

ITEM NO. 5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: FEBRUARY 26, 2019

REGULAR X CONSENT _____ EFFECTIVE DATE Upon Approval

DATE: February 20, 2019

TO: Public Utility Commission

FROM: ^{JTB E- TD} Ted Drennan and Brittany Andrus ^{su}

THROUGH: ^J Jason Eisdorfer and ^{JTB} JP Batmale

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF:
(Docket No. UM 2001) Investigation into Interim PURPA Action.

STAFF RECOMMENDATION:

The Oregon Public Utility Commission (OPUC or Commission) direct Staff to conduct an enhanced update of PURPA Avoided Cost values within the next six to eight weeks and require the electric utilities to provide certain interconnection information by no later than May 31, 2019.

DISCUSSION:

Issue

Whether the Commission should adjust the standard renewable avoided cost price and require the electric utilities to provide certain information regarding transmission systems to QFs.

Applicable Rule or Law

Under ORS 756.515(1), whenever the Commission believes that an investigation of any matter relating to any public utility or telecommunications utility or other person should be made, the Commission may, on its own motion, investigate any such matter.

Analysis

Background

In recent orders the Commission identified several PURPA implementation issues that it would like to be addressed in a general investigation.¹ Then on January 31, 2019, the Commission held a stakeholder workshop to receive comments on issues related to PURPA implementation in Oregon. The Commission asked stakeholders to address the following three questions:

- (1) What are the key characteristics of successful future PURPA implementation in Oregon?
- (2) What are the top two PURPA implementation issues the Commission should address?
- (3) Should the Commission make interim changes to PURPA implementation while it undertakes a broader review?

The Commission received a varied set of responses to these questions. As importantly, Staff received direction from the Commission to submit a proposal by the next Public Meeting that accomplished the following things:

- Launched an investigation to consider the redesign of PURPA.
- Presented interim options to adopt during the PURPA redesign investigation that:
 - o Better aligned QF avoided costs with market trends.
 - o Attempted to remedy other PURPA issues without moving into complex jurisdictional issues.

Staff response to the Commissioner's request was presented at the February 14, 2019 Public Meeting. Staff made the following recommendations:

- Launch a holistic PURPA implementation investigation.
- Implement two interim steps during the longer-term investigation:
 - o Update QF Avoided Costs, using one of three options.
 - o Provide clarity on interconnection issues by releasing select data.

Stakeholders were able to share written responses to Staff's proposal prior to the Public Meeting and briefly speak at the Public Meeting. In general, Staff's options to update the QF avoided costs were only supported by the utilities and Staff's proposal to release interconnection data was generally supported by stakeholders, although many questioned its immediate applicability and PGE expressed security concerns.

Following parties' comments at the February 14 Public Meeting, the Commissioners deliberated. Following deliberation, the Commissioners ordered that a holistic investigation be launched and also requested that Staff come back at the next

¹ See e.g., Order No. 18-422.

scheduled Public Meeting with a refined proposal for interim measures incorporating stakeholder feedback.²

Staff's Revised Proposals for Interim Measures

To review, the goals of the interim measures that Staff proposed were as follows:

- Ensure standard avoided cost prices meet the customer indifference standards.
- Increase the transparency of interconnection process to the extent possible.

With regards to updating avoided costs while the holistic investigation was underway, Staff presented three potential paths. They were:

Path	Name	Activities
A	Status Quo	Do nothing new. Follow existing procedures including the regularly scheduled May 1 update to avoided costs.
B	Enhanced May Update with Temporary Cap	Require utilities to file 'enhanced' updated avoided costs as scheduled on May 1, while temporarily limiting the QF eligibility cap for standard prices to 100 kW starting immediately, and ending upon approval of the updated avoided costs.
C	Immediate Enhanced Update	Require utilities to file 'enhanced' updated avoided costs that are effective immediately (or as soon as feasible).

The Commission directed Staff to return by the next Public Meeting with an updated version of Path C. They wanted this option to better reflect stakeholder feedback.

Staff looked at several revisions for Path C that addressed the effective date of any avoided cost update and the impact on the queue. Staff attempted to design an interim measure that would allow projects with requests for standard PPAs pending as of February 14, 2019, the opportunity to complete the contracting process prior to any avoided cost rate change, assuming the utility complies with the specified 15-day business day turnaround requirements.

² The Commission split Staff's PURPA proposal into two investigations. The first is UM 2000. This will be used for the docket housing the longer-term, holistic investigation into the design of PURPA in Oregon. Staff does not believe UM 2000 will require a multi-year investigation. The other is UM 2001. This will be used to establish the interim measures for avoided costs and the release of interconnection data and should close quickly.

In review, the proposed Path C now requires the utilities to file an “enhanced” avoided cost update to allow the price change to be effective on April 23. The Commission would direct the utilities to update only certain avoided cost elements, as selected by Staff. Path C offers a limited opportunity for stakeholder participation in the avoided cost development process, but avoids any temporary lowering of the eligibility cap for standard avoided cost pricing. It also provides sufficient opportunity for QFs that submitted a completed request for a PPA prior to February 14, 2019, to obtain a LEO or executed contract. All QFs up to 10 MW would remain eligible for standard contracts and all non-solar QFs up to 10MW and all solar QFs up to 3MW would remain eligible for standard prices, as is current practice.

