



State of Utah
Department of Commerce
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, 2015

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

Docket No. 15-035-27

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, 2015.

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 (2015 RBA), Tariff Schedule 98, pursuant to the terms and conditions of the tariff. The application was filed on March 16, 2015. On March 16, 2015, the Commission issued an Action Request for the Division to review the application and make recommendations

to the Commission by April 16, 2015. On March 23, 2015, the Commission held a scheduling conference in the above matter. The Commission's Scheduling Order dated March 24, 2015, established April 28, 2015 as the date the Division would file initial comments on the 2015 RBA application. On March 25, 2015, the Division issued a memorandum to the Commission requesting the Action Request be closed and that the Division would participate according to the Scheduling Order.

DISCUSSION

Docket No. 15-035-27 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 certificate (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 fourth deferred RBA rate adjustment under the RBA.

The Company's request includes collecting over a two-year period the 2015 RBA Deferral Balance of \$5.6 million along with the remaining 2014 RBA Deferral Balance² of \$11.1 million for a total of \$16.7 million.

The 2015 RBA deferral balance begins with Utah's share of actual 2014 REC revenues of \$2.3 million. Per the 2012 stipulation,³ the company is allowed to retain 10 percent of the REC revenues as an incentive to aggressively market RECs. The incentive for 2014 amounted to \$226,147. Included in the 2015 RBA filing is the REC revenue of \$3,546 from the Leaning

¹ March 15, 2015 was a Sunday. Subsequently the Company filed the application on Monday, March 16, 2015.

² RBA Docket No. 14-035-30, \$17 million deferral collected over three years.

³ Rocky Mountain Power General Rate Case Docket No. 11-035-200, Report and Order dated September 19, 2012.

Juniper I wind project. REC revenue in base rates for 2014 include eight months of the projected \$10.0 million from the 2012 rate case⁴ and four months of the projected \$2.0 million from the 2014 rate case⁵ for a total of \$7.3 million. The carrying charges for the deferral and interim period are \$312,598.

2015 RBA Deferral Balance Calculation: ⁶

2014 Actual REC Revenue	\$	2,261,475
10% retention incentive on incremental REC sales		(226,147)
2014 Leaning Juniper Contract Revenue		3,546
2014 REC Revenues in Base Rates		(7,333,333)
Carrying Charges for Deferral Period (January - December 2014)		(192,675)
Carrying Charges for Interim Period (January 2015 - May 2015)		(119,923)
Total 2015 RBA Deferral Balance	\$	(5,607,057)

The remaining 2014 RBA deferral balance begins with the December 31, 2014 REC revenue deferred balance of \$15.1 million. Because the detail is not known for November and December at the time of filing the RBA each year, a true-up is needed to account for the actual resource allocation. The true-up for November and December 2013 is \$2,350. The carrying charges for the interim period are \$354,730. The cumulative total for the Schedule 98 Surcharge for January 2014 through May 2015 is approximately \$4.4 million.

⁴ Docket No. 11-035-200, Report and Order dated September 19, 2012, Step 2.

⁵ Docket No. 13-035-184, Report and Order dated August 29, 2014, Step 1.

⁶ Company Witness Jana L. Saba's Direct Testimony, p. 5.

Remaining 2014 RBA Deferral Balance Calculation:⁷

REC Revenue Deferred Balance @ December 31, 2013	\$	(15,070,378)
True Up for using actual resource allocations for Nov.13 & Dec.13		2,350
REC Revenue Deferred Balance @ December 31, 2013 in this RBA filing		(15,068,028)
Carrying Charges for Interim Period (January - May 2014)		(354,730)
Carrying Charges for Collection Period (June 2014 - May 2017)		—
2014 Schedule 98 Surcredits/Surcharges		1,856,703
Estimated Schedule 98 Surcharge January 1 - May 31, 2015		2,499,061
Total 2014 RBA Remaining Deferral Balance	\$	(11,066,994)

The Company is proposing to allocate the RBA deferral balance across customer classes based on the rate spread approved in the rate case corresponding to the deferral year. Per the Stipulation in Docket No.11-035-200, the 2014 deferral balance is spread over three years, and the 2015 deferral balance is spread over two years. Therefore, the 2014 deferral is \$5.7 million per year and the 2015 deferral is \$2.8 million per year. The Company proposes using the rate spread approved in Docket No. 13-035-184 (the 2014 general rate case) Step 1, for the 2015 Deferral Balance and using the rate spread approved in Docket No. 11-035-200, (the 2012 general rate case) Step 2, for the 2014 Deferral Balance.

The Company proposes allocation of REC revenue across customer classes in a manner consistent with the approved rate spread found in Step 2 of the 2012 Stipulation and Step 1 of the 2014 Stipulation, with two modifications. The first modification is to Schedules 7, 11, 12 and 15 (Metered Outdoor Nighttime Lighting). Both the 2012 and 2014 Stipulation rate spreads for the Metered Outdoor Nighttime Lighting were 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.

