

October 12, 2011

***VIA ELECTRONIC FILING
AND HAND DELIVERY***

Public Service Commission of Utah
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Julie P. Orchard
Commission Secretary

Re: Docket No. 11-035-140

On August 17, 2011, both the Division of Public Utilities (the Division) and Office of Consumer Services (the Office) submitted comments to the Commission in response to an application of Rocky Mountain Power (the Company) which was submitted with the Commission on July 14, 2011, and subsequently assigned to the above referenced docket. Utah Clean Energy (UCE) submitted comments in this proceeding on October 10, 2011. Rocky Mountain Power's application introduces a pilot energy storage demonstration project (the Project) the Company is currently assessing and requests approval to defer costs associated with the Project and to recover those costs through the Schedule 193 demand-side management surcharge (DSM Surcharge).

As expressed in their respective comments, the Division, Office and UCE are supportive of the Company's request to defer costs incurred associated with the Project. The Division and UCE are supportive of the Company's proposal to recover costs deferred through the DSM Surcharge; the Office is opposed to this proposal and requests the Commission direct the Company to propose an alternative recovery mechanism for the deferred costs. The Office also opposes the Company's proposal to situs assign the Project costs to Utah customers. Both the Division and Office make recommendations to the Commission concerning prudence review of the Project costs.

Rocky Mountain Power is appreciative of the positions of the Division, the Office and UCE concerning the deferral of Program costs. The Company maintains the assertions made in its original application in this proceeding that, if successful, the Project will demonstrate the capability of utility-scale electro-mechanical battery storage systems to enhance the viability of intermittent renewable generation resources, afford alternatives to transmission system expansion and contribute to grid reliability, power quality and customer service. Rocky Mountain Power believes the Project will provide valuable benefits to its Utah customers and is in the public interest. Herein, the Company responds to certain matters raised by the Division and Office through their respective comments submitted in this proceeding.

Allocation of Project Costs

Rocky Mountain Power's proposal is to recover the entire financial commitment of \$625,000 to the Project through the DSM Surcharge. Costs to be incurred by Rocky Mountain Power for the Project include interconnecting the battery storage system to the Lampo substation near ATK's campus in Promontory, Utah and expenditures associated with monitoring progress of the Project. The Company intends to treat the Project as a Utah specific project and does not plan to file applications in its other jurisdictions to recover a system allocated share of Project costs. Through their comments, the Office has challenged this proposal and recommends the Commission not approve situs assignment of the costs unless the Company demonstrates specific Project benefits which accrue to Utah customers. The Company believes the Project costs are appropriately situs assigned to its Utah customers. The benefits expected to be delivered by the Project – including those stemming from the installation of the storage facility near the Lampo substation and from future deployment of the technology should it prove successful – are similar to the benefits delivered by other Company initiatives and programs e.g., the Cool Keeper program and the Solar Incentive program, the costs of which are situs assigned to Utah customers.

Since the Project is expected demonstrate multiple operational functionalities, Rocky Mountain Power anticipates that Utah customers will benefit from the Project in several ways. First, Utah customers will benefit from the capacity reductions in Utah achieved by the 25 megawatt facility. To assist in meeting peak demand, the battery storage facility can be charged during off peak hours through interconnection to a dedicated renewable energy project¹ or to the Company's electrical system. Once stored in the battery system, the electrical energy can be dispatched at peak hours to meet capacity demands. The localized dispatch functionality of the Project to meet peak demand is similar to that of the Cool Keeper program, the costs of which are situs assigned to Utah customers.

The Project also shares many of the characteristics of a distributed generation facility in that it can be installed in a targeted area within the grid and has the capability to deliver electric energy to localized substations and circuits. While distributed generation is currently not widespread in Utah, the Solar Incentive Program incentivizes the installation of distributed solar photovoltaic generation systems in Utah; the costs of this program are situs assigned to Utah customers. Since both deliver electric energy to the grid on a targeted and localized basis, solar PV systems installed through the Solar Incentive Program share many of the characteristics of the battery storage Project. As the functionality and benefits expected to be delivered by the Project are similar to those delivered by the Cool Keeper and Solar Incentive programs – the costs of which are situs assigned to Utah – the Company believes it is reasonable and appropriate to similarly treat the costs of the Project through situs assignment to Utah customers.

Rocky Mountain Power's Utah customers will also benefit from improved reliability and power quality to the local substation or circuit on which the Project is installed; should the project prove successful and further deployment is warranted, circuits on which future installations are made

¹ ATK currently plans to interconnect a combined heat and power (CHP) and wind generation facility to the Project.

will enjoy the same benefits. In addition, equipment purchased to interconnect the Project to the Lampo substation can be inventoried and redeployed into the Company's electrical grid should the facility be removed. Further, Utah customers will benefit from favorable pricing and production terms within the agreement between EMB Energy Incorporated (the manufacturer of the battery storage system) and Rocky Mountain Power, should the Project prove successful and further deployment of the technology is pursued. Rocky Mountain Power, pursuant to this agreement, has rights to reduced pricing and favorable delivery schedules from EMB Energy in the event the Company elects to deploy this technology within its system. Should the Company go forward with deployment of the technology within its system, Utah will be given first rights to the discounted units for installation within the Utah distribution system.

