

# Division Audit Report of

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

January 1, 2022 – December 31, 2022

Docket No. 23-035-15

**Redacted**

Prepared by the Utah Division of Public Utilities

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Report Date: July 17, 2023

## Table of Contents

<b>PURPOSE</b> .....	<b>1</b>
<b>BACKGROUND</b> .....	<b>1</b>
<b>SCOPE OF THE AUDIT</b> .....	<b>2</b>
<b>Revenues</b> .....	<b>2</b>
<b>Disbursements/Expenses</b> .....	<b>2</b>
<b>Regulatory and Reporting Requirements</b> .....	<b>2</b>
<b>AUDIT FINDINGS</b> .....	<b>2</b>
<b>Revenues</b> .....	<b>3</b>
Confidential Kennecott Agreement .....	<b>5</b>
<b>Disbursements/Expenses</b> .....	<b>6</b>
<b>Regulatory and Reporting Requirements</b> .....	<b>6</b>
<b>Audit Summary</b> .....	<b>7</b>

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## PURPOSE

The Division of Public Utilities (DPU or Division) has completed an audit<sup>1</sup> 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 Public Service Commission of Utah (PSC or Commission) Orders and Tariff Schedule 98<sup>2</sup> for January 1, 2022, through December 31, 2022.

## 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 around 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 26, 2023.

The Commission approved Rocky Mountain Power's application to revise rates in Tariff Schedule 98 on May 30, 2023, effective on June 1, 2023, on an interim basis, 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 March 27, 2023, the Division must file its final audit report by July 17, 2023. This report meets this requirement.

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<sup>1</sup> 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.

<sup>2</sup> 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 2022 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.<sup>3</sup>

### 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 2022 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 2022 period for compliance with Commission-approved rates.
- 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.

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<sup>3</sup> 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> .

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The Division's DR 1.13 requested RMP to provide the REC policies and procedures for the 2022 period and explain any changes implemented in the policies and procedures during the 2022 period. RMP provided copies of the Company's Energy Risk Management Policies dated January 30, 2019, January 7, 2021, July 1, 2021, and March 3, 2022, effective for REC transactions relevant to the calendar year 2022.<sup>4</sup> 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. No changes were found regarding RECs between the July 1, 2021, and the March 3, 2022, versions. The Division has reviewed RMP's standard policies and procedures, specifically REC-related Appendix B, Appendix G, and Appendix H, for the 2022 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 Shelley E. McCoy's testimony on March 16, 2023, total Company REC revenues of approximately \$5.85 million (excluding REC sales from the Kennecott Agreement) were collected for the 2022 period. Utah's net allocation was approximately \$4.02 million. After a 10 percent incentive retention reduction by RMP of approximately \$402 thousand and including Leaning Juniper and Pryor Mountain CY 2022 and Kennecott CY 2022, total Utah allocated REC revenue is approximately [REDACTED].<sup>5</sup>

In RMP's efforts to sell RECs in 2022, it received eight requests for proposals (RFP),<sup>6</sup> issued one reverse requests for proposals to the market,<sup>7</sup> and engaged in bilateral discussions with market participants regarding interests in REC purchase and sale transactions.<sup>8</sup>

The number of RECs sold in 2022 was approximately [REDACTED], including RECs generated from [REDACTED].<sup>9</sup>

<sup>4</sup> Rocky Mountain Power's response to DPU Data Request 1.13, dated May 4, 2023. Confidential Attachments.

<sup>5</sup> Shelley E. McCoy, RMP Attachment E, RMP\_(SEM-2)

<sup>6</sup> Rocky Mountain Power's response to DPU Data Request 1.8, dated May 4, 2023.

<sup>7</sup> Rocky Mountain Power's response to DPU Data Request 1.10, dated May 4, 2023. Confidential.

<sup>8</sup> Rocky Mountain Power's response to DPU, Data Request 1.9, dated May 4, 2023.

<sup>9</sup> Marcelina R. Hundis, Confidential RMP Attachment C, RMP\_MRH-2.

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RMP generated or purchased approximately [REDACTED] RECs. RMP held approximately [REDACTED] of this amounts for compliance with California, Oregon, and Washington RPS standards.<sup>10</sup>

RMP provided the orders or confirmation letters (contracts) for 2022 REC sales in response to DPU DR 1.4.<sup>11</sup> The Division traced the REC confirmation letter's quantity and pricing found in the REC confirmations to RMP's Confidential Exhibit RMP\_\_(MRH-2).

As part of the audit, the Division reviewed for accuracy and reporting compliance the January through December monthly transactions<sup>12</sup> of REC purchase and sale agreement supporting documents for the 2022 calendar year. On June 6, 2023, in response to Office of Consumer Services (OCS) DR 2.7(b), RMP stated the following:

*Please refer to attachment OCS 2.7 which provides revised work papers incorporating the correction to October 2021, November 2021, and December 2021 renewable energy credit (REC) resource assignment. This correction only impacts the beginning deferral balance shown on Exhibit RMP\_(SEM-1), line 2 and associated carrying charges shown on lines 12-13. Details of the impacts are further illustrated on exhibit RMP\_(SEM-2) The Company is proposing to include the total correction of \$19,855<sup>13</sup> as part of the 2024 Utah REC Balancing Account (RBA) filing, for deferral calendar year 2023.*

Furthermore, on June 27, 2023, in response to OCS DR 3.4, RMP stated the following:

*... The Company has become aware of corrections needed for renewable portfolio standards (RPS) compliance resource allocation for generation resources Rolling Hills and River Rock I.*

- Rolling Hills was originally specified for RPS Compliance eligibility in only California; however, Rolling Hills is also RPS-eligible in Washington.*
- River Rock I was originally specified as not eligible for RPS compliance, but it has since been determined that it was and is available for RPS compliance in California and Oregon.*

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<sup>10</sup> Rocky Mountain Power's response to DPU Data Request 1.11, dated May 4, 2023. Confidential Attachment.

