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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

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To: The Public Service Commission of Utah

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The Division of Public Utilities
Chris Parker, Director
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Date: August 17, 2011

Subject: Docket No. 11-035-140 – In the Matter of the 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)

Background

On July 14, 2011 Rocky Mountain Power (Company) filed with the Public Service Commission of Utah (Commission) an application requesting a deferred accounting order (Application) to defer the costs of an Energy Storage Demonstration Project in the demand-side management deferred account and to recover those costs through the Demand-Side Management Surcharge (Schedule 193). On July 18, 2011 the Commission issued an action request to the Division of Public Utilities (Division) with a response date of August 17, 2011. Following are the comments and recommendations of the Office of Consumer Services (Office) in response to the Company's Application.

Discussion

In its Application Rocky Mountain Power expresses its belief that the development of utility-scale energy storage projects: 1) is crucial to improving the economic viability of renewable generation resources; and 2) would enable electric energy generated from renewable resources to be stored and dispatched as needed to meet electrical system requirements. As stated in the Application the Company's commitment to the Demonstration Project is \$625,000; however, the response to OCS data request 1.5 clarifies that Rocky Mountain Power will fund up to \$625,000 in internally-generated costs

and will account for those costs as they occur. If Rocky Mountain Power's costs exceed \$625,000 EMB Energy will be billed for the excess.

Rocky Mountain Power originally proposed to fund this project by redirecting funds previously committed to the five-year pilot Solar Incentive Program. In its three-year assessment of the Solar Incentive Program, the Company concluded that the Solar Incentive Program should be terminated¹ and that the monies included in base rates should instead be used to fund an energy storage demonstration project (Demonstration Project or Project). In supporting its view to cease funding the Solar Incentive Program and divert funds to the Demonstration Program, the Company explained that the purpose of the Demonstration Project "is to demonstrate the feasibility of an electro-mechanical battery to store electrical energy, including electricity generated from renewable sources, and dispatch the energy to the grid as the system requires." Additionally, "the Demonstration Project could enhance the viability of intermittent renewable generation resources by ensuring the generation from such facilities is available for dispatch during periods of peak demand." The Demonstration Project was presented to the Commission and interested parties by Rocky Mountain Power and EMB Energy Incorporated in a technical conference held on November 4, 2010.

None of the parties responding to the Company's request to terminate the Solar Incentive Program were supportive of termination. However, a number of the parties did express support for the proposed Energy Storage Demonstration Project.

Issues

It is the Office's view that there are two separate issues associated with this Application: 1) the request for deferred accounting for costs associated with the Company's participation in the Energy Storage Demonstration Project²; and 2) the request to recover the deferred costs through the Demand-Side Management Surcharge (Schedule 193).

Deferred Accounting Order

In comments provided to the Commission on November 30, 2010 the Office indicated its interest in the concept of the demonstration energy project. Viable utility-scale energy storage will likely provide benefits to the system and help resolve some of the challenges of intermittent renewable resources. As such, the Office generally supports the Company's pursuit of this Demonstration Project. While the Office would likely support recovery of Utah's share of prudent investments made by Rocky Mountain Power for this Project, we would want to review the costs associated with those investments. The Company has requested that Utah ratepayers cover the entire cost of the Energy Storage Demonstration Project through the DSM surcharge. However, the Company has not demonstrated that the characteristics or the operation of the Project will provide benefits

¹ The Company reported that the Solar Incentive Program was not cost effective under any of the five tests; the solar market is growing without the pilot Program; and the market price for solar equipment has declined.

² Although the Company requests permission to defer costs of the Energy Storage Demonstration Project into the Utah Demand-Side Management deferred account the Office believes those costs could be accounted for in a separate deferred account.

exclusively to Utah.³ The Office asserts that if this proves to be a cost effective and viable resource it will provide benefits to the system and unless the Company demonstrates benefits specific to Utah all jurisdictions should share in the costs.

Commission approval of a deferred accounting request is not a guarantee of cost recovery, therefore the Office supports the Company's request for a deferred accounting order (although the amount does not meet the "materiality" threshold for deferred accounting) with the understanding that when the Company seeks actual recovery we will expect the opportunity to review and examine the prudence of those costs. The Company should be prepared to demonstrate that the internally-generated costs are incremental to costs already included in rates and that the appropriate portion is being assigned to Utah.

Cost Recovery Mechanism

The Office does not believe that Schedule 193 is the appropriate mechanism for recovery of deferred costs associated with the Energy Storage Demonstration Project. We recognize that in our memo of November 30, 2010 regarding the Solar Incentive Program we suggested that the demonstration energy storage program bears further consideration and offered several possibilities for cost recovery.

"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."⁴

In giving the matter further consideration the Office believes that the demand-side management tariff rider would not be the most appropriate mechanism for recovery of costs. Schedule 193 is dedicated to recovery of costs associated with energy efficiency projects and programs, whereas the design of this Project is to enhance the deliverability and viability of renewable resources. We are hesitant to open the door to Schedule 193 becoming a catch-all for items that do not naturally fit in other cost recovery categories.⁵

The Company will not be at risk if the Commission does not grant recovery through Schedule 193 at this time if granted deferred accounting for costs associated with the Energy Storage Demonstration Project. The Company has indicated its intent to file a general rate case next year (and approximately annually for the next several years) and would have sufficient time to request recovery in the appropriately timed rate case or

³ OCS Data Request 2.1 submitted to the Company on August 8, 2011 reads: Has the Company requested a deferred accounting order for this Energy Storage Demonstration Project in any other jurisdiction? We have not yet received the response.

⁴ November 30, 2010. Office of Consumer Services' Comments on Rocky Mountain Power's Solar Photovoltaic Incentive Program (Schedule 107) Three Year Assessment of the Solar Incentive Program -- Docket No 07-035-T14.

⁵ Even if the Demonstration Project could be considered to qualify for recovery through the DSM tariff rider under 54-7-12.8 (1) *...or more efficient management of electric energy loads*, [italics added] the Company has provided no evidence that Project costs should be situs assigned.

propose an alternate recovery mechanism. Further, In Data Request OCS 1.7 the Office asked: If the Company is granted a deferred account when would it expect amortization (collection from customers in the demand-side management surcharge) to begin? The Company responded: While no firm decision has been or will be made until the prototypes are tested and a go/no-go decision is made, if the costs are incurred as anticipated in 2012, then the Company would likely seek recovery through the normal DSM surcharge in 2013. Since the Company does not intend to seek recovery right away, sufficient time exists to implement a more appropriate cost recovery mechanism rather than simply using Schedule 193 for convenience.

The Office recommends that the Commission not approve the request to recover costs associated with the Energy Storage Demonstration Project through Schedule 193 and order the Company to propose recovery through some other mechanism. However, if the Commission allows recovery through Schedule 193 the Company should be required to request specific permission for recovery, demonstrate the prudence of all costs, demonstrate that the costs are incremental to those already incorporated in base rates, demonstrate that the costs are appropriately being allocated to all jurisdictions which will receive benefits, and parties should be afforded the opportunity to comment prior to actual inclusion of costs in Schedule 193.

Recommendations

The Office recommends that the Commission:

- 1) Approve the Company's request for a deferred accounting order for the Demonstration Energy Storage Project;
- 2) Deny the Company's request for recovery of costs through Schedule 193; and
- 3) Require the Company to propose recovery of deferred costs through another mechanism.

However, if the Commission allows recovery of costs through Schedule 193 the Company should be required to request permission for recovery and parties should be given the opportunity to review and provide comments on the costs prior to beginning collection from customers.