

Division Audit Report of

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

January 1, 2020 - December 31, 2020

Docket No. 21-035-05

CONFIDENTIAL

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Prepared by the Utah Division of Public Utilities

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PURPOSE

The Division of Public Utilities (DPU or 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. This audit reviews the REC revenue rate and actual REC revenue received by RMP and tests compliance of the RBA to the Utah Public Service Commission (PSC or Commission) Orders and Tariff Schedule 98¹ for the period January 1, 2020, through December 31, 2020.²

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 28, 2021.

The Commission approved Rocky Mountain Power's application to revise rates in Tariff Schedule 98 on June 1, 2021, subject to further review following an audit by the Division. As directed by the Scheduling Order and Notice of Hearing issued by the Commission on April 1, 2021, the Division must file its final audit report by July 14, 2021. 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 2020 RBA program:

Revenues

- For the Division to understand 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
- Reviewed the Confidential Settlement Stipulation between RMP, DPU, and the Office of Consumer Services (OCS) wherein OCS and DPU agreed that RMP could transfer some of Utah's allocated RECs to RMP's California customers for compliance with California's Renewable Portfolio Standard.⁴

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.
- Reviewed RBA results from the 2020 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 2020 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/1903520/3094811903520oaangarecsa8-7-2019.pdf>

⁴ Michael G. Wilding Testimony, Exhibit RMP_(MGW-5).

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AUDIT FINDINGS

The information was provided to the Division through the data request (DR) 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. The Division's DR 1.13 requested RMP to provide the REC policies and procedures in place for the 2020 period and explain any changes implemented in the policies and procedures during the 2020 period. RMP stated that for the 2020 period, the Company's REC policies and procedures have been in place since January 30, 2019.⁵ RMP provided confidential PacifiCorp Energy's Risk Management Policy approved on January 30, 2019. The Division has reviewed RMP's standard policies and procedures, specifically REC-related Appendix B and Appendix H, in place for the 2020 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 \$4.3 million (excluding REC sales from the Kennecott Agreement) were collected for the 2020 period. Utah's net allocation was approximately \$2.6 million after a reduction of the 10 percent incentive retention by RMP of \$286 thousand from Utah's total allocation of \$2.9 million. Also included in REC revenues is an additional [REDACTED] from the REC sales from the Kennecott Agreement.⁶

RMP's Total Company REC revenue for the 2020 period decreased by \$519 thousand (11 percent) compared to the 2019 RBA filing. RMP's Utah REC revenue for the 2020 period decreased by \$47 thousand (1.6 percent) compared to the 2019 RBA filing.

In RMP's efforts to sell RECs in 2020, it received four 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.⁹

⁵ Rocky Mountain Power's response to DPU, dated April 14, 2021, Data Request 1.13 Confidential Attachment

⁶ Grant Bagby, Calculation of REC Balancing Account, <Tab> RMP_(GB-2)

⁷ Rocky Mountain Power's response to DPU, dated April 14, 2021, Data Request 1.8, Confidential

⁸ Rocky Mountain Power's response to DPU, dated April 14, 2021, Data Request 1.10, Confidential Attachment

⁹ Rocky Mountain Power's response to DPU, dated April 14, 2021, Data Request 1.9, Confidential Attachment

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The volume of Total Company REC units sold in 2020¹⁰ was down by [REDACTED] from 2019¹¹. The number of RECs sold in 2020 was approximately [REDACTED] including RECS generated from [REDACTED]

RMP generated or purchased approximately [REDACTED] RECs. Of this amount, RMP held approximately 27 percent for compliance with California, Oregon, and Washington RPS standards.¹²

RMP provided the orders or confirmation letters (contracts) for 2020 REC sales in response to DPU DR 1.4 and DPU DR 1.6. The Division traced the REC confirmation quantity and pricing found in the REC confirmations to RMP's Confidential Exhibit RMP__(MGW-2).

