

Division Audit Report of

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

January 1, 2014 – December 31, 2014

Docket No. 15-035-27

Prepared by Utah Division of Public Utilities

Brenda Salter, Technical Consultant

Report Date: July 9, 2015

Table of Contents

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

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.¹ 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, 2014 through December 31, 2014 and test compliance of the RBA to the Utah Public Service Commission (Commission) Orders and to Tariff Schedule 98.²

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. In order to incentivize the Company to sell RECs, in Docket No. 11-035-200, parties stipulated to allowing the Company to retain 10 percent of the revenues obtained from sales.

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 Sunday the RBA application was filed on March 16, 2015. 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, 2015.

The Commission approved the Company's application to revise rates in Tariff Schedule 98 on May 20, 2015, subject to further review following an audit by the Division. As agreed upon by parties in the Scheduling Conference held on March 23, 2015, the Division would file its final audit report by July 9, 2015. This report meets this requirement.

¹ 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.

² 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 2014 RBA program:

Revenues

- In order to get an understanding of the RBA process and to trace REC revenue, reviewed 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 2014 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 2014 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 (October 30, 2014).³ The Division has reviewed the Company's standard policies and procedures in place for the 2014 period. If followed, the policies and procedures correctly place the Company at a reduced risk for errors.

RMPs REC sales for the 2014 period have resulted in reduced revenue compared to previous RBA filings.

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 \$4.4 million were collected for the 2014 period. Utah's allocation was \$2.3 million with a 10 percent incentive retention by the Company of \$226,147. The Company completed transactions for the 2014 period through six Master Agreements or Enabling Agreements. Five of these Master Agreements were in place prior to 2013 with only one entered into in 2014. Approximately 8 percent of the REC sales were made through Master Agreements initiated in 2014.

In an effort to sell RECs in 2014 the Company received three third-party RFPs,⁴ issued three reverse RFPs to the market,⁵ and engaged in bilateral discussions on a continuing basis with market participants regarding interests in REC purchase and sale transactions. The volume of transactions are down from 2013 in that the Company received five RFPs, issued five reverse RFPs, and completed thirteen bilateral sale transactions in 2013.

Provided in the Company's response to DPU DR 2.9 Confidential Attachment, the Company generated or purchased approximately [REDACTED] RECs. Of this amount the Company held approximately 24 percent for compliance with California, Oregon, and Washington RPS standards and sold approximately 15 percent.

³ The Company's response to DPU Data Request 2.12 Confidential Attachment

⁴ The Company's response to DPU Data Request 2.6

⁵ The Company's response to DPU Data Request 2.8

Provided in the Company's confidential response to DPU DR 2.4 were the REC order or confirmation letters for the 2014 period. The Division traced the REC confirmation quantity and pricing found in the REC confirmations to the Company's confidential exhibits RMP__BWG-2, RMP__BWG-3.

As part of the audit the Division reviewed for accuracy and reporting compliance all of the January through December monthly transactions⁶ of the REC purchase and sale agreement supporting documents for the 2014 calendar year. DPU DR set 2.11 provided documentation verifying all transactions for the period January through October. DPU DR set 2.11 1st Supplemental provided documentation verifying all transactions for the period November through December. The Company filed the RBA prior to finalizing November and December REC sales. Updating the Company's filing with actual data for November and December 2014 increases the amount allocated to Utah REC revenue by approximately \$224. This adjustment will be made in the Company's filing due March 15, 2016.

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 2014 REC tariff, Schedule 98, and related 2014 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.

⁶ 2014 REC Sales by Month Confidential Exhibits RMP__BWG-2 and RMP__BWG-3