ITEM NO. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 18, 2017

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** **January 1, 2018**

DATE: December 11, 2017

TO: Public Utility Commission

MPM

FROM: Mitchell Moore

JPB for JC

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: PACIFIC POWER: (Docket No. UE 334) Updates Schedule 204, Oregon Solar Incentive Program.

STAFF RECOMMENDATION:

Staff recommends that the Public Utility Commission of Oregon (Commission) approve Pacific Power's (PacifiCorp or Company) request to amortize deferred Oregon Solar Incentive Program (OSIP) amounts for the twelve month period ended September 30, 2017, with deferred capital costs removed, pursuant to Schedule 204 for service rendered on and after January 1, 2018.

DISCUSSION:

Issue

Whether the Public Utility Commission of Oregon (Commission) should approve Pacific Power's (PacifiCorp or Company) request to amortize deferred Oregon Solar Incentive Program (OSIP) costs into rates through the Company's Schedule 204, effective January 1, 2018.

Applicable Rule or Law

PacifiCorp makes this filing in pursuant to ORS 757.205, ORS 757.210, OAR 860-022-0025, and OAR 860-022-0030.

- ORS 757.205 requires public utilities file to all rates, rules, and charges with the Public Utility Commission of Oregon (OPUC).

- ORS 757.210 establishes a hearing process to address utility filings and requires rates be fair, just and reasonable.
- OAR 860-022-0025 requires that revised tariff filings include statements showing the change in rates, the number of customers affected and resulting change in annual revenue, and the reasons for the tariff revision.
- OAR 860-022-0030 requires that tariff filings which result in increased rates include statements showing the number of customers affected, the annual revenue under existing schedules, the annual revenue under proposed schedules, the average monthly bills under existing and proposed schedules, and the reasons supporting the proposed tariff.
- OAR 860-027-0300(9) contains deferred accounting procedures for public utilities.

Additionally, the following statutes are relevant to deferred amounts:

- ORS 757.259(5) requires a review of utility earnings prior to amortization of deferred amounts not subject to an automatic adjustment clause.
- ORS 757.259(6) establishes a three percent test measuring 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 is to be determined at the time of amortization.

<u>Analysis</u>

Background
The Commission originally authorized the Company to defer OSIP costs in Order No. 11-021 (Docket UM 1483) pursuant to ORS 757.365(10), ORS 469A.120(1) and (3), and ORS 757.259.[1] Order 11-021 explains that interested parties discussed PacifiCorp's deferral application during two workshops in 2010 and agreed on a number of items but left the question of OSIP cost allocation between customer groups for a later time.

[1] Staff notes that PacifiCorp's filing states that "ORS 757.259(5) is not applicable to the requested deferral amortization because the Company applied for deferral under ORS 757.365(1) or, in the alternative, ORS 469A.120, neither of which subject deferral amortization to the three percent cap set forth in ORS 757.259(6)." However, the Company has consistently applied for, and the Commission has approved, OSIP deferrals pursuant to ORS 757.365, ORS 469A.120 and ORS 757.259. *See* OPUC Order Nos. 11-021, 11-251, 12-370, 13-249, 14-208, 15-360, 16-411, and 17-305.

In 2011, the Company filed an application to establish a cost allocation methodology for amortization of the OSIP costs in docket UE 240. Staff, the Citizens' Utility Board of Oregon (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.

Current Filing
PacifiCorp made this filing, docketed as UE 334, on November 1, 2017, to request amortization of deferred amounts from for the twelve months ended September 30, 2017. During the program year, PacifiCorp deferred approximately $4.6 million, excluding interest. The deferral includes costs for program administration, incentive payments, and meter costs. The total deferral balance also reflects offsetting credits for customer charges and an avoided energy value. The total proposed amortization amount of approximately $4.5 million is a decrease of $200,000 over the amount currently in rates.[2] The overall percentage decrease compared to the previous year is 0.01 percent. Due to the minimal change in the amortization balance, PacifiCorp believes the current rates in Schedule 204 are appropriate.

Staff submitted four Information Requests (IR), and reviewed the Company's responses to the IRs as well as the Company's workpapers submitted with the filing. Staff IR 4 asked the Company whether capital costs were included in deferred amounts. In that response, the Company confirmed that $860.00 of capital costs had been deferred in the twelve months ended September 30, 2017 and were included in the Company's amortization request. Staff therefore discussed with the Company the inclusion of capital costs in the deferral balance in light of the Commission's current investigation into its authority to defer capital costs pursuant to ORS 757.259, which is docketed as UM 1909. In light of this, Staff requested PacifiCorp remove the $860.00 in deferred capital costs for 2017 from the amortization balance. The Company agreed to do so, and reserved its right to seek recovery at a later date after the resolution of UM 1909. The removal of this amount, however, is not large enough to necessitate a further reduction in current Schedule 204 rates.

Staff finds that costs were prudently incurred and that the non-capital deferred amounts subject to amortization were calculated appropriately.

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[2] *See In re PacifiCorp*, OPUC Docket No. UE 315, Order No. 16-488 (Dec. 20, 2017).

- Prudence Review- Staff has completed a review and finds that the costs were prudently incurred and has verified the accounting methodology used to determine the final amortization balance is correct.

- Rate Spread/Design – in the UE 240 proceeding for the 2012 Amortization Period, the parties that costs should be allocated to all customer classes based on an equal percent of generation revenue applied on a cents-per-kilowatt-hour (kWh) basis, consistent with the approved generation allocation from PacifiCorp's last general rate case.

- Earnings Review - Pursuant to ORS 757.259(5), deferred amounts are subject to an earnings review prior to amortization unless subject to an automatic adjustment clause. Staff has reviewed PacifiCorp's earnings, and notes that the Commission has not previously ordered sharing of deferred costs based on the Company's earnings.

- The requested deferral amortization results in a cumulative total of amortizations authorized under ORS 757.259 that is less than three percent of PacifiCorp's earnings, as required by ORS 757.259(6). Because PacifiCorp is an electric utility, ORS 757.259(8) allows the Commission to consider up to a six percent limit.

Conclusion
Staff finds that the proposed rates in Schedule 204, with deferred amounts for capital costs removed, to be calculated correctly and to be fair, just and reasonable.

PROPOSED COMMISSION MOTION:

Approve PacifiCorp's request to amortize deferred Oregon Solar Incentive Program (OSIP) amounts for the twelve month period ended September 30, 2017, with deferred capital costs removed, pursuant to Schedule 204 for service rendered on and after January 1, 2018.