

Division Audit Report of

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

January 1, 2019 – December 31, 2019

Docket No. 20-035-13

Redacted

Prepared by the Utah Division of Public Utilities

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Report Date: July 2, 2020

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PURPOSE

This audit reviews the Renewable Energy Credits (REC) revenue rate and the actual REC revenue received by Rocky Mountain Power's (RMP or Company) and tests compliance of the Renewable Energy Credits Balancing Account (RBA) to the Utah Public Service Commission (PSC or Commission) Orders and Tariff Schedule 98¹ for the period January 1, 2019, through December 31, 2019. The Division of Public Utilities (DPU or Division) has completed an audit of RMP's RBA as it relates to the REC program.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 RMP. To incentivize 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. The compliance work that was able to be completed from the information provided by the Company in its initial filing was reported to the Commission by the Division in Initial Comments filed on April 24, 2020.

The Commission approved Rocky Mountain Power's application to revise rates in Tariff Schedule 98 on May 29, 2020, subject to further review following an audit by the Division. As agreed upon by parties in the Scheduling Conference held on March 25, 2020, the Division would file its final audit report by July 14, 2020. This report meets this requirement.

¹ Tariff Schedule 98, as set in Docket Nos. 10-035-89 (MPA Stipulation), and 10-035-124 (2011 Stipulation)

² 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.

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SCOPE OF THE AUDIT

The Division performed the following compliance review in Rocky Mountain Power's 2019 RBA program:

Revenues

- For the Division to get an understanding of the RBA process, it traced REC revenue and reviewed revenue recording procedures.
- Compared revenues to prior years and reviewed month-to-month trends 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.
- For the Division to ensure revenues were accurately reported, it reviewed several revenue entries (including offsetting entries) and applicable supporting documentation.
- Reviewed and verified that the fees billed by the Company to Kennecott complied with the confidential Non-Generation and REC Supply Agreement between Kennecott Utah Copper LLC and PacifiCorp (Kennecott Agreement), dated April 8, 2019.³

Disbursements/Expenses

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

Regulatory and Reporting Requirements

- Reviewed the application and calculations of the RBA spread among customer classes, to determine if the RBA was applied correctly in this docket.
- Reviewed RBA results from the 2019 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 2019 period for compliance with Commission-approved rates.
- Reviewed revenue accounts for propriety and proper regulatory reporting.

³ Docket Number 19-035-20, Commission order approving a confidential Non-Generation and Renewable Energy Credit (REC) Supply Agreement between RMP and Kennecott Utah Copper LLC dated April 18, 2019.
<https://pscdocs.utah.gov/electric/19docs/1903520/3094811903520aaangarecsa8-7-2019.pdf>

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AUDIT FINDINGS

Much of the 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 an actual policies and procedures manual for the RBA since it is a balancing account. Office of Consumer Services' (OCS) DR 1.15 asked if there were any changes to the policies since January 1, 2018, and to provide the REC policies and procedures in place since January 1, 2018, through the current date. RMP stated that there had been no changes to the Company's REC policies and procedures since January 1, 2018.⁴ Absent any new policies and procedures, the Division refers to PacifiCorp Energy's Commercial and Trading Risk Management Policy confidential Appendix B, and Appendix H (January 12, 2017) provided to the Division in Docket No. 19-035-11, DPU DR Response 1.11.⁵ The Division has reviewed RMP's standard policies and procedures in place for the 2019 period. If followed, the policies and procedures appear to place RMP at a reduced risk for errors.

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

Total Company REC revenues of \$4.8 million (excluding REC sales from the Kennecott Agreement) were collected for the 2019 period. Utah's net allocation was approximately \$2.6 million after a reduction of the 10 percent incentive retention by RMP of \$290,445 from Utah's total allocation of \$2.9 million. Also included in REC revenues is an additional [REDACTED] from the Kennecott REC Supply Agreement.⁶

RMP's Total Company REC revenue for the 2019 period increased by \$2.7 million for a 129 percent over the 2018 RBA filing. RMP's Utah REC revenue for the 2019 period increased by \$1.6 million for a 127 percent over the 2018 RBA filing.

In RMP's efforts to sell RECs in 2019, it received five requests for proposals (RFP),⁷ issued one reverse RFP to the market,⁸ and engaged in bilateral discussions with market participants regarding interests in REC purchase and sale transactions.

⁴ Rocky Mountain Power's response to OCS, dated 04/22/2020, Data Request 1.15 Confidential Attachment

⁵ Rocky Mountain Power's response to DPU, dated 04/08/2019, Data Request 1.11 in Docket 19-035-11 Confidential Attachment

⁶ Terrell Spackman, Calculation of REC Balancing Account, <Tab> RMP_(THS-2)

⁷ Rocky Mountain Power's response to OCS, dated 04/22/2020, Data Request 1.10

⁸ Rocky Mountain Power's response to DPU, dated 04/20/2020, Data Request 1.3

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The volume of Total Company REC units sold in 2019⁹ was down by 168,858 from 2018¹⁰. The number of RECs sold in 2019 was approximately [REDACTED] which included RECS generated from the years [REDACTED].⁹

Provided in Rocky Mountain Power's response to OCS DR 1.11 Confidential Attachment, RMP generated or purchased approximately [REDACTED] RECs. Of this amount, RMP held roughly 26 percent for compliance with California, Oregon, and Washington RPS standards.

