ITEM NO. CA23

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 18, 2018

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** **November 27, 2018**

DATE: December 11, 2018

TO: Public Utility Commission

LS CM

FROM: Lauren Slawsky and Caroline Moore

THROUGH: Jason Eisdorfer and JP Batmale

SUBJECT: PACIFIC POWER: (Docket No. UM 1981) Application for Approval of Deferred Accounting for Costs Related to the Oregon Community Solar Program.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve PacifiCorp's application for deferred accounting of costs related to the Oregon Community Solar Program (CSP) for the 12-month period beginning November 27, 2018.

DISCUSSION:

Issue

Whether the Commission should approve PacifiCorp's application to establish and maintain a balancing account to record the deferral of non-capital start-up costs related to the CSP.

Applicable Rule or Law

PacifiCorp submits this deferral application in accordance with ORS 757.259(2)(e) and OAR 860-027-0300 seeking an order from the Public Utility Commission of Oregon that authorizes the company to establish and maintain a balancing account for deferred start-up costs related to the CSP, along with related interest at the Modified Blended Treasury Rate, consistent with the treatment of interest rates described in Order No. 08-263 as modified by Order No. 10-279. ORS 757.259 authorizes the Commission to allow a utility to defer expenses or revenues for later recovery in rates in order to minimize the frequency of rate changes or to appropriately match the costs and benefits to customers. OAR 860-027-0300 sets requirements for deferral applications for energy and large telecommunications utilities.

ORS 757.386 and OAR 860-088-0160 permit utilities to recover all start-up costs prudently incurred during the development or modification of the CSP in electric company rates. Further, the rules specify that these costs include both:

- Start-up Program Administrator (PA) and Low Income Facilitator (LIF) costs; and
- Utilities' prudently-incurred start-up costs.[1]

<u>Analysis</u>

Background
The Community Solar Program, implemented in Senate Bill (SB) 1547 and codified at ORS 757.386, establishes a program for the procurement of electricity from community solar projects. The Commission's subsequent CSP rules required electric companies to conduct several activities in support of the program, such as entering into a 20-year power purchase agreement with a certified project.

In accordance with SB 1547 Section 22(7)(c) and OAR 860-088-0160 regarding CSP funding, electric utilities can recover start-up costs prudently incurred during the development or modification of the program (start-up phase) through electric utility rates. On-going costs related to the program will be collected from program participants.

Stakeholder Engagement on Cost Recovery
Utilities, stakeholders, and Staff began outlining the process to recover CSP costs at a June 13, 2018 workshop. Along with the other public electric utilities in Oregon, PacifiCorp submitted a CSP cost recovery proposal to Staff on August 13, 2018. Staff and stakeholders support PacifiCorp's proposal to recover the PA/LIF and other prudently incurred start-up costs with a forward-and-backward looking automatic adjustment clause. Staff and the Citizens' Utility Board (CUB) agree that non-capital start-up costs will require thorough scrutiny to ensure that only incremental, prudently incurred costs are recovered from ratepayers through the automatic adjustment clause. Staff plans to engage regularly with PacifiCorp in reviewing their projected and actual CSP start-up costs.

For the period in which these start-up costs are incurred, the utilities can update the tariff annually to take into account an updated forecast of PA/LIF start-up costs and to defer and recover or refund any variance between forecasted and actual costs. While

[1] OAR 860-088-0160(1).

Staff understands forecasting these costs is challenging given the complexity of the CSP, thorough scrutiny is still required to ensure that only incremental and prudently incurred costs are recovered from ratepayers through the automatic adjustment clause. Staff and CUB did not agree with PacifiCorp's proposal to defer recovery of capital investment associated with the CSP when they initially proposed it in August.

On October 22, 2018, parties participated in a workshop to work through the unresolved issues related to the utilities' proposals for recovery of both PA/LIF and utility start-up costs. A key takeaway from the workshop included general agreement on how the utilities should recover non-capital PA/LIF start-up costs, though utilities could not provide detailed information about the magnitude of anticipated utility start-up costs. Idaho Power Company expects its billing system will be able to handle the requirements without expensive upgrades. Portland General Electric and PacifiCorp were not able to offer that supposition. An additional key takeaway from the workshop was that any utility deferral of capital utility start-up costs should follow the guidance provided in Docket No. UM 1909 Investigation of the Scope of the Commission's Authority to Defer Capital Costs.[2] The utilities began working with Staff to address the implications of Order No. 18-423 and to develop recommendations needed to implement the Commission's decision. The utilities are reviewing the Commission's guidance and developing new proposed processes for the recovery of capital utility start-up costs.

