

# **Division Audit Report of**

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## ***Rocky Mountain Power, Renewable Energy Credits Balancing Account (RBA)***

**January 1, 2011 – December 31, 2011**

**Docket No. 12-035-68**

Prepared by Utah Division of Public Utilities  
Brenda Salter, Technical Consultant  
Report Date: September 15, 2012

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## **PURPOSE**

The Division of Public Utilities (Division) has completed an audit<sup>1</sup> of Rocky Mountain Power's (RMP or Company) Renewable Energy Credits Balancing Account (RBA) as it relates to the Renewable Energy Credits (REC) program. The intent of this audit was to review the REC revenue rate and the actual REC revenue received by the Company for the period January 1, 2011 through December 31, 2011 and test compliance of the RBA to the Utah Public Service Commission (Commission) Orders and to Tariff Schedule 98<sup>2</sup>. This is the first Division audit of the RBA since its inception.

## **BACKGROUND**

The RBA tracks the difference between REC revenues included in rates and actual REC revenues collected from the sale of RECs by the Company. The variances between REC revenues included in rates and actual REC revenues collected are identified and deferred each month for one full calendar year by the Company. Annually on March 15, an RBA application is filed by the Company to present the variances, including applicable carrying charges, with a 100 percent true-up for the difference between the amounts in rates and actual sales occurring through Tariff Schedule 98. The collection or credit under Tariff Schedule 98 is to be made annually, effective June 1. The application under this Docket is the first deferred RBA rate adjustment under the RBA. Most of the compliance work was completed and reported to the Commission by the Division in Initial Comments filed on April 27, 2012 and in the Division's response to the Commission's Action Request dated June 13, 2012.

The Commission approved the Company's application to revise rates in Tariff Schedule 98 on May 30, 2012, subject to further review following an audit by the Division. As agreed upon by parties in the Scheduling Conference held on March 28, 2012, the Division would file its final audit report by September 14, 2012. This report meets this requirement.

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<sup>1</sup> In using the term "Audit" the Division notes that it did not conduct an independent audit as defined and conducted under Generally Accepted Auditing Standards as promulgated under the Auditing Standards Board of the American Institute of Certified Public Accountants. In this instance "Audit" means compliance review.

<sup>2</sup> Tariff Schedule 98, as set in Docket Nos. 10-035-89 (MPA Stipulation), and 10-035-124 (2011 Stipulation)

## **SCOPE OF THE AUDIT**

The Division performed the following compliance review in the Company's 2011 RBA program:

### **Revenues**

- In order to get an understanding of the RBA process and to trace REC revenue, revenue recording procedures were reviewed and discussed with appropriate RMP personnel.
- Compared revenues to prior years and reviewed month-to-month trends in order to determine abnormal or specific areas that required additional review.
- Reviewed revenue accounts and compared balances with expected revenue calculations. No forecasting material differences were noted.
- Reviewed several revenue entries (including offsetting entries) and applicable supporting documentation. This is a general review to understand and to ensure revenue was accurately reported.

### **Disbursements/Expenses**

- The RBA is a revenue balancing account and does not contain disbursements or expenses.

### **Regulatory and Reporting Requirements**

- Reviewed RBA results from the 2011 year for reporting completeness and accuracy as outlined in the RBA Tariff Schedule 98 and Commission Orders.
- Traced the most recent RBA Tariff rates in the 2011 period for compliance to Commission-approved rates.
- Reviewed revenue accounts for propriety and proper regulatory reporting.

## AUDIT FINDINGS

Information was provided to the Division through the data request process. The Company was responsive in supplying the Division with the requested documentation of the RBA.

The Company does not have a policies and procedures manual for the RBA as it is a balancing account. REC policies and procedures are found in PacifiCorp Energy's confidential Commercial and Trading Front Office Procedures and Practices (July 2008) Exhibits 9 and 10 and PacifiCorp Energy's Commercial and Trading Risk Management Policy highly confidential Appendices B and G.<sup>3</sup> The Division has reviewed the REC policies and procedures at the Company's Salt Lake office and the Portland office. The Division believes the Company's standard policies and procedures if followed correctly places the Company at a reduced risk for errors.

RMPs REC sales has resulted in millions of dollars of revenue. This revenue was the result of relatively few contract transactions compared to the actual dollars received. The scale of transactions reviewed was commensurate to the size and complexity of the REC program which the Division felt was relatively small compared to other RMP programs. The REC sales sample utilized for testing purposes was compiled using a random sample generator.

RMP explained that Company assets or lease contracts were not assigned to the REC program, therefore no review of plant, equipment, depreciation or leasehold agreements was required for this review.

### **Revenues**

REC revenues collected are primarily from contracts the Company has entered into through an RFP process. The Company has entered into multiple contracts for the sale of RECs but approximately 97% of the 2011 REC revenues come from three contracts that will expire December 2012.

Approximately 5% of REC revenue transactions and documents for the 2011 calendar year were reviewed for accuracy and reporting compliance. Nothing came to our attention to cause the interim rates per the filing as accepted by the Commission to change or be modified. After completing the audit and work performed the Division concludes that the REC revenues rates and revenue actuals appear to be properly stated.

### **Disbursements/Expenses**

The RBA is a revenue balancing account and does not contain disbursements or expenses.

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<sup>3</sup> UIEC Data Request 1.20

**Regulatory and Reporting Requirements**

Based on a review of the associated 2011 REC tariff, Schedule 98, and related 2011 filings with the Utah Public Service Commission, the Company appears to be in compliance with regulatory and reporting requirements and the interim rate should be final.

**Corrective Actions**

None Required.