

Division Audit Report of

The Demand Side Management Program of Rocky Mountain Power

January 1, 2007 – December 31, 2007

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RECOMMENDED ACTION

Recommend the Company be more forthcoming in providing an adequate sample of expense invoices for review.

PURPOSE

The Division has completed an audit of the Demand Side Management program. The intent of this audit was to review the revenues and expenses reported by the company for the Demand Side Management (DSM) program for the year ended December 2007. This is the first Division audit of the Company's program since its inception.

BACKGROUND

Utah allows the recovery of DSM expenses through a system benefit charge (SBC) tariff rider outlined in Rocky Mountain Power's ("RMP" or the "Company") Electric Service Schedule No. 193. In a general rate case the DSM costs are removed in order to prevent double recovery through the revenue requirement. Because of time constraints and the volume of information provided during a rate case, the DSM program receives only a cursory review.

Projects included in the DSM program include Home Energy Savings, Cool Cash Incentive, Cool Keeper, Refrigerator Recycling, ENERGY STAR New Homes, Time of Day, Utah Weatherization Program, Energy FinAnswers, FinAnswers Express, Self Direction Credit, Utah Commercial & Industrial Re-Commissioning Program and Irrigation Load Control. The Company has contracted with numerous providers to help administer the DSM programs.

SCOPE OF THE AUDIT

The Division performed the following audit procedures for the Company:

Revenues:

- Revenue recording procedures were reviewed and discussed with appropriate personnel.
- Compared revenues to prior years and reviewed month-to-month trends.
- Reviewed revenue accounts and compared balances with expected revenue calculations.
- Reviewed several revenue entries (including offsetting entries) and applicable supporting documentation.

Disbursements/Expenses:

- Expense recording and cost allocations procedures were reviewed and discussed with appropriate personnel.
- Compared expenses to prior years and reviewed month-to-month trends.
- Reviewed several operating expenditures (including payroll), with applicable receipts, invoices, and statements, etc.

Regulatory and Reporting Requirements:

- Reviewed program results from the 2006 year and the 2007 year (provided to DSM Advisory Group) for completeness and accuracy.
- Reviewed the most recent Tariff rates for compliance.
- Reviewed revenue and expense accounts for propriety and proper regulatory reporting.
- Reviewed prior Commission Report & Orders for compliance.

AUDIT FINDINGS

The Division met with the Company and spoke with DSM program managers and accountants on several occasions. Information was provided to the Division through the data request process. The Division found the Company to be fairly responsive however there was some difficulty obtaining a sufficient sampling of the DSM expenses. It should be noted that the sample utilized for testing purposes was a judgmental rather than statistical sample.

The Company explained that no Company assets or lease contracts are assigned to the DSM program, therefore no review of plant, equipment, depreciation or leasehold agreements was completed with the review.

Revenues:

Revenues for the DSM program are collected through a System Benefit Charge, Rocky Mountain Power Electric Service Schedule 193, referenced on RMP's billing statement as "Customer Efficiency Services." The revenues appear to be properly stated.

Disbursements/Expenses:

RMP administers the DSM program in six states, California, Oregon, Washington, Idaho, Wyoming and Utah. An error in classifying expenses occurred in RMP's allocation between states for the irrigation load control program. The Company explained the error in its response to DPU Data Request 4.3:

. . . the Company identified an error in the set-up of the 2007 program purchase orders in the company's general ledger (SAP) system. The unit descriptions for two of the program expense types were set up in the Company's accounting system correctly as "Idaho Irrigation, supplies M2M slave units" and "Idaho Irrigation, supplies M2M communications" however the accounting expense orders were miss-coded [*sic*] to assign the costs to the Utah rather than the Idaho program. As a result of the expense descriptions being correct, the discrepancy was not discovered in the monthly review of program expense by the DSM department. The Company has reversed the mis-coded charges and recalculated the carrying charges against the Utah balancing account to the date of the errors. A review of the remaining charges for program years 2007, 2008 and 2009 year-to-date for the program has been completed and no additional coding errors were detected.

In DPU Data Request 5.3 the Company provided documentation of the reclassification of the order assignment error and the carrying charge adjustment.

The Company has appropriately corrected the error in the irrigation load control program and as a result the Company's expense accounts appear to be properly stated.

Regulatory and Reporting Requirements:

Based on a review of the associated DSM tariffs, Schedules 96, 96A, 110, 111, 113, 114, 115, 117, 125, 126, 192 and 193, and related filings with the Utah Public Service Commission, the Company appears to be in compliance with regulatory and reporting requirements