

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 3, 2020**

REGULAR CONSENT EFFECTIVE DATE September 9, 2020

DATE: October 20, 2020

TO: Public Utility Commission

FROM: John Fox

THROUGH: Bryan Conway and John Crider **SIGNED**

SUBJECT: PACIFIC POWER:
(Docket No. UM 1797(4))
Application for Approval of Deferred Accounting for a Balancing Account
Related to the Purchase of Renewable Energy Credits.

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-month period beginning September 9, 2020.

DISCUSSION:

Issue

Whether the Commission should reauthorize Pacific Power to defer costs, tracked in a balancing account, related to the purchase of RECs that will be used to comply with the Oregon Renewable Portfolio Standard (RPS).

Applicable Law

As provided in ORS Chapter 469A, 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).

Analysis

Background

In 2016, Pacific Power determined that procurement of RECs through long-term contracts would extend Pacific Power's initial RPS compliance shortfall 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. The deferral was most recently approved with Order No. 19-337.

In Order No. 17-019, Docket No. 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 rates 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.

Reason for Deferral

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 to defer the costs and interest associated with 2019-2020 REC purchases, recorded in a balancing account, 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 over a 12-month period, beginning January 25, 2016, and such rates remain in effect.¹

Pacific Power reports the Oregon allocation of REC purchases beginning September 2019 through August 2020 is \$541 thousand. Oregon allocated REC purchases for 2020-2021 are anticipated to be approximately \$1.037 million. Deferred REC purchase amounts are recorded in the balancing account and are offset monthly by the amount collected under Schedule 203.

Staff analysis of balancing account activity since 2015 indicates cumulative monthly REC deferrals of \$2.191 million and collections from customers of \$2.260 million plus interest², resulting in a negative account balance of (\$79) thousand as of August 2020. Collections from customers in the last three years are:

- 2017-18 \$654 thousand
- 2018-19 \$656 thousand
- 2019-20 \$649 thousand

It is expected that the balancing account will zero out over time.

¹ Staff notes that current adjustment rates (Seventh Revision of Sheet No. 203, effective January 1, 2018) are unchanged from the rates approved in Order No. 17-019. See Docket No. UE 323, *PACIFICORP's Compliance Filing per Order No. 17-444*, filed 11/15/2017.

Likewise, Staff notes that the Order No. 17-019 adjustment rates continue unchanged in the proposed Eighth Revision of Sheet No. 203 in the Company's pending general rate revision except for removal of rates associated with the proposed cancellation of the street lighting tariffs. See UE 374, Exhibit PAC/1401, Meredith/22-25 and 43.

² Interest is currently calculated at a modified blended treasury rate (MBT) of 2.38 percent, which was the rate in effect when the tariff rates were approved pursuant to Order No. 17-019. As noted by Staff in Order No. 18-411, the 2017 MBT rate will continue to be applied during the reauthorization period until the Company proposes a tariff change, at which point the then current MBT rate would be applied, if approved.

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.

Conclusion

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

Staff notes that in the event future collections continue to exceed the Oregon allocation of REC purchases, a tariff adjustment may become necessary.

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, 2020.