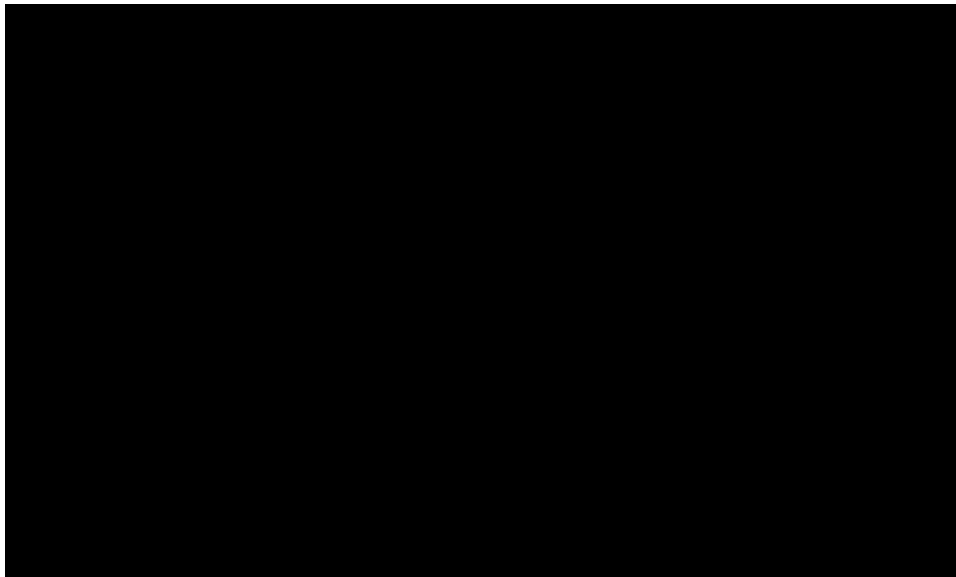
⁷ Id.

As indicated in the Company's response to DPU DR 2.14, the Company is actively marketing RECs.

The Company issued three reverse requests for proposals (RFP) throughout 2014, in addition to working on a bilateral basis and with the broker market. The Company continued to maintain and expand the list of renewable energy credit (REC) counterparties to ensure that the Company's RFPs are reaching a broad market. The Company reviewed REC-related RFPs received from other entities, and evaluated the potential for transactions. The Company monitored and evaluated state renewable portfolio standards (RPS) to evaluate potential new product opportunities, or new opportunities with any specified class or grouping of REC counterparties.

As stated previously, the Company receives a ten percent incentive for aggressively marketing RECs, but it appears that even with the incentive, [REDACTED]. Confidential Table 1 shows REC sales for the 2008 through 2014 years.⁸

Confidential Table 1



⁸ Rocky Mountain Power's Confidential Response to Data Requests in Docket Nos. 11-035-200 UIEC DR 22.12, 12-035-68 UIEC DR 1.7, 13-035-33 DPU DR 2.9, 14-035-30 DPU DR 2.10, 15-035-27 DPU DR 2.9.

The California REC market continues as the most viable REC market for the Company. With 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 categories and sets limits on what can be used for compliance.⁹ The Company is unable to participate in Category I¹⁰ and is limited in Categories II¹¹ and III¹². California’s RPS caps the use of tradable renewable energy certificates (TREC) at 25 percent for the compliance period ending December 31, 2013, and will further decrease to 10 percent of the utility’s RPS requirement by 2017. As can be seen in Table 2¹³, the Company’s REC sales have decreased dramatically since the implementation of California SBX1-2.

Table 2
PacifiCorp REC (\$) Sales

	Total Company	Utah Allocated
2011	\$ 73,448,124	\$ 41,742,979
2012	\$ 81,276,421	\$ 47,774,156
2013	\$ 7,256,726	\$ 4,027,174
2014	\$ 4,415,835	\$ 2,038,874
2015*		\$ 2,000,000

* Stipulated forecast Docket No. 13-035-184

In 2010 the Utah Association of Energy Users (UAE) filed an application for deferred accounting treatment of RECs sold but not included in rates.¹⁴ UAE presented the following reasons for deferring for later treatment the REC difference:

- On information and belief, the *market value available to RMP* in selling renewable attributes of renewable energy resources, both unbundled RECs and the REC component of renewable energy sales, *has recently increased*,

⁹ California SBX1-2 signed into place in April 2011.

¹⁰Category I - a premium product delivered "bundled" from qualifying locations.

¹¹ Category II - a product from generation from other locations subject to declining limits on compliance use over time, called “firming and shaping.”

¹² Category III - a tradable renewable energy certificate (TREC) only product also subject to declining limits on compliance use over time.

¹³ Rocky Mountain Power testimony Docket Nos. 12-035-68, 13-035-33, 14-035-30, 15-035-27.

¹⁴ Docket No. 10-035-14, UAE’s Application for Deferred Accounting Order for Incremental Revenue.

