

Division Audit Report of

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

January 1, 2017 – December 31, 2017

Docket No. 18-035-06

CONFIDENTIAL

CONFIDENTIAL – SUBJECT OF UTAH PUBLIC SERVICE COMMISSION

RULE 746-1-602 AND 603

Prepared by Utah Division of Public Utilities

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PURPOSE

The Division of Public Utilities (Division) has completed an audit of Rocky Mountain Power's (RMP) 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 RMP for the period January 1, 2017 through December 31, 2017 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 RMP. 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 Rocky Mountain Power. In order to incent RMP to sell RECs, in Docket No. 11-035-200, parties stipulated to allowing RMP to retain 10 percent of the revenues obtained from sales.

Annually on March 15, an RBA application is filed by RMP 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 26, 2018.

The Commission approved Rocky Mountain Power's application to revise rates in Tariff Schedule 98 on May 22, 2018, subject to further review following an audit by the Division. As agreed upon by parties in the Scheduling Conference held on March 28, 2018, the Division would file its final audit report by July 10, 2018. 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)

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SCOPE OF THE AUDIT

The Division performed the following compliance review in Rocky Mountain Power's 2017 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 2017 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 2017 period for compliance to Commission-approved rates.
- Reviewed revenue accounts for propriety and proper regulatory reporting.

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AUDIT FINDINGS

Information was provided to the Division through the data request process. RMP was responsive in supplying the Division with the requested documentation of the RBA.

Rocky Mountain Power 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 B and Appendix H (January 12, 2017).³ The Division has reviewed RMP's standard policies and procedures in place for the 2017 period. If followed, the policies and procedures correctly place RMP at a reduced risk for errors.

RMP's Total Company REC revenue for the 2017 period decreased compared to the 2016 RBA filing.

RMP 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 \$3.5 million were collected for the 2017 period. Utah's allocation was approximately \$2.1 million with a 10 percent incentive retention by RMP of \$210,967.

In an effort to sell RECs in 2017 RMP received two RFPs/RFOs,⁴ issued two 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 down by 403,970 RECs from 2016.

Provided in Rocky Mountain Power's response to DPU DR 1.9 Confidential Attachment, RMP generated or purchased approximately [REDACTED] RECs. Of this amount RMP held approximately 25 percent for compliance with California, Oregon, and Washington RPS standards. The amount of RECs sold in 2017 was approximately [REDACTED]. RECs sold were from generation years [REDACTED].

RMP provided the order or confirmation letters (contracts) for 2017 REC sales in response to DPU DR 1.4 and DPU DR 1.14. The Division traced the REC confirmation quantity and pricing found in the REC confirmations to RMP's confidential exhibit RMP__BWG-2.

³ Rocky Mountain Power's response to DPU Data Request 1.11 Confidential Attachment

⁴ Rocky Mountain Power's response to DPU Data Request 1.6

⁵ Rocky Mountain Power's to DPU Data Request 1.8

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As part of the audit, the Division reviewed for accuracy and reporting compliance 86% of the January through December monthly transactions⁶ of the REC purchase and sale agreement supporting documents for the 2017 calendar year. DPU DR set 1.14 provided documentation verifying these transactions. Unlike past years, RPM filed the RBA with the final REC sales for the year. No update for the November and December 2017 periods is required.

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 2017 REC tariff, Schedule 98, and related 2017 filings with the Utah Public Service Commission, Rocky Mountain Power appears to be prudently managing the program and the program is in compliance with regulatory and reporting requirements. 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 2017 REC Sales by Month Confidential Exhibits RMP__BWG-2