Cost Recovery Mechanism

The Division, as expressed in their comments, is supportive of the Company's proposal to recover Project costs through the DSM Surcharge.² Conversely, the Office asserts in their comments that costs associated with the Project should not be recovered through the DSM Surcharge; they recommend the Commission direct the Company to propose an alternative cost recovery mechanism. In support of this position, the Office states that the DSM Surcharge is dedicated to recovery of costs associated with energy efficiency programs and that the intent of the Project is to enhance the deliverability and viability of renewable resources. The Office further states that Schedule 193 should not become a "catch-all" for items that do not naturally fit in other cost recovery categories.³

In response, the Company would address the supposition of the Office that the objective of the Project is exclusively to demonstrate its capability to enhance the deliverability and viability of renewable resources. While this is one potential objective of the Project, there are others, including demonstration of the technology's capability to afford alternatives to transmission system expansion and to contribute to grid reliability, power quality and customer service.

Rocky Mountain Power maintains its position that recovery of Project costs through the DSM Surcharge is appropriate and allowed by Utah Code Ann. §54-7-12.8. Section 2 of Utah Code Ann. §54-7-12.8 enables the DSM Surcharge to recover costs incurred by an electrical corporation for "demand-side management." Utah Code Ann. §54-7-12.8(1) defines "demand side management" as "activities or programs that promote electric energy efficiency or conservation or more efficient management of electric energy loads." Should the Project prove successful, the dispatch capability of battery storage facilities will enable the owner of the facility to shift load service from the electrical grid to the battery storage facility at times which are beneficial to the grid. The Company believes that strategically shifting loads from the grid to an energy storage facility to the benefit of the electrical grid is an act of more efficient management of electric energy loads. For this reason, Rocky Mountain Power believes the costs of the Project are appropriately recovered through the DSM Surcharge and allowable under state statute.

² Refer to page 4 of the Division's comments submitted in this proceeding on August 17, 2011.

³ Refer to page 3 of the Office's comments submitted in this proceeding on August 17, 2011.

The Office also asserts that the Company will not be at risk if the Commission does not grant recovery through the DSM Surcharge at this time if deferred accounting is granted for Project costs.⁴ The Office suggests that the deferred Project costs could be recovered through a future rate case of the Company or an alternative recovery mechanism proposed by the Company. Rocky Mountain Power contends that until explicit approval for cost recovery is granted by the Commission, risk of recovery remains. Approval of the Commission to defer costs is a separate matter than approval to recover the deferred costs through rates. For this reason, the Company is seeking Commission approval through this application to recover prudently incurred costs associated with the Project through the DSM Surcharge.

Prudence Review of Costs

Both the Division and Office make similar recommendations to the Commission in their comments concerning prudence demonstration and review of Project costs. The Division recommends to the Commission that prior to expending the balance of the financial commitment to the Project in 2012, the Company should be required to notify the Commission it is going forward with the Project and provide justification for why it is prudent to do so.⁵ The Office recommends to the Commission that, should Project cost recovery through the DSM Surcharge be approved, the Company be required to demonstrate prudence of the Project costs incurred prior to recovery. The Office also recommends that Rocky Mountain Power be required to request specific permission from the Commission to recover Project costs through the DSM Surcharge once the costs have been incurred and that parties should be given the opportunity to comment prior to cost recovery.⁶

Should the Commission determine it is appropriate and useful, Rocky Mountain Power is agreeable to the Division's recommendation that notification be given to the Commission in the event a determination is made to go forward with the full Project and that a prudence demonstration for this decision be provided. The Company requests that if the Commission determines this notification is appropriate that the Commission also specify whether an affirmative order of the Commission is required before the Company proceeds with the Project.

Rocky Mountain Power believes that avenues already exist to accomplish the objectives of the Office's recommendation that, prior to recovery of Project costs, the Company be required to demonstrate prudence of Project costs, that parties be given an opportunity to comment and that specific Commission approval of recovery be granted. Costs of the Project will be deferred into the DSM Surcharge balancing account as they are incurred. Parties have the ability to review costs deferred to the DSM Surcharge account at any time and to make recommendations to the Commission concerning their findings. The Office already has the tools in place to accomplish its objectives without the additional review and approval process recommended. The Company respectfully requests that the Commission affirm that review procedures are already in place for parties to review and comment on Project prudence and costs and that the Commission not require the additional review and approval process as proposed by the Office.

⁴ Ibid.

⁵ Refer to page 5 of the Division's comments submitted in this proceeding on August 17, 2011.

⁶ Refer to page 4 of the Office's comments submitted in this proceeding on August 17, 2011.

Public Service Commission of Utah

October 12, 2011

Page 5

Rocky Mountain Power appreciates the Commission's consideration of these comments. Please direct any inquires concerning this matter to Aaron Lively, regulatory manager, at (801) 220-4501.

Sincerely,

Jeffrey K. Larsen

Vice President, Regulation

cc: Division of Public Utilities
Office of Consumer Services
Utah Clean Energy