ITEM NO. CA12

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 19, 2018

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** May 19, 2018

DATE: June 12, 2018

TO: Public Utility Commission

FROM: Mitchell Moore MPM

THROUGH: Jason Eisdorfer and John Crider JE JE for JC

SUBJECT: PACIFIC POWER: (Docket No. UM 1483(8)) Requests reauthorization to defer costs associated with the Oregon Solar Incentive Program.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Pacific Power's (PacifiCorp or Company) request for reauthorization to defer costs associated with the Oregon Solar Incentive Program (OSIP) for 12 months beginning May 19, 2018.

DISCUSSION:

Issue

Whether the Commission should reauthorize deferral of costs associated with the OSIP.

Applicable Law

Pursuant to ORS 757.365(10) all prudently-incurred costs associated with compliance with ORS 757.365 (pilot program for small solar energy systems) are recoverable in the utility's rates. Under ORS 469A.120(1) and (3), all prudently incurred costs associated with the renewable portfolio standards are recovered through an automatic adjustment clause. ORS 757.259 and OAR 860-027-0300 are the laws that concern deferrals and the automatic adjustment mechanism.

The Company makes this filing pursuant to ORS 757.365(10), 469A.120(1) and (3), or 757.259 and OAR 860-027-0300. Deferral of these OSIP costs was originally granted by the Commission in Order No. 11-021 and has been annually reauthorized, most recently by Order No. 17-305.[1]

Discussion and Analysis

Pacific Power requests reauthorization to defer the costs and expenses associated with the photovoltaic feed-in tariff pilot program, including payments to owners of qualified systems for generation (i.e. a volumetric incentive rate) and costs associated with the administration of the pilot program. The Company will seek amortization of the deferred amount in a future Commission proceeding. This deferral is necessary to allow the Company to recover costs associated with compliance with ORS 757.365, as allowed by ORS 757.365(10).

Although the OSIP is now closed to new participants, the program was designed to provide payments to participating customers for 15 years at a specified volumetric incentive rate. Therefore, the Company has indicated that there will be costs directly associated with this program through 2032, 15 years after the last project is completed and began receiving payments.

Description of Expense:
The expense to be deferred includes the prudently incurred incremental costs to administer the program, including payments to participants in the program.

Reason for Deferral:
The incremental costs associated with compliance with ORS 757.365 are not currently included in rates. The statute provides that prudently incurred costs associated with compliance with the statute are recoverable in rates, and therefore a deferral facilitates the future recovery of costs in rates.

Proposed Accounting:
The Company proposes to continue accounting for the deferred costs of the program by recording the deferral in specific subaccounts of FERC Account 182.3 Other Regulatory Assets pursuant to the accounting conditions required by Order No 11-021. Absent Commission approval of this application, costs of the program would be recorded in FERC Account 908, Customer Assistance Expenses.

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[1] PacifiCorp's Application asserts that the Commission has independent deferral authority pursuant to ORS 757.365(10). Application at Staff notes that the Commission has not specifically addressed its deferral authority pursuant to ORS 757.365(10), as prior deferral applications were approved pursuant to ORS 757.259, ORS 757.365(10) and ORS 469A.120(1) and (3). Finally, PacifiCorp's Application omits acknowledgement that the Commission has consistently approved PacifiCorp's deferral of Oregon Solar Incentive Program costs pursuant to all three statutes; instead, the Application only refers to approval pursuant to ORS 757.365. *See* Application at note 6.

Estimate of Amounts:
For the program year through April 2017, Pacific has deferred approximately $2.0 million. The Company estimates that the costs for this deferral period may range from $4.5 million to $4.9 million. Changes in the incentive rate established by the Commission, as well as differences between actual and projected generation due to the timing of project interconnection, may affect this estimate.

Information Related to Future Amortization:

- Earnings review – Pursuant to ORS 757.259(5), deferred amounts not recovered pursuant to an automatic adjustment clause are subject to an earnings review prior to amortization in rates.

- Prudence Review – A review to determine that costs were prudently incurred must be done prior to amortization. The review should include the verification of the accounting methodology used to determine the final amortization balance.

- Sharing – This deferral is not subject to a sharing mechanism.

- Rate Spread/Design – On September 30, 2011, PacifiCorp filed an application to establish a cost allocation methodology for amortization of the Oregon Solar Incentive Program costs, which was docketed as UE 240. Subsequent to the filing, Staff, the Citizens' Utility Board (CUB), and the Industrial Customers of Northwest Utilities (ICNU) (UE 240 Parties) reached agreement and PacifiCorp withdrew the application.

  The UE 240 Parties agreed to support allocation to all customer classes based on an equal percent of generation revenue applied on a cents per kilowatt-hour (kWh) basis for the 2011 Amortization Period, consistent with the approved generation allocation from Pacific's last general rate case.

  In previous comments to the Commission, ICNU opposed allocating the incentive portion of the OSIP costs on an equal percent of generation revenue applied on a cents per kWh basis. ICNU did not oppose this allocation for the 2011 Amortization Period, but ICNU has reserved the right to challenge this cost allocation in a future proceeding regarding solar incentive costs. Pacific, CUB, and Staff do not oppose ICNU raising its cost allocation arguments in a future proceeding.

- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year. Because Pacific is an electric utility, ORS 757.259(8) allows the Commission to consider up to a six percent limit. The limit for these deferrals will be determined at the time of amortization.

Conclusion

As Pacific Power's application to defer is appropriately made under the statutes, and the application meets the requirements of OAR 860-027-0300, Staff recommends approval with the condition that PacifiCorp's accounting and reporting of incremental program costs and credits continue to be done as specified in Appendix A to Order No. 11-021.

PROPOSED COMMISSION MOTION:

Approve Pacific Power's application pursuant to ORS 757.259, 757.365(10), and 469A.120(1) and (3), subject to the same conditions required by Order No. 11-021, for the 12 months beginning May 19, 2018.