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Action Request Response

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

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Date: July 12, 2018

Re: **Acknowledge Annual Report; Docket No. 18-035-16** - Rocky Mountain Power's First Annual Sustainable Transportation and Energy Plan Act (STEP) Program Status Report for the Period of January 1, 2017 through December 31, 2017.

Recommendation (Acknowledge with Recommendation)

The Division of Public Utilities (Division) has reviewed Rocky Mountain Power's (RMP) first annual Sustainable Transportation and Energy Plan Act (STEP) Program status report for January 1, 2017 through December 31, 2017 annual reporting period per the Utah Public Service Commission's (Commission) Order issued in Docket No. 16-035-36. The Division recommends the Commission acknowledge RMP's 2017 annual STEP status report with the recommendations discussed herein.

Issue

On April 30, 2018, RMP filed with the Commission its first annual report for the STEP Program. On the same day, the Commission issued an action request to the Division to review RMP's filing for compliance and to make recommendations by May 30, 2018. On May 2, 2018, the

Commission issued its Notice of Filing and Comment Period for any interested party whom may want to submit comments by May 30, 2018 and reply comments by June 14, 2018. On May 8, 2018, the Division filed a request to extend the comment period. On May 9, 2018, the Commission issued its Notice of Amended Comment Period approving the extension request and modifying the comment date to July 12, 2018 with reply comments due July 27, 2018. The following is the Division's recommendations and compliance review of RMP's first annual STEP Program filing.

Background

Senate Bill 115 (SB 115), the Sustainable Transportation and Energy Plan Act, passed during Utah's 2016 legislative session codified in part as Utah Code Ann. Section 54-7-12.8.[1] That section is now entitled, "Electric energy efficiency, sustainable transportation and energy, and conservation tariff." Section 54-7-12.8(6) outlines the funding for the STEP Program.

Utah Code Ann. Section 54-20-101 through Section 54-20-105 define the STEP programs available to large-scale utilities dependent upon Commission approval during the 5-year pilot period. The programs authorized within the act include Electric Vehicle Incentive[2], Clean Coal Technology[3], and Innovative Utility Programs[4].

The large-scale utility, with Commission approval, can spend approximately $10,000,000 per year on various programs authorized by the act. Except for the Electric Vehicle Incentive Program (EV Program), which is capped at $2,000,000 use-or-lose per year, the other programs, Clean Coal Technology and Innovative Utility, can budget monies year-to-year as long as the spend is no more than $50,000,000, including the EV Program, at the end of the pilot.[5]

On September 12, 2016, RMP filed its application with the Commission to implement programs authorized by the STEP Act. During the Commission's first scheduling conference on

[1] See https://le.utah.gov/xcode/Title54/Chapter7/54-7-S12.8.html?v=C54-7-S12.8_2016051020160510.
[2] See https://le.utah.gov/xcode/Title54/Chapter20/54-20-S103.html?v=C54-20-S103_2016051020160510.
[3] See https://le.utah.gov/xcode/Title54/Chapter20/54-20-S104.html?v=C54-20-S104_2016051020160510.
[4] See https://le.utah.gov/xcode/Title54/Chapter20/54-20-S105.html?v=C54-20-S105_2016051020160510.
[5] See Subsection (6), https://le.utah.gov/xcode/Title54/Chapter7/54-7-S12.8.html?v=C54-7-S12.8_2016051020160510.

September 21, 2016, the parties agreed to proceed with Docket No. 16-035-36 in what would become four phases: Phase One established the $50,000,000 funding budget from 2017 through 2021 and the STEP balancing account to hold and track STEP funds, STEP expenditures, unrecovered Utah Solar Incentive Program (USIP) costs, and carrying charges. Phase One also established the cost capitalization of demand side management (DSM) expenditures and the amortization of these costs over a period of 10 years. It also established a regulatory liability using the DSM surcharge funds as a mechanism to depreciate thermal generation plant or other environmental regulation the Commission determines is in the public interest. The Commission's Phase One Report and Order ended the USIP program, proposed revisions to tariff Schedule Nos. 107, 193, 195, and create tariff Schedule No. 196, approved the nitrogen oxide (NOx) portions of the Clean Coal Technology Program, approved a Solar and Energy Storage program, and approved a pollution curtailment program at the Gadsby generation facility. Phase Two established the Advanced Substation Metering Program, Commercial Line Extension Program, and other Clean Coal Technology and Innovative Utility programs. Phase Three established the EV pilot study and Time-of-Use (TOU) programs. Finally, Phase Four established programs to study smart inverter settings and micro-grid impacts on the distribution system.

