



State of Utah
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Division of Public Utilities

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DIVISION OF PUBLIC UTILITIES INITIAL COMMENTS
REDACTED

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Energy Section Manager

Brenda Salter, Technical Consultant

Date: April 28, 2014

Re: **Application of Rocky Mountain Power for Authority to Revise Rates in Tariff
Schedule 98, Renewable Energy Credits Balancing Account**

Docket No. 14-035-30

RECOMMENDATION

After a preliminary review of the application, the Division recommends the Commission approve the application, as filed, with the proposed rate change becoming effective, on an interim basis, on June 1, 2014.

ISSUE

Rocky Mountain Power (Company) submitted an application to the Public Service Commission of Utah (Commission) requesting an approval of a rate change in the Renewable Energy Credits Balancing Account (2014 RBA), Tariff Schedule 98, pursuant to the terms and conditions of the tariff. The application was filed on March 17, 2014. On April 1, 2014 the Commission held a scheduling conference in the above matter. The Commission's Scheduling Order dated April 1,

2014, established April 28, 2014 as the date the Division would file initial comments on the 2014 RBA application.

DISCUSSION

Docket No. 14-035-30 is a request to change the rate in the Renewable Energy Credits Balancing Account, Tariff Schedule 98, as set in Docket Nos. 09-035-23 (2009 GRC), 10-035-89 (MPA Stipulation), 10-035-124 (2011 Stipulation), and 12-035-68 (RBA). Tariff Schedule 98 tracks the difference between Renewable Energy Credit (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. Annually on March 15,¹ an RBA application is filed 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 third deferred RBA rate adjustment under the RBA.

This application year saw many changes to the RBA. Three large REC contracts expired at the end of 2012 causing REC sales to decline dramatically. The Stipulation in Docket No. 11-035-200 (2012 Stipulation) included \$25 million of REC revenues in Utah base rates reducing to \$10 million in Step 2 with an effective date of September 1, 2013. The cumulative effect of the 2012 Stipulation and the expiration of the large REC contracts overestimated the REC revenue for the 2013 year. Also included in the 2012 Stipulation was the ten percent REC incentive that went into effect June 1, 2013.

This application requests the RBA be revised to a deferral balance of approximately \$17.0 million owing to the Company. The deferral includes the difference of actual 2013 REC revenues received by the sale of RECs and 2013 REC revenues included in rates on a Utah basis. As an incentive to aggressively market RECs, the 2012 Stipulation allowed the Company to retain ten percent of REC sales made after June 1, 2013. Included in the 2014 RBA filing is the

¹ March 15, 2014 was a Saturday. Subsequently the Company filed the application on Monday, March 17, 2014.

REC revenue from the Leaning Juniper I wind project². The deferral also includes an estimated Schedule 98 surcredit amount for the period ending May 31, 2014, which is in accordance with the 2011 Stipulation.

The deferred REC revenue ending balance for December 31, 2012 of \$5.0 million³ is the beginning balance of the 2014 RBA. The 2013 RBA filing in Docket No. 13-035-33 contained resource allocation estimates for November and December 2012. The Company committed to a true-up of the November and December 2012 Actual Resource Allocations in the 2013 RBA. The update reduces the Utah allocated share of November and December 2012 actual REC sales by approximately \$6 thousand. The actual Utah Allocated booked REC revenue for the period January 2013 through December 2013 is \$4.4 million. The ten percent incentive in 2013 amounted to \$410,000. The allocation of REC Revenue jurisdictionally is dependent on the resources to which the REC sales are attributed. As with the 2013 RBA, the 2014 RBA relies on a jurisdictional forecast for November and December 2013 REC sales. Any difference will be accounted for in subsequent true ups.

The total amount of Utah REC revenues in rates in 2013 was approximately \$20.0⁴ million. This along with the Schedule 98 surcredit of approximately \$3.7 million gives a total of \$23.7 million in REC revenue included in 2013 rates. RMP estimates the Schedule 98 surcredit for the period ending May 31, 2014 will be approximately \$1.6 million. The Company included approximately \$410,923 in carrying charges for the calendar year 2013 and has estimated the carrying charge for the period January 1, 2014 through May 31, 2014 to be \$356,239. The table below summarizes the Utah REC Balancing Account as presented in Ms. Saba's Direct Testimony Exhibit RMP__(JLS-1).

