

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 20, 2016

REGULAR _____ CONSENT X EFFECTIVE DATE September 9, 2016

DATE: December 12, 2016

TO: Public Utility Commission

FROM: Abdoulaye Barry *AB* *JH*

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: Pacific Power: (Docket No. UM 1797) Pacific Power's Application for Deferral of the Purchase of Renewable Energy Certificates.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve PacifiCorp's (Pacific Power or Company) application for authorization to defer costs related to the purchase of renewable energy certificates (RECs) for the 12 months beginning September 9, 2016.

DISCUSSION:

Issue

Whether the Commission should authorize Pacific Power to use a balancing account to defer for later incorporation into rates the costs related to the purchase of RECs that will be used to comply with the Oregon renewable portfolio standard (RPS).

Applicable Rules and Statutes

As provided in ORS Chapter 469A, recently amended by 2016's Senate Bill 1547, a utility may use RECs to comply with the RPS. ORS 469A.120 also allows electric companies to recover in rates all costs prudently incurred to comply with the RPS.

The Commission may authorize the deferral of the costs related to the purchase of renewable energy certificates in accordance with ORS 757.259(2)(e) and OAR 860-027-0300. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include:

Identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers.

ORS 757.259(2)(e).

In OAR 860-027-0300(3) the Commission has set forth the requirements for the contents of deferred accounting applications. Notice of the application must be provided pursuant to OAR 860-027-0300(6).

In Order No. 05-1070, Docket No. UM 1147, the Commission determined that the Company may accrue interest on deferred accounts at the authorized rate of return until amortization. Subsequent orders in Docket No. UM 1147 establish the rate during amortization. See Order Nos. 08-263, 10-279.

Analysis

Background

Pacific Power issued requests for proposals in April 2016 for new renewable generation resources and for RECs, including bundled RECs and unbundled RECs. Following receipt and evaluation of responsive bids, Pacific Power determined that procurement of RECs through long-term contracts will extend Pacific Power's initial RPS compliance shortfall in Oregon from 2025 to 2028. Pacific Power entered into seven contracts involving the purchase of nearly 6 million RECs through 2036.

Description of Expense

The costs subject to deferral are the costs incurred for the purchase of the RECs and the accrued interest. The costs to be deferred are limited to only those incurred on and after the filing date of this deferral application.

Reason for Deferral

The costs associated with the purchase of the RECs are not included in current rates. Along with this deferral request, Pacific Power filed Advice 16-011, seeking to recover the costs associated with purchasing these RECs in proposed Schedule 203. Advice No. 16-011 has been docketed as UE 313. If the proposed Schedule 203 becomes effective, Pacific Power would collect \$662,000 over a 12-month period. Therefore, in order to allow the Company to recover the cost of REC purchases costs in future rates while minimizing the frequency of rate changes, the Commission, may authorize Pacific Power to defer the costs associated with its REC purchases.

Proposed Accounting

The Company requests authorization to establish a balancing account to record the costs and interest associated with 2016-2017 REC purchases, and any amounts that may be authorized and collected under proposed Schedule 203 as a regulatory asset in FERC Account 182.3 (Other Regulatory Assets). In the absence of an authorization by the Commission to use the deferred accounting treatment, the costs incurred for the purchase of the renewable energy certificates will be recorded to FERC account 555 (Purchased Power).

Estimated Deferrals in Authorization Period

Pacific Power estimates the total costs related to the purchase of unbundled RECs for the twelve month period to be \$662,000.

Information Related to Future Amortization

- Earnings Review – Pursuant to ORS 469A.120, no earnings review is required as the costs prudently incurred can be recovered.
- Prudence Review – Prior to amortization, a prudence review will be conducted to ensure all costs were prudently incurred, pursuant to ORS 469A.120.
- Sharing – This deferral is not subject to a sharing mechanism. All prudently incurred costs for the purchase of the RECs are recoverable through rates.
- Rate Spread/Design – The allocation basis for the prudently incurred costs will be discussed at the time of the amortization.
- 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.

No data requests were necessary for this filing as the filing itself contained all the necessary workpapers and materials required for the review. The Company has reviewed this memo and stated no issues or concerns.

Conclusion

Based on review of Pacific Power's application, Staff concludes that the proposal balancing account represents an appropriate use of deferred accounting and the filing meets the requirements of ORS 469A.120, ORS 757.259 and OAR 860-027-0300.

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PROPOSED COMMISSION MOTION:

Approve Pacific Power's application for authorization of deferral accounting using a balancing account for the costs associated with the purchase of RECs for the 12-month period beginning September 9, 2016.

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