

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

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))
DOCKET NO. 11-035-140
REPORT AND ORDER

ISSUED: November 22, 2011

SYNOPSIS

The Commission approves the Company’s Application for deferred accounting and cost recovery through Schedule 193 for the proposed Energy Storage Demonstration Project.

By The Commission:

On July 14, 2011, PacifiCorp (“Company”), dba Rocky Mountain Power filed with the Public Service Commission (“Commission”) an application (“Application”) requesting a deferred accounting order to defer the costs of an Energy Storage Demonstration Project (“Demonstration Project”) up to a total of \$625,000 and to recover those costs through Schedule No. 193, “Demand Side Management (“DSM”) Cost Adjustment” (“Schedule 193”) charged entirely to Utah ratepayers (“Application”). The Company states in the Application, the Demonstration Project is expected to provide information on battery storage technology within the context of a utility-scale electrical system and the impact of such storage systems on the electrical grid. 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. The Company

further states the Demonstration Project could enhance the viability of intermittent renewable generation resources by ensuring the electricity generated by such facilities is available for dispatch during periods of peak demand.

BACKGROUND

The Company previously introduced parties to the proposed Demonstration Project in a different proceeding. On September 30, 2010, the Company filed its three-year assessment of the Solar Incentive Program (which is administered through Schedule No. 107, “Solar Incentive Program”) in Docket No. 07-035-T14, “In the Matter of the Approval of Rocky Mountain Power’s Tariff P.S.C.U. No. 47, Re: Schedule 107 - Solar Incentive Program.” This assessment was filed in compliance with the Commission’s order in the same docket dated August 3, 2007. In the three-year assessment, the Company proposed to terminate the Solar Incentive Program after the 2010 program year and to direct program monies included in base rates to fund the Demonstration Project.

A technical conference was held on November 4, 2010, to discuss the electro-mechanical battery storage technology and the Company’s proposal concerning the Demonstration Project. The Company and EMB Energy Incorporated (“EMB Energy”) participated in the technical conference by delivering a presentation on the electro-mechanical battery storage technology. The technical conference was attended by members of the Commission, the Division of Public Utilities (“Division”), the Office of Consumer Services (“Office”) and other interested parties.

Subsequent to the technical conference, several parties, including the Division and Office, filed comments in Docket No. 07-035-T14 in response to the Company's three-year assessment of the Solar Incentive Program and the proposed Demonstration Project. The parties were nearly unanimous in recommending the program continue through its original five-year term ending in 2011. The majority of parties also recommended the Company be allowed to proceed with the Demonstration Project.

In response to parties' comments, filed in Docket No. 07-035-T14, the Company filed responsive comments on December 13, 2010, stating it was agreeable to continuing the Solar Incentive Program through the 2011 program year. The Company also requested approval to defer costs associated with the Demonstration Project and to recover those costs through Schedule 193. 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 Demonstration Project. However, the Commission left for future determination the Company's proposal to defer costs associated with the Demonstration Project for recovery through Schedule 193.

The Commission issued an action request on July 18, 2011, to the Division. On August 17, 2011, both the Division and the Office submitted comments to the Commission in response to the Company's Application. Utah Clean Energy ("UCE") submitted comments in this docket on October 10, 2011. On October 12, 2011, the Company filed responsive comments and on October 17, 2011, the Office filed a response.

PARTIES' COMMENTS AND RECOMMENDATIONS

The Division recommends the Commission approve deferral and recovery of costs associated with the Demonstration Project through the demand-side management Schedule 193. The Division refers to its November 30, 2010, filed memorandum in Docket 07-035-T14 recommending the Company make a proposal for funding similar projects in the Company's next general rate case. The Division notes that application of the battery storage technology, if successful, meets the statutory definition and use of energy efficiency, and fits naturally in the demand-side management program. The Division notes that Utah Code Ann. §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.

After meeting with the Company informally, the Division learned the requested \$625,000 would be used to provide an interconnection at a substation near ATK in Tremonton, Utah and would include out-of-pocket costs associated with labor, engineering, overhead, materials, and equipment. The Company anticipates spending approximately \$50,000 in Phase I of this project consisting mostly of Company employee interfacing with EMB, evaluating the viability of the various technologies involved, and monitoring the progress of EMB. The remaining, approximately \$575,000, would only be spent in Phase II if the Company finds a smaller demonstration (approximately 5 kilowatt ("kW")) of the various technologies successful and decides to go ahead with the full-scale Demonstration Project (approximately 25 megawatts ("MW")). The Division recommends the Company notify the Commission of its intent to go

ahead with the full demonstration project and to explain why the Company believes it is prudent to do so, prior to expending the balance of the funds.

The Division agrees with charging of these project costs as a one-time transaction to Schedule 193 for recovery after the final amount is accumulated in the deferral account. Given the relatively small nature of the cost for this project, the Division anticipates an adjustment to the demand-side management surcharge will not be necessary. The Division anticipates Project costs will be audited in the normal course of regular Division audits and reported to the Commission accordingly.

