

Agenda Date: December 22, 2016
Item Number: A1

Docket: UE-143915
Company: Pacific Power & Light Company

Staff: Jason Ball, Regulatory Analyst
Kyle Frankiewicz, Regulatory Analyst

Recommendation

Issue an Order to:

- 1) Authorize deferral of the costs to purchase Renewable Energy Certificates for 2014 (2014 Credits) in Account 182.3, Regulatory Assets
- 2) Find that the purchase of the 2014 Credits was prudent
- 3) Authorize the recovery of the cost of the 2014 Credits in Schedule 95.

Background

On November 18, 2014, Pacific Power & Light Company (Pacific Power or Company) filed an accounting petition seeking authorization to defer costs related to the purchase of unbundled Renewable Energy Certificates (RECs). The RECs were purchased by Pacific Power to meet the Company's RPS requirement in 2015, 2016, and 2017.

The Energy Independence Act (EIA or Act)¹ sets a Renewable Portfolio Standard (RPS) which requires qualifying electric utilities to obtain certain percentages of their electricity from eligible renewable resources. The Washington Utilities and Transportation Commission (Commission) enforces compliance with the EIA by investor-owned utilities.² Utilities may generate RECs using eligible renewable resources, purchase RECs from other generators, or a combination of the two approaches. The RPS requirement starting in 2012 was three percent of retail load. This requirement adjusted upward to nine percent in 2016, and moves up to 15 percent in 2020.

Discussion

Time to resolve petition

The accounting petition presented by Pacific Power is over 2 years old. Ideally, a petition such as this would be consolidated into a general rate case (GRC) filing for prudence evaluation and cost recovery. However, Pacific Power's most recent GRC was completed at the end of September. The final order in Docket UE-152253 authorized the Company to engage in a rate plan extending through 2018. Deferring this accounting petition would therefore result in an additional 2 years before any cost recovery could begin.

¹ RCW Chapter 19.285.

² RCW 19.285.060(6).

Staff regrets the amount of time it has taken to process this accounting petition. The petition was incorrectly excluded from consideration for consolidation in the Company's most recent GRC. To correct for this procedural lapse, staff proposes to conduct an evaluation of the prudence of the 2014 REC's now. This prevents a delay in cost recovery and the accumulation of additional interest.

Prudency Evaluation

Staff has reviewed the Company's procurement of the 2014 Credits and recommends the commission find them to be a prudent acquisition for RPS compliance. Staff's evaluation relied on several different factors for determining prudence:

- 1) The Need for the Resource³ – The RPS requirement can be met in two ways: applying RECs generated by the Company's generating resources, or purchasing RECs from other generators. From 2012 through 2014, Pacific Power generated more RECs than were needed to meet the 3 percent target.⁴ The excess RECs were sold, and the funds generated returned to Washington ratepayers through a separate tracking mechanism discussed below.⁵

The Company's future REC needs were identified and planned for in Pacific Power's 2013 Integrated Resource Plan (IRP), and further honed in its 2013 IRP update.⁶ The Company planned for the increasing RPS requirement in 2016 by securing low-priced RECs in 2014, and by saving all Washington-allocated RECs generated in 2015.

- 2) Evaluation of Alternatives – The Company evaluated several alternatives both in its 2013 IRP as well through a request for proposal (RFP) related to the actual purchases. Staff reviewed the RFPs at the Company's headquarters. The Company conducted an appropriate evaluation of various alternatives. The choice to purchase RECs was the most cost-effective way to comply with the 2016 RPS requirements.
- 3) Involvement of the Company's Board of Directors – Since Pacific Power does not operate with a formal board of directors, staff generally applies a reasonableness standard for the purposes of prudence. The Company involved several key executives in the decision to purchase RECs for compliance and analyzed the business case for different options for compliance. After reviewing internal communications, staff believes the REC purchases are in line with the actions of a reasonable board of directors.

³ More information about these criteria can be found in Order 9 of Docket UE-111048 at ¶409.

⁴ A Company's annual requirement is determined through a filing in June of each year. Reports are filed per WAC 480-109-210. The company's yearly reports are filed under the following dockets: 2012 – UE-120813; 2013 – UE-131063; 2014 – UE-140802; 2015 – UE-151162; 2016 – UE-160777.

⁵ For Commission orders regarding REC sales, and for Pacific Power's yearly REC sale filings, see Docket UE-100749.

⁶ PacifiCorp 2013 IRP Update, filed 3/14/2014 under Docket UE-120416.

- 4) Adequate Documentation – The Company responded to several data requests along with information detailing its involvement of the Company’s management, evaluation of alternatives through an RFP, and the need for the resource. Staff has reviewed these responses in relation to each of the other standards for prudence. Staff supports a finding of prudence for the purchase of these RECs.

Cost Recovery

Concurrent with the Company’s procurement of the 2014 Credits, Pacific Power was ordered by the commission to recover certain costs through a tracker mechanism in schedule 95.⁷ The remaining balance in the tracker mechanism is \$898,851 and is expected to be fully amortized in March 2017. Adding an additional \$432,137 related to the 2014 Credits and the accumulating interest extends the ending date of Schedule 95 from March 2017 to June 2017. Staff asserts that using the Schedule 95 mechanism is a reasonable way to grant the Company cost recovery while preventing any immediate change to rates for ratepayers.

Conclusion

Staff has reviewed the accounting petition and recommends the commission issue an order authorizing accounting treatment for the costs related to the purchase of the 2014 Credits. Staff has reviewed these purchases and believes the costs related to the 2014 Credits to be prudently incurred. Staff recommends the commission authorize Pacific Power to recover the costs of the 2014 Credits in rates through the Schedule 95 tracker mechanism.

Recommendation

Issue an Order for the following:

- 1) Authorize deferral of the costs to purchase Renewable Energy Certificates for 2014 (2014 Credits) in Account 182.3, Regulatory Assets.
- 2) Find that the purchase of the 2014 Credits was prudent.
- 3) Authorize the recovery of the cost of the 2014 Credits in Schedule 95.

⁷ These costs were related to the over-crediting of revenues from the sales of REC revenues prior to 2014, see Docket UE-100749.