

February 28, 2013

***VIA ELECTRONIC FILING***

***AND OVERNIGHT DELIVERY***

Washington Utilities and Transportation Commission

1300 S. Evergreen Park Drive SW

P.O. Box 47250

Olympia, WA 98504-7250

Attention: Steven V. King

 Acting Executive Director and Secretary

**RE: Docket UE-100749—Renewable Energy Revenue Tracking Mechanism**

Dear Mr. King:

In accordance with Washington Utilities and Transportation Commission (Commission) Orders 10 and 11 in Docket UE-100749, PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company) submits this letter jointly with Commission Staff, the Industrial Customers of Northwest Utilities, and Public Counsel. This letter describes the parties’ agreed-upon proposal for a mechanism to account for renewable energy credit (REC) and renewable energy attribute (REA) revenue. In paragraph 75 of Order 10 the Commission ordered the following:

[P]arties must file either an agreed mechanism for crediting historic and future Renewable Energy Credits sales proceeds to PacifiCorp’s customers, or individual proposals for such a mechanism accompanied by supporting documentation demonstrating how the proposal complies with this order and Commission objectives.

On January 9, 2013, the parties held a conference call and were able to agree on the calculations for determining Washington’s share of REC and REA revenues and an appropriate mechanism. Although the parties agree on the design of the mechanism, the parties do not agree on whether revenues before April 3, 2011, should be credited to customers. The Company is currently appealing this issue. Detailed below is the operation of the mechanism and the method for calculating REC and REA revenues. The parties request that the Commission issue an order approving the calculations and the operation of the mechanism described below.

**Operation of the Mechanism**

On May 1 of each year (beginning May 1, 2013) the Company will submit a compliance filing detailing REC and REA revenues for the previous calendar year.[[1]](#footnote-1) The annual filing will also include revisions and updates to the tariff schedule designed to credit or charge Washington customers for the prior year’s Washington-allocated net revenues over an approximate one-year period beginning 30 days from the Company’s compliance filing (June 1). The compliance filing will occur each year with true-ups for any over- or under-crediting of net revenues based on fluctuations in Washington KWh sales. Interest will accrue on the net balance at the Company’s Washington after-tax authorized rate of return (currently 6.72 percent as established in docket UE-111190). To the extent the Commission orders pre-April 3, 2011 revenues to be credited to customers, a mechanism similar to that described above would be used, potentially modified to lengthen the amortization period to avoid significant fluctuations in customer rates. Order 10 required the Company to credit to customers REC and REA revenues from January 1, 2009, through April 2, 2011. Accordingly, the Company will accrue interest on the pre-April 3, 2011 balance at the Company’s Washington after-tax authorized rate of return from the date of that order (August 23, 2012) forward. [[2]](#footnote-2) This is consistent with the Company’s accounting treatment, where a regulatory liability was established upon receipt of the order and is accruing interest each month. To the extent pre-April 3, 2011 revenues are credited to customers, the Company will ensure there is no double-counting of revenues from the post-April 3, 2011 periods.

**Calculation of Washington-allocated REC and REA Revenues**

Confidential Attachment A shows an accounting of actual revenues from January 1, 2009, through March 31, 2011,[[3]](#footnote-3) calculated in compliance with Orders 10 and 11.[[4]](#footnote-4) Confidential Attachment B is parallel in structure to Confidential Attachment A, but covers the time period from April 1, 2011 through January 31, 2013. Confidential Attachment C shows a summary of the Company’s megawatt hours (MWh) of renewable generation, quantities of REAs and RECs sold, quantities of REAs and RECs held for compliance, and revenues from sales of REAs and RECs for the various types of renewable generation (wind, small hydro, large hydro, and biomass) from resources included in the west control area. This attachment also shows the average price of REAs and RECs used for the revenue imputation calculations in Confidential Attachments A and B. Confidential Attachment D shows that the Company credited $8.4 million to customers through Schedule 95—Renewable Energy Revenue Adjustment, from April 1, 2011 through January 31, 2013.[[5]](#footnote-5)

Page 1 of Confidential Attachment A shows, for the period January 1, 2009, through March 31, 2011, a summary of the Washington allocation of actual and forecast revenues from known contracts as of February 4, 2013 (line 1), the Washington allocation of imputed revenues associated with REAs or RECs held for compliance (line 2), an adjustment for Washington’s RPS compliance requirements (line 3), and REA or REC sales included in rates in the Company’s 2009 general rate case (line 4). Total Washington-allocated revenues are calculated on line 5.

