

Division Audit Report of

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

January 1, 2021 – December 31, 2021
Docket No. 22-035-07

Redacted

Prepared by the Utah Division of Public Utilities
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PURPOSE

The Division of Public Utilities (DPU or Division) has completed an audit¹ 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 98² for January 1, 2021, through December 31, 2021.

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 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 must be made annually, effective June 1. The compliance work that could be completed from the information provided by the Company in its initial filing was reported to the Commission by the Division in its Initial Comments filed on April 28, 2022.

The Commission approved Rocky Mountain Power's application to revise rates in Tariff Schedule 98 on May 31, 2022, effective on June 1, 2022, 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 6, 2022, the Division must file its final audit report by July 14, 2021. 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 2021 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 transfer of Utah RECs to RMP's California customers and verified that the REC transfers were done according to the Confidential Settlement Stipulation between RMP, DPU, and the Office of Consumer Services (OCS).⁴
- Reviewed RMP's disclosure that a load issue to a faulty sensor affected the allocation of REC revenue to Utah customers in 2019 and 2020, RMP's restitution and correction.⁵

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 2021 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 2021 period for compliance with Commission-approved rates.

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/1903520/30948119035200aangarecsa8-7-2019.pdf>.

⁴ Docket No. 21-035-05, Confidential Settlement Stipulation to Transfer Utah RECS to California, Michael G. Wilding Testimony, Exhibit RMP_(MGW-5), dated March 15, 2021.

⁵ Justin B. Farr, RMP Attachment M - Direct Testimony, dated March 15, 2022, p.5, lines 83-85.

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- Reviewed revenue accounts for propriety and proper regulatory reporting.

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.

The Division's DR 1.13 requested RMP to provide the REC policies and procedures for the 2021 period and explain any changes implemented in the policies and procedures during the 2021 period. RMP provided copies of the Company's Energy Risk Management Policies dated January 30, 2019, January 7, 2021, and July 1, 2021, effective for REC transactions relevant to the calendar year 2021.⁶ The difference between January 30, 2019, and January 7, 2021, is that the newer version modified Appendix H (Position Thresholds) to clarify REC limits by category. The difference between January 7, 2021, and July 1, 2021, is that the new version has the RECs Position Threshold listed under Appendix G instead of Appendix H. The Division has reviewed RMP's standard policies and procedures, specifically REC-related Appendix B, Appendix G, and Appendix H, for the 2021 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

As reported in Justin B. Farr's Testimony on March 15, 2022, total Company REC revenues of approximately \$7.25 million (excluding REC sales from the Kennecott Agreement and the California Utah REC Transfer Revenue) were collected for the 2021 period. Utah's net allocation was approximately \$4.20 million after a 10 percent incentive retention reduction by RMP of approximately \$466 thousand. Including Leaning Juniper CY 2021 and Kennecott CY2021 and California Utah REC transfer revenue, total Utah allocated REC revenue is approximately [REDACTED].⁷

In RMP's efforts to sell RECs in 2021, it received six requests for proposals (RFP),⁸ issued two reverse requests for proposals to the market,⁹ and engaged in bilateral discussions with market participants regarding interests in REC purchase and sale transactions.¹⁰

⁶ Rocky Mountain Power's response to DPU Data Request 1.13, dated 04/14/2022. Confidential Attachments.

⁷ Justin B. Farr, Confidential Exhibit, RMP_(JFB-2)

⁸ Rocky Mountain Power's response to DPU Data Request 1.8, dated 04/14/2022.

⁹ Rocky Mountain Power's response to DPU Data Request 1.10, dated 04/14/2022. Confidential.

¹⁰ Rocky Mountain Power's response to DPU, Data Request 1.9, dated 04/14/2022.