RMP has provided informal status updates for select STEP programs (EV and Micro-grid) to interested parties since the Commission's original Phase One Report and Order approving the pilot program.[6] The Commission ordered RMP to report the annual status of the various programs following a general format[7] agreed to by the parties. RMP requested that it file its STEP report concurrently with its Report of Annual Operations. This is the first annual status report filed by RMP for the STEP Program.

Discussion

The Commission directed RMP to update interested parties annually on the status of all programs approved by the Commission under the STEP Act. The Division is interested in the progress of each program, funding of the programs disseminated in tariff Schedule No. 196, carrying

[6] Rocky Mountain Power STEP Project Update, March 12, 2018. Renewable and EV Programs Meeting, March 21, 2018.
[7] See https://pscdocs.utah.gov/electric/16docs/1603536/297254CorresWiderburg10-12-2017.pdf, October 12, 2017.

charges, actual expenditures compared to forecast expenditures, and internal operational, maintenance, administrative, and general expenses (OMAG)[8] (accounted for within each program), and external OMAG expenses (unknown expenses that occur because of the program) for each program. There are fourteen separate programs approved by the Commission for this reporting in addition to USIP funding expenses. The following summarizes each program's status, budgeted funds, and actual funds spent.

USIP, DSM, Carrying Charge, and Regulatory Liability

The USIP Program was a 5-year program approved by the Commission in 2012 to reimburse customers who wanted to install distributed solar generation. Prior to SB 115, the USIP program funding came from a surcharge to customers disseminated in tariff Schedule No. 195. SB 115, and later approved by the Commission in its Phase One Order, required RMP to stop taking new applicants into the USIP program after December 31, 2016. RMP's reimbursement obligations to those customers participating in the USIP Program prior to its absolution still exist and shown as an expense in the STEP budget.

RMP's original estimate for the USIP 5-year STEP pilot program included equal expenditures of $2,584,112 in each year.[9] RMP's 2017 STEP and USIP Summary (RMP Exhibit A), filed with its April 30, 2018 report, illustrates almost double the estimated expenditure as shown in Table 1.

Table 1
USIP Expenditures

Program	Status	Budget	Spend
Utah Solar Incentive Program	On-Going	$ 2,584,112	$ 4,735,412

RMP's response to the Division's Data Request 1.3 explains that the variance is due to a combination of several things not considered at the time of the application. First, the $2,584,112 was estimated revenue collection needed to amortize the USIP account by 2021, which was only

[8] Docket No. 16-035-36, Commission Phase One Report and Order, December 29, 2016, at page 16, ¶ 7, Commission Phase Two Report and Order, May 24, 2017, at page 13, ¶ 5, Commission Report and Order, October 31, 2017, at page 12, ¶ 4.
[9] Docket No. 16-035-36, Rocky Mountain Power's, Application, Table 1, STEP Funding Budget, page 4.

part of the estimated total program costs. Second, the estimated total cost for 2017 was $9,344,310 based on 100 percent incentive payout. Third, RMP claims that 32 percent of customers who paid a deposit under the USIP Program did not complete their project. The actual expense incurred in the STEP budget is $4,735,412, less than half of the estimated USIP Program costs, rather than nearly double the forecast estimate of $2,584,112 mentioned above. The surcharge collections from USIP customers amounts to $2,664,944 and part of the calculation.

The Division notes that RMP's estimate for USIP expense in 2018 is $2,235,310.[10] The STEP budget for 2017, including this variance, is still under $10,000,000. The Division will monitor USIP expenditures in future reports.

RMP's STEP Report does not include a summary of the DSM asset and liability reporting for 2017. In response to DPU Data Request 1.7, RMP provided a spreadsheet detailing 2017 asset and liability information. The spreadsheet, along with formal and informal data request responses, helped in the Division's review of the account balances for the DSM STEP Program. The Division recommends RMP include a high-level presentation of annual spend, annual capitalization, annual expenses, the asset and liability balances for the reporting period, and year-to-date balances in the STEP Annual Report. RMP's spreadsheet response to DPU DR 1.7 is also valuable and the Division recommends a similar spreadsheet be included as an additional Excel tab on the STEP Report. This information will help the Division determine if the program complies with legislation.