RMP provided the orders or confirmation letters (contracts) for 2019 REC sales in response to OCS DR 1.3 and DPU DR 1.4. The Division traced the REC confirmation quantity and pricing found in the REC confirmations to RMP's confidential exhibit RMP__(KB-2).

As part of the audit, the Division reviewed, for accuracy and reporting compliance, 100% of the January through December monthly transactions of REC purchase and sale agreement supporting documents for the 2019 calendar year. RMP's Response to DPU Data Request 1.4 provided documentation verifying these transactions. RMP filed the RBA with the final REC sales for the year. No update for the November and December 2019 periods is required.

New this year is the inclusion of the Kennecott Agreement. The agreement calls for RMP to retire 1.5 million Utah-allocated RECs on behalf of Kennecott, or a Kennecott affiliate, on an annual basis, in exchange for Kennecott not generating power from its Unit 4 generation facility. In addition to the REC charges, the Kennecott Agreement requires Kennecott to reimburse the Company for all direct costs in addition to paying a fee covering the Company's administrative costs relating to the Kennecott transactions.

In DPU's 2nd Data Request, 2.1 through 2.5, the Company replied to the Division's request for additional information regarding the REC charges and the other costs associated with managing the Kennecott Agreement.¹¹ [REDACTED]

⁹ Kelcey Brown, Total Company REC Sales by Entity, Price Tag, Resource, and Vintage CY 2019 <Tab> RMP_KB-2. Confidential

¹⁰ Mary M. Wiencke, Docket No. 19-035-11, 2018 Actual REC Revenue by Contract, <Tab> RMP_MW-2

¹¹ Rocky Mountain Power's response to DPU 2nd Data Request 2.1 through 2.5, dated June 5, 2020. Highly Confidential

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The only other reimbursed fee included in the Kennecott Agreement are costs associated with any required annual external audits. The Company indicated that the external auditor fees would not be known until the completion of the reporting year 2019 audit, which the Company anticipates having this information available after June 2020. If the information is not available before the submission of this audit report, it should be reviewed in the subsequent audit report.

Nothing came to our attention, causing 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 correctly stated.

Disbursements/Expenses

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

Regulatory and Reporting Requirements

This Division reviewed the application and calculations of the Renewable Energy Credits Balancing Account (RBA) spread among customer classes, to determine if the RBA was applied correctly in this docket.

- The Division verified that RMP used the RBA spread from the 2014 RMP general rate case (GRC) by comparing Exhibit RMP_(RMM-1) page 2 with the RBA spread contained in the RMP's GRC in Docket No. 13-035-184.¹²
- To check that the spread for Schedules 7, 11, 12, and 15 was calculated correctly, the Division reviewed the REC2012 sheet in RMP's spreadsheet¹³, which it used for this calculation, is the REC revenue spread calculation from Docket No. 12-035-68.¹⁴ Because the spread of REC revenues for Schedules 7, 11, 12, and 15 were zero in RMP's 2014 GRC, it had to be calculated. The Division believes RMP's calculation is reasonable.
- To verify that the RBA revenue allocations are correct for Contract Customers 1 and 3, the Division checked the Commission approved terms of the contract for Customer 1 in Docket 17-035-72¹⁵ and concluded that the Company's proposed allocation is consistent with the contract terms. Contract Customer 3 is no longer subject to the RBA, and therefore no share of the costs will be allocated to it.

The Division reviewed redacted 2019 billing statements from each of the following 20 redacted electric service schedules as provided by RMP.¹⁶ Schedules: 1, 2, 2E, 3, 6, 6A, 6B, 7,

¹² Docket No. 13-035-184, dated August 29, 2014, Stipulation, Exhibit C, page 8 of 36

¹³ Robert Meredith testimony, REC Revenue Spread Calculation, <Tab> REC2012

¹⁴ Docket No. 12-035-68, dated November 9, 2012

¹⁵ Docket No. 17-035-72, dated March 23, 2018

¹⁶ Rocky Mountain Power's response to DPU Data Request 1.1, Dated 04/20/2020. Confidential Attachment

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8, 9, 9A, 10, 11, 12, 15 (Traffic and Other Signal Systems), 15 (Metered Outdoor Nighttime Lighting), 21, 23, 31, and 32. The Division verified that the Renewable Energy Adjustment cost per REC was correct based on the effective rates of Schedule 98. The Division also verified that the computation of the RBA dollar amount allocation to RMP's customers was correct.

Based on a review of the associated 2019 REC tariff, Schedule 98, and related 2019 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.