In its initial comments, the Office recommends the Commission approve the Company's request for a deferred accounting order for the Demonstration Project, deny the Company's request for recovery of costs through Schedule 193, and require the Company to propose recovery of deferred costs through another mechanism. If the Commission allows recovery of costs through Schedule 193, the Office also recommends, the Company 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. The Office further challenges the Company's proposed situs treatment of costs to Utah given the Demonstration Project will provide system benefits. Unless the Company demonstrates benefits specific to Utah, the Office believes all jurisdictions should share in the costs.

Also in its initial comments, the Office generally supports the Company's pursuit of this Demonstration Project and supports the Company's request for deferral with the understanding that when the Company seeks actual recovery, opportunity be given to review and

examine the prudence of those costs. The Office does not believe that Schedule 193 is the appropriate mechanism for recovery of deferred costs associated with the Demonstration Project. The Office states Schedule 193 is dedicated to recovery of costs associated with energy efficiency projects and programs, whereas the design of this Demonstration Project is to enhance the deliverability and viability of renewable resources. The Office is concerned Schedule 193 may become a catch-all for items that do not naturally fit in other cost recovery categories.

The Office modifies its position through responsive comments on August 17, 2011. The Office continues its support for the Company's request to defer costs of the Demonstration Project but reverses its previous position and recommends cost recovery through Schedule 193 due to the small total sum of the Demonstration Project. However, for future projects the Office believes more discussion is necessary regarding the issue of which costs should be included in base rates and which are appropriate for inclusion in Schedule 193. The Office further recommends the Commission require the Company to include justification for situs assignment of any future resources of this nature, either an expansion of this Demonstration Project or other pilot projects.

Utah Clean Energy supports cost recovery because the Demonstration Project functions like a large demand reduction program. Utah Clean Energy is not opposed to the Company proposing, and parties exploring, other funding mechanisms for this project such that deferral accounting is granted and the project itself is not deferred.

DISCUSSION, FINDINGS, AND CONCLUSIONS

We support the Company's desire to research and implement new technologies which will provide peak management benefits to the system. However, this Application raises several questions regarding the appropriate way to fund such efforts. While the Demonstration Project conceptually meets the statutory definition of a DSM program, we find the information provided by the Company does not fully meet the criteria required for approval of a DSM program. Our order in Docket No. 09-035-27, "In the Matter of the Proposed Revision to the Utah Demand Side Resource Program Performance Standards Pursuant to Commission Order in Docket No. 07-035-T04," provides criteria for approval of DSM programs. Neither the Company, nor any other party, provides evidence or analysis which shows this Demonstration Project meets these criteria or how this Demonstration Project meets the criteria for deferred cost recovery. Additionally, while parties propose directly assigning all of the costs of the Demonstration Project to Utah, they yet describe various "system" benefits.

However, because of the potential benefit of the Demonstration Project and due to the unopposed support for it, in this case we approve a waiver of the deferred accounting and DSM approval requirements as a onetime exception. We place a cap on eligible costs at \$625,000 and direct the Company to file a final detailed report on the Demonstration Project, when completed, including an assessment of its success and recommendation of next steps. We direct the Company to notify the Commission prior to expending the Phase II balance of funds in the year 2012 and to explain why the Company believes it is prudent to do so, as the Division suggests. This notification should include results of Phase I and sufficient cost benefit analysis

to justify the Company's decision to implement the full project (Phase II). We also agree with the Division's suggestion the Company make a proposal for funding future similar projects in the next general rate case. Lastly, we find value in the Office's recommendation the Company provide justification for situs assignment of any future resource costs of this nature, including either an expansion of this Demonstration Project or other pilot projects.

Based on the recommendations of the Company, the Division, the Office, and UCE, we conclude the Company's Application for deferred accounting and recovery through Schedule 193 for this Demonstration Project is in the public interest and approve it with the conditions stated in this order.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. The Company's request for deferred accounting of its Energy Storage Demonstration Project costs is approved;
2. The Company shall recover up to \$625,000 of prudently incurred costs for the Demonstration Project through Schedule 193, as a onetime expense;
3. The Company shall notify the Commission prior to expending the balance of funds, approximately \$575,000, for the advancement of the full Demonstration Project, and explain why the Company believes it is prudent to do so. Cost-benefit analysis shall also be provided in this filing;

DOCKET NO. 11-035-140

-9-

4. The Company shall file a detailed report assessing the success of the Demonstration Project and identify next steps for wide scale deployment of this technology.
5. The Company will provide justification for situs assignment of any future resource costs of this nature, either an expansion of this Demonstration Project or other pilot projects;
6. The Company shall make a proposal for funding future similar pilot projects in the next general rate case.

DATED at Salt Lake City, Utah, this 22nd day of November, 2011.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
D#211710