May 24, 2011

***VIA ELECTRONIC FILING***

***AND OVERNIGHT DELIVERY***

Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504‑7250

Attn: David W. Danner

 Executive Director and Secretary

**RE: Docket UE 100749 - Compliance Filing**

Dear Mr. Danner:

PacifiCorp, dba Pacific Power & Light Company (PacifiCorp, or Company) submits this filing to comply with paragraphs 206, 208 and 384 of the Washington Utilities and Transportation Commission’s (Commission) Order 06, Final Order Rejecting Tariff Sheets; Authorizing Increased Rates; and Requiring Compliance Filing in Docket 100749 (Order). These paragraphs direct the Company to make certain filings within 60 days of the Order related to proceeds from sales of Renewable Energy Credits (REC). The Company has designated the attachments to this filing as confidential under the Protective Order in this docket, Order 03.

Paragraph 206 of the Order requires:

 “that the Company prepare and file within 60 days following the date of this Order a detailed accounting of all REC proceeds received during the period January 1, 2009, to the most recent date for which data are available. The report must include any updated forecast of PacifiCorp’s REC sales for the rate year. We direct the company to work cooperatively with Commission Staff as to the form and content of this filing so that it will prove most beneficial to the Commission.”

Paragraph 208 of the Order requires:

 “the Company to file within 60 days after the date of this Order a detailed proposal for operation of the tracking mechanism going forward. This proposal should be developed in consultation with Staff and any other parties who wish to participate. The proposal must include a detailed discussion of the allocation method(s) the Company uses, or proposes to use, when allocating and reporting REC proceeds to Washington. If other parties disagree with PacifiCorp as to the details of the tracking mechanism or the allocation and reporting method(s) PacifiCorp uses or proposes to use, they may file alternative proposals.”

Paragraph 384 of the Order states:

“PacifiCorp must file within sixty days of this Order a detailed accounting of Renewable Energy Credit (REC) revenues received since January 1, 2009, and a detailed proposal for the REC tracking mechanism as required in Section II.C.2 of this Order. These filings, as well as additional filings required to be made in connection with the REC tracker, as discussed in the body of this Order, must be made in this docket as compliance filings or reports, as required under WAC 480-07-880(1) and (3).”

**Accounting for Actual REC Proceeds**

Confidential Attachment 1 provides a detailed accounting of REC revenues received for calendar year 2009. It contains three spreadsheets:

Page 1 provides a summary table of actual REC revenues by month and by resource for calendar year 2009. This information is provided on a total-company basis for all of the Company’s REC sales, including sales related to renewable resources that are not included in the Company’s Washington rate base under the West Control Area (WCA) allocation methodology. The table provides the resource subtotals by control area and then as allocated to Washington. As discussed below in the REC Tracker section, REC revenues are allocated to Washington using the Control Area Generation West (CAGW) factor, the same factor used to allocate the fixed costs of the resources. This spreadsheet is very similar in form and content to Table 2 of the Company’s quarterly REC Reports that the Company has been providing to Commission Staff (Staff), Public Counsel, and Industrial Customers of Northwest Utilities (ICNU) beginning on December 30, 2009, under the terms of the Stipulation adopted in Docket UE-090205.

Page 2 provides a summary table of the actual number of RECs sold by month and by resource for calendar year 2009. The table’s format matches that of Page 1 and provides REC sales on a total-company basis, a control-area basis and a Washington-allocated basis.

Pages 3 through 11 provide transaction details by contract by month for calendar year 2009, including the contract number, the name of the entity who is the counter party, the resource from which the REC was generated, the location and type of resource by control area, the vintage of the REC that was sold, the month in which the transaction was recorded in the Company’s SAP accounting system, the REC price, the quantity of RECs sold, and the total dollars from the transaction.

Confidential Attachment 2 provides the same information described above for calendar year 2010.

