

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT

PUBLIC MEETING DATE: September 25, 2012

REGULAR _____ CONSENT X EFFECTIVE DATE May 19, 2012

DATE: September 5, 2012

TO: Public Utility Commission

FROM: Deborah Garcia *DG*

THROUGH: Jason Eisdorfer, Maury Galbraith, and Judy Johnson
JE MG JA

SUBJECT: PACIFIC POWER: (Docket No. UM 1483(2)) 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, 2012, subject to the same conditions for accounting and reporting requirements as previously required by Order No. 11-021.

DISCUSSION:

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).

Using an abundance of caution, the Company has again filed its application in the alternative under ORS 757.365(10), ORS 469A.120(1) and (3), or ORS 757.259. As ORS 757.365(10) provides the Commission authority independent of other statutes to authorize deferral of costs associated with compliance with ORS 757.365(10), the Company requests that the Commission reauthorize deferral under that statute.

Alternatively, if the Commission finds that ORS 757.365(10) does not provide independent legal authority, such costs are appropriately deferred under ORS 469A.120 (1) and (3) as costs associated with compliance with the Oregon

Renewable Portfolio Standards (RPS). Finally, if the Commission determines that neither of the aforementioned statutes allow for deferral of such costs, the Company requests authorization under ORS 757.259.¹

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.

Reasons for Deferral

The incremental costs associated with compliance with ORS 757.365 are not currently included in rates. As the statute provides that prudently incurred costs associated with compliance with 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 Account 182.3 Other Regulatory Assets for the following cost categories: Program Development, Program Administration, Incentive Payments, and Metering. Credits to be applied against those costs include the categories Customer Charges and Avoided Energy Value. In the absence of the Commission's approval of this application, the Company would not normally incur the costs for the program. Were such costs incurred, however, they would be recorded in account 407.3, Regulatory Debits.

Estimate of Amounts

In October 2011, the company requested recovery of \$936,615 for costs associated with the pilot program in 2010 and 2011. For the program year through April 2012, Pacific has deferred approximately \$780,000 of costs associated with the program. The Company estimates that the costs for this deferral period may range from \$2.6 million to \$2.9 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), 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.

¹ While OAR 860-084-0060 establishes that a utility may recover costs through an automatic adjustment clause proceeding filed at the Commission pursuant to ORS 469A.120, it does not specify under which statute a request to defer should be made.

- 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. Should a deferred balance result in a credit to customers, the balance is exempt from the three percent test, per the advice of Staff's counsel.

Staff's Analysis

Previously, Staff's counsel advised that Pacific's decision to file its request to defer under all statutes that may be applicable was appropriate. If the Commission approves

this filing, Staff again recommends that Commission approval be pursuant to all of the aforementioned statutes.

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 Pacific'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, 2012.