Description of Amounts
As defined in OAR 860-088-0160(1), start-up costs include costs associated with the Program Administrator (PA) and Low Income Facilitator (LIF), and each electric utility's prudently incurred start-up costs associated with implementing the CSP. These costs include, but are not limited to, costs associated with customer account information transfer and on-bill crediting and payment, but exclude any costs associated with the electric utility developing a CSP solar project. PacifiCorp's deferral application covers the funding for the PA and LIF, as well as the start-up costs related to internal administration costs, which include internal program management, billing system operating costs, and training and support for customer representatives. PacifiCorp anticipates incurring capital investments to upgrade its billing system to accommodate the billing credits of the CSP as required by OAR 860-088-0120, however capital costs will not be covered by this deferral application, in compliance with Order No. 18-423.

Reason for Deferral
PacifiCorp seeks deferred accounting treatment of the non-capital start-up costs associated with the PA, LIF, and the implementation of the CSP pursuant to

[2] On October 29, 2018, the Commission issued Order No. 18-423 in Docket No. UM 1909, which concluded that ORS 757.259(2)(e) provides the Commission no authority to allow deferrals of any costs related to capital investments.

ORS 757.259(2)(e). The deferral is necessary as SB 1547 requires the implementation of the program and allows utility recovery of all prudently-incurred CSP start-up costs from all ratepayers. The associated start-up costs are not currently in base rates and granting this application would minimize the frequency of rate changes and appropriately match the costs and benefits to customers.

Proposed Accounting
PacifiCorp proposes to record deferred CSP start-up costs by crediting FERC account 906 (Customer Service and Informational Expenses) and other relevant FERC expense accounts, and debiting the CSP start-up costs balancing account in FERC Account 182.3 (Other Regulatory Assets). Once the new tariff rider for CSP start-up costs is filed and approved, the deferral balance will be reduced monthly by the amount collected under the tariff schedule. A carrying charge calculated at the current Modified Blended Treasury rate will be recorded on the deferral balance monthly. If this application were to be denied, CSP start-up costs will remain in FERC account 906 and other relevant FERC expense accounts.

Estimate of Amounts
At this time, PacifiCorp estimates that its administration costs for the CSP start-up will be $175,000 for 2018-2019 and $140,000 for 2020, though these estimates are subject to change as the program is still in the development process and certain key milestones have not yet occurred such as engagement by the PA, completion of the program implementation manual, and selection of the LIF.

PacifiCorp will submit an advice filing for approval to recover the start-up costs associated with the CSP through a new tariff rider. The advice filing will note that the rate schedule will operate as a cost-of-service automatic adjustment clause to allow for adjustments to rates based on actual over- or under- collected amounts for the previous 12 months.

Information Related to Future Amortization

- Earnings Review – ORS 757.259(5) requires the Commission to review the utility's earnings at the time of application to amortize the deferral for amounts deferred pursuant to ORS 757.259(2)(e) unless recovery is subject to an automatic adjustment clause. PacifiCorp proposes that cost recovery associated with the CSP start-up would be subject to a cost-of-service automatic adjustment clause, to allow for adjustments to rates based on actual over- or under-collected amounts. Because an earnings review is not statutorily required and because prudently incurred costs are recoverable under SB 1547, Staff does not anticipate an earnings review.

- Prudence Review – For amortization, a prudence review should be completed to verify prudence of the costs prior to the filing to adjust tariff prices. This should include the verification of the accounting methodology used to determine the final amortization balance.
- Sharing Percentages – The CSP rules did not mandate any sharing. Therefore Staff does not recommend any sharing of the costs being considered for deferral.
- Rate Spread/Design – Applicable costs will be allocated to each schedule using the applicable schedule's forecasted energy on the basis of an equal percent generation revenue applied on a cents-per-kilowatt hour basis.
- Three Percent Test (ORS 757.259(7) and (8)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. This test limits 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. The amortization of the CSP start-up costs will be subject to the three percent test.

Conclusion

After engaging with the utilities, Staff, and stakeholders, general agreement has been reached regarding deferred recovery of PA/LIF start-up costs and non-capital utility start-up costs related to the CSP. Staff concludes PacifiCorp's request to defer the start-up costs associated with the CSP meets the requirements of ORS 757.259 and OAR 860-027-0300, and should be approved by the Commission.

PROPOSED COMMISSION MOTION:

Approve PacifiCorp's application to defer non-capital start-up costs associated with the CSP start-up for the 12-month period beginning November 27, 2018.

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