**Updated Forecast of REC Sales**

Confidential Attachment 3 provides an updated forecast of REC revenues from January 1, 2011 through March 31, 2012. Although the rate effective period technically ends on April 2, 2012, for practical reasons, the Company rounded the forecast to the end of March 2012. This attachment contains two spreadsheets:

Page 1 provides the total forecast REC revenues by month and by resource. The estimated sales volumes are based on the number of RECs generated each month that are forecast to be sold at some time during the calendar year. Given the complexities of the contracts and the variability of generation, it is not possible for the Company to precisely forecast in which month the REC will be sold and/or the REC revenue realized. The actual REC sales reports in Confidential Attachment 1 and 2, in contrast, provide the actual REC revenues that are achieved each month irrespective the vintage of the REC (the vintage of the REC is based on the month in which the REC was generated). As such, future actual REC revenue reports will likely vary significantly on a month-by-month basis from the forecast.

Page 2 provides the total forecast number of RECs sold by month and by resource. The table’s format and approach matches that of Page 1.

Confidential Attachment 4, page 1, provides the forecast of REC revenues on a Washington-allocated basis for the period from January 1, 2011 through March 31, 2012.[[1]](#footnote-1)

The updated forecast was developed based on the terms and conditions of executed contracts, as well as a “best guess” on future potential sales during the forecast period. The Company cautions the Commission and parties that the REC market is volatile and developing, and is significantly impacted by emerging policies and rules of each state related to renewable portfolio standard requirements.

**REC Proceeds Tracking Mechanism**

Explanation of Allocation of RECs

Each PacifiCorp state receives an allocation of the RECs generated by Company-owned renewable resources or acquired through power purchase agreements for the resources reflected in rates in the state. Initially, PacifiCorp uses forecast allocation factors to approximate the allocation of RECs to each state. Forecast allocation factors are updated to actual historical factors during the second quarter of the following year, once actual load data is finalized.

RECs are allocated using the System Generation (SG) factor under the Revised Protocol methodology and the CAGW factor under the WCA methodology. This allocation ensures that the allocation of RECs is consistent with the allocation of resource costs. Under both the Revised Protocol and the WCA, the SG and CAGW factors are used to allocate the fixed costs of renewable resources which account for the vast proportion of the overall costs of renewable resources.

PacifiCorp employs the WCA inter-jurisdictional allocation methodology for the purpose of allocating its costs to customers in the state of Washington. The WUTC approved the WCA allocation methodology in Order 08, Docket UE-061546. The west control area includes California, Oregon and Washington. Generation assigned to the west control area includes resources located within the west control area or with physical capability to deliver energy into the west control area. As noted above, RECs generated by renewable resources that have been found prudent and used and useful for service to Washington customers are allocated to Washington based on the CAGW factor. As such, Washington does not receive an allocation of RECs associated with renewable resources that have not been included in rates in Washington - those located in the east control area.[[2]](#footnote-2) This results in an unallocated portion of RECs from east control area renewable resources.

PacifiCorp employs the Revised Protocol inter-jurisdictional allocation methodology for purpose of allocating its costs to PacifiCorp customers in California, Idaho, Oregon, Utah, and Wyoming. RECs associated with all renewable resources are allocated to these states based on the SG factor. The application of different allocation methodologies implies a deficit of RECs associated with west control area resources. Although the different allocation methods among states require additional tracking, consistent with the Western Renewable Energy Generation Information System (WREGIS) and state renewable portfolio standard (RPS) requirements, under no circumstances will any RECs be double-counted as adherence to the WREGIS Operating Rules eliminates that possibility.

The above explanation was previously provided to Staff, Public Counsel, and ICNU on December 31, 2009, in compliance with the following term of the Stipulation adopted in UE- 090205:

“The Company agrees to provide a report prior to January 1, 2010 that includes: (1) an explanation of how Renewable Energy Credits (“RECs”) and associated costs and/or revenues are allocated among PacifiCorp’s six states; (2) an explanation of how the Company determines proper disposition of RECs on a total-company and state-by-state basis; and (3) a detailed accounting of the total-company RECs that were sold and the total-company RECs that were retained for each year from calendar year 2005 through June 2009.”