As part of the audit, the Division reviewed for accuracy and reporting compliance 100% of the January through December monthly transactions¹³ of REC purchase and sale agreement supporting documents for the 2020 calendar year. RMP's Response to DPU DR 1.6 provided documentation verifying these transactions. RMP filed the RBA with the final REC sales for the year. No update for the November and December 2020 periods is required.

This is the second year of the inclusion of the Kennecott Agreement, which represents the revenue the Company received from the confidential Non-Generation and REC Supply Agreement between Kennecott Utah Copper LLC and PacifiCorp, dated April 8, 2019.³ 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 and pay a fee covering the Company's administrative costs relating to the Kennecott transactions.

In DPU's DRs, 1.15 through 1.20¹⁴, 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. [REDACTED]

¹⁰ Michael Wilding, Total Company REC Sales by Entity, Price Tag, Resource, and Vintage <Tab> RMP_MGW-2. Confidential

¹¹ Kelcey Brown, 2019 Total Company REC Sales by Entity, Price Tag, Resource, and Vintage, <Tab> RMP_KB-2, Docket No. 20-035-13. Confidential

¹² Rocky Mountain Power's response to DPU, dated April 14, 2021, Data Request 1.11 Confidential Attachment

¹³ 2020 REC Sales by Month Confidential Exhibits RMP__(MGW-2)

¹⁴ Rocky Mountain Power's response to DPU Data Request 1.15 through 1.20, dated April 14, 2021. Highly Confidential

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[REDACTED]

The following fees were not available for review in the 2020 reporting year:

1. [REDACTED]

2. [REDACTED]

The Division will verify the reporting year's 2020 [REDACTED] in its audit of the RBA next year.

On or about February 28, 2021, Rocky Mountain Power entered a Confidential Settlement Stipulation with the DPU and OCS wherein parties agreed that the Company could transfer some of Utah's allocated RECs to be used on behalf of the Company's California retail customers for compliance with California's Renewable Portfolio Standard.⁴ Parties agreed on a price per REC as compensation for Utah customers, which will be booked in 2021 and included in the Company's 2022 RBA. RMP states that this Confidential Settlement Stipulation will not affect Utah's ability to meet its 2025 renewable portfolio goal. On June 1, 2021, the Commission finds the Stipulation is just and reasonable in result and approved it. Since the RECs will not be booked until 2021 and will be included starting in the 2022 RBA, the Division cannot audit the transactions until the 2022 RBA is filed in March 2022.

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.

¹⁵ Rocky Mountain Power's response to DPU Data Request 1.15, dated April 14, 2021. Highly Confidential
¹⁶ Rocky Mountain Power's 1st Supplemental Response to DPU, Set 1 for DPU Data Request 1.16, dated June 21, 2021. April 2021 billing invoice/statement. Highly Confidential
¹⁷ Rocky Mountain Power's 1st Supplemental Response to DPU, Set 1 for DPU Data Request 1.18, dated June 21, 2021. May 2021 billing invoice/statement. Highly Confidential
¹⁸ Rocky Mountain Power's response to DPU Data Request 1.17, dated April 14, 2021. Highly Confidential
¹⁹ Rocky Mountain Power's response to DPU Data Request 1.20, dated April 14, 2021. Highly Confidential

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Regulatory and Reporting Requirements

The Division reviewed the application and calculations of the RBA rate spread among customer classes to determine if the RBA was applied correctly in this docket by verifying that RMP used the RBA rate spread from the 2014 RMP general rate case, Docket No. 13-035-184 as presented in direct testimony of Robert Meredith.^{20,21}

The Division reviewed redacted 2020 billing statements from each of the following redacted electric service schedules provided by RMP.²² Schedules: 1, 2, 3, 6, 6A, 6B, 7, 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 unit 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 2020 REC tariff, Schedule 98, and related 2020 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.

²⁰ Robert Meredith testimony, Rate Spread, <Tab> Exhibit RMP_(RMP-1) page 2

²¹ Robert Meredith testimony, REC Revenue Spread Calculation, <Tab> REC2012

²² Rocky Mountain Power's response to DPU Data Request 1.2 Dated April 14, 2021. Confidential Attachment