ITEM NO. CA4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 3, 2015

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** **May 19, 2015**

DATE: October 12, 2015

TO: Public Utility Commission

FROM: Linnea Wittekind LW

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: PACIFIC POWER: (Docket No. UM 1483(5)) Requests reauthorization to defer costs associated with its Oregon Solar Incentive Program.

STAFF RECOMMENDATION:

I recommend the Commission approve Pacific Power's (Pacific or Company) filing for the 12-month period beginning May 19, 2015.

ISSUE:

The Company requests reauthorization to defer costs associated with is Oregon Solar Incentive Program.

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. Deferral of these costs was originally granted by the Commission in Order No. 11-021 and has been annually reauthorized, most recently by Order No. 14-208.

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).

Description of Utility 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 of ORS 757.365 are not currently included in rates. As the statute provides that prudently incurred costs associated with compliance of the statute are recoverable in rates, the deferral is necessary to accomplish that outcome.

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, the Company would not normally incur the costs for the program. Were such costs incurred, they would be recorded in FERC Account 908, Customer Assistance Expenses.

Estimate of Amounts
For the program year through April 2014, Pacific has deferred approximately $1.4 million of costs associated with the program. The Company estimates that the costs for this deferral period may range from $3.6 million to $4.0 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), amortization of this deferral does not require an earnings review as it is subject to an automatic adjustment clause under ORS 757.210(1). *See also* OAR 860-084-0060 and ORS 469A.120.

- 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, Pacific filed an application to establish a cost allocation methodology for amortization of the Oregon Solar Incentive Program (OSIP) 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 Pacific 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.

<u>Staff's Analysis</u>
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 Order No. 11-021.

PROPOSED COMMISSION MOTION:

Pacific Power's application be approved 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, 2015.