- and is continuing to increase*, in a manner that is dramatic, unprecedented, unforeseeable and extraordinary. [Emphasis added]
- On information and belief, the extraordinary increase in the value of RECs is due, at least in material part, to recent and *anticipated future orders* of various regulatory authorities, including from the State of California. [Emphasis added]
 - On information and belief, RMP has recently entered into contracts, and will in the foreseeable future enter into other contracts, for the sale of bundled and unbundled RECs at *prices significantly higher than prices projected* or disclosed by RMP in the pending rate case, Docket 09-035-23. [Emphasis added]

In the 2011 general rate case, parties stipulated to, and the Commission approved, the RBA based on UAE's reasoning in the deferred accounting filing.¹⁵

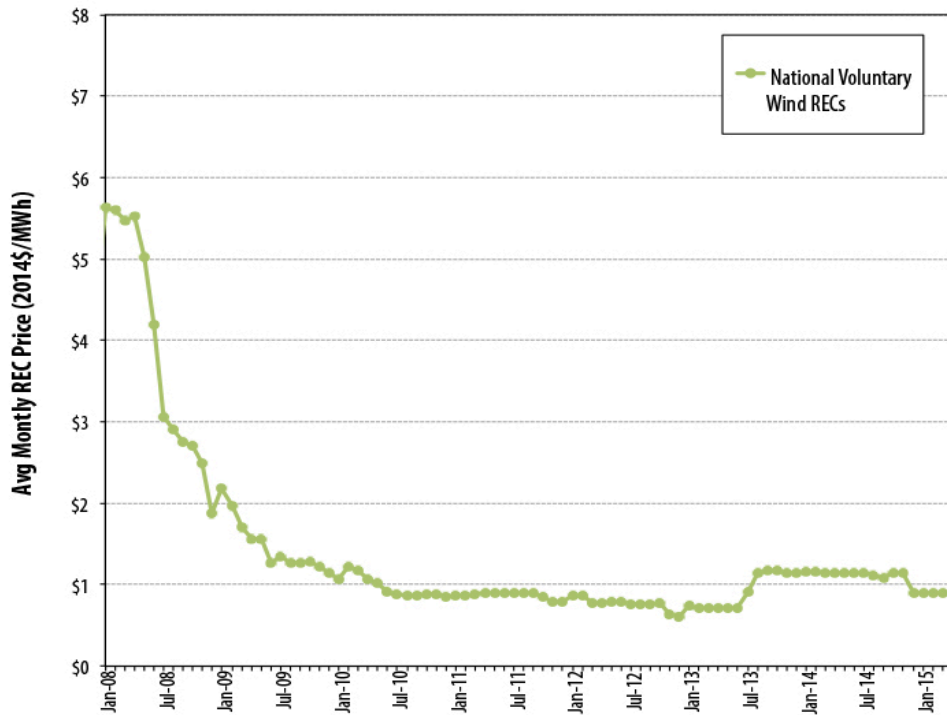
The Division is concerned that the conditions giving rise to the current RBA process no longer exist. With the implementation of California's SBX2-1, the Company is unable to sell bundled RECs into the California market. The tens of millions of dollars sold prior to 2012 are the result of contracted bundled REC sales made prior to California's SBX2-1 enactment and prior to the Commission approved RBA.

A look at National Voluntary REC prices, Table 3, shows REC pricing at an average of slightly less than \$6.00 in January 2008.¹⁶ The REC price dropped dramatically throughout 2008 and 2009 and then leveled off at an average price of approximately \$1.00 through April 2015. The REC market appears to have stabilized from 2010 through the beginning of 2015 with only minor fluctuations. This stabilization removes the impetus for a special mechanism for the REC revenues.

¹⁵ Docket No. 10-035-124, Utah General Rate Case Settlement Stipulation dated July 28, 2011.

¹⁶ US Department of Energy, <http://apps3.eere.energy.gov/greenpower/markets/certificates.shtml?page=5>

Table 3



National Voluntary REC prices, January 2008 to April 2015

Source: Evolution Markets (through 2007) and Spectron (2008 onward). Plotted values are the last trade (if available) or the mid-point of Bid and Offer prices, for the current or nearest future compliance year traded in each month.

Based on the above information, the Division no longer sees the need to true up the REC revenues outside of a general rate case.

The Division is recommending that the Commission consider cancelling the Renewable Balancing Account in the next general rate case. The Company agreed in the 2014 general rate case stipulation to wait until January 1, 2016 to file its next general rate case. The Division recommends that the RBA be reviewed, and if so determined, be cancelled at that time. The Division believes that the REC revenue can be reviewed and audited as part of the Company’s general rate case absent the RBA.

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, the proposal would result in an overall increase of 0.15 percent from the current rates established in the 2014 general rate case.

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: Jeffrey Larsen, Rocky Mountain Power
Yvonne Hogle, Rocky Mountain Power
Bob Lively, Rocky Mountain Power
Michele Beck, Office of Consumer Services
Service List