The Commission in its Phase One Order approved the STEP carrying charge.[11] The carrying charge is the average of the annual Aaa and Baa corporate bond interest rates for the previous year. The carrying charge effective for the period of March 2016 through February 2017 was 4.45 percent. The carrying charge effective for the period of March 2017 through

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[10] RMP response to DPU Data Request 1.3.
[11] The Utah Legislation codified the DSM asset and liability carrying charge. See Utah Code Annotated 54-7-12.8(2)(b)(iii) and 54-7-12.8(5)(c).

February 2018 is 4.19 percent, per Docket No. 15-035-69. The Division notes these carrying charges are consistent with Commission Order.[12]

Electric Vehicle Incentive Program

As previously mentioned, the EV Program is the only STEP program that has an annual use-or-lose budget-budget of $2,000,000.[13] The EV Program was approved by the Commission on June 28, 2017 and includes funding for a TOU Rate Pilot along with charging infrastructure incentives. RMP used its best efforts to spend the $2,000,000 budget for 2017 within the limited time remaining in the year. RMP explains in its filing that it awarded incentives for various levels of customers until September 30, 2017 under the guidelines approved by the Commission, and then allocated the remaining funds to custom projects. The charger incentives and expenses relating to the TOU Pilot, Administrative, and Outreach comprise $432,654 of 2017 expenses. In response to DPU Data Request 1.6 (b), RMP confirms that it mistakenly excluded $32,684 of external OMAG expense attributable to the EV Program for 2017 calendar year expenditures. The 2017 calendar year expenditures should be $465,338.

In response to DPU Data Request 1.6 (a), requesting clarification on Table 1 – Program Accounting for the EV Program as filed, RMP claims that $1,359,874 of Grant-Based Custom projects shown in the "2017 Budget Costs/Commitments" column is attributable to the $2,000,000 2017 EV Program budget. RMP and will be complete in 2018. RMP uses an October 1st to September 30th fiscal year for the Time of Use Pilot, Non-Residential AC Level 2 Chargers, and Non-Res & Multi-Fam DC Fast Chargers so incentives not used by September 30th of each year can be reallocated to custom projects.[14] These allocated custom projects fall into the succeeding year's budget. The $2,800 TOU, $65,309 Non-Residential AC Level 2 Charger, and $54,618 Non-Res & Multi-Fam DC Fast Charger commitments are monies expensed in the 2017

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[12] Commission Order, Docket No. 17-035-T02, In the Matter of Rocky Mountain Power's Proposed Tariff Revisions to Electric Service Schedule No. 300. Regulation Charges, February 27, 2017, at page 2.
[13] See 54-7-12.8(6)(b)(i), https://le.utah.gov/xcode/Title54/Chapter7/54-7-S12.8.html?v=C54-7-S12.8_2016051020160510.
[14] Commission Phase 3 Report and Order, June 28, 2017, page 4-5. RMP witness William J. Comeau, Direct Testimony, lines 180-181, "…however, applications at that point may be considered as part of the subsequent PEV Program year and associated available funds."

calendar year ending September 30, 2017. The Division understands the allocated TOU and Non-Residential AC Level 2 Charger commitments of $4,000 and $50,848, respectively, shown in Table 2 below, will be expensed to the 2018 EV budget. This $54,848 of 2018 Calendar Year Expense is the difference between the $122,957 ($6,800 plus $116,157) reported and the actual 2017 spend at September 30, 2017. The actual spend for 2017, including commitments, is $465,338 plus $1,359,874 or $1,825,212. Table 2 summarizes the Electric Vehicle Incentive Program expensed in 2017.

Table 2
Electric Vehicle TOU and Charging Infrastructure Program

	Revised 2017 Calendar Year Expenses	**2017 Budget Commitments Completed in 2018**	**Actual 2017 Expenses and Commitments at 9-30-17**	**2017 Commitments Expensed in 2018**
Time of Use Pilot*	$ 2,800		$ 2,800	$ 4,000
Non-Residential AC Level 2 Chargers*	$ 65,309		$ 65,309	$ 50,848
Non-Res & Multi-Fam DC Fast Chargers*	$ 54,618		$ 54,618	
Non-Res & Multi-Fam Grant Based Chargers	$ -	$ 1,359,874	$ 1,359,874	
Administrative Costs	$ 176,176		$ 176,176	
Outreach & Awareness Expenditures	$ 133,751		$ 133,751	
Program OMAG prior to Commission Approval	$ 32,684		$ 32,684	
Total	**$ 465,338**	**$ 1,359,874**	**$ 1,825,212**	**$ 54,848**

