

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	Docket No. UE-100749
v.)	
)	
PACIFICORP d/b/a PACIFIC POWER)	
AND LIGHT COMPANY,)	
)	
Respondent.)	
)	
_____)	

PHASE II TESTIMONY OF DONALD W. SCHOENBECK

ON BEHALF OF

PUBLIC COUNSEL

AND

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

REDACTED VERSION

September 9, 2011

I. INTRODUCTION AND SUMMARY

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Donald W. Schoenbeck. I am a member of Regulatory & Cogeneration
3 Services, Inc. (“RCS”), a utility rate and economic consulting firm. My business address
4 is 900 Washington Street, Suite 780, Vancouver, WA 98660.

5 **Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.**

6 **A.** I have been involved in the electric and gas utility industries for over 35 years. For the
7 majority of this time, I have provided consulting services for large industrial customers
8 addressing regulatory and contractual matters. I have appeared before the Washington
9 Utilities and Transportation Commission (the “Commission”) on many occasions since
10 1982. A further description of my educational background and work experience can be
11 found in Exhibit No. ____ (DWS-2) previously submitted in this proceeding.

12 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

13 **A.** I am testifying on behalf of the Public Counsel Section of the Washington Attorney
14 General’s Office (“Public Counsel”) and the Industrial Customers of Northwest Utilities
15 (“ICNU”).

16 **Q. WHAT TOPICS WILL YOUR TESTIMONY ADDRESS?**

17 **A.** The focus of my testimony will be addressing the value of renewable energy credits
18 (“RECs”) from PacifiCorp’s western control area (“WCA”) resources used to serve its
19 Washington jurisdictional load for the years 2009 and 2010. I will also address how any
20 REC revenues should be credited back to ratepayers through the Company’s Schedule 95
21 Renewable Energy Revenue Adjustment tariff.

1 **Q. PLEASE BRIEFLY SUMMARIZE YOUR TESTIMONY.**

2 **A.** This testimony first addresses the value of RECs attributable to Washington for 2009 and
3 2010. The Company has calculated REC revenue attributable to the Washington
4 jurisdictional portion of WCA resources to be [REDACTED] in 2009 and [REDACTED] in
5 2010 for a total of [REDACTED]. I believe the correct value attributable to the
6 Washington jurisdiction from WCA resources is [REDACTED] for 2009 and [REDACTED]
7 [REDACTED] for 2010 for a total of [REDACTED]. This is [REDACTED] greater than the
8 Company value. The difference in values is driven by two factors. First, the Company's
9 values [REDACTED] which I have excluded from
10 my calculation. Taken alone, this adjustment reduces the Washington REC value for
11 2009 and 2010. Second, and more importantly, the Company's calculation imputes no
12 value for RECs retained from WCA resources to satisfy other states' renewable portfolio
13 standard ("RPS") requirements. As Washington ratepayers are allocated a full share of
14 *all* costs associated with the WCA resources, these same ratepayers should be allocated a
15 full share of *all* the RECs associated with these same resources. I have included a value
16 for the RPS REC "sales" based on the average REC sales price for the type and vintage
17 of the associated resource.

18 The next part of my testimony addresses the accounting issues associated with
19 returning REC proceeds to Washington ratepayers. Public Counsel and ICNU support
20 the Company's request to move to a calendar year to track and reconcile REC revenue
21 credits to Washington ratepayers. However, instead of projecting the amount of revenue

^{1/} Exh. No. __ (SJK-3C) at 1.
^{2/} Exh. No. __ (SJK-2C) at 1.
^{3/} Exh. No. __ (DWS-6C) at 6.
^{4/} Id.

1 to be credited to ratepayers in a prospective year with a subsequent reconciliation as
2 suggested in Order 06,^{5/} Public Counsel and ICNU recommend basing the Schedule 95
3 rate credits on the accumulated REC revenue balance going into the year. As part of this
4 implementation, Public Counsel and ICNU recommend retaining the Schedule 95 credits
5 at the current levels until such time that the charges would over credit customers in a
6 prospective year. At that time, PacifiCorp should propose an adjustment to the charges in
7 its annual filing under the tracking mechanism.

8 Finally, I will not be addressing the Company's retroactive rate making claims
9 asserted in the Direct Testimony of Andrea A. Kelly, Exhibit No. __ (ALK-1T), as the
10 proper way to address this issue is through legal briefs.

