

Agenda Date: February 9, 2017
Item Number: A1

Docket: UE-161067

Company: Pacific Power & Light Company

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

Recommendation

Issue an order authorizing Pacific Power to defer the costs of ongoing purchases of Renewable Energy Credits (RECs) for Renewable Portfolio Standard (RPS) compliance from 2016 until the conclusion of its next general rate case as Regulatory Assets in Account 182.3, without interest, and allow the recovery of the purchased RECs in Schedule 95 until Pacific Power's next general rate case. Pacific Power shall submit a compliance filing to adjust Schedule 95 as necessary on or before July 1, 2017.

Background

Pacific Power & Light Company (Pacific Power or company), a division of PacifiCorp, provides electricity to 740,000 customers in Washington, Oregon and California. Their Washington service areas is comprised of most of Yakima and Walla Walla counties and parts of Columbia, Garfield and Kittitas counties, and includes about 128,000 customers and 300,000 residents.

The Energy Independence Act (EIA or Act)¹ sets a Renewable Portfolio Standard 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 or purchase power 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 increases to 15 percent in 2020.

On November 18, 2014, Pacific Power filed with the commission an accounting petition seeking authorization to defer costs related to the purchase of unbundled RECs (2014 Credits).³ The RECs were purchased by Pacific Power to meet the company's RPS requirement in 2015, 2016, and 2017. On December 22, 2016, the commission issued an order authorizing deferral of the costs to purchase the 2014 Credits, finding that the costs to procure the 2014 Credits were

¹ RCW Chapter 19.285.

² RCW 19.285.060(6).

³ Pacific Power accounting petition, Docket UE-143915.

prudently incurred, and authorizing the recovery of the costs of the 2014 Credits through Schedule 95.⁴

On September 9, 2016, Pacific Power filed an accounting petition seeking authorization to defer costs related to ongoing purchases of RECs to be used for RPS compliance in future years, asking that the costs be deferred for later ratemaking treatment.

Discussion

RPS Compliance – nature of costs: Pacific Power does not know exactly what the cost of regulatory compliance will be in any given year, because the RPS requirement hinges on the company's load, its dispatch decisions, the availability of its and other producers' renewable generation, and other factors which traditionally are under the umbrella of power costs. Because both RPS compliance mechanisms are connected to the company's decisions in sourcing generation, commission staff finds these costs are most accurately conceptualized as power costs. This is reinforced by the fact that the REC purchase costs are variable based on the productivity of a prospective REC seller's renewable generation fleet in any given year.

Staff's recommendation: Pacific Power requests permission to defer the costs of REC purchases with a later determination of recovery. Staff recommends accepting the deferral of the REC expenses and allowing recovery via the Schedule 95 REC tracker until the next general rate case. In the short-run this approach sidesteps the company's sensitivity to including the REC costs in with other power costs, with the potential of no recovery via the operation of the Power Cost Adjustment dead bands. Staff acknowledges that a full discussion of how REC purchases should be treated is in order and the next general rate case is the proper venue for this matter. Staff plans to review Pacific Power's REC purchase contracts, and the prudence of these purchases, prior to the company's Schedule 95 compliance filing.

Interest on deferred REC expenses: Public Counsel has expressed reservations with any solution which allows Pacific Power to collect interest on deferred costs. Staff's standard recommendation for deferred accounting is that the regulatory deferrals are included in rate base as a component of investor supplied working capital, but are not allowed to accumulate interest.

Conclusion

Staff recommends that the commission issue an order authorizing Pacific Power to defer the costs of ongoing purchases of Renewable Energy Credits (RECs) for Renewable Portfolio Standard compliance from 2016 until the conclusion of its next general rate case as Regulatory Assets in Account 182.3, without interest, and allow the recovery of the purchased RECs in Schedule 95 until Pacific Power's next general rate case. Pacific Power shall submit a compliance filing to adjust Schedule 95 as necessary on or before July 1, 2017.

⁴ UTC Order 01, Docket UE-143915.