

Agenda Date: October 19, 2018
Item Number: A5

Docket: UE-180494
Company: Pacific Power & Light Company

Staff: David Gomez, Assistant Power Supply Manager, Energy Regulation
Jason Ball, Deputy Assistant Director, Energy Regulation

Recommendation

Reject Pacific Power & Light Company's petition for a 24-month amortization period and an effective date of January 1, 2019, for its Schedule 97 refund of \$17.9 million in over-collected power costs.¹

Staff recommends the commission issue an order directing Pacific Power & Light Company to refund \$17.9 million of over-collected power costs through Schedule 97 effective November 1, 2018, with an amortization period of 12-months.

Background

On May 26, 2015, the Utilities and Transportation Commission (commission) issued Order 09 in Docket UE-140762 (Order 09). Order 09 authorized Pacific Power & Light Company (Pacific Power or company) to implement a Power Cost Adjustment Mechanism (PCAM) allowing for positive or negative adjustments to its rates to account for fluctuations in power costs outside of an authorized band for power-cost recovery in base rates. Under the Settlement Stipulation in Order 09, Pacific Power is required to file by June 1 of each year a request to confirm the power costs of the prior calendar year and to authorize the company to defer any costs that exceed established thresholds under the PCAM.²

On June 1, 2018, Pacific Power filed testimony, exhibits, and supporting documentation related to power costs deferred under the PCAM for the period from January 1, 2017, through December 31, 2017. In 2017, Pacific Power's actual net power expense allocated to Washington exceeded the authorized baseline expense by \$19,249,685. The resulting 2017 allocations under the PCAM are as follows:

2017 PCAM Results			
WA Authorized vs Actual (total variance)	Less \$4 million deadband (available for sharing)	Company Share	Customer Share
\$19,249,685	\$15,249,685	\$2,424,969	\$12,824,717

Table 1; Pacific Power 2017 PCAM Results

In its June 1 filing, Pacific Power also reported on the accumulated deferral balance for the years 2015 through 2017 of \$17.9 million. The year to year results are summarized in Table 2 below:

¹ See Table 2 below for a summary of year to year PCAM variances and deferrals.

² Settlement Stipulation in Docket UE-140762 at ¶19.

(millions)		Deadband	Sharing Bands	
Year	PCAM Variance	Company (Absorbed)	Company Share	Customer Share (Deferred)
2015 ³	+\$2.9	+\$2.9	\$0.0	\$0.0
2016	-\$5.6	-\$4.0	-\$0.4	-\$1.2
2017 PCAM Settlement				-\$3.5
2017	-\$19.2	-\$4.0	-\$2.4	-\$12.8
Interest on Deferral Balance				\$0.4
Total	-\$21.9	-\$5.1	-\$2.8	-\$17.9

Table 2; Pacific Power PCAM Results 2015-2017

On August 30, 2018, the commission issued its Order 01 in UE-180494 (Order 01) approving Pacific Power's 2017 PCAM Annual Report. In addition, Order 01 required that the company file a tariff revision to its Schedule 97 with an effective date of November 1, 2018, to pass back the accumulated credit deferral of \$17,899,494 over a 12-month period. In Order 01, the commission stated that the company or other parties may petition the commission to alter the surcharge or credit amortization and payout pursuant to the terms of the commission's order that approved the PCAM Settlement Stipulation (Order 09).

On October 8, 2018, Pacific Power filed with the commission a petition seeking to alter the amortization period of the accumulated deferral balance. In addition, the company's petition seeks to delay the start of the refund from the date specified by the commission in Order 01 of this docket.⁴

Discussion

The company's petition proposes changes to both the effective date and amortization period of the PCAM sur-credit with the stated intent of minimizing rate shock for customers and supporting rate stability. The company asserts that a 5.1 percent decrease in rates (impact of the sur-credit) followed 12-months later by an increase of this same amount (once the sur-credit on Schedule 97 has expired) would have an adverse effect on customers.⁵ The company's proposal to begin the refund on January 1, 2019, and amortize the \$17,899,494 over a 24-month period results in a net decrease of 2.6 percent (\$2.94 monthly decrease on an average residential bill). The company's petition also provides the allocation to each customer class of the refund amount. Staff has no issue with the proposed methodology for allocating the refund. However, staff does not agree with the company's assertion that customers are harmed by receiving a refund

⁴ In the Matter of Pacific Power & Light Company, 2017 Power Cost Adjustment Mechanism Annual Report, Docket UE-180494, *Pacific Power & Light Company's Petition to Alter the Sur-Credit Amortization and Effective Date*, ¶1.

⁵ A one-year amortization beginning on November 1, 2018, results in a monthly reduction of \$5.88 for the average residential customer.

expeditiously over a 12-month period. The commission's Order 01 in Docket UE-180494 directs Pacific Power to begin rebating the \$17.9 million to customers on November 1, 2018:

Because more than eight months has elapsed since the end of the 2017 deferral period, the Commission directs Pacific Power to file a tariff revision to Schedule 97 and begin refunding to customers the accumulated deferral of \$17,899,494 by November 1, 2018.⁶

Additionally, and as the commission notes in Order 01, the PCAM Settlement Stipulation specifies a 12-month amortization period for either a refund or a surcharge. The commission does note in Order 01 that the company or other parties may petition to alter the surcharge or credit amortization. Staff believes it is implicit that such a petition must be accompanied by a compelling rationale. The order approving the PCAM provides the following guidance:

Such petitions may be appropriate, for example, if the accumulated balance is large enough to require a surcharge or credit that might have too significant an impact on customers or the Company if paid monthly over 12-months, or if other rate changes are imminent and may be beneficially adjusted by use of some or all of the accumulated PCAM deferral balance in excess of \$17 million.⁷

Staff disagrees with the company's rationale. The company's reasons for delaying the refund to customers are insufficient grounds to abandon the negotiated terms of the settlement stipulation. Specifically, all of the parties agreed to the level of the trigger, fully anticipating the threshold amount of the refund and its effect on customer bills at the time but recognizing the importance of returning excess power costs in an expedient manner. Further, Pacific Power's future rate case activity is only a plan thus far, and the timing of this activity is fully within the company's control. The timing of planned rate case filings, therefore, is not an appropriate basis on which to delay distribution of the sur-credit to customers.

It is also worth considering Pacific Power's share of power cost variances under the PCAM. Table 2 above shows that the company received an additional \$7.9 million through the PCAM in 2017.

The company's proposal allows Pacific Power to immediately reap the benefit of over collection while customers must wait a full year for the rebate to commence, and another 24 months to receive the full amount owed to them.

Conclusion

Pacific Power has not presented a compelling rationale for diverging from the 12-month amortization period it agreed to in the settlement establishing the PCAM, or for not complying with the commission's directive in Order 01 of UE-180494 to begin returning over-collected power costs to ratepayers on November 1, 2018.

⁶ In the Matter of Pacific Power & Light Company, 2017 Power Cost Adjustment Mechanism Annual Report, Docket UE-180494, *Pacific Power & Light Company's Petition to Alter the Sur-Credit Amortization and Effective Date*, ¶10.

⁷ *Washington Utilities and Transportation Commission v. Pacific Power & Light Company*, Docket UE-140762, Order 09 at 12:34 (May 26, 2015).

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