11 II. 2009 AND 2010 WASHINGTON JURISDICTION REC VALUE

12 Q. WHAT REVENUE VALUE HAS THE COMPANY DETERMINED IS 13 ATTRIBUTABLE TO WCA RESOURCES FOR 2009 AND 2010?

14 A. The Company's Exhibit No. __ (SJK-2C) details and summarizes REC revenue for 2009.

15 Exhibit No. __ (SJK-2C), page 1, shows a revenue amount for WCA resources of [REDACTED]

16 [REDACTED] The last line of this same exhibit page shows a Washington jurisdictional share
17 of [REDACTED] The Company's Exhibit

18 No. __ (SJK-3C) details and summarizes the same information for 2010. Exhibit No. __

19 (SJK-3C), page 1, shows a revenue amount for WCA resources of [REDACTED] The

20 last line of this same exhibit page shows a Washington jurisdictional share of [REDACTED]

21 [REDACTED]

^{5/} WUTC v. PacifiCorp, Docket No. UE-100749, Final Order (Order 06), ¶ 206 ("Final Order") (*providing, in part*: "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 its [sic] 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)."

1 Q.

2 [Redacted]

3 A.

4 [Redacted]

5 [Redacted]

6 [Redacted]

7 [Redacted]

8 [Redacted]

9 [Redacted]

10 [Redacted]

11 [Redacted]

12 [Redacted]

13 [Redacted]

14 [Redacted]

15 [Redacted]

16 [Redacted]

17 [Redacted]

18 [Redacted]

19 [Redacted]

20 Q.

21 [Redacted]

22 A.

23 [Redacted]

24 [Redacted]

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[REDACTED]

[REDACTED]

Q. ARE YOU SUGGESTING THAT EXCLUDING [REDACTED] FROM THE COMPANY AMOUNTS RESULTS IN THE CORRECT AMOUNT OF REC VALUE FOR 2009 AND 2010 AS PRESENTED ON THE SIXTH PAGE OF EXHIBIT NO. __ (DWS-6C)?

A. No. The Company’s revenue values for 2009 and 2010 only correspond to the RECs deemed to be sold from the resources. It does not represent the value of all RECs generated by these resources in 2009 and 2010. To understand this critical difference, pages 1 and 2 of Exhibit No. __ (DWS-6C) presents the total 2009 and 2010 RECs generated by each WCA resource, along with the amount of RECs held for RPS compliance in other states, the number of RECs sold (in 2009 or 2010), and the remaining RECs available for sale. Using as an example the wind RECs for 2009, the Company’s revenue value *only* includes sales of [REDACTED] [REDACTED] even though these resources generated [REDACTED] RECs in 2009. The majority of the remaining 2009 wind RECs— [REDACTED] —are being held by the Company to fulfill other states RPS compliance requirements. While I do not object to the Company holding these RECs for compliance purposes for other states, I do object to the Company failing to impute a value for 2009 and 2010 RECs retained for compliance and appropriately allocating this value to Washington customers. To put it very simply, Washington ratepayers are paying their share of *100 percent* of the costs of the resources that generate the RECs. Therefore—and consistent with the principles discussed in Order 03 in Docket UE-070725 and restated in Order 06 in this docket— Washington ratepayers should receive their appropriate share of *100 percent* of the RECs

1 generated by these resources.^{6/} This includes the RECs held for compliance, i.e., used in
2 a given year to meet another state's RPS requirements.

3 **Q. HOW SHOULD THE VALUE OF RECs USED FOR RPS COMPLIANCE BE**
4 **DETERMINED?**

5 **A.** The most reasonable approach is to impute a value based on the price realized from the
6 actual sales from the same type of resource and vintage. Notably, this is the same
7 approach being proposed by the Company in valuing what it terms are the "pseudo"
8 RECs in excess of compliance needs under the proposed tracking mechanism for 2012
9 onward.^{7/} To illustrate this calculation, page 5 of Exhibit No. __ (DWS-6C), shows the
10 average 2009 wind REC price was [REDACTED] per REC. This price should be used as the
11 RPS "sales" price for 2009 vintage wind RECs allocable to Washington but held for
12 another state's RPS compliance. Applying this price to the [REDACTED] RECs held for
13 compliance (shown on page 1 of Exhibit No. __ (DWS-6C)) increases the 2009
14 Washington ratepayer REC value by [REDACTED]

15 **Q. SHOULD RATEPAYERS ALSO RECEIVE THE VALUE OF THE REMAINING**
16 **WCA WIND AND NON-WIND RECS THAT ARE AVAILABLE FOR SALE?**

17 **A.** Yes, but only if they are subsequently sold. In other words, if the Company sells some of
18 the remaining 2009 or 2010 RECs available from the WCA resources (i.e., 2011 or
19 2012), the revenue should be booked to the appropriate balancing account and flowed
20 through Schedule 95 at the appropriate time. As part of the Company's annual filings,
21 the Commission should direct the Company to report all REC activity for the reporting
22 year including the generation of RECs, REC sales by vintage, and any changes in the
23 number of RECs held for RPS compliance by resource. This level of detail will allow

^{6/} See Final Order (Order 06), ¶¶ 199-200 and 202.