² The Leaning Juniper I Contract is summarized in Mr. Griswald's Confidential Exhibit RMP__(BWG-5)

³ Docket No. 13-035-33, Exhibit RMP__(SRM-2) line 13.

⁴ Rocky Mountain Power General Rate Case Stipulation, Docket 11-035-200, August 7, 2011

Summary of Utah REC Balancing Account (Schedule 98)

Description	Amount
REC Revenue Deferred Balance at December 31, 2013	5,023,114
True Up for Nov. 12 & Dec 12 using Actual Resource Alloc	(5,798)
2013 Utah Allocated Booked REC Revenues	4,430,031
10% Retention	(410,867)
Leaning Juniper July 2011 – December 2013	8,010
2013 REC Revenues in Base Rates	(20,000,000)
2013 Schedule 98 Surcredit	(3,703,945)
Estimated Schedule 98 Surcredit January 1-May 31, 2014	(1,566,513)
2013 Carrying Charges	(410,923)
Estimated Carrying Charges January 1 - May 31, 2014	(356,239)
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Deferral Balance owed to the Company	<u><u>(16,993,130)</u></u>

The Company proposes allocation of REC revenue across customer classes in a manner consistent with the approved spread found in Step 2 of the 2012 Stipulation with two modifications. The first modification is to Schedules 7, 11, 12 and 15 (Metered Outdoor Nighttime Lighting). The Step 2 rate spread in the 2012 GRC for the Metered Outdoor Nighttime Lighting was zero. The deferred REC revenue allocation is calculated with the total deferred REC revenue times the percentage of these schedules' deferred REC revenue allocation for the REC proceeding in Docket No. 12-035-68. The second modification is to include Special Contract 1 in the revenue allocation as approved by the Commission in Docket No. 13-035-169.

It appears from Ms. Saba's Confidential Exhibit RMP__ (JLS-2) that the Company took advantage of the Commission authorized ten percent incentive to more aggressively market RECs. The 2012 Stipulation's authorized the ten percent incentive to new contracts entered into after July 1, 2012 that result in revenue after June 1, 2013. Ms. Saba's exhibit includes the total REC revenue by month for 2013. Ninety three percent of the REC revenue received by the Company for the 2013 year was within the [REDACTED].

The [REDACTED] market continues as the most viable REC market for the Company. As provided in Mr. Griswald's Confidential Exhibit RMP__(BWG-4), [REDACTED] [REDACTED]. This being said, Rocky Mountain Power is limited in the California REC market based on the California Renewable Portfolio Standard (RPS) that separates compliance products into three buckets and sets limits on what can be used for compliance. The Company's response to DPU Data Request 2.14 provides an outline of the three buckets:

- a premium product delivered "bundled" from qualifying locations (Bucket One);
- a product from generation from other locations subject to declining limits on compliance use over time, called "firming and shaping" (Bucket Two); and
- a renewable energy credit (REC) only product also subject to declining limits on compliance use over time (Bucket Three).

The Company is unable to participate in Bucket One and has limited participation in Bucket's Two and Three. The California RPS requirements contain three-tier compliance periods where fifty percent of renewable generation must be from Bucket One for the compliance period 2011 through 2013 (Compliance Period 1), sixty five percent for the compliance period 2014 through 2016 (Compliance Period 2), and seventy five percent for the compliance period 2017 through 2020 (Compliance Period 3). Also, up to 25 percent of procurement targets can be satisfied with unbundled RECs in Compliance Period 1, decreasing to 15 percent in Compliance Period 2, and 10 percent in Compliance Period 3. The Company may find it even more difficult to market RECs as we move into California's Compliance Period 2.

CONCLUSION

The Division has performed a preliminary review of the filing and the corresponding Commission Orders and has found that, in general, the Company has complied with the Commission's Orders.

If this application is approved by the Commission an overall surcharge of 0.29 percent would be applied to tariff customers in Utah. The Division recommends the Commission approve the

change to Schedule 98 as filed and approve the rate increase on an interim basis until a final audit of the REC revenues contained in this filing can be completed by the Division.

CC: Dave Taylor, Rocky Mountain Power
Yvonne Hogle, Rocky Mountain Power
Michele Beck, Office of Consumer Services
Service List