REC Proceeds After January 1, 2010

Paragraph 207 of the Order states:

“We require this detailed accounting, in part, considering the disputed question of whether PacifiCorp should be required to include, in what we here describe as a tracker account, REC proceeds received during the periods after the test year, including those received during the pendency of this proceeding. Staff proposed that REC proceeds received after January 1, 2010, be accounted for and established as a regulatory liability on the Company’s books, the rate treatment of which could be determined in a future proceeding. Another possible starting date for such an account might be the date on which PacifiCorp made its initial filing in this proceeding, which put the rate and accounting treatment of REC revenues in issue. Other possible dates are conceivable, including the start of the rate year. We do not finally resolve these questions in this Order. We require additional briefing on the subject, and may require additional evidence. We will establish process and schedule for this by subsequent notice.”

The information provided on page 1 of Confidential Attachment 2 provides the detailed information that is necessary to inform and implement, if applicable, the future Commission decision related to the tracking mechanism for Washington-allocated REC revenues received after January 1, 2010. For the reasons set forth in PacifiCorp’s post-hearing briefs in this docket, PacifiCorp continues to object to the inclusion of these past REC revenues in the tracking mechanism. The allocation methodology discussed above is applied to the subtotal of REC revenues from west control area resources to calculate Washington’s allocated share of REC revenues. This is shown on the final line of the spreadsheet. This allocation method to calculate Washington’s allocated share of REC revenues for 2009 and 2010 was first applied in the December 31, 2009, Quarterly REC Revenue Report discussed above, and was applied in each subsequent Quarterly REC Revenue Report.[[3]](#footnote-3) In addition, this allocation method was applied in the 2009 Commission Basis Report filed April 30, 2010 and the 2010 Commission Basis Report filed April 29, 2011.[[4]](#footnote-4) Finally, this allocation method was applied in the Company’s rebuttal filing in this docket.

Tracking Mechanism Going Forward

The Company’s detailed proposal for operation of the REC tracking mechanism going forward focuses on two key elements: (1) the annual process for reconciliation, and (2) the method for calculating Washington-allocated REC revenues.

Reconciliation Process:

Paragraphs 205 and 206 of the Order provide direction to the Company with respect to the reconciliation process:

“At the end of the rate year, PacifiCorp will be required to submit a full accounting of REC proceeds actually received during the preceding 12 months. This accounting will be considered in light of other information to determine if the amount of credits that should have been returned to customers exceeds or fall short of the estimated $4.8 million upon which the initial bill credits are based. In other words, the Commission will authorize a true-up of the initial credits that can be reconciled as credits are paid during the following 12 months.

At the end of the rate year and each subsequent annual period after the end of the rate year, PacifiCorp will be required to provide an estimate of the REC proceeds it expects to receive during the following 12 months. This is the amount on which credits during that period will be based. As at the conclusion of the initial period there will be a true-up at the end of each subsequent 12 month period.”

Although the Order ties the annual true-up to the rate year in this proceeding (April 3, 2011 through April 2, 2012), the Company respectfully requests that the Commission amend the Order to allow REC accounting and tracker true-ups to be based on a calendar year beginning in 2012. To this end, the Company proposes the following:

* By May 1, 2012, PacifiCorp will submit a full accounting of REC revenues actually received from April 1, 2011 through December 31, 2011. In each subsequent year, the accounting of actual REC revenues will be provided for the full calendar year.
* By May 1, 2012, PacifiCorp will also provide an estimate of the REC proceeds it expects to receive for calendar year 2012. In each subsequent year, an estimate for that subsequent calendar year will be provided.
* The Company proposes to accrue interest on any positive or negative balance in the tracker at the Company’s authorized weighted average cost of capital (WACC). Under the Order, this results in a 7.81% interest rate.

The Company proposes to file an advice letter on May 1 of each year to increase or decrease the renewable energy revenue adjustment credit in Schedule 95 to reflect the true-up for the historical period and the estimate of future proceeds. The advice letter filing would then be reviewed by parties and approved at a Commission public meeting.