^{7/} See Phase II Direct Testimony of R. Bryce Dalley, Exh. No. __ (RBD-25T) at 8-9.

1 parties to readily track REC activity going forward in the rather abbreviated time period
2 being proposed by the Company.

3 **Q. BASED ON YOUR RECOMMENDATIONS TO EXCLUDE [REDACTED]**
4 **[REDACTED] AND TO IMPUTE A VALUE FOR RECS HELD FROM THE MARKET**
5 **FOR RPS PURPOSES, WHAT ARE YOUR TOTAL 2009 AND 2010**
6 **WASHINGTON REC REVENUE VALUES?**

7 **A.** As shown on page 6 of Exhibit DWS-6C, I am recommending a 2009 Washington REC
8 revenue value of [REDACTED] and a 2010 REC revenue value of [REDACTED]. These
9 amounts are higher than the Company's proposed values by a total of [REDACTED]

III. REC REVENUE TRACKING MECHANISM

10 **Q. HOW IS THE COMPANY PROPOSING TO TRACK THE REC REVENUE**
11 **GOING FORWARD?**

12 **A.** Pursuant to Commission directives, the Company's proposed tracking mechanism would
13 be based on the balance at the end of the prior year, plus a forecast of the expected REC
14 revenue for the prospective year.^{8/} This value would be used to establish class rate
15 credits under the Company's Schedule 95 Renewable Energy Revenue Adjustment.
16 Then, at the end of the year, any difference between the projected and actual REC sales,
17 and the credits paid to customers, would be trued-up and incorporated into the next year's
18 calculation. While the Commission directives stated the true-up should be for the rate
19 year—April 3, 2011 to April 2, 2012—the Company is requesting the REC crediting
20 process use calendar years. On a calendar year basis, the Company would submit its
21 annual filing by May 1 of each year. This filing would reconcile the prior year's
22 accounting of RECs and project the instant year's forecast of REC revenue. If needed, the
23 Company would also submit proposed changes to Schedule 95 rate credits through an

^{8/} Final Order (Order 06), ¶ 203.

1 advice letter process.

2 **Q. DO PUBLIC COUNSEL AND ICNU SUPPORT THE REC TRACKING**
3 **MECHANISM PROPOSED BY THE COMPANY?**

4 **A.** Public Counsel and ICNU are in agreement with all aspects of the Company tracking
5 proposal— except one. Public Counsel and ICNU agree to have the accounting be based
6 on a calendar year rather than the rate year, which is the basic framework for calculating
7 the amount of credit attributable to WCA resources, including the “pseudo” REC
8 calculation. This is illustrated in Exhibit RBD-27, which shows the use of the
9 Company’s weighted average cost of capital (“WACC”) for accruing interest on any
10 balance in the tracking account, as well as the Company proposed filing process for
11 reporting, reviewing and potentially implementing changes to Schedule 95 charges.

12 The aspect that Public Counsel and ICNU do not agree with has to do with
13 projecting REC revenue for the applicable year. While the Commission order stated that
14 the credit should be based only on an estimate of what the Company expects for the
15 twelve forward months,^{9/} Public Counsel and ICNU recommend that the credit be based
16 on the actual accumulated amount in the tracking account. By implementing the
17 approach based on actual amounts already booked in the preceding year—a one year
18 “lag”—Public Counsel and ICNU are seeking to prevent a situation similar to that
19 addressed in Docket UE-091703, i.e., accumulating a cash balance in an interest-bearing
20 account that ultimately must be recovered from customers.^{10/}

^{9/} See Final Order (Order 06), ¶ 206.

^{10/} Washington Utilities and Transportation Commission v. Puget Sound Energy, Inc., Docket No. UE-091703, Order Dismissing the Complaint and Order Suspending Tariff Revisions and Allowing Tariff Revisions (Order 02).

1 **Q. CAN YOU EXPLAIN HOW THIS APPROACH WOULD WORK?**

2 **A.** Yes. The existing Schedule 95 credits are based on an estimated \$4.8 million of
3 Washington REC revenue for the rate year.^{11/} If the Commission finds that REC credits
4 from 2009 on should be credited to ratepayers, the Company will be submitting a
5 reconciliation report by May 2012 for the period of April 2011 through December 2011
6 with a large credit balance. I recommend that the existing Schedule 95 credits be
7 maintained until such time that the balance would be insufficient to continue the credits
8 for the next year. At that time, the Company should derive new Schedule 95 charges
9 based on the full amount in the tracking account at the year's end. By using the actual
10 balance from the past year instead of the actual balance *plus* a projection for the
11 upcoming year, Public Counsel and ICNU are seeking to minimize the size of possible
12 negative balances in the tracking account.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 **A.** Yes, it does.

^{11/} See Final Order (Order 06), ¶ 204.