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Division of Public Utilities

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ACTION REQUEST RESPONSE

TO: Public Service Commission

FROM: Division of Public Utilities
Chris Parker, Director
Artie Powell, Energy Manager
David T. Thomson, Technical Consultant
Thomas Brill, Technical Consultant

DATE: August 17, 2011

RE: Docket No. 11-035-140, Application of Rocky Mountain Power for A Deferred Accounting Order to Defer the Costs of an Energy Storage Demonstration Project and Recovery of those Costs Through the Demand-Side Management Surcharge (Schedule 193).

RECOMMENDATION (Approval)

The Division of Public Utilities (Division) recommends that the Public Service Commission (Commission) approve Rocky Mountain Power's (Company) application for a deferred accounting order to defer and recover costs for an Energy Storage Demonstration Project through the Demand-Side Management (DSM) surcharge.

ISSUE

There are two main issues to be addressed for this application. The first and foremost issue is whether the Energy Storage Demonstration Project costs are appropriate costs that the Commission believes should be recovered in customer rates.

The second issue is dependent on the disposition of the first issue. If the costs are determined to be costs that should be recovered in rates, then the second issue is how those costs are to be accounted for, as well as monitored and audited. If the costs are not those that should be recovered in rates as determined by the Commission, then the accounting for those costs, the monitoring of those costs, and the auditing of those costs are moot points and are not applicable.

As stated in the application, the Company is not only asking that the Commission approve the deferral of the costs associated with the Demonstration Project but is also asking that the costs be recovered in rates through Schedule 193, the DSM surcharge. As discussed above the rate recovery request applies to the first issue and the deferral of the cost, if recovery is approved, relates to the second issue.

The Company in its application states that it believes the cost of the Energy Storage Demonstration Project, if approved by the Commission, should be recovered through the DSM surcharge. Since the maximum commitment by the Company is \$625,000, the Company states in the application that the inclusion of these costs in the DSM surcharge is not expected to materially affect the balance in the Utah DSM deferred account or result in an adjustment to the Schedule 193 rates.

The application outlines in general detail why the Energy Storage Demonstration Project is worthy of rate recovery and how the recovery will be accounted for in the DSM surcharge.

DISCUSSION

The Division in a Memorandum to the Commission dated November 30, 2010, recommended that 1) the Commission should approve the proposed Energy Storage Demonstration Project; and 2) the Company should be directed to make a proposal for funding similar projects in the Company's next general rate case. In the meantime, the Division proposed that the project be funded through the DSM program.

The Office of Consumer Services (Office) in a Memorandum to the Commission, dated November 30, 2010, stated that, "the demonstration energy storage project is an intriguing concept that bears further consideration. However, rather than divert funding from the Solar

Pilot Program we recommend that the Company pursue funding for the project through another avenue. For example, the Company could submit a proposal for cost recovery through the demand side management tariff rider, in a general rate case, or propose [a] different mechanism by which promising technology such as this one could be pursued on a pilot basis.”

On February 10, 2011, the Commission issued an order on the three-year assessment of the Solar Incentive Program directing, among other items, that the Solar Incentive Program continue through program year 2011 and commending the Company for its participation in the Energy Storage Demonstration Project. The Commission, however, did not grant approval for the Company to defer or recover the costs of the Demonstration Project.

The Division has informally met with the Company about its application. From that meeting the Division would like to note a number of facts and observations about the Energy Storage Demonstration Project. The Company is in partnership with EMB Energy (EMB) to develop the Energy Storage Demonstration Project. Thus, it will “contribute” \$625,000 to the Project and EMB Energy will “contribute “ to the Project as outlined in the agreement to develop a working Energy Storage Demonstration Project. There will be no payments to EMB. The nature of the \$625,000 cost will be in the form of “out-of-pocket” costs spent by the Company to provide interconnection at a substation near ATK in Tremonton, Utah. Such costs would be labor, engineering, overhead, materials, and equipment, and so on. The majority of the costs, approximately, \$575,000, will be spent in the year 2012, if the Company deems that EMB should go ahead with the full-scale Demonstration Project (approximately 25 MW). The Company anticipates only spending around \$50,000 towards the partnership in the year 2011. A large share of the 2011 expense is for Company employee interfacing with EMB, evaluating the viability of the various technologies involved, and monitoring the progress of EMB. Before proceeding with the full-scale Demonstration Project, EMB must meet several milestones, including a successful smaller (approximately 5 kW) demonstration of the various technologies. The Company will incur little, if any costs, for this smaller demonstration project and other milestones prior to the Company’s approval of the full-scale Demonstration Project. If the

Demonstration Project is unsuccessful, the interconnection equipment can be returned to inventory and later used elsewhere in a different application.

The Division notes that Utah Code Anno. § 54-7-12.8(1) states:

As used in this section, “demand side management” means activities or programs that promote electric energy efficiency or conservation or more efficient management of electric energy loads.

If the Demonstration Project is successful this technology could be used, among other things, to support the interconnection and use of intermittent generation resources, such as wind, to better match electric generation production to peak loads. The applicability of the project fits the statutory definition of energy efficiency and its use and, thus, naturally fits under the DSM program and tariff rider.

As indicated in its November 30, 2010 memorandum, the Division supports the Company’s participation in the Demonstration Project. The expected expenditures in 2011 are reasonable. Additionally, there are several milestones that EMB will need to meet before the Company gives its approval to move ahead with the full project and, thus, ample opportunities for the Company to discontinue its participation in the project before committing further monies. Once the Company approves EMB moving forward with the full Demonstration Project, the Company anticipates spending the balance of funds quickly, likely by June 2012.

CONCLUSION

Consistent with its previous recommendation, the Division continues to recommend that the Energy Storage Demonstration Project funded through the DSMP program and qualifies for recovery in customer rates through Schedule 193, the DSM surcharge. The Division notes that potential application of the technology if successful meets the statutory definition and use of energy efficiency and, thus, fits naturally in the DSM program.

The dollar amount requested for the Project is very small compared to the dollar amounts for other DSM projects that are currently run through the DSM rider. Therefore, once all the

costs for the Project have been accumulated to the deferral account and the amount in the account is final, the Division could agree with the charging of those costs as a one-time transaction to Schedule 193 for recovery. Given the relatively small nature of the cost for this project, the Division does not anticipate an adjustment to the DSM surcharge will be necessary to allow recovery.

If recovery is approved by the Commission, the Division also recommends that prior to the Company expending the balance of the funds in the year 2012 the Company notify the Commission that it is going ahead with the full demonstration project and explain why the Company believes it is prudent to do so. If the Energy Storage Demonstration Project costs are charged to the DSM 193 account, the Division anticipates that those costs will be audited in the normal course of regular Division audits and reported to the Commission accordingly.

cc Dave Taylor, Rocky Mountain Power
Michele Beck, Office of Consumer Services