*Fiscal Year runs October 1 through September 30

The Division's review found the EV TOU and Charging Infrastructure report filed by RMP difficult to reconcile. The 2017 EV Program Accounting spreadsheet RMP provided in response to the Division's Data Request 1.6 is helpful and recommends it be included in future reports. RMP claims the $1,359,874 in commitments will be accrued and trued-up to the 2017 EV Program funds in the next reporting cycle. The Division concludes RMP used $1,825,212 of $2,000,000 available 2017 EV Program funds. The Division understands that RMP plans to conduct the EV Program in this manner in succeeding years of the pilot to better utilize available funding. The Division recommends that RMP demonstrate the accounting for custom project incentives in a more transparent manner by reporting the total spend for the pilot program year including committed funds for custom projects that occur in the succeeding year, and true-up projects that are not completed in the succeeding year.

Revising RMP Exhibit A to include the actual $1,825,812 of expenses and committed funds versus the $487,502 reported, would change the ending balance significantly. The Division also recommends the parties meet to discuss how to proceed with the reporting of EV Program incentive prescriptions and commitments.

The Commission's Phase Three Order adopted the parties' suggestion for additional reporting requirements relating to the EV TOU portion of the program.[15] The Division notes that the EV TOU Pilot did not begin in 2017 and therefore, no data was available to report. At the time of this report, the EV TOU Pilot portion of the Program is on target. The Division recommends RMP file a status report for the additional filing requirements in its 2019 report.

Clean Coal Technology Programs

Except for the Alternative NOx Reduction project, the Clean Coal Technology programs are on-target and well within the original budget of $1,792,204 as demonstrated in Table 1 of RMP's original budget for 2017.[16]

RMP recommends the Alternative NOx Reduction project should be abandoned and the remaining funds be used for another program to be filed by RMP with the Commission for approval during calendar year 2018. RMP claims the RFP process for the project did not produce any qualified vendors that could proceed with the project within the budget limits. Table 3 summarizes the Clean Coal Technology programs.

[15] Commission, Phase Three Report and Order, Docket No. 16-035-36, June 28, 2017, Exhibit D, EV TOU Pilot Reporting Requirements.

[16] Docket No. 16-035-36, In the Matter of the Application of Rocky Mountain Power to Implement Programs Authorized by the Sustainable Transportation and Energy Act, September 12, 2016, Table 1 STEP Funding Budget, at page 4.

Table 3
Clean Coal Technology Programs

Program	Status	Budget	Spend	External OMAG	Total
Woody-Waste Co-Fire Biomass	On-Target	$ -	$ -	$ -	$ -
Neural Network Optimization	On-Target	$ 547,807	$ 427,767	$ 30,000	$ 457,767
Alternative NOx Reduction	Cancelled	$ 125,000	$ -	$ 131,405	$ 131,405
CO_2 Enhanced Coal Bed Methane Recovery	On-Target	$ -	$ -	$ -	$ -
Cryogenic Carbon Capture (CCC)	On-Target	$ 356,557	$ -	$ 160,451	$ 160,451
CarbonSafe	On-Target	$ 150,000	$ -	$ 150,239	$ 150,239
Solar Thermal Integration - Hunter Plant	On-Target	$ -	$ -	$ -	$ -
Total		**$ 1,179,364**	**$ 427,767**	**$ 472,095**	**$ 899,862**

The Division supports RMP's conclusion to abandon the Alternative NOx Reduction program and use the remaining funds for another STEP program either existing or to be determined. The Division suggests that RMP provide an explanation for the OMAG expenses in future reports.

Innovative Utility Programs

The Innovative Utility programs are on-target and well within the original budget of $2,100,000 as demonstrated in Table 1 of RMP's original budget for 2017. RMP's original budget for Advanced Substation Metering was $500,000 and Commercial Line Extension $1,000,000.[17]

RMP claims the 2017 budget variance for the Advanced Substation Metering is the result of two reasons. First, the data analytics software contract was not awarded until March of 2018. Second, two of the three sites targeted for meter installation occurred with a total installation expense of $13,676 versus the estimated $60,000 for all three sites.

