

# **Division Audit Report of**

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

**January 1, 2013 – December 31, 2013**

**Docket No. 14-035-30**

**CONFIDENTIAL**

Prepared by Utah Division of Public Utilities

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## Table of Contents

<b>PURPOSE .....</b>	<b>1</b>
<b>BACKGROUND.....</b>	<b>1</b>
<b>SCOPE OF THE AUDIT .....</b>	<b>2</b>
<b>Revenues .....</b>	<b>2</b>
<b>Disbursements/Expenses .....</b>	<b>2</b>
<b>Regulatory and Reporting Requirements .....</b>	<b>2</b>
<b>AUDIT FINDINGS .....</b>	<b>3</b>
<b>Revenues .....</b>	<b>3</b>
<b>Disbursements/Expenses .....</b>	<b>4</b>
<b>Regulatory and Reporting Requirements .....</b>	<b>4</b>
<b>Corrective Actions.....</b>	<b>4</b>

## **PURPOSE**

The Division of Public Utilities (Division) has completed an audit of Rocky Mountain Power's (RMP or Company) Renewable Energy Credits Balancing Account (RBA) as it relates to the Renewable Energy Credits (REC) program.<sup>1</sup> 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, 2013 through December 31, 2013 and test compliance of the RBA to the Utah Public Service Commission (Commission) Orders and to Tariff Schedule 98.<sup>2</sup>

## **BACKGROUND**

The RBA tracks the difference between REC revenues included in base 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. Due to March 15 falling on a Saturday the RBA application was filed on March 17, 2014. The collection or credit under Tariff Schedule 98 is to be made annually, effective June 1. Most of the compliance work was completed and reported to the Commission by the Division in Initial Comments filed on April 28, 2014.

The Commission approved the Company's application to revise rates in Tariff Schedule 98 on May 22, 2014, subject to further review following an audit by the Division. As agreed upon by parties in the Scheduling Conference held on April 1, 2014, the Division would file its final audit report by July 11, 2014. 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 2013 RBA program:

### **Revenues**

- In order to get an understanding of the RBA process and to trace REC revenue, reviewed and discussed with appropriate RMP personnel revenue recording procedures.
- 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. Note material forecasting differences if found.
- 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 2013 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 2013 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 Commercial and Trading Risk Management Policy confidential Appendices B and H (December 21, 2012).<sup>3</sup> The Division has reviewed the Company's standard policies and procedures in place for the 2013 period. If followed, the policies and procedures correctly place the Company at a reduced risk for errors.

RMPs REC sales for the 2013 period have resulted in millions of dollars of revenue. 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.

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 of \$7.6 million were collected for the 2013 period. Utah's allocation was \$4.4 million with \$410,867 retained by the Company from the 10% incentive. In 2013 the Company entered into multiple contracts for the sale of RECs.

In an effort to sell RECs in 2013 the Company bid into five third-party RFPs,<sup>4</sup> issued five reverse RFPs to the market,<sup>5</sup> and engaged in bilateral discussions on a continuing basis with market participants regarding interests in REC purchase and sale transactions. Of the REC contracts entered into in 2013, thirteen were completed after bilateral discussions.<sup>6</sup>

Provided in the Company's response to DPU DR 2.10 Confidential Attachment, the Company generated or purchased approximately [REDACTED] RECs. Of this amount the Company held approximately 21 percent for compliance with California, Oregon, and Washington RPS standards and sold approximately 15 percent. The Division notes that REC

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<sup>3</sup> The Company's response to DPU Data Request 2.13 Confidential Attachment

<sup>4</sup> The Company's response to DPU Data Request 2.6

<sup>5</sup> The Company's response to DPU Data Request 2.8

<sup>6</sup> The Company's response to DPU Data Request 2.7

generation/purchases were down in 2013 compared to the 2012 amount of [REDACTED]. REC sales in 2013 were also down from 2012 numbers with approximately 34 percent sold in 2012.<sup>7</sup>

Provided in the Company's confidential response to DPU DR 2.4 were the REC contracts and confirmation letters for the 2013 period. The Division traced the REC contract quantity and pricing found in the REC contracts to the Company's confidential exhibits RMP\_\_BWG-2, RMP\_\_BWG-2.5 and RMP\_\_JLS-2.

As part of the audit the Division reviewed for accuracy and reporting compliance approximately 140 of 692 monthly transactions,<sup>8</sup> approximately 20 percent, of the REC purchase and sale agreement supporting documents for the 2013 calendar year.<sup>9</sup> REC purchase and sale agreements document the REC sale and the REC transfer from WREGIS to the counterparty.

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 the Division concludes that the REC revenue rates and actual revenue appear to be properly stated.

### **Disbursements/Expenses**

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

### **Regulatory and Reporting Requirements**

Based on a review of the associated 2013 REC tariff, Schedule 98, and related 2013 filings with the Utah Public Service Commission, the Company appears to be in compliance with regulatory and reporting requirements and the interim rates appear to be in the public interest and should be made final.

### **Corrective Actions**

The work performed followed the outline in the scope section of this report and no corrective actions were required based on the procedures performed.

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<sup>7</sup> Docket No. 13-035-33 the Company's response to DPU DR 2.9 Confidential Attachment

<sup>8</sup> 2013 REC Sales by Month Confidential Exhibits RMP\_\_BWG-2 and RMP\_\_BWG-2.5

<sup>9</sup> The Company's response to DPU Data Request 2.12 Confidential Attachment