Page 2 of Confidential Attachment A shows the more detailed calculations that are summarized on page 1. The first step in determining Washington-allocated REA or REC revenues is allocating revenues from the sale of REAs or RECs from west control area resources. Lines 1 through 6 show the total revenue (actual or forecast) from west control area resources. Lines 10 through 15 show Washington’s allocation of these revenues using the Control Area Generation West (CAGW) factor.

The second step is the calculation of imputed revenues associated with REAs or RECs held for compliance according to section C of Order 10. Lines 17 through 50 reflect the calculation of Washington’s allocation of the value of REAs or RECs held for compliance. These imputation calculations are categorized by renewable generation resource type (wind, small hydro, large hydro, and biomass). The Company allocates Washington its CAGW share of all REAs or RECs held for compliance, and then multiplies that share by an average price based on transactions for that type and vintage of REA or REC. As described in paragraph 31 of Order 11, this calculation is based on the premise that 100 percent of these REAs or RECs were effectively “sold” by the Company.

The third step in the calculation is shown on lines 52 through 55 and reflects an adjustment for Washington’s RPS compliance requirement. This calculation uses the same average price assumption for wind RECs as used in the revenue imputation calculation for RECs held for compliance (described above).

The final step is to subtract REA or REC revenues included in rates from January 1, 2010, through March 31, 2011, as part of the Company’s 2009 general rate case. This is detailed on lines 57 through 59. Total Washington-allocated REA or REC revenue is calculated on line 59 and is carried forward to page 1, line 5. As stated above, Confidential Attachment B is parallel in structure to Confidential Attachment A, but covers the time period from April 1, 2011 through January 31, 2013.

The parties agree to the calculation method for determining Washington’s allocation of REA and REC revenue described above. This methodology is consistent with Commission Orders 10 and 11 in this docket. The same methodology was used in the Company’s compliance filings submitted on December 31, 2012,[[6]](#footnote-6) and January 16, 2013.[[7]](#footnote-7)

Although not agreed to by the parties, in the future the Company may seek to amend the mechanism to include costs associated with Washington renewable portfolio standard compliance, such as REC purchases, through a separate filing.

Sincerely,

William R. Griffith

Vice President, Regulation

PacifiCorp

On behalf of PacifiCorp, Commission Staff, the Industrial Customers of Northwest Utilities, and Public Counsel.

Enclosures

cc: UE-100749 Service List

1. The Company recognizes that Order 13 in Docket No. UE-100749 establishes a January 31 filing date. However, Western Renewable Energy Information System (WREGIS) certificates from renewable generation are not created until 90 days after the end of each generation month. Accordingly, the Company requires an approximate four month period to transfer the WREGIS certificates to counterparties and validate actual generation by resource. [↑](#footnote-ref-1)
2. Interest will be calculated and presented in the Company’s compliance filings on May 1 of each year. Please note that interest is not reflected in the amounts presented in Confidential Attachments A and B. [↑](#footnote-ref-2)
3. For administrative ease, the pre-April 3, 2011 revenues are categorized as amounts through March 31, 2011. [↑](#footnote-ref-3)
4. The Company designates portions of Attachments A and B and all of Attachment C as confidential under the Protective Order in this docket, Order 03. [↑](#footnote-ref-4)
5. Consistent with Order 13, the Company adjusted Schedule 95 to zero cents per kilowatt hour, effective February 12, 2013. The Company estimates that an additional $300,000 was credited to customers in February prior to the rate adjustment. [↑](#footnote-ref-5)
6. The December 31, 2012 filing was made in compliance with Orders 10 and 11. [↑](#footnote-ref-6)
7. The January 16, 2013 filing was made in compliance with Order 12. [↑](#footnote-ref-7)