The Commission approved the Commercial Line Extension program in Phase Two of the docket in its Order issued May 24, 2017. RMP sites that only a partial year of availability and demand of developers seeking reimbursement resulted in the budget variance. The Division notes that RMP committed $16,905 to projects in 2017 and expensed in 2018. RMP did not commit any funds to the Commercial Line Extension Program in 2017. Table 4 summarizes the Innovative Technology programs.

[17] Id.

Table 4
Innovative Utility Programs

Program	Status	Budget	Spend	External OMAG	Total
Advanced Substation Metering	On-Target	$ 110,000	$ 13,676	$ -	$ 13,676
Commercial Line Extension (1)	On-Going	$ 500,000	$ -	$ -	$ -
Gadsby Emissions Curtailment	On-Going	$ 100,000	$ -	$ -	$ -
Panguitch Solar and Energy Storage	On-Target	$ 500,000	$ 331,995	$ -	$ 331,995
Micro Grid	On-Target	$ -	$ -	$ -	$ -
Smart Inverter	On-Target	$ -	$ -	$ -	$ -
Total		**$ 1,210,000**	**$ 345,671**	**$ -**	**$ 345,671**

(1) $16,905 were committed in 2017 but not paid until 2018

RMP did not report any OMAG expenses for the Innovative Utility Programs in this reporting period. However, the Division suggests that RMP provide an explanation for the OMAG expenses in future reports should they occur.

Budget Summary

The STEP beginning balance of $15,850,031 is the USIP balance at December 31, 2016 prior to the beginning of the first year of operation for the STEP program.[18] The $9,756,984 Surcharge Collections through Schedule No. 196 is comprised of $2,664,944 from existing USIP customers and $7,092,040 from the STEP program. The Division concludes the variance between the $9,756,984 collected and the $10,000,000 authorized by the Commission is reasonable given the lower than expected volumetric energy and power charges, and stale cost of service numbers used to develop Schedule No. 196 rates. The Division plans to review the surcharge collections in subsequent reporting years. In response to DPU Data Request 1.6 (b), RMP confirms that it excluded $32,684 of external OMAG expense in the EV Program accounting for 2017 calendar year expenditures. The result is an ending balance of $19,855,154 versus the $19,887,838 reported in RMP Exhibit A. Table 5 summarizes the STEP Program budget for 2017.

[18] RMP's annual USIP report for 2017 reports the USIP balance at December 31, 2016 of $15,751,329, less than 1 percent variance to the $15,850,031 reported on RMP Exhibit A.

Table 5
STEP Program Budget

Beginning Balance	**$**	**15,850,031**
Surcharge Collections	$	9,756,984
Less: 2017 Total Spend	$	(6,501,131)
Carrying Charge	$	749,270
Ending Balance	**$**	**19,855,154**

In consideration of the actual 2017 EV Program costs and commitments of $465,338 and $1,359,874, respectively, shown in Table 2 above, the ending balance would be $18,517,444 including applicable carrying charges. Since the $1,359,874 of commitments had not occurred in 2017, the Division recommends RMP true-up the budget in its 2018 annual report and include commitments that will occur in the succeeding year in the current year report in the future.

Conclusion

The Division has reviewed RMP's first annual STEP Program status report for January 1, 2017 through December 31, 2017 per the Commission's Order issued in Docket No. 16-035-36. RMP and interested parties understood when the reporting template was designed that revisions might be needed as the STEP Program proceeded. The Division recommends that interested parties meet with RMP to discuss any such revisions to the reporting process at their convenience. The Division recommends the Commission acknowledge RMP's 2017 annual STEP status report with the following recommendations:

1) Include a spreadsheet that reconciles USIP expenditures and ending balances that correlate to the STEP Report, RMP Exhibit A.
2) Include a brief summary and spreadsheet explaining the DSM/STEP Liability and Asset balancing accounts.
3) Include a spreadsheet explaining the EV Program expenditures.
4) Provide accounting and explanations in the annual report that demonstrate the EV Program in a more transparent manner.
5) The parties should meet to discuss how to proceed with accounting for EV custom project incentives and other commitments.
6) Provide at a minimum, a status report for the additional filing requirements for the EV Program.
7) File with the Commission to reallocate funds from the Alternative NOx Emission Control Technology to another program.

8) The Division suggests that RMP provide an explanation for any external OMAG expense in future reports.

Cc: Joelle Steward, RMP
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Service List