In terms of revisions to Path C based on stakeholder feedback, Staff offers the following additions to the proposed “enhanced” avoided cost update:

- Staff proposes a longer timeline for review and approval of the “enhanced” avoided costs to allow QFs that have submitted complete applications and that are currently in the queue sufficient time to obtain a LEO or executed contract prior to the effective date of the price change. The utilities will have two weeks to submit revisions to the avoided cost elements selected by Staff. Calculations will use the existing avoided cost methodology. Stakeholders and Staff would have two weeks to comment. The utilities would have one week to incorporate comments and finalize. These “enhanced” avoided costs would then be submitted for review and approval by the Commission at a future Public Meeting.³
- Staff’s proposed elements for an “enhanced” QF avoided cost update are listed below. It’s important to note that Staff proposes *only* changes to a limited set of inputs to the existing model, and no changes to the methodology itself. Any potential changes to the avoided cost methodology will occur in Docket No. UM 2000 where a transparent stakeholder discussion can take place. The elements are:
 - o Capital costs of the avoided resources (SCCT, CCCT, and wind)
 - o Fixed operations and maintenance (O&M) costs
 - o Capacity factors of the avoided renewable resources (wind)
 - o Updated forward electricity and natural gas prices
 - o Changes to the status of the Production Tax Credit (PTC)⁴

³ Staff’s current schedule envisions approval of avoided cost rates at the April 23 Public Meeting, with rates effective upon approval.

⁴ “Annual updates, filed every May 1, will include the following four factors: Updated natural gas prices; On- and off-peak forward-looking electricity market prices; Changes to the status of the Production Tax Credit [PTC]; and any other action or change in an *acknowledged* IRP update relevant to the calculation of avoided costs.” *In the Matter of the Public Utility Commission of Oregon Staff Investigation into Qualifying Facility Contracting and Pricing* (UM 1610), Order No. 14-058, pp. 25-26.

Regarding the PTC, Staff proposed no change to the inclusion of the PTC factor in the May 1 updates. There have been no changes to the status of the PTC since the last avoided cost filings, so this factor will have no impact. Staff clarifies here that it proposes that this factor remain in the update.

Staff has considered parties' proposals for updating other inputs, and offers the following comments on several of them.

PacifiCorp proposed that Staff's update also include, "...related changes to payment factors, discount rates, resource-specific cost-de-escalation for renewable resources, and inflation." Further, PacifiCorp noted, "...the change in payment factors and discount rates since the 2017 IRP is primarily a result of federal tax legislation..."⁵

Staff agrees that specific financial elements of payment factors and discount rates, which are a direct result of updated tax laws, should be included in the avoided cost update. As Staff noted in its February 14 report to the Commission, "Additionally, the models likely will need adjustments to account for interrelated factors such as taxes and payment factors."⁶

However, Staff recommends that only inputs that result directly from the tax change should be included, and that inputs such as "resource-specific cost de-escalation for renewable resources,"⁷ and inflation should be excluded. Staff supports updates to these limited financial factors for each utility, and suggests that the utilities provide clear documentation with references to the public IRP stakeholder documents that have been issued to date to simplify stakeholder and Staff review.

PGE proposed two changes: updating the capacity value for solar and applying the PTC at 60 percent.⁸ For the capacity value PGE proposes to updating the solar capacity contribution using the method in the 2016 IRP update (decreasing capacity value as penetration levels increase) and updating it based using updates from executed QF contracts. Staff supports this action as it uses the method and values for capacity from the acknowledged 2016 IRP update.

With respect to the PTC, PGE stated, "the PTC level should be updated to reflect PGE's expectation that it will acquire additional renewable resources before 2025 that will be eligible to capture a portion of the credit."⁹ Because this assumed resource would be operational in time to qualify for a 60 percent PTC, PGE advocates for its inclusion. Staff believes that to assume a new resource acquisition date and associated tax

⁵ PacifiCorp's comments, February 12, 2019, p. 3.

⁶ Staff Memo page 7

⁷ PacifiCorp's comments, February 12, 2019, p. 3.

⁸ PGE comments, February 5, 2019, p. 6.

⁹ *Id.*

credits that differ from the acknowledged 2016 IRP Update is unreasonable, and would expand the scope of this update well beyond its intent. Staff does not support this proposed change.

Idaho Power expressed concerns that it does not currently have a renewable avoided cost (avoided resource is a combustion turbine) and thus Staff's proposed adjustments to fixed cost inputs will not have significant impact, and "the avoided cost rates based upon a natural gas combustion turbine are primarily driven by the fuel cost."¹⁰ Staff notes that its proposal includes updating natural gas forward prices.

In terms of the second interim measure – providing interconnection data – Staff offers no changes to the data that must be provided to all QF applicants for their project and to Staff in general as described in Staff's February 14 Public Meeting memo. Rather, Staff offers a timeframe to establish this interim measure. Staff will host two stakeholder workshops in March and April to finalize issues regarding appropriate data and confidentiality. Staff's goal is to ensure this data is made available by May 31, 2019 and continues to be offered until such time as the Commission's future Distribution System Planning (DSP) docket establishes a better system for making this information more readily available.

If the stakeholders cannot work productively with Staff to make interconnection data publicly available, as envisioned in this docket, by May 31, 2019 Staff may propose issuing an RFP to hire a third party under a long-term contract to secure, publish and update this data on a regular basis, as the California Public Utility Commission has done.

Conclusion

Per Commission direction, Staff has considered stakeholder feedback in its proposed interim measures. For the "enhanced" avoided cost update, Staff included provisions that safeguard existing QF applications from changes in avoided cost rates and allows more time for stakeholder review. For the interconnection data, Staff offered a schedule by which concerns regarding data and confidentiality could be addressed in a timely fashion.

PROPOSED COMMISSION MOTION:

Staff is directed to conduct an enhanced update of PURPA Avoided Cost values, per the parameters found in Staff's two memos, that concludes within the next six to eight weeks. Staff is also directed to hold two public workshops to resolve data and

¹⁰ Idaho Power comments, February 5, 2019, p. 3.

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confidentiality issues so that PURPA project interconnection information can be released to relevant stakeholders no later than May 31, 2019.

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