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The volume of Total Company REC units sold in 2021¹¹ was up by over [REDACTED] thousand from 2020¹². The number of RECs sold in 2021 was approximately [REDACTED], including RECS generated from [REDACTED]¹³

RMP generated or purchased approximately [REDACTED] RECs. RMP held approximately 19 percent of this amount for compliance with California, Oregon, and Washington RPS standards.¹⁴

RMP provided the orders or confirmation letters (contracts) for 2021 REC sales in response to DPU DR 1.4.¹⁵ The Division traced the REC confirmation letter's 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 the January through December monthly transactions¹⁶ of REC purchase and sale agreement supporting documents for the 2021 calendar year. On April 25, 2022, in response to OCS DR 2.4(a), RMP stated the following:

[T]he second tranche of Trade ID 6046 was inadvertently omitted from the information provided in Confidential Exhibit RMP__(MGW-2). However, the renewable energy credit (REC) revenues provided in Confidential Exhibit RMP__(JBF-2) are based on the Company's accounting system. The REC revenue from the second tranche identified in the Company's response to subpart (a) above was booked and therefore included and the correction to Confidential Exhibit RMP__(MGW-2) does not change the total Company REC revenue for calendar year 2021. The correction does, however, have a minor impact on the total Company REC revenue allocation to Utah. The correction impacts the allocation rate on line 4 of Confidential Exhibit RMP__(JBF-2), which is a function of the amounts after the banking of RECs for renewable portfolio standards (RPS) purposes. This correction results in additional Utah-allocated REC revenue of \$36,904, or \$33,214 after the 10 percent incentive. The total deferral changes by \$34,261 after consideration of the above changes and applicable carrying charges.

To review RMP's correction, please refer to Division Confidential Attachment 1. As indicated above, the correction has a minor impact on the allocation rate on line 4 of

¹¹ Michael Wilding, Confidential Exhibit RMP_MGW-2.

¹² Docket No. 21-035-05, Michael Wilding, 2020 Confidential RMP_MGW-2.

¹³ Michael Wilding, Confidential Exhibit RMP_MGW-2.

¹⁴ Rocky Mountain Power's response to DPU Data Request 1.11, dated April 14, 2022. Confidential Attachment.

¹⁵ Rocky Mountain Power's response to DPU Data Request 1.4, dated 04/14/2022. Confidential.

¹⁶ Rocky Mountain Power's response to DPU Data Request 1.6, dated 04/14/2022 - 2020 REC Sales by Month Confidential Exhibits RMP__(MGW-2), including applicable invoices. Highly Confidential.

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Confidential Exhibit RMP_(JBF-2) and caused an overstatement of Utah's net allocation after reducing the 10 percent incentive retention by approximately \$33 thousand.

On July 7, 2022, the Division contacted RMP to discuss the understatement of Utah's net allocation. RMP stated it prefers to wait and include this correction, with applicable carrying charge, in next year's RBA since it is not a large impact. The Division agrees with this recommended procedure and will review next year's report to verify the correction.

A true up of \$19,714 for November and December is included in Justin B. Farr's Confidential Exhibit.¹⁷ The \$19,714 is made up of \$10,547 to replace the November 2020 and December 2020 resource allocation estimates with actual amounts and \$9,167 from the faulty sensor issue from the years 2019 and 2020, which is discussed in detail under the Audit Report Heading, Faulty Sensor.

Confidential Kennecott Agreement

This is the third 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, 2019.¹⁸ 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 DRs, 1.15 through 1.20¹⁹, 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. For the 2021 reporting year, the Division requested and verified the monthly billed amounts of [REDACTED] for usages from February 2021 through January 2022 for a total billed amount of [REDACTED].²⁰ Additionally, for the 2020

¹⁷ Justin B. Farr, Confidential Exhibit, RMP_(JFB-1).

¹⁸ 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/1903520/3094811903520oangarecsa8-7-2019.pdf>.

¹⁹ Rocky Mountain Power's response to DPU Data Request 1.15 through 1.20, dated April 14, 2022. Highly Confidential.

²⁰ Rocky Mountain Power's response to DPU Data Request 1.19, dated April 14, 2022. Billing invoices/statement from Feb 2021 through January 2022. Highly Confidential.

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reporting year, the Division was able to verify payments for the [REDACTED],²¹
the [REDACTED]²², and the [REDACTED].²³

The following fees were not available for review in the 2021 reporting year:

1. [REDACTED]

2. [REDACTED]

The Division will verify the reporting year's 2021 [REDACTED]
[REDACTED] in its audit of the RBA next year.

Transfer of RECs from Utah to California

On or about February 28, 2021, Rocky Mountain Power entered a Confidential Settlement Stipulation with the DPU and OCS. Parties agreed that the Company could transfer some of Utah's allocated 2019 vintage RECs to be used on behalf of the Company's California retail customers for compliance with California's Renewable Portfolio Standard.²⁸ Parties agreed on a price per REC as compensation for Utah customers. The RECs were booked in 2021 and included in the Company's 2022 RBA. Part of the Confidential Settlement Stipulation was RMP's assurance that the sale of RECs to California would not affect Utah's ability to meet its 2025 renewable portfolio goal.

Mr. Wilding's direct testimony includes a worksheet showing the REC sales to California.²⁹ The number of RECs sold, and their sales price are consistent with the Confidential Settlement Stipulation from this chart. Also referencing the worksheet, [REDACTED]

²¹ Rocky Mountain Power's response to DPU Data Request 1.15, dated April 14, 2022. January 2022 billing invoice/statement. Highly Confidential.

²² Rocky Mountain Power's response to DPU Data Request 1.16, dated April 14, 2022. May 2021 billing invoice/statement. Highly Confidential.

²³ Rocky Mountain Power's response to DPU Data Request 1.18, dated April 14, 2022. June 2021 billing invoice/statement. Highly Confidential.

²⁴ Rocky Mountain Power's response to DPU Data Request 1.17, dated April 14, 2022. Highly Confidential.

²⁵ Rocky Mountain Power's response to DPU Data Request 1.17, dated April 14, 2022. [REDACTED] [REDACTED] dated July 29, 2021. Billed on the September 2021 billing invoice/statement. Highly Confidential.

²⁶ Rocky Mountain Power's response to DPU Data Request 1.20, dated April 14, 2022. Highly Confidential.

²⁷ Rocky Mountain Power's response to DPU Data Request 1.20, dated April 14, 2022. January 2022 billing invoice/statement. Highly Confidential.

²⁸ Docket No. 21-035-05, Michael G. Wilding Testimony, Exhibit RMP_(MGW-5), dated March 15, 2021.

²⁹ Michael G. Wilding Confidential Exhibit, RMP_MGW-5, dated March 15, 2022.

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██████████ the REC transfers are largely consistent with the Confidential Settlement Stipulation. In DPU Data Request 1.22, the Division asked RMP to demonstrate that PacifiCorp's Utah jurisdiction is still on track to meeting its 2025 RPG and existing REC sales commitments. RMP offers the following:

The State of Utah has a renewable portfolio goal (RPG) for 2025 of 20 percent of 2022 adjusted retail sales and no current sales commitments beyond 2022 other than the annual allocation of ██████████ RECs to Kennecott Utah Copper, LLC. Utah has more than enough RECs to meet these commitments after the 2021 transfer of the RECs to California. The vintage of the RECs transferred were limited to 2019 and 2020, therefore RECs commitments of future vintages are not affected by this transfer.³⁰

Based on its review, the Division believes that RMP largely met the provisions of the Confidential Settlement Stipulation.

The Division concludes that the Utah REC Revenues as, discussed previously, are understated by approximately \$33,000. RMP will include this correction, including applicable carrying charges in next year's RBA filing. The approximate \$33,000 correction is less than one percent difference and is immaterial in approving the interim rates.

Disbursements/Expenses

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

Regulatory and Reporting Requirements

The Division reviewed the application and calculations of the RBA rate spread among customer classes as presented in the direct testimony of Robert Meredith³¹ and determined that the Company spread the 2022 RBA based on the cost of service factor 10 (F10) used in the 2020 general rate case, Docket No. 20-035-04. This is deviation from how the Company spread the 2021 RBA, which was based on the spread approved in the rate cases where the corresponding Base RBA revenues were set. The Company uses F10 because the RECs are produced from renewable resources, which are allocated based on F10. The Division compared the impact of the two variations of spreading the RBA deferral revenue across customer classes using Exhibit_RMP(RMM-1) page 2 attached to the direct testimony of RMP witness, Mr. Meredith and RMP's response to OCS Data Request set 3, OCS 3.3 1st SUPP (Division Attachment 2). The Division determined that the difference in the impact of

³⁰ Rocky Mountain Power's response to DPU Data Request 1.22, dated 04/14/2022.

³¹ Robert M. Meredith Testimony, Exhibit RMP_(RMM-1) page 1, dated March 15, 2022.

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the two methods is minimal. Therefore, the Division believes that the Company's proposed rate spread based on F10 is reasonable.

The Division reviewed redacted 2021 billing statements from the following electric service schedules provided by RMP.³² Schedules: 1, 2, 2E, 3, 6, 6A, 7, 8, 9, 9A, 10, 11, 12, 15 (Traffic and Other Signal Systems), 15 (Metered Outdoor Nighttime Lighting), 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 substantially correct.

Based on a review of the associated 2021 REC tariff, Schedule 98, and related 2021 filings with the Commission, Rocky Mountain Power appears to be prudently managing the program. The program complies with regulatory and reporting requirements. The interim rates appear to be in the public interest and should be made final.

Faulty Sensor

Justin B. Farr disclosed in his Direct Testimony that a load issue due to a faulty sensor affected the allocation of REC revenue to Utah customers in 2019 and 2020 and has been corrected in this filing resulting in a credit to customers totaling \$9,167, including carrying charges.³³

In response to DPU Data Request 1.23, RMP included the Supplemental Testimony of Jack Painter, RMP Net Power Cost Specialist.³⁴ Mr. Painter indicates that an investigation revealed a partial meter failure on an interstate transmission line between Utah and Idaho at the Treasureton substation in Idaho that occurred between July 2019 and March 2020. Since the line flow on this line is typically from Idaho to Utah, this partial failure understated the power leaving Idaho to Utah, resulting in understating Utah loads. Mr. Painter explains that although several layers of analysis are conducted to ensure that the jurisdictional loads are accurate since the partial meter from a blown fuse was still registering voltage, the validation check passed, and erroneous data was not suspected. Mr. Painter indicated that the Company has added a control to ensure the three volts readings align with each other. The report looks at the values for all three volts channels. If any of the three volts readings are lower than the other two, meter engineers are contacted to analyze the meter's accuracy. RMP indicates that there have been no subsequent failures at this metering point.

³² Rocky Mountain Power's response to DPU Data Request 1.2, dated April 14, 2021. Confidential Attachment.

³³ Justin B. Farr, RMP Attachment M - Direct Testimony, dated March 15, 2022, p.5, lines 83-85.

³⁴ Rocky Mountain Power's response to DPU Data Request 1.23, with attachment Supplemental filing in Docket No. 21-035-01 including Exhibit A, Supplemental testimony from Jack Painter, RMP Net Power Cost Specialist, dated June 14, 2021. Confidential attachment.

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Corrective Actions

The work performed followed the outline in the scope section of this report. RMP's omission of the second tranche of REC revenue associated with Trade ID 6046 resulted in an understatement of Utah REC revenue that must be corrected in next year's RBA filing.

Audit Summary

Based on a review of the associated 2021 REC tariff, Schedule 98, and related 2021 filings with the Utah Public Service Commission, Rocky Mountain Power appears to be prudently managing the program overall. The program complies with regulatory and reporting requirements. RMP's omission of the second tranche of REC revenue associated with Trade ID 6046 resulting in an understatement of Utah REC revenue is immaterial in amount (less than 1 percent) and does not affect the interim rates. Therefore, the interim rates appear to be in the public interest and should be made final.