

Division Audit Report of

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

January 1, 2016 – December 31, 2016

Docket No. 17-035-14

CONFIDENTIAL

Prepared by Utah Division of Public Utilities

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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, 2016 through December 31, 2016 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. 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 27, 2017.

The Commission approved the Company's application to revise rates in Tariff Schedule 98 on May 31, 2017, subject to further review following an audit by the Division. As agreed upon by parties in the Scheduling Conference held on March 29, 2017, the Division would file its final audit report by July 7, 2017. 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 2016 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 2016 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 2016 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 Appendix H (January 12, 2017).³ The Division has reviewed the Company's standard policies and procedures in place for the 2016 period. If followed, the policies and procedures correctly place the Company at a reduced risk for errors.

RMPs Total Company REC revenue for the 2016 period increased compared to the 2015 RBA filing. The Company attributed the increase in revenue to the increased REC prices in 2016.

Company assets or lease contracts are not assigned to the REC program, therefore no review of plant, equipment, depreciation or leasehold agreements is required for this review.

Revenues

REC revenues of \$5.4 million were collected for the 2016 period. Utah's allocation was approximately \$3.3 million with a 10 percent incentive retention by the Company of \$331,312. The majority of the REC sales transactions for the 2016 period were completed through bi-lateral discussions.

In an effort to sell RECs in 2016 the Company received six RFPs/RFOs,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 RECs sold was up slightly from 2015.

Provided in the Company's response to DPU DR 2.1 Confidential Attachment, the Company generated or purchased approximately [REDACTED] RECs. Of this amount the Company held approximately 25 percent for compliance with California, Oregon, and Washington RPS standards.

The Company provided the REC order or confirmation letters (contracts) for 2016 in response to OCS DR 1.2. The Division traced the REC confirmation quantity and pricing found

³ The Company's response to Office of Consumer Services (OCS) Data Request 1.11 Confidential Attachment

⁴ The Company's response to OCS Data Request 1.6

⁵ The Company's response to OCS Data Request 1.8

in the REC confirmations to the Company's confidential exhibits RMP__MMW-2 and RMP__MMW-3.

As part of the audit the Division reviewed for accuracy and reporting compliance 12 percent of the January through December monthly transactions⁶ of the REC purchase and sale agreement supporting documents for the 2016 calendar year. DPU DR set 1.4 provided documentation verifying these transactions. 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 2016 increases the Total Company REC revenue by approximately \$32,907. This adjustment will be made in the Company's filing due March 15, 2018.

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 2016 REC tariff, Schedule 98, and related 2016 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 2016 REC Sales by Month Confidential Exhibits RMP__MMW-2 and RMP__MMW-2