects that may be considered capital include grid battery storage equipment, grid smart metering equipment, commercial line extensions, and certain clean coal technology projects.

Gadsby Curtailment

During periods the Utah Department of Air Quality has identified as non-attainment events, RMP may elect to curtail the use of Gadsby units 1, 2, and 3. Units 4, 5, and 6 will not be part of the program due to reliability requirements, and units 1, 2, and 3 may not be curtailed in emergency situations.

If a STEP Gadsby qualifying curtailment event occurs, the Energy Supply Management (ESM) team will identify the incremental increase to net power costs from the curtailment. Accounting will then charge this amount to the STEP balancing account (including the designated STEP WBS element) and reduce net power costs.

Carrying Charges

The STEP legislation provides for carrying charges to be applied to 3 separate balances:

- Regulatory asset balancing account for unamortized Demand Side Management (DSM) expenditures
- Regulatory liability balancing account for accelerated thermal plant depreciation
- Regulatory balancing account for STEP program allocations, STEP program expenditures, and unrecovered USIP costs.

The balancing accounts for DSM expenditures (regulatory asset) and accelerated plant depreciation (regulatory liability) will have carrying charges with a rate equal to the most recent commission approved pre-tax weighted average cost of capital. Carrying charges for the regulatory asset and regulatory liability are netted against each other, and any remaining amount is applied to the regulatory account which carries the greater balance. This net application occurs for both the balance sheet and income statement accounts.

The USIP/STEP pilot programs balancing account will have a separate carrying charge rate set by the commission.

On a monthly basis the carrying charge is applied to the full beginning balance for the period and to half of the current month's collections and expenditures, or in other words, to the average of the current month's activity.

Charges Not Eligible for STEP Funding

Since STEP projects are funded through a surcharge tariff, the following costs should not be charged to STEP projects:

1. Internal labor¹
2. Capital Surcharges
3. Allowance for Funds Used During Construction (AFUDC)²
4. Grant funds used in connection with STEP projects

SAP WBS Structure

STEP expenditures will use an SAP WBS structure to track projects. When processing costs for a STEP program, it is important to know the:

1. Nature of the expenditure (i.e. capital vs. expense; see Standard Program Expense and Capital sections above)

¹ Incremental STEP program costs or employees who are either partially or fully not included in base rates (such as Customer Solutions employees) may be allowable STEP costs. This exception will be determined based on commission STEP program approvals. Please contact the applicable STEP project manager to determine if any internal labor may have been approved to be charged to STEP projects.

² AFUDC is not applicable either because funds have already been received from customers, or if collections have not been received a regulatory asset earns a return through a carrying charge.

2. Program for the expenditure (i.e. line extension, EV charging infrastructure, grid battery, etc.)

WBS elements will be created for each STEP program that has been approved by the commission. All WBS elements describe the program it is associated with, and whether the expenditures are capital or expense.

If a STEP cost is capital, the internal order or WBS element used to process the cost should NOT settle to the STEP WBS structure. Instead, the settlement rules should be set up in the same manner as a standard capital project to settle to CWIP. The only difference in creating the capital project will involve the investment reason assignment:

- If the project is for a T&D project other than a commercial line extension, the Investment reason should be **ST**.
- If the project is a generation project, the investment reason should be **SG**.
- If the project is a commercial line extension, the investment reason should be selected using the standard line extension instructions.

In cases when a program contains both capital and expense components, the capital setup instructions and expense setup instructions should be used by creating separate WBS elements/internal orders that settle to CWIP for capital and to the appropriate STEP WBS element for expense.

All expense STEP program costs should settle to the relevant WBS element listed in the following STEP project structure:

1	Electric Vehicle Programs	
2	CREG/2017/D/STP/EVECI - Expense Charging Infrastructure Incentives Capital expenditures-use standard capital settlements and STEP investment reason	\$ 2,000,000
1	Clean Coal Technology	
2	Expense NOx Control Technology	
3	CREG/2017/D/STP/CCENO01 - Expense NOx Neural Network	
3	CREG/2017/D/STP/CCENO02 - Expense NOx Alternative	
2	Expense CO2 Reduction	
3	CREG/2017/D/STP/CCECOR01 - Expense Woody Waste Test Burn	
3	CREG/2017/D/STP/CCECOR02 - Expense Solar-assisted Feedwater Heating	\$ 1,000,000
2	Expense CO2 Capture	
3	CREG/2017/D/STP/CCECOC01 - Expense CO2 Capture Cryogenic	
2	Expense CO2 Sequestration	
3	CREG/2017/D/STP/CCECOS01 - Expense CO2 Coal Bed Methane	
3	CREG/2017/D/STP/CCECOS02 - Expense CO2 USTAR Sequestration	
	Capital expenditures-use standard capital settlements and STEP investment reason	
1	Innovative Utility Programs	
2	CREG/2017/D/STP/IUESI - Expense Solar (Grid Performance)	
2	CREG/2017/D/STP/IUEBS - Expense Battery (Grid Performance)	
2	CREG/2017/D/STP/IUECP - Expense Circuit Performance Meters	
2	CREG/2017/D/STP/IUECL - Expense Commercial Line Extension	\$ 3,400,000
2	CREG/2017/D/STP/IUEGE - Expense Gadsby Emissions Curtailment	
2	CREG/2017/D/STP/IUEEV - Expense Additional Electric Vehicle Programs	
2	CREG/2017/D/STP/IUECC - Expense Additional Clean Coal Technology	
	Capital expenditures-use standard capital settlements and STEP investment reason	
1	Utah Solar Incentive Program	
2	CREG/2017/D/STP/USECR - Utah Solar Incentive Program Cost Recovery	\$ 2,600,000
1	Conservation, Efficiency and Other New Technology Programs	
2	WBS elements to be determined	\$ 1,000,000
Total		\$ 10,000,000

A listing of all STEP program WBS elements will be periodically distributed by the STEP program manager as changes occur.

STEP Project Checklist

1. Confirm expenditure qualifies for STEP funding (i.e. is part of an approved STEP project, does not include internal labor, etc.).
2. When submitting an APR for a STEP capital project, include cost detail in the project that breaks out the amount of the project funded by STEP.
3. When creating STEP internal orders or WBS elements for costs to be treated as expense, confirm settlement WBS selected is for the correct STEP fund category, project, and expense designation. Capital STEP WBS elements created should settle to CWIP like a standard capital project and use appropriate investment reason (see below).
4. For all STEP capital projects the investment reason should be selected as follows:

- **SG** for Generation projects
 - **ST** for T&D projects other than commercial line extension projects
 - Commercial line extension projects should have the investment reason selected using standard T&D project guidelines
5. If creating a STEP capital project, ensure separate WBS elements are created for expenditures funded by STEP vs expenditures funded by PacifiCorp. WBS elements funded by STEP should not accrue AFUDC or Capital surcharge, and PacifiCorp-funded WBS elements will follow standard AFUDC/Capital surcharge instructions.