

ITEM NO. CA5

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: November 7, 2017

REGULAR  CONSENT  EFFECTIVE DATE September 9, 2017

DATE: October 24, 2017

TO: Public Utility Commission

FROM: John Fox *JF*

THROUGH: Jason Eisdorfer *JE* and John Crider *JC*

SUBJECT: PACIFIC POWER: (Docket No. UM 1797(1)) Application for Reauthorization of Deferred Accounting for a Balancing Account Related to 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 reauthorization to defer costs related to the purchase of renewable energy certificates (RECs) for the 12 months beginning September 9, 2017.

**DISCUSSION:**

Issue

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

Applicable Rule or Law

As provided in ORS Chapter 469A, including amendments in chapter 28 Oregon Laws 2016, 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.

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).

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings. With some exceptions, a company's amortization of amounts deferred cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. See ORS 757.259(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*

In 2016, Pacific Power determined that procurement of RECs through long-term contracts would extend Pacific Power's initial RPS compliance position in Oregon and entered into seven contracts involving the purchase of nearly 6 million RECs through 2036. The Commission first approved the use of deferred accounting for costs related to the purchase of RECs used to comply with the Oregon RPS for the 12 month period beginning September 9, 2016 with Order No. 16-486.

In Order No. 17-019, Docket UE 313, the Commission approved PacifiCorp's filing to recover certain costs incurred in 2016 and 2017 associated with the REC purchases under Schedule 203, Renewable Resource Deferral Supply Service Adjustment, which included the use of a balancing account to track over- and under collections. The approved update to Schedule 203 took effect on January 25, 2017.

*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 in the twelve months after the filing date of this deferral application.

Costs incurred subject to this deferral are estimated at: \$590,000. The Company notes that the precise amount of actual REC purchases allocable to Oregon will not be known until 4<sup>th</sup> Quarter of 2017.

*Reason for Deferral*

Therefore, in order to allow the Company to recover the cost of REC purchase 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 reauthorization to continue the use of a balancing account to record the costs and interest associated with 2017-2018 REC purchases, and any amounts that may be authorized and collected under 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*

Schedule 203 was designed to collect \$662,000, beginning January 25, 2017. Pacific Power reports a rough estimate of the Oregon allocation of REC purchases through July 2017 as about \$590,000, with actual purchases to be booked to the balancing account in the fourth quarter of 2017. 2017-2018 purchases are anticipated to be approximately \$507,000.

*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.

Staff reviewed the exhibit attached to the Company's application and found that interest is being applied at the correct 2017 Modified Blended Treasury (MBT) rate of 2.38 percent and the amount of monthly revenue being collected under Schedule 203 will likely be sufficient to achieve full amortization of the deferred balance as planned.

No data requests were necessary for this filing as the filing itself contained all the necessary work papers 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.

#### **PROPOSED COMMISSION MOTION:**

Approve Pacific Power's application for reauthorization of deferral accounting using a balancing account for the costs associated with the purchase of RECs for the 12-month period beginning September 9, 2017.