Calculation of Washington-allocated REC Revenues:

Beginning in 2011, the Company will hold RECs for compliance with the Washington RPS, which means that fewer Washington-allocated RECs will be available for sale. As discussed above, the difference between the Revised Protocol and WCA allocation methodologies also creates complexities. For RPS compliance, a REC cannot be used more than once, or for more than one state. While in the past, the Company was not restricted from over-allocating REC revenues, under state RPS requirements, it is precluded from over-allocating the actual RECs. The calculation of revenues to be allocated to Washington under the REC tracking mechanism is designed to address this restriction.

The detailed calculation of the Washington-allocated REC Revenues for 2011 and beyond is provided beginning on page 2 of Confidential Attachment 4. Page 2 and 3 of the Confidential Attachment provide the calculation of Washington-allocated REC revenues associated with west control area resources that are eligible for compliance with the Washington RPS. Pages 4 and 5 of the Confidential Attachment provide the calculation of Washington-allocated REC revenues associated with west control area resources that are not eligible for compliance with the Washington RPS. A small portion of these resources are eligible for compliance with the Oregon and/or California RPS. Due to the difference between the rate period and the calendar year, for 2011 and 2012, the data is reflected in two columns for each year; a three-month period from January to March and a nine-month period from April to December.

RPS-Eligible RECs:

* Page 2, lines 1-5 show the total forecast generation and RECs from Washington RPS-eligible resources.
* Lines 7-11 apply the CAGW allocation factor to the forecast generation to calculate the Washington-allocated RECs from Washington RPS-eligible resources by year.
* Washington’s RPS requires utilities to provide 3% of the average prior two years retail sales from eligible renewable resources by January 1st of compliance years 2012 through 2015. Line 13 shows the RPS requirements based on load forecasts shown in the tables at the bottom of the page.
* Line 15 shows the actual RECs that are available to be allocated to Washington for Washington RPS-eligible resources based on the Revised Protocol. To ensure compliance with the RPS, the Company will make a below-the-line purchase for the difference between the Washington RPS compliance requirement and the estimated Washington eligible RECs using the Revised Protocol allocation method (SG Factor). (Line 16)
* Line 19 shows the Company’s estimates of Washington’s allocation of “pseudo” RECs in excess of its annual compliance targets for 2012 through 2015.
* The percentage of Washington’s pseudo excess RECs “sold” is determined by taking the actual eligible WCA RECs sold divided by the total eligible WCA RECs available for sale. This percentage is then applied to Washington’s pseudo excess RECs. The percentage of actual RECs sold is calculated on Page 3.
* The total Washington revenue credit from eligible resources is computed using the actual average REC price from WCA eligible resources (also calculated on Page 3) multiplied by the calculated pseudo excess RECs sold. This calculation is shown on lines 19-26.

RPS Non-Eligible RECs:

To the extent the Company is able to make sales of RPS non-eligible RECs in the future, the calculation of Washington’s allocated share of the revenues will be done in the same manner as described above for RPS eligible RECs. Due to the limited size of the market for RPS non-eligible RECs, at this time, the Company does not forecast any sales in the future.

If you have any questions regarding this compliance filing, please contact me at (503) 813-6043.

Sincerely,

Andrea Kelly

Confidential Enclosures

Cc (w/Confidential Enclosures to Qualified Persons): All Parties of Record

1. The data in Confidential Attachment 4 for April 2012 through December 2014 is provided for illustrative purposes only to demonstrate the workings of the REC Tracker Mechanism. [↑](#footnote-ref-1)
2. Similarly, Oregon does not receive an allocation of RECs associated with the Rolling Hills wind resource because it is not included in rate base in Oregon. [↑](#footnote-ref-2)
3. Subsequent reports were provided to Staff, Public Counsel and ICNU on July 28, 2010, October 29, 2010, February 1, 2011 and April 29, 2011. [↑](#footnote-ref-3)
4. The Company’s restated earned ROE in 2009 and 2010 was 5.28% and 6.69%, respectively, including the impact of the REC revenues. [↑](#footnote-ref-4)