<sup>11</sup> Rocky Mountain Power's response to DPU Data Request 1.4, dated May 4, 2023. Confidential.

<sup>12</sup> Rocky Mountain Power's response to DPU Data Request 1.6, dated May 4, 2023 - 2022 REC Sales by Month Confidential Exhibits RMP\_\_(MRH-2), including applicable invoices. Highly Confidential.

<sup>13</sup> DPU Confidential Attachment 1.

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*The corrections noted above result in a \$9,535<sup>14</sup> increase in total deferral that the company will recognize in the 2024 Renewable Energy Credit (REC) Balancing Account (RBA) for deferral period calendar year 2023 which will be filed with the Public Service Commission of Utah (UPSC) in 2024.*

The Division reviewed RMP's corrections and agrees with its recommendation to add the two corrections to the 2024 RBA filing. The Division will review next year's report to verify the corrections.

A true up of \$13,352 for November and December of 2021 is included in Ms. McCoy's Confidential Exhibit.<sup>15</sup> The Company has included the understated revenue from last year's data request response to OCS DR 2.4 of \$34,261.

*Confidential Kennecott Agreement*

This is the fourth 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.<sup>16</sup> 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 1.20,<sup>17</sup> 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 2022 reporting year, the Division requested and verified the monthly billed amounts of [REDACTED] for usages from January 2022 through December 2022 for a total billed amount of [REDACTED].<sup>18</sup> Additionally, for the 2022

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<sup>14</sup> DPU Confidential Attachment 1.

<sup>15</sup> Shelley E. McCoy, Confidential Exhibit, RMP\_(SEM-1).

<sup>16</sup> 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>.

<sup>17</sup> Rocky Mountain Power's response to DPU Data Request 1.15 through 1.20, dated May 4, 2023. Highly Confidential.

<sup>18</sup> Rocky Mountain Power's response to DPU Data Request 1.19, dated May 4, 2023. 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],<sup>19</sup>  
the [REDACTED],<sup>20</sup> and the [REDACTED].<sup>21</sup>

The following fees were not available for review in the 2022 reporting year:

1. [REDACTED]
2. [REDACTED]

The Division will verify the reporting year's 2022 [REDACTED]  
[REDACTED] in its audit of the RBA next year.

The Division concludes that the Utah REC Revenues as discussed previously, are understated by approximately \$30,000. RMP will include these corrections, including applicable carrying charges in next year's RBA filing. The approximate \$30,000 corrections are 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 Meredith<sup>25</sup> 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, as well as the 2021CY RBA. The

<sup>19</sup> Rocky Mountain Power's response to DPU Data Request 1.15, dated May 4, 2023. January 2022 billing invoice/statement. Highly Confidential.

<sup>20</sup> Rocky Mountain Power's response to DPU Data Request 1.16, dated May 4, 2023. June 2022 billing invoice/statement. Highly Confidential.

<sup>21</sup> Rocky Mountain Power's response to DPU Data Request 1.18, dated May 4, 2023. May 2022 billing invoice/statement. Highly Confidential.

<sup>22</sup> Rocky Mountain Power's response to DPU Data Request 1.17, dated May 4, 2023. [REDACTED], dated June 30, 2022.

<sup>23</sup> Rocky Mountain Power's response to DPU Data Request 1.20, dated May 4, 2023. Highly Confidential.

<sup>24</sup> Rocky Mountain Power's response to DPU Data Request 1.20, dated May 4, 2023. January 2023 billing invoice/statement. Highly Confidential.

<sup>25</sup> Robert M. Meredith Testimony, Exhibit RMP\_(RMM-1) page 2, dated March 16, 2023.

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Company uses F10 because the RECs are produced from renewable resources, which are allocated based on F10.

The Division reviewed redacted 2022 billing statements from the following electric service schedules provided by RMP.<sup>26</sup> 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 2022 REC tariff, Schedule 98, and related 2022 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.

**Corrective Actions**

The work performed followed the outline in the scope section of this report. RMP's error to the REC resource assignments in the 4<sup>th</sup> quarter of 2021, and compliance resource allocations to Rolling Hills and River Rock I 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 2022 REC tariff, Schedule 98, and related 2022 filings with the Public Service Commission of Utah, Rocky Mountain Power appears to be prudently managing the program overall. The program complies with regulatory and reporting requirements. RMP's corrections to Oct. Nov. and Dec. 2021 REC resource assignments of \$19,855, and compliance resource allocations to Rolling Hills and River Rock I of \$9,535, result in an understatement of Utah REC revenue of approximately \$30,000 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.

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<sup>26</sup>Rocky Mountain Power's response to DPU Data Request 1.2, dated May